



Hong Kong – April 2019

THE POLITICAL MESSAGE OF HONG KONG’S PROPOSED VACANCY TAX SPEAKS LOUDER THAN ITS EFFICACY IN BRINGING DOWN HOME PRICES 1

The political message of Hong Kong’s proposed vacancy tax speaks louder than its efficacy in bringing down home prices

Unlike Vancouver’s vacancy tax aimed at individual owners, Hong Kong’s proposed tax targets developers’ first-hand residential units

Critics of Hong Kong’s vacancy tax are barking up the wrong tree, because the levy is aimed at spurring supply, not in controlling prices

Some cities in Australia and Canada have introduced some sort of vacancy tax to motivate owners to put their homes for sale or rental on the market.

Vancouver, a city which Hong Kong people are very familiar with, introduced a tax, equivalent to 1 per cent of the assessed value of a property deemed to vacant for more than 180 days. The tax was introduced two years ago when 5 per cent of Vancouver’s homes either stood empty or were underutilised, amid skyrocketing prices and soaring rents.

Although some success has been noted, the city government is seriously considering further raising the tax because owners continue to hold onto their properties and pay the tax in anticipation of ever-rising rentals.

To solve Hong Kong’s housing crunch, the city’s government is introducing a similar tax to spur supply, which is now being scrutinised by the Housing Panel of the Legislative Council (LegCo). Unlike Vancouver’s tax aimed at private individual owners who keep their properties vacant, Hong Kong’s levy targets only the developers’ first-hand residential flats.

According to Hong Kong’s government, developers will be subject to a tax twice the rateable value of each newly completed residential unit deemed unsold for more than a year, or unleased for more than 6 months at or above the going market rate after an occupation permit is granted.

It is hoped that developers would be pressured to unload their unsold completed flats faster, thus driving down the overall home prices in Hong Kong.

Of course, there are many sceptics questioning the wisdom of this vacancy tax.

According to the data provided by the government to the LegCo Housing Panel, there were 9,000 units of first-hand private residential units unsold by the first quarter of 2019. However, this is challenged by some in the real estate industry who claim that Hong Kong does not have a home vacancy problem. They point out that the overall home vacancy rate out of the total stock was a mere 3.7 per cent in Hong Kong last year, the lowest in 20 years.

Clearly, the 3.7 per cent is lower than in Vancouver, but when expressed in the total number, an entirely different picture emerges. According to the Census and Statistics Department, 3.7 per cent represents a total of 46,000 units, which is almost twice the size of the first-hand private residential flats completed for the whole of 2018.

International Property Tax Institute

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

Some critics also claim that the tax represents unjust government intervention in the market economy. Private developers should have the freedom to decide when to release new flats to the market. They also argue that it is unfair that only developers and their completed housing units on the primary market are targeted, because individual investors who also hoard flats on the secondary market should equally be taxed.

The answers to these critics are twofold. Firstly, the ridiculously exorbitant home prices should justify any government action to intervene in Hong Kong's housing market, now the least affordable housing market for nine consecutive years.

Secondly, Hong Kong's real estate developers hold a lot more sway over the supply of residential housing market, and therefore it is more effective to target at developments than at individual homeowners.

Critics of the vacancy tax are barking up the wrong tree, given the harsh reality of severe land shortage in Hong Kong, even if they appear valid in their doubt about the impact of the proposed tax in driving down prices. The tax is aimed at boosting supply, as the Secretary for Transport and Housing Frank Chan had said clearly, rather than restricting property prices.

Besides, if these critics can see land shortage as the cause of exorbitant housing prices, they should then rightfully lend their support towards projects such as the Lantau Tomorrow Vision.

The tax may or may not push Hong Kong's cash-rich developers to speed up sale of new flats, as in the case in Vancouver, as owners chose to pay their vacant tax in anticipation of ever-rising rentals.

But even if our vacancy tax does not ease our home crunch, it surely conveys a strong political message that the administration under Chief Executive Carrie Lam Cheng Yuet-ngor is determined to do whatever it takes to find more land and to increase home supply to satisfy the housing needs of the city's residents.