The Canadian Chamber of Commerce in Hong Kong
La Chambre de Commerce Canadienne à Hong Kong
香 港 加 拿 大 商 會

23 May 2013

Ms. Annette Lam, Clerk to Bills Committee
The Bills Committee on Stamp Duty (Amendment) Bill 2013
Legislative Council Road
Central, Hong Kong

Dear Ms Lam,

Stamp Duty (Amendment) Bill 2013 (Bill)

The Canadian Chamber of Commerce in Hong Kong (CanCham), its Property Committee, Entrepreneur & Small Business Committee and Financial Services Committee, along with their respective members wish to provide comments to the Bills Committee in relation to our support of the Bill's objectives which we believe to be as follows:

- To further dampen speculative demand and manage the appreciation of residential property prices;

- To Support Hong Kong permanent residents in buying one residential property, enabling owner occupation;

- To deter speculative investment in an over-heated residential property market until the government has increased land supply. The Special Stamp Duty (SSD) introduced in 2010 and Buyer's Stamp Duty (BSD) introduced with effect in 2012 are other methods to curb speculation in the residential property market; and,

- To curb inflows of speculative capital into the non-residential property (hereafter commercial property) market as speculators shift their allocations in response to the success of the SSD and BSD. The Legco briefing paper expressly stated that one of the justifications for the new measures was to combat <u>short-term</u> resale activities in respect of commercial properties.

Members of the aforementioned CanCham committees are concerned, however, with the inadvertently punitive application of the proposed stamp duty in cases where the investment is clearly not speculative in nature. By passing the Amendment bill as-is, the Bills Committee will unduly harm the future business prospects of long term investors, owner-occupiers and corporate residents of Hong Kong. We believe the unintended consequences to long-term investors and corporate residents of Hong Kong of the Amendment could include, but not be limited to, the following:

- Increased occupancy costs as landlords push through the stamp duty charges to corporate tenants,

- Deterioration of the market perception of Hong Kong as a preferred location for regional headquarters. In an era of heightened corporate spending restraint, Hong Kong is at risk of pricing itself beyond the reach of many multi-national corporations and small & medium sized enterprises that, combined, represent the backbone of the dynamic Hong Kong economy

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In early 2012, Ms. Carrie Lam spoke eloquently to CanCham in her capacity as Secretary of Development and the Government's push for the CBD2 development. In addition, she addressed concerns about Singapore's more advanced and planned business infrastructure gaining an edge on Hong Kong, underscoring the Government's aim to develop CBD2.

(i) Despite falls in rental levels over the past 12 months, Hong Kong remains, by a considerable margin, the most expensive office market in the world. By way of contrast, rental levels in Singapore are less than half those in Hong Kong (Singapore is 19th on the list)

(ii) The current vacancy rate for office space is lower than it has been for the past 18 years, at around 3%, with insufficient supply being projected for the remainder of this decade. Limited commercial sites are currently available for sale in the Government's land program. As part of the limited land supply, future new supply of office space from 2013 to 2015 is 1.6 million square feet per annum whereas historical annual net-take up is 2.2 million square feet. (Colliers International Research and Rating and Valuation Department, HKSAR Government)

One manner in which SME and MNC tenants have attempted to manage long-term costs and protect against future occupancy cost inflation has been to purchase commercial premises for their self-use. . The Amendment, as it has been proposed, would strongly discourage long-term corporate residents from doing so. The potential consequences for Hong Kong's economy are self-evident.

The competitive advances made by Singapore as an alternative location for regional headquarters over the past 10 years are at least partly due to more affordable occupancy costs. Although Singapore has also recently extended a special stamp duty to industrial (non-residential) properties in order to deal with a similar inflow of speculative capital, Singapore included an exemption for non-residential properties held for more than 3 years, thus protecting genuine investors and owner/occupiers and potentially giving Singapore a further competitive advantage that may impact Hong Kong's regional competitiveness.

In order to address these unintended consequences of the draft Amendment, **we suggest amending the Agreement such that the new stamp duty rates do not apply to non-speculative acquisitions of commercial property for owner-occupiers or long-term investors.** The carve out could follow the approach taken by the Government for SSD whereby the amount of SSD payable varies depending on the period for which the commercial property has been held, e.g. the new stamp duty rates for commercial property would not be payable in a situation where a commercial property was acquired for non-speculative purposes (as to which appropriate declarations could be made). In the event that the property was sold after a period of less than 3 years, the duty could be reinstated automatically as a seller's liability.

This carve out would meet the Government's aim of combating short-term re-sale activities in respect of commercial properties (as referred to in the Legco briefing paper) by strongly discouraging speculative activity. Importantly however, it would also ensure that Hong

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Kong continues to attract long term capital to support the city's ongoing development and allow for owner-occupation amongst Hong Kong's corporate and small business community. These factors are both critical to supporting Hong Kong's position as the location of choice for businesses in the region and attracting those who are investing in Hong Kong's long-term economic growth.

We would be pleased to discuss any of the above with you in more detail. We are available at your convenience.

It is our belief that a fruitful interaction with the wider business community would be of value as the Bills Committee considers the issue. As such, the CanCham Property Committee would like to invite you to join a panel on these measures at a breakfast briefing at the American Club, Central. The moderator will be Mr. Andrew Work, Editor-in-Chief of the Harbour Times. We would respectfully propose any of the following dates between 8:30am and 9:30am; June 27, 28 or July 3, 4 and 5. We would work with other Chambers of Commerce to ensure that a broad base of attendees would be present at the event.

Sincerely yours,

Mr David Nesbitt
Executive Director, The Canadian Chamber of Commerce in Hong Kong

Michael Nardella
Chair, Property Committee

Madeleine Behan
Co-Chair, Entrepreneur & Small Business Committee

Richard Brown
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