RESIDENTIAL RESEARCH

ASIA-PACIFIC RESIDENTIAL REVIEW

SPECIAL ANALYSIS: COSTS OF RESIDENTIAL INVESTMENT IN ASIA-PACIFIC

JANUARY 2015

REGIONAL RESIDENTIAL MARKET SNAPSHOT

ASIA PACIFIC TAX TABLE

REGIONAL TAX BURDEN COMPARISON

COSTS OF RESIDENTIAL INVESTMENT IN ASIA-PACIFIC

A cross-border comparison of taxes for buying, holding and selling residential properties

KEY FINDINGS

Knight Frank provides a complete view of the major taxes incurred when buying, holding and selling a residential property in Asia-Pacific *(see pages 4-5)*

Singapore and Hong Kong impose the highest tax burdens on residential property investments in the region, with Cambodia having some of the lowest *(see pages 6-7)*

Australia and New Zealand continue to see solid price growth, sentiment improved in India, while China and Singapore continue to see prices slide *(see page 3)*

5 out of 10 mainstream residential markets in Asia-Pacific saw prices increase in Q3 2014, as reported in Knight Frank's *Global House Price Index*

NICHOLAS HOLT
Asia Pacific Head of Research

"As a macro-prudential tool, taxes have been introduced to cool residential markets."

Total returns are not the sole concern of investors looking at real estate; there is also a need to understand potential liabilities. One of the most significant of these is undoubtedly tax. Be it a tax on acquisition, holding or exit, returns on all residential property investments are impacted.

In this edition of the *Asia-Pacific Residential Review,* we include a comprehensive look at all the major taxes involved in the three phases of residential property investments in the region *(see page 4-5)*. We then go on to analyse the possible tax burden on a hypothetical residential property investment for cross-border investors *(see page 6-7).*

So how does the tax landscape look today in the Asia-Pacific region?

Well, here's the big picture first. Following the global financial crisis (GFC) and its significant impact on fiscal revenues for countries around the world, the global tax landscape has been rapidly changing. Not only has there been more aggressive clamping down on loopholes and a pressure to improve tax governance, we are seeing more cooperation between countries on an international scale. Here in Asia-Pacific, the fiscal stimulus that many Asian countries took to counteract the GFC, while undoubtedly helping the region lead the global recovery, has led – with a few exceptions – to deteriorating fiscal positions, with implications as to the future path of public debt.

Helping balance the books has not been the only motivation for the introduction of new taxes when it comes to property. As a macro-prudential tool, taxes have been introduced to cool residential markets – markets ironically buoyed by the very same stimulus measures and the low interest rate environment we have seen since 2009. The strong price growth in a number of these markets has led to numerous rounds of interventions by policy makers as they look to address the issues of affordability and household debt, with tax being one of the key tools at their disposal.

Some of these taxes have had a significant influence on the ways markets respond and perform. The imposition of a 15% additional stamp duty for foreign buyers in Hong Kong and Singapore, along with seller's stamp duties, is the most obvious example of how fiscal measures, together with other macro-prudential measures, have engineered a market slowdown.

In terms of tax burdens on foreign investors, our analysis indicates that the more mature and open markets of Hong Kong and Singapore have some of the highest tax burdens, while Cambodia, South Korea, Thailand and Malaysia have more benign tax regimes.

What could the future hold? Well, in November 2014 we saw the Chinese authorities try to stimulate the market with monetary policy, and we do not rule out future changes to fiscal policy too. Elsewhere, a market slowdown could see policy makers tweak some of the taxes brought in over the last few years.

Ultimately, navigating your way around the various tax considerations should be the job of professional tax experts who can best provide advice according to your circumstances. But we hope that this snapshot will provide a good starting point to help inform your investment decisions.

