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Don't Expect Hong Kong's Empty-Home Tax to Cool Property Prices

- Developers can easily absorb tax under new rules, analysts say
- Home prices in Hong Kong have more than doubled in past decade

Hong Kong’s plan to tax unsold new apartments may have little effect on the city’s red-hot housing market.

The levy was announced Friday by Chief Executive Carrie Lam as part of a broader effort aimed at boosting supply in the world’s least affordable property market. Yet analysts from Goldman Sachs Group Inc., Morgan Stanley and JPMorgan Chase & Co. say the latest impost won’t dent soaring prices.

Taming Hong Kong’s property boom has been one of the biggest challenges for the city’s lawmakers, who’ve unveiled a series of measures in recent years to cool the market. But those measures have fallen short as demand has surged ahead of a chronic under-supply of homes, helping propel a more than 50 percent increase in prices over the past five years.

With the latest rules, apartments left unsold for more than six months will be taxed at twice the annual rental income, or about 5 percent of the unit's value. That's a level analysts say developers can easily absorb.

"The absolute level of tax looks relatively manageable," Goldman Sachs Group Inc. analysts said in a note Monday, comparing the relatively small cost against annual price volatility.

Because most vacant units are high-value properties, they tend to have lower rental yields, so the vacancy tax as a percentage of the property's value will also be lower, according to Cusson Leung, head of property and conglomerates research at JPMorgan Chase & Co. in Hong Kong.

The tax is also less than Singapore's, which starts at 4 percent if an apartment is empty two years after completion but rises to 12 percent if it's still vacant after four years, Morgan Stanley analysts said in a report.

Ample Warning

The new tax has to be approved by lawmakers, giving developers six to nine months to sell empty apartments.

In addition, of the 9,000 vacant units in the primary market as of March, about two-thirds were completed since 2017. Developers may not need to sell them as quickly as the government expects, Goldman said.

Developers with more inventory could be under pressure in the near term, but selling units will boost cashflow and strengthen balance sheets in the medium term, according to Morgan Stanley.

In Hong Kong, developers usually sell apartments as soon as possible, because their central concern is to "recoup funding and move on to buy more land," said JPMorgan's Leung. Unsold inventory is composed of either top-end apartments that take time to sell, or units in an area where land supply is limited.

"The vacancy tax may be of marginal impact. In most occasions, there would be no need to apply such a rate," Leung said.

Developers aren't worried yet.

"The introduction of the vacancy tax won't affect our sales strategies," Victor Lui, deputy managing director of Sun Hung Kai Properties Ltd., said in an email.

Sun Hung Kai had the largest number of unsold apartments in the city, holding about 2,700 of the 9,000 empty units, according to Morgan Stanley, citing Centaline Property Agency data.

Most of those have since been sold, and the company now holds less than 1,000 empty units, Lui said.

Hong Kong developers rush to sell flats on concerns new government measures could cool demand

A tax on unsold properties and a cut to the prices of subsidised housing announced last week have forced developers' hands

Last week the city's chief executive, Carrie Lam Cheng Yuet-ngor, announced a vacancy tax on newly built flats that remain unsold for six months, as well as cutting the price of subsidised homes under the Housing Ownership Scheme to 52 per cent of market rates from 70 per cent previously.

"The prices of flats under the Home Ownership Scheme will look more appealing than before and will probably attract more households to apply for them," said Raymond Cheng, head of Hong Kong and China research and property at CGS-CIMB Securities, in a research note.

He said the vacancy tax, equivalent to two years of rental income as calculated by government specialists and based on market rates, could force developers to sell faster and to set more conservative selling prices.

"Based on current rental yields of 2.5 per cent, the vacancy tax will account for 5 per cent of the property value. We believe a vacancy tax rate of 5 to 6 per cent is high enough," Cheng said.

In the wake of the government announcement, Sun Hung Kai Properties, the largest developer in Hong Kong by market value, unveiled prices for the first batch of 128 units at its incomplete St Martin development in Tai Po on Thursday. The units, phase two of the total 640-unit development, will be offered for sale next week.

It will release the details about the sale for its 355-unit Victoria Harbour development in North Point on Friday. Separately, CK Asset Holdings will offer 10 remaining unsold units at its Seanorama development in Ma On Shan on Saturday.

Meanwhile, Far East Consortium has pushed out the price list for its unfinished mass housing project, The Garrison, in Tai Wai. The first batch of 50 comprises one-bedroom units ranging from 201 to 268 square feet. Unit prices start at HK$4.23 million (US$539,000), or HK$21,025 per square foot.

