HONG KONG

2022 POLICY ADDRESS INSIGHT

OCTOBER 2022

CUSHMAN & WAKEFIELD
戴 德 梁 行

CONTENTS

01

INTRODUCTION

“

On October 19, 2022, the newly appointed Chief Executive, Mr John Lee Ka-Chiu, issued his first Policy Address under the theme of *Charting a Brighter Tomorrow for Hong Kong*, and emphasized that the clarity of the goal and direction are “to be results-oriented.”

In the Policy Address, we see that in addition to the land and housing supply policies, the government is proactively strengthening its focus on innovative approaches, with policies targeting the development of industries and talent. The policy address also proposed the establishment of a few new steering and implementation committees to further propel the advancements of the Northern Metropolis and the Greater Bay Area.

This report outlines recommendations and frameworks to help progress the newly proposed government policies. We also summarize the policies relevant to the real estate sector and share our viewpoints and suggestions for further discussion.

02

NORTHERN METROPOLIS

INFRASTRUCTURE PROVISION FIRST

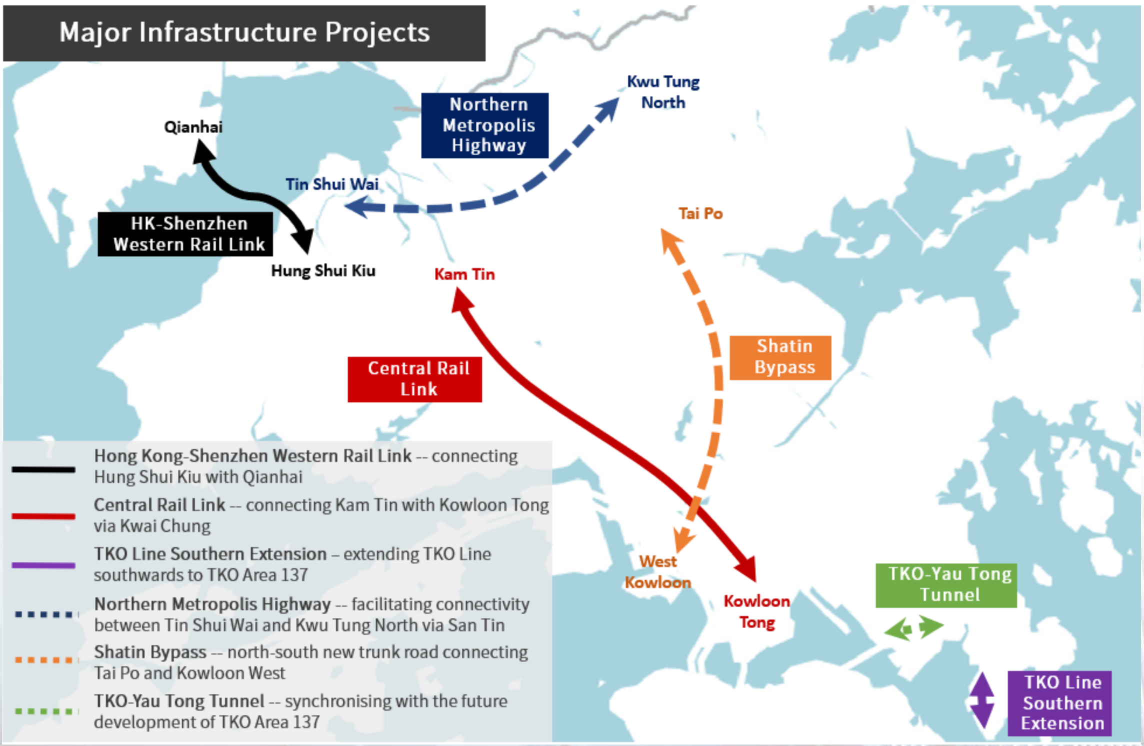
Policy Address: Promoting six infrastructure projects, comprising the Northern Metropolis Highway, Shatin Bypass, TKO-Yau Tong Tunnel, Hong Kong-Shenzhen Western Rail Link, Central Rail Link, and TKO Line Southern Extension.

FORMATION OF NORTHERN METROPOLIS COMMITTEE

Policy Address: Establish a Steering Committee and an Advisory Committee on the Northern Metropolis. A department dedicated to the Northern Metropolis will also be set up next year to strengthen the governance system for the development area.

