the malay mail
Estd 1896
The Paper That Cares

Hong Kong, Singapore popping housing bubbles London can't handle

July 30, 2014

SINGAPORE, July 30 — Take a look at the world's dizzying surges in the price of housing for 12 months at the end of June: London, up 20 per cent. Manhattan, 18 per cent. Sydney, 15.4 per cent.

Then there are Singapore and Hong Kong: down 3.7 per cent and 0.6 per cent.

Prompted by concerns over potential property bubbles and affordability for the middle class, the governments of the two Asian cities have been reining in home prices by imposing measures including mortgage caps, taxes on property flippers, and levies on foreign buyers as high as 15 per cent.

"Hong Kong has successfully cooled down the market in terms of transactions and turnover," said Raymond Yeung, senior economist at Australia & New Zealand Banking Group Ltd in Hong Kong. "Singapore has been more effective."

So could New York, London and other global cities facing soaring housing prices pull off the same act?

Not really. Hong Kong and Singapore's island geographies, preponderance of public housing resulting in two-tier housing markets and citizens willing to tolerate government directives make the cities unique, according to academics and researchers. London and New York have nowhere near the same level of control over their economies and the behaviour of their residents.

Having clout

Singapore and Hong Kong, as a special administrative region of China, have governments with policy-making power over their entire geographic areas, where they are relatively free of political opposition from neighbourhood groups or borough councils that stymie directives or mitigate their effectiveness. The Asian cities control the land supply and are the biggest landlords.

That allows them to implement decisive policy measures. For example, in January 2013, the Monetary Authority of Singapore, effectively the central bank and chief regulator, cut the mortgage ratio allowable on purchases of second homes while more than doubling minimum down payments from 10 per cent to 25 per cent. The banks had no choice but to follow.

“Imagine doing something like this in the US where there are 7,000 banks and many regulators,” said Sumit Agarwal, a professor in economics, finance and real estate at the National University of Singapore. “It’s a nightmare from the policy point of view and would be impossible.”

Hong Kong and Singapore haven’t shied away from using taxes to discriminate against foreign buyers — something other locales with surging prices have yet to do. Non-permanent residents in both cities are subject to an additional 15 per cent tax when they buy property, except in Singapore where Americans are exempted by treaty.

Free-market

While such actions may seem contradictory to the cities’ stated free-market principles, “affordable housing is part of the legitimacy of any government, and government has a role to play in intervening in the market in periods where there are extreme circumstances,” said Michael Klibaner, who heads Greater China research at real estate firm Jones Lang LaSalle Inc in Hong Kong.

The UK government has tried some measures. After it increased the stamp duty to 7 per cent on high-value properties in March 2012, price increases for homes valued from £5 million to £10 million (US$8.5 million to US$17 million) slowed from 9.7 per cent to 5.8 per cent in the subsequent year, according to broker Knight Frank LLP.

Bank of England Governor Mark Carney announced another set of measures last month, citing concerns over household indebtedness and the threat of a property bubble. They limit mortgages to less than 4.5 times a borrowers’ annual income and require banks to refuse loans to those failing to prove they could afford a 3 percentage-point rise in interest rates.

Stagnant prices

They may be working. Prices in the capital stagnated in July, the first month with no growth since December 2012.

Meanwhile the opposition Labour Party has backed away from a call for a flat tax on properties worth more than £2 million, instead suggesting taxes that rise the more expensive a property is, if they win next year’s UK national election.

Least likely to be deterred are well-heeled buyers from Russia, the Middle East and Asia looking to park their money in tony London neighbourhoods, the ones who have helped drive up the prices, said Matthew Pointon, a property economist at Capital Economics Ltd in London.

“Wealthy people who buy these houses just pay it,” said Pointon, adding that the government isn’t interested in discouraging the influx of money. “The government is always very keen to portray London as open for business to the world.”

Preferential treatment

Foreigners in Britain enjoy preferential tax treatment over locals, as they are currently exempt from paying capital gains. This benefit will cease when new legislation takes effect in April bringing the UK into line with the US and Australia which charge capital gains on non-residents. (Hong Kong has no capital gains tax while Singapore taxes non residents.)

In Australia, foreigners bought a record 14 per cent of new properties in the first three months of the year, based on a survey of property professionals by National Australia Bank Ltd.

In New York, there's not much likelihood of foreign buyers facing additional costs, said Jones Lang LaSalle's Klibaner, a native New Yorker.

"If you live in Manhattan, you aren't going to blame the government for bad policies or become a xenophobe because too many rich Chinese and Russians are buying apartments on Central Park," he said. "When you want to get on the property ladder, you start in Queens or Brooklyn or New Jersey."

Election issue

Still, affordability is very much on middle-class voters' minds. New York Mayor Bill de Blasio, a self-described progressive who took office in January on a promise of creating more homes New Yorkers can afford, unveiled a plan in May to try to do it.

"This is the first local election in a long time where housing affordability came to the forefront," said Christopher Mayer, Paul Milstein Professor of Real Estate, Finance and Economics at New York's Columbia Business School. "This is going to happen in more places."

