IPTI Xtracts

Property Tax and Assessment News from Around the World

CHINA – October 2022

CONTENTS

CHINA'S XI MAY HAVE ALL THE POWER IN THE WORLD BUT HE STILL CAN'T IMPLEMENT A PROPERTY TAX

China's top leader Xi Jinping may have amassed unlimited political power but there is a disconnect because he seems unable to use the political might to solve the major economic problems the Asian giant faces, experts in Washington said Tuesday.

"It is very hard after coming through this congress and not feel that you can't avoid the overwhelming dominant shadow of Xi Jinping everywhere," said Jude Blanchette, who holds the Freeman Chair in China Studies at CSIS.

"Xi has all of this power. He can defenestrate factions. But he clearly isn't powerful enough to drive through a property tax," he added.

Experts say that tax reform in China would be major step in resolving the country's property bubble.

Xi had tried to deal with fiscal problems as far back as 2013 but no new plan was announced over the weekend.

"Without tax policy, it is all just aspirations and wish list," said Dan Rosen, a partner of Rhodium Group and a non-resident senior fellow at the CSIS.

"There is really nothing other than 'the triumph of the will' is going to produce a fiscal reform strategy that resolves the obstacles of the past," Rosen said.

Any sense that the government will ride to the rescue of the Chinese domestic economy is just as distant as it was months ago, Rosen added.

At the same time, foreign firms doing business in China, should expect a "a darker period," and this will impact China's growth engine, he added.

"Nobody is feeling better coming out of the congress on the outlook for growth… in 2022, 2023 or 2024 either," Rosen said.

Blanchette said the key document from the congress contains "very little recognition of any hard choices China will need to make."

"You almost get a sense from the report that they are going to address inequality just by demanding that employers pay higher wages," he said.

Scott Kennedy, senior adviser and trustee chair in Chinese business and economics at CSIS, noted that Xi might be President Joe Biden in mid-November in Indonesia.

"What will come out of that conversation? Are there any places to compromise or cooperate?" Kennedy asked.

Prior statements that China would seek to "cooperate" with the United States were replaced a less ambitious term of "positive interaction," said Bonny Lin a senior fellow for Asian security at CSIS.

Chinese stocks have been weak on concerns of Xi receiving an unprecedented five-year term as leader of China. The currency has also weakened.

HONG KONG PROPERTY SALES TUMBLING TO THREE-DECADE LOWS

City's real estate taxes shrink as COVID curbs and rate hikes hit market

Hong Kong's sagging property market is set to post its lowest sales volume in three decades with prices headed for their biggest on-year decline since the 2008 financial crisis, real estate analysts warn.

The world's most expensive property market, where average home prices have previously topped $1.2 million, is taking a one-two punch from rising mortgage rates and an economy hobbled by strict virus curbs.

Property prices since the start of the year were already down by 8.2% as of Oct. 10, with the full-year decline likely to hit double digits, while sales are set to slump to a 31-year low of 64,000 transactions, falling below a previous low of 70,500 deals in 2013, according to property agency Midland Realty.

"This is a foregone conclusion," said Freddie Wong, Midland's executive director, adding that prices would fall the most since 2008. "The full year property price decline will widen to double digits."

The slowdown has been highlighted by weak sales at several new residential developments in recent months.

Since going on offer in mid-September, only 44 of 203 flats were sold at Miami Quay, a new off-plan project jointly built by New World Development, Henderson Land, Wheelock and Empire Group.

The city's property market is "frozen," said Louis Chan, Asia-Pacific vice chairman of the residential division at property group Centaline.

"The current relaxation of quarantine measures has not been able to help the economy return to normal," he added. "The public is worrying about the further decline of Hong Kong's economy, and do not dare to enter the market hastily."

Last month, Hong Kong dropped a hotel quarantine that had left the international business hub isolated from the rest of the world during the pandemic.

But the recent loosening may not be enough to restore confidence in a city facing a wave of emigration due to some of the world's toughest COVID curbs and a clampdown on civil liberties since a Beijing-imposed security law was rolled out two years ago.

Reopening the still-closed border with mainland China is key to any rebound, according to some analysts.

But global real estate company JLL warned that prices could fall another 10% next year if the government doesn't scrap its stamp duty on home purchases and other cooling measures.

"Opening up doesn't mean money will flood in," said Joseph Tsang, chairman of JLL Hong Kong. "Whether you open the border or not makes no difference."

The Hong Kong Monetary Authority (HKMA) has lifted its base interest rate five times this year to the current 3.5%, following successive hikes by the Federal Reserve. Hong Kong's dollar is pegged to the greenback, so its monetary policy mirrors the Fed's.

Following its latest rate rise in September, Hong Kong's de facto central bank relaxed a mortgage stress test requirement for property buyers.

