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**THE LAND ADMINISTRATION SYSTEM
IN HONG KONG**

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ABSTRACT

Most countries have an aim of public policy that their citizens should be well housed at a reasonable price (Needham and Roelof, 1998). Hong Kong is a small, densely populated city that makes access to housing particularly sensitive to the availability of land. Land administration becomes very crucial, in that it governs land supply and land use, thereby affecting housing production. Despite its importance, the system has been subjected to severe criticisms. For example, Wu (1983) once argued that *'there was a high land price policy in Hong Kong.'* Developers have complained, *'the land approval procedures were slow, bureaucratic and inherently anti-development'* (SCMP, 6th June 1997). Nicholas Brooke also claimed that *'there was too much uncertainty in land sales and loan programmes and in the diversion of responsibility for housing production between the private and public sectors to see clearly the likely long-term direction of the market'* (SCMP, 18th November 1998). The government itself is dissatisfied with the fluctuating property market in the past with property values either rising far too rapidly or falling drastically, which leads to many undesirable social problems. All this concerns directly or indirectly the land administration system in Hong Kong, adversely affecting the smooth operation of the housing and land markets.

The Hong Kong land administration plays an indispensable role in the housing and land markets, and also the economy as a whole. However, little research has been done on the land administration system in Hong Kong. This dissertation addresses all of the above problems, first, by examining the land administration system in Hong Kong having regard to its leasehold and associated land policy. Second, it deals with the market inefficiency questions: to what extent does the land and housing markets work within the land administration? How does the land value capture mechanisms affect the market? With market evidence, we will examine the relationships between the land administration functions and the land and housing markets, and analyse the land-value capture mechanisms by comparing with that of Singapore. Finally, it gives suggestions on the existing practices and procedures associated with the land administration system of Hong Kong.

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This dissertation is the result of work undertaken solely by myself. No part of it has been submitted to any university or institute previously for any academic qualification.

Vivian S.M. Ho

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CHAPTER ONE

INTRODUCTION AND OVERVIEW

1.1 Background

Hong Kong, being one of the most densely populated in the world, makes access to housing particularly sensitive to the availability of land. The acute competition for land arising from a wide spectrum of social and economic needs implies that a good administration system has to be established. The United Nations Economic Commission for Europe (1996 , p.4) once put forward that *“Every land administration system should include some form of land registration, which is a process for recording, and in some countries guaranteeing, information about the ownership of land. A right is something to which some person or group of persons is entitled. The function of land registration is to provide a safe and certain foundation for the acquisition, enjoyment and disposal of rights in land.”* Rawlins (1999) view: land administration as “the operational component of land tenure.” In practice, almost every country requires a range of different strategies of land administration, depending on the relationship of humankind to land in each specific region (Williamson, 2000).

Land administration system and land policy are so closely related that they cannot be isolated from each other. According to Zimmermann (1998), it is important to develop the existing necessary instruments for reaching the objectives of the land policy. One of the instruments is land administration which includes land registration and cadastre, land adjudication, land markets, lease regulations, land valuation and land banking. Dale and McLaughlin (1988, p.6) suggest that *“Land policy consists of a whole complex of socio-economic and legal prescriptions that dictate how the land and the benefits from the and use of the land, gathering revenue from the land and resolving conflicts concerning the ownership and use of the land.”* Lichfield and Drabkin (1980) further point out that the minimal scope of land policy includes land tenure, public land

management, land title registration, land laws and courts, property taxation, property valuation, public goods, public utilities, public transport highways, and government property management, in which government intervenes in regulating urban land resources. The above illustrates that land policy is increasingly viewed as an integral element of a broader development process rather than as a string of narrowly oriented technical interventions (Williamson *et al.*, 1999).

In the research on the impact of land administration on the land and housing markets, Rakodi (1994) finds that land availability for new development and trends in the property market are affected by a combination of physical factors (topographical and geological suitability of land for development), economic factors (demand and supply), administrative factors (the legal, institutional and procedural framework for land administration, and land policy formulation and implementation) and political factors. The process of land administration includes the regulating of land and property development, the use and conservation of land; the gathering of revenues from the land through sales, leasing, and taxation; and the resolving of conflicts concerning the ownership and use of land (Dale and McLaughlin, 1988) are affecting the market behaviour and its efficiency. Land administration system is indispensable for realizing the idea of land policy, that is, how land should be supplied, who should provide the necessary infrastructure, whether development gains should be taxed, and so on (Needham and Verhage, 1998).

Considering the social and economic benefits of good administration, a good system enables the government to establish an efficient and equitable basis for raising taxes from those who own or occupy land and property. Such systems generate public income to provide essential public services for the benefit of the community, in which Feder (1999) has examined the economic rationale for local administration systems, pertaining to (i) the incentives for investment brought about by enhanced tenure security, (ii) the more efficient operation of land markets due to reduced uncertainty regarding ownership, and (iii) the facilitation of improved credit markets through better collateral options. As Dale and McLaughlin (1999, p.5) suggest, “*Good land administration contributes to*

economic development in a number of ways. It provides security to investors and permits real estate to be traded in the market place. It also allows governments to raise taxes on the basis of the value of land and property, either at the time transfer (in the form of Stamp Duty or a transfer tax) or directly and annually on the estimated worth of the land or property. This is tantamount to a tax on wealth and has the further advantage that unlike personal income, buildings and the land on which they stand cannot easily be hidden from the tax collector. With good administration, land and property taxes are easier to administer and can lead to the collection of substantial revenue.”

Some academics have devoted their studies particularly to the land value capture aspect. Land value capture is important in a sense that it raises public revenues to finance urban services, which is one of the possible goals of the urban land policy (Furtado, 2000). Faure (2000) has reviewed different approaches to property taxes and introduced criteria for the assessment of their efficiency. For the detailed mechanism of land taxation, Hong (1998) has studied the land value capture functions and applied a modified transaction model to investigate their transaction costs. Bourassa *et al.* (1997) have examined the amount of betterment charge that should be levied. Adlington *et al.* (2000) have further examined the consequences of property taxations for property market. All of the above address the importance of value capture mechanism in affecting the market behaviour and its efficiency. In fact, market efficiency is closely related to transaction cost. As suggested by Feder (1999), the transaction cost associated with accessing a formal land administration system should be low. Therefore survey costs, titling fees and charges for registration of modifications should be kept low. In order to reduce the actual cost of access to the land administration, the design and technology involved need to be considered. Furthermore, procedures need to be as simple as possible because complexity adds to the transaction costs, both in terms of cash required and the time that needs to be devoted by potential users.

The ‘land question’ in any society involves bringing together consideration of land ownership, exchange, use, management and development, and the role of deliberate

government intervention in pursuit of social and economic goals (Barrett and Healey, 1985). In fact, land and its interaction with human societies result in many economic, social, political and environmental concerns (Williamson *et al.*, 1999). An efficient and effective land administration is therefore of paramount importance to cope with the ever-changing man-land relationships under the directions of land policy. In view of the previous numerous researches, the land administration system plays an essential role in affecting the market efficiency within the context of land policy. As suggested by Whitehead (1983), the market mechanism is unlikely, on its own, to produce allocative efficiency. Government interventions should therefore take place in the forms of administrative procedures, taxation and regulatory framework. By these means, the operation of market is modified in a way to reduce its inefficiency and make the distribution of benefits more equitable. However, some policy experts argue that many government interventions are inefficient and lead to suboptimal distributions of land resources, they consider the best way to manage the land use and development patterns is to rely on market forces. It is essential to find a proper balance, or division of labour, between the public and private sectors regarding urban land development and management (Dowall, 1994).

1.2 Research Problem

Rawlins *et al.* (1999) shows that land administration in fact comprises juridical, regulatory, fiscal and general functions. The juridical function includes boundary demarcation, adjudication, allocation and registration. The regulatory function includes land use regulation, while the land valuation and taxation serve as the fiscal functions and the enforcement and information management serve as the general functions.

In Hong Kong, the regulatory and fiscal functions have been subjected to most criticisms. For instance, Wu (1983) once argued that “*there was a high land price policy¹ in Hong*

¹ See later discussion for further details on high land price policy in Chapter 4.

Kong.” Developers have complained that *“the land approval procedures were slow, bureaucratic and inherently anti-development”* (SCMP, 6th June 1997). Nicholas Brooke also claimed that *“there was too much uncertainty in land sales and loan programmes and in the diversion of responsibility for housing production between the private and public sectors to see clearly the likely long-term direction of the market”* (SCMP, 18th November 1998). Moreover, Holland (2001) complains that the poor credibility of the government administration depressed the market sentiment. For example, in July 1997, Tung announced his administration policy objective of achieving a 70% home-ownership within 10 years. To hit the target, the government backed the construction of 85,000 new flats a year by the public and private sectors combined. However, in June 2000, Tung dropped a bombshell that the target of building 85,000 homes a year had actually been abandoned two years before. Regarding this, Stephen Xu further emphasized that the policies should be adhered to consistency so as to enhance people’s confidence in the property market. Furthermore, the government itself is dissatisfied with the fluctuating property market in the past with property values either rising far too rapidly or falling drastically, which leads to many undesirable social problems. All of the above problems concern directly or indirectly the operation, allocative and adaptive inefficiencies of the existing land administration system and policy currently adopted in Hong Kong. To formulate ways to resolve these problems, a thorough study on land policy and the land administration system is considered essential, so that recommendations on the possible improvements to the policy and the system can be made to alleviate the above situation (Holland, 2001).

Although the Hong Kong land administration plays an indispensable role in the housing and land markets as well as the economy as a whole, most researchers only focus on the practical functions of land administration system in the local context. For example, Hong (1998) explains the transaction costs of each of the land value capture instruments of the land administration system. Nissim (1998) and Cruden (1999) further examine the land administration procedures and the history of the system in Hong Kong. For the impact of land administration on the property market, Peng and Wheaton (1994), Tse (1998) and Hui and Lui (2001) built models to investigate the relationships between the land supply

by the government and the housing market in Hong Kong. In view of the above, there is still lack of a comprehensive picture of how the land administration system should operate so as to promote the efficiency of the market.

1.3 Research Questions

The key question is whether the land administration system functions efficiently and effectively. In other words, does it facilitate the performance of the land and housing markets efficiently? The system ideally assists market to operate better in which government interventions are necessary to certain extent. However the interventions sometimes may bring in unnecessary transaction costs, and/or more dead weight loss to society, which undermines market efficiency as a result. In fact, the criticisms of the transaction cost problem have been mentioned above. It also leads to other inter-related questions: for example, to what extent does the land and housing markets work within the land administration framework of Hong Kong? As part of the land administration system, what are the land-value capture mechanisms in Hong Kong? How does the way of land and property tax (land value capture system) affect the market? Are there any implications on market behaviour? Would any possible improvements be made on the existing land administration system under the current land policy so as to enable the market to work more efficiently?

1.4 Research Objectives

The chief objective of this research is to examine the land administration system in Hong Kong with regard to its leasehold system and associated land policy. The main purpose of the research is to study whether the land administration system works with market in an efficient and effective way. Therefore, this dissertation will mainly focus on various aspects of the land administration framework of Hong Kong in relation to the market and will make recommendations concerning the existing land administration framework, and

the associated land policy. The detailed objectives of my research study are set out below:

- To delineate the land policies currently adopted in Hong Kong.
- To review the principles and procedures associated with the land administration system in Hong Kong.
- To examine the relationships between the land administration functions and the land and housing markets.
- To analyse the land-value capture mechanisms by comparing with that of Singapore.
- To make recommendations on the existing practices and procedures associated with the land administration system of Hong Kong, in the context of the land policy currently adopted in Hong Kong.

1.5 Research Methodology

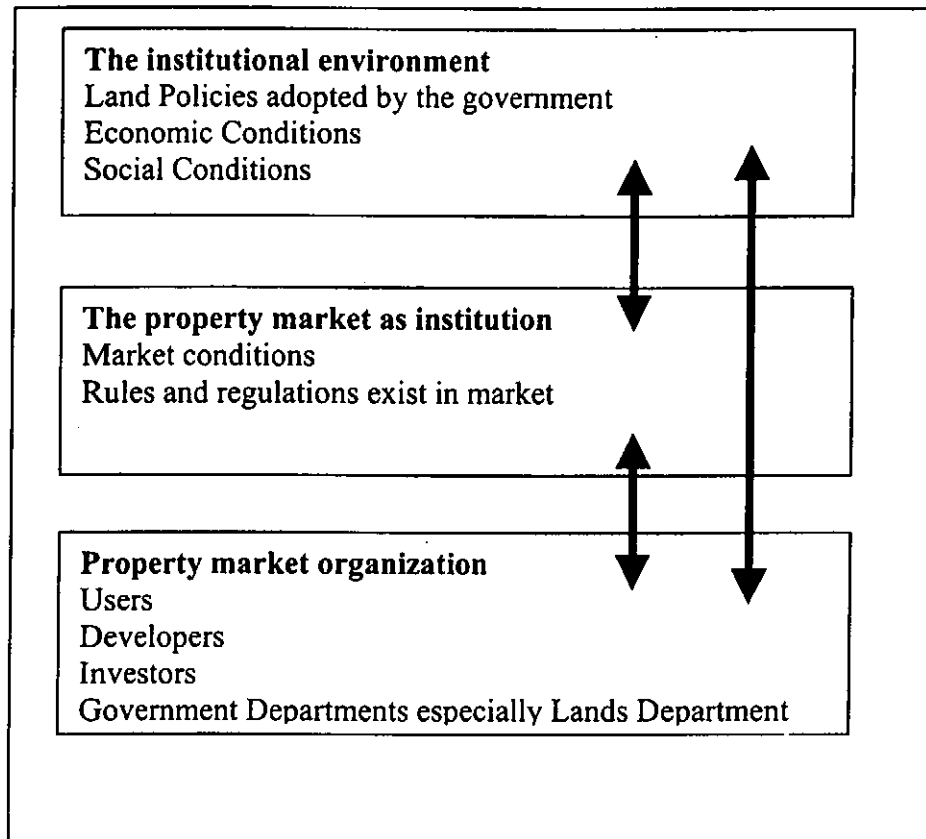
The dissertation does not provide numerically based model for solving the land administration problems. Institutional approach is adopted by studying the land and housing markets and analysing the outcomes of the system. As Keogh and D'Arcy (1999) suggest, the institutional approach allows the possibility that 'property market process' may be efficient for some market participants but not for others. It also introduces a time dimension, suggesting the need to assess the adaptability of property market process as economic and social conditions change. Besides, the role of the government in different functions of administration is examined with particular reference to the land development and land taxation aspects.

The research is proceeded by analysing the performance of the mass residential market and the residential land market in the urban area context. This dissertation is based on the reading of reference books and journals from which relevant data are collected for analysis. Information relating to the amount of land disposal, housing price, housing units and other relevant data is mainly collected from the Hong Kong Property Review and the Hong Kong Annual Digest of Statistics. In order to arrive at the trend of the total gross floor area produced and the accommodation values of the auction land, relevant government web sites and lease conditions are scrutinised. In addition, developer's annual reports are also reviewed to investigate their land banking behaviors. Moreover, comments from newspapers are also excerpted for supplementary purposes.

Only the regulatory function (i.e. land development) and the fiscal function (i.e. land valuation and taxation) of the land administration system of Hong Kong, which are subject to most criticisms as suggested earlier, have been examined in this dissertation. The juridical function (i.e. boundary demarcation, adjudication, allocation and registration) and the general function (i.e. enforcement, information management) of the land administration system are less being criticized and thus is not the subject being reviewed. Also these two functions involve use of extensive specialised expertise information which is considered to be too technical in nature for readers to comprehend. It is also considered that recommendations for improvements to them would not bring any insight into the problems illustrated earlier in this Chapter.

The Institutional approach involves analysis of different government bodies and government policies, rules and regulations. This research focuses on institutions, specifically the linkages between the institutional environment, the property market and the property market organizations as shown in Figure 1.1.

Figure 1.1 The Institutional Framework of the Study



Sources: Modified and Adopted from Keogh and D'Arcy(1999), Property Market Efficiency: An Institutional Economics Perspective, *Urban Studies*, Vol. 36, No.13, 2401-2414.

The study starts from a broader sense of policy environment to more specific instruments involving the following four major aspects (in 5 stages):

1. Institutional environment: policy review
2. The land administration system, organization and its functions
3. Inter-play and relationships between organizational functions and the market
4. Specific instrumental analysis of land administration functions

1.5.1 Policy Review-Stage One

As a backdrop, the historical background and the development of the leasehold system of land tenure in Hong Kong are reviewed, with regard to the formulation and development of land policy in Hong Kong. The current land policy adopted by the Hong Kong Government is then examined, which lays the ground work for the review of the current land administration system in Hong Kong in the next stage.

1.5.2 The Land Administration System, Organization and its Functions -Stage Two

The land administration system of Hong Kong is reviewed. The review will focus on development / redevelopment aspects of the land administration system, namely land disposal, lease modification and land resumption.

1.5.3 Inter-play and Relationships between Organizational Functions and the Market - Stage Three

As the land and housing markets are to a great extent affected and influenced by the land administration system of Hong Kong, the interplay between system functions and market will be reviewed in order to examine how the land administration system works. Both quantitative and descriptive approaches are adopted in the analysis.

1.5.4 Specific Instrumental Analysis of Land Administration Functions-Stage Four

Being part of the land administration system, the specific instruments (land-value capture mechanisms) are studied. The importance of the land revenue as a major source of income to the government is investigated. There will be a comparison of the value capture mechanisms between Hong Kong and Singapore.

1.5.5 Conclusions and Recommendations-Stage Five

After reviewing the land and housing markets within the land administration framework and the land value capture mechanism which is part of the current land administration system, recommendations on the land administration, in the light of land policy, are to be made.

1.6 Overview of Chapters

Chapter 1 – The introduction given in this chapter has spelt out the objectives of the dissertation and provided a justification for it. In order to set the study in context, the historical background and the development of the tenure system will first be reviewed in order to study the formulation and development of land policy in **Chapter 2**.

Chapter 3 defines land administration and examines the development / redevelopment aspects of the land administration system of Hong Kong. It includes land disposal, lease modification and land resumption.

Chapter 4 reviews the performance of the land and housing markets in Hong Kong by utilising quantitative and descriptive approaches in order to examine how the land administration works.

Chapter 5 evaluates the Hong Kong land value capture mechanisms as part of the land administration system by comparing with that of Singapore.

Chapter 6 makes recommendations on the land administration system together with the land policy.

Chapter 7 presents the conclusions of the dissertation.

1.7 Project Significance

Various aspects of the land administration system of Hong Kong are reviewed in this dissertation. Readers of this dissertation will have a better understanding of the land administration system of Hong Kong, and the land policy currently adopted in Hong Kong after studying the dissertation. Land administration plays an indispensable role in development aspects, for example, by regulating land supply, arranging lease matters and collecting land revenue. This subject is particularly important for the well-being of Hong Kong's land and housing markets, upon which the land administration and the land policy have direct and significant influences. The recommendations put forward in this dissertation also provide an insight to the improvements in the land administration system of Hong Kong such that the problems illustrated earlier in this Chapter could be alleviated or resolved.

CHAPTER TWO

THE LEASEHOLD SYSTEM OF LAND TENURE: FORMULATION OF LAND POLICY

Hong Kong is one of the very few cities in the world where all the land is owned by the Government and leased to private owners (Yeh, 1993). The leasehold system of land tenure has been adopted since the British administration of Hong Kong from 1841. Within this context, the land policy of the Hong Kong Government was formulated and established within which the nature of British sovereignty was reflected (Leung, 1986).

As a backdrop, the historical background and the development of the leasehold system of land tenure in Hong Kong will be reviewed, in order to study the formulation and development of land policy in Hong Kong. The current land policy adopted by the Hong Kong Government will then be examined, which will serve as a framework for the review of the current land administration system in Hong Kong in the next chapter.

2.1 Historical Background of Hong Kong

As suggested by Yeh (1993), the present leasehold system of land tenure is closely related to the history of Hong Kong. In order to understand the development of the present leasehold system of land tenure in Hong Kong, an understanding of the brief history of Hong Kong is necessary. The background and historical events in relation to the British administration of Hong Kong from 1841 as well as the resumption of the exercise of sovereignty over Hong Kong by the People's Republic of China from 1997 will first be reviewed.

2.1.1 British Administration from 1841

Hong Kong Island was proposed to be ceded to Britain under the Convention of Chuenpi during the First Anglo-Chinese Opium War between Britain and China from 1840 -1842, which broken out a result of the increased tension and hostility between Britain and China following the ban of illegal trade of opium by China in the late 19th century. Although the Convention of Chuenpi was never ratified, the Royal Navy landed on Hong Kong Island in 1841. The Opium War ended in 1841 by the Treaty of Nanking which was formally ratified by an exchange in documents in Hong Kong on 26 June 1843 (Cruden, 1999).

Following the Second Anglo-Chinese War (1856 - 1858), China ceded the Kowloon peninsula, as far north as Boundary Street, and Stonecutter's Island to Britain by the Convention of Peking in 1860.

By the second Convention of Peking, signed on 9 June 1898, the New Territories, comprising the area north of Boundary Street up to the Shum Chun River, together with 235 islands, were leased to Britain by China for a term of 99 years from 1 July 1898.

2.1.2 One Country Two Systems from 1997

The Sino-British Joint Declaration on the Question of Hong Kong, which made provisions for the resumption of the exercise of sovereignty over Hong Kong by China, was signed in Beijing on 19 December 1984. On 27 May 1985, instruments of ratification were exchanged and entered into force. It was registered at the United Nations by both the British Government and the Chinese Government simultaneously on 12 June 1985 (Government Information Services Department, 1998). Annex III to the Joint Declaration sets out policies relating to land leases, effective for the period from the entry into force of the Joint Declaration to the resumption of the exercise of sovereignty over Hong Kong by China. On 1 July 1997, the People's Republic of China resumed the exercise of sovereignty over Hong Kong and the Hong Kong Special Administrative

Region was established in accordance with the Constitution of the People's Republic of China.

The Basic Law, which provides a constitutional framework for the Hong Kong Special Administrative Region, was promulgated by the National People's Congress of the People's Republic of China in April 1990 and came into effect on 1 July 1997. Article 7 and Article 120 to Article 123 of the Basic Law set out the general principles relating to land leases to be observed by the Government of the Hong Kong Special Administrative Region.

2.2 Land Tenure System in Hong Kong

2.2.1 Early Disorganised System

When Hong Kong was taken over by Britain in 1841, a formal land administration system had not yet been properly set up. Sites were occupied and building works started without any form of official approval. At that time, Chinese inhabitants sold land without a proper Land Register for purchasers to examine whether the title was in order.

Within this context, the principles of land disposal were announced by the Administration on 1 May 1841 in order to ensure a proper and orderly allocation of land for different uses. Following the announcement, the first land sales took place on 14 June 1841 with a haste, resulting in a number of land administration problems to be sorted out. One of the problems was associated with the system of land registration. At that time, land was sold without any lease or other deed of grant of lots being issued to purchasers. The grant of the lot was simply an entry in a book kept by the Land Officer, showing only the name of the purchaser and the side measurements of the lot purchased. In the light of a number of land administration problems encountered by the Administration, a 'Land and Road Inspector' was appointed on 27 May 1842, assigned with duties to prevent

encroachments on the inappropriate land, and to register all sales and transfers of land (Nissim 1998).

It can be seen that land administration did not start smoothly at the beginning. Nissim (1998) remarks that the pace of the establishment of a proper administrative and legal framework to sell and record land titles at the beginning of British administration could not match with the growth of the commercial settlement in Hong Kong.

2.2.2 Establishment of a Leasehold System of Land Tenure

After the ratification of the Treaty of Nanking in 1843, it was decided by the British administration that land must not be granted 'either in perpetuity or for a greater length of time than may be necessary to induce the tenants to erect substantial buildings'. At that time, all land must be leased and not sold outright, and the term of the lease was fixed at 75 years. In the case of granting of land not intended for building, the term was fixed at only 21 years (Nissim, 1998). It can be seen that a land tenure system on a leasehold basis was established right from the British occupation of Hong Kong and has been adopted throughout Hong Kong until now, with the exception of the site within which St. John's Cathedral is situated. In 1847, the Administration granted the site to the Trustees of the Church of England for the purpose of a church on a freehold basis.