The dominance of the private sector in the housing markets of New York and London also leaves them with less leverage than their counterparts in Asia. More than 80 per cent of Singapore residents live in government-built flats, according to the website of the city's Housing & Development Board.

Of those living in Singapore's public housing, more than 90 per cent own their apartments, the result of government policy promoting home ownership through a combination of cheap loans, housing grants and a program that allows buyers to use accumulated government pension contributions for purchases.

Public housing doesn't carry a stigma in Singapore, where most is located in master-planned towns, with schools, sports and medical facilities in landscaped surroundings.

Laissez-faire

While Hong Kong may rank No. 1 on the Cato Institute's global ranking of free economies, its housing policy is anything but laissez-faire. The government auctions its land to developers to trickle out new housing stock when it wants to increase supply. It also owns 76 per cent of MTR Corp., the subway operator that is one of the city's biggest property developers.

"Supply is so limited in both cities, the government is all powerful when it comes to land issues," said Eddie Hui, a real estate professor at Hong Kong Polytechnic University. "They can be more heavy-handed."

Foreign Suburbs

Singapore is about two-thirds the size of New York City, and Hong Kong is about 30 per cent bigger. Unlike Manhattan, where residents can move to cheaper boroughs or nearby states, the far-flung suburbs of Singapore and Hong Kong are in other countries beyond their borders. (Some Singaporeans have bought homes in neighbouring Malaysia, which requires a passport-control stop and a two-hour drive when traffic is heavy to reach the business district.)

"In Hong Kong and Singapore there's nowhere else to go, so regulation is almost essential if you have a fixed supply of land," said Columbia's Mayer.

Singapore began introducing curbs in 2009 after home prices climbed 25 per cent in two years through 2008. It stepped up with stricter measures in 2013, including a cap on mortgages at 60 per cent of a borrower's income, higher stamp duties and an increase in real estate taxes.

In 2009, when property prices were plunging across the US, Hong Kong's housing market was going into overdrive. A combination of record-low interest rates, a lack of alternative desirable investments due to a lacklustre stock market and a flood of mainland buyers plunking down cash for properties sent prices soaring.

Chinese buyers

Hong Kong began introducing a string of progressively stronger measures starting in November 2010, including a flip tax of 15 per cent on properties resold within six months, and a doubling of stamp duties to 8.5 per cent on properties worth HK$20 million (US$2.6 million) or more.

It also slapped a 15 per cent tax on purchases of homes by non-local buyers and companies, a policy aimed to deter mainland Chinese buyers whom many Hong Kong residents blamed for soaring prices.

After climbing 115 per cent since January 2008, prices started dropping in the second quarter of 2013. The share of mainland buyers of luxury properties, defined as homes worth more than HK$12 million, fell from 34 per cent in the third quarter of 2012 to 13 per cent a year later, according to research by Centaline Property Agency in Hong Kong.

Least affordable

Still, prices on Hong Kong island, roughly the size of Manhattan where about 1.2 million people live, are the third- most expensive in the world after Monaco and London, at $1,920 per square foot, according to the Global Property Guide website. While housing costs about half as much in the northernmost New Territories, where more than half of Hong Kong's 7.2 million residents live, prices there rose 140 per cent from 2008 through 2012.

For all Hong Kong's successes, it remains the world's most- unaffordable housing market, with a median home price 14.9 times gross annual median household income, according to a survey released in January by Demographia, a consulting firm in Belleville, Illinois. Singapore was given the survey's highest rank, "severely unaffordable," while Knight Frank's annual wealth report placed it as No. 2 most-unaffordable in the world.

Singapore's correction looks set to continue. After prices slid for a third consecutive quarter to June, Finance Minister Tharman Shanmugaratnam this month [July 4] predicted further declines.

Less bearish

In Hong Kong, analysts are revising previously bearish forecasts. JPMorgan & Chase Co in a June 4 report predicts a further 5 per cent drop in secondary home prices this year compared with an earlier forecast of a 20 per cent decline. Citigroup Inc said June 3 it expects prices of mass-market homes to stay flat.

The slump in Hong Kong housing prices may be illusory because transactions have all but dried up as buyers wait on the side-lines for recovery, says ANZ's Yeung.

"It looks effective on the surface, but this is only depressed demand," he said.

Things may already have picked up. Prices have climbed about 4 per cent in the seven weeks since the beginning of June, according to Centaline.

Meanwhile the government is taking measures to increase supply. In January, it announced a policy target of 470,000 additional housing units over 10 years for both public and private housing.

Hong Kong isn't entirely without resistance. In June, an angry mob forced its way into the Legislative Council to protest a plan to relocate villages to make way for high rises.

"Governments in Hong Kong or the UK or China all have the same dilemma," said Hui, the Hong Kong Polytechnic professor. "Home prices are high, and we all know we have to do something. But when they announce measures against our interests we tell them to do it in someone else's backyard."

Ultimately, markets may play a greater role in solving the problem of rising prices once global interest rates start rising. At that time, said ANZ's Yeung, "the global housing bubble, or boom, will come to an end." — Bloomberg