Press Releases

Speech by FS at Oxford and Cambridge Society of Hong Kong (English only)
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Following is the speech by the Financial Secretary, Mr John C Tsang, at the Oxford and Cambridge Society of Hong Kong tonight (May 3):

Friends of the Distinguished Academic Institutions of Oxford and Cambridge, Friends from the rest of the Universe, Ladies and Gentlemen,

I am delighted to join you all this evening.

I wish to thank the Oxford and Cambridge Society of Hong Kong for inviting me to speak today.

First of all, let me set the record straight. I, too, studied in Cambridge. Not Cambridge, England, but Cambridge, Massachusetts, USA a relatively small town across that small pond they call the Atlantic. There we play baseball instead of that incomprehensible game called cricket, we play football dressed in full gladiator like regalia, and we row on the Charles instead of the Thames.

Although at heart, I think I am what you would call a Cantabrigian, but I am a neutral guest at this varsity gathering of Oxford and Cambridge.

Indeed, I have been a neutral follower of the great Oxford and Cambridge Boat Race for many years. I should also mention that, although we have a similar collision between MIT and Harvard every year in my old hangout, and I used to live across the street from the MIT boat house, I never understood the overly excessive training regiment required of the rowers, as well as the coxswain.

So please bear with me in my rowing analogy to introduce the topic of our discussion today. That topic is Hong Kong's property market and our strategies to maintain its stable and healthy development amid unusually choppy economic conditions. I know some of you were expecting me to talk about Hong Kong the international finance centre or the environmental issues that we face today, but I shall leave them to my more learned colleagues who would make entertaining guests on future occasions for your esteemed society.

The complexities facing our property market today stem from a confluence of forces from home and abroad. For our rowing analogy, you may think of the property sector as being buffeted by currents pulling it in different directions, creating instability and uncertainty. This year’s surprise-filled Boat Race also teaches us that we should always expect the unexpected, including broken oars and a swimmer in the middle of the course.

On the one hand, our property market is affected by exceptionally low borrowing costs as major advanced economies continue to maintain ultra-low interest rates in order to seek to revive their economic prospects. The US Federal Reserve has indicated it will maintain this low-interest rate strategy until at least late 2014. At the same time, there is abundant liquidity in the market following several rounds of quantitative easing around the world. This is part of the destabilising force impacting on our property market today.

Pulling in another direction, we have the ongoing sovereign debt crisis in the eurozone and the fiscal austerity measures adopted by several European governments in tackling the problem. We are unsure where the next set of twists and turns of the eurozone crisis will take the global economy or what impact it will have on Hong Kong. This is adding to existing uncertainty in the local market.

There is no immediate end in sight for the financial difficulties on both sides of the Atlantic. Here in Asia, the economic situation is more healthy and optimistic. Economic growth in the region remains solid, attracting investment and talent from around the world.

In terms of property sector development, Hong Kong also has its own unique characteristics, such as market perception of a limited supply of land and strong demand for residential flats.

The challenge for Government is to maintain stable and balanced development of the property sector in these turbulent economic times. In particular, we need to avoid a potentially dangerous housing bubble forming in the market. Fortunately for us, we have the financial resources and the tools at our disposal to achieve a positive outcome for our property sector. We shall continue to take significant and appropriate steps to maintain stability.

In my past three Budgets as well as in the Chief Executive's recent Policy Addresses and through additional measures introduced from time to time, we have been able to keep the property sector on a relatively even keel.

Today, I shall give a brief overview of Hong Kong's property market. I shall discuss some of the issues we are facing and talk about our overall housing strategies.

First, an overview. In our city of seven million people, there are 2.4 million households. Generally speaking, there are three categories of housing, namely, private, public and subsidised homes.

According to 2011 figures, 52 per cent of households live in private residences. Around 30 per cent of households live in public rental housing while 16 per cent of households occupy subsidised housing under various schemes, including Home Ownership Scheme, Tenants Purchase Scheme and Sandwich Class Housing Scheme.

