IPTI Xtracts

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China's plan for a tax on property takes an unexpected twist thanks to the trade war

Chinese officials indicate the timing of draft legislation could be pushed back as US-China trade war takes focus

Beijing's plan to unveil a nationwide property tax could become a casualty of the escalating US-China trade war, as efforts to push ahead with draft legislation on the new levy appear to be temporarily on hold.

Rising uncertainty in the international environment means that "conditions are not ready" for rolling out a property tax law, Zhang Yiqun, an official with China Law Society, a policy institute under China's Ministry of Finance, told the Securities Daily in a report on Wednesday.

"An imminent fruition of the law also runs counter to the grand policy direction of cutting the tax burden," Zhang told the financial publication, which is affiliated with the Economic Daily, a newspaper under the State Council, or China's cabinet.

China is reducing levies and other payments this year such as the value-added tax, personal income tax and social security contributions amounting to nearly 2 trillion yuan (US$290 billion), in an effort to cushion the economic fallout of the trade war. China's state broadcaster CCTV said on Monday that Beijing will "fight to the end if the US wants to", in response to Washington's move to impose tariffs on US$200 billion worth of goods imported from China.

China is an outlier in that it does not tax real estate holdings, however the central government has been reassessing its policy approach to the sector, the largest store of wealth for Chinese citizens.
The tax is seen as helping tame house prices, while at the same time creating another source of government revenue.

Is a government scheme to boost Hong Kong's public housing accidentally pushing up home prices?

Analysts say a recent move by the government to boost affordable housing may have pushed private home prices even higher

An average sized flat in Hong Kong now costs US$840,000, three times the price of a similar unit in New York

There's another 10 years in Hong Kong's property bull run, UBS says

It may have been well meant, but the Hong Kong government's latest move to take the heat out of the property market may have had an unintended consequence.

In an attempt to raise the supply of affordable housing, the government recently shifted the targeted split between public and private housing to a 70:30 ratio from the previous 60:40. The change was announced on December 21 last year, which was followed by a rebound in Hong Kong property prices in January this year.

With desperate home seekers now scrapping over a diminished private market, the plan may have contributed to a rally which has taken prices in the world's most expensive property market to even greater heights, say analysts. Hong Kong home prices have hit an all-time high after staging a record-breaking comeback, new figures show.

"The intention is good, however, it translates to an even smaller pool of private homes," said Alvin Cheung Chi-wai, associate director at Prudential Brokerage.

"Buyers are having to rush to snap up a unit as they are afraid that private home prices will be pushed up as the supply will be further decreased. And the [Hong Kong] government sets the income cap for public housings too low, and not many home seekers can actually benefit."

Many observers believe the good intentions of public housing schemes have been undermined by their flawed implementation.

John Lam, head of the Hong Kong and China property team at UBS Research, however, said the government's move to raise public housing supply would only be a minor contributor to the upward trajectory of prices.

"Sentiment has changed mainly because of expectations of macro policies, particularly the slowing of interest rate increases recently. The ratio change is more indirect to buyers' sentiment," he said.

Hong Kong raised its key interest rate by 25 basis points in June last year, matching a move by the US Federal Reserve.

But since the beginning of the year, Fed interest rate policy has turned dovish and now the market consensus is for no further raises this year.

The income threshold for a couple to qualify for a public rental home is currently HK$18,690 (US$2,380) per month, disqualifying many from applying. As of the end of March, there was a 5.5 year waiting list of over a quarter of a million applicants.

The average price of pre-owned flats in 50 major Hong Kong housing estates reached HK$15,352 per square foot, after leaping 2.4 per cent, the largest monthly increase ever, according to Ricarcorp Properties.

That translates to HK$6.6 million (US$841,000) for a used home of just 431 square feet (40 square metres), the median size of an apartment in Hong Kong, according to the latest figures from the Census and Statistics Department.

With that amount of money, a buyer could get three similar sized homes in New York, based on data from global commercial real estate firm CBRE.

The eye-watering price has topped the previous record of HK$15,303 per square foot clocked last July, before the market went through a correction brought about by a US interest rate increase and a gloomy global economic outlook.

House prices have staged a remarkable recovery since the beginning of this year, with units in some residential estates soaring by about a fifth and most experts forecasting a lasting rally.

China's plan for a tax on property hits a snag thanks to trade war

The latest data heaps pressure on Hong Kong's Chief Executive, Carrie Lam Cheng Yuet-ngor, who has made easing the housing shortage in the world's least affordable city one of her key policy priorities.

Raymond Cheng, head of Hong Kong and China research and property at CGS-CIMB Securities, estimated that about 4,000 fewer private homes will be built each year as a result of the new target, and this would bring down the total supply.

"Potential buyers will feel that in the next to or three years, fewer private homes will be there and the price will go up since demand is unlikely to soften – that is why we've seen recent launches of new homes getting a really good responses.

"The government usually takes at least one more year to launch funded homes than developers launching private homes, which means the total supplies will be less in the coming couple of years."

Several of the housing estates tracked by Ricacorp, including Park Central in Tseung Kwan O, Fairview Park in Yuen Long and Whampoa Garden in Hung Hom saw homes changing hands in April for amounts that topped their previous peaks.

Upbeat sentiment has lured back local home seekers and savvy property investors alike. At Nan Fung's LP6 project in Lohas Park, a Taiwanese company bought 13 units, paying HK$193 million and an extra HK$60 million in tax.

Ricacorp expects prices will continue to surge for the whole year, bringing the total increase to 15 per cent, while Swiss bank UBS predicted a bull run in the segment that would last another 10 years.