



The Lion Rock Institute
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Chairman
Panel on Housing
Legislative Council
Hong Kong Special Administrative Region
c/o Legislative Council Secretariat

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Submission to the Housing Panel Meeting For Tuesday December 16th, 2008.

Respect of private property rights is no doubt one of the most fundamental elements attributed to Hong Kong's success. However, several incidents happened in recent years suggest that the private property rights in Hong Kong are at threat. Activism by some legislators in repeatedly calling to task The Link Reit to account for normal business decisions is an example of most grave concern. Therefore, The Lion Rock Institute made a submission to the Legislative Council in April 2007 to explain how these actions would degrade private property rights and obstruct lawful contract negotiation. Since then, our Institute has been invited by various media companies, including The South China Morning Post, Apple Daily and RTHK, to express our views on controversy with regards to The Link, especially recently on its decision to increase rent. After series of interviews by the media and our dialogues with a number of opinion leaders and the public, the Lion Rock Institute would like to present to the Legislative Council again a summary of our main observations and our stance on this matter.

Firstly, the most seen headline is about The Link Reit's hefty rental rises. There are only two reasons The Link wants to increase the rent substantially in an economic downturn: 1. the current rent is far below the market level. If this is the case, their effort in bringing the rent back to the market level is justifiable. 2. If Link is already charging market rate and still want to increase the rent substantially, they might have underestimated the impact of the financial turmoil and they will likely be suffered from high vacancy and eventually need to bring the rent down. The rental market has been functioning well in Hong Kong for years and there is no reason we single our The Link and abandon our effective market mechanism.

Secondly, another most widely heard comment is the Government must act to stop the Link to increase rent by acquiring controlling stake of The Link in order to protect consumers. This action simply violates the property rights of all the minority shareholders, who are mostly Hong Kong people. Even if the Government acquired the controlling stake and forwent the welfare of the minority shareholders, maintaining the rent artificially low will not benefit consumers. Sublet cases (where



the tenancy agreements were concluded back in the Housing Authority era) reported by Ming Pao on March 8, 2007 and recently disclosed by government's audit report (Ch. 6, Report No. 51 of the Director of Audit) regarding the government-run wet markets prove that rental subsidy only creates wastage, mismanagement and inconvenience to consumers. At the same time subletors pocket the difference between the subsidized rate and the market rate so no consumers could benefit from the Government's subsidy. Obviously, no one except the subletors will be winners and the Government should never consider buying back The Link Reit as an option.

In conclusion, this incident merely involves two private entities and any disagreements should be resolved by negotiation between them. The Government and the Legco should respect private property rights and should not exert political pressure on the landlord and tenants when they are negotiating their leasing terms.

Thank you for your consideration and continued work serving Hong Kong.

By and On Behalf of:

Peter Wong
The Lion Rock Institute

