IPTI Xtracts

Property Tax and Assessment News from Around the World

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Contents

What the protests mean for Hong Kong homeowners

Property prices are falling in one of the world's most expensive cities

Property in Hong Kong is among the most expensive in the world. In April, a home in the territory cost on average $2,091 per square foot, almost four times the price of property in New York, according to CBRE, the real estate services firm.

But for the past six months, Hong Kong has been in the grip of the worst political crisis in decades. Civil unrest has cost lives and pushed the economy into recession; it has shut down parts of the metro system and led to battles on the streets, as pro-democracy protesters clash with police. In recent months, demonstrators have borrowed a slogan from The Hunger Games to taunt the mainland authorities: "If we burn, you burn with us."

Hong Kong's homeowners are left in a state of uncertainty. Many had taken out large mortgages to buy one of the territory's exceptionally small apartments. Now, prices in the territory — which has an estimated total housing wealth of $1.6tn — are beginning to fall.

Hong Kong has been a beacon of free trade and financial services for decades. It is home to one of the world's largest stock exchanges and its 7.5m population includes about 650,000 expatriates as well as more than 1m mainland Chinese who have built their lives there.

If the political turmoil continues, and workers turn away from Hong Kong what will be the consequences for those homeowners?

Everything has changed

Selling homes in Hong Kong is usually easy. On a drizzly Saturday morning in early May, before the protests started, local developer Wheelock Properties offered 1,148 new homes up for sale. By 11pm, 1,001 had been sold. But circumstances now are far from normal. At a similar event in October, prospective buyers had to navigate closures on the metro system, tear gas and violent confrontations between police and pro-democracy protesters. Wheelock took 101 homes to market and sold just 20.

$1.235m - the average price of a property in Hong Kong

In the past six months, property transactions across the market have dropped sharply. Between March and May, monthly transactions averaged 7,410 according to Land Registry data compiled by local estate agent Midland Realty. Between June and August, the average number of transactions was 4,649, a drop of 37 per cent. Between May and November, prices fell about 3.4 per cent, according to Midland.

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There are many in the market who are prepared to sell at a discount, including expats spooked by the protests. One bank employee says he moved his family into a hotel after tear gas seeped into their apartment; another shared a photo showing a street littered with bricks, bottles and smashed signage. “This has been the viewing from my apartment block all too regularly recently,” she says.

Asian Tigers, one of Hong Kong’s biggest relocation companies, has seen inquiries from people trying to get out of the territory rise 30-40 per cent since protests began, with New York, Singapore and the UK among the most popular destinations.

With no end in sight to the demonstrations — which began in response to a controversial extradition bill but have expanded to include calls for universal suffrage and an independent inquiry into the police — analysts are expecting a longer period of subdued activity for housing.

“Pricing is going to be feeling its way down over the next 12-18 months,” says Christopher Yip, a real estate analyst at S&P Global Ratings. By the end of 2020, the rating agency estimates prices could fall by as much as 20 per cent from a pre-protest peak.

A drop of that size would knock more than $22m off the value of one property on the Peak — a five-bedroom house that Knight Frank is currently marketing for HK$868m ($111m).

Shrinking, not bursting

The short-term outlook may be bleak, but it will take more than violence on the streets to burst the Hong Kong price bubble, say other market experts. Prices have risen steadily over the past 16 years, registering the global financial crisis only by a fraction before continuing upwards.

Buyer sentiment and a lack of easily developable land play a role in that. But prices in the city are also underpinned by an imbalance of supply and demand which is maintained through government control of land sales. The release of land by the government has slowed over the past two years; the supply of housing is likely to taper in turn.

Selling off swaths of land at high valuations enables the government to fund its projects while keeping taxes low, and holding prices high keeps highly-leveraged homeowners from dissenting.

Andy, 29, who asked to remain anonymous, bought an apartment in January on Ma Wan, a small island 25 minutes by ferry from central Hong Kong. There is a sea view, “a very nice living environment” and, compared with downtown, he says, affordable. Was he worried about protests affecting his home’s value? “The price of property dropped down a bit in the first few months, but at this stage . . . the effect is getting smaller and smaller. Maybe people are getting used to the protests,” he says.

$1.6tn - estimated total housing wealth in Hong Kong in 2017

Carrie Lam, the territory’s chief executive, has tried to stimulate demand. Having diagnosed the unaffordability of housing as one of the causes of the protests — an explanation protesters reject as oversimplification — Lam announced in mid-October that mortgage requirements would be relaxed for first-time buyers, allowing them to borrow up to 90 per cent of the value of a property worth up to HK$8m ($1m).