Such developments could be hit by the government's planned reduction in the price of subsidised housing. For example, a subsidised 383 sq ft flat at Cheung Sha Wan's Hoi Lok Court could see its price drop from HK$2.92 million to only HK$2.17 million, cheaper than The Garrison and offering more space.

Developers have also rushed to sell luxury homes. Wing Tai Properties sold three villas at its Le Cap development in Sha Tin on Thursday for about HK$200 million in total, while Emperor International put two houses in Tuen Mun up for sale by tender on Tuesday and Sun Hung Kai sold three vacant villas on Monday for a total of HK$1.2 billion.

The Real Estate Developers Association, which represents the city's major developers, called the vacancy tax "unreasonable" and "unfair".

Property transactions down to a trickle after Hong Kong government takes steps to tackle housing crisis

Hong Kong's red hot property market is taking a breather as potential buyers held back their purchases hoping for a price correction after the government announced a slew of measures to ease the housing crisis by increasing the supply of affordable housing.

Agents reported that sales of small- to medium-sized homes on the secondary market dropped by a third over the weekend.

"Homes costing below HK$5 million will be directly hit by the latest housing measures as this group of buyers will turn to cheaper subsidised housing," said Louis Chan Wing-kit, vice-chairman and CEO of residential sales for Asia-Pacific at Centaline Property Agency.

He added that transactions also fell because owners were unwilling to lower asking prices as they are yet to digest the impact of the government's measures.

Chief Executive Carrie Lam Cheng Yuet-ngor's announcement on June 29 that flats under the subsidised Home Ownership Scheme (HOS) would be nearly 50 per cent cheaper than private flats, instead of the current 30 per cent discount, would create direct competition with small-sized flats in the private housing market, Chan said.

Under the HOS scheme, the monthly income limit for family applicants will be HK$57,000, and HK$28,500 for eligible individuals.

Bryan Chu, sales manager at Tuen Mun's Hong Lai Garden branch of Ricacorp Properties, said no transactions were closed on the weekend.

Before the new housing measures, he said there would be between five to six transactions per week at Hong Lai Garden.

"Both potential buyers and sellers are taking a wait-and-see attitude to assess the effect of the new housing policies," Chu said.

Reforming the pricing system for subsidised flats was one of the six measures Lam announced to tackle the city's long-running housing problems.

Other proposals included imposing a vacancy tax equivalent to two years' rental income on empty new flats, reallocating nine government sites originally earmarked for private housing to build 10,600 public flats, inviting the Urban Renewal Authority to build starter homes at Ma Tau Wai and imposing more stringent conditions on developers' sales of uncompleted flats.

"Buyers may return to the market one or two weeks later, after more details are released by the government," said Chu.

Some sellers, however, are lowering their asking prices slightly in a bid to speed up sales.

"About 20 per cent to 30 per cent of our sellers have dropped their asking prices by one to two per cent after the announcement of the government measures," said Roy Wu Chi-wai, sales director at Many Wells Property Agent.

For instance, a 309 square feet flat at Goodview Garden in Tuen Mun was being offered for HK$4.8 million but the owner has lowered the price by HK$140,000 to HK$4.66 million after the new housing measures were released last week.

"The market will be quiet for some time," he said.

As the prices of private flats have surged to record highs, it has had a spillover effect on the government subsidised HOS secondary market in the past 12 months, Wu said.

"The entry level for a 400 sq ft lived-in HOS flat in Tuen Mun is HK$4.58 million now. It has increased by HK$230,000 within a month although these flats are 24 years old and without any amenities," he said.

He said the prices of the HOS flats, where the 30 per cent land premium is yet to be paid to the government, has jumped 19 per cent since January, faster than the 12 per cent for private flats.

Vincent Cheung Kiu-cho, deputy managing director for Asia valuation and advisory services at Colliers International, said prices for second-hand HOS flats were more expensive than private flats considering the quality of government subsidised housing.

At present, the supply of cheaper subsidised housing has still not expanded in a big way and therefore its impact on the housing market was limited.

"If the government continues releasing more sites for public housing, it will definitely affect the tiny flats sector," he said.

Hong Kong to Charge Additional Rates on Unsold Primary Homes

Hong Kong will charge additional rates on unsold new apartments in a bid to limit hoarding by developers and cool a red-hot property market.

Apartments left vacant for more than six months will be charged a 200 percent rate of the rental value, or equivalent to about 5 percent of the unit's price, according to Chief Executive Carrie Lam, who announced latest housing policies on Friday. The amendment is subject to approval by the Legislative Council.

