



Lessons from Hong Kong and Singapore

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Highbury Group 11/9/17

Why me?

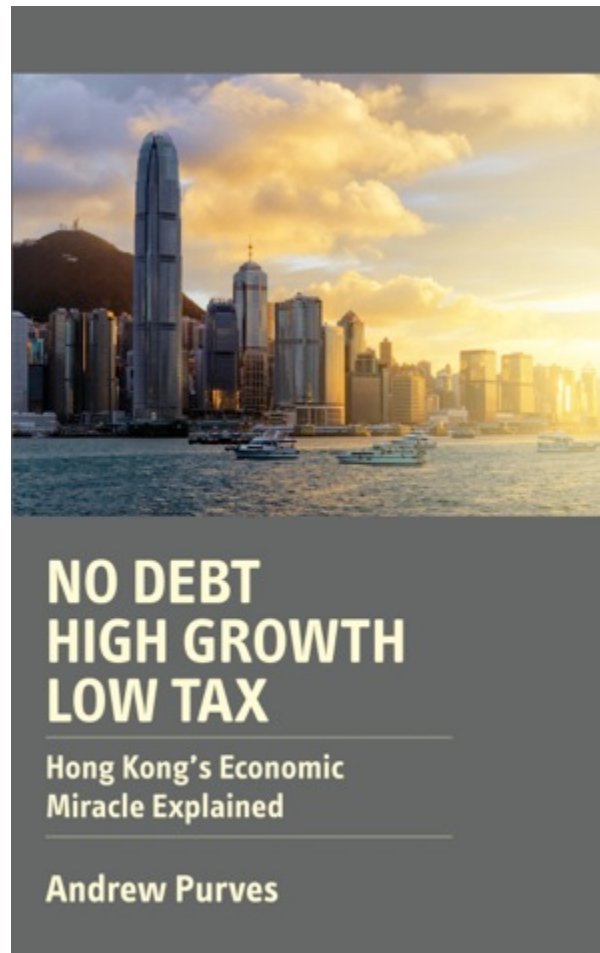
- Born in Sri Lanka
- Grew up in Hong Kong, New York and Tokyo
- School in Edinburgh
- University in London
- Set up Purves & Purves (furniture store in TCR)
- Tutor, School of Economic Science –
Economics with Justice course
- Based on the ideas of Henry George - LVT

“Yes, but will it work in practice?”

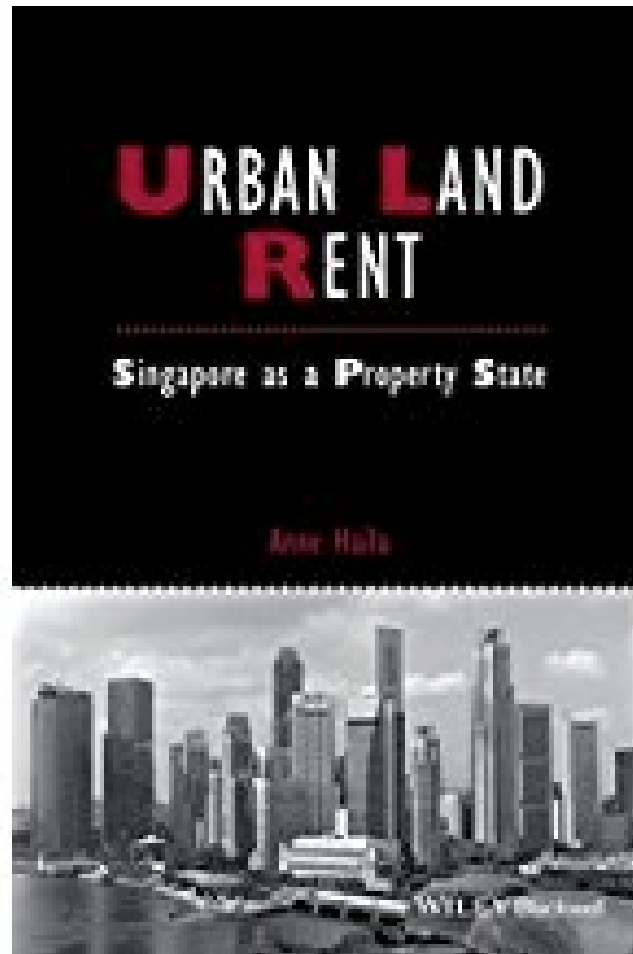
John Tomaney UCL

- Interesting question, but does the current system work in practice...
- 2013 – began research
- 2014 – visited Hong Kong, interviews...
- 2015 – No debt, High Growth, Low tax published.
- 2016 – began Masters in Spatial Planning, UCL

