

1997 to bring a massive rent rise

By DEANNA IALACCI

A NEW ground rent which will come into effect after the 1997 handover is expected to increase Hongkong land lease revenue from the current \$300 million to \$5.5 billion annually — money which will go straight to the Special Administrative Region (SAR) Government.

Landlords who, under 150-year-old regulations, pay a nominal sum — from \$100 to \$1,000 — will be forced to pay three per cent of their net rental value to the SAR Government.

This would mean that after 1997, the Great Eagle Group would pay \$18 million ground rent for its Citibank Plaza property instead of the current \$1,000.

Central Plaza owners Sino Land and Sun Hung Kai Properties are likely to face a bill of \$15 million.

The Joint Declaration states that in 1997 all leases north of Boundary Street, in Kowloon and the New Territories, which were due to end would be automatically extended for 50 years until 2047.

Instead of paying a nominal ground rent, lessees would pay three per cent of the property's rateable value.

This would also affect new leases granted since the Joint Declaration was made in 1984.

Mr Nicholas Brooke, senior partner at Brooke Hillier Parker, said he had evaluated existing building stock in the New Territories and Kowloon and concluded the SAR would receive about \$2.5 billion a year from ground rent, compared with the current income of about \$300 million.

"If you consider the leases which have been granted since 1984 up to 1997, we reckon they are likely to produce an additional \$3 billion, so the total is around \$5.5 billion based on today's values," Mr Brooke said.

He said that under the existing system, most land in Hongkong was sold by auction or by tender and the Government extracted a premium up front.

Purchasers bought a five-year leasehold to 1997 with an extension to 2047.

"To maintain the landlord-tenant relationship, the Government charges a nominal ground rent," said Mr Brooke.

"Simply, this means that whereas landlords might now pay \$1,000 flat, from 1997 they will have to pay three per cent of the income derived from rents," he said.

"This will be reflected in valuations as the handover time grows nearer, and it is likely the increase will be passed down to the tenant."

Mr Brooke said he doubted whether Hongkong people fully appreciated how much local ground rents would increase the SAR's coffers.

"At a time when the mainland is putting the emphasis on what they will inherit after the handover, this windfall of \$5.5 billion annually seems to have been ignored," he said.

"I think our residential rents are already very high and our office rents are creeping up, with the possibility of them doubling by 1996," said Mr Brooke.

Mr Brooke said the buildings affected — those built after 1984 — would be a significant portion of real estate by 1997.

He said ground rents were a hot issue in the real estate industry.

"We are going to have to start distinguishing between properties which are subject to the three per cent and those which are not," said Mr Brooke.

"Already we are noticing that people would rather buy a 99-year lease or 75-year lease rather than a five plus 50-year lease.

"At the moment, there is very little difference between the price per square foot for flats in the New Territories and flats in Taikoo Shing, for example.

"But I can envisage a situation where flats in Taikoo Shing will rapidly increase in value and the values in the New Territories will begin to fall away because of the difference in lease lengths."

Meanwhile, the Rating and Valuation Department has agreed the amount of revenue the SAR would receive from the new ground rents would be substantial and is currently working out exact figures.

"During the next two weeks we are concentrating on finding out exactly how much is involved," said Rating and Valuation assistant commissioner (special duties) Mr Graham Heath.

"The amount that the Government receives now is not significant. But it will be quite substantial after 1997."

He said his department was planning how they would give a rateable value for all land in the New Territories.

"So many lots are not assessed and this is mainly because they are agricultural areas," said Mr Heath.

"By 1997 we will have given each a value and then everybody, apart from indigenous villagers, will be required to pay the three per cent ground rent."

He said his department would start a two-year land assessment next year.

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