Our views: Transportation and infrastructure networks are essential to the Northern Metropolis development and are future economic drivers for Hong Kong. We are delighted to see that the government is further expanding the rail infrastructure network in Hong Kong. In addition to the Hong Kong-Shenzhen Western Link proposed in last year's policy address, all other proposals are identified as newly proposed projects. We believe that it is vital to provide a timeline completion for the aforementioned infrastructure projects, to allow relevant stakeholders to plan and make strategic decisions ahead.

We agree that the Northern Metropolis is the cornerstone for Hong Kong's future development and the engine for new growth. We are pleased to see the Government's long-term vision on policies regarding the development of the Northern Metropolis, through promoting diversified industries, talent, transportation networks, infrastructure, and government platforms. Furthermore, the relocation plan of CBD-based government offices, such as approximately 40% of the office floor area in the Queensway Government Office building, to the Northern Metropolis, will help free up existing CBD commercial space and serve as a positive signal of determination to promote the Northern Metropolis. We strongly support this direction and hope there will be a cross-border management committee to further coordinate the land planning and long-term development of the Greater Bay Area.



03

LAND SUPPLY POLICIES

FURTHER EXTENSION OF STANDARD RATES POLICY

Policy Address: To extend the arrangement for charging land premiums at standard rates to also cover agricultural land outside NDAs, which is currently only applicable to the redevelopment of industrial buildings and in-situ land exchange applications in NDAs.

Our views: We welcome the Government's proposal to extend the standard rates for land premium arrangement to regularize the redevelopment of industrial buildings to also include agricultural land, which is currently only applicable to existing industrial zoned land and New Development Areas’ (NDA) in-situ land. In addition, industrial buildings in non-industrial lzone and aged 30 years or above, such as those in older districts like Yau Tong, are eligible to have the compulsory sale threshold lowered to 70% of ownership, which will help unlock property values. Furthermore, the standard rate land premium mechanism will help release development potential in the New Territories, by expediting the conversion of brownfield land and agricultural land into residential development.

EXPEDITE ADMINISTRATIVE & APPROVAL PROCEDURES

Policy Address: Shorten the land creation process of transforming "primitive land" to "spade-ready sites" by one-third to half of the existing timeframe; set up dedicated processing units to expedite the building plan approvals, so that about 80% of the applications can attain approval in the 1^{st} or 2^{nd} round of submission

Our views: The government is determined to greatly reduce the time required for land administrative procedures and set clear directions to shorten the approval process. We believe it could spur relevant government departments to proactively implement measures to accelerate land development. The timeline proposed is ambitious, which demonstrates the government's determination to speed up land and housing supply. Streamlining the land administrative procedures can help unlock private land potential, such as agricultural land, thereby accelerating provision to meet housing demand.

SPEED UP THE CONSOLIDATION OF PROPERTY INTERESTS

Policy Address: To lower the compulsory sale thresholds for private buildings aged from 50 to 70 years from 80% to 70% of ownership, and further to 60% for those aged 70 years or above.

Our views: A sizeable number of buildings in Hong Kong are currently facing ageing problems. It is important to regenerate old districts via urban redevelopment to address issues such as building safety. In the Policy Address, the Chief Executive proposes to relax the threshold for the compulsory sale of old buildings to 60-70% of ownership. We welcome the government’s proposal and hope that it will speed up the acquisition and redevelopment process, as well as enabling the integration of larger sites into compulsory sale.

Although the property market has been weakening in recent months, the YTD applications for compulsory sale has been higher than last year, demonstrating that more developers are using this mechanism to acquire land. The lowering of the threshold will be conducive to developers acquiring development sites and to accelerate the urban renewal process. However, as per the current legislation, the ownership shares for such applications are calculated based on each independent lot. If the calculation is revised to cover all the sites in the redevelopment plan, it could allow greater flexibility and efficiency during the acquisition process, as well as help accelerate land supply and solve ageing building problems.

04 HOUSING POLICIES

INCREASE LAND FOR PRIVATE HOUSING

Policy Address: To target attaining sufficient land ready for providing no less than 72,000 residential units in the next five years. Based on the latest government projections, demand for private housing in the next 10 years will be 129,000 units.