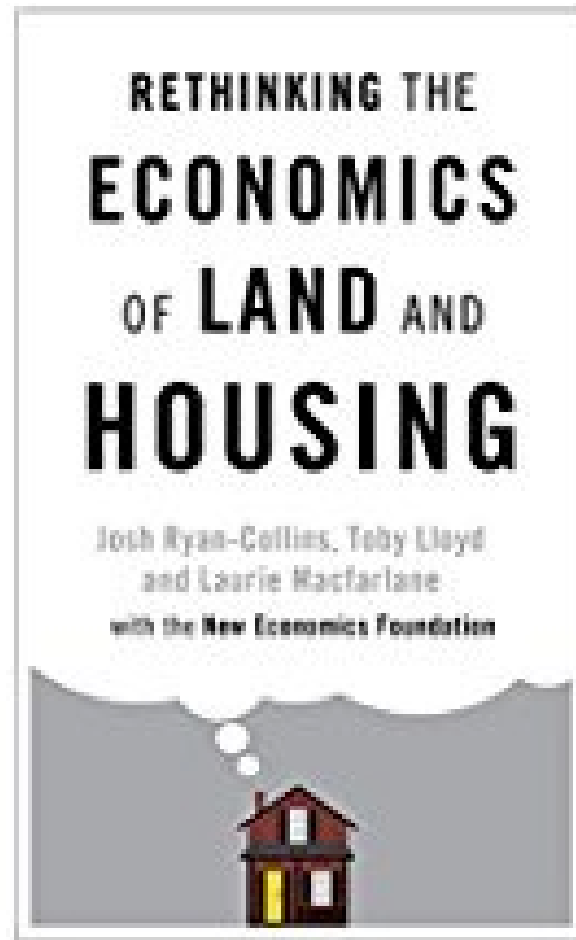
2015



2016 – Anne Haila, Wiley



2017 – Josh Ryan Collins et al, NEF



China



Hong Kong





What is unusual about Hong Kong?

- No debt
- High Growth – average annual growth of 4.5%
- Low personal taxes – maximum rate of 15%
- All land is owned by the HK government
- Made available by lease for use by private companies or individuals, usually for 50 years, through lease auction (up-front premium) plus annual Government Rent (3% of rateable value)
- Existing longer leases are at fixed rents, but when they expire, they roll over, and the 3% Government rent applies, thereby creating a perpetual lease.