Regional Snapshot

The **Australian** mainstream residential market registered robust growth in Q3 2014, with prices rising 1.5% quarter-on-quarter and 9.1% over the past year. A weak currency has supported foreign demand, which accounted for one in six new properties purchased in the quarter. In particular, foreign buyers' preference for high-rise residences has pushed the annual capital appreciation of apartments in Sydney to 13.3%, the highest rate since 2001. However, the recent anti-graft cooperation between Australia and China to extradite and seize the assets of corrupt officials, as well as the stricter screening of foreign property investment and enforcement recommended by the House Economics Committee create some uncertainty on future demand.

After falling for five consecutive months, house prices in **China** recorded the first year-on-year decline in September 2014. The good news is that the month-on-month decline has been decelerating since then, after the implementation of multiple "mini stimuli", including the re-introduction of mortgage-backed securities and mortgage discounts. Notably, "first-time" homebuyers were re-defined to include second-timers who have fully repaid their mortgage, so that more people qualify for a lower down-payment requirement and preferential mortgage rates. More recently, the People's Bank of China cut its benchmark rates for the first time since 2012.

In **Hong Kong,** three-month price appreciation surged to a stellar 5.4% in Q3 2014 from 1.4% in the preceding quarter, helped by the relaxation of Double Stamp Duty. However, the expected interest rate hike in 2015 and strong supply in the years to come will limit the future increase in capital values.

Quarterly growth appeared to have slowed slightly in **India,** from 2.1% in the first quarter to 1.1% in the second. However, the market expectation of price improvement remains strong, as favourable policies are gradually being implemented. Within a month from Modi's Bharatiya Janata Party winning the Haryana state election, a new measure was announced to tackle corruption during property registration. Allowing overseas investors to develop smaller projects, as announced in October, could also spur activities in crowded cities.

While Jakarta's prime market continued to be affected by the tighter monetary and macro-prudential policies as well as the ongoing political struggle in the parliament, **Indonesia**'s mainstream market remained grossly unaffected, with prices increasing 1.5% in Q3 2014.

While faith in Abenomics has taken a dent in recent months, culminating in another general election, real estate in **Japan** continues to perform well. Centrally located prime condominiums in Tokyo have led the way, seeing price growth of 4.5% over Q3 2014. Infrastructure improvements planned for the nation's capital city in anticipation of the 2020 Tokyo Olympics are set to provide a further boost to the local market.

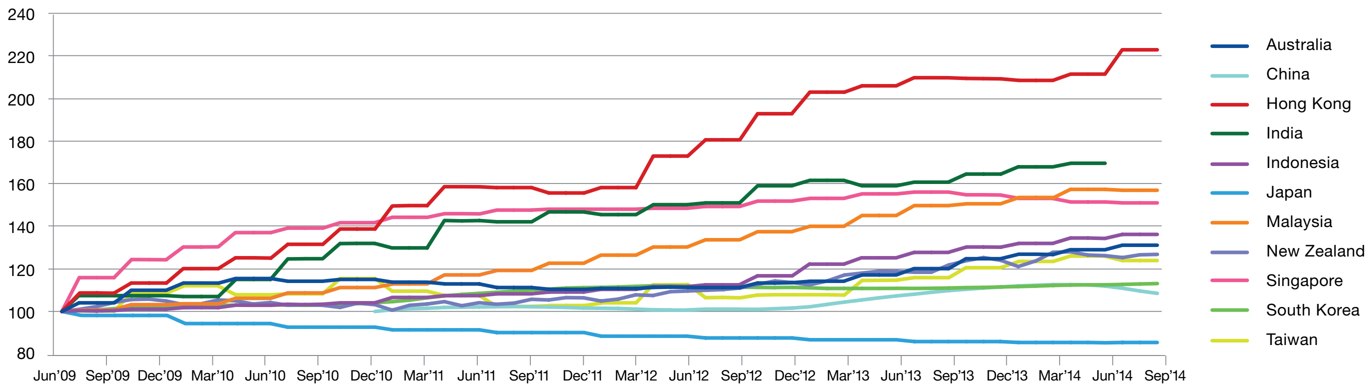
The recently announced 2015 budget in **Malaysia** included extending the 50% stamp duty exemption for first-time homebuyers, while increasing the purchase limit from MYR 400,000 to MYR 500,000. This exemption will be provided until the end of 2016.