In 1844, the statutory framework for the registration of a land registration system was set up. An ordinance was passed for the registration of all dealings with land by the Land Officer (Nissim, 1998).

In the light of the complaints lodged by the merchants in Hong Kong in relation to the short land tenure granted by the Administration of Hong Kong, the British administration agreed to extend the land tenure by allowing the granting of 999-year leases in Hong Kong in 1848.

However, the practice of granting 999-year leases was discontinued in 1898, following the submission of a report upon the system of leasing and disposing of Crown lands by the Land Commission to the Legislative Council in 1887. The practice of granting 75-year leases was resumed, but great protest was aroused. It was finally agreed that 75-year leases, with a right of renewal for a further 75 years at a re-assessed rent, be granted (Nissim, 1998).

Against this background, a leasehold system of land tenure was therefore established. Hadland (1978) considered that the main advantage associated with the leasehold system of land tenure was that it was possible for the Government, upon the expiry of the lease terms, to re-examine the basic social and physical organisation of an urban area and to re-design and re-allocate the land so as to meet current needs. Another advantage of the leasehold system was that the public as a whole could secure benefits from the revenue derived from the collection of premium associated with lease renewals.

2.2.3 The New Territories Land Tenure

The New Territories (including New Kowloon) were leased to Britain for a term of 99 years starting from 1 July 1898. The most important accomplishment after taking over the New Territories was the allocation and registration of all privately owned land. An extensive land survey was made during the period from 1899 to 1903 in order to establish the ownership of privately owned land, and a land court was set up in 1900 to resolve any disputed claims in ownership. Following the establishment of land ownership, a number of Block Crown Leases, which set out the name of each owner in a particular district, together with the description of the user of land held by each owner, were executed by the Government (Ho, 1985a). All lots which appear in Block Crown Leases are known as Old Schedule Lots. All lots other than those which are recorded in the Block Crown Leases are generally known as New Grant Lots. They were sold by the Government at various times after the survey of the New Territories.

All lots within the New Territories, be they Old Schedule Lots or New Grant Lots, were expressed to be granted for 75 years from 1 July 1898, renewable at a reassessed Crown rent for a further 24 years less the last three day.

2.2.4 The Transition

From the entry into force of the Joint Declaration on 27 May 1985 to the last day of British administration of Hong Kong on 30 June 1997, the policy relating to land grants and land leases followed the provisions set out within Annex III to the Joint Declaration. In essence, land grants throughout the territory of Hong Kong were made for terms expiring not later than 30 June 2047. They were granted at a premium and nominal rent until 30 June 1997, after which an annual rent equivalent to three per cent of the rateable value of the property would be payable. Non-renewable leases expiring before 30 June 1997, with the exception of short term tenancies and leases for special purposes, might also be extended without payment of an additional premium, if the lessee so wishes, for a period expiring not later than 30 June 2047 at an annual rent equivalent to three per cent of the rateable value of the property.

The Sino-British Land Commission was established in 1985 in accordance with the provisions set out within Annex III to the Joint Declaration and was dissolved on 30 June 1997. The key function of the Land Commission is to conduct consultations on the implementation of the provisions concerning land leases and other related matters. It reached agreement on the legal documents to be used in land transactions falling within the provisions of Annex III to the Joint Declaration, on the legislation to extend the New Territories leases and on arrangements relating to special purpose leases. Within the context of the 50-hectare limit of land grant stipulated within Annex III to the Joint Declaration, it also agreed to the disposal of almost 3,000 hectares of land during the transition period (Information Services Department, 1998).

The provisions set out within the Joint Declaration has revealed a change in policy that the Government prefers to secure Government rent, equivalent to three per cent of the rateable of the property, in relation to the granting of new leases or the extension of non-renewable leases, as a source of Government revenue, in addition to land premium, reflecting full market value, normally charged previously. In the past, the demand for Government rent, which is normally a nominal sum and bears little or no relationship to the actual value of land, is more a legal symbol to maintain the lessor and lessee relationship (Leung, 1986).

2.2.5 The Current Land Tenure System

Article 7 of the Basic Law of the Hong Kong Special Administrative Region sets out the general principles relating to land disposal:

'The land and natural resources within the Hong Kong Special Administrative Region shall be State property. The Government of the Hong Kong Special Administrative Region shall be responsible for their management, use and development and for their lease or grant to individuals, legal persons or organisations for use or development. The revenues derived therefrom shall be exclusively at the disposal of the government of the Region.'

The provisions set out within Article 7 of the Basic Law clearly reaffirms that the leasehold system of land tenure should continue to be practised in the Hong Kong Special Administrative Region. It has been made clear that the ultimate ownership of all land within the Hong Kong Special Administrative Region shall rest with the State.

From 1 July 1997 onwards, the Chief Executive may on behalf of the Government of the Hong Kong Special Administrative Region lease or grant land within the Hong Kong

Special Administrative Region under the provisions stipulated under Section 32 of the Hong Kong Reunification Ordinance which was enacted on 1 July 1997.

Subsequent to the establishment of the Hong Kong Special Administrative Region, the Executive Council of the Government approved various provisions relating to land leases and related matters on 15 July 1997. In essence, leases of land are normally granted for a term of 50 years from the date of grant, on payment of a premium and subject to an annual rent equivalent to three per cent of the rateable value of the property at that date, adjusted in step with any changes in the rateable value thereafter. Moreover, land leases not containing a right of renewal, upon expiry, may at the sole discretion of the Government, be extended for a term of 50 years, without payment of an additional premium, but an annual rent shall be payable from the date of extension equivalent to three per cent of the rateable value of the property, adjusted in step with any changes in the rateable value thereafter.

The rationale behind a standard lease term of 50 years seems obvious. Shorter lease terms enable the Government to secure sufficient control on the use and development on land and to create a stable source of revenue from collecting Government rent associated with land leases. Longer lease terms, on the other hand, are preferred by property developers which generally expects a longer tenure for better security in investment. Whilst Chan (2000) considers that a lease term of 50 years is a good balance in this respect, the Government asserts that the 50-year lease term from the date of grant avoids the problematic situation where too many leases expire on the same day, thereby allowing the extension of leases to be dealt with on an individual basis (Information Services Department, 1998).

2.3 The Current Land Policy

2.3.1 Basic Law

The current land policy in Hong Kong has been formulated within the framework of the leasehold system of land tenure. The general policy relating to land leases is set out within Article 120 to Article 123 of the Basic Law:

'Article 120: All leases of land granted, decided upon or renewed before the establishment of the Hong Kong Special Administrative Region which extend beyond 30 June 1997, and all rights in relation to such leases, shall continue to be recognised and protected under the law of the Region.'

'Article 121: As regards all leases of land granted or renewed where the original leases contain no right of renewal, during the period from 27 May 1985 to 30 June 1997, which extend beyond 30 June 1997 and expire not later than 30 June 2047, the lessee is not required to pay an additional premium as from 1 July 1997, but an annual rent equivalent to three percent of the rateable value of the property at that date, adjusted in step with any changes in the rateable value thereafter, shall be charged.'

'Article 122: In the case of old schedule lots, village lots, small houses and similar rural holdings, where the property was on 30 June 1984 held by, or, in the case of small houses granted after that date, where the property is granted to, a lessee descended through the male line from a person who was in 1898 a resident of an established village in Hong Kong, the previous rent shall remain unchanged so long as the property is held by that lessee or by one of his lawful successors in the male line.'

'Article 123: Where leases of land without a right of renewal expire after the establishment of the Hong Kong Special Administrative Region, they shall be dealt with in accordance with laws and policies formulated by the Region on its own.'

It is apparent that the land policy set out within Article 120 to Article 123 of the Basic Law, which forms the part of the constitutional framework of the Hong Kong Special Administrative Region, basically follows closely the policy stipulated under Annex III to the Joint Declaration, in relation to matters such as legal status of land leases granted before the establishment of the Hong Kong Special Administrative Region and Government rent associated with land leases.

2.3.2 Government Policy

Detailed provisions relating to land leases and related matters was approved by the Executive Council of the Government on 15 July 1997, following the establishment of the Hong Kong Special Administrative Region on 1 July 1997. The following details were announced by the then Secretary for Planning, Environment and Lands during a press conference on 15 July 1997:

'New leases will be granted:

- (a) at a term of 50 years from the date of grant at a premium; and*
 - (b) subject to payment from the date of land grant of an annual rent equivalent to three per cent of the rateable value of the property at that date, adjusted in step with any changes in the rateable value thereafter.*
- The exceptions to this arrangement are special purpose leases for recreational purposes and petrol filling stations which will be granted for 21 years instead of 50 years. Special purpose leases covered by franchises or operating licences will normally be the same as those of the*

franchises or licences and short term tenancies are normally for periods of not more than seven years.'

'Modifications of the conditions specified in leases will be granted at a premium equivalent to the difference between the value of the land under the previous conditions and its value under the modified conditions. In modification cases which do not involve any realignment of the boundaries of the lot(s) covered by the lease concerned and are conducted by a modification letter, all the conditions previously applicable to the lease, including the lease term and the rent, will remain unchanged, with the exception of the conditions being modified. In all other modification cases conducted by surrender/regrant, the new term will be 50 years from the date of regrant. An annual Government rent of three per cent of the rateable value will be charged from the date of regrant to be adjusted in step with changes in the rateable value.'

'Non-renewable leases will, upon expiry and at the Government's sole discretion, be extended for a term of 50 years without payment of an additional premium. However, an annual Government rent of three per cent of the rateable value will be charged from the date of extension, to be adjusted in step with changes in the rateable value.'

'Special purpose leases will, upon expiry and at the Government's sole discretion, be extended for a term of 50 years, without payment of a premium, but an annual Government rent of 3% of the rateable value will be charged from the date of extension, to be adjusted in accordance with the rateable value.'

The exceptions to this are -

- (a) leases for recreational purposes may not be extended for a term exceeding 15 years;*

- (b) leases for petrol filling stations may not be extended. New leases for a term of not more than 21 years may, however, be granted to the existing owner on payment of a premium;*
- (c) leases covered by franchises or operating licences should normally be extended for a term to be the same as that of the franchises or licences; and*
- (d) leases for kerosene stores may not be extended. However, short term tenancies at full market rental may be offered to the existing owner for an initial term of three years.'*

The details quoted above set out the general principles to be adopted by the Government in dealing with various issues associated with land leases. The policy that was applicable during the transition period leading up to the resumption of exercise of sovereignty over Hong Kong by China was reaffirmed and the adoption of a land tenure of 50 years for land leases other than special purpose leases was established. The tenure of new leases granted, or existing leases renewed, by the Government will extend beyond 30 June 2047, which, in fact, is the expiry date of any new leases granted by the Government prior to 1 July 1997.

2.4 Conclusions

In the past, the Hong Kong Government, acting on behalf of the British Government, had maintained a conscious policy of retaining the freehold of the ceded territories and a reversionary interest in the leasehold territories (Leung 1986). On this basis, with the exception of St. John's Cathedral, all land sold by the Hong Kong Government under British administration was always subject to a lease term.

Against this background and history associated with the British administration of Hong Kong which lasted for a period of more than one and a half centuries, the leasehold

system of land tenure and the associated land policy in Hong Kong were formulated and established.

In fact, the land policy formulated under the leasehold system of land tenure in Hong Kong has been implemented with the support of a land administration system in Hong Kong since the British administration in 1841. To implement any land policy, an efficient, effective and equitable land administration system is essential.

With the introduction of the leasehold system of land tenure and the associated land policy in this Chapter as a background, the land administration system of Hong Kong will be reviewed under the framework of the current land policy in Hong Kong in the next Chapter.

CHAPTER THREE

THE LAND ADMINISTRATION FRAMEWORK

Following the review of the land policy of Hong Kong in the previous chapter, a review of the land administration framework in Hong Kong will be undertaken in this chapter. The review will mainly focus on the land leasing and administration works, meanwhile land resumption and land use planning will also be preliminarily introduced as they work closely with the land leasing and administration works under the land development / redevelopment aspects.

3.1 Administrative Framework

Under the British administration, the power to make and execute grants and dispositions of land throughout the Territory by the Governor under Article XIII of the Hong Kong Letters Patent was delegated to officers in the Lands Department by notification in the Hong Kong Government Gazette dated 25 July 1993. Following the establishment of the Hong Kong Special Administrative Region on 1 July 1997 and the enactment of the Hong Kong Reunification Ordinance by notification in the Legal Supplement No. 1 to the Government of the Hong Kong Special Administration Region Gazette Extraordinary dated 1 July 1997, all delegations to a public officer of the power of the Governor to grant or dispose of land which were in force immediately before 1 July 1997 should on and after that date continue in force and be deemed to be delegations to the corresponding public officer in the Hong Kong Special Administrative Region of the power of the Chief Executive to lease or grant State land.

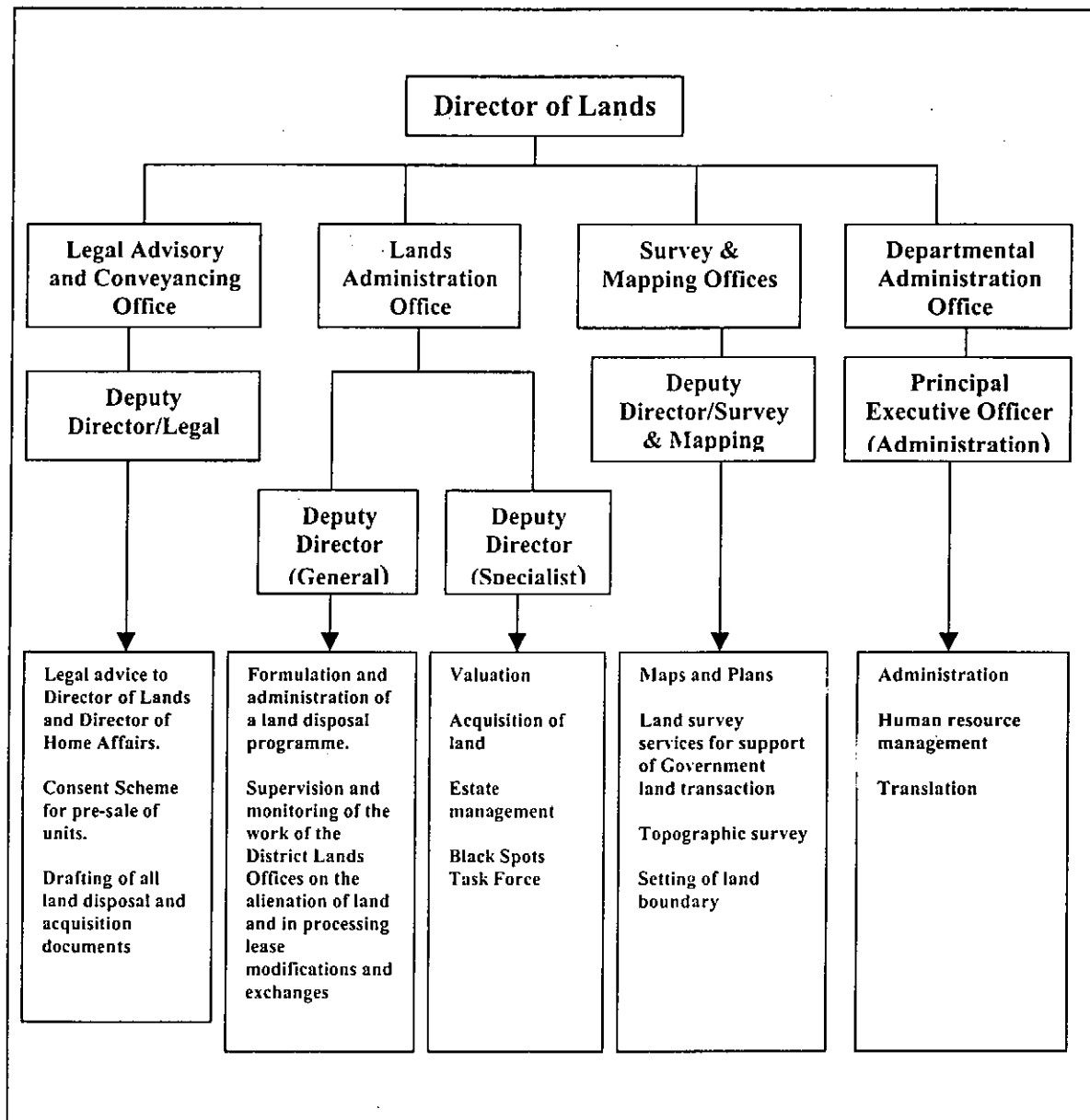
The Lands Department, being the Administration's executive arm for land administration, is responsible for all aspects of land administration. It formulates and executes land leases, arranges for the long term disposal of Government land by way of public auction, public tender and private treaty grant, and arranges for allocating of land pending permanent disposal on a temporary basis by issuing licences and short term tenancies. It also deals with acquisitions of private land for public projects such as road widening, urban renewal and environmental improvement schemes, handles extensions, re-grants and renewals of land leases, and processes applications for lease modifications and land exchanges which may be entered into for various reasons such as the rectification of lot boundaries and the implementation of a development or redevelopment scheme that complies with prevailing town planning requirements within the context of a modern town planning layout.

As set out within the latest Performance Pledges issued by the Lands Department in October 2000, the vision of Lands Department is 'to achieve excellence in land administration in Hong Kong for the greater benefit of the community'. As part of its commitment to delivering the best quality of services to the community, the Lands Department has set the following missions:

- To keep pace with economic and market trends in a local and regional context.
- To continuously review policies and employ best practices to meet the changing needs of the community.
- To develop and sustain a culture of transparency and professionalism.
- To use up-to-date technology and optimise human resources to enhance productivity and efficiency.

Administratively, the Lands Department comprises three major functional offices - the Lands Administration Office, the Legal Advisory and Conveyancing Office and the Survey and Mapping Office. The organization chart is shown in Figure 1.1.

Figure 3.1 The Organisation Chart of Lands Department



Source: Lands Department

The Lands Administration Office is assigned with the responsibility to formulate and administer a land disposal programme to meet the needs of the territory, especially the housing needs, and to process applications for lease modifications and land exchanges. It

also deals with acquisition of private land and various issues relating to land leases such as lease extension and renewal and lease enforcement.

The Legal Advisory and Conveyancing Office drafts all land grant and land acquisition documents and provides legal advice associated with various aspects of land administration.

The Survey and Mapping Office is responsible for the establishment and maintenance of a geodetic network, the production and revision of maps and plans, the provision of topographic surveys and land boundary surveys.

3.2 Disposal of Land

All land within the Hong Kong Special Administrative Region is state property. Under the Basic Law, the Government of the Hong Kong Special Administrative Region is responsible for its management, use and development and for their lease or grant to individuals, legal persons or organisations for use or development.

The basic policy adopted by the Lands Department in relation to the use and disposal of land is to optimise the use of land within the framework of prevailing development plans. For the sake of fairness, most land available for commercial, industrial or residential (other than public housing) development is sold by way of public auction or public tender.

3.2.1 Public Auction

The general preference of the Government is to dispose of land by way of public auction, which is the most efficient and transparent method of land disposal. Hadland (1978) pointed out that the principle of the sale of land by public auction has ensured that the

very scarce commodity of land in Hong Kong is used as economically and as intensively as possible.

However, the success of an auction exercise depends on the active bidding by a sufficient number of competitors during the auction. Disposal of land by way of public auction is therefore unsuitable for a site where the expected number of participants competing for the site is small. This is particularly the case if the size of the site to be disposed of is too large or the user of the site is restricted. Sites preferred to be disposed of by way of public auction are usually small sites in prime locations which attracts a wide spectrum of interest (Ng, 1999).

3.2.2 Public Tender

Sale by public tender is also used where the user is strictly defined and the sale is unlikely to attract general interest, such as petrol filling station sites, or where the Government wishes to examine in advance detailed proposals, as in public housing schemes with private sector participation (commonly known as Private Sector Participation Schemes) (Lands Department, 1998).

Leung (1986) remarked that sale by public tender is often used by the private sector when the value of the property cannot be readily determined or when prospective purchasers may have very different subjective views as to the market value, in the light of uncertain market conditions. In an auction exercise, the successful purchaser invariably pays one bid above the second highest bidder. However, in a tendering exercise, the purchaser undertakes to pay with reference to its own subjective valuation, which may be considerably higher than the price offered by the second highest tenderer.

Consistent with the contention put forward by Leung (1986), Ng (1999) suggested that disposal of land by way of public tender may be a better way forward when the property market is sensitive. It is because such method of land disposal would enable developers

to have sufficient time to submit considered bids. He puts forward a number of examples which are considered appropriate to be disposed of by way of public tender:

- commercial sites in sensitive locations in which the Government wishes to examine design drawings in advance;
- sites for land-intensive industrial uses which cannot be accommodated within a typical flatted factory;
- sites in prominent locations or sites within which the developer is required to provide certain government accommodation as part of the scheme, in which the Government wishes to ensure the best form of development is obtained and that the development meets the requirements of the Government;
- sites for subsidised housing schemes such as mixed developments and Private Sector Participation Schemes, in which the Government wishes to examine various requirements (e.g. management scheme, design and accommodation for social welfare uses, access arrangement, environmental impact, etc.) in advance.

3.2.3 Land Disposal Programme

Every year the government announces a land disposal programme which normally covers a five-year period and will be updated and rolled forward before the start of the next financial year (Information Services Department, 1999a). As part of the land disposal programme, details of site specific information such as method of land disposal (public auction vs. public tender), location, permitted uses and permissible plot ratio are specified.

In June 1998, as part of its strategy to cope with the drastic adjustment of property prices resulting from the regional financial turmoil in late 1997, the Government took a significant step by adopting an administrative means under the land administrative framework of Hong Kong, suspending all land sales by public auction or public tender in the remainder of the financial year of 1998 -1999.

In addition, the Government, in February 1999, introduced new arrangements by which additional Government land may be made available for sale by application to meet market demands (commonly known as the application system of land sale). As part of the land disposal programme, a reserve list setting out the sites available for sale on application is formulated, in addition to the lists of sites scheduled to be disposed of by way of public auction and public tender in each year.

Under the new application system, a developer who is interested in any site on the reserve list may apply to the Lands Department for the sale of the site and offer a minimum price. If the Lands Department considered the minimum price acceptable, it will put up the site for sale by way of public auction or public tender.

This new method of land disposal has been well received by property developers and real estate professionals in Hong Kong. Ng (1999) believes that such method of disposal allows flexibility in the supply of land, and thus eventually finished housing units in the market. Should there be extra need other than those contained in the scheduled programme of land disposal, sites on the reserve list can be put up to the market within a short time frame to meet additional demand.

3.2.4 Private Treaty Grant

Besides disposal of land in the open market by way of public auction and public tender, the Lands Department also grants or allocates land to meet the Government's development objectives such as the public housing programme, and other community, institutional and departmental requirements.

Land required by public utility companies is granted by way of private treaty at full industrial market value based upon development permitted. Where it is required for other institutional uses such as hospitals, schools and churches, it is granted by way of private

treaty at nominal premium provided that they are operated on a non-profit-making basis (Lands Department, 1994).

Ng (1999) affirmed that in order to qualify for a land grant by private treaty, any development proposal must comply with the planning intention of the application site and must represent full use of the site. Furthermore, the prospective grantee should provide evidence to establish that it is financially capable to complete the project and to meet future re-current costs, and should secure full support from relevant bureaux of the Government in respect of the development proposal.

3.2.5 Formulation of Government Leases

With a view to ensuring optimum use of land within the framework of development plans, each piece of land is disposed of with a Government lease within which the obligations and duties of the owner and the basic engineering and development requirements which control the use and the extent of the development are stipulated (Lands Department, 1998). The usual conditions set out within Government leases includes (Lands Department, 1994):

- lease term;
- permitted uses;
- maximum building heights;
- minimum and maximum gross floor area;
- the period allowed for building (building covenant);
- master layout plan requirements (for large schemes);
- design, disposition and height limitation;
- car parking, loading and unloading requirements;
- restrictions on ingress and egress; and
- slope cutting, landscaping and environmental requirements.

In addition to town planning and building legislations, conditions set out within Government leases are often regarded as an effective means to regulate land use and building development. Leung (1986) suggested that the Hong Kong Government in its capacity as lessor of all land in Hong Kong has a third and very effective means of control, namely tenorial control through the conditions set out within Government leases.