Income Tax

- UK £158bn 27%
- HK £3.7bn 14%

National Insurance

- UK £101bn 17%
- HK £0

Excise Duties

- UK £46bn 8%
- HK £0

VAT

- UK £100bn 17%
- HK £0

Corporation Tax

- UK £48bn 8%
- HK £6.4bn 24%



Stamp Duty

- UK £14bn 2%
- HK £3.5bn 13%

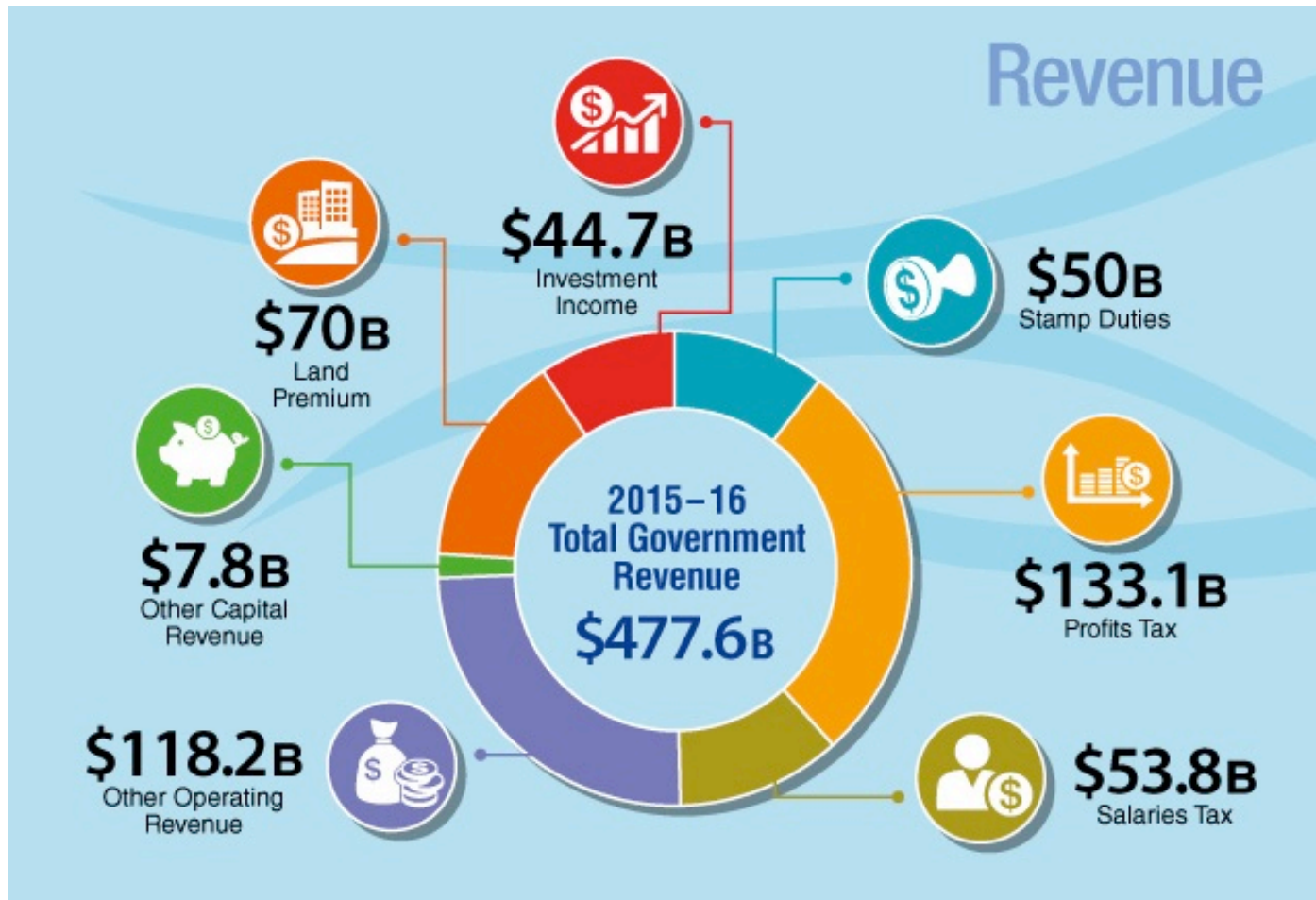
Investment Income

- UK £0
- HK £2.8bn 11%

Land Premiums

- UK £0
- HK £3.3bn 13%

Hong Kong Government Revenue





Investment Income

- Derived from various funds managed by the Hong Kong Monetary Authority (HKMA)
- Includes the Land Fund – built up from Land Premiums between 1983, and 1997 handover
- HKMA – quasi sovereign wealth fund, worth £386,000,000,000 (386 billion) *SWFI*



HSBC headquarters, Hong Kong



ML104, 2602sqm Lease commenced
16/11/1855, 999years Rent: £62 10s pa



IL3566, 2406sqm, Lease commenced 1/1/34,
75 years + 75 Rent: £551,666 pa





How do property taxes work in the UK? What of improvements/change of use?

- Taxes apply to Land and Buildings – economically inefficient.
- Stamp Duty Land Tax – transactional, disincentive to move. Recent changes have been effective in reducing prices in London, particularly at the top end.
- Council tax – properties have not been revalued since 1992 – this is the only tax most people pay directly! Seriously under-collecting in London
- Business rates valued every five years (delayed until 2017). Disincentive to invest, as improvements and capital investment increase the tax. Gaps between valuations cause trouble.
- Change of use: gains over time go to the landowner, Windfall gains, Landbanking, Speculation
- Planning obligations are one off, and open to abuse (viability)
- Property taxes only contribute 10% of total revenue



Lease improvements in HK

- Any lease improvement is subject to approval from the HK Urban Renewal Authority
- Change of use
- Re-development
- In the year 12/13, £5.3bn collected in Land Premiums, of which £1.8bn was for lease adjustments
- When converted to a perpetual lease, HK Government benefits from the ongoing rise in land values, year after year (albeit only 3%)



Joseph Chamberlain, Secretary of the Colonies,
letter to Hong Kong Governor 23rd May 1898

- “Leases for 999 years are practically equivalent to freehold tenure, and the grant of such leases deprives the Government of all control over the land of the Colony, and of all the advantage of any future enhanced value of the land..., no further leases for 999 years should be granted, at any rate without previous reference to me in each case.”

Long history of leasehold property in China

- “All are leaseholders from the state, and rents are so low as not to be burdensome. Nothing in my whole experience as a Chinese subject, long resident under the British flag, more forcibly convinces me **that the country of my adoption is barbarous than a study of its land laws, which embody the greatest favouritism to great landlords and corresponding injustice to the bulk of its people**” the land laws are... **”the most active cause of the destitution, squalor, pauperism and crime** which brood over the UK like a hideous nightmare”
- Wo Chang, Land and Liberty 1898



How to achieve the same result in the UK?

- No need to change land ownership status
- Assess Council Tax and Business Rates on the site value only, adjusted every two years.
- Shift taxes from employment, production and consumption, on to land values (gradually increase the rate).
- This is not a conventional tax, but a community service levy, or government rent for the amenities provided to any particular site by government investment in infrastructure, and a return to the community of the benefit derived from the presence of the community.



Rail + Property

Other means by which the Hong Kong Government avoids subsidising public services, and yet gathers rent...

Model is nothing new



Densely populated





Cheek by Jowl





Change of plan

“Travelling the world, we saw that every city subsidized their systems. In the UK, we saw that when you build stations, the area around the stations could be developed. Then came the idea to connect the network: we **must buy the land around the stations at greenfield prices** and then develop property around stations. This would help finance the railway.”

