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China's Property Policy Outlook: Will China Property Tax Finally Come in 2020?

Xinhua news reported last week that National People's Congress (NPC) is drafting a law on property tax, quoted by a Legislative Affairs Commission of NPC. The government has not clarified a date for the implementation of the new property tax.

However, the market expects major changes to China's tax system could take place in 2020 due to the authorities' reform and legislation agenda. Besides, previous China Political Bureau, the party's policymaking body said that modern fiscal and taxation systems would be established by 2020. The market rumour recently said that Shenzhen had been highlighted as one of the most likely cities to next pilot the property tax to dampen speculative demand.

The new leadership has continually highlighted a desire to use more economic measures such as the property tax and Rural Land Reform to establish a long term stable mechanism to regulate the property market, rather than administrative measures such as home restriction purchase policy. For the property tax implementation, we believe that:

- The government is still determined to push forward property tax legislation; however, based on current information, China may need another two years or longer to release a property tax law, and the process is likely to be slower than expected.
- There is still unlikely to see new city introduce a property tax on a pilot basis before the legislation.

Hong Kong property market proves resilient even as crises mount

A controversial security law that threatens to upend Hong Kong's status as an Asian financial hub hasn't slowed the world's most expensive real estate market.

International Property Tax Institute

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Dozens of would-be buyers lined up in the rain last week for a chance to bid on 94 apartments in The Campton project in central Kowloon, with prices starting at HK\$6.8 million (\$872,400) for a one-bedroom condo. All but one of the units were snapped up in eight hours, bringing in HK\$880 million for the developer, China Vanke Co.

"When the political system and economy are unstable, cash depreciates quickly," said a woman named Li, who joined the line in the Tsim Sha Tsui neighborhood. Li only wanted her surname used discussing the security law as the matter is sensitive. "I want to use up the money for an apartment to preserve value."

On the surface, it doesn't seem like the best time to buy a property in Hong Kong. The future of the former British colony is clouded by China's introduction of the security bill, prompting the U.S. to threaten removal of Hong Kong's special status.

The legislation is triggering concerns about capital outflow, sparking renewed pro-democracy protests and increasing tensions in a city trying to recover from the pandemic. The economy is expected to see a record 7% contraction this year.

For some residents, the political and economic turmoil make real estate a better bet than other assets. Last month, Sun Hung Kai Properties Ltd. sold 97% of its 298 apartments worth almost HK\$2 billion in one day, according to the developer.

Li, a housewife in her 40s, believes the housing market can withstand a deteriorating economy because the supply of homes will never catch up to demand.

"Hong Kong is a very small place," she said outside the Vanke project sales center. "If you look at home prices 20 years ago and now, properties bought then are all making huge profits."

The numbers back her up. Property prices have surged 230% since 2000, data from Centaline Property Agency Ltd. show, bolstering the view of many Hong Kong residents that property will always be a haven. Despite a contracting economy, existing home prices have risen 1.2% this year, and are the highest since November, based on the Centaline index.

Even as prices and sales have dropped in many global markets such as London and Singapore, Hong Kong recorded 6,885 property deals in May, a 12-month high as the city eases pandemic measures. The average price citywide stands at HK\$15,589 per square foot, according to Midland Realty, making it the world's least affordable market.

"Prices have proved remarkably resilient, especially if you consider that the Hong Kong market has become a byword for unaffordability," said Simon Smith, head of research and consultancy at Savills Plc. Smith cites persistently low real interest rates and the city's relatively successful handling of the pandemic to explain the market's resilience.

In the long-run, limited supply, high demand stemming from a low rate of home ownership and close-to-zero interest rates will support the market, according to a Morgan Stanley report dated May 26 by analysts including Praveen Choudhary.

That's not to say the property market isn't without risks. Businesses are shutting down and unemployment is at its highest in a decade. While job losses have mostly been in low-skilled sectors such as retail and catering, the spread of unemployment to professionals will affect their ability to repay mortgages. Savills expects residential home prices to drop 5% in 2020.

The recession and plunging retail sales have also taken their toll on real estate stocks, though they rallied last week. The Hong Kong Hang Seng Properties Index, which includes the city's biggest developers, has declined 18%

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this year versus a 12% drop in the benchmark. Developers focusing on residential real estate such as Sun Hung Kai Properties have fared better than commercial landlords.

The doubts about Hong Kong's future has already prompted some residents to plot emigration to avoid the tightening grip from China. Non-resident bank deposits surged to a record in Singapore last week, an early sign that some people in Hong Kong are moving their money.

For now, home buyers seem willing to look past the risks.

"Hong Kong is one of the most livable cities in China, if not Asia," said Smith. "If it maintains its status as a global first-tier city, a gateway to China and an international financial center, there is no reason why both the commercial and residential markets shouldn't continue to thrive."

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