The measure will “trigger pent-up demand” for mass-market property, according to Patrick Wong, a senior real estate analyst at Bloomberg Intelligence. Lam’s policy address helped developers — whose dominance of the market and lobbying power is often cited as another reason for high prices — add about $4bn to their market capitalisations in the days after the announcement.

Between them, Hong Kong’s big four developers — Sun Hung Kai, New World, Henderson Land and Cheung Kong — hold farmland that could be built on to provide 150m sq ft of gross floor space, according to CGS-CIMB Securities — six times the size of Monaco.

In all, less than a quarter of Hong Kong is developed, according to a government analysis published this year. Just 3.8 per cent of total land is given over to residential property.

A property parable

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A visit to Ma Wan, the island a short ferry ride from central Hong Kong, makes clear how much the scarcity of homes owes to the whims of developers. On this island, a seafront village sits in the shadow of recently-built million-dollar flats. It is, in the lexis of the estate agent, “prime real estate”. It is also deserted. Tree roots wind around empty window frames and a fridge door yawns lazily open in the breeze as the last holdouts from eviction sun themselves on the pier.

Ma Wan was vacated after Sun Hung Kai Properties, one of Hong Kong’s most powerful developers, started work on a 5,000-home project just to the north around 20 years ago. In one of the developer’s blocks, a four-bedroom apartment with views over the water is being sold by Midland Realty for HK$30m (US$3.8m).

Residents of Ma Wan were offered new properties but a number opposed the project anyway. Thomas Kwok, then chairman of SHKP, went to extreme lengths to vacate the village. He commissioned a theme park close to the village complete with a Noah’s Ark “constructed in the full size of the original vessel as described in the Bible”.

In a 2014 corruption trial, it emerged that the project was a pretence to evict the holdouts: Kwok was jailed for five years; the fishing village was left a ghost town; the Ark remains.

A real rebound?

With supply tightly controlled, a price fall is enough to tempt some buyers, whatever the political circumstances.

“People are aware that prices could go down and back up in just 12 months, so buyers will grab the opportunity to enter the market whenever the prices drop,” says Buggle Lau, chief analyst at Midland Realty. Having fallen every month from May to September, purchases picked up from a September low of 3,569 to 4,212 in October, according to data from the company.

Investor demand for high-end property, though, has weakened, says Wong: “We could see a bit of a divergence between the mass market and the luxury market.” That weakening predates the summer of protest and is likely to outlast it, say agents.

“At the top end it’s extremely quiet. Our business has been hit pretty hard. That’s unlikely to change over the next quarter or two,” says Simon Smith, head of research & consultancy at Savills in Asia.

Among the drags on the prime market are the trade war between China and the US and Chinese capital controls, which have tightened since 2016 to reduce money flowing out of the mainland and into speculative property purchases abroad. On Ap Lei Chau, a promontory just south of Hong Kong Island, a three-bedroom apartment with “helper’s quarters”, is selling for HK$168m ($21.5m) through Savills. It has been on the market since April 2016.

What happens next?

Voters turned out in record numbers this week and propelled pro-democracy candidates to victory in local council elections. Pro-democrats won almost 60 per cent of the popular vote to take 17 of 18 districts, up from zero four years ago.

40% - decline in visitor numbers in August compared with last year

The results will bolster the protest movement and undermine the idea, put forward by Lam, that a “silent majority” opposes the protesters and their cause. She has said she will “listen humbly” to voters, but few expect her to make meaningful concessions.

As a result, many believe the crisis will continue and a potential military intervention from the mainland, though unlikely, is not being ruled out. That would upend the rule of law in Hong Kong, which is so crucial to its vitality as a centre for international finance, and the effect on the property market could be extreme.

3.8% - proportion of total land in Hong Kong given over to residential property

Even if the Hong Kong government does make concessions and the protests begin to fizzle out, few expect the territory to emerge unchanged. In recession and with the public at loggerheads with Beijing, a return to the status quo looks increasingly remote.

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People are already leaving. Some mainland Chinese are said to be moving out of the city because they no longer feel welcome. According to YB Ng at the relocation company Asian Tigers Mobility, they are not being replaced by new arrivals. “We are seeing a huge drop. People are just not moving in.”

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