Wong (1998a) remarked that tenorial control through the conditions set out within a Government lease is a form of non-statutory control of development as a Government lease is a contractual document between a private owner and the Government. Whilst Lai (1997) considered that the certainty and assuredness of the rights and obligations of the parties to this contract have been conducive to the rapid expansion of the land market as well as to the development of Hong Kong, Yeh (1993) observed that lease conditions can be effective means of enforcement of land use planning by putting all the planning conditions in a Government lease. To develop a site, property developers have to comply with the lease conditions set out within the Government lease governing the site. The Government can incorporate planning conditions within the Government lease as lease conditions when it is newly formulated or modified at the request of the developer during redevelopment.

3.3 Lease Modification / Land Exchange

It is Government policy to modify old lease conditions which restrict the development permitted on a lot to allow redevelopment that complies with modern town planning requirements (Lands Department, 1998).

3.3.1 General Principles

Modifications of lease conditions in respect of lots held in single ownership and where there are no changes proposed to the lot boundaries are effected by a Modification Letter

(Nissim, 1998). Modifications can also be effected by way of a contemporaneous land exchange (sometimes referred to as ‘surrender and regrant’), whereby a land owner can surrender an existing land holding and be granted a new site, normally in-situ, to which modern conditions apply so that development will meet up-to-date planning requirements (Lands Department, 1994). Nissim (1998) indicated that the following categories of cases are dealt with by way of a contemporaneous land exchange:

- cases involving a major readjustment of lot boundaries;
- cases involving the amalgamation of lots; and
- cases involving major amendments to the existing Government lease.

The need for applications by land owners for modifications of Government Leases arises in various circumstances. Li (1997) tabled a number of examples:

- modifications arising from conditions imposed by the Town Planning Board under section 16 of the Town Planning Ordinance;
- modifications to allow amalgamated development;
- modifications to extinguish Government’s right-of-way within building ;;
- modifications arising from relaxation of height restrictions;
- modifications for permission of additional number of buildings / floor space;
- modifications to use non-profit-making school halls for ecclesiastical purposes;
- modifications to permit the construction of a penthouse;
- modifications to permit removal of non-alienation restrictions for developments under Civil Servant’s Co-operative Building Society’s Schemes; and
- modifications to permit the provision of recreational facilities, caretaker’s offices or quarters within residential developments.

Li (1997) remarked that the flexibility allowed by Government for modifications of Government leases within the land administration framework is not only good for property developers but also beneficial to the society as a whole, as making applications for lease modifications by property developers is part of the economic activities under the market demand and supply mechanism within the land and housing markets of Hong Kong. Within the context of the free economy system of Hong Kong within which the

Government has adopted a laissez-faire policy, every party, be it the Government or property developers, is free to enter into contract with another within the market. In considering an application made by a land owner for modification of a Government lease, Leung (1986) asserted that the Government would act in a capacity as a lessor, a part to a contract (i.e. Government lease) with the lessee, and negotiate in that capacity. No party to this transaction would be bound to take the initiative or to accept other party's terms and conditions. Any agreement reached as to the modification of a Government lease would be part of the economic activities under the market demand and supply mechanism.

Because of the complexity associated with the processing of applications for land exchange and lease modification, which involves consideration of various disciplines of issues such as legal, planning, building, transport, environment and infrastructure, considerable amount of time was taken by the Lands Department to complete each application in the past. This was always complained by property developers that *"the land approval procedures were slow, bureaucratic and inherently anti-development"* (SCMP, 6th June 1997). In this regard, the Lands Department has attempted to find ways to expedite the processing of applications for land exchange and lease modification in recent years. It commissioned the "Helping Business" consultancy study to review the administrative procedures associated with the processing of applications for land exchange and lease modification. Following the completion of the consultancy study in 1996, the Lands Department put forward a number of new procedures to be adopted, for instance, inviting applicants to attend internal departmental conference within the Government, simplifying the approving procedures for minor cases, setting detailed performance pledges for the processing of applications. In this connection, the Lands Department issued a practice note (Issue No. APSS 5/96) in 1996, setting out details of the new procedures to be adopted in connection with the processing of applications for land exchange and lease modification.

3.3.2 Modification Premium

As part of the agreement between a land owner and the Government in relation to the modification of a Government lease, a premium equivalent to the difference in land value between the development permitted under the existing lease conditions and that permissible under the new lease terms is payable for any lease modification granted (Lands Department, 1998).

As suggested by Leung (1986), the payment of modification premium under the leasehold system of land tenure in Hong Kong has avoided the problem of taxing betterment in other countries. Any enhancement in land value as a result of the modifications of Government leases to permit more intensive and beneficial use of land is fully charged by the Government.

As earlier discussed, any agreement as to the modification of a Government lease is a contract between the Government and the lessee. Both parties are not bound to accept other party's terms and conditions, including the appropriate level of premium to be charged in connection with the modification. The premium is negotiable. However, protracted negotiations between the Government and property developers have always delayed development / redevelopment of land. This is due to the lack of a statutory framework to resolve conflicts or disagreements between the Government and property developers as to the appropriate level of premium to be charged.

Nissim (1998) put forward one possible administrative mechanism to improve the situation: *'provided that all the technical and design aspects of a particular land exchange / modification are agreed but not the premium, the applicant and the Government should enter into a legally binding contract which would allow physical building works to start. However, if at the end of a fixed period, for instance one year, the premium was still not agreed, the matter would be referred to arbitration for resolution with both parties bound to accept the arbitrator's adjudication.'*

In a recent dispute case with a local property developer in connection with the demand for a premium in respect of a large-scale composite residential and commercial development on Hong Kong Island where the developer has built additional private housing units and commercial accommodation, the Government adopted arbitration as a way to resolve conflicts. This attempt made by the Government demonstrates that Nissim's proposal has been acceptable as a way forward to resolving conflicts or disagreements relating to any assessment of premium.

3.4 Land Resumption

3.4.1 Administration and Statutory Framework

Another key administrative function of the Government within the land administration framework is to acquire privately owned land, in the public interest, for the Government's development programmes (Lands Department, 1998).

There is a fundamental procedural difference between the compulsory acquisition of land in Hong Kong and in other countries. Where land is disposed of on a freehold basis, compulsory powers to purchase private land by Government is necessary. There is usually no contractual rights of purchase and special statutory powers have to be enacted. In Hong Kong, with one exception (i.e. St. John's Cathedral), all land is held by the Government on a leasehold basis by the grant of leases, licences or other lesser titles. The Government does not need the power to purchase privately-owned freehold interest (Cruden, 1999).

In Hong Kong, the contractual rights to resume by the lessor have usually been incorporated within Government leases. To resume a privately-owned land, the Government, in its capacity as a lessor, can invoke the contractual right to resume, if such resumption provisions have been incorporated within the Government lease governing the land.

However, the Government has generally elected not to invoke its contractual powers of resumption but to proceed by utilising resumption powers provided under statutes. Cruden (1999) pointed out that such limited use of contractual powers arose from doubts over their extent and a recognition that compensation was determined solely by the Government's own valuer if a resumption exercise is pursued under the resumption provisions set out within Government leases. The use of statutory powers has an advantage in dealing with persons not parties to Government leases, such as occupiers of resumed premises.

Where private property has to be acquired for a public purpose by way of invoking statutory powers, the following statutes are usually applicable:

- Lands Resumption Ordinance (Chapter 124, Laws of Hong Kong);
- Roads (Works, Use and Compensation) Ordinance (Chapter 370, Laws of Hong Kong);
- Railways Ordinance (Chapter 519, Laws of Hong Kong);
- Mass Transit Railway (Land Resumption and Related Provisions) Ordinance (Chapter 276, Laws of Hong Kong);
- Land Acquisition (Possessory Title) Ordinance (Chapter 130, Laws of Hong Kong).

Detailed administrative procedures associated with resumption exercises are stipulated under various statutes. The procedures relating to the lodging of objections to resumption schemes, the announcement of resumption, the payment of compensation, and the submission and settlement of compensation claims are usually set out in detail. The setting out of detailed administrative procedures within various statutes has provided sufficient certainty and openness to the public in relation to any resumption exercise.

Besides invoking resumption powers under statutes, the Government may also proceed with resumption by way of negotiation with land owners in order to encourage voluntary surrender of land as against statutory resumption. The adoption of such an approach is, however, restricted to situations where the number of parties involved are small.

3.4.2 Compensation and Clearance

Statutory compensation for privately owned property or land acquired is based on the open market value of the premises resumed at the date of resumption. Compensation for business loss due to resumption of privately owned property or land is also payable under the provisions set out under various statutes.

The principles and rules of assessment of compensation to be paid in connection with resumption are set out within various statutes. If during resumption exercise, the Government and any person entitled to compensation cannot reach an agreement as to the amount of compensation to be paid, either party can submit the claim to the Lands Tribunal, an independent judicial establishment, for determination of the appropriate amount of compensation to be paid. Such an arrangement ensures a fair and equitable compensation to be paid to legitimate affected parties during an resumption exercise.

In addition to statutory compensation, ex-gratia payments are also made by the Government to facilitate clearance. For instance, a home purchase allowance is paid to owners of domestic flats. This allowance is made in addition to the statutory compensation allowed under statutes, the amount of which is equivalent to the open market value of resumed flats in order to enable owners to purchase new flats in the vicinity. These arrangements are adopted by the Government to facilitate a smooth and speedy resumption of land for public purpose (Lands Department, 1994).

It is the policy of the Government that no one should be made homeless as a result of land resumption and clearance. In this regard, the Lands Department works closely with the Housing Department to ensure that alternative accommodation is available to re-house legitimate affected parties. Alternative accommodation may be offered in a public rental estate managed by the Housing Department or through the purchase of a flat under its Home Ownership Scheme (Lands Department, 1994).

3.5 Conclusions

The development / redevelopment aspects within the current land administration framework of Hong Kong have been reviewed in this chapter. The administration principles and procedures associated with land disposal, lease modification and land resumption have been examined in detail.

The general preference of the Government is to dispose of land by way of public auction, which is the most efficient and transparent method of land disposal. Disposal of land by way of public tender is used where the user is strictly defined and the sale is less likely to attract a wide enough general interest. The Lands Department also grants or allocates land by way of private treaty when land is required by public utility companies or for other institutional uses such as hospitals, schools and churches at which premium from nominal value to full market value is charged. Besides, it is Government policy to modify old lease conditions which restrict the development permitted on a lot to allow redevelopment that complies with modern town planning requirements.

Unlike administrative procedures associated with the disposal of land and the processing of applications for lease modifications, the administrative procedures associated with resumption of private land by the Government are set out within various statutes in detail. That has provided sufficient certainty and openness to the public in relation to any resumption exercise. Moreover, the right of any person entitled to compensation to submit claims to the Lands Tribunal for determination of the appropriate amount of compensation ensures that a fair and equitable compensation is paid to legitimate affected parties during any resumption exercise.

The principles relating to modifications of Government leases within the land administration framework are considered acceptable within the context of the free economy system of Hong Kong. However, the administration procedures associated with the processing of applications for lease modifications were criticised by property developers as being slow, bureaucratic and inherently anti-development, although the

Lands Department has attempted to expedite the processing of the applications in recent years. In particular, protracted negotiations of premium to be paid in connection with lease modifications between the Government and property developers have always delayed development / redevelopment of land. The formulation of a statutory framework and/or the adoption of arbitration procedures by the Government to resolve conflicts or disagreements as to the appropriate level of premium to be charged are recommended.

The land administration in Hong Kong serves many functions within its regulatory framework. This chapter has reviewed its regulatory and fiscal functions in great detail. With such knowledge, the next chapter (Chapter Four) will go on to investigate the relationship between these functions and the market behaviour, which affects property market efficiency. Among the land administration functions, collecting land revenue (land value capturing) is considered of paramount importance, making significant contribution to the coffer of the government. Chapter Five will thus further examine each of the land value capture instruments of the land administration system.

CHAPTER FOUR

ANALYSIS OF THE LAND AND HOUSING MARKETS WITHIN THE LAND ADMINISTRATION FRAMEWORK

Land management involves a wide range of activities, public and private sector interests, and mechanisms that impact on the supply and demand for land. The tools used for such management include direct actions that affect the use of land through regulatory mechanisms, direct interventions in land markets, as well as indirect mechanisms to support the efficient operation of land markets through financial, information, and institutional coordination measures (Khan and Lanarch, 1996). The assessment of the local land market and regulatory framework therefore helps to identify impediments to more efficient operations of the market (Brzeski, 1997). These figures are to test the relationships between specified sets of variables. This serves the purpose of review the performance of the land and housing markets under the current land administration system. The analysis assumes “other things equal”. However, it is not possible in reality. Other factors may change at the same time affecting the results.

In fact, the Hong Kong Government exerts great influence, both positive and negative, over the outcomes of the land and housing markets. Within the framework of land policy, land administration works play an essential role in the land and housing markets, in particular the aspects of land supply, land use planning, the collection and distribution of land revenue, and the private participation in the land and housing markets.

In the area of land supply, first, the land administration is responsible for all kinds of land disposal, including public auction, public tender and private treaty grant. In this chapter, focus will be mainly put on the impact of land supply on the private residential market. The smoothness and the responsiveness of the land market will be studied. Other than that, the impact of land supply on the housing market is also analysed. Besides, in order to ensure a healthy land market, the situations of “high land price policy” and “competition in the land market” will also be discussed.

Regarding the aspect of land-use planning, land administration is essential in the determination of the amount, the type and the location of housing land to be provided. We will investigate if the amount of total gross floor area provided by auction land¹ can cope with population growth and if the population density of Hong Kong is exceedingly high when compared with other countries.

Third, land administration is vital to the collection of land revenues which is mainly spent on infrastructure development which in turn enhances the efficient functioning of the land and housing markets. The trend of collection and distribution of land revenues will be studied. Besides, the chapter will also analyse if the land revenue copes with the population and economic growth.

Fourth, the section of private participation in the land market examines if the existing land administration system encourages redevelopment by studying the developers' land bank and lease modification situations. Besides, this section also studies if the land administration curbs the speculative activities effectively.

Through the above four aspects, the government powerfully shapes the operations of the land and housing markets, potentially creating substantial increase in property values. In other case, government actions are less beneficial, with plans and regulations unintentionally causing serious negative side-effects on land and housing market operations (Dowall, 1994). Given the important role that the government plays in shaping land and housing market outcomes, this chapter is reviewing the land and housing markets within the land administration framework. Only with the thorough understanding of the housing and land markets can the efficiency and effectiveness of the land administration within the land policy context be gauged.

4.1 Performance of land and housing markets

In Hong Kong, land administration plays an important role in determining when and how much new land will be put on the markets as well as the uses allowed on the land lots. Therefore, land administration is crucial in affecting the performance of land

¹ Lease modification, private treaty grant and tender also provide residential land for public and private housing. Due to the availability of data, the total residential gross floor area could not be assessed.

market as well as the housing market. This section reviews the performance of land and housing markets to see if the land administration is capable of coping with the markets.

4.1.1 Land Supply and Land Price

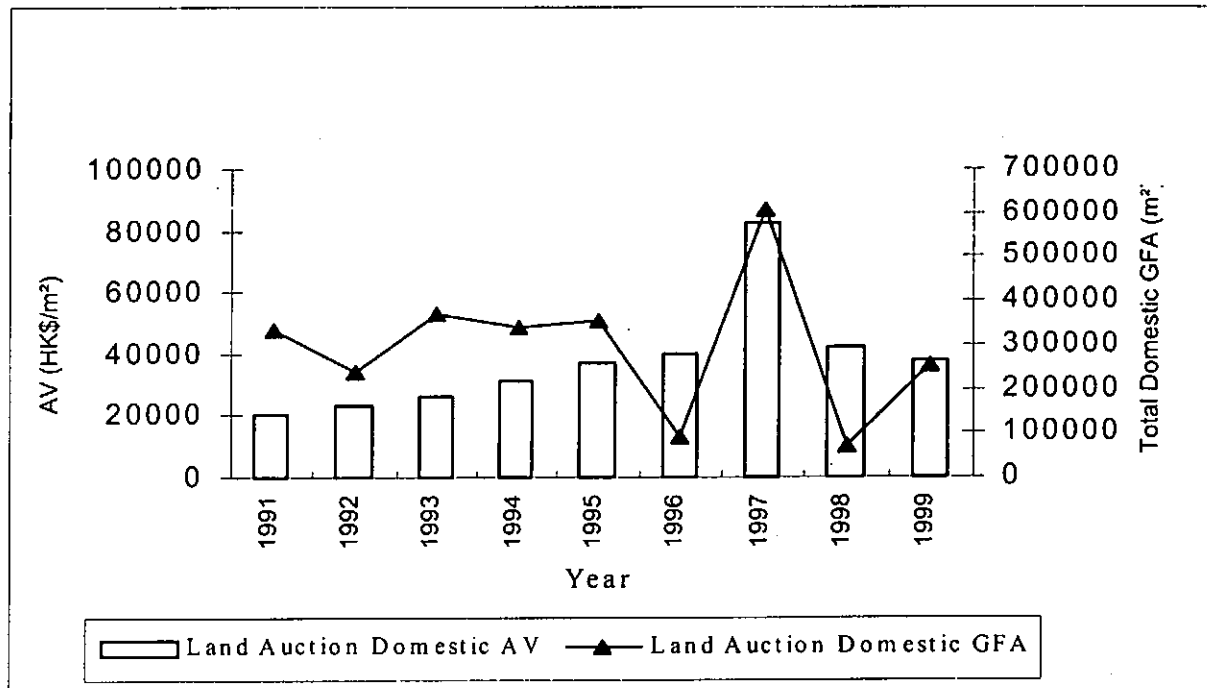
Each year, the Lands Department announces a land sales programme based on the projected housing demand for the next three years and the availability of formed land. The Department also produces a five-year forecast of land sales adopting information available at the time but the programme is susceptible to change because of the long lead time involved in land production which may be complicated by the environmental requirements, infrastructural capacity and others (Hui *et al.*, 2000).

In Hong Kong, land is mainly disposed of by auctions, tenders and private treaty grants (PTGs). This section mainly focuses on residential land supply through public land auctions. The total gross floor area and accommodation value of auction sales are estimated according to the restrictions of the lease and other statutory requirements. This analysis does not cover public tenders which are mostly allocated for non-private residential purposes such as Petrol Filling Stations, Private Sector Participated Schemes or any special purposes. This study also will not include PTGs which are mainly for public utilities and institutional uses. The land auction domestic accommodation value and total residential gross floor area is studied to see if there is any stabilization effect of land supply on land price. Figure 4.1 illustrates the trend of domestic accommodation value (AV)² and the supply of the total residential gross floor area (GFA)³ of the land auction market from 1991 to 1999 (please refer to Appendix).

² AV is the land sales price per square metre of total gross floor area.

³ GFA is the gross floor area which can be produced, calculated by: the site area x plot ratio.

Figure 4.1 The Land Auction Domestic Accomodation Value and Total Residential Gross Floor Area Produced (1991-1999)



Sources: Calculated from the past auction lease conditions⁴

The land domestic AV has been very volatile whilst the land supply has been rather inconsistent in the past. R.D. Pope (1999), the Director of Lands, has suggested that *“what Hong Kong has suffered from in the past is that of a volatile market with property values either rising far too rapidly, leading to speculation; or falling drastically as it did in 1998 as a result”*. Other than property value, the auction land supply has also experienced such volatility. The performance of the land market is the result of the land policy and numerous demand and supply factors.

According to Wu (1983), there was a popular belief in Hong Kong, among business and the people at large, that the government pursues a “high land price” policy, so as to raise as much revenue as possible from land. However, the government naturally denies that there was such a policy. Officials insist that the market sets the price of land. The denial is true to the extent that all land is sold by auction or tender to the highest bidders. But when one considers the fact that the government is the ultimate owner of all land and controls the supply of new developable sections, the denial was a little suspicious (S.C.M.P., 11th Feb 1998).

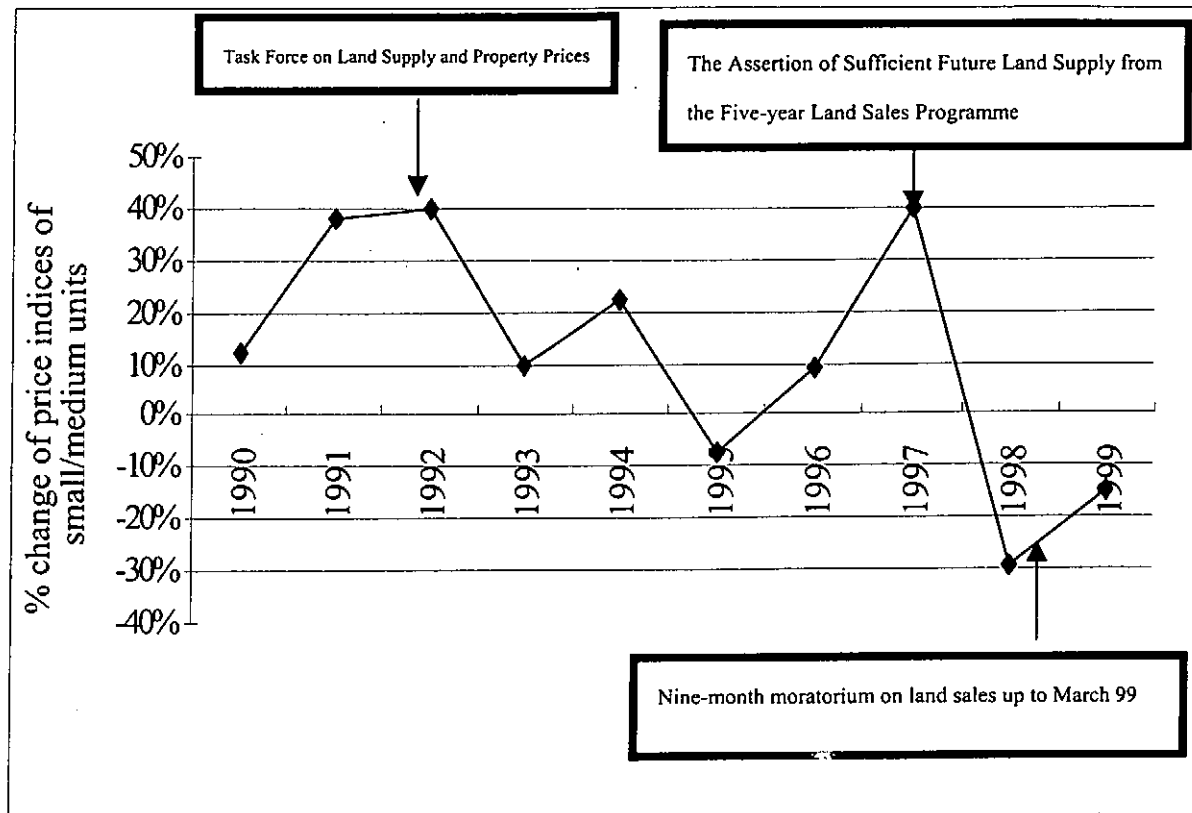
⁴ The AVs of the auction sites in this dissertation are first based on the formulation of the reasonable residential hypothetical development according to the sales conditions. Second, the land sales price is divided by the total GFA to arrive at AV.

As suggested by Wu (1983), if there had never been a high land price policy, we would have expected the quantity of land supplied by the government to have been fairly steady over the years, at least not being unduly low in slack periods, with substantial increases during booming years. He studied the land supply from the government from 1962-1982 and argued that the acute shortage in land supply no doubt reflected the government's wish to restrain the fall in land prices.

When the moratorium ended in March 1999, land prices remained soft. The moratorium was a chance to make a historic shift away from a high land policy. In the past, the pain involved in such a change would have been much greater since it would have meant deflating property prices to a more sustainable level. As the Asian financial crisis has already accomplished this task and forced the Government to become less reliant on land sales revenue, the shift will be much easier to achieve. But in accordance with Gittings (1998), the question remains as to whether the land administration is willing to give up the high land price policy they have been faithfully following for more than decades (SCMP, 20 September 1998).

In order to measure the effectiveness of the land supply policies within the land administration framework, the immediate change of price indices of the mass housing market after the announcement and operation of some major land supply policies is measured. The results are demonstrated in Figure 4.2.