Following September's general election which slowed the market, **New Zealand** saw volumes in October increase 11.8% month-on-month. 12 months on from the introduction of the loan-to-value restrictions, the market continues to see a divergence between the strong price growth in Auckland and Christchurch and the flattish price performance in most other markets, with the national prices increasing by 0.5% in Q3 2014.

Singapore continued to see its market soften, with prices in Q3 2014 down 0.4% on the previous quarter. The government has re-iterated its commitment to the property cooling measures it has put in place over the last few years.

Six months on from the military-led coup, the **Thailand** property market remained active. Prices in Bangkok continued on their upward trajectory, with foreign buyers creeping back into the market following the political uncertainty.

FIGURE 1
Global House Price Index
(Q2 2009 = 100)



Source: Knight Frank Research

A Guide on Major Taxes for Individual Homebuyers

	Australia	Cambodia	China	Hong Kong	India	Indonesia
Buying						
Stamp Duty (SD), etc.	≤ 6.75%, depending on state, whether property is for self-use or investment and if buyer is a first-timer, plus mortgage registration and transfer fees.	4% registration tax	0% - 0.05%, plus 1% - 3% deed tax.	For R owning no other houses, HKD 100 – 4.25% of sale amount; otherwise, 1.5% - 8.5%. Additional 15% for F.	In general, 0% - 8% depending on state, plus 0% - 3% VAT in case of primary sale, 1% registration tax and additional 1% if price ≥ INR 5 million.	IDR 3,000 – IDR 6,000 per document, plus 5% land and building transfer duty on the higher of market value and sale value if value exceeds regional non-taxable threshold.
Loan-to-Value Ratio Cap	-	-	70%[3]	70% or 90% under Mortgage Insurance Programme.	Loan ≤ INR 2 million: 90%; otherwise, 80%.	sqm / Loan: 1st, 2nd, ≥ 3rd Landed house 22 - 70: -, 70%, 60% > 70: 70%, 60%, 50% Apartment ≤ 21: -, 70%, 60% 22 - 70: 80%, 70%, 60% > 70: 70%, 60%, 50%
Maximum Loan Tenure	30 years	-	30 years	30 years	30 years	30 years
Foreign Ownership Conditions	Purchase adds to housing stock. One established dwelling allowed for temporary residents.	Apartment: above ground floor. Landed property: leasehold only.	≥ 1 year of residence, for self-use only.	-	Residence or inheritance.	Residence, leasehold only.
Holding						
Property Tax	< 2.67% land tax, depending on state. Principal residence exempted.	0.1%. Rate applies to market value less KHR 100 million.	Shanghai: 0% - 0.6%; Chongqing: 0% - 1.2%. Tax base depends on transaction price and floor area.	-	Approximately 0.5%, depending on state.	≤ 0.3% on sale value less non-taxable threshold. Exact rate and threshold (minimum IDR 10 million) determined by local authority.
Rental Income Tax	Part of income tax (R: 0% - 45%; Non-residents: 32.5% - 45%)	10%	5%, plus 1.5% business tax for non-residents.	15% of net assessable value, plus 0.25% - 1% stamp duty.	Part of income tax (0% - 30%) after 30% standard deduction	10%
Selling						
VAT on Property	-	-	-	-	-	10%, plus 20% luxury sales tax if applicable.
Tax on Net Capital Gains (CG)	Part of income tax (R: 0% - 45%; Non-residents: 32.5% - 45%). Principal residence exempted.	0% - 20%	20%, plus 5% business tax if sold within certain period.	-	≤ 3 years: part of income tax (0% - 30%). > 3 years: 20%.	5% of transfer value
Stamp Duty (SD), etc.	-	-	-	Month(s) held: SD ≤ 6: 20% > 6, ≤ 12: 15% > 12, ≤ 36: 10%	-	-
Estate Duty	-	-	-	-	-	-

Rates apply to house price unless otherwise stated. C: Citizens. F: Foreigners. R: Residents, includes citizens and permanent residents (PR).

