

Hong Kong Macro Flash

Broad-based and Steep Property Cooling Measures Announced

- **Government makes a sixth attempt to cool the 'overheated' property market.** by broadly increasing the total cost and down-payment required when purchasing a property. This round of coordinated measures was more broad-based and steeper than the market and we expected. It once again reflects the administration's determination to apply near-term dampening measures when property market activities ramp up and to buy time for the announced supply-side measures to become effective. Today's measures once again are likely to quiet down transaction volumes and introduce a pause in price rises, but fire-sales remain unlikely.
- **Policy vigilance:** According to the Financial Secretary, property prices have risen by 2% in Jan and the momentum is continuing in Feb. The affordability ratio has deteriorated to 52% in 4Q12 and, if interest rates were to increase by 300bps, the ratio would shoot up to 68%. HKMA Chief categorized the existing prolonged property boom in HK is driven by the extremely unusual macro-monetary environment, which is bound to normalize; and the risk of over-heating in the property sector to financial stability in HK is no smaller than that seen in 1997. The Chief Executive added, in a follow up press release, that vigilance monitoring of the property market will continue and further demand-side measures will be introduced in a timely manner when needed.
- **Stamp duties (SD) for property transactions were mostly doubled.** The difference in this round of stamp duty increases vs previous rounds is that all buyers are affected. Previously introduced Special Stamp Duties (SSD) and Buyers Stamp Duties (BSD) targeted foreign/corporate investors or short-term speculators, and were successful in calming the market for two months. After this round, the price tag of all property transactions that are above HK\$2mn will be 4.25% dearer, with the doubling of the stamp duty rate to 8.5%. Even properties valued below HK\$2mn are now subject to 1.5% stamp duty on their value, when previously the duty was only HK\$100. The only exemption granted will be for local buyers who currently don't own any property, who can enjoy the original stamp duty rate, helping a little to preserve the purchasing ability of genuine own-use local buyers. Non-residential duty will now have to be paid at the time of signing of an agreement for sale and purchasing, instead of previous payment which was due at the sale's execution.
- **Tightening LTV ratios for non-residential properties.** The exuberance in the residential property market has continued to spread to all sorts of non-residential properties (including commercial/industrial properties and even car parks). HKMA has thus 1) further tightened maximum loan-to-value (LTV) ratios for all commercial and industrial properties by another 10%pt from all the existing applicable levels; 2) requiring banks to assume a mortgage rate increase of 300bps (instead of the existing 200bps) when stress-testing mortgage applicants' repayment ability; and 3) lowering max LTV ratio of car park mortgages to 40%.

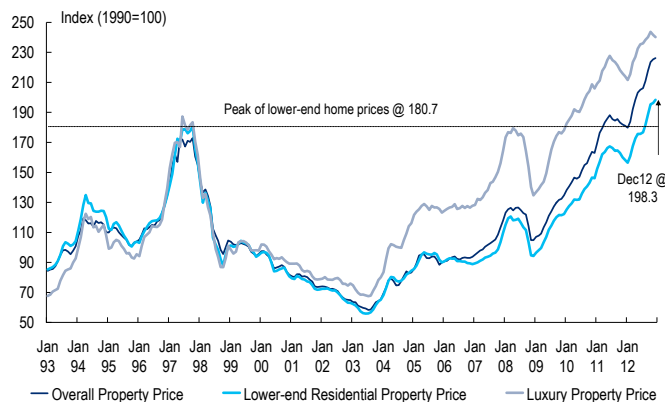
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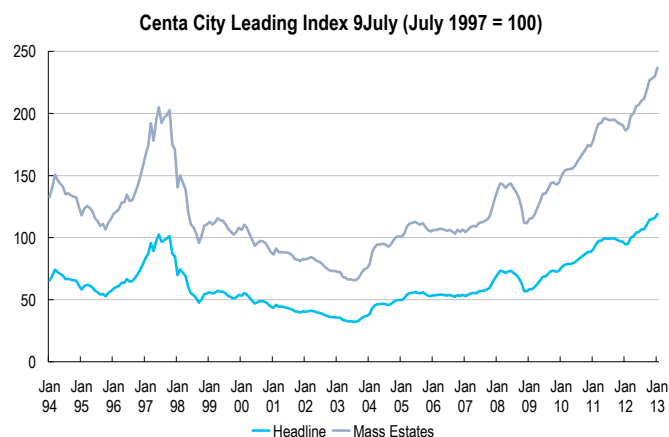
- **Risk management by HK Mortgage Corporation too.** HKMC has accordingly tiered the max LTV ratios under its Mortgage Insurance Programme (MIP). See Figure 3 for details and timeline of property policy measures since 2009.
- **Announcement ahead of the Budget Speech next wed (27-Feb).** The launching of demand-side measures today, as supposed to be during the Budget Speech, is likely due to: 1) this is a multi-department coordinated policy attempt and 2) the Budget Speech and subsequent Legco discussions/approval of the Budget will be relatively less complicated. With these demand curbs likely to dampen transaction volumes and calming price rises in the near term, the Financial Secretary will likely lay out further supply side details in next week's budget.
- **What if...** Interestingly, the Financial Secretary mentioned in the Q&A in the press meeting that launched measures can be swiftly reversed should the property market crash (e.g. in a scenario where more supply hits the market when property demand falls with sharp rise in mortgage rates).

