

## LCQ2: Demand-side management measures for residential properties

Following is a question by the Hon Jeffrey Lam and a reply by the Secretary for Housing, Ms Winnie Ho, in the Legislative Council today (January 17):

Question:

The Chief Executive announced in the 2023 Policy Address that adjustments would be made to the demand-side management measures for residential properties (commonly known as "the harsh measures"), including shortening the applicable period of the Special Stamp Duty from three years to two years, reducing the respective rates of the Buyer's Stamp Duty and the New Residential Stamp Duty from 15 per cent to 7.5 per cent, as well as introducing a stamp duty suspension arrangement for eligible incoming talents' acquisition of residential properties. In this connection, will the Government inform this Council:

- (1) whether it has assessed the impact of the aforesaid adjustments on the transaction volume and prices of residential properties so far since the implementation of such adjustments on October 25 last year; if so, of the outcome; if not, the reasons for that;
- (2) given that following the implementation of the aforesaid adjustments, eligible incoming talents who purchase their first residential property in Hong Kong may apply to the Inland Revenue Department (IRD) for suspension of the relevant stamp duty payment, of the current number of such applications received by the IRD; and
- (3) of the number of residential mortgage loans in negative equity last year, and whether it has assessed the resultant negative impact on Hong Kong's economy; whether the Government will consider expeditiously assessing if it should further "reduce the harsh measures", and make preparations in respect of the timing and strength for the related arrangements; if it will, of the details; if not, the reasons for that?

Reply:

President,

Maintaining the healthy and steady development of the private residential property market is one of the important objectives of the Government's housing policies. With the increasing housing supply in Hong Kong in the coming years and having considered the overall situation, the Chief Executive announced the adjustments to the demand-side management measures (DSMMs) for residential properties in the 2023 Policy Address, including (i) shortening the applicable period of the Special Stamp Duty

(SSD) from three years to two years; (ii) reducing the respective rates of the Buyer's Stamp Duty (BSD) and the New Residential Stamp Duty (NRSD) from 15 per cent to 7.5 per cent; and (iii) providing a mechanism for suspension of payment of BSD and NRSD for incoming talents' acquisition of residential properties in Hong Kong (the Suspension Mechanism). The relevant adjustments will be implemented through the Stamp Duty (Amendment) (Residential Properties) Bill 2023 (the Bill). I would like to express my gratitude to the Bills Committee for the completion of scrutiny of the Bill last week. The Bills Committee will present the relevant report to the House Committee this Friday (January 19), and the Government plans to resume the Second Reading debate on the Bill at the Legislative Council meeting on January 31. In consultation with the Financial Services and the Treasury Bureau and the Hong Kong Monetary Authority (HKMA), my reply to the various parts of the question raised by the Hon Lam is as follows:

(1) The residential property market is affected by various factors, including the global and local economic outlook, interest rates trend, the local housing demand-supply situation, etc. It is hence difficult to assess the impact of individual factors or measures on property prices and transaction volume. Hong Kong is a small and open economy susceptible to the influence of external economic environment. With the external environment remaining challenging at the moment and interest rates staying at a relatively high level, the market sentiment has been more cautious. We observed that since the announcement of the adjustments to the DSMMs on October 25 last year, the number of sale and purchase agreements for residential property received by the Land Registry in December 2023 was 2 929. While the number may not be comparable to the monthly average of 4 370 cases in the first half of 2023, it represents an increase in two consecutive months as compared to 2 123 cases in October and 2 554 cases in November. As for property prices, the overall residential property prices continued to adjust downward slightly in recent months, with the month-on-month statistics in November falling by about 2 per cent. That said, the adjustments are still in an orderly manner.

(2) With regard to the number of applications of the Suspension Mechanism, within a short span of roughly two months from the announcement of the measure to January 12, 2024, the Inland Revenue Department has received 474 suspension applications from incoming talents, of which 394 applications have been approved. As demonstrated by these figures, the Suspension Mechanism is well-received by incoming talents, and helps increase the incoming talents' sense of belonging and propensity of staying in Hong Kong for development. It also underlines the attractiveness of Hong Kong.

(3) With regard to the figures of residential mortgage loans (RMLs) in negative equity, as we all know, the figure only represents an estimate of the situation where the assessed market value of the mortgaged property is below the outstanding loan amount. It neither means that the relevant owner could no longer continue to make mortgage repayment on schedule, nor the property concerned has already been sold at a low price. As property prices began to soften since the latter part of the second quarter of 2023, based on the statistics published by the HKMA earlier, statistical estimation of RMLs in negative equity of the banking sector was 11 000 as at end-September 2023.

Among the number, the majority are RMLs under the Mortgage Insurance Programme, which generally have a higher loan-to-value (LTV) ratio that can be as high as 90 per cent. Hence, in case of downward adjustment of property prices, those properties with higher LTV ratio are more prone to becoming so-called properties in negative equity under statistical estimation. It is worth noting that, even if the properties are statistically estimated to be in negative equity at the moment, the relevant repayment rate of RMLs has remained very high in recent years, standing at 99.98 per cent as at end-September 2023. As the vast majority of residential mortgage borrowers are able to continue making mortgage repayments on schedule, banks would not demand early repayment of RMLs merely due to a decline in the value of the mortgaged properties. As such, the HKMA assessed that the current situation as reflected by the statistics would not cause significant impact on the local economy.

The adjustments to the DSMMs in the 2023 Policy Address are pragmatic arrangements by the Government after careful evaluation of the overall economic and market situation. We consider that the relevant adjustments can strike a proper balance between responding to market changes appropriately under the current circumstances, and safeguarding the effectiveness of the DSMMs while addressing the home ownership needs of Hong Kong Permanent Residents (young families and young people in particular). After all, the current mortgage-to-income ratio (i.e. the home purchase affordability ratio) is 72 per cent, which is higher than the long-term average of 51 per cent over the 20-year period from 2003 to 2022. On the housing supply side, the projected supply of first-hand private residential units for the coming three to four years stayed at a high level of around 107 000 units, reflecting a stable supply in the private residential property market. The Government will continue to closely monitor the property market to ensure its healthy and steady development.

Thank you President.