[1] Buyer's Stamp Duty plus Additional Buyer's Stamp Duty.
[2] Buyers are required to purchase a National Housing Bond, but usually sell it back immediately at a loss.
[3] However, loans to finance the 30% down payments are available.
[4] 100% LTV allowed under "My First Home" scheme.

Japan	Malaysia	Singapore	South Korea	Thailand
JPY 200 – JPY 480,000, plus 8% consumption tax on building (excluding land), 3% acquisition tax and 2% registration tax. Owner-occupied, fireproof property > 50 sqm, ≤ 25 years old qualifies for 1.7% registration tax relief till Mar-15.	Price (MYR thousand) | SD ≤ 100 | 1% > 100, ≤ 500 | 2% > 500 | 3%	House[1] | C | PR | F 1st | 1% – 3% | 6% – 8% | 16% –18% 2nd | 8% – 10% | 11% – 13% ≥ 3rd | 11% – 13%	KRW 20,000 – KRW 350,000, plus acquisition tax and others[2]. Price (KRW million) | Acquisition tax & others: ≤ 85 sqm | > 85 sqm ≤ 600 | 1.1% | 1.3% > 600, ≤ 900 | 2.2% | 2.4% > 900 | 3.3% | 3.5%	2% transfer fee
-	House | Cap 1st | 90%[4] ≥ 3rd | 70% Rates applies to net selling price.	Public housing: if tenure ≤ 25 years and tenure + age ≤ 65 years, 80%; otherwise, 60%. Private housing: if tenure ≤ 30 years and tenure + age ≤ 65 years, 80% for 1st house, 50% for 2nd, 40% for 3rd onwards; otherwise, 60%, 30%, 20% respectively.	70%	If price > THB 10 million, 80%; otherwise, 90% for condominium and 95% for low-rise houses.
-	35 years	Public housing: 30 years. Private housing: 35 years.	-	-
-	Purchase ≥ minimum price threshold (MYR 300,000 – MYR 2 million, depending on state).	Public housing (leasehold): PR for ≥ 3 years. Private apartment: -. Landed property: only one allowed in Sentosa Cove. PR can buy elsewhere depending on economic contribution.	-	Apartment: foreign equities of development ≤ 49%, beyond which only leasehold is allowed. Landed property: leasehold only.
Land area (sqm) | Assessed property value (proportion): A | B ≤ 200 | 1/6 | 1/3 > 200 | 1/3 | 2/3 ≤ 2.1% fixed asset tax on A, plus 0.2% - 0.3% city planning tax on B.	Assessment tax plus quit rent. Rates depend on state.	Owner-occupied: 0% - 16%. Non-owner-occupied: 10% - 20%. Rate applies to annual rental value.	Villas: 4%. Tax base (KRW million) | Non-villa tax rate ≤ 60 | 0.1% > 60, ≤ 150 | 0.15% > 150, ≤ 300 | 0.25% > 300 | 0.4% Rate applies to tax base = 60% of current standard value.	12.5% on unit rent (40% - 50% of total rent) and 7% VAT on furniture rent (50% - 60% of total) if house is rented out.
Part of income tax (5% - 40%, plus 10% local inhabitant tax for R)	R: Part of income tax (0% - 26%). F: 26%.	R: part of income tax (0% - 20%). F: 20%.	Part of income tax (6.6% - 41.8%)	Part of income tax (0% - 35%) after standard 30% deduction
-	-	-	-	-
Year(s) held | CG tax + local inhabitant tax for R ≤ 5 | 30% + 9% > 5, ≤ 10 | 15% + 5% > 10 | 10% + 4% if taxable CG ≤ JPY 60 million; otherwise, 15% + 5% Rates apply to taxable CG.	Year(s) held | R | F ≤ 3 | 30% | 30% 4 | 20% | 30% 5 | 15% | 30% > 5 | – | 5% Rate applies to CG less deductible (higher of 10% of CG and MYR 10,000). One exemption on one property allowed for R.	-	Year(s) held | CG plus local income tax < 1 | 55% ≥ 1, < 2 | 44% ≥ 2 | Part of income tax (6.6% - 41.8%)	Part of income tax (0% - 35%)
-	-	Year(s) held | SD 1 | 16% 2 | 12% 3 | 8% ≥ 4 | 4%	-	Year(s) Held | Tax rate < 5 | 3.3% (business tax + municipal tax) ≥ 5 | 0.5% (SD)
10% - 50%	-	-	10% – 50%	-

