

China loosens land market

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By Stephen Brown

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Called the Benchmark Price (BMP), the idea is to provide a market reference point of average land prices in each Chinese city so local authorities can have a set of guidelines when selling to investors.

Land development has occurred through private approaches to the local authorities using a system of implied pricing implemented with varying degrees of rigour, and honesty. Public auctions of leases on sites across the border from Hong Kong have been held in the Shenzhen Special Economic Zone.

This marks a further step towards a rationalization of China's land use mechanism and is identical to the Hong Kong system of leasehold ownership, with the leases containing highly restrictive development covenants being sold at auction, at full residual value.

Whilst this system has obvious immediate revenue attractions - it is effectively a 100 per cent betterment levy on the planning uplift from current use value it has many long term drawbacks.

For example, in Hong Kong it has become apparent that the planning authorities have little power to precipitate subsequent regeneration. As some uses are made redundant by economic transformation, the owner of the lease still has to pay the difference between existing permitted use in his original lease and the proposed use in order to have development covenants altered so as to undertake already zoned re-development.

Urban decay can readily set in as uses become "fossilized" by the original lease terms. Hong Kong has 200m sq ft of industrial space. Rents are at nominal levels and the industrial workforce has declined by 800,000 in the last 15 years. Over 200 hectares of industrial space has been rezoned, but under 6 per cent has actually been re-developed as there is little or no financial incentive to take the business risks associated with re-building.

The moves in China towards a freer land market, with prices becoming more market orientated, is to be welcomed. But, the use of leasehold land and restrictive covenants to extract the maximum initial development value may well prove detrimental in the long term.

A land use value tax on freehold tenure would be perfectly practical at this early stage of the land market's development

in China. Vested land interests are limited currently and the authorities have often shown themselves to be fully able to grasp the most sophisticated of policy concepts.