

# LCQ1: Maintaining steady development of the private residential property market

Following is a question by the Hon Jeffrey Lam and a reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (Nov 21):

Question:

Some members of the public have relayed that with the interest rates rising gradually and the Sino-United States trade conflicts intensifying, the local property market may have entered a downward cycle in recent months, and the various demand-side management measures (commonly known as "harsh measures") implemented by the Government to address the overheated property market have become outdated. In this connection, will the Government inform this Council:

- (1) whether it will examine relaxing the loan-to-value ratios for mortgage loans to make it easier for members of the public to acquire their first property or replace their existing property, and enable small and medium enterprises to get more operating capital through securing loans by collateralising their properties;
- (2) whether it has assessed if the harsh measures will exacerbate the fall in property prices when the property market is in a downtrend; if it has assessed, whether it can submit the relevant report to this Council; and
- (3) given that a Hong Kong permanent resident who disposes of his or her only original residential property within 12 months from the date of acquisition of a new residential property may apply for a partial refund of the ad valorem stamp duty payable at the time of acquisition of the property which is equivalent to 15 per cent of the property price, whether the Government will change such a taxation arrangement so that persons who acquire a new residential property as replacement are required to pay additional stamp duty only if they fail to dispose of their original residential property within 12 months, so as to alleviate their burden when acquiring properties; if so, of the details; if not, the reasons for that?

Reply:

President,

Maintaining the steady development of the private residential property market is one of the important objectives of Government's housing policies. In the past few years, due to tight housing demand-supply balance and the continued ultra-low interest rates environment, local property prices

have been on the rise, with heightened risk of a bubble. The Government has adopted a two-pronged approach by striving to increase land and housing supply to meet demand, and introducing several rounds of demand-side management measures as and when necessary to suppress external demand, short-term speculative demand and investment demand, with a view to stabilising the property market and preventing adverse consequences arising from an exuberant market. The Hong Kong Monetary Authority (HKMA) has also introduced several rounds of counter-cyclical macro-prudential measures to strengthen risk management of banks and resilience of the banking sector to cope with any possible impact in the event of a fall in property prices.

Having consulted the Financial Services and the Treasury Bureau, the Inland Revenue Department (IRD) and HKMA, I set out my consolidated reply to various parts of the question raised by the Hon Jeffrey Lam as follows:

(1) The intent of HKMA's counter-cyclical macro-prudential measures is to ensure stability of the banking system through implementation of appropriate measures according to the development of the property cycle, taking into consideration key factors such as the trend of property prices, property transaction volume, economic fundamentals and the external environment. HKMA will consider appropriate relaxation of the counter-cyclical measures if a downward cycle in the property market is confirmed. However, as property prices had risen by more than two times since 2008 and decreased by only about 1.5 per cent in aggregate in the past two months, HKMA has not yet determined that the property market has entered into a downward cycle, and therefore does not consider it appropriate to relax the counter-cyclical measures at this juncture.

(2) The Government has introduced several rounds of demand-side management measures to suppress short-term speculations, investment demand, and external demand through increasing transaction costs, with a view to reducing exuberance of the property market, preventing adverse consequences arising from an overheated property market, and ensuring healthy development of property market in the long run. Property prices are affected by various factors, including global and local economic environment, interest rates trend, market atmosphere, housing demand-supply situation, etc. It is not possible to weigh the impact of individual factors or measures on property prices.

Although prices and transaction volume of private flats have subsided in recent months (note 1), local housing is still in the state of demand-supply imbalance and the current property price level remains out of line with economic fundamentals and the general public's affordability. The home purchase affordability ratio (note 2) in the third quarter of 2018 stayed high at 74 per cent, well above the 20-year long-term average of 44 per cent from 1998 to 2017. The Government has no intention to relax or withdraw any demand-side management measures at the moment, lest this would send a wrong message to the market and make the property market more exuberant.

The Government will remain vigilant and make reference to a series of indicators, including property prices, home purchase affordability ratio,

transaction volume, housing supply, local and global economic changes, etc., and closely monitor the developments of the property market and the evolving external environment. The Government will take appropriate actions as and when necessary with a view to ensuring a steady development of the property market.

(3) According to the Stamp Duty (Amendment) Ordinance 2018 as passed by the Legislative Council in early 2018, a Hong Kong permanent resident (HKPR) who replaces his only residential property in Hong Kong by acquiring a new property before disposing of the original property can apply to IRD for partial refund of ad valorem stamp duty if the original property is sold within 12 months after acquiring the new property.

The Government considers that the prevailing refund arrangement has struck a right balance between taking care of the needs of HKPRs in replacing their properties and safeguarding the effectiveness of the demand-side management measures. We have no intention to relax the refund mechanism, lest this may be speculated by the market as a signal from the Government to "water down" the demand-side management measures, thereby resulting in a more exuberant market.

Note 1: According to information of the Rating and Valuation Department, the overall price index of private flat has subsided since August 2018, registering a cumulative drop of 1.5 per cent in August and September. Property transactions have also declined in recent months. The monthly average number of sale and purchase agreements for residential property received by the Land Registry from August to October 2018 was about 4 200, below the monthly average of about 5 700 in the first seven months this year.

Note 2: Home purchase affordability ratio refers to the ratio of mortgage payment for a 45-square metre flat to median income of households (excluding those living in public housing), at the prevailing mortgage rate for a tenure of 20 years.