The information contained in this report with regard to various taxes is correct to the best of our knowledge at the time of going to press. It is written as a general guide and we recommend professional legal and tax advice be sought.

Source: Knight Frank Research

Comparing Tax Burden across Asia-Pacific

In this section, Tan Ying Kang constructs a hypothetical residential investment to investigate the tax liabilities borne by cross-border investors in the region.

Base-line scenario
Buyer profile:
- Foreign individual investor
- First-time buyer in destination market

Property profile:
- Newly built apartment
- Price = Value = USD 500,000, rising 2% annually
- Yield = 4%

Transactions:
- Investment on 1 January 2015
- Property leased out immediately upon purchase for five years
- All forms of property tax paid at year end
- No other income besides rents
- No further capital expenditure
- Divestment after five years

In a few instances, the variance in tax rates within a country or the variety of permutations is so large that further assumptions are required – e.g., as assessment rates differ extensively in Malaysia, in fact even within individual states, we adopted the assessment rate in Kuala Lumpur to estimate the typical property tax an investor can expect in the country. For this exercise, we focus on markets that allow foreigners to invest more liberally, without residence requirements in particular.

Foreigner premium
The purple columns in Figure 2 show the total tax burden borne by a foreign investor as a percentage of house price in different markets. This includes stamp duties, property taxes, rental income tax, value added tax (VAT), capital gains tax and so on, if applicable.

The tax burden ranges between 12.6% and 15.5% in Australia mainly because stamp duty varies among states.

FIGURE 2
Tax Burden (% of House Price): Foreign vs local investor

Source: Knight Frank Research

In Cambodia, if the investor opts for a "hard title" registered with the national Land Office, as opposed to a "soft title" issued by local authority, he will incur the 4% transfer tax which accounts for the huge cost difference. In Japan and Korea, the size of the apartment accounts for the variance. Noteworthily, without the abovementioned simplifying assumptions, or if we take into consideration the full range of deductibles available, variations could widen further and tax burden lessen.

Singapore and Hong Kong stand out as the most costly places for a foreigner to invest. Not only are they more expensive than the other markets, foreign investors have to shoulder a significantly heavier tax burden than their local counterparts.

The green columns indicate the tax liability on a local investor purchasing a second property for investment purpose, ceteris paribus. The disparity between the purple and green columns, therefore, reflects the "foreigner premium" that an overseas investor has to pay. This is explained by a higher income tax imposed on foreigners in Australia, a cooling measure in Hong Kong (15% Buyer's Stamp Duty), and a combination of both in Singapore (15% Additional Buyer's Stamp Duty) and Malaysia (higher Real Property Gains Tax). Interestingly, Japan is the only country that bills locals more, as its local inhabitant tax is only levied on residents.

Investment premium
Some markets effectively charge an "investment premium".

A foreigner buying a property in Australia for investment is subject to 7.4% more taxes than if he purchases it for self-use (see Figure 3 purple columns), excluding income tax on rents which is not applicable to an owner-occupier.