Lau Wah-sum, Hong Kong civil servant

Modified Initial System



Shops close to ticket barriers





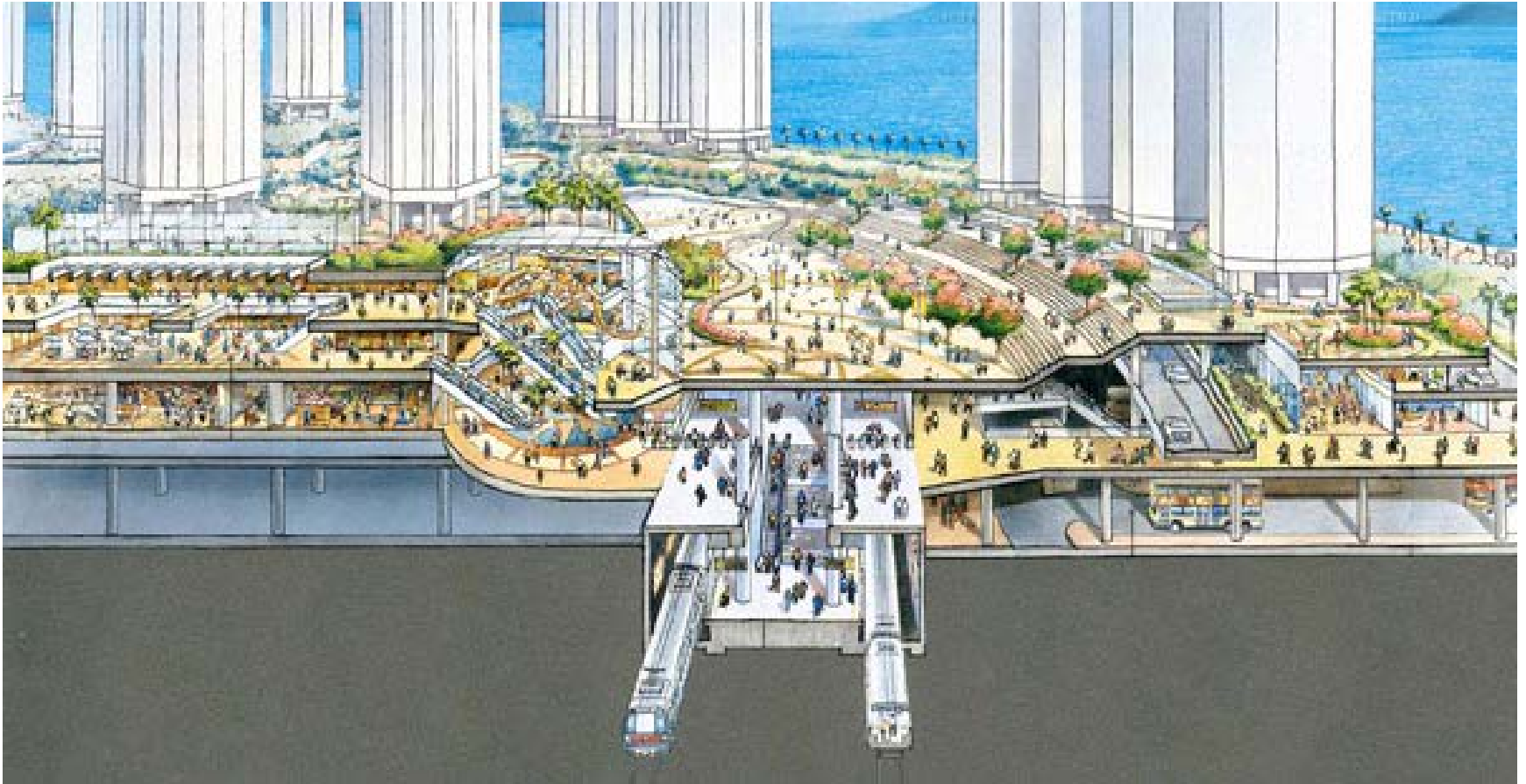
Integrated development



Kowloon Bay/Telford Gardens



Integrated transport and development



Rocket Science

“The simplicity of the model is mind-boggling. The MTR is granted land development rights from the government. The MTR then buys the land which has not been developed at a greenfield land value and develops complexes around and above the stations and depots. The property increases in value after construction of the railway, and the profit reaped would be ploughed back into the railway”

MTR – The First 35 years.



Natural law...

- Railway + Property model has continued to be used by MTRC in Hong Kong, to plan further urban renewal and development
- In economic terms, it is known as “value capture” as clearly, the land nearest the station will command the highest price
- Also known as Transport Oriented Development (TOD)

Tseun Kwan O



Private development



Shopping
Living
Leisure





What is it worth to MTRC?

- On average, between 2001 and 2005 the MTRC generated revenue from the following sources:
 -
 - Railway 28%
 - Property Development 52%
 - Property Investment and Management 10%
 - Non fare 10%



Is it profitable?