Figure 1. Even property price for mass-market homes has surpassed the peak seen in 1997



Source: CEIC and Citi Research

Figure 2. The Centa City Leading Index indicates secondary property market activities are unabated despite previous 5 rounds of measures



Source: CEIC and Citi Research

Figure 3. HK Government's Property Policies (since 2009)

Announcement Date	Government bodies	Measures	Remark
2/22/2013	HKSAR Government	<p>1) Raised stamp duty for all property transactions: for below \$2mn transactions, the stamp duty will increase from HK\$100 to 1.5% of the transaction value; while other transactions will be increased from 4.25% to 8.5% of the transaction value. Local buyers who do not own any other property are excluded from this additional stamp duty.</p> <p>2) For non-residential properties, stamp duties will be charged once the agreements are signed (instead of when full property transaction is executed), in line with the practice in residential homes.</p>	Steep tax hike and a broad based demand curb, it applies regardless of property type (commercial or residential) or individual (locals and foreigners) or corporate buyers.
	HKMA	<p>1) Raise stress test level for mortgages -- where banks now need to test the affordability of mortgage applicants if interest rates were to increase by 300bps (current assumption is +200bps);</p> <p>2) Lower max LTV ratio for all commercial property mortgages by 10%; i.e. max LTV is now 40% for HK permanent residents and 30% for non-residents;</p> <p>3) Sets all mortgage LTV for parking space to 40% and max mortgage duration is 15-year tenor.</p>	HKMA worries of financial exposures by banks to the overheated property market, thus have broaden measures to non-residential mortgages (which has been heating up as well). HKMA also highlights at an economic downturn, Previously all MIPs can enjoy 90% LTV.
	HK Mortgage Corporation Ltd.	<p>Tiered mortgage loans of properties under the Mortgage Insurance Programme (MIP) with value :</p> <ul style="list-style-type: none"> - at or below HK\$4 million will be eligible for the maximum MIP cover of 90% LTV; - above HK\$4 million and below HK\$4.5 million will be eligible for MIP cover up to HK\$3.6 million, being 80-90% LTV; - at or above HK\$4.5 million will only be eligible for the maximum MIP cover of 80% LTV. 	
10/28/2012	HKSAR Government	<p>Adjusted Special Stamp Duty (SSD) to have 3 levels of regressive rates for different holding periods – (i) 20% if the property has been held for six months or less; (ii) 15% for >6M, but ≤12M; and (iii) 10% for >12M but ≤36 months.</p> <p>Added the Buyers Stamp Duty (BSD) -- a flat rate of 15% for all residential properties, on top of the existing stamp duty and SSD, if applicable, acquired by any person or entity, except a HKPR. Exemptions will be provided to certain transactions including, for example, those involving a HKPR and his or her close relatives who are not HKPR.</p>	Effective demand side measures, by increasing the cost of foreign/ corporate investors in investing in HK's residential property market, but potential price slowdown will also hurt HK's local investors. Special measures are critical to preserve local genuine buyer's accessibility to the market.
9/14/2012	HKMA	<p>New mortgages for the second flats or onward (including cash out refinancing loans) are tightened:</p> <ol style="list-style-type: none"> 1) Lower the debt servicing ratio (DSR) limit from 50% to 40%; and the maximum stressed DSR limit from 60% to 50%. 2) Lower the LTV limit to 30% for property mortgage loans assessed based on the net worth of mortgage applicants. 3) Lower the applicable loan-to-value ratio (LTV) limits by another 10 percentage points for property mortgage loans to mortgage applicants whose income is derived mainly from outside Hong Kong. 4) Limit the maximum loan tenor to 30 years (previous 40 years) for all property mortgage loans. 	Measures aimed to reduce excessive property related leverage (households/ companies) and reduce banking sector risk. Require foreign buyers to pay higher down-payments. The reduction in max loan tenor shouldn't affect most mortgages, as current average tenor is 25 years.
9/6/2012	HKSAR Government	<p>Announced a new "HK property for HK residents" scheme. Chief Executive Leung reserved two new sites (at Kai Tak) to build homes for the exclusive ownership of HK permanent residents (including first-hand purchases and reselling). The restriction will cease to operate after 30 years. New sites could provide 1100 units by 1Q13.</p>	Pilot scheme to meet local demands. We believe the ratio of such restricted private flats would be small, but this scheme could be further extended to other forms of public housing.
8/30/2012	HKSAR Government	<p><u>Short-term (next 6-12M) measures:</u></p> <ol style="list-style-type: none"> 1) make available for sale all remaining available flats under the Home Ownership Scheme (HOS), with 830 flats in Tin Sui Wai, Yuen Long District. 2) instead of renting out the new flats available in the first batch My Home Purchase Plan (MHPP) flats in Tsing Yi, now all 1000 flats will be for sale under a subsidized price. Expect pre-selling can start in early 2013. Will also review/revamp the My Home Purchase Plan. 3) will shorten the approval period for pre-sold flats; expect in the next 3-4 years, primary flat sales could be around 65k units. 4) will increase supply of land for residential flats (expect to auction six pieces of land in 4Q12 to avail for building of 2600 flats). 5) will turn one industrial building in Chai Wan to small sized public flats (reconstruction will start in 2013, avail 180 units). <p><u>Medium-term measures:</u></p>	Focused on providing supply to middle to low income group. Rezoning plans could face opposition from the residents who live in the same area.

