

HONG KONG

HONG KONG — SALE OF PUBLIC LAND OR EQUIVALENT

LAND VALUE
CAPTURE

Sale of public land

DESCRIPTION

Sale of public land (traded or auctioned) as a tool for financing urban investment and operating expenses.

LEVEL OF GOVERNMENT INVOLVED

Hong Kong Government

INSTITUTIONAL AND FINANCIAL FRAMEWORK

HK was a British colony until 1997, then a Chinese territory, retaining most of its past governance functions. It is managed by an executive appointed by the Chinese government and a legislative council composed of MPs appointed by the Chinese government and representatives of organized society (unions, real estate, lawyers, ...) as well as elected members. The use of the land-use rights was established as the main financing tool for the Government of Hong Kong in early colonial times, because the British wanted to make it a free port with very low taxes on one hand, and because the government owned the entire urban territory on the other.

TRACK RECORD OF THE USE OF THIS INSTRUMENT

In order to finance infrastructure and to obtain the bulk funding necessary to deal with the massive post-war immigration, the mechanism, causing a steady income stream from rents, has gradually transformed into income initial from the leasing of land for a long period of time, primarily through public auctions. The land to be auctioned is made public at the beginning of each year. In the 1960s, the Hong Kong government began to use building permit fees (letters A / B) for the compensation to owners of agricultural and urban land that had been expropriated. These lands accounted for 3.3 million square meters in the late 1970s, owned by a handful of local developers who had bought them.

TRACK RECORD OF THE USE OF THIS INSTRUMENT

In 1984, the Sino-british declaration established that the letters A / B should be destroyed in 1997, and in return guaranteed priority during public auctions. The same agreement has defined a 50 ha / year limit of public land to be auctioned. The social housing program was stopped, and after a failed attempt to reactivate it in the late 1990s (characterized by the Asian financial crisis and the real estate crisis), the supply of land found itself even more limited . It is now (since 2002) restrained to a "Request List" (a plot is sold when there is a demand from developers). The mechanism has gradually evolved from a relatively large scale and providing regular land through public auctions announced in advance, to a decreasing amount of leased land, provided mainly less competitively through the letters A / B system (until 1997) or through the promotion of land (conversion from agricultural use to urban areas) leading to the current system. This evolution was influenced by real estate companies, and promoted by the late 1990s real estate crisis that scared all homeowners who have seen the price of their property collapse. The creation of CWRP in 1981 affected all of the revenue from the sale of land to infrastructure financing.

OUTCOMES

This tool enabled the Hong Kong government to finance most of its investments by capturing the added value of the land (55% of all investment in infrastructure over the period 1970-1991). From 1982, all funds from the sale of land was set aside in a reserve fund assets (CWRP), which could cover between 80% and 100% of infrastructure spending in the years 2008-2011 despite the marked and steady increase of these expenses (between 18% and 54% / year).

STAKEHOLDERS INVOLVED

A convergence of interests was established over time between the Government of Hong Kong, some large developers and part of the population which own their homes (about 55% of households today) to support high land and real estate prices. 5 major land developers and owners have gradually taken control of the market, holding collectively (2010) 3 times the amount of land owned by the government, including 20% of all agricultural land, totaling 1279 ha. They took advantage of the crisis and riots of the 1960s, which frightened the British stakeholders and ruined most medium-sized developers. They also benefited from two mechanisms that gives them less access to land: the conversion of the letters A / B and the promotion of agricultural land to urban land (which represent 59% of land revenue of the government of Hong Kong for the 2009/2010 financial year). Finally, they were able to buy most utility providers (gas, electricity, telecommunications, bus and even supermarkets) and take control of often large and well located assets. On the other hand, groups strongly represented in Parliament, such as architects, engineers, lawyers, construction companies, are promoting major infrastructure projects, public works and major real estate projects. These developers are capitalizing on the fact that the Hong Kong government, as (then!) main owner, would pay attention to immediately halt sales of land crisis in the property market in order to protect his first income source (almost half of it comes from real estate related sources) and to please the owners heavily indebted.

PUBLIC MANAGEMENT AND ACCOUNTABILITY

The policy is decided by the Chief Executive and the Parliament where professional groups are represented. Transparency is not very high.

ANALYSIS AND ASSESSMENT OF THE TOOL

- Although this tool has undoubtedly helped the Hong Kong government to fund high-quality infrastructures in a booming territory, it had a huge inflationary impact on property prices (some call it a hidden tax) especially since the government began to restrict the provision of public land in the 1980s and this effect is highly regressive, since it first affects renters and first home buyers, ie the poorest and the youngest, in the absence of a social housing policy. Some also point out that the allocation of funds for the infrastructure work has led to excessive spending in this sector (in relation to education or health), and in projects that are geared towards the enhancement of real estate as much as to social benefits. Public works can also be used as an anti-cyclical economic tool, as it has been done explicitly in the 2000s.
- **Prerequisites:** public control over land, legal provision for lease / sale.