- By the late nineties, the MTRC had become so successful, not just at building railways but generating income that the Hong Kong Government decided to sell 23% of the company to investors through an Initial Public Offering (IPO). Some HK\$9.2bn (£700m) was raised for the government as a result of this sale.
- Profit in 2015 HK\$10,894m (£838m), giving rise to a dividend of HK\$6,207m (£458m) – 77% to Government.

Securing the land, compensating previous owner of the lease

The Governor may by order direct that any land within the railway area shall be resumed for the purposes of and incidental to the railway. Part I 4. (1) *Mass Transit Railway (Land Resumption and Related Provisions) Ordinance 1974*

In the assessment of compensation **no account shall be taken of any increase or decrease in the value of land** to which, or to the building works on which, the compensation relates which is attributable to (a) the delineation thereof under section 3 as part of the railway area; or (b) the construction or operation of the railway. Part II, 3. *Mass Transit Railway (Land Resumption and Related Provisions) Ordinance 1974*

Financing the Mass Transit Railway Corporation (MTRC)

- The MTRC was the first public statutory corporation of its type in Hong Kong.
- The purpose: “to construct the MTR and to operate it having regard to the reasonable requirements of the public transport system of Hong Kong.” *clause 3(2) Mass Transit Railway Bill 1975*
- The Corporation is required to operate “according to prudent commercial principles” (or make a profit) *clause 13(1) Mass Transit Railway Bill 1975*
- 1975 – HK Government loans HK\$800m (£61m) as a cash deposit. MTRC authorised capital of HK\$2,000m (£154m).

Finance (cont.)

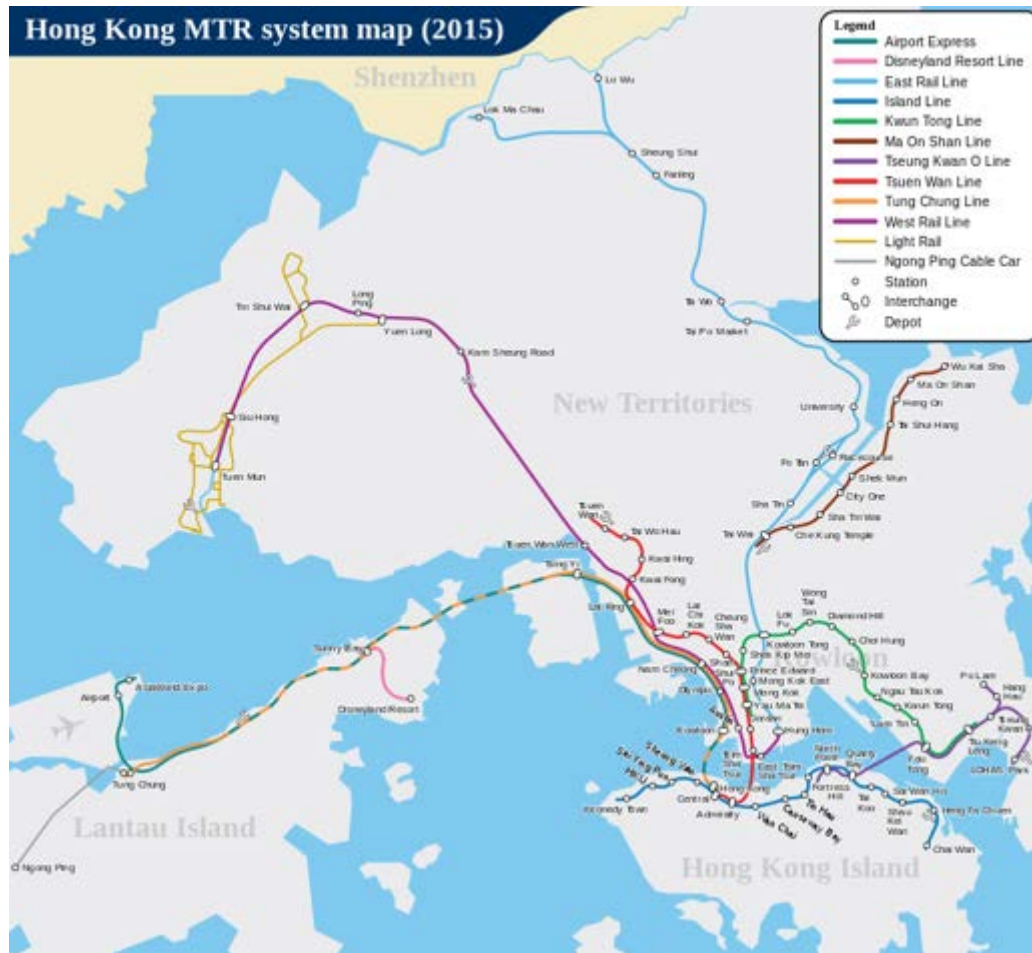
- Land (with development rights) “to develop to the full any land granted to it” given to MTRC “in return for the Corporation’s equity”. For example, HK\$355m (£27m) was charged to MTRC for the property development of Kowloon Bay Depot. The land premium was valued based on full market value under the assumption of pre railway value, excluding the future benefit of railway connection brought by the MTR itself. *Taken from a Speech by the Acting Attorney General, introducing the Mass Transit Railway Bill to the Legislative Council, April 1975*
- MTRC then able to issue corporate bonds and take out commercial loans often under the UK Export Credit Guarantee scheme, against the security of its land acquisitions. Interest and repayment of loans was taken from the receipts of property developments undertaken by MTRC in and around or above their stations.



