

## LCQ9: Unsold first-hand private residential units

Following is a question by the Hon Chan Hak-kan and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (June 19):

Question:

As at March 31 this year, out of the units in the private residential projects which had been completed in or after 2012 and issued with an occupation permit (OP), about 9 000 of them were unsold (unsold units with an OP). On the other hand, the Government has proposed to amend the Rating Ordinance (Cap. 116) to introduce "Special Rates" on private residential units that have been issued with an OP for 12 months or more, are unsold, and were not rented out for more than six months at a rent not lower than the market rent in the past 12 months. In this connection, will the Government inform this Council:

- (1) of the number of unsold units with an OP as at March 31 in each of the past three years, broken down by the unit floor area classification used by the Rating and Valuation Department in compiling its statistics;
- (2) as the Government has indicated that the figures of unsold units with an OP are consolidated based on the inputs from different government departments, of the specific calculation formula used;
- (3) of the respective justifications of the Government for (i) using the date of issuance of an OP and (ii) not using the date of issuance of the Certificate of Compliance, as the relevant date for the Special Rates;
- (4) in view of the public's strong demand for small and medium-sized units, whether the Government will introduce targeted measures, such as imposing a higher level of Special Rates on small and medium-sized unsold units with an OP; if so, of the details; if not, the reasons for that; and
- (5) whether it knows the current number of units being rented out as serviced apartments; whether it has estimated the changes in the number of such units in the first year upon the implementation of the Special Rates initiative?

Reply:

President,

The Chief Executive announced on June 29, 2018 the proposed introduction of "Special Rates" on vacant first-hand private residential units, with a view to encouraging a more timely supply of first-hand private residential units in the market. The Government proposes to amend the Rating Ordinance

(Cap.116) to require developers of first-hand private residential units with occupation permits (OP) issued for 12 months or more to furnish annual returns to the Government on the status of these units. Unsold first-hand units that have not been rented out for more than six months during the past 12 months will be subject to "Special Rates". "Special Rates" will be collected by the Rating and Valuation Department annually at two times (i.e. 200 per cent) of the rateable value of the units concerned. The Government is now formulating the details of the Rating (Amendment) Bill. My reply to various parts of the question raised by the Hon Chan Hak-kan is as follows:

(1) and (2) The Government releases statistics on private housing supply in the primary market on the website of the Transport and Housing Bureau on a quarterly basis, including the number of unsold first-hand private residential units in completed projects (hereinafter referred to as "unsold units"). The number of unsold units is obtained by deducting the number of units sold from the total number of first-hand private residential units in completed projects (Note 1), i.e. projects that have obtained OP. If an agreement for sale and purchase was made in respect of a certain unit and has been delivered to the Land Registry for registration, that unit will be regarded as sold. The number and mix of unsold units keep changing as new first-hand private residential units are completed and sold from time to time. The number of unsold units as at March 31 in each of the past three years is at Annex 1.

The Government in the past did not compile breakdown of unsold units by flat size. For the number of unsold units of last quarter (i.e. as at March 31, 2019), the breakdown by saleable area of the units is at Annex 2.

(3) The Government considers it appropriate to adopt the date of OP, rather than the date of Certificate of Compliance (CC), as the reference point in determining when the developers should start submitting returns on the status of the units. The justifications are as follows:

(a) In principle, the issue of an OP implies that the relevant unit can be occupied and put into effective use.

(b) According to the Consent Scheme, developers may apply to the Lands Department for pre-sale consent at a maximum of 30 months in advance of the completion of a residential property development. Developers may also choose to rent out the units after the issue of OP (Note 2). In other words, developers do not have to wait till the issue of CC to sell or rent out the units.

(c) Some redevelopment projects covered by old leases are not subject to the Consent Scheme. Developers do not have to apply for pre-sale consent or CC prior to selling these units. Furthermore, even if the development projects are subject to the Consent Scheme, the lease conditions do not specify a time limit for developers to obtain the CC. We are concerned that adopting the date of CC as the reference point may induce circumvention, e.g. delay in applying for CC, or even not applying for CC on the grounds that the units are for rental only.

(d) On the contrary, in accordance with the "Building Covenant" clause in the land grant or lease conditions, developers are required to complete the construction of the minimum gross floor area specified in the land grant or lease conditions and obtain the OP within the specified period. Adopting the date of OP as the reference point help guard against possible circumvention.

(4) The Government proposes that "Special Rates" are chargeable at two times of the rateable value of the concerned units (regardless of flat size), the amount of which is equivalent to about two years of market rent. Based on the average rental yield of 2.5 per cent for residential units at present, the "Special Rates" chargeable is roughly equal to 5 per cent of the property value. We consider that the amount is appropriate and is conducive to encouraging developers to sell or rent out completed first-hand private residential units within a reasonable timeframe.

It may be fairly controversial to define the meaning of small and medium-sized units. Compared to applying different tax rates to units of different flat sizes, we consider that a uniform yet forceful tax rate will be easier to understand.

(5) Unsold units refer to those completed but unsold first-hand private residential units, which may therefore include vacant units or units rented out by developers (e.g. serviced apartments). As developers currently are not required to declare the status of these unsold units, we do not have information on how many of them have been rented out as serviced apartments.

Whether developers will rent out their first-hand private residential units as serviced apartments is subject to a number of factors, e.g. prevailing market demand and supply, property price, rental level, economic situation, business strategies of the developers, etc. It is difficult for the Government to estimate the changes in the number of such units after the implementation of "Special Rates".

Note 1: The figure for each year includes only the number of units completed in that year or in the previous seven years. For example, the 2018 figure covers the units completed between 2011 and 2018, while the 2019 figure covers the units completed between 2012 and 2019 and so on. The purpose of compiling the number of unsold units is to reflect the projected supply of the first-hand private residential units in the coming three to four years. As unsold units which have been completed for eight years or more are unlikely to be offered for sale in the market in the coming few years, they are not included in the calculation.

Note 2: Starting from 2002, lease conditions in general provide that developers can rent out completed units with OP issued. Developers who are able to fulfill certain requirements (e.g. the tenancy period shall not exceed ten years) can rent out the units without the need to obtain prior consent from the Director of Lands.