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(English version only)

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Stamp Duty (Amendment) Bill 2013

We refer to the above Bill and write to express concerns raised by our members about the potential impact of doubling stamp duty payable on commercial property transactions.

Background

RICS is the world's leading qualification in respect of professional standards in land, property and construction. In a world where more and more people, governments, banks and commercial organisations demand greater certainty of professional standards and ethics, attaining RICS status is the recognised mark of property professionalism. Over 100 000 property professionals working in the major established and emerging economies of the world have already recognised the importance of securing RICS status by becoming members. RICS is an independent professional body that since 1868 has been committed to setting and upholding the highest standards of excellence and integrity – providing impartial, authoritative advice on key issues affecting businesses and society. RICS is a regulator of both its individual members and firms enabling it to maintain the highest standards and providing the basis for unparalleled client confidence in the sector.

Hong Kong's Competitiveness

The imbalance of demand and supply of landed properties due to the shortage of land supply has been the root cause of the rising property prices, and therefore the surge in speculative activities. RICS acknowledges the government's commitment in enhancing land supply for different sectors being a step in the right direction in addressing the issue. The proposed double stamp duty, however, may send a negative signal to the international business community and therefore potentially adversely affect Hong Kong's competitiveness. Already, Hong Kong is no longer the most competitive economy. Its overall ranking dropped to No. 3, behind US and Switzerland, according to a recent survey conducted by the International Institute for Management Development (IMD).

During the RICS HK Annual Conference held on 3 May 2013, a number of international experts commented on Hong Kong's competitiveness. The views generated from the conference are consistent with what RICS is hoping to bring to the attention of the Hong Kong Government. Below please find a concluding statement from the discussion panel: "*The problem for any World city is that they are deliberately open to global capital and corporates, which makes them vulnerable to distortions. Openness inevitably leads to volatility in property prices and more generally, congestion, over use of infrastructure – all consequences of success. The governance model needs to meet those challenges through infrastructure investment, provision of schooling and adequate housing supply – it's a challenge for all World Cities. London, for example, has sought to continuously engage in urban redevelopment to increase the supply, choice and variety*

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of real estate.”

There is an important distinction between speculative and non-speculative acquisitions in the commercial property market. While RICS agrees that speculative activity can indeed push up property values, non-speculative activity including genuine commercial investment is a normal and essential function of a developed and free market. Double stamp duty could potentially affect redevelopment and refurbishment of existing stock, the urban landscape, supply levels, competition and rental values. Should prohibitive transaction costs impede such genuine investment, long term consequences, in particular over Hong Kong’s competitiveness as an open economy, can be foreseen.

Negative Impacts

Based on a collection of views from members, investors, academics and MNC occupiers, below please find a summary of foreseeable consequences should the final legislation impose stamp duty at a top rate of 8.5% on all commercial acquisitions irrespective of whether they are speculative or not:

1. Hong Kong would become increasingly unattractive to international funds and institutional and other main-stream investors and owner-occupiers. Opportunities to redevelop and upgrade existing stock would be impeded and an important avenue for contributing to the easing of commercial property supply pressures would become largely blocked.

2. Rental stock would remain in the hands of fewer owners limiting rental options for tenants and limiting rental competition. Rentals levels will influence international businesses either considering investing in Hong Kong or considering moving facilities outside of Hong Kong. Hong Kong’s CBD is already one of the most expensive office market in the world, and the double stamp duty may potentially further drive up prices.

3. The option for local and other businesses to buy their own premises and manage significant rental costs may become prohibitively expensive.

In the RICS’ Policy Address Submission to Chief Executive back in January, our members’ view was clear in pointing out that “*BSD introduces an unprecedented discrimination between local and foreign buyers for purchase of residential properties in Hong Kong. Such a fundamental change sends a negative signal to the overseas investors as to whether Hong Kong’s future economy will still be driven by free market mechanisms.”*

A Time to Review

RICS believes that the Government’s goals of dampening speculation, which we support, can readily be achieved without the above impacts. In the short term, the government could consider amending the legislation so that the double stamp duty measures by means of a form of ‘exemption’ do not apply to non-speculative acquisitions of non-residential property. Although the definition of “non-speculative” may be subject to debate, RICS believes that a community consensus can be reached as long as the consultation process is open and transparent as it is in the best interest for Hong Kong to control short term speculative activities. This exemption would support genuine long term investment and owner occupation by both local and international business.

In the medium term, it is in the best interest for the Government to set a timeframe to review this measure after implementation with a view to gauge its effectiveness and also the degree of impact on the economy of Hong Kong at large. Ultimately, if it is the government’s aspiration to position Hong Kong as a world city, the stamp duty measures should ultimately be removed when the property price becomes stable and affordable. The review mechanism should also be as predictable and transparent as possible as this will send a positive signal to the international business community.

In the long term, the root cause of high property prices is the shortage of land supply. There needs to be much more land made available for building and this has to be done in a steady and predictable way. Whilst the Government is doing this and promoting the market as the way of running land, it should not put obstacles in the way, creating difficulties with measures like additional stamp duty including stamp duty for purchases by non-permanent residents and companies, which is counter-productive if Hong Kong truly wants to regain the position as the most competitive economy in the world.

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