Figure 4.2 The Percentage Changes of the Price Indices of Small/ Medium Units and the Adoption of Land Supply Policies within the Land Administration Framework



Sources: Various issues of Property Review

In 1994, when residential property market was bullish, the speculative activities reached a new height with almost 70% of the new flats snapped up (South China Morning Post, 30th March, 1994). Immediately in April, the government announced a “Task force on Land Supply and Property Prices” to discourage speculation and the market dampened afterwards. In 1997, the housing market began to revive with prices rising rampantly. To tackle this, the government announced its five-year land sales programme to increase land supply. This led to a reduction in sales activity. As a consequence, the market sentiment cooled down with a substantial drop in price index. Later, there was an acute downturn of economic performance due to the Asian financial crisis, the residential property sector suffered a dramatic decline both in price and transaction volume. Further due to higher interest rates and the tightening of lending policy of the banking sector, the number of buyers sharply curtailed and market sentiment weakened. In 1998, the depressed property market forced the government to revise its land disposal programme by postponing sales of big sites and switching to tenders instead of public auctions (South China Morning Post, 17th January 1998). Later, the government relaxed its anti-speculation

measures by extending the pre-sale period and imposing a nine-month moratorium on land sales up to March 1999. The market sentiment later improved. This illustrates that property market seemed to react following the implementation of government policies, that is, the implementation of measures are quite effective to cope with the market.

The above government actions illustrate that its land sales policies are often revised to release more land for sale when the housing market is booming, and reduce land sales when the market is sluggish (Hui *et al.*, 2000). In order to enhance the adaptive efficiency to the market conditions, other than setting a land disposal programme and revising land sales policies, the government also introduced new administrative arrangements in February 1999 by which additional Government land may be made available for sale by application (commonly known as the application system of land sale). Listed sites are not put on sale until after a developer expresses an interest in buying. This method facilitates the market efficiency by providing flexibility in the supply of land, in terms of the timing of supply and the priority of land being put on the market. However, this all depends on how developers look at the market. On the other hand, the government has a less say on what to provide first and when.

It is noteworthy that, within the land administration framework, land supply is not the sole determinant of the property market in Hong Kong. As Rakodi (1994) mentions, *“Land availability for new development and trends in the property market are influenced by a combination of physical factors (topographical and geological suitability of land for development), economic factors (demand and supply), administrative factors (the legal, institutional and procedural framework for land administration, and land policy formulation and implementation) and political factors (both the underlying structure of a country’s political economy and everyday political imperatives).”* Moreover, Zhu (1997) suggested that the effectiveness of government actions depend on the market fundamentals of the sector where intervention is intended. He also claimed that some of the public intervention served successfully as catalysts and levers in the course of stimulating the stagnant property investment market. However, careful timing is essential.

4.1.2 Land Supply and Housing Market

In the aspects of land supply and housing production, the correlation analysis reveals their weak relationship. Peng and Wheaton (1994) have studied the mechanism by which changes in the supply of developable land affect housing prices and housing output. Their model proves that the housing market is being affected by construction cost, interest rate, quantity of land sales and also the gross domestic product. The results show that the effect of current land sales is not statistically significant as there apparently is not enough time for consumers to adjust their expectations. They explain that there should be a time lag in the effects of land sales being capitalized on housing prices. The results further put forward that reduced land sales cause a smaller long-run supply which eventually raise the rents people pay for housing and land. These anticipated higher future rents are capitalized into higher current housing prices in a rational market. Higher housing prices will then generate higher residual land prices which in turn lead to capital land substitution in housing production. In this adjustment mechanism, restriction on land supply does not reduce the production of housing units but increases housing prices in the short-run and increases density of development in the long-run if development conditions allow.

Unlike the site area of land sales adopted by Peng and Wheaton, this section examines whether the the total gross floor area produced by the current restricted auctions would affect the housing market conditions. It is subject to the limitation that other factors, such as affordability and speculation may affect the housing market. The property market condition is reflected by the price indices and supply of the small/medium and large-sized residential units. The correlation between various aspects of housing market and the auction land supply is then shown in Table 4.1.

Table 4.1 The Correlation Coefficients between the Housing Market and the Land Market (1991–1999)

	Total Domestic GFA (land sales)
Small/Medium Units Price Index	0.35 (*0.36)
Small/Medium Units Supply	0.022 (*0.955)
Large Units Price Index	0.32 (*0.407)
Large Units Supply	-0.53 (*0.145)

Sources: Various issues of Property Review
Land Sales Conditions

Note: The total domestic GFA is estimated in accordance with the land sales conditions

(*) is the level of significance

Regarding the relationship between land supply and housing price, the correlation between the total land sales GFA and price indices of any kinds of units is not particularly strong. It is in line with Peng and Wheaton that the effect of current land sales is insignificant. This also agrees with Tse (1998) that there was no causal relationship between land supply and housing prices. He believes that part of the land supply may be absorbed by developers' land banks without immediate development.

The administration should therefore beware of the timing to implement its land sales programme in view of the volatile market conditions, as the provision of land may further enhance or rebate the market sentiment. The system should be flexible enough to enhance the adaptive efficiency to cope with the fluctuating market conditions. Besides, the amount of land provided should also be able to cope with the long term housing demand.

4.1.3 The Competition in the Land Market

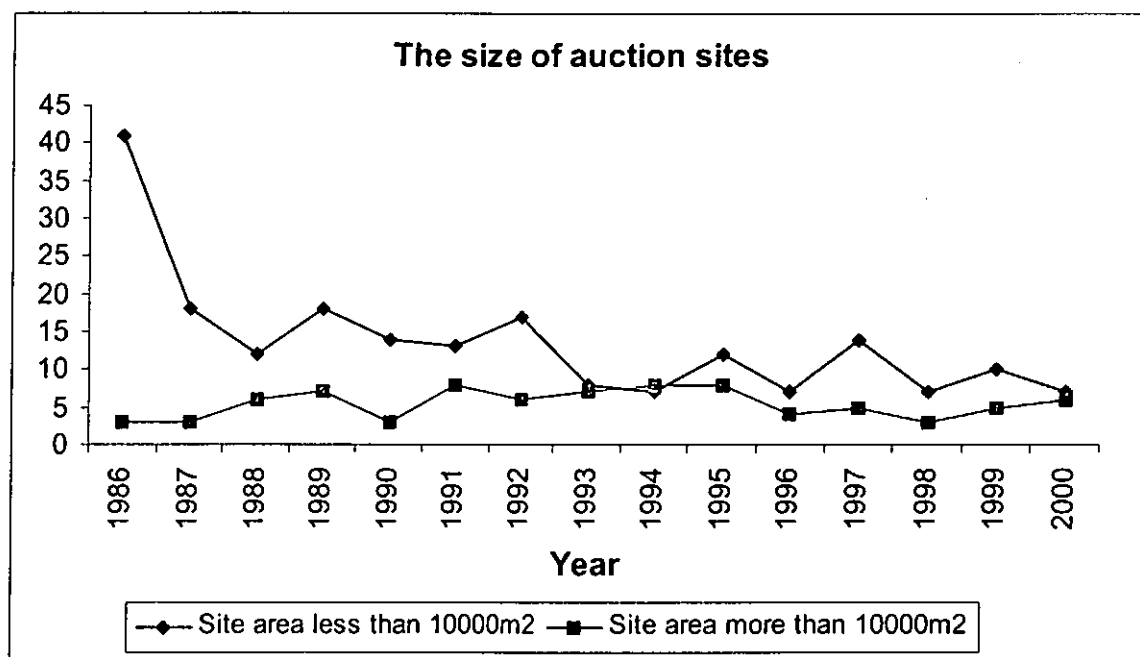
A smooth and efficient land market operation requires the elimination of barriers to entry, promoting competition and avoiding unnecessary regulations which constrain the market. In the land market, land developers search and compete for sites.

Besides the availability of sites, they would consider market conditions, economic environment, their financial situations and other factors. Urban land markets are efficient only if they are competitive. According to Dowall(1993), there are six important conditions necessary for competitive land market operation: well defined property rights; voluntary participation; many buyers and sellers; free entry and exit; perfect information and similarity of product. In Hong Kong, we examine the competitiveness by studying the size of auction sites to see if the government has set a hurdle to prevent the small developer or individuals to buy land.

As Hong and Lam (1998) suggest, the government leases land rights gradually so as to minimize the transaction costs by capturing land value. It has been argued that the government establishes rules that favour large developers. At the auctions, only the financially strong developers can compete for land at public auctions. Medium and small-sized developers are normally under financial constraints and as a consequence, the land sales will further enhance the dominant position of the big developers. As only a few developers obtain continuously new land leases from the government through auctions, they gain control over the supply of housing units consequently.

In September 2000, 17 small and medium developers jointly requested the Lands Department to provide more auction land of smaller sizes. However, Pope (2000), the Director of Lands, claimed that there was already a plentiful supply of small sites, that was, half of the sites provided were smaller than 10,000m². It is generally considered that site area of about 10,000m² would be suitable for small and medium developers to construct 4-6 blocks. Figure 4.3 illustrates that from 1986 to 1992, the administration was keen on providing smaller sites. However, in 1993, the gap between the provision of small and large sites narrowed down. The number of small and large sites provided even reached the same level in 2000. Although the numbers of small and large sites provided were similar, small developers still did not have the same opportunity to acquire sites as the large developers. This is mainly due to the phenomenon of fewer large developers and more small/medium developers in Hong Kong. For the same amount of small and large sites, the bigger developers have a greater chance to bid for larger sites as there are only a few competitors. On the contrary, there is a keen competition for the smaller sites by numerous small developers. The situation suggests that the land administration favours the large developers by providing more larger sites. As the majority of the units are controlled by a few large developers, the consumers as a result suffer from limited choices. Therefore, the land administration should improve its allocative efficiency.

Figure 4.3 The Sizes of Residential Auction Sites



Source: Calculated from the land auction information provided by Lands Department

Note: The above includes Residential R1, Residential R2, Residential R3, Residential R4, and Commercial/Residential Sites

4.2 Land Needs for Urban Growth

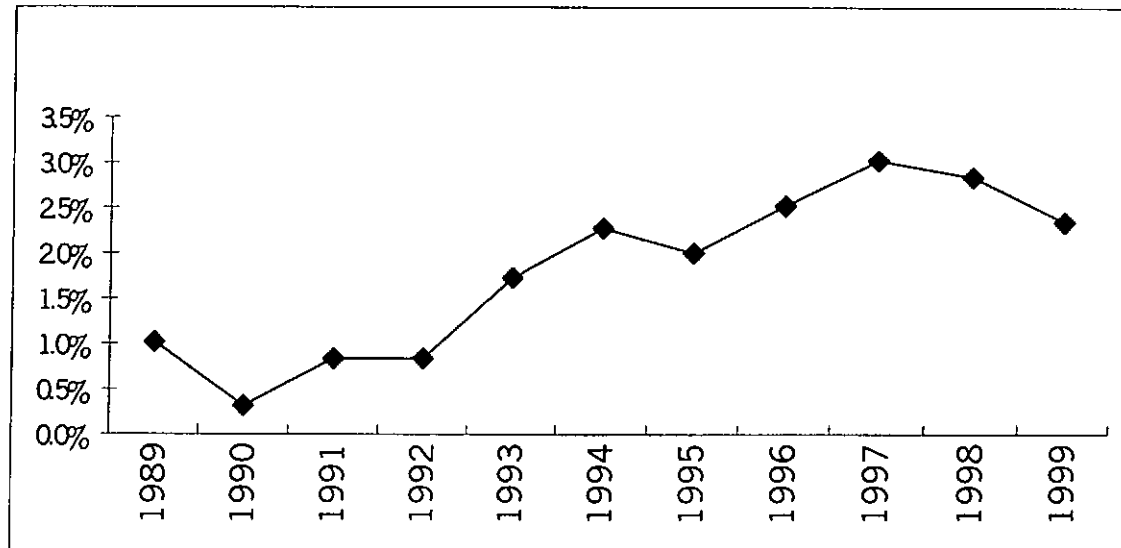
4.2.1 Land Supply and Population Growth

In this section, the availability of land to accommodate the population growth is studied. The population growth of Hong Kong is shown in Figure 4.4. In 1997, the population growth rate was the highest with the population being boosted to more than 6.5 million. This was mainly due to the surge of emigrants returning home and job-seeking expatriates (S.C.M.P, 19th Sep1997). However, the population growth was decreasing from 1997 because the natural increase (of births over deaths) had fallen (S.C.M.P., 16th Sep 1998). In 1998, families had fewer babies but thousands of immigrants pushed the population to almost 6.7 million. Despite the population growth in recent years, the auction land supply⁵ has not increased accordingly. In fact, a moratorium on land sale was imposed in 1998. It reflects that the auction land supply strategy does not mainly cope with the population growth but also other

⁵ Lease modification is not considered as the government's major land supply policy as developers are the ones who take the initiatives.

factors such as economic conditions and market sentiment. This is evidenced by the weak correlation coefficient of -0.18 between land auction domestic GFA and the population growth from 1991 to 1999 (level of significance is 0.94).

Figure 4.4 Percentage Change of Population Growth in Hong Kong



Source: Various Issues of Hong Kong Annual Digest of Statistics

4.2.2 Land Supply and Land Usage

The trend in land usage from 1994 to 1998 is shown in Table 4.2. It is observed that the residential area increases with open space, GIC facilities and roads/railways. Besides, more and more fishponds, arable, temporary structures/livestock farm areas have contributed to the developable land in recent years. Moreover, the overall total area increases each year by reclamation.

Table 4.2 The Trend of Land Usage

Land Use	1994	1995	1996	1997	1998
Commercial	2	2	2	2	2
Residential	41	42	43	43	44
Public rental housing	11	12	14	14	14
Industrial	11	11	11	11	11
Open Space	15	16	16	16	17
GIC	17	18	18	19	20
Vacant development land	37	41	43	41	39
Roads/railways	26	27	27	29	31
Temporary housing areas	1	1	1	1	1
Woodlands	220	220	220	220	220
Grass and Scrubs	519	519	519	519	519
Badlands, swamp and mangrove	44	44	44	44	44
Arable	64	63	62	62	61
Fish ponds	16	16	15	15	14
Temporary Structures /livestock farms	12	12	12	12	11
Reservoir	26	26	26	26	26
Other uses	22	22	22	22	23
Total	1084	1092	1095	1096	1097

Source: Various issues of the Hong Kong Annual Digest of Statistics (unit:land areas in km²)

In Table 4.3 and Figure 4.5, the population and land area of various districts are illustrated. The ratio of the number of persons per land area in 1999 are compared between various districts. A higher ratio means one person can occupy less land. The results indicate that Kowloon was the most densely populated area of 45,474

persons/sq. km, while Hong Kong Island was 17,529 persons/sq.km. The New Territories(N.T.) and the island were the least populated at 3,393 persons/sq.km. Due to limited land available in urban areas, the government provides more land in non urban areas. Figure 4.6 illustrates that the disposal of the residential land in the N.T. was consistently higher than in the urban area between 1991 and 1998. This reflects that the administration has been trying to relieve urban areas from heavy population burden.

Besides, Figure 4.6 illustrates that the land granted from private treaty grant is consistently higher than that disposed of by auction and tender. This is mainly due to the granting of a considerable amount of land by the government for rapid railway development, public utilities and schools in order to accommodate the rapid population growth.

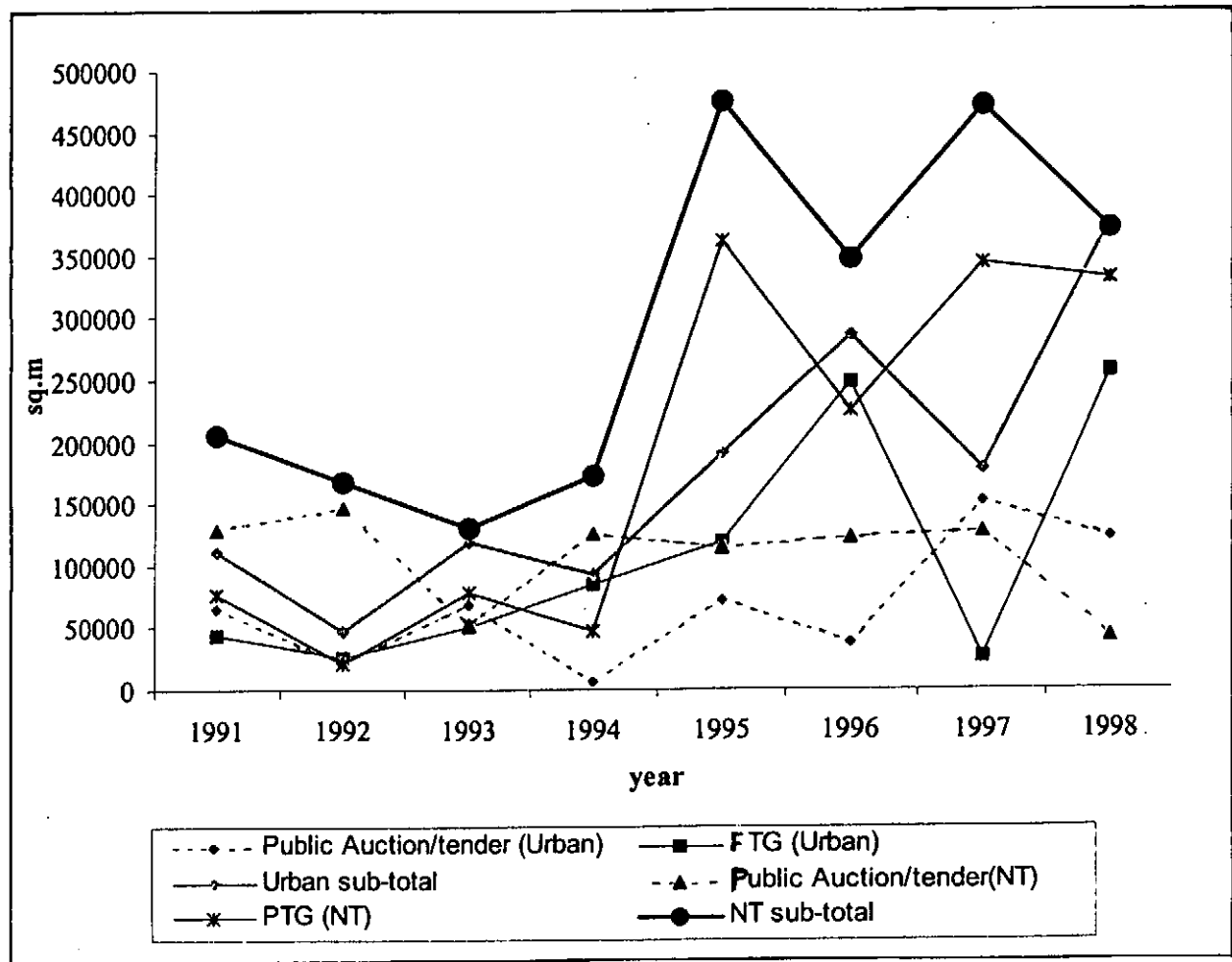
Table 4.3 1999 Population Density by District Boards

	No. of person	Land Area (square kilometers)
Central & Western	283,800	12.52
Wan Chai	192,200	10.02
Eastern	643,700	18.81
Southern	287,900	38.95
Hong Kong Island Sub-total	1,407,600	80.30
Yau Tsim Mong	310,600	6.85
Sham Shui Po	366,800	9.48
Kowloon City	403,700	9.97
Wong Tai Sin	434,400	9.36
Kwun Tong	608,600	11.05
Kowloon Sub-total	2,124,100	46.71
Kwai Tsing	478,100	21.82
Tsuen Wan	284,500	60.70
Tuen Mun	501,100	84.45
Yuen Long	419,300	138.43
North	265,100	137.31
Tai Po	314,500	147.42
Shatin	642,700	69.46
Sai Kung	306,900	133.39
Islands	82,600	175.03
New Territories Subtotal	3,294,800	971.01
Overall	6,826,500	1,098.02

Source: Hong Kong Census and Statistics Department

<http://www.demographia.com/db-hkdbd99.htm>

Figure 4.6 Disposal of Government Residential Land



Source: Various Hong Kong Annual Digest of Statistics

Although the administration has dealt with the population growth and distribution of various land usage, the outcome of land development is considered unsatisfactory in terms of population density in the urbanized area⁶ when comparing with other major cities/metropolitan areas in Asia as shown in Table 4.4.

⁶ Urbanized area: the area belongs to towns and cities.

Table 4.4 Comparison of Total Land Area and Urbanised Land Area of Major Country/Metropolitan Areas in the Asia Pacific Rim (latest available data)

Country/ Metropolitan Areas	Population in Year 1998	Population Density in Year 1998 (No. of Persons/Total Land Area in sq. km.)	Population Density in Year 1988 (No. of Persons/Urbanised Land Area in sq. km.)
Hong Kong	6,687,200	6,095.9	37,358.66
Seoul	10,321,496	17,046.24	31,866.3
Singapore	3,865,600	6,063.69	12,389.74
Taipei	2,641,312	9,717.85	24,611.55
Tokyo	11,830,000	5,627.97	8,962.12

Source : Wu *et al.*(2001), 'Smart Growth : Opportunities & Challenges for Hong Kong',
Working Paper, The Hong Kong Polytechnic University

According to Wu *et al.* (2001), Hong Kong's population is already exceedingly high by international standards, arriving at an average population density of 37,358.66 persons per square kilometer of urbanised area. Due to limited urbanized area, the population density in the urbanized area of Hong Kong is far beyond that of other countries. In view of this, the administration should improve the allocative efficiency by encouraging redevelopment so as to provide more urbanized areas as there is still a certain amount of vacant development land that it may exploit (see Table 4.3).

4.3 Revenue Collected from the Land Market

4.3.1 The Collection and Distribution of Land Revenue

This section focuses on the collection of land revenue generated from auction, tender, private treaty grant and other lease arrangements. The details of these land value capture mechanisms will be further examined in Chapter 5. This analysis gives an idea of the extent of revenue contribution to the infrastructure development in Hong Kong.

In accordance with the Land Administration Guidelines issued by the United Nations (1996), a system of taxation should serve clearly defined social objectives; raise

significant amounts of revenue; be exclusively under the control of the government authority; be administered in a way that the public understands and sees as fair; be relatively simple and cheap to collect; be designed to make it difficult to avoid making payments; distribute the tax burden equitably across the community; encourage the good use of resources (United Nations, 1996).

According to Renard (1992), many discussions concerning the interaction between property taxation and land policy could be confusing because they mixed different purposes that can be pursued by any taxation device: providing money for public authorities (proceeds), social justice (distribution) and economic incentive (allocation). These objectives were to some extent contradictory: the maximization of proceeds could be inconsistent with social justice, an efficient taxation in terms of land supply would bring about only limited proceeds, and so on.

The theoretical attractiveness of a land tax derives from two reasons. On the one hand, taxation of land is one of the few cases of a lump sum tax where- using asset rather than production values-the effective tax rate on income decreases with the income generated from the land, thus encouraging more productive resource use. On the other hand, a land tax is one of the few taxes that can provide revenues for the local governments, and that-through the capitalization of local amenities in land values-establishes a direct relationship between tax level and benefits received by taxpayers (Glaeser 1996).

In Hong Kong, there are four major ways of taxation related to land. They include an annual land rent, an initial land premium at the beginning of the lease, lease modification premium and the premium for renewing land rights when the lease expires. According to Hong (1998), the delineation, negotiation and enforcement costs at the initial auctions are low. The government utilises the competition among bidders to set land premiums at the initial auctions. As land rights are well delineated in the sales conditions, a market-like mechanism is instrumental in helping the parties to allocate the land value at low costs.

