



恒生銀行

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## GOVERNMENT LAND SUPPLY POLICY REMAINS CENTRAL TO DEVELOPMENT OF HEALTHY REAL ESTATE MARKET

The Hong Kong government should assess whether its current land disposal policy introduces unintended policy risk to the development of the property market, states the latest issue of *Hang Seng Economic Monthly*.

Underpinned by an improving economy, residential property prices have surged over the past 24 months. While most indicators suggest that the immediate risk of a price fall is low, history has shown that property price movements are affected greatly by the government's land policy.

The market still needs time to adapt to the 'Application List System' that now governs the supply of government-owned land. However, the government must actively monitor this system and, if necessary, look at ways to make it more flexible and market oriented, says the report.

Since January 2004, the Application List System has been the only way for the government to sell land to developers. The government's approach under this system is both reactive and cautious. Sites will only be made available in response to developer applications. Further, a site will only be released if bids under the application process reach 80% of an undisclosed reserve price (based on an assessment of 'open market value') and the winning bid must reach the full reserve price at auction.

Despite rising interest rates, property prices have remained firm and appear poised for another upward move with the rising indicative land prices of the recent successful land applications that have released three sites for auction in September 2005.

Along with land sales by Hong Kong's two railway companies, the Urban Renewal Authority and the private sector, these recent releases of government-owned land should help ease fears over an inadequate supply of residential units in the years ahead.

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新聞稿

## **Government Land Supply Policy Remains Central To Development Of Healthy Real Estate Market/ 2**

Nevertheless, states the report, the present system remains restrictive and encourages an upward price cycle in a bull market. First, land prices are upward biased under the policy as, in a rising market, a site price must theoretically be higher than the previous one for the site to be sold. Second, the government's reserve price might not adequately reflect the risk factors, which rise along with a surge in property prices. Developers could therefore find it challenging to catch up with the government's undisclosed reserve price.

The report states that these characteristics of the Application List System are apparently serving to further drive the up-cycle by encouraging property developers to postpone property sales. The government must therefore assess whether its policy is introducing unintended policy risk to the development of the property market in creating a cycle in which property prices and land prices chase each other.

There are commonalities between the current bull property market and earlier ones in their run-up to down-cycles. However, the report notes that there are also differences that make the short-term risk of a drop in prices relatively low.

The biggest difference, according to the report, is in government policy. In contrast to its actions in previous bull markets, the government appears to be trying to minimise the downside risk and keep the upward price trend intact through controlling land supply.

The general guideline under the current housing policy is that the government will ensure that demand for land is met, but will let the market decide on the level of private housing production. However, the report notes that, as the largest owner of developable land in Hong Kong, the government and its land supply system have a significant influence on property prices.

For long-term market stability, a pause in the price rise cycle appears desirable, states the report. The real risk now is that prices will be pushed even higher on continued anticipation of a restrictive land supply. This will increase the danger of a big adjustment in the future when supply inevitably increases.

The report notes that one way to reduce this risk would be to make the Application List System more flexible, moving away from a government-determined reserve price structure towards one that makes land available for auction when there is sufficiently strong market demand. The report concludes by stating that policy risk in the residential property sector can be reduced if the market is offered a greater role.

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