"Housing problems, as mentioned in my policy address, are the most important, most complicated and most rigorous issues," Lam said. "The SAR government will continue to do its best to turn around today's housing situation of undersupply and surging prices."
Cooling measures already rolled out by the government have failed to prevent Hong Kong from becoming one of the world's least affordable markets for residential property, with prices more than doubling over the past decade.
Lam's latest efforts to tackle the crisis come just ahead of the July 1 anniversary of her first year in office, when critics will assess her record. Record prices for land sales show the pressure for home values to keep hitting records.

Financial Secretary Paul Chan, when asked on Friday if Hong Kong would consider a capital gain tax on foreign owners, said the government doesn't currently have such a plan, but "we do not rule it out".

The tax "may do little to shake up the market," with the government set to fall short of an annual target of 46,000 new dwellings, Bloomberg Intelligence analyst Patrick Wong wrote ahead of the announcement. Developers had about 9,000 unsold units as of March, according to the government.

The city is following in the wake of Singapore, where developers face escalating fines if they take too long to sell units. Australia and Canada have vacancy taxes on home-owners.

In Hong Kong, developers typically sell new units in batches, holding apartments back to reap higher prices. Some rushed to sell flats on news that the government was mulling a levy, according to the South China Morning Post. In one case, the homes had been left unoccupied for five years, it said. The city had a total of about 43,000 vacant units across the entire housing stock last year, according to the government.

Here are some other announcements at Lam's Friday briefing:
Government to provide total 5,000 subsidized housing units this year
City to revise pricing mechanism of subsidized housing
To lower income requirement for applying subsidized homes
To convert 9 sites initially designated for private housing to public or subsidized housing which could provide 10,600 units
New measures not aiming to curb property prices: Lam

In another effort to boost the volume of new housing, the government's Task Force on Land Supply is looking at options to free up more land for construction. Although urban centers in the city are among the densest in the world, about three-fourths of Hong Kong's land mass is made up of open spaces that are currently off limits to development, such as protected country parks.

Pricey Hong Kong set to impose vacancy tax on empty new flats

Hong Kong proposed a vacancy tax on empty new homes on Friday in an attempt to discourage developers from hoarding, but analysts expect the measure to have little impact on prices in a property market rated the world's least affordable.

The tax, at 200 per cent of a newly built unit's rateable value, which is the estimated annual rental value of a property, is among a series of property cooling measures announced by the city's chief executive, Carrie Lam.

The tax translates to about 5 per cent of a flat's value, the government said, adding it would need the Legislative Council's approval and it would not be applicable to resold flats.

Private home prices in Hong Kong have been on a record-breaking run for 19 consecutive months, fuelling discontent among residents.

Under the proposed measure, developers would have to report the status of their new flats to the government annually, and the additional tax would be imposed on flats that had not been rented out for six of the previous 12 months.
Ms Lam said the property market had at least 9,000 empty new flats, including some completed five years ago.

"Today, when the housing supply is so tight and the demands for ownership are so strong, it is hard to understand why so many flats are left empty," she said.

A skilled service worker would need to work for 20 years to buy a 650 square feet (60 square metre) flat near the city centre, UBS said in a report in September.

Apart from the tax, the government also said nine plots of land previously allocated for private homes, including three in the prime Kai Tak district, would be used for public housing.

Subsidised homes would be priced according to people's median income instead of the market price, Ms Lam said.

It is common for developers in Hong Kong to sell newly completed residential projects in phases, in the hope of fetching a higher price on later sales.

Ahead of the government announcement, developers pushed out about 240 new units for sale last weekend, including some that were completed several years ago, according to media.

Of the roughly 1.17 million new and old private flats in Hong Kong, 3.7 per cent are vacant, which is among the lowest rates since the former British colony returned to Chinese rule in 1997.

An association representing developers opposed the vacancy tax and said the figure of 9,000 empty new flats that Ms Lam cited was misleading as it included 6,000 units that required at least six months of work for things such as furnishing, fittings and landscaping.

"Any suggestion of 'hoarding' can hardly be justified," the Real Estate Developers Association of Hong Kong said in a statement this month.

In response to a question on whether luxury apartments that developers fail to sell should also be taxed, Ms Lam suggested developers who did not wish to pay the new tax could lease the flats to senior expatriate employees at a lower rate.

Ms Lam also said the government would modify a Pre-sale Consent Scheme so that developers would have to push out at least 20 per cent of their flats during pre-sales.

"In recent years we see flats are sold in the way toothpaste is squeezed out of the tube," Ms Lam said.

"This will be unacceptable in the future."

A vacancy tax could be a double-edged sword for the housing market, according to property consultancy JLL.

"Developers may consider funnelling the additional costs to buyers to offset the vacancy tax, leveraging on the strong levels of demand in the market," Ingrid Cheh, associate director of research department at JLL, said earlier this week. Hong Kong's property sub-index closed up 1.92 per cent ahead of the announcement.