For a local buying a second property for investment purposes, the premium varies considerably depending on the reference point. If the second home is for self-use instead, he pays only slightly less in tax (green columns). However, when compared to the taxes on his first self-use home, the investment premium is substantial (blue columns). The huge difference in premium implies that Australia taxes more on the purchase of a second property per se than on the purpose of the purchase.

Similarly, the cooling measures in Hong Kong and Singapore target the number of properties owned but do not distinguish between investment and self-use homes. In contrast, Thailand taxes on investment properties, regardless of the number of houses possessed.

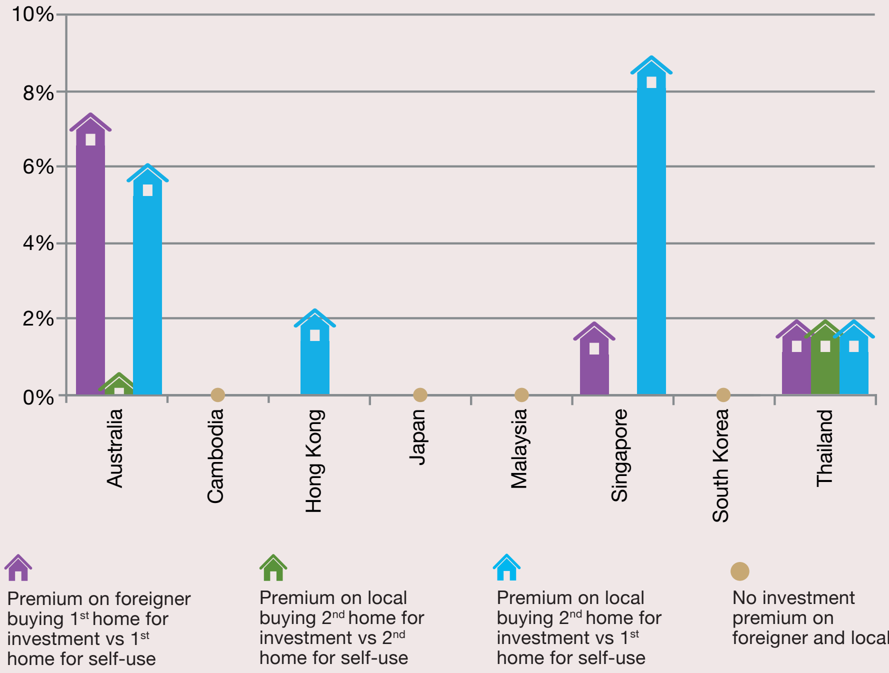
Long-term vs short-term investment
Figure 4 compares between holding the property for five years and two years.

Even though Australia and Cambodia do not tax according to holding period, average annual tax burden is lower for long-term ownership mainly because one-off costs – namely stamp duty and capital gains tax, etc. – are spread over more years. The difference in average tax burden is more pronounced in places where such costs constitute a larger proportion of the total. While capital gains tax does vary with holding period in Japan and South Korea, both two-year and five-year scenarios fall in the same tax bracket and the difference in tax burden is due to the same reason above.

On the other hand, in Malaysia, due to a more graduated capital gains tax regime for locals, different rates apply to locals in the two scenarios. In Hong Kong and Singapore, divesting a property two years after purchase incurs Special Stamp Duty and a higher Seller's Stamp Duty respectively, both designed to deter speculation. Similarly, Thailand levies business tax and municipal tax on property "flippers".