		<p>1) Will subsidize sales of the other 4000 flats planned under the MHPP.</p> <p>2) Will build 400 units of public housing in Kai Tak (old airport) area, to be completed in 2017.</p> <p>3) Will fasten the building period of 2300 units of public housing in Cheung Sha Wan by two years.</p> <p>4) Will rezone 36 Government, Institution or Community (GIC) sites for public housing use (if successful, will avail 11900 units).</p> <p><u>Long-term measures:</u></p> <p>1) Will establish a two-tier taskforce to coordinate property sector measures/developments.</p> <p>2) Drafting the legal details for 'HK land for HK residents'.</p>	
12-Jul-12	HKSAR Government	Proposed to fully subsidize the construction of hostels for young workers and partner with private sector organizations to run them. The target for the first round is 3,000 units.	
12-Oct-11	HKSAR Government	Announced the resumption of building subsidized flats under a modified House Ownership Scheme, the new version will have a flexible quota to suit market needs.	This measure is on popular demand to cater for housing needs of the lower income group.
10-Jun-11	HK Monetary Authority (HKMA)	1) Newly raised max LTV ratio for homes of HK\$10mn above to 50%, homes valued between HK\$7-10mn are subjected to 60%, while those value below HK\$7mn to be 70%. 2) Addition of another 10ppt to the applicable maximum LTV ratio if the principle income of the mortgage applicant is not derived from HK, regardless of property types and value. 3) The max LTV ratio for properties under the net worth based mortgage will be lowered from 50% to 40%.	Higher LTV ratios to prevent excessive property lending. More stringent rules to control foreign purchases of homes when supply remains limited.
	HK Mortgage Corporation Ltd.	1) Lowered the cap on the value of property that can be covered under the Mortgage Insurance Programme (MIP) from HK\$6.8mn to HK\$6mn. 2) The MIP will no longer be available to applicants whose principal income is not derived from HK.	
	HKSAR Government	Allocated eight sites for land auction in 3Q11, expected to increase supply by ~6000 units, of which three sites have set the minimum units that has to be built to ensure increase in supply of small-mid size flats.	Further increase land supply to tame price rise expectations following several high transaction prices recorded in government land sale auctions.
19-Nov-10	HKSAR Government	1) Installed a new three-tier stamp duty for resale of property within two years to curb speculation (For property resale transactions that are shorter than six months, these will be subject to a 15% stamp duty on total value of transaction; 10% for 6-12 months and 5% for 12-24 months)	Measures to penalize speculation , as 1) it lowers the price gains of reselling property owners who have purchased their flat for less than two years; 2) it increases the speculative cost; and 3) although the duty is split between buyers and sellers, genuine home buyers will opt to buy properties that had been owned for more than two years, meaning sellers would likely have to absorb full of stamp duty burden to lure interest.
	HK Monetary Authority (HKMA)	1) HKMA added a middle range bracket (HK\$8-12mn) to its existing two brackets system to classify for mortgage lending flats and set a lower loan-to-value (LTV) ratio for each range , ranging from 50%-70%. 2) HKMA also set a 50% LTV ratio to all non-owner-occupied residential properties , properties held by a company and industrial and commercial properties. 3) Also the stamp duty deferral (of up to three years) of residential property transactions is now disallowed.	Measures aimed to reduce excessive property related leverage (for both households and companies) and reduce banking sector risk.
13-Oct-10	HKSAR Government	Banned the property investment option for capital investment immigration scheme.	This is unlikely to have significant impact, as such transactions only accounts for 1% of market transactions, but is a more of a response to popular local request
	HKSAR Government	Announced " My Home Purchase Plan " – The Plan aims to provide middle income earners a max 5-year fixed-rental tenancy in newly Housing Society built small and medium flats, and will act as a saving means for the tenants of the Plan whom would receive a subsidy equivalent to half of their rental paid during their tenancy period for down payment for property purchase.	A new form of housing subsidy for the middle class to complement the existing public housing scheme for the low income group. . The first project in Tsing Yi will provide 1000 flats by 2014 and the scheme will provide a total of 5000 flats.
18-Aug-10	HKSAR Government	The government will speed up tendering of residential development at the MTR West Rail Long Ping Station.	HKET estimates ~100,000 units will be available to the market, which would satisfy the next six years of development
13-Aug-10	HKSAR Government	Three new pieces of land allocated for construction of small/mid size units in Sep/Oct (estimated to provide 540 units in Chai Wan, Hung Hom and Fanling)	Increasing land supply from short- to long-term with particular attention to mass market.
		Speed up the re-tendering process of Nam Cheong Station to provide 3,000 units	
		Plans to convert 20 hectares of industrial land in HK into residential land bank (possible sites are: the Kai Tak old airport site, East and West New Territories.	
		The land application list next year will provide more units than the current year list of 9,000 units.	
		Restrict all confirmor transactions in new primary projects	
		Increased the penalty of forfeited down payments of primary transactions from the previous 5% to 10%.	To raise the coast of speculations