Table 4.5 The Amount of Revenue Attributed by Auction/Tender/PTG

Year	Auction/Tender		PTG		Modification		Total
	HK\$Mn	% of land revenue	HK\$Mn	% of land revenue	HK\$Mn	% of land revenue	
1991	13925	66.5	3657	17.5	3358	16.0	20940
1992	11511	70.0	663	4.0	4262	25.9	16436
1993	17965	41.2	3289	7.6	22306	51.2	43560
1994	12776	40.7	7342	23.4	11239	35.8	31357
1995	23876	53.2	16401	36.5	4603	10.3	44880
1996	10745	18.8	17380	30.2	29371	51	57496
1997	42975	60.5	12155	17.1	15918	22.4	71048
1998	13644	71.9	1441	7.6	3900	20.5	18985
1999	14533	47.5	6129	20.0	9926	32.5	30588
Average	13055.7	51.4	4783.3	18.9	7543.1	29.7	25382

Source: Various issues of Annual Digest of Statistics

Table 4.5 shows that revenues obtained from tender/auction are still a substantial source of land revenue with an average of 51% from 1991-1999. The Hong Kong Annual Reports further reveal that land sales constituted 23% of the total government revenue in the year 97-98, however it dropped substantially to 9% in 98-99. Despite the downward trend of land sales revenue, there is an upward trend in the revenue obtained from modification. As supported by Hui (2001), other than auction and tender, lease modification has become an important source of revenue. Hong (1998) suggests that the transaction costs of allocating land value through contract modifications are low except the negotiation costs of transferring land rights from lessees to developers. The Land(Compulsory Sale for Redevelopment) Ordinance was enacted in April 1998, the owner or owners of not less than 90% of the undivided shares in a piece of land may apply to the Lands Tribunal for the compulsory sale of all the undivided shares in the land for the purpose of redevelopment of land. The Ordinance allows the government to reduce this percentage regarding certain classes of land but the lowest permitted percentage is 80%. Although establishment of new laws can increase the efficiency of redevelopment, it is important to strike a balance between facilitating urban redevelopment and protecting individual owners' rights.

4.3.2 The Trends in Land Revenue, Per Capita GDP and Population Growth

The percentage changes of land revenue, per capita GDP and population growth are shown in Figure 4.7. It is observed that the trend of population growth is quite stable whereas the trend of land revenue is fluctuating. The trends of land revenue and per capita GDP are quite similar recently despite the magnitude of their percentage changes. The increases in population growth and average income, in theory, are expected to demand more land and better services of land, which are mainly dealt by the land administration. An efficient land administration is supposed to have a strong positive correlation between the land revenue and population; and also between land revenue and average income. The correlation analysis reveals, however, that land revenue has only minor correlation coefficients of 0.23 and 0.63 with population and capita GDP respectively (see Table 4.6). It shows that the land administration is inefficient in a way that the revenue collected cannot cope with the total population growth and per capita GDP.

Table 4.6 Correlation Analysis of Land Revenue with Population and Per Capita GDP (1991-1999)

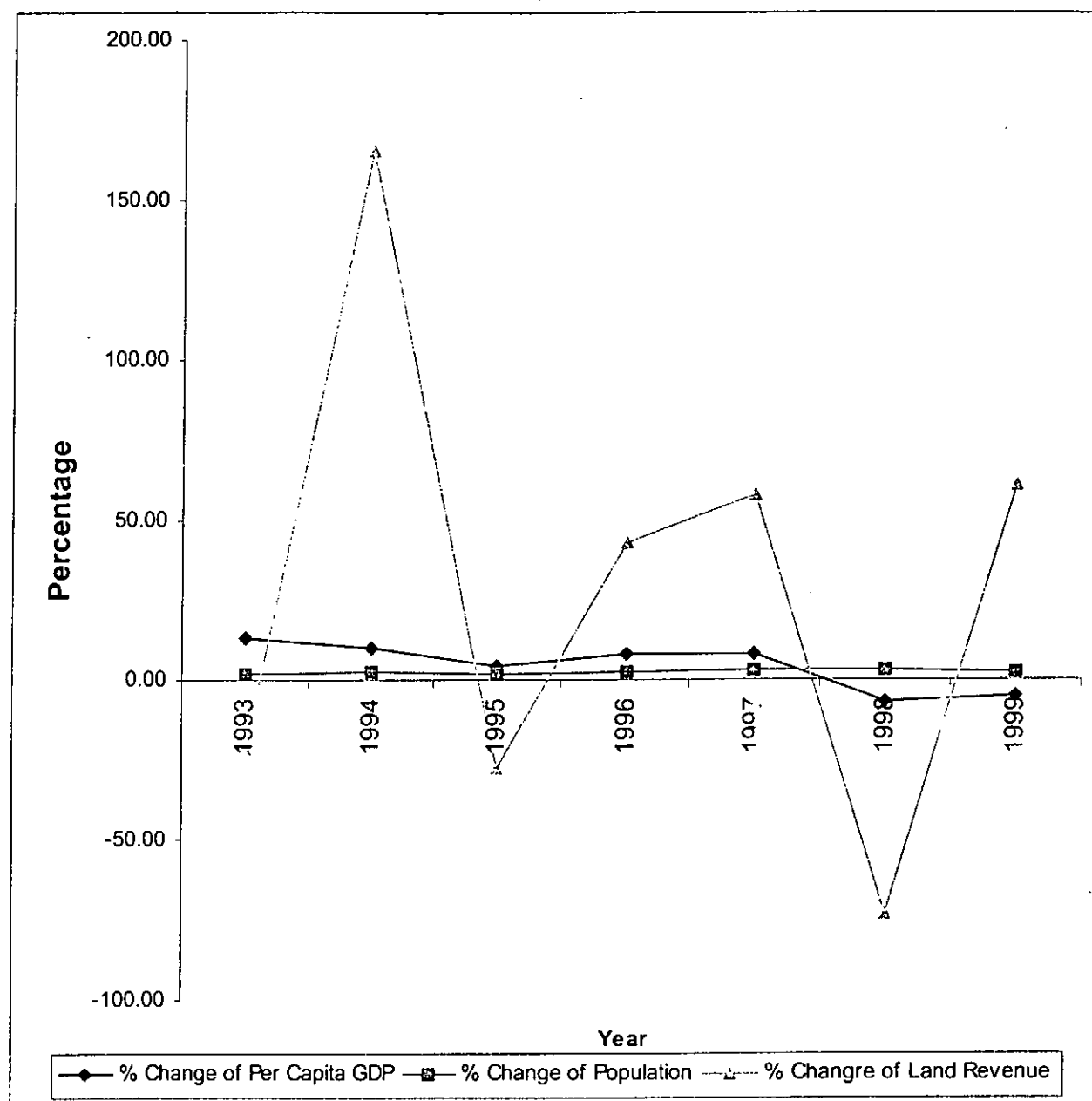
	Land Revenue
Total Population	0.23 (*0.544)
Per Capita GDP	0.63 (*0.069)

Source: The data are obtained from various issues of Annual Digest of Statistics

The correlation coefficient is based on calculation

Note: (*) is the level of significance

Figure 4.7 The Percentage Changes of Land Revenue, Per Capita GDP(at Current Market Price) and Population from 1993-1999



Source: Various issues of Annual Digest of Statistics

4.4 Private Sector Participation in the Land and Housing Markets

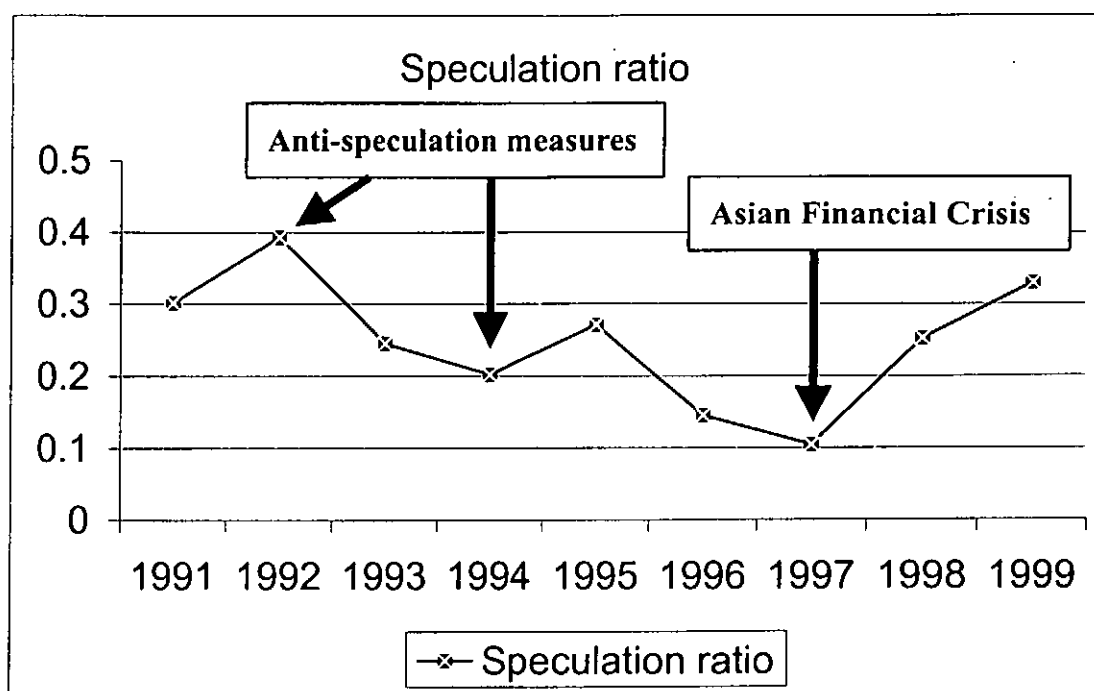
4.4.1 Speculation in the Housing Market

Speculation increases investment demand for housing and has been a major force behind the local property market. The Hang Seng Economic Monthly (2000)

recommends that speculative activities can be discerned through indicators such as the number of confirmor transactions and the volume and prices of the ballot papers offering a buying right for uncompleted units. This section is to see whether the anti-speculation measures can stabilize the land market. The Agreement for Sales and Purchase (ASAP) provided by the Hong Kong Annual Digest of Statistics, includes both building units and land, in which the land factor cannot be excluded. The ratio of the value of new mortgages to the value of ASAP is therefore adopted to indicate the degree of speculation. This ratio is based on the assumption that the genuine end users rely fairly on mortgages in purchasing a property. This can be a reasonable assumption for the lower end residential market as the demand comes largely from first time buyers who have a small down payment. The lower the ratio, the more speculative activities would be, for there is an increase in the number of ownership transfers in ASAP before the final occupation. On the contrary, the higher the speculation ratio, the lower the speculative activities.

As shown in Figure 4.8 speculation activities had been dampened slightly after 1992 and 1994. This was largely due to the introduction of anti-speculation measures by the Hong Kong government which posed a threat to the speculators. In the end of 1997, the speculation activities were also cooled down substantially due to the Asian financial crisis. The government's repeated assertions of providing sufficient land supply in the future has also helped keep many speculators on the sideline by crushing expectations of strong capital gains (The Hang Seng Economic Monthly, 2000).

Figure 4.8 Speculation Ratio



Source: Speculation ratio is equal to the value of new mortgages to the value of Agreement for Sales and Purchase, data are obtained from the various issues of Hong Kong Annual Digest of Statistics

4.4.2 The Land Bank of the Developers

This section aims at investigating if the land administration provides enough incentive for developers to acquire agricultural land and develop their land bank. It indicates the effectiveness of the Government in facilitating the use of land bank, which is part of the land administration system. The ranking for net assets of the five big developers is shown in Table 4.7.

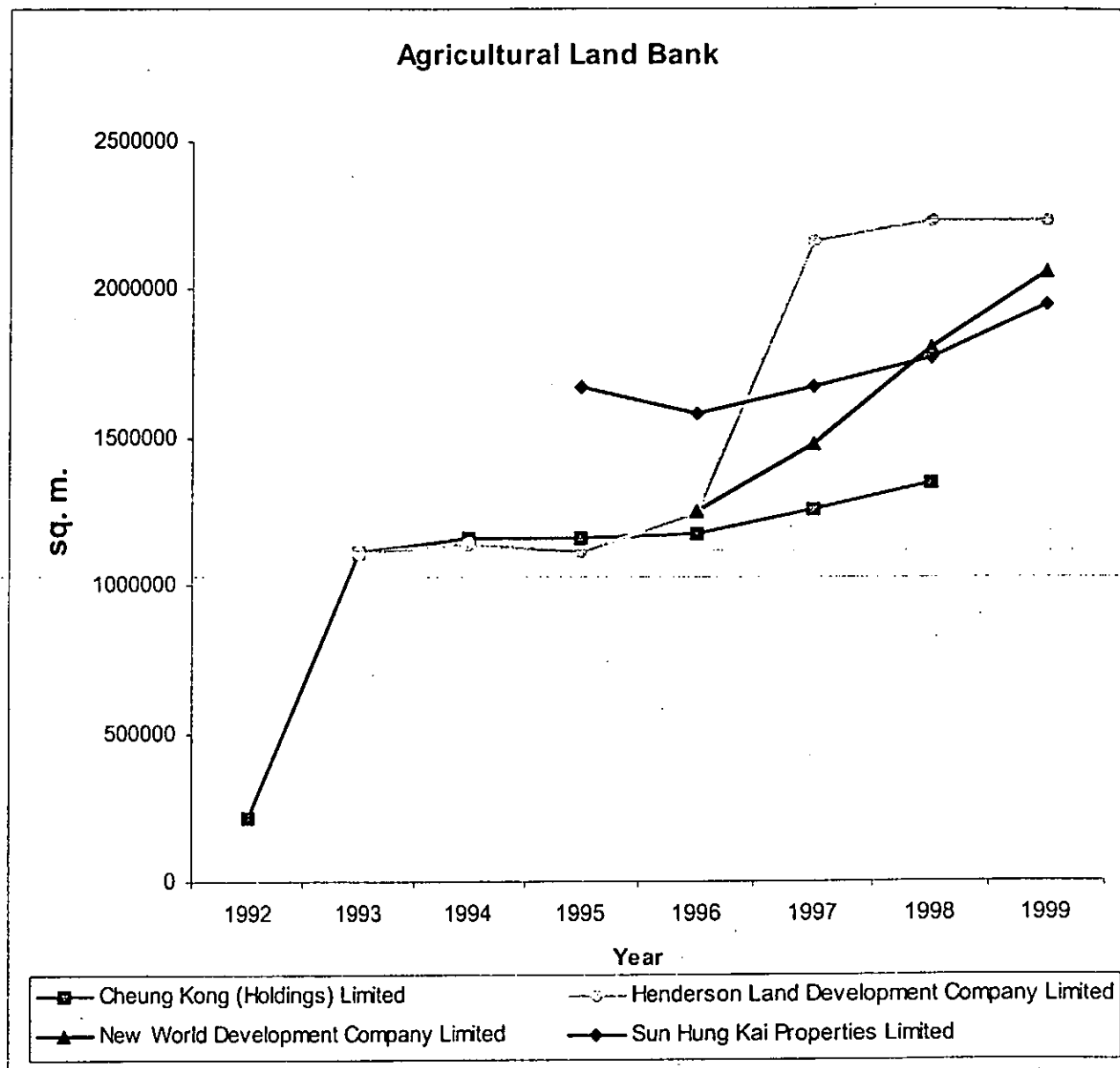
Table 4.7 The Ranking for Net Assets of the Five Developers (1996-1998)

Developers	Net Asset			Ranking		
	1996	1997	1998	1996	1997	1998
Sun Hung Kai	123,995	170,666	147,853	1	1	1
Cheung Kong	85,433	98,570	100,868	2	2	2
New World	75,649	90,060	88,647	3	3	3
Henderson	66,734	88,052	75,197	4	4	4
Sino Land	32,030	43,577	34,960	5	5	5

Source: Adopted and modified from Hui C.M., Tse R and Ho V. (2000) "The Land Auction Market: Market Share and Profitability", *The Hong Kong Institute of Surveyors Journal*, Vol 11 Issue 3, p.14, September 2000, The Hong Kong Institute of Surveyors

The agricultural and residential land bank situations of the five big developers, including Cheung Kong (Holdings) Limited, Henderson Land Development Company Limited, New World Development Company Limited, Sino Land Co. Ltd and Sun Hung Kai Properties Ltd are therefore reviewed in Figure 4.9 and Figure 4.10 as follows:

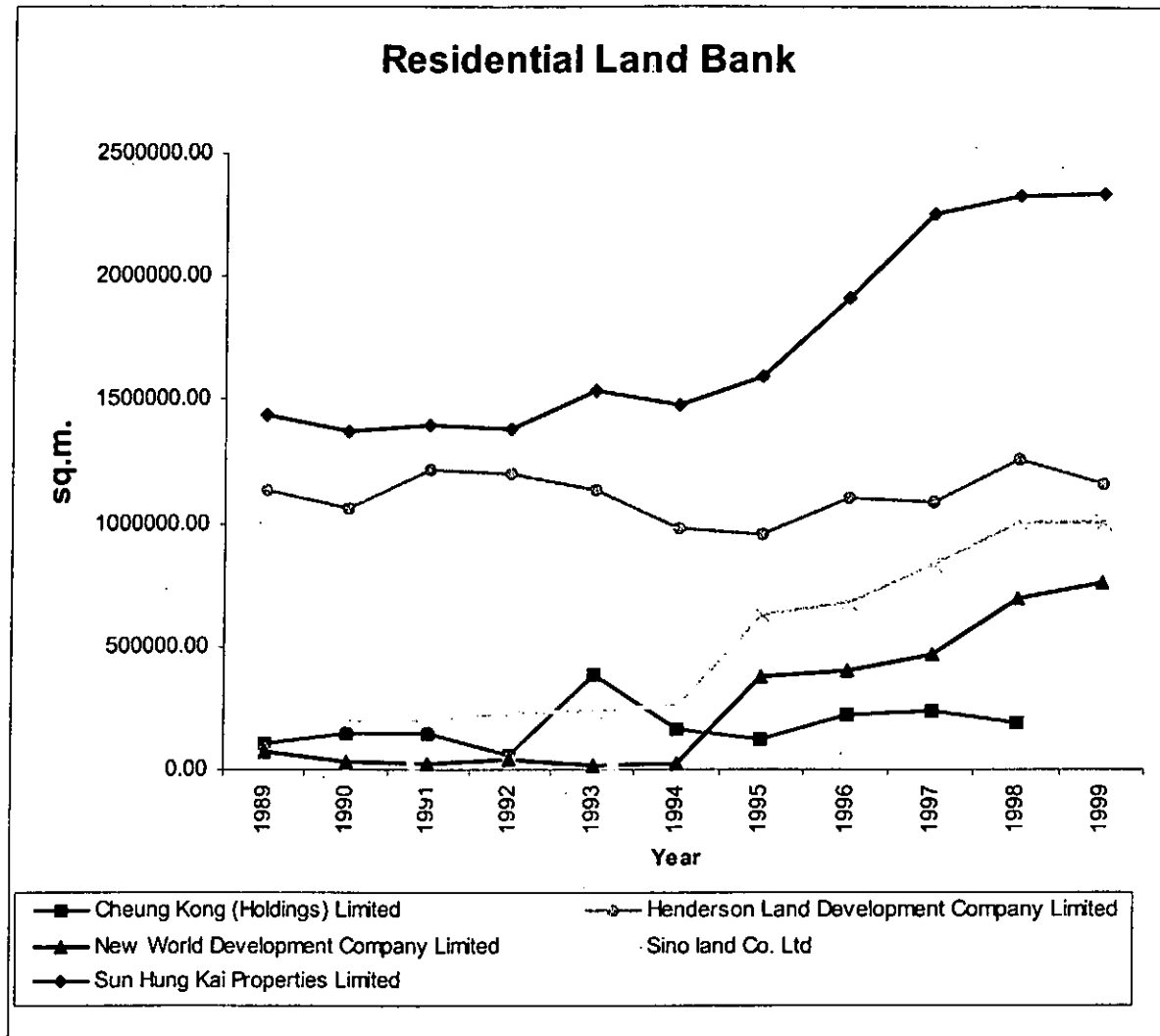
Figure 4.9 The Agricultural Land Bank Held by the Four Main Developers from 1992-1999



Sources: Various Annual Reports of Cheung Kong (Holdings) Ltd., New World Development Company Ltd., Sun Hung Kai Properties Ltd and Henderson Land Development Company Ltd.

Notes: There is a limitation that Sino Land Company Ltd does not show any agricultural land bank figure in its annual report. Some of the developers only publish its figure for several years.

Figure 4.10 The Residential Land Bank held by the Five Main Developers from 1989-1999



Sources: Various Annual Reports of Cheung Kong (Holdings) Ltd., New World Development Company Ltd., Sun Hung Kai Properties Ltd, Henderson Land Development Company Ltd and Sino Land Company Ltd.

In recent years, Henderson Land Development Company Limited has come first in owning the most agricultural land bank whereas Cheung Kong (Holdings) Limited had the least. It can be seen that the sizes of the agricultural land bank of the four big developers increase since 1996. According to the annual report of the New World Development Company Limited, it acquires agricultural land due to the rocketing population growth. Land is scarce and most of the urban area in Hong Kong has already been developed. It is inevitable for the developers to acquire

agricultural land for future development so as to cope with the future demand. However, the developers have to pay much time and effort on acquiring the fragmented agricultural lots. The current land administration system provides no means to help developers to acquire fragmented agricultural lots.

Besides, most of the annual reports of the developers mention that the land bank had not been developed rapidly because the companies spent too much time in negotiation of land conversion premium so as to develop the land bank at low cost. The developers view profit as the most important criterion in developing land bank. This shows that the developers always prefer to hold the agricultural land bank for a long time until they can bargain for a low conversion cost so as to maximize their profits.

The existing land administration provides no measures to enable the market to work effectively. Nor is there any incentive for the developers to develop their agricultural land bank. The opportunity cost of holding land bank has been minimal. In the past, the developers have paid only a nominal sum of Government rent, which bore little or no relationship to the actual value of land, to the government. However, following the approval of various provisions relating to land leases and related matters on 15 July 1997, an annual rent equivalent to three per cent of the rateable value of the property at that date has to be paid. Although there is an increase in the government rent, the annual rent of agricultural land bank paid by the developers is still low when compared with residential land bank. The assessment of government rent is based on the agricultural use of land lots which is of lower value but not the possible future development.

Concerning residential land bank, Sun Hung Kai Properties Limited comes first in owning the most residential land bank whereas Cheung Kong (Holdings) Limited comes last recently. The trends of the sizes of residential land bank are different for different developers. The size of residential land bank held by Cheung Kong (Holdings) Limited was almost 6 times that of its own agricultural land bank, consistently from 1993 to 1998. The size of its land bank decreased in 1993 and 1997. Unlike Cheung Kong (Holdings) Limited, Henderson's total development land bank dropped in 1994 and then increased substantially in 1995. In 1996, the company acquired a large amount of agricultural land, whereas the sizes of residential land bank remained relatively constant. The New World Development Company Limited substantially increased its land bank since 1994, whereas the acquired land bank of Sino Land Co. Ltd was consistently low from 1990-1994. In 1994, the

market was bullish, Sino then started to acquire land aggressively. However, in 1997 when the housing market began to revive with prices rising rampantly, the sizes of land bank were gradually decreasing with development finished and readily sold on the market. This aimed at maximizing the development profit. In 1998, the sluggish market discouraged acquiring land bank, this was witnessed by the reluctant increase in land bank. The land bank acquired by Sun Hung Kai Properties was nearly twice that of Sino Land Co. Ltd. It is observed that the total residential land bank increased from 1.48 millions sq.m. in 1994 to 2.34 millions sq.m. in 1999. This was because Sun Hung Kai Properties was confident in acquiring land when the market was booming. In addition, according to Sun Hung Kai Properties Limited's annual report, for some land lots, the company would wait for the nearby infrastructure to be constructed before it developed the site. Different trends of agricultural and residential land banks shown in the graphs 4.9 and 4.10 reveals different land banking strategies adopted by different developers.