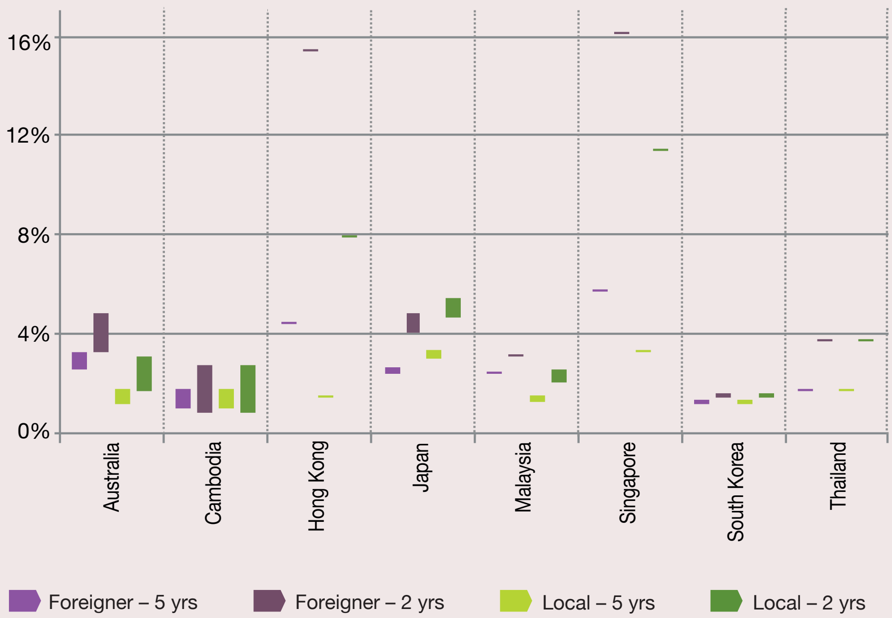
A caveat: many countries tax on worldwide income. Hence, on top of the income and capital gains taxes paid overseas, investors may still face taxes at home on income earned abroad, depending on the provisions of the tax treaty on double taxation avoidance agreed between the relevant countries.

FIGURE 3
Investment Premium (% of House Price)



Source: Knight Frank Research

FIGURE 4
Average Annual Tax Burden (% of House Price)



Source: Knight Frank Research

ASIA PACIFIC RESEARCH

Nicholas Holt
Asia Pacific Head of Research
+65 6429 3595
nicholas.holt@asia.knightfrank.com

Ying Kang Tan
Asia Pacific Research Analyst
+65 6429 3589
yingkang.tan@asia.knightfrank.com

GLOBAL RESIDENTIAL

Andrew Hay
Global Head of Residential
+44 20 7861 1077
andrew.hay@knightfrank.com

ASIA PACIFIC RESIDENTIAL

Asia Pacific Intl. Project Marketing
Sarah Harding
+61 2 9036 6752
sarah.harding@au.knightfrank.com

Australia
Erin van Tuil
+61 2 9036 6699
erin.vantuil@au.knightfrank.com

Beijing
Maureen Yeo
+86 10 6113 8038
maureen.yeo@cn.knightfrank.com

Hong Kong
Renu Budhrani
+852 2840 1177
renu-budhrani@hk.knightfrank.com

India
Mudassir Zaidi
+91 9 810 241 803
mudassir.zaidi@in.knightfrank.com

Indonesia
Willson Kalip
+62 21 570 7170 (100)
willson.kalip@id.knightfrank.com

Malaysia
Herbert Leong
+60 3 22 899 688
herbert.leong@my.knightfrank.com

Shanghai
Sherry Wang
+86 21 6032 1788
sherry.wang@cn.knightfrank.com

Singapore
Tan Tee Khoon
+65 6228 6828
teekhoon.tan@sg.knightfrank.com

Thailand
Frank Khan
+66 89 213 0248
frank.khan@th.knightfrank.com

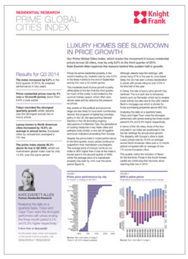
Knight Frank Residential Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

The Wealth Report 2014

Prime Asia Development Land Index H1 2014

Global Opportunities Report 2014



Prime Global Cities Index Q3 2014

Knight Frank Research Reports are available at **KnightFrank.com/Research**