13-Aug-10	HK Monetary Authority (HKMA)	<p>1) Raised the LTV ratio of properties valued at or above HK\$12mn to 60%, all other properties are LTV guideline continues to be at 70% but with the max loan cap at HK\$7.2mn.</p> <p>2) All non-primary resident owned properties are now subjected to the 60% LTV guideline (banks are required to help check this).</p> <p>3) Standardizing the limit on debt servicing ratios of mortgage applicants to 50% (previously 50%-60% range) of their salary.</p>	<p>All three measures take effect immediately.</p> <p>This measures targets properties for investment purpose.</p>
3-May-10	HK Mortgage Corporation Ltd. Urban Renewal Authority (URA)	<p>Stopped approving mortgage applications with a LTV ratio over 90% (previous hurdle was set at max 95% LTV ratio).</p> <p>URA sets an additional eight rules to all forthcoming renewal projects that they partner with private developers:</p> <ol style="list-style-type: none"> 1) No internal sale/priority sale is allowed 2) Flats selected for the first batch sale should be agreed by URA 3) Property agents marketing the renewal projects are not allowed to buy flats in those projects 4) First batch of flats should not be sold to company purchasers 5) Flats sold to company purchasers should not exceed 10 per cent of total flats 6) Same buyer should not buy more than two flats 7) Transactions of board members and senior executives of developers and connected people should be declared 8) All sold units, price lists and transaction records should be disclosed at developers' websites and sales offices within 24 hours 	<p>The more stringent rules are applied to URA renewal projects as they are publicly funded and hence the need to reduce speculations and attract genuine buyers.</p>
21-Apr 2010	Financial Secretary, Transport and Housing Bureau, and Real Estate Developers Association (REDA)	<p>Nine rules:</p> <ol style="list-style-type: none"> 1) More units should be included in the first price list. The min. number of units to be included will be 30 units or 30% of total units for sale, whichever is the higher, for small-scale development and 50 units or 50% for large scale development (the current required no. is first 20 units for sale). 2) Developers should provide on-site residential units for the public to visit – rather than show flats – when selling residential properties. 3) Developers are required to indicate transactions which involve their board members or their immediate family members within 5-days. 4) Sales brochures should be made available to public seven days prior to commencement of sales (instead of the current 24-hour period). 5) Developers should publicize the price list at least three days in advance of commencement of sale. 6) At least one show flat will have to show the same conditions of the actual flat to be handed over to buyers. 7) Developers should duly observe REDA's guidelines in selling private residential properties. 8) Promotional materials of the property should clearly provide the name of the located district. 9) Sales brochures and all price lists should be uploaded onto developers' websites. 	<p>To strengthen the regulation in primary property sales to ensure transparency</p>