Is MTRC subsidised?

- Did the granting of property development rights to MTRC amount to a subsidy?
- No, as MTRC continues to pay “full market premium” for land used in its expansion of the railway. Property development rights were granted to MTRC at full market value on a bare site basis, pre railway... (existing use value).

Is it sustainable?



What is the secret of success?

- At a meeting in March 2014 with Sharon Liu, Chief Town Planning Manager of MTRC, she confirmed to me that when a new project is proposed, the first question is:
 -
 - **“How much land do we need to cover the cost of building the railway?”**

Collecting land rent...

Operating Profit[^] Contributions

(HK\$ billion)



[^] Representing operating profit before depreciation, amortisation and variable annual payment

Future Plans?

- High Speed links to China
- Kwun Tong extension opened late 2016
- South Island line now open
- High speed connection to Shenzhen and Guangzhou, due to open late 2018
- Shatin to Central Express link due 2021



We do things differently in London

- Annual subsidy of £1bn for TfL, on top of operating income of £4.1bn
- TfL total debt in 12/13 was £8.5bn, being serviced out of operating income, compared to £1.8bn total debt for MTRC
- Jubilee line extension cost £3.5bn, and led to a £9bn increase in land values within the vicinity of the new stations – *Vickers & Mitchell 2003*

Lets reward landowners:

- Crossrail – a £16bn public investment
- Projected £5.5bn increase in property values along the route
- 6% increase to rental rates on commercial property
- 10% increase in capital values on office space
- 25% increase in central London residential values
 - GVA report: Crossrail Property Impact Study 2012

Salt in the wounds

- TfL has sold “surplus land” raising a total of £444m to help pay for Crossrail
- In July 2014, MTRC won the contract to operate Crossrail – worth over £1.8bn over 8 years, with an option to extend the contract for a further 10 years.
- Profits from operating Crossrail, will provide dividend income, to the Hong Kong Government, which will be used to pay for public services in Hong Kong

Could we follow the same process as in Hong Kong?

- Yes
- Exercise compulsory purchase of land around stations at pre Crossrail values, and sell to TfL
- Allow TfL to develop stations to maximise revenue from commercial rents. Retain ownership and management of these spaces
- TfL invite partners to develop other office and residential space, above stations, at post Crossrail values.
- The same principle could be applied to New Towns, or new high speed links for commutable routes into conurbations including London, Birmingham and the Northern Powerhouse.

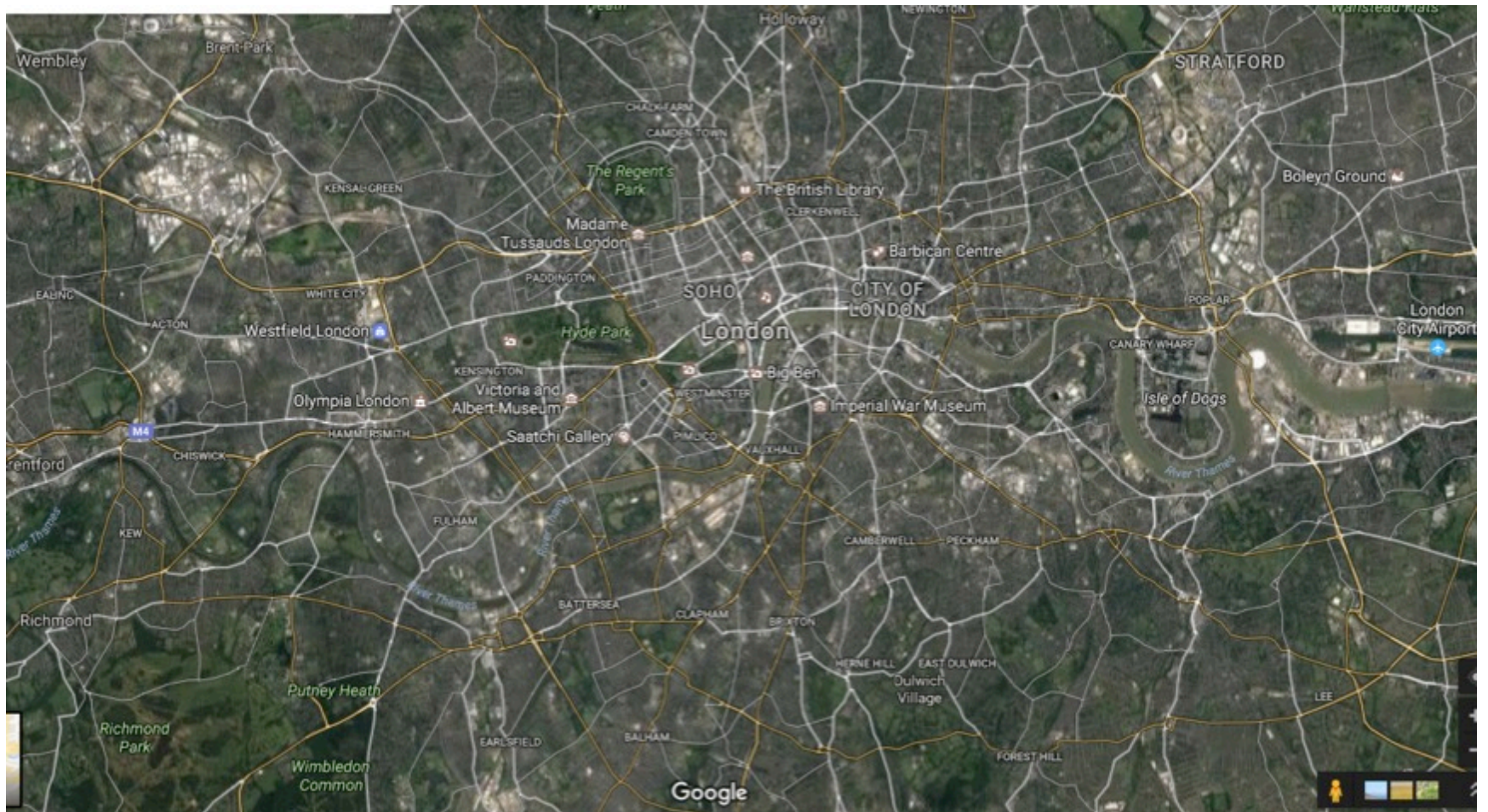
We are getting there...