Now, all eyes on are Chief Executive John Lee's first policy address next week for signs of a plan to reverse the property slump.

But the weak market is also taking a bite out of government tax revenue with second-quarter receipts from a buyer's stamp duty falling to 410 million Hong Kong dollars ($52.2 million), the lowest since the property levy was introduced in 2012.

Government land sales came in at HK$9.5 billion from April to September, a 70% drop from a year ago, according to official figures.

The stamp duty and land premiums -- revenue generated from selling land rights use -- have accounted for an average of nearly 30% of total government revenue for the past five years, according to investment bank Natixis.

And Fitch Ratings forecasts that Hong Kong's budget deficit will rise to 6% of GDP this year, double its annual target.

"We also see risks that the budget deficit could widen beyond our current forecast against the backdrop of a weakening in property market transactions and a softening in housing prices this year, given the importance of the real estate market to Hong Kong's overall public finances," Andrew Fennell, head of greater China sovereigns at Fitch Ratings, told Nikkei Asia.

There was "no doubt" that the weakening real estate market will dent Hong Kong's fiscal health, said Gary Ng, senior economist at Natixis.

"The impact will not only come from fewer transactions through stamp duty as poorer sentiment may also affect land premiums," he added.

HONG KONG CUTS PROPERTY TAXES, EASES VISA RULES TO ATTRACT GLOBAL TALENT

Hong Kong Chief Executive John Lee unveiled a sweeping plan to woo talent back to the city and ease its housing woes, in a bid to revive its status as a thriving international finance hub

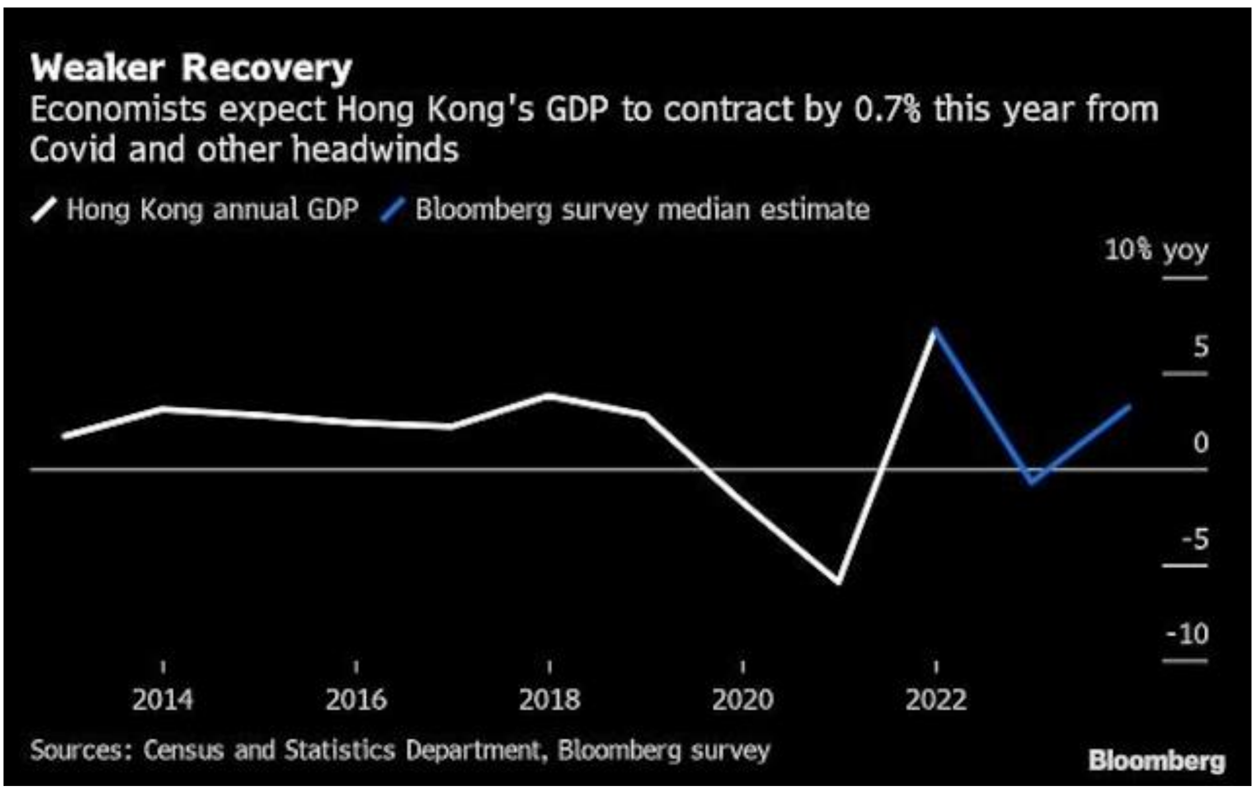
The city leader in his maiden policy address on Wednesday announced he would cut property duties for non-permanent residents and ease visa rules to reverse a brain drain prompted by years of isolationist Covid policies. His proposals to make property more affordable answered Beijing’s call to fix the hub’s notorious housing market, which Chinese officials have blamed for political unrest in the city.