Table 4.8 Correlation Coefficient Analysis with the Residential Land Bank of 5 Big developers (1990-1998)

Land Bank m ²	Auction Land Domestic AV	Auction Land Domestic Supply	Small/Medium Units Price Index	Small Medium Units Supply	Large Units Price Index	Large Units Supply
Sino Land Co. Ltd	0.711 (*0.048)	-0.176 (*0.678)	0.711 (*0.048)	-0.841 (*0.009)	0.72 (*0.044)	0.151 (*0.72)
Sun Hung Kai Properties Ltd	0.784 (*0.021)	-0.0.81 (*0.849)	0.768 (*0.026)	-0.766 (*0.027)	0.764 (*0.027)	-0.45 (*0.917)
New World Development Co. Ltd	0.629 (*0.095)	-0.266 (*0.525)	0.624 (*0.098)	-0.824 (*0.012)	0.634 (*0.091)	0.216 (*0.607)
Henderson Land Development Co. Ltd	0.319 (*0.441)	-0.205 (*0.627)	0.565 (*0.145)	-0.56 (*0.149)	0.534 (*0.173)	-0.243 (*0.562)
Cheung Kong (Holdings) Ltd	0.208 (*0.621)	0.198 (*0.638)	0.255 (*0.543)	0.123 (*0.771)	0.254 (*0.543)	-0.378 (*0.356)

Source: By calculation

Note: (*) is the level of significance

In Table 4.8, the correlation analysis indicates the positive correlation relationships of the sizes of land bank of Sino Land Co. Ltd, Sun Hung Kai Properties and New World Development Company Limited with auction land domestic AV, small/medium price indices and small/medium units supply. This is to study the relationship between the residential land bank situation and the housing market conditions. The results can only reflect the willingness of the developers to put their land banks into use, but not to predict the strategies behind. It shows that the developers would acquire more land bank when the market was upturning. But the results are not highly correlated for Henderson Land Development Company Limited and Cheung Kong (Holdings) Ltd due to the adoption of different strategies as mentioned above. In accordance with the Centaline Property Agency Managing Director Shih Wing Ching, during a

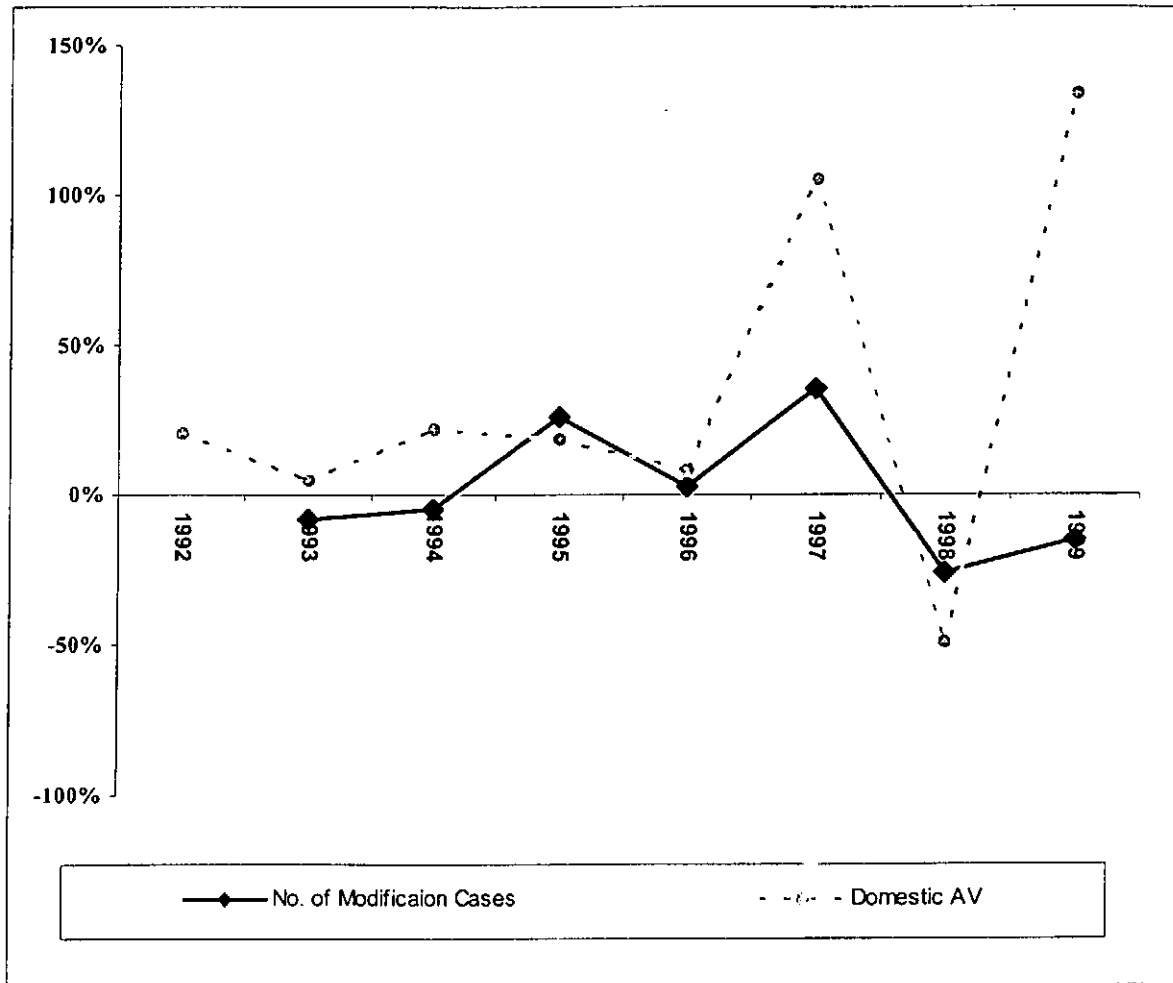
recession, the market was unable to support the large housing supply and developers were reluctant to expand their land banks (S.C.M.P., 26th May 1999).

Tse(1998) further pointed out that the amount of land sales by the government and the land in developers' land banks tend to decrease when market interest rates increase. However, with falling housing prices or rising interest rates, developers will seek to reduce the amount of land in their land banks. This can be proved by the land banking behaviours of Sino Land Co. Ltd, Sun Hung Kai Properties Ltd and New World Development Company Ltd. The Editorial of the SCMP on 17th July 1997 suggested that a limit should be set for the size of land banks held by developers. This is because some developers have the practice of sitting on stocks until property prices are at a premium. This delays the provision of housing units. In fact, the land administration can be improved as suggested by the chairman of the Consumer Council, Professor Edward Chen Kwan-yiu that, if those major developers, which had enough land in hand, could not be persuaded to release surplus stocks, they should not be allowed to bid for more land. If not, the access to the land market by the smaller companies, which usually build immediately from buying at land auction, could be hindered (S.C.M.P, 17th July, 1997).

4.4.3 Lease Modification in Hong Kong

Analysing lease modification situation in Hong Kong is another way to see whether the developers are encouraged to redevelop the sites under existing land administration framework. The lease modification situation is shown in Figure 4.11.

Figure 4.11 Percentage Change of no. of Lease Modification Cases and Domestic AV



Source: No. of lease modification cases is obtained from Lands Department, Domestic AV and domestic GFA are calculated in accordance with the auction land sales information.

Figure 4.11 shows that the number of modification cases completed has similar trend with land sales domestic AV since 1995 despite their different magnitudes. The land sales domestic AV indeed reflects the land market sentiment. It is evidenced by the high correlation coefficient between the percentage change of the number of completed modification cases and the percentage change of the domestic AV of the auction land at 0.637 (level of significance is 0.124) from 1993 to 1999.

Lease modification premium is negotiable and it has to be within six months of the date of the offer letter if agreement has been reached. As suggested by Nissim (1998), if property values are going up in a rising market, it is beneficial for the

applicant to pay the premium at the end of the six-month period. It is vital that the premium is paid on time because failure to do so will result in a new and upward assessment. On the contrary, when values are dropping in the falling market, the applicant can use this six-month period to observe the market. If values fall substantially, there is the option to withdraw the application. This is why there are more modification cases completed in the booming market and less completions in the sluggish market. The six-month allowance, on one hand, provides flexibility for the developers; on the other hand, it wastes the government resources if the developers decide to give up lease modification after an extensive negotiation period.

In fact, each modification case is unique. Developers take the initiative to decide when to approach the Lands Department to negotiate lease modifications for the sites they may have bought many years before. It was argued that the developers have proved adept at waiting those years until they get just the bottom of the cycle and are comfortable that prices are on their way back (S.C.M.P. 19th May 1999). Many argue that the land administration should provide some incentives for the developers when applying for lease modification so as to facilitate redevelopment. Nissim (1998) suggests, in particular, that the government should revert to the policy that existed prior to 1 July 1973 when full modification premia were only charged to 50% (Nissim, 1998).

4.5 Conclusions

This chapter has studied the land administration system in Hong Kong in the context of the current land policy. We have seen that the land administration system in Hong Kong has both facilitated and hindered the performance of the land and housing markets in many aspects: (1) land supply, (2) land use planning, (3) the collection of land revenue, (4) the private participation in the land and housing market.

The ultimate objective of any land administration systems, including that of Hong Kong, can only be defined in very broad terms: to enhance the efficient operation of the land and housing markets, that is, to ensure development that will be sustainable economically, socially, and environmentally. Or, put it in another way, to maximize economic efficiency, that is, to maximize the benefits and minimize the costs (including transaction costs) potentially associated with the market and to do this in an efficient and effective manner. The administration has far-reaching implications for transportation, land and environment; and, eventually, economic growth and the

quality of life.

We can conclude that the administration has facilitated the efficient operation of the land and housing markets in the following ways.

- The government has provided a land sales programme so as to ascertain the future land supply and prevent over-heated speculative activities. In addition, the government has also introduced sale by application. This method is considered to be more flexible to meet the market conditions. It can be seen that the restricted land supply affects the housing prices, but not housing outputs in the short term.
- In order to relieve the burden of high population density of the urban areas, the government tends to provide more residential land in the New Territories consistently. However, Hong Kong's population density is still considered exceedingly high by international standards.
- The government is quite efficient in land revenue collection which is shown by its substantial proportion.

On the other hand, the administration might have hindered the performance of the markets in the following ways:

- The government land sales policies are often revised to release land for sale in accordance with the housing market. The moratorium on land sales reflects the allocative inefficiency of land supply.
- The insufficient small-sized auction sites provided by the government contributes to the allocative inefficiency of the market. It is observed that the sizes of auction sites put out by the government favours a few developers more than small developers.
- The government provides not enough measures to encourage the development of the landbanks held by the developers. The developers also complained in their

annual reports that the government is inefficient in its operation of handling the lease modification cases.

CHAPTER FIVE

LAND VALUE CAPTURE MECHANISM IN HONG KONG AND SINGAPORE A COMPARATIVE ANALYSIS

With the knowledge of the historical background of land policy and functions of land administration provided in Chapter Two and Chapter Three and the study of the interplay between land administration and the land and housing markets in Chapter Four, this chapter will focus on the detailed land-value capture mechanisms and their relative importance as sources of revenue. In this chapter, Singapore is chosen to compare with Hong Kong as they are both characterized by rapid economic development and high population density of more than 6,200 people per km² land area. Besides, both places have their land revenues as the major source of income. This chapter first gives a general comparison between the land tenure systems of Hong Kong and Singapore. Their designs and collections of taxes on land, value-capture instruments and allocation of public revenue for public works will be examined. The concluding section offers some specific policy recommendations.

5.1 The Importance of Taxation

Hong Kong and Singapore are two small city-states where land is scarce. They both exercise the public leasehold systems to manage the limited land resources. According to Dale and McLaughlin (1999), *“Land is a physical thing that encompasses the surface of the earth and all things attached to it both above and below.”* Land belongs to natural resources which is fundamental to economic growth. As suggested by Kwong (1985), *“With the rapid growth in population and increasing urbanization, there is a need for governments to make provisions for the essential services the market has failed to provide. To finance such public expenditure, immovable property is frequently looked upon as a suitable tax source, since its value is enhanced by such expenditure.”* Hong (1998) has also raised that public leasehold system does not only capture the surplus land

value, but also enables the government to reserve land for public purposes and manage urban growth. As real estate revenue has become the major source of income to finance the public infrastructure and social services, it is therefore essential for the government to capture the land-value increment sufficiently and efficiently. The land-value capture hereby means the collection of all kinds of taxes by the government derived from land and its attached property.

Faure (2000) believes that *“Property taxes are amongst the oldest and most common forms of taxation in general use. There are, however, many variations on the theme in developed, transitional and developing countries.”* However, the implementation of value capturing has been controversial. The political influence and the technical shortcomings of adequately assessing land values have been regarded as constraints (Furtado, 2000). Besides, it should not impede private incentives to invest in land and real estate (Hong, 1998). As Drabkin (1977) suggested, *“The efficiency of taxation methods might be measured by their effect on the financing and planning growth. Taxation on land has fiscal purpose to assure income for the public authorities; at the same time in some countries, the additional aim of taxation is to serve as a means to redistribute income and wealth in order to reduce inequality. Taxation on land has two additional aims: to give the community the additional value created through public authority planning decisions & investments, and to serve as a means to increase the supply of land needed for urban development.”*

By investigating the property taxation systems in Hong Kong and Singapore, we learn how various types of taxes are designed and collected, and how the revenue contributes to the provision of local services or the promotion of the economy. Before considering how the two governments capture the land value, their tenure systems are studied.

5.2 Land Tenure Systems

Both Singapore and Hong Kong are former British colonies. This means that in principle their property laws and planning practices have been largely adopted from those in Britain (Haila, 2000). Although both Singapore and Hong Kong adopt public leasehold system, they have different organization structures in handling the land administration works (see Table 5.1). The Singapore government is the significant landowner who owns around 85 percent of the total land area (Asher, 2000). In order to further enhance state ownership, the government expropriates land for development and redevelopment under a set of efficient land acquisition policy.

Table 5.1 Comparisons of the Land Tenure System between Hong Kong and Singapore

	Singapore	Hong Kong
Land Use Planning	Master Plan with written statement set out permitted/not permitted uses.	Outline Zoning Plan Development Permission Area Plan
Land Ownership	State Own Freehold (1/3 of the area) Leasehold	State Own All leasehold except St. John's Cathedral Church
Organisation mainly handling land administration works	Urban Renewal Authority	Lands Department
Organisation mainly handling industrial sites	Jurong Town Corporation	-
Organisation mainly handling public housing provision	Housing Development Board	Housing Authority Housing Department Housing Society

Sources: Hui (1998), "Land Development for Housing and Industry" in International Seminar on Land Policy and Economic Development p.184

Apart from the size of the government's landholding, the most striking feature of land law in Singapore is the prevalence of leasehold as a method of land holding (Ricquier, 1995). The significance of the leasehold in Singapore is apparent in two particular areas. One of them is about industrial premises. Many such premises, wherever situated, come

under the authority of the Jurong Town Corporation (JTC), a statutory board established by the Jurong Town Corporation Act. The Corporation leases land, with or without factories built on it, to industrial tenants. The standard lease term is 30 years, sometimes coupled with an option to renew for a further period of 30 years (Ricquier, 1995).

The other area that illustrates the significance of the leasehold is the public housing system. The Housing Development Board (HDB) is the agency which probably has the biggest single impact on the average Singaporean as more than 85% of the country's population live in flats managed by it (Ricquier, 1995).

The Urban Redevelopment Authority (URA) acts as an agent for the State in carrying out land sales for commercial, hotel, private residential and industrial developments. In addition, it also sells sites for special uses e.g. heavy vehicle parks, conservation shophouses and recreational developments. Sites are usually sold on 99-year leases for commercial, hotel and private residential development. Leases for industrial sites are usually granted for 60 years. Land is usually sold by way of public tender. However, small residential land parcels and conservation shophouses are also sold by public auction (<http://www.ura.gov.sg>).

In the case of Hong Kong, the People's Republic of China has resumed the exercise of sovereignty over Hong Kong since 1 July 1997. All land and other natural resources are state property. Under Article 7 of the Basic Law which forms part of the constitutional framework of Hong Kong, the Hong Kong Government is responsible for the use and management of land on behalf of the state. The general principles relating to land policy and land administration issues are set out in Article 120 to Article 123 of the Basic Law.

As land is a scarce commodity, it is essential to have an effective and efficient land administration system in order to keep pace with the fast rate of growth. The Lands Department in Hong Kong is mainly responsible for all aspects of land administration. The department plays a major role in the entire property development cycle: issuing leases, handling lease modifications and arranging public auction, tenders and private

treaty grants of government land. It is also involved in the approval of building plans and monitoring development performance. They also deal with the acquisition of private land for public projects including urban renewal and environmental improvement schemes (Lands Department, 2001).

The Housing Authority, operated with its executive arm, namely the Housing Department, is financially autonomous. The Government provides the Authority with capital and land on concessionary terms to build public housing for rent and for sale. Housing Society, an independent organization, has been a dedicated housing provider in Hong Kong by constantly identifying the housing needs of different sectors of the community and developing proper housing needs of different sectors of the community and developing proper housing options for their needs (Hong Kong Housing Society, 2001).

5.3 Comparisons of the land value capture mechanism between Singapore and Hong Kong

The peculiarity of a leasehold system is that the Government lessor owns the right to develop and reap any increment in land value or “betterment” that results from conversion of the land use to a more intensive or profitable redevelopment (Bourassa, Neutze and Strong, 1997). According to Hong (1998), there are at least 5 factors that determine the changes in land value: (i) re-zoning; (ii) changes in locational advantages as towns and cities expand; (iii) improvements in public infrastructure and social services; (iv) the growth of urban population through migration and urbanization; and (v) increases (or decreases) in private investments in land.

In fact, collection of property tax is another way to raise income for local government. According to Needham (2000), tax on land is sometimes proposed as a way of achieving land-use planning objectives. Usually the desired development would be encouraged by grants whereas undesired development would be discouraged by levies. Taxing land sites may definitely promote urban and rural land reform. In fact, sufficiently high resource

rental fees can benefit the public by encouraging more careful and efficient use of natural resources by the private sector (Policy Paper submitted at the NGO Hearings Week, 2000).

Under the public leasehold system, the enhancement in land value should be captured by the government and returned to the community. Furtado (2000) suggests that redistributing land values is only one of the possible goals of urban land policy. Other goals are raising public revenues to finance urban services, regulating and managing land uses, and controlling undesirable outcomes of the functioning of urban land markets. In the past, the forms of tax which have been implemented in various countries are: (a) tax on unrealized land value increment which is usually recurrent; (b) betterment levy which may be charged for a planning permission or for specific infrastructural improvements; (c) tax on speculative gains from land dealings; (d) annual tax on real property (Kong, 1987). In view of the above, the ways how Singapore and Hong Kong capture the land value and their contribution to the community are illustrated as follows:

5.3.1 Annual Tax on Real Property

The Hong Kong government charges two kinds of annual tax on real property namely rates and government rent. Rates are levied on landed properties at a fixed percentage of their rateable value. The prevailing rate is 5%. In 1998-1999, the total revenue from rates was US\$ 1.47 billion. Besides, from 1 July 1997, government rent, equivalent to 3% of the rateable value of the lot, is charged for land leases granted, and non-renewable land leases extended on or after 27 May 1985. The latter category comprises all land leases governing lots in the New Territories and New Kowloon north of Boundary Street, which were renewed on 28 June 1997. For the remaining land leases, nominal Government rent, at the rates prevalent before 1 July 1997, is charged. The total rent collected in 1998-99 was US\$ 0.55 billion. (Hong Kong Annual Report, 1999)

Likewise, the Singapore government also charges an annual tax on real property, the property tax. It is levied at '*the rate or rates.....for each year upon the annual value of all houses, buildings, lands and tenements*' under section 6(1) of the Property Tax Act. Property Tax is payable annually and is determined by the Property Tax Division of the Inland Revenue Authority of Singapore. Generally, it is based on the annual rental value of the property. The current rate of property tax is 12% for both commercial and residential properties. The percentage is currently reduced to 4% for residential properties which are owned by individuals and are owner occupied (PriceWaterhouseCoopers, 2001). The special feature of the property tax system in Singapore is the 10% surcharge levied on foreign owners of residential properties or vacant land (Khublall, 1999).

5.3.2 Tax on Rental Income

The Hong Kong government charges the owners of land or building (an individual) the property tax at the standard rate of 15% of the net assessable value of the property. The net assessable value is based on the actual rental income paid to the owner in respect of the right of use of the property. It is the assessable value (after deductions of rates paid by the owner) less an allowance of 20% per cent for repairs and maintenance. Properties owned by corporations are exempt from property tax, but profits derived from ownership of land and buildings are chargeable to profit tax (Hastings and Walters, 1999).

The Singapore government also charges tax on rental income, namely Goods and Services Tax (GST) and Income Tax. For both residents and non-residents, their net rental incomes are chargeable as income tax at individual rates and a rate of 26% respectively. Commercial property landlords also need to pay GST, which is charged on rents derived from the commercial property (PriceWaterhouseCoopers, 2001).

5.3.3 Tax on Speculative Gains from Land Dealings

The Hong Kong government may only charge the gain on disposal of real property through profit tax if the Hong Kong Inland Revenue considers that the investor is engaged in a venture involving the trade of real property (PriceWaterhouseCoopers, 2001). Other than that, the Hong Kong government has also adopted the time control of stamp duty payment in order to prevent speculation. When the property market was skyrocketing, the government required the purchaser to pay the stamp duty upon signing of the Sale and Purchase Agreement. However, when the market abated, the stamp duty was not required to be paid immediately. This illustrates that the government can also adjust to market changes through altering the payment date of the property tax.

However, the Singapore government usually takes a more aggressive role than Hong Kong to curb property speculation. In order to discourage speculation, the Singapore government charges gains arising from the sale of a property within three years of its acquisition, the Income Tax. This also applies to gains derived from the disposal of shares in a private company whose main asset is property. Besides, foreign investors are restricted from investing in the property sector. They may invest only in the commercial property market with little or no restriction.

5.3.4 Tax on Conveyance and the Property of the Deceased

Both Hong Kong and Singapore impose stamp duty and estate duty. In Hong Kong, estate duty is payable on the value of all property (including immovable property) located in Hong Kong on the death of an individual. It will be imposed on estates over a specified value. Stamp duty is chargeable on all conveyances on sale or leases of immovable property in Hong Kong. It is based on the value of property being transacted. The rate is currently 2.25% of the value for properties over HK\$3 million.

In Singapore, stamp duty is also payable on the purchase price of any Singapore property at the following rates: 1% on the first \$180,000, 2% on the next 180,000 and 3% on the remaining (PriceWaterhouseCoopers, 2001). Estate duty is levied on the value of a

deceased's net assets in excess of a threshold amount (<http://web.singnet.com.sg/~htinfo/tax.htm>). In view of the above, the current property tax systems of Hong Kong and Singapore are summarized in Table 5.2.

Table 5.2 The Current Property Tax Systems in Hong Kong and Singapore

Real Estate Taxes	Hong Kong	Singapore
Rates	✓ Rates are levied on landed properties at a fixed percentage of their rateable value	
Stamp Duty	✓ A conveyance on sale is chargeable on the consideration. The property transfer is liable to stamp duty at the maximum rate of 3.75% of the market value of property; this duty is normally payable by the purchaser.	✓ Stamp Duty is payable on the purchase price of any Singapore property at the following rates: First-\$180,000 (1%); Next \$ 180,000(2%); Thereafter (3%)
Goods and Services Tax (GST)		✓ A currently flat rate of 3% is payable on the acquisition cost of a commercial property. GST is payable on rents derived from commercial property but is not a cost to the tenant if the business is registered for GST purposes.
Estate Duty	✓ Based on the principal value of the assets of the deceased. The duty is calculated on a sliding scale and is imposed on estates over a specified value.	✓ Based on the principal value of the assets of the deceased.
Government Rent	✓ For certain types of leases, rents are charged at a fixed percentage of their rateable value	
Income tax		✓ Gains arising from the sale of a property within three years of its acquisition are deemed to be subject to income tax. This also applies to gains made on the disposal of shares in a private company whose main asset is property. For non residents, the net rental income is taxable at a rate of 26%, while residents are taxed at the individual rates. Commercial property landlords must also account for a Goods and Services Tax on all rental income received.
Profits Tax	✓ Properties owned by corporations are chargeable to profits tax with profits derived from ownership of land and buildings	
Property Tax	✓ If the property owner is an individual, then rental income is liable to 15% of the net assessable value of the property. The net assessable value is based on the actual rental income paid to the owner after deductions of rates paid by the owner less an allowance of 20% per cent for repairs and maintenance.	✓ The rate upon the annual value of all houses, buildings, lands and tenements. The current rate of property tax is 12% for both commercial and residential properties, and is reduced to 4% for residential properties which are owned by individuals and are owner occupied.