- February 2017, TfL publish report on Land Value Capture: Recommending a range of initiatives to use the rail + property model for Northern Line extension and Crossrail 2
- London Finance Commission: Recommend a local land value tax to fund local government infrastructure
- RTPI: “In the longer-term we need to explore the operation of the land market, an issue explored by the House of Lords in their report on the economics of housing. We need to better capture some of the increase in land value particularly from public investment so we can fund affordable housing and the infrastructure good places and homes need” Better Planning for Housing Affordability 2017

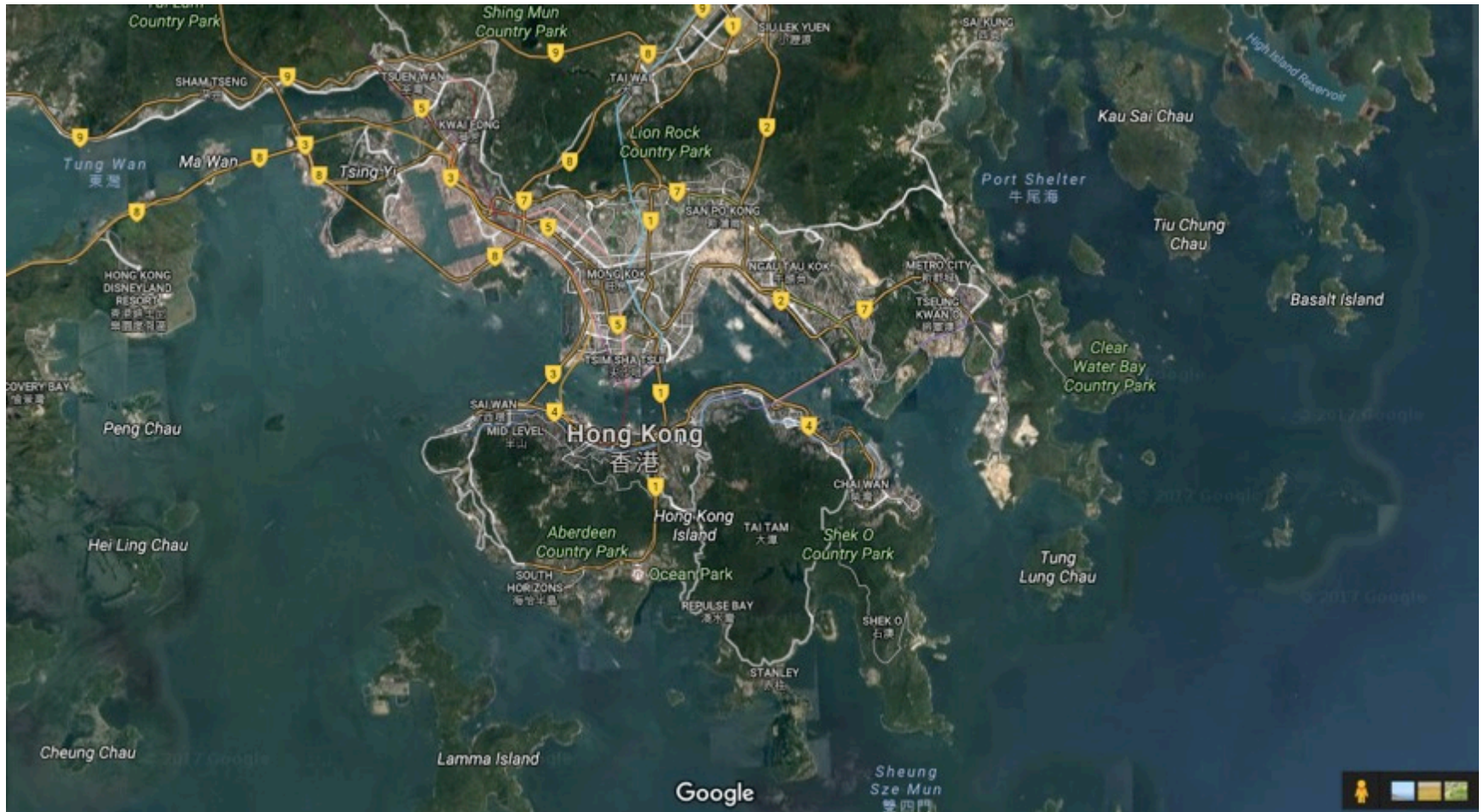
Words of caution

- The Hong Kong method of public revenue is not deliberate, and has come about by accident.
- The Hong Kong government doesn't understand why it has so much money, and why it doesn't need much conventional tax revenue
- Huge inequality due to flaws in the sale of leases: 97% up front, only 3% per annum – constrained access to market for new entrants. 30% per annum would bring premiums down by 42% - *David Webb*
- High land price policy leads to high prices for housing
- Release of land for development strictly controlled

London



Hong Kong – same scale



Public Housing in HK

- Hong Kong Housing Authority – 1973
- 30% of the population in Public Housing
- Another 10% have purchased their flats with some subsidy: Home Ownership Scheme, and Tenant Purchase Scheme, with some rights for onward sale of lease.
- Average monthly rent (including service charges) HK\$1540 (£151)
- 4 year waiting list (BBC August 2017)

Singapore

- Unlike Hong Kong, whose system of land holding has been ad hoc and driven by its History, Singapore has approached land use in a deliberate way to benefit all citizens, albeit in a “statist” way with a one party government.

Land ownership in Singapore

- 1949 31%
- 1965 49%
- 1975 66%
- 1985 76%
- 2002 90%
- Percentage of publicly owned (Crown or State) land in Singapore – *Motha and Yuen 1999; Singapore Land Authority web site 2002*

The method

- Land Acquisition Act 1966 accelerated the process, allowing the compulsory purchase of land: “needed for any public purpose, by...any statutory board...for any residential, commercial or industrial purposes.”