Among the 1.2 million private residences, around 70 per cent of owners live in their own apartments. Of these, around 40 per cent are still making repayments on their mortgage loans.

Over the past few years, solid economic and income growth have created strong demand for private residential units. While the Government welcomes home ownership, we also have an obligation to ensure that everyone has a roof over his head.

Under the natural laws of supply and demand, property prices have inevitably risen over time making it more difficult for people, especially first-time buyers, to join and move up the property ladder.

Since the property slump in late 2008, flat prices have surged in the past three years or so. This is largely due to the combination of local and external factors that I have mentioned. As of March this year, prices were 82 per cent higher than late 2008 levels. Compared to their 1997 peaks, flat prices are up 10 per cent.

In terms of affordability measure, we calculate the ratio of mortgage repayment for a 45-square metre unit to the median household income. Given the rally in flat prices over the past few years, the affordability ratio has deteriorated from 34 per cent in the first quarter of 2009 to 46 per cent in the first quarter this year.

If – or more likely, when interest rates return to what are perceived to be "normal" levels, the ratio would rise beyond the long-term average of 50 per cent (1991-2010 period).

With this in mind, the Government remains vigilant and mindful of the risks of a spike in property prices. We have taken various measures to maintain balance in the property sector, and these are having a positive effect.

A basket of measures that we have implemented over the past few years have focused on four main areas. These are -

(1) increasing the supply of land for residential use to meet demand for flats;

(2) curbing speculative activities;

(3) preventing excessive growth of mortgage lending; and

(4) increasing transparency of the property market.

Allow me to talk about these in some detail.

First, flat supply. Here we are adopting short, medium and long-term measures.

To boost land sales, the Government supplements the Application List System with government-initiated land sale arrangements. For selected sites, we specify the number of flats and size restrictions on sale conditions. We also liaise with the Mass Transit Railway Corporation (MTRC) and the Urban Renewal Authority (URA) to provide more small and medium-sized flats in their developments.

Since last year, the Government has been announcing land sale programmes in advance on a quarterly basis. These initiatives provide more clarity and certainty to the market.

As a result, we have raised the total supply of flats in the coming few years from an estimated 55 000 units as at end-March 2010 to 64 000 units at end-March 2012.

Looking further to the future, the Chief Executive has set out the working target of making available enough land for the production of on average some 20 000 private residential flats a year in the coming 10 years.

We are also exploring ways to expand Hong Kong's land resources. These include releasing industrial land for residential use; the option of reclamation outside Victoria Harbour, and the possibility of converting some de-vegetated, deserted or formed green belts into housing sites.

The second area for concern is the impact of speculative activities in driving up property prices.

In April 2010, we raised the stamp duty for properties valued more than $20 million and disallowed deferred payment of stamp duty on residential property transactions. Later in August, we also banned confirmor transactions for first-hand uncompleted flats approved for pre-sale.

In November 2010, we introduced a Special Stamp Duty (SSD) on the short term resale of residential property. The SSD ranges between five per cent and 15 per cent depending on the holding period before resale.

These measures have been effective in curbing speculative activities. In the first quarter of 2012, the monthly average of confirmor transactions plunged by 91 per cent compared to the January-to-November 2010 period, before the introduction of the SSD. Over the same time period, short term resales within 12 months dropped by 99 per cent.

As a result, such resales accounted for just 0.6 per cent of total transactions in the first quarter of this year.

The third area is mortgage lending. On this subject, we should remember that overly easy access to credit was one of the first triggers that led to the recent full-blown global financial tsunami.

The Government has been working with the Hong Kong Monetary Authority (HKMA) in tightening mortgage lending by banks. Since October 2009, the HKMA has introduced four rounds of prudential measures for residential mortgage lending.

Among other things, the caps on loan-to-value ratios and maximum loan size for residential properties under different ranges of value have been successively tightened. Also, loan-to-value ratios for applicants with principal income not derived from Hong Kong have been lowered since last June.