Sources: www.pwcglobal.com PriceWaterhouseCoopers, 2001
www.info.gov.hk/ird Inland Revenue Department
Property Tax: An international Comparative Review

5.3.5 Betterment Levy which may be Charged for a Planning Permission or Lease Modification

In Singapore, development charge (DC) is applicable to freehold land and some statutory board lands which were purchased by the statutory board in the open market. It is a form of tax levied by the Urban Redevelopment Authority for a development authorized by any planning or conservation permission. DC is imposed on the appreciation of land value because of the permissible use being made more profitable and intensive than that envisaged in the Master Plan. According to Kwong (1987), development charge in Singapore may be seen as a form of betterment tax, in an attempt to recoup from the landowner a part of his windfall gain resulting from a grant of planning permission over and above the normal intensity envisaged in the Master Plan. Development charge may be payable if the development is allowed and the proposal: (i) exceeds the Master Plan (MP); (ii) equivalent plot ratio (EPR); (iii) exceeds the last approved GFA; (iv) involves a change of use to a higher value use (Urban Redevelopment Authority, 2001).

The assessment of DC is based on the valuation of the increase in land value as at the date at which in-principle approval of the planning application is secured and is the difference between the Development Baseline and the Development Ceiling. The principles of development charges, Development baseline and Development Ceiling are defined under Sections 35 and 36 of the Planning Act (Cap 232,1998 Ed.). DC payable is either: (i) amount computed in accordance with the DC Tables as set out in the Planning (Development Charges) Rules; (ii) where a valuation is requested, 50% of the increment in value arising upon the grant of planning permission (Urban Redevelopment Authority, 2001).

In Singapore, there is another charge, namely differential premium (DP) which is applicable to leasehold land. The DP is levied by the Commissioners of Lands. Lessees of State Land who wish to increase the term of the lease or remove any restrictive covenants imposed by the lease will need to pay a DP. It is payable where the lessee requests for: (i) increase in plot ratio; (ii) change of use; (iii) extension of term of lease;

(iv) lifting of restrictions on additions and alterations for intensification of development; or (v) lifting of State imposed restrictive covenants. Restrictive covenants are restrictions placed on the user of land (eg. not to use the land conveyed for industrial purposes, not to put up a wall etc). DP is the consideration for the grant of additional rights beyond those stated in the original lease. In practice, DP is the difference between the value of the property before the enhancement and the value of the property after the enhancement, established through valuation (<http://web.singnet.com.sg/~tlnlaw/Develop.html>)

Previously, the DP was subject to a valuation by the chief valuer on a case-by-case consideration by the Land Office and it tended to be much higher than a similar levy called the DC. According to the latest news release from the Singapore government in 2001, if the landowners hold State titles with restrictive covenants wishing to benefit from these changes may apply for a change of use and/or development intensity, for which a DP is payable. The new DP system will be based on the published Table of DC Rates, with suitable modifications. The table of Rates is reviewed every 6 months, taking into account price movements in the property market. Under the new system, the DP is to be pegged with the DC at which it is translated to a lower charge. This also enables a greater transparency as the developers will be able to determine the DP, which in turn reduces the risk.

In Hong Kong, all land is granted on a leasehold basis except for the St. John's Cathedral. Under the public leasehold system, the government mainly charges the lease modification premium whenever the lessee modifies lease conditions to acquire additional rights for land redevelopment and renews the land rights when the lease expires. The amount of premium is the enhancement in current land value as at the date of assessment after the government modifies the lease conditions (Wong, 1998). In fact, the assessment of lease modification premium in Hong Kong is quite similar to that of the differential premium in Singapore, except for the accommodation values (AV) that both governments applied (see Table 5.3 and Table 5.4). Accommodation value is the unit price of land in terms of total gross floor area.

Table 5.3 Singapore: The Assessment of Differential Premium for the Change of Use

Location	: Upper Bukit Timah Road
Land Area	: 5,000 sq m
Tenure	: 99-year lease commencing from 1 Jan 1980 (unexpired term of lease remaining 78+ yrs)
Restriction in title	: Industrial GPR 2.5
Proposed Used	: Residential GPR 1.4
Prevailing DC Table	: March 2000 DC Table
Sector	: 113
Leasehold as % of freehold value	: 90%
Base Value	
Use Group: Group B2	
DC Rate : \$600	
Base GFA : 12,500 m ² (5,000m ² x 2.5)	
Base Amount: \$6,750,000 (12,500 m ² x \$600 x 90%)	
Proposed Value	
Use Group: Group B2	
DC Rate : \$1600	
Proposed GFA : 7000m ² (5,000m ² x 1.4)	
Proposed Amount: \$10,080,000 (7000m ² x \$1600 x 90%)	
Differential Premium : \$3,330,000 (Proposed Amount – Base Amount)	

Source: Land Office, Singapore

Note: DC rate is the government's assigned accommodation value to land

Table 5.4 Hong Kong: A Hypothetical Example of the Lease Modification Premium for Change of Use

Location	: Tai Kok Tsui
Land Area	: 5,000 sq m
Tenure	: 99-year lease commencing from 1 Jan 1980 (unexpired term of lease remaining 78+ years)
Restriction in title	: Industrial 12
Proposed Use	: Residential 7.5
Before Value	
Use Group: Industrial	
Accommodation Value: \$3000/m ²	
Total GFA: 60,000m ² (5,000m ² x 12)	
Before Value: \$180,000,000 (60,000m ² x \$3000/m ²)	
After Value	
Use Group: Residential	
Accommodation Value: \$15,000/m ²	
Total GFA: 37,500m ² (5,000m ² x 7.5)	
After Value: \$562,500,000 (37,500m ² x \$15,000m ²)	
Differential Premium : \$382,500,000 (After Value – Before Value)	

Hong Kong adopts a full market value whereas Singapore adopts the development charge which is about 50% of the full market value. Bourassa, Neutze and Strong (1997) recommend that 100% should be charged when permission is given for a change in land use. They believe that under a leasehold system, the lessor (land owner) owns the rights to any higher value use and the increased value that would result from a change in use. If the lessor does not collect the full premium, the price of leases will rise above their value

in their permitted use by the expected enhancement of the potential higher value use. The lessee is able to reap this increment in land value. On the contrary, if the lessor collects the full premium, the market value of leases will be the value for the use permitted under the lease as any buyer would know that a change in use can occur only after betterment has been paid. Therefore, the lessee can gain the land value only after the betterment is paid if there is any increase in land value later.

However, Kwong (1987) supports the charge of 50% of full market value in Singapore. He states that the rate of development charges serve two needs: (i) collect some share of the windfall gains due to government action; (ii) leave some share of the benefit to the land owner in order to provide an incentive for the release of land for development. In fact, development charge increases or decreases along with land values. If the market condition is downturning, the developer also needs to bear the risk.

5.3.6 Land Auction and Tenders

Other than the development charge and lease modification premium above, both governments can capture a substantial amount of revenue by public land auctions and tenders. Hong (1998) illustrates that the transaction costs of allocating the land value at the initial land auction are the lowest among other value capture mechanisms. This explains why the Hong Kong government relies on public land auctions to capture land value.

5.4 The Impact of Land Taxation on Market

According to Adlington *et al.* (2000), it is widely recognized that the incidence of taxation on land and property can have profoundly distorting effects on property markets. The design of each tax in fact has the potential to affect the market in different ways. Below is the table showing the consequences of taxation which is not comprehensive or applicable in all circumstances.

Table 5.5 Consequences of Taxation

Taxes on Land and Property	Consequences for Property Market
Property taxes using market values as a basis of assessment	A system that uses up to date market values (capital or rental) as a basis does not distort the market provided the categories of exemption are those conventionally used. It will tend to reduce the market value and may thus make property more accessible.
Capital Gains Taxes	The incidence of Capital Gain Tax and its particular design is likely to be a factor considered by those investing in property. In most countries, dwelling houses used as sole residences are exempt
Transfer taxes or Stamp Duties	If the total cost, including tax, of officially transferring property becomes too great the market will not use the official systems thus leading to a less secure and less transparent market.
Capital or Wealth Taxes	If applied evenly and with few exemptions the distorting effects are few. Such taxes can reduce the use of land and property as a vehicle for the investment of black economy.
Income Tax	The structure of the income tax system affects the property market in a number of ways. It is not only the legal provisions that are relevant but also how the tax is actually administered and collected. There are two structural aspects are worth noting. First the treatment of capital allowances or how capital investments, in property may be written off against income, will affect the decisions of investors. Second special arrangements are often made to assist farmers but unintended effects may occur, the concessions too often resulting in increasing land prices and impeding access to land.
Taxes on inheritance	Such a tax can have a beneficial effect. The redistributive nature of the tax can cause more land to come on the market consequently facilitating access to land and property.
Taxes on betterment	Unlikely to be immediately applicable in the countries under consideration where the capacity to administer such a tax does not yet exist but the potential for improving public revenues should not be overlooked.
Value added taxes and the incidence on property sales and building costs	The design of the tax, the categories of exemptions and zero rating and the level of tax payable are all factors relevant to property as an investment and the property market

Source: Adlington *et. al.* (2000), "Developing Real Estate Markets in Transition Economies",
Paper presented to the UN Intergovernmental Conference, Geneva

5.5 The Collection of Revenue in Hong Kong and Singapore

According to Furtado (2000), the basic principle of value capture is to return to the community the land value increments resulting from community action. Value capture policies are viewed as devices to recover for the public the increase in land value associated with public actions that would otherwise be captured by private entities. The importance of land value capture can be seen from its ranking with revenue receipts from other taxes. Perhaps, the ranking depends on a number of factors such as the updating of annual values of properties, future tax rates and the continued escalation in property values (Knuball, 1999).

5.5.1 The Collection Of Property-related Taxes In Hong Kong and Singapore

Table 5.6 shows the comparisons of the types and amount of the property related taxes between Singapore and Hong Kong in 1999. The total property related taxes include taxes on real property, rental income, conveyance and the property of the deceased. It shows that the total property related taxes collected in Singapore and Hong Kong were amounted to 40% and 50% of the total government revenue respectively.

Table 5.6 The Collection of Property Related Taxes in Singapore and Hong Kong (1999)

1999	Singapore		Hong Kong	
	US \$ billion	% of total revenue	US \$ billion	% of total revenue
Total revenue	23.06	-	27.71	-
Total Property Related Tax	8.82	38.35%	13.36	48.21%
Annual tax on real property			1.47	5.26%
	0.61	2.65%	<i>Rates</i>	
	<i>Property Tax</i>		0.55	1.97%
			<i>Government Rent</i>	
Tax on rental Income	6.46	28.01%	9.71	35.04%
	<i>Income tax (includes tax on speculative gains from land dealings)</i>		<i>Earnings and profits tax</i>	
	1.00	4.34%	0.17	0.52%
	<i>Goods and Services tax</i>		<i>Property tax</i>	
Tax on conveyance	0.72	3.12%	1.30	4.72%
	<i>Stamp duty</i>		<i>Stamp duty</i>	
Tax on the property of the deceased (including real property)	0.03	0.13%	0.16	0.57%
	<i>Estate duty</i>		<i>Estate duty</i>	

Sources: Monthly Digest of Statistics 2001, Republic of Singapore, Department of Statistics
Hong Kong Annual Report 1999
Hong Kong Annual Digest of Statistics 2000

Notes: 1. The currency exchange rate as at 29 March 2001 is adopted (1 S dollar = 0.5565 US dollar, 1 HK dollar = 0.1282 US dollar).
2. Asher M.G. (2000), *Reforming Singapore's Tax System for the 21st Century*, Department of Economics, National University of Singapore, Draft: July 2000 (www.fas.nus.edu.sg/mpp/wp/wp03.pdf)

However, there is a limitation in the set of data in Table 5.6. Only the annual tax on real property is the category mainly charged on the lands, houses, building and tenements, whereas the other taxes may not merely be related to real property. For example, Singapore's income tax and Hong Kong's earnings and profits taxes are chargeable on income of individuals and companies which is not necessarily based on the rental income. Besides, GST is paid when the money is spent on goods or services and stamp duty is imposed on commercial and legal documents relating to stocks and shares and immovable property (Inland Revenue Authority of Singapore, 2001). It indicates that the taxes collected might not entirely be related to property.

The analysis in Table 5.6 does give a general review of the relative importance of various property related taxation instruments in 1999. The taxes on rental income constituted the highest percentages among the property tax instruments in Singapore and Hong Kong, that were 33% and 36% respectively. The second most important was the taxes on conveyance which were 3% in Singapore and 5% in Hong Kong. Annual tax on real property ranked third for both Hong Kong and Singapore. The amount collected by the Hong Kong government was about 7%, that was twice of that collected by the Singapore government. The amount of estate duty collected was the least. Different amount of taxes collected is determined by tax rates, number of taxpayers, value of property, the economy and government policies. Although property tax serves a major revenue source in both Hong Kong and Singapore, their scopes are quite different.

In order to measure the efficiency of the tax collection systems, we study the ratio of the total cost of tax collection to the total revenue collected. A higher ratio means a lower administrative efficiency of a government. In the year 1983/84, the ratio was 1.64% for Hong Kong and 0.64% for Singapore. Although the gap was relatively large at that time, it is believed the gap has been substantially narrowed in recent years. Hong Kong's property taxation system has become more efficient due to computerization and reduction in staff size (www.stylebuilt.co.jp/konishi/asia/p8-12.htm). Singapore also took steps to improve the efficiency of the system by restructuring the Inland Revenue Department (IRD) to a Statutory Board, called the Inland Revenue Authority, on 1st September 1992.

It re-designs computer and other systems to focus on service rather than tax and task orientation. Besides, the Singapore government has enhanced the efficiency by accepting E-stamping for certain types of taxes such as stamp duties with effect from 1st September 1999. In addition, the government also encourages the tax collection department to raise their efficiency by giving an incentive bonus of the 2% of the difference between the actual and projected revenues when the actual collection is more than the projected. If the amount of actual collection is below the projection, a fee will then be deducted (Asher, 2000). Compared to Hong Kong, Singapore has adopted a more aggressive approach to improve the efficiency of the system which includes restructuring of the organization and providing incentive scheme.

5.5.2 The Collection of Land Premium in Hong Kong and Singapore

In Hong Kong, Article 107 of the Basic Law imposes on the Government an obligation to strive to maintain a balanced budget. Land revenue in Hong Kong is from several sources including public land sales, private treaty grants, lease modifications and short-term waivers. It then contributes to the Capital Works Reserve Fund (CWRF). The CWRF mainly finances public works programmes, land acquisitions, capital subventions, major systems and equipment items, and computerization and the payment of redemption money in respect of land exchange entitlements. The distribution of land premium is shown in Table 5.7. In 1998 and 1999, the revenue from land sales was the most substantial which was about 50% on average of the CWRF. The second important source of land revenue in 1998 and 1999 was lease modification, their average was about 20% of CWRF. The revenue from private treaty grants came third with an average of 13% of CWRF in 1998 and 1999 whereas the fees from short term waivers was the minimal of around 0.5%.

Table 5.7 The Distribution of Land Premium in Hong Kong (1995-2000)

	2000	1999	1998	1997	1996	1995
Total Government Revenue (\$ million)	232,995	216,115	281,226	208,358	180,045	174,998
Revenue for the Capital Works Reserve Fund(CWRF)(\$'000)	39,110,692	25,685,731	57,184,335	67,261,441	89,958,868	77,487,104
Sales by public auction and tender (\$'000)	10,364,902	13,644,488	27,654,151	10,794,508	23,876,316	12,776,183
<i>% of the total government revenue</i>	4.45%	6.31%	9.83%	5.18%	13.26%	7.30%
<i>% of total revenue for CWRF</i>	26.50%	53.12%	48.36%	16.05%	26.54%	16.49%
Private treaty grants (\$'000)	10,452,982	1,484,434	12,127,079	17,380,386	16,400,949	7,341,836
<i>% of the total government revenue</i>	4.49%	0.69%	4.31%	8.34%	9.11%	4.20%
<i>% of total revenue for CWRF</i>	26.73%	5.78%	21.21%	25.84%	18.23%	9.48%
Modification of existing leases, exchanges and extensions(\$'000)	13,805,739	3,915,320	13,684,032	29,371,294	4,603,237	11,239,128
<i>% of the total government revenue</i>	5.93%	1.81%	4.87%	14.10%	2.56%	6.42%
<i>% of total revenue for CWRF</i>	35.30%	15.24%	23.93%	43.67%	5.12%	14.50%
Fees received in respect of short term waiver: (\$'000)	186,003	206,582	50,552	-	-	-
<i>% of the total government revenue</i>	0.08%	0.10%	0.02%	-	-	-
<i>% of total revenue for CWRF</i>	0.48%	0.80%	0.09%	-	-	-
Total Land Premium (\$'000)	34,809,626	19,250,824	53,515,814	57,546,188	44,880,502	31,357,147
<i>% of the total government revenue</i>	14.94%	8.91%	19.03%	27.62%	24.93%	17.92%
<i>% of total revenue for CWRF</i>	89.00%	74.95%	93.58%	85.56%	49.89%	40.47%

- Sources: 1. *Accounts of the Government for the year ended 31 March 1997-2000*
Government of the H.K. Special Administration Region, The Treasury
2. Report of the Director of Accounting Services and the Accounts of the Government for the year ended 31 March 95-97
3. Hong Kong Annual Digest of Statistics 1999 & 2000

In Hong Kong, the government's reliance on land revenues as a source of public funds by demanding premiums from lessees during lease renewals has proven to be politically difficult. As suggested by Hong (1998), lessees argued that the wording of the provision for lease renewal was vague. There were two ambiguities. The first one was what constituted a "fair" rent and, secondly, how to differentiate the renewed rent from a premium. The different interpretation of the condition of the government and lessees on

how land should be calculated led to disagreements. Other countries could avoid this problem by relying more on lease renewals, contract modifications and annual land rent than on the initial assignment of leases to capture land value (Hong, 1999). However, it is observed that the trend of reliance on land sales has been decreasing since 1998. In 2000, lease modification premium came first at about 35% of the CWRP whereas private treaty grant came second at 27%. The analysis shows that the total land revenue constituted 15% of the total government revenue in 2000, that was 89% of the CWRP.

Like Hong Kong, Singapore's land sales revenue is significant. As shown in Table 5.8, the land sales revenue obtained was 7 times more than those obtained from development charges from 1996 to 1998. It constituted 7% to 10% of the total government revenue from 1996-1998. In 1999, however, both the development charges and land sales revenue dropped substantially. This was largely due to the fact that the Singapore economy slowed down substantially in 1998 as a result of the financial crisis. The property price fell while the residential market was facing an oversupply situation. One of the key measures introduced at that time was the suspension of government land sales programme for private residential development.

Table 5.8 The Revenue Collection of Singapore Government 1996-2000

	2000	1999	1998	1997	1996
Total Government Revenue (S \$ Million)	N.A.	41,445	37,660	47,322	47,908
Development Charge Collected (S \$ Million)	118	96	469	576	450
% of Total Government Revenue	-	0.23%	1.25%	1.22%	0.94%
Sale of land revenue collected (S \$ Million)	249	181	3949	4603	3094
% of Total Government Revenue	-	0.46%	10.49%	9.73%	6.5%

Source: 1. The 5-Year Financial Summary, Urban Redevelopment Authority (1995-2000)
2. Monthly Digest of Statistics, various issues, Singapore Department of Statistics
3. Asher M.G. (2000), *Reforming Singapore's Tax System for the 21st Century*, Department of Economics, National University of Singapore, Draft: July 2000 (www.fas.nus.edu.sg/mpp/wp/wp03.pdf)

The ratio of total land revenue to the total government revenue is then compared between Singapore and Hong Kong in Figure 5.1. The total land revenue means the total revenue derived from the disposal of land. It is observed that the total government revenue and the total land revenue in Singapore were running in the same trend. This phenomenon indicates that the amount of total land revenue collected is quite substantial which has a considerable contribution to the total government revenue. This situation also happens in Hong Kong except in 1998 at only 12%. In that year, there was a substantial increase in the total government revenue despite the slight decline in the total land revenue in 1998. The decline in total land revenue was mainly the result of the moratorium on land sales when the market was stagnant in 1998. However, the substantial increase in the total government revenue was mainly due to the increase from other income sources such as taxes due to strong economic performance in 1997.

Figure 5.1 Total Government Revenue and Land Revenue of Singapore and Hong Kong from 1996 to 1999

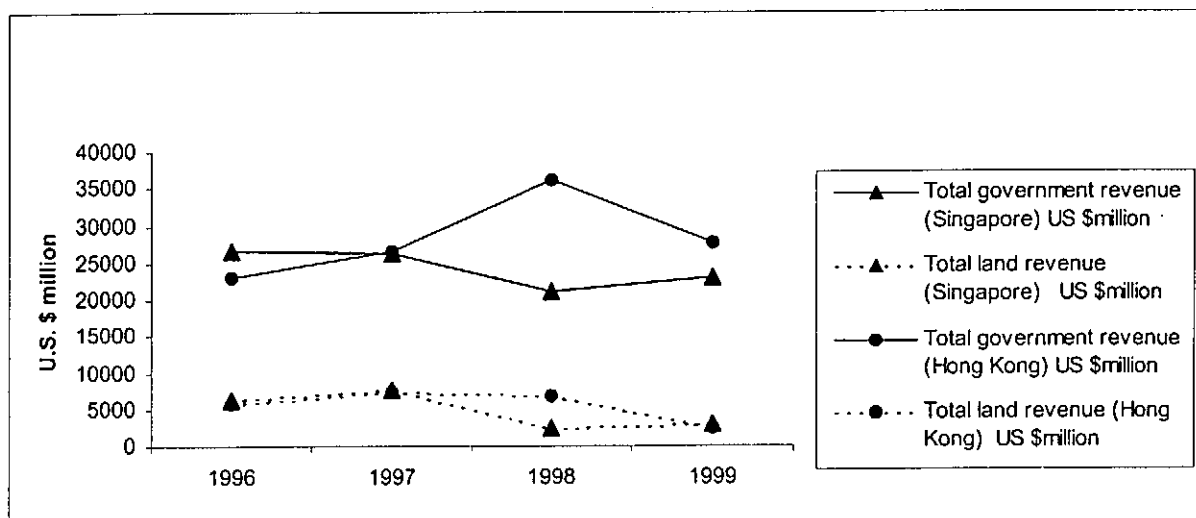


Table 5.9 Total Government Revenue and Land Revenue of Singapore and Hong Kong from 1996 to 1999

	1999	1998	1997	1996
Total government revenue (Singapore) US \$million	23066	20959	26337	26663
Total land revenue (Singapore) US \$million	3018	2482	7765	6410
Ratio of land revenue to total government revenue (Singapore)	13%	12%	29%	24%
Total government revenue (Hong Kong) US \$million	27706	36053	26711	23082
Total land revenue (Hong Kong) US \$million	2468	6861	7377	5754
Ratio of land revenue to total government revenue (Hong Kong)	9%	19%	28%	25%

- Sources: 1. Asher M.G. (2000), *Reforming Singapore's Tax System for the 21st Century*, Department of Economics, National University of Singapore, Draft: July 2000 (www.fas.nus.edu.sg/mpp/wp/wp03.pdf)
2. Accounts of the Government for the year ended 31 March 1997-2000, *Government of the H.K. Special Administration Region, The Treasury*
3. Report of the Director of Accounting Services and the Accounts of the Government for the year ended 31 March 95-97
4. Hong Kong Annual Digest of Statistics 1999 & 2000

Faure (2000) suggests that taxes have often been based on land and/or buildings. The property provides an effective base for taxation as property cannot be moved, however, other activities such as employment (income tax) can. In accordance with the above analysis, the impact of land revenue on the total government revenue shows that actions are required to increase current revenues in Hong Kong and Singapore through new sources of taxation. It indicates that the economy is at risk due to their much reliance on capital revenues. The economy will be easily pushed back into recession if there is an economic shock.

5.6 The Apportionment of Collected Revenue in Hong Kong and Singapore

The property tax in Singapore will go into the Consolidated Fund as general revenue, unlike the administration of other countries. The tax can be used as an instrument of economic policy. For example, in the 1980s, it had been used to mitigate the adverse

effect of the recession in the business and property development sectors (Khublall, 1999). However, the tax in Hong Kong is levied and tied to the provision of local services. In early age, the revenue generated by property taxes was used to fund the Police Force only. Today it forms part of the general tax income for the Hong Kong government and is also the major source of revenue for the Urban and Regional Council¹ (Hastings and Walters, 1999). Apart from property taxes, the land revenue collected from land sales and lease arrangements will also go into CWRP which will be used to finance infrastructure developments.