- “I saw no reason why private landowners should profit from an increase in land value brought about by economic development and the infrastructure paid for with public funds.” – *Lee Kuan Yew*

Housing Development Board

- State planned, and built, housing estates
- 99 year, non renewable leases, sold to eligible Singapore residents, at lower than market price. Able to sell first property, and buy a second (usually larger) again, subsidised.
- Ownership of these flats peaked at 87% of the population in 1990, falling to 82% by 2009
- 95% of the population own property, balance in rented accommodation

HDB (cont.)

- Residents able to borrow from their own Central Provident Fund (personal pension) accounts to fund their purchase, balance on commercial terms.
- HDB remains the freeholder, and has begun to improve some of the older Estates through the Selective en bloc Redevelopment Scheme (SERS), by exchanging old leases for new.

HDB (cont.)

- It is possible to release equity by selling the balance of your lease back to the HDB – you keep some of the cash, and top up your pension fund with the balance.
- If you die before the expiry of your lease, the balance goes to your Estate.
- If you survive past the expiry of your lease, you can extend for another five years...

The future of Singapore housing

- On the expiry of the original 99 year lease, the property belongs to the HDB
- Prices for short leases are relatively low
- E.g. 3 bed flat on 30 year lease available for S\$259,000 (£147,585) – if you convert this into monthly payments, equivalent to renting, it amounts to £409 per month. Our son is paying over £900 for a room in a shared flat in Canning Town...

Lee Kuan Yew (Founding Prime Minister of Singapore)

- “We believe it is immoral that the ownership of property should allow some to exploit others.”
- “My primary preoccupation was to give every citizen a stake in the country and its future. I wanted a home owning society.”
- Early HDB Estates were uniform, drab affairs. New Estates are mixed use, with large range of price, and shared facilities.

Jurong Town Corporation

- Established in 1968, to develop land and buildings for commerce and industry – available for lease to private operators
- 2013 – 43 Estates, covering 7,100 hectares comprising 3.2m square meters
- Current strategy to promote “clusters” for particular industries, esp. technology.
- Generating regular income for Singapore Government.