24-Feb 2010	Financial Secretary Transport and Housing Bureau	<p>The Government will hold four auctions in the next three months for construction of different kinds of housing units. Two sites for luxury flats to be auctioned in June and July this year. Another site at the former Yuen Long Estate will be put on the market to provide small and medium-size flats.</p> <p>Effective 1 April, stamp duty on properties valued at over HKD20m will be raised from 3.75% to 4.25%, and buyers will no longer be allowed to defer payment of stamp duty on such transactions.</p> <p>Revitalise the secondary market for the 300 000 Home Ownership Scheme (HOS) flats. Over 60 000 are flats with premium paid and 250 000 or so are flats with premium not yet paid, and these can be put on sale in the open market and the HOS secondary market. These flats are mostly priced below \$2 million and situated in various districts of the territory.</p>	<p>To increase land supply</p> <p>To increase cost of property speculation activities</p> <p>To increase medium and low priced flats supply</p>
	Inland Revenue Department (IRD)	<p>IRD has established procedures to track property transactions involving speculation. If it is found that such transactions constitute a business, the IRD will levy profits tax on the persons or companies concerned for profits arising from such transactions.</p>	<p>To increase cost of property speculation activities</p>
8-Jan 2010	HKMA	<p>HKMA issued second warning to mortgage lenders to adopt prudent pricing strategies, as HKMA noticed a trend to increase levels of cash rebate for residential mortgage packages offered.</p>	
20-Nov 2009	HKSAR Government and REDA	<p>Several Guidelines on Property Pre-sales were announced (effective Nov 09):</p> <ol style="list-style-type: none"> 1) Developers should disclose the pre-sales details (including the ASP on effective GFA) within five days after the signing the Provisional S&P (previously within 1 months). 2) In the price list, both the ASP derived on Construction GFA and Effective GFA should be disclosed. 3) The floor numbers should be assigned on a reasonable basis. 	<p>To enhance the transparency on property pre-sales and the clarification on property prices.</p>
30-Oct 2009	HKMA	<p>HKMA issued best lending practices guidelines for residential mortgage loans, which included: 1) standardizing the methodology of computing debt service ratio (DSR) to ensure DSR ceiling does not exceed 50-60%, and other rules on necessary income proof and property valuation practices.</p>	
23-Oct 2009	HKMA	<p>HKMA issued a notification to the banks and urged that for property amounted over HK\$20m, the maximum LTV ratio for the mortgage should be limited to 60%, with immediate effect.</p>	<p>To curb the speculation on luxury properties</p>
14-Oct 2009	HKSAR Government	<p>A new measure to activate, renovate and convert the uses of industrial buildings was announced. For industrial building aged over 30 years, the threshold for applying compulsory auction is lower from 90% to 80%. The owners are allowed to compensate the land price difference for conversion by installments and some of the conversion fee will be waived. (effective in Apr 10)</p>	<p>To activate the usage of old industrial building and increase the land supply in HK</p>
17-Sep 2009	HKMA	<p>HKMA warned HK Banks on offering mortgage rates that are at large discounts to Prime rate could be subjected to reputation risk, interest rate risk and liquidity risk if Prime rates were to rise rapidly.</p>	<p>To ensure prudential mortgage lending practices</p>

Source: HKEJ, HKET, Singtao Daily, Apple Daily, The Standard, HKSAR Government Websites and Citi Research

Appendix A-1

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