The Hong Kong government spent nearly 11% of the total expenditure on the public works programme in 1999 and 2000 (see Table 5.10). Other than transferring 22% of the CWRP to the General Revenue, the remaining goes into the public works such as land acquisition, infrastructure developments and housing. As shown in Figure 5.2, the percentage spent on “Buildings” was the highest among the public works. The category of “Capital Subventions and Major Systems and Equipment” came second and the “Port and Airport Development” ranked third.

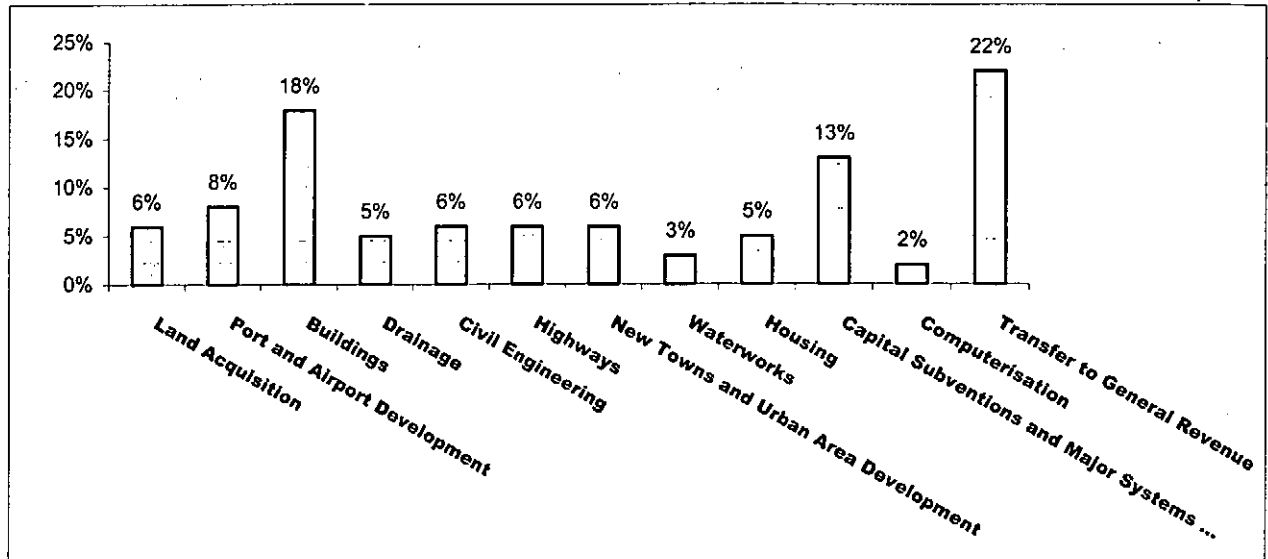
Table 5.10 Hong Kong Government Expenditure 1995-2000

	2000	1999	1998	1997	1996	1995
Expenditure on Public Works Programme (\$'000)	24,361,746	25,302,612	23,841,763	24,894,876	29,493,805	28,716,779
Total government expenditure (\$ million)	223,043	239,356	194,360	182,680	183,158	164,155
% of public works expenditure on the total expenditure	10.92%	10.57%	12.27%	13.63%	16.10%	17.49%

- Sources: 1. Accounts of the Government for the year ended 31 March 1997-2000, *Government of the H.K. Special Administration Region, The Treasury*
2. Report of the Director of Accounting Services and the Accounts of the Government for the year ended 31 March 95-97
3. Hong Kong Annual Digest of Statistics 1999 & 2000

¹ The dissolution of Urban and Regional Council was in 2000. The property tax goes into the general revenue of the Hong Kong government.

Figure 5.2 Analysis of Expenditure for Public Works as at 1999 as % of CWRP



Sources: 1. Accounts of the Government for the year ended 31 March 1997-2000, *Government of the H.K. Special Administration Region, The Treasury*
2. Report of the Director of Accounting Services and the Accounts of the Government for the year ended 31 March 95-97

According to the Inland Revenue Authority of Singapore (IRAS), the traditional aim of tax policy is fund raising. Besides, tax collection has been implemented to influence behaviour towards desirable social and economic goals by spending in areas which yield lasting returns, e.g. education, healthcare, infrastructure, housing programmes to protect the environment. The Singapore government spent most on society & community services, followed by security. The pattern of the expenditure is shown in Table 5.11.

Table 5.11 The Government Expenditure (1999) S \$ Million Dollars

	Government Operating Expenditure	Government Development Expenditure
Total	13,907	11,039
Security	7,063	1,519
Society & Community Services	4,860	5,197
Education	2,967	1,505
Health	875	112
Environment	322	1,046
Public Housing	169	2,278
Others	527	256
Economic Services	1,143	3,287
National Development	222	252
Communication & Information Technology	458	539
Trade & Industry	341	1,551
Manpower	122	11
Research & Development	NIL	934
General Services	841	1036

Source: Monthly Digest of Statistics January 2001, Singapore Department of Statistics

5.7 Conclusions

Both Hong Kong and Singapore are two small city-states with public leasehold systems. Under such systems, both governments have the power to control the types of development and capture any “betterment” resulting from the change of land use. In this chapter, we have looked at the land value capture mechanisms adopted by both governments. The review shows that they make various attempts to adjust the taxation system to the growing needs of public expenditure on urban services which are permanently increasing in cost. We found that some of their taxations measures are similar, such as the collection of annual rates and stamp duties while some are not. It is evident that revenues from land have been a significant source of income for both governments. When the market was sluggish, their revenues would decline accordingly. The reliance of revenue on market conditions could engender an unstable financial status of the government. Therefore it is vital for the land administration system to capture the land tax efficiently and effectively. Hong Kong can learn from Singapore to improve the efficiency of the system by restructuring the tax-collection organization to a Statutory Board, so that the system will focus on service rather than tax and task orientation.

Besides, the Hong Kong government can pay service charge to the department in accordance with their efficiency and effectiveness.

In the case of Hong Kong, the government holds a principle that the gain should be returned to the community instead of subsidizing the developers, therefore 100% on development gain is charged. However, the Singapore government believes that the reduction of development charge to 50% can promote redevelopment. Higher land value tax can increase government revenue on one hand and discourage intensive use of land on the other (Kwong, 1985). Having seen that the developers have held up the agricultural land banks in the past years (see Chapter 4), the Hong Kong government may encourage or facilitate the development of the land bank whenever it is necessary. We should be aware that the Singapore's land administration also has its shortcomings. For example, its taxation on speculative gains from land dealings may curb investors to invest in Singapore's properties. Besides, the use of Development Charge Rate Tables in assessing the land premium may not be flexible enough to meet the changing market conditions. Moreover, the development charge, which is about 50% of the market value, may lead to the subsidization of the profit-making developers instead of benefiting society. In addition, the Singapore government has also enhanced the efficiency of the department by giving bonus. However, this incurs heavy cost and human resources in assessing the performance of the department.

Undoubtedly, each mechanism has its own pros and cons. As both Hong Kong and Singapore have well-established property taxation systems, their experiences do provide us a good opportunity to appreciate how they implement the land value capture mechanisms and distribute the land revenue. The lessons learnt are particularly important to those developing countries which intend to improve and strengthen their property taxation systems.

In fact, both governments should contemplate the extension and amount of land value to be captured before the implementation of any policies. Faure (2000) puts forward that the four basic principles of taxes should be equitable, easily understood, efficient and

neutral in economic decision-making. The decisions of tax measures should be weighed against the regional economic uncertainties, the demand and supply situations, and the sentiment in the property market. As different countries have different property market conditions and economic performance, the two countries we looked at have different taxation policy objectives and ways of tax collection. For example, the Singapore government encourages redevelopment by imposing the reduced development charge while the Hong Kong government allows a concessionary premium for the public utilities.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 Summary of Findings

Land administration involves an integrated process that operates within a framework of land policy for the social and economic desirability, while at the same time promoting sustainable urban development. As we have seen in Chapter One, the land administration system in Hong Kong has been subjected to severe criticisms. These include the complaints of high land price policy, the slow, bureaucratic and inherently anti development land approval procedures, and the uncertainty in land sales. Even the government is dissatisfied with the unstable property market. All these are related to the fiscal and regulatory aspects of the land administration system. Land administration in fact plays an indispensable role in development aspects: regulating land supply, arranging lease matters and collecting land revenue. This subject is particularly important for the well-being of Hong Kong's land and housing markets, upon which land administration and the land policy have direct and significant influences. Most countries have been aware of the importance of the land administration system, with numerous studies on land titling and registration generally. However, little has been done on the development function of the land administration system and its relationship with the market. .

As stated in Chapter One, the research question of this thesis involves the efficiency and effectiveness of the land administration system. In other words, the thesis examines if the land administration facilitates the performance of the housing market effectively. It also leads to other questions related to the land value capture mechanism, the implications on market behaviour and any possible improvements on the existing system (see Chapter One for details).

In order to cope with the above problems and questions, the research objectives are established accordingly. The thesis then adopts the institutional approach which starts from a broader sense of policy environment to more specific instruments to study the practice and outcome of the system. This dissertation has firstly reviewed the institutional environment, which is defined by the adopted land policies and economic and social conditions. Secondly, the fiscal and regulatory functions of the land administration system has been examined. Thirdly, the relationship between these functions and the market behaviour has been investigated, in which the land value capture instruments have been further analysed by comparing Hong Kong to Singapore.

It is helpful to review briefly the findings of the core chapters before commencing on policy recommendations in section 6.2. The final section suggests the direction of future research based on the findings of the thesis.

The first objective of the thesis is to delineate the land policies currently adopted in Hong Kong. **Chapter Two** reviews the historical background and the development of the leasehold system of land tenure in Hong Kong. The current land policy adopted by the Hong Kong is also examined. This chapter acts as a backdrop to review the principles and procedures associated with the land administration system in Hong Kong in **Chapter Three**, that is, the second objective of the thesis. By reviewing the land administration and the land policy in Hong Kong, the findings reveals that the land administration has long been well established which serves various functions.

We understand the formulation and development of land policy in Hong Kong, and also the land development aspects within the land administration framework, namely land leasing and administration, land resumption, and land use planning. There have never any land administration reforms in Hong Kong, nor any major restructuring. The government provides certainty and fairness for the public related to the resumption of land by setting out various statutes. For the land administration procedures associated with the disposal of land and the processing of applications for lease modifications, the

government follows their internal guidelines only. As there are no statutory deadlines for lease modification cases, the property developers may delay their development by negotiating with the government for a long time. This may impose higher transaction costs for the government to deal with the developers. The land administration system shows transparency in its land disposal programme (see Chapter Two and Chapter Three) as the government announces to the public the amount of land that it will provide periodically. However, the government does not provide a high transparency during the lease modification negotiation process. The government may create communication or discussion problem by not showing its assessment and comparables to the developers during the negotiation.

Given the basic understandings of the current land administration system and land policy, the inter-play and relationships between the market and the system have been examined in **Chapter Four**. The evaluation of the performance of land and housing markets suggests the existence of some problems in land administration system as well as the land policy. The findings suggest:

- The administration system cannot ensure a long-term stable land and housing market. It is observed that the government land sales policy is often made reference to the market situation. The implementation of the land supply policies within the land administration framework took some effects on catalyzing and leveraging the market in the past. Sometimes, in the rush to cope with the externalities, governments may implement regulations which discourage private sector initiatives and over constrain urban land markets (see Section 4.1.1 and Section 4.1.2).
- Some small/medium developers complain that the administration system does not encourage a competitive land market. It is found that the government provides restricted land supply and insufficient small sites which hinder the small/medium developers entering the land market (see Section 4.1.3). Under this situation, a few large developers control the majority of the units and the consumers are suffered from

limited choices. This concurs with the Hong Kong Consumer Council's findings on a similar topic in 1996 (see Hong Kong Consumer Council, 1996).

- The population density in the urbanized area is exceedingly high in Hong Kong, by international standards. This suggests that the regulations that the administration system uses do not seem to have facilitated a balanced and sustainable pattern for land use and development in the territory. The administration needs to improve its allocative efficiency and keep up with urban growth by, for example, providing more developable land and encouraging redevelopment with better infrastructure (Section 4.2).
- The government relies too much on its land revenue which is the major funding for its infrastructure development. When the market was downturning, the construction of public works would be affected (see Section 4.3).
- Although there are criticisms about the slow, bureaucratic and inherently anti-development land approval procedures, it is found that the developers spent too much time on negotiation of the land premium so as to develop the land bank at low cost. Besides, the opportunity cost of holding the land bank in Hong Kong is minimal to developers. Different developers have different strategies for the land bank development in accordance with the market conditions (see Sections 4.4.2 and 4.4.3). Under this situation, the developers may only focus on their own profits rather than the need of the population.

Apart from the involvement of the land administration in the land market operations, the study turns more specifically to the land value capture mechanisms of the land administration system. Strong population pressure and the high urban growth rate of the city warrant substantial gains for developers to purchase land for future development. By taxing these gains, the government could definitely increase its revenue. The land value capture mechanism of Hong Kong has been compared to that of Singapore from which Hong Kong can learn lessons. Singapore is chosen as it is similar to Hong Kong in terms

of its high population density, small land area and public leasehold system, and famous for its well-established administration system. The results suggest that they adopt different taxation strategies despite some similarities. Their major differences are summarized as follows:

- The Singapore government suppresses speculative activities by imposing income tax on gains arising from the sale of a property within three years of its acquisition. This also applies to gains made on the disposal of shares in a private company whose main asset is property.
- The Singapore government charges only 50% of development gain whereas the Hong Kong government charges a full 100%.
- The assessment procedures of development charge in Singapore are different from Hong Kong for lease modification or change of land use. In Singapore, the assessment of property value is generally based on the Development Charge Table, whereas the property in Hong Kong is assessed on an individual basis.
- The property tax in Singapore will go into the Consolidated Fund as general revenue, which can be used as an instrument of economic policy, unlike the administration of Hong Kong. In Hong Kong, the property tax (termed 'rates') was used to fund the Police Force only. Today it forms part of the general tax income for the Hong Kong government. The land revenue collected from land sales and lease arrangements will also go into Capital Works Reserve Fund which will be used to finance infrastructure developments.

6.2 Recommendations

Given the understanding of problems that occur in Hong Kong's land and housing markets, and its land-value capture mechanism, some suggestions on land administration within the land policy context are recommended as follows:

- The consistency in land supply (see Section 4.1.2) depends on stable housing price. The administration should therefore beware of the timing to implement its land sales programme in view of the volatile market conditions, as the provision of land may further enhance or rebate the market sentiment. The system should be flexible enough to enhance the adaptive efficiency to cope with the fluctuating market conditions. Besides, the government should also provide land sales programme regularly so as to ascertain future land supply and prevent over-heated speculative activities (see Section 4.5).
- When there are exceedingly high speculative activities in future, it may be desirable that the government suppresses the speculative activities by imposing income tax on gains arising from the sale of a property within certain years of its acquisition, as Singapore does (see Section 5.3.3). However, the tax rate must be flat or only slowly progressive so as to decrease political resistance and increase the law's enforceability; and not to unduly suppress market activity. Besides, the rate charged should not be too high to suffocate the normal market transactions.
- It is evident that developers are mainly concerned about market sentiment when deciding for lease modifications and their land bank development. The redevelopment is never efficient in terms of time in Hong Kong due to either lease modification taking too long a period, or the developers holding up their land banks (see Section 4.4.2). When there is a necessity to develop more land for the ever-increasing population, the government may encourage the developers to redevelop or develop their sites so as to promote sustainable urban growth by taking actions. These actions may include assisting them to acquire the fragmented agricultural lots, increasing the opportunity cost for holding the land bank or granting a concessionary development gain. Each action has to be weighed carefully considered so as to strike a balance between the benefits of developers and the community.
- In order to cope with the problems of slow, bureaucratic and inherently anti-development land approval, as raised out in Chapter One, the time length of the lease

modification may be shortened and the uncertainty of the lease modification premium may be removed by applying the assessment method adopted by Singapore. The Singapore government is adopting the Development Charge Table in assessing the increment value of the change of use (see Section 5.3.5). The table states out the land value of various uses in various districts. The administration may save a lot of time if every assessment is based on the preset table. For some special cases, the value may otherwise be assessed on an individual basis. In Hong Kong, the administration assesses all lease modification values case by case, which is bound to be up-to-date. It may be technically possible to use a preset table, particularly with a stable housing and land market, in which all values in the preset table reflect the true current market conditions. Therefore, if Hong Kong were to follow Singapore, the table should be regularly and frequently reviewed and flexibility should be allowed for individual assessments of properties which are not covered.

- The administration should release various sizes and kinds of land for different developers of different sizes to enter the land market (see Section 4.1.3). It seems that the large developers have continuously obtained new leases from land auctions, whereas the small developers can only form a consortium to bid for the land. With various kinds of developers entering the land market, there will be a variety of units provided at different prices in the market as a consequence. However, when the administration decides the sizes of the lots, it should avoid piecemeal development, which is considered non-beneficial for urban development.
- Land revenues, in particular, from the land sales, constitutes a major source of revenue in Hong Kong (see Section 4.3.1). Clearly the Hong Kong government needs to act to reduce its increasing dependence on land revenue. When there is a slump in the property market, the financial ability of the government would be hampered, thus adversely affecting the fund spent on the projects and services undertaken. In order to mitigate such an effect, the government must consider sources of other revenue by, i.e. broadening its tax base. Real estate tax such as capital gain tax and non real estate tax such as sales tax can be considered. Although such a move may have a negative

impact on the market in the short term, it can achieve a longer- term financial stability.

- Due to Hong Kong's rapid population growth, it is essential to increase housing output (see Section 4.2.2). In the short run, the government cannot increase housing output by changing land supply, which is suggested by Peng and Wheaton (1994) in Chapter Four. It can only be done in the long run. In addition, the government should provide more incentives for the developers to provide housing output. In fact, the housing market sentiment is particularly sensitive to the act of altering land supply, therefore the administration should consider carefully when and how to change the land supply decisions. In view of the complaints of Xu (2001) and Holland (2001) in Chapter One about the inconsistent land supply policy creating poor credibility of the government, the administration should therefore supply the land in a more consistent way with clearly stated-out land disposal programmes. The consistency can add confidence to developers as well as home purchasers.

As Rakodi (1994) mentions the land availability for new development and trends in the property market are affected by a combination of physical factors, economic factors, administrative factors and political factors (see Chapter One). The land administration no doubt plays a crucial role in the aspects of, for example, regulating land development and collecting the land revenues for urban and economic developments. It is vital to have well thought-out land administration system land administration system that facilitates the efficient operations of the land market. One might add that the market can always promote the efficient allocation and use of land. It is therefore important to ensure the land moves to its optimum use at optimum cost and return. As Dale and McLaughlin (1999, p.73) suggest, “ *Good land administration is necessary but not sufficient that development is beneficial and sustainable.* To be beneficial and sustainable, development must meet both economic objectives related to returns on investment and social objectives related to meeting people's material, cultural, and spiritual needs (Dale and McLaughlin, 1999).

6.3 Caveats

Abundant data from various sources were collected upon which the analyses in Chapter Four and Chapter Five were undertaken. The author has duly verified all data used in the study. Although complete accuracy cannot be guaranteed, it is considered that the data are sufficiently accurate for the purposes of this study.

The review presented in Chapter Four of this dissertation relates only to the performance of the housing and residential land markets within the land administration framework of Hong Kong. Therefore, the findings of Chapter Four could not extend to other sectors of the property market such as the commercial and industrial sectors. Further researches have to be undertaken to reveal the whole picture, if required.

In addition, the international comparison between Hong Kong and Singapore in Chapter Five of this dissertation was restricted to their land value capture mechanisms. It is noteworthy that land value capturing only forms part of the whole system.

6.4 Suggestions for Further Research

This dissertation does not address certain aspects of the land administration system of Hong Kong. The juridical function (i.e. boundary demarcation, adjudication, allocation and registration) and the general function (i.e. enforcement, information management) of the land administration system have not been examined and deserved to be reviewed by researchers of relevant academic and professional disciplines in Hong Kong. A healthy land administration system should well establish these functions for the protection of individual property right and the public's right to access to property information.

Moreover, the review presented in Chapter Four of this dissertation was restricted to the performance of housing and residential land markets within the land administration framework of Hong Kong. To improve understanding of the performance of the entire

property market, markets for other land uses such as commercial and industrial uses could be examined. The data required for this, however, would be quite extensive and difficult to identify and assemble.

The international comparison between Hong Kong and Singapore in Chapter Five of this dissertation has provided an insight into the ways by which the land value capture mechanism of the land administration system of Hong Kong could be improved. Given that the land value capture mechanism is closely related to the taxation policies and arrangements adopted by the Hong Kong Government, further researches could be undertaken, by academics and professionals of the fiscal and taxation disciplines, on the land value capture mechanism within a wider context of the taxation system of Hong Kong.

Finally, as part of the overall administration framework of the Hong Kong Government, the efficiency and effectiveness of the land administration system is closely related to the general administration culture and policy of the Hong Kong Government. Researchers specialising in public administration of Hong Kong could further review the land administration system of Hong Kong from a wider perspective of public administration and governance.

APPENDIX

The Land Auction Domestic
Accommodation Value and
Total Residential Gross Floor
Area Produced (1991-1999)

Year	Date	Lot No.	Location	User	Site Area	Sale Price	CSV	TP Zoning	Dom PR	Max Dom GFA	Ind PR	Max Ind GFA	Non-Ind PR	Max Non-Ind GFA	Dom PR	Max Dom GFA	Non-Ind PR	Max Non-Ind GFA	Dom AV	Non-Ind AV	Overall AV	Remarks
1991	17/07/1991	RD 138	Kwai Chung	IG	1,538.00	\$21,000,000	\$13,872												7,880.00	2,734	2,734	
	26/04/1991	FSS 93	North	IG	1,986.00	\$21,000,000	\$15,311												9,280.00	2,862	2,862	
	12/03/1991	FSS 94	North	IG	1,758.00	\$23,000,000	\$14,213												9,280.00	2,862	2,862	
	11/02/1991	FSS 95	North	IG	1,758.00	\$23,000,000	\$14,213												9,280.00	2,862	2,862	
	17/07/1991	FSS 112	Sai Kung	IG	2,559.00	\$11,000,000	\$4,917	R(A)	4.83	62,644.00								14,400	11,558	2,815		
	11/02/1991	DO 215	Sai Kung	IG	2,559.00	\$11,000,000	\$4,917												14,400	11,558	2,815	
	18/04/1991	STL 345	Shatin	IG	8,220.00	\$265,000,000	\$34,732												9,500	78,080.00	3,656	
	18/04/1991	STL 346	Shatin	IG	8,220.00	\$265,000,000	\$34,732												9,500	78,080.00	3,656	
	12/02/1991	STL 347	Shatin	IG	2,439.00	\$117,000,000	\$41,217												9,500	26,970.00	4,338	
	12/02/1991	STL 348	Shatin	IG	2,439.00	\$117,000,000	\$41,217												9,500	26,970.00	4,338	
	06/04/1991	STL 349	Shatin	IG	1,100.00	\$94,000,000	\$22,927												19,516	19,516	3,340	
	26/04/1991	STL 350	Shatin	PR	21,350.00	\$1,250,000,000	\$58,548	R(B)	3.00	64,050.00								11,005	11,005	11,005		
	12/03/1991	TP 111	Tai Po	PR	10,480.00	\$325,000,000	\$30,982	R(B)	2.80	39,372.00								9,608	9,608	7,018		
	12/03/1991	TP 112	Tai Po	PR	8,875.00	\$320,000,000	\$23,055	R(B)	2.40	20,820.00								7,018	7,018	7,018		
	18/04/1991	TP 113	Tai Po	PR	12,090.00	\$320,000,000	\$23,160	R(B)	3.30	39,897.00								7,018	7,018	7,018		
	12/03/1991	TP 114	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 115	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 116	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 117	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 118	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 119	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 120	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 121	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 122	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 123	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 124	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 125	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 126	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 127	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 128	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 129	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 130	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 131	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 132	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 133	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 134	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 135	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 136	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 137	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 138	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 139	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 140	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 141	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 142	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 143	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 144	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 145	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 146	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 147	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 148	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 149	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 150	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 151	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 152	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 153	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 154	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 155	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 156	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 157	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 158	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 159	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 160	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 161	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 162	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 163	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 164	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 165	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 166	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 167	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 168	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	
	12/03/1991	TP 169	Tai Po	PR	15,030.00	\$317,000,000	\$19,780												19,516	19,516	3,340	

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