COMMENT

VICTOR ZHENG AND ROGER LUK

Government meddling in the property sector must stop

Time to rectify market distortions after interventionist measures fail to bring relief to homeowners as housing prices increase sharply

A public poll on the housing outlook conducted by Hong Kong Institute of Asia-Pacific Studies at the Chinese University of Hong Kong in December last year confirmed most people did not support the use of interventionist measures to cool surging home prices.

Views were equally divided among the positive (rising), negative (falling) and neutral (stable). Actually, sentiment changed when the double stamp duty was raised to a flat rate of 15 per cent in November 2016 as some who were neutral turned positive.

For six years, the institute has been tracking public sentiment on housing prices. About half used to be neutral and half sensitive. Among those sensitive, about a third were positive, a third were negative and a third were swing respondents.

When former chief executive Leung Chun-ying took office in 2012, home speculation had subsided with the special taxation. Leung endeavoured to resolve the housing problem with abrupt measures rebalancing supply and demand. Apart from a strategy on land supply, he imposed new taxes to suppress investment demand and controlled mortgages to reject marginal homebuyers. But prices rose 60 per cent during his term.

In August 2012, a poll found 55 per cent was neutral and 33 per cent still positive on housing prices. Following successive demand management (taxation) and counter-cyclical (mortgage) measures, a poll in March 2013 found those negative on the price outlook doubled to 29 per cent. A follow-up poll in September found the rise-fall gap widened by half to 15 percentage points. Housing prices fell 1.4 per cent in six months. All looked good as the Federal Reserve ended quantitative easing.

Monetary normalisation, however, was not forthcoming and home supply was disappointing.

As expected, the Fed started monetary normalisation at the end of 2015. Despite successive rate rises, local housing prices remained stable until the government raised the stamp duty to 15 per cent in November 2016. It was the straw that broke the camel's back. Sentiment split as some who used to be neutral changed their minds. The latest poll in December last year confirmed people were sceptical of interventionist measures after prices rebounded 13 per cent in the year.

What has gone wrong? Interventionist measures are creating a "liquidity trap" that has shrunk the secondary market. Annual turnover used to be 10 per cent or 100,000 cases but has since dropped by almost half. The double stamp duty is punitive to homeowners. Trade-up has become unaffordable without a bridging loan for down payment and refundable taxation. Secondary supply has thus shrank.

The latest banking statistics showed the mortgage market was overregulated with the average loan-valuation ratio in November at 49 per cent and the debt service ratio at 35 per cent, well behind the standard 70 per cent and 50 per cent.

The key to unlocking the impasse is mortgage deregulation, with the government starting by returning the management of mortgage insurance to private underwriters. Until market distortion and overregulation are corrected, the public may still have to live with rising home prices and global monetary normalisation.

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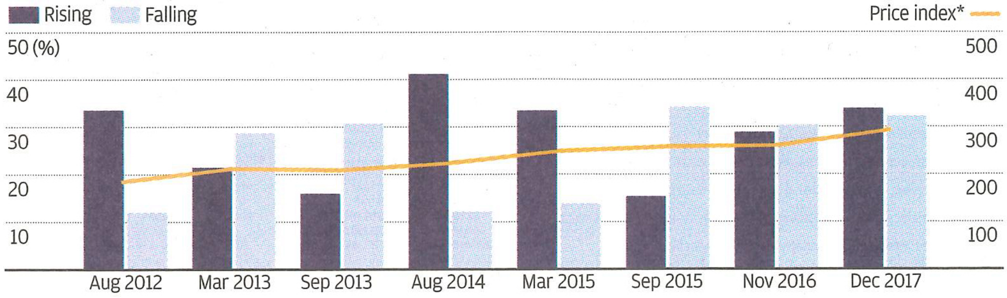
Housing price outlook



Source: HKIAS * 1999 = 100 SCMP