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ESTATE AGENTS AUTHORITY

Dear Licensees,

Re: The Government's latest measures to cool the property market

The Estate Agents Authority (EAA) is writing to draw your attention to the announcement made by the Government on 22 February 2013 to introduce a series of measures to curb the overheated property market. These measures include:

A. Stamp Duty

The Government will amend the Stamp Duty Ordinance to adjust the ad valorem stamp duty (AVD) rates. The AVD on both residential and non-residential properties would be doubled across the board, with the maximum AVD rate rising from 4.25% to 8.5%. For transactions valued at \$2 million or below, the stamp duty will rise from a \$100 flat fee to 1.5% of the transaction's consideration. Other than specified exemptions, the new rates apply to all property transactions, whether involving residential or non-residential properties and by individuals or companies.

Exemptions similar to those available in the existing Special Stamp Duty and Buyer's Stamp Duty regimes will be granted. The new stamp duty rates will not apply to Hong Kong Permanent Resident buyers who are not beneficial owners of any other residential property in Hong Kong at the time of acquisition of a residential property.

Besides, stamp duty on a non-residential property, including shop, office, industrial premises or carpark, will be charged on a "sale and purchase agreement", instead of the current practice of charging it when a "conveyance on sale" of the property is executed.

B. Mortgage

The Hong Kong Monetary Authority announced that banks must assume a mortgage rate increase of 300 basis points, instead of the existing 200 basis points, in stress-testing mortgage applicants' repayment ability. This measure will apply to mortgage loans for all property types including residential, commercial and industrial properties.



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The maximum loan-to-value (LTV) ratios of mortgage loans for all commercial and industrial properties will be cut by 10 percentage points from the existing applicable levels.

The maximum LTV ratio of mortgage loans for standalone car park spaces will be set at 40% and the maximum loan tenor at 15 years. Other requirements on maximum LTV ratio and debt-servicing ratio that apply to commercial and industrial property mortgage loans will also apply to standalone car park space mortgage loans.

The Hong Kong Mortgage Corporation Limited also announced that revisions will be made to the eligibility criteria for the Mortgage Insurance Programme (MIP). Only mortgage loans of properties with value at or below \$4 million will be eligible for the maximum MIP cover of 90% LTV. Properties with value above \$4 million and below \$4.5 million will be eligible for MIP cover up to \$3.6 million, being 80% to 90% LTV, while properties with value at or above \$4.5 million will only be eligible for the maximum MIP cover of 80% LTV. The cap on the value of properties under MIP will remain unchanged at \$6 million.

All of the aforementioned measures have taken effect from 23 February 2013. The EAA would like to remind licensees to be fully conversant with the new measures, so as to be in a position to advise their clients in a responsible manner and refrain from making any misrepresentation.

The EAA will keep close watch on the amendment of the Stamp Duty Ordinance. Meanwhile, you may refer to the websites of the Inland Revenue Department (www.ird.gov.hk), Hong Kong Monetary Authority (www.hkma.gov.hk), and Hong Kong Mortgage Corporation Limited (www.hkmc.com.hk) for more details of the new measures.

Estate Agents Authority
25 February 2013