In August 2010, the HKMA standardised the limit on debt servicing ratios (DSRs) of mortgage applicants to 50 per cent, down from the previous range of between 50 and 60 per cent. The HKMA also requires banks to stress-test mortgage applicants' repayment ability.

As a result, the average loan-to-value ratio of new mortgages fell from 64 per cent in 2009 to just over 60 per cent (60.2%) in 2010 and further to 54.6 per cent last year.

Our fourth focus area is to improve the transparency of the property market.

In 2009, we announced three measures to regulate various aspects of sales of first-hand flats. These cover the publication of details of transactions, price listing containing both saleable area and gross floor area of flats and the floor numbering system of apartments.

The Real Estate Developers Association is also requested to issue new guidelines on nine measures regarding sales of first-hand private residential flats. These include timely provision of sale brochures and price lists.

To further strengthen the regulation of the sales of new private residential properties, the Residential Properties (First-hand Sales) Bill was introduced into the Legislative Council in March this year, and we expect to complete the enactment before the close of the current session.

Hong Kong's case is fairly unusual in that almost half of all households occupy government owned or government subsidised units.

The provision of such accommodation requires a delicate balancing act. Too much government influence may have implications for the overall property market; too little action would render home ownership out of reach for a growing number of people and affect our ability to provide enough shelter for the community.

With this in mind, the Chief Executive has announced two major initiatives.

One new policy is for the resumption of the Home Ownership Scheme or HOS. The new scheme will offer flats with a saleable floor area of about 400 to 500 square feet. This is targeted at families with a monthly household income under $30,000, mainly first-time home buyers.

The Chief Executive also announced the new My Home Purchase Plan (MHPP) in 2010. This is based on the rent-and-buy model. Under the MHPP, the Government, in collaboration with the Hong Kong Housing Society, will provide "no frills" small and medium-sized rental flats for families with a relatively higher monthly income of up to about $40,000. The aim of this strategy is to give people time to save up for their property purchase.

By way of concluding, allow me to give you the latest available assessment of the housing situation in Hong Kong.

The residential property market has shown a sharp revival since February this year compared to the latter part of 2011.

Overseas, there are signs that the European debt situation is stabilising. Also, in recent weeks the US economy has shown relatively stronger-than-expected recovery while a revival in the global equity market is helping stimulate market sentiment.

The current low interest rate environment with abundant liquidity has also provided momentum to property sales.

The number of local transactions for March this year surged to 11 358 cases. That is the highest level since late 2010.

Overall flat prices rebounded by two per cent in February and further by four per cent in March. At this time, prices exceed the recent peak in June 2011 by around one per cent. Compared to their 1997 peaks, small and medium sized flats are 10 per cent more expensive and prices of large flats are up 20 per cent.

Looking ahead, our residential property market continues to be caught in a tug-of-war between two counter-forces in the global market.

Ultra-loose monetary policies adopted by major advanced economies are likely to continue. We expect the abundant liquidity and low interest rate environment globally to persist for an extended period.

Under these conditions, any positive surprises regarding the global economy or central bank actions could re-ignite a liquidity-driven boom in our property market.

On the other hand, international markets are still weighed down by negative sentiment and uncertainty. In such a highly volatile external environment, there are bound to be wild gyrations in financial and asset markets as sentiment switches between "risk on" and "risk off".

Buying a property is the most significant investment most people make in their lifetime. Our message is clear. Prospective home-buyers must be fully aware of the risks of buying a home. People should not take it for granted that property prices will only rise and not fall. They must also be prepared for higher mortgage repayments as interest rates will almost inevitably return to "normal" levels in due course.

Government initiatives to maintain a stable property market have been fairly effective, especially in curtailing speculative activities. We shall continue to monitor the situation closely, and I will have no hesitation in applying further measures in maintaining a stable market.

Ladies and Gentlemen, I am grateful to you all for this opportunity to discuss the latest situation on our property market development.

I wish the Oxford and Cambridge Society continued success and its members a happy and healthy year ahead.

I am happy to take any questions that you may have.

Thank you.

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