Lee, who took office in July, has a tough road ahead of him as Hong Kong's economy limps toward the end of the year. Gross domestic product is projected to contract for the third time since 2019 as fallout from Covid restrictions, rising interest rates, global inflation and Russia's war in Ukraine all pummel growth.

"The world is undergoing profound changes unseen in a century," Lee said, citing some of those factors as having "weakened the growth momentum of the global economy."

The visa and property rules were most keenly watched on Wednesday for signs of how Lee intended to revive the city's economy and its competitiveness among rival financial hubs, chiefly Singapore. The Southeast Asia city-state has been trying to lure talent and business away from Hong Kong with its own new visa program and a faster, more aggressive rollback of Covid restrictions.

The Hang Seng Index was down 1.8% at 1:36 p.m. local time as Lee was delivering his address. A sub-index of property developers was down 0.8%, erasing gains before his speech of 2.8%.



Countering Singapore

Lee outlined a two-year visa program for people who bring in at least HK$2.5 million ($318,480) annually that will allow them to explore opportunities in Hong Kong without being subject to any quota. Recent graduates of the world's top 100 universities will also be eligible for work visas, he added.

The city will also suspend the annual quota of its current program for skilled talent and extend the limit of stay for non-local graduates from one to two years.

The proposal comes two months after Singapore announced its own five-year work visa program for foreigners earning S$360,000 ($253,530) annually, citing a hypercompetitive battle for global talent.

While Hong Kong has relaxed its toughest Covid restrictions in recent weeks -- in September, Lee announced an end to hotel quarantine for travelers -- it has trailed Singapore, which this spring dropped many of its most prohibitive curbs and has been outspoken about needing to position itself as a premier financial hub and global city.

The university visa program, meanwhile, echoes a similar talent incentive program in the United Kingdom, which earlier this year launched a two-year visa plan for jobseekers who have graduated from top-ranked universities in the last five years.

Property Proposals

A much-anticipated change to property rules included a plan to refund extra stamp duties that non-permanent resident property buyers have to pay after they have stayed in the city for seven years.

Once they have become permanent residents, those buyers can apply for refunds of two separate stamp duties that are each fixed at 15%.

They still have to pay for another duty capped at 4.25%, as the city's permanent residents do.

Hong Kong's property market is one of the world's most expensive, and the sector has been slumping as a result of rising rates and a population outflow.

Secondary home prices have dropped 8% since the start of the year and are on track to approach a five-year-low. Goldman Sachs Group Inc. expects home prices to plunge 30% through 2023 from last year's levels.

The easing or lowering of stamp-duty rates for non-local buyers could attract demand, particularly from mainland Chinese interested in luxury residential properties, said Patrick Wong, a real estate analyst with Bloomberg Intelligence ahead of the policy address. The impact on sales of mass residential projects could be limited until there is more clarity on how high mortgage rates could go, he added.

To help more people access the housing market's costly barrier to entry, Lee also detailed a proposal to expand homeownership. He vowed to increase overall public housing production by about 50% in the coming five years.

National Security

Lee also used his address, his most important speech since taking office in July, to express his gratitude to Chinese President Xi Jinping. The city leader said Xi's Sunday speech at a major congress in Beijing would serve as his "blueprint" for governing Hong Kong.

In that address, Xi credited a national security law enacted in June 2020 -- along with an electoral overhaul to ensure governance under approved "patriots" -- with restoring order to the city. The Chinese leader also stressed the "one country, two systems" governance model in Hong Kong "must be adhered to over the long term."

National security has been a key theme of policy addresses in recent years, and Lee made clear it's still a priority. He emphasized the city must remain vigilant to threats and recommitted to implementing Hong Kong's own local security law, Article 23, without setting any timeframe for achieving this.

Other details from Lee's policy address:

- Hong Kong will set aside HK$30 billion ($3.8 billion) to establish a "Co-Investment Fund" for attracting companies to set up operations in Hong Kong and investing in their business
- Hong Kong will match China's development policies to inject energy into the city's development, to solidify its role as a regional hub
- The city's stock exchange will revise the mainboard listing rules next year to facilitate fundraising, and to revitalize the Growth Enterprise Market, a market with lower listing eligibility criteria
- The Hong Kong Monetary Authority is starting preparation on digital Hong Kong dollars
- The city aims to attract 100 high-potential innovation and technology enterprises to the city to boost economic value and jobs
- Hong Kong will promote its fintech industry, offer tax concessions to family offices