Our views: The housing issue has always been a major concern for Hong Kong citizens. We are pleased to see that this year's Policy Address has adopted a multiple approach to increase land and housing supply. In particular, the Chief Executive mentioned in the Policy Address that the demand for private housing in the next 10 years will be 129,000 units, and that the government plans to build not less than 72,000 private housing units in the next five years. We believe this figure may still be lower than the actual market demand. From 2016 to 2020, the first-hand private housing transactions in Hong Kong ranged from 15,000 to 21,000 units each year, and with the government launching several measures to attract overseas talents, we believe demand for housing will further increase, and that supply may not meet demand.

ENHANCE DEVELOPMENT EFFICIENCY

Policy Address: To adopt a simple design and the Modular Integrated Construction (MiC) approach to build Light Public Housing (LPH) units. About 30,000 units is planned to be built in five years, increasing the overall public housing supply by about 25%.

Our views: The progress of public housing construction has been criticized due to the slow completion and delayed timelines. We welcome the introduction of the new LPH scheme, where the Government will make use of under-utilized public and private sites and adopt a standardized simple design, such as the MiC approach, to build LPH units. In addition, we suggest the Government to review the current public housing policy and set up resale restrictions for Home Ownership Schemes (HOS), such as limiting HOS housing owners to resell their flats only to eligible families, or to sell back to the Housing Authority. This can prevent releasing HOS units into the private market and help improve homeownership opportunities for lower income families.

STAMP DUTY REFUNDS ON FIRST-TIME PURCHASES TO FOREIGN BUYERS

Policy Address: Allow eligible incoming talent to, upon becoming permanent residents in Hong Kong after residing for seven years, apply for a refund of the Buyer's Stamp Duty paid for their first residential property in Hong Kong that they still own.

Our views: We support the government's proposal for a refund of the buyer's stamp duty to eligible incoming talent, who have lived in Hong Kong for at least seven years with permanent resident status, for their first residential property purchase. However, this type of buyer only accounts for a small portion of the residential market, and we do not expect such policy relaxation will boost property prices. In addition, given Hong Kong's interest rate hike cycle and the uncertain economic environment, we suggest the government relaxes the 15% stamp duty for Hong Kong permanent residents' second property purchase. Such stamp duty was intended to curb speculation activities in the past, which may no longer be applicable to the current market situation. We believe the relaxation of the stamp duty will not stimulate prices to soar, but will help to stabilize the housing market.

05

EMERGING INDUSTRIES

DEVELOPING THE TECHNOLOGY INDUSTRY

Policy Address: To establish an Office for Attracting Strategic Enterprises (OASES) to attract high-potential and strategic enterprises globally, such as life science and health technology, artificial intelligence and data science, financial technology (Fintech), and advanced manufacturing and new energy technologies.

Our views: Innovation and technology (I&T) should not only focus on the technology industry, but also incorporate diversified industries and supply chain pillars, such as R&D, sales, talent training, and marketing, achieving strategic positioning via greater synergies. The Northern Metropolis is an important engine for the future development of Hong Kong and a key solution to long-term housing supply. It is also a new core area for the future internationalization of the Greater Bay Area, where technology, innovation, and ecology are interconnected.

The successful development of the Northern Metropolis will not only rely on land and housing supply, but also strategies to attract the needed industries and the appropriate land sale model. The plan should also be aligned with the future strategic economic development of the Greater Bay Area, via closer cooperation between Hong Kong, Shenzhen and Guangzhou governments.

We suggest that the Government should relaunch the Private Treaty Grant (PTG) for emerging industries to help support their development in the city. The Northern Metropolis is the focus of Hong Kong’s future development, and it should be deemed suitable as a pilot area for reigniting the PTG.

As evident in this year's policy address, the Government is committed to consolidating Hong Kong as a leading international shipping hub, by leveraging its strengths in handling high-value goods and related logistics services, including cold chain goods, fresh foods, and pharmaceuticals products. We believe that these policies will help strengthen the city’s diversified economy to meet the long-term demand for cold storage and high-end industrial properties.

06

INTEGRATION WITH THE GREATER BAY AREA

ESTABLISH THE STEERING GROUP ON INTEGRATION INTO NATIONAL DEVELOPMENT

Policy Address: To establish the Steering Group on Integration into National Development, to be chaired by the Chief Executive with three Secretaries of Departments as deputies. The Steering Group will press ahead with initiatives to enhance communications with mainland authorities. and regularly host briefing sessions on national policies

Our views: We are pleased to see that the government is proactively establishing leadership structures and strengthening communication with the Greater Bay Area (GBA). When the border is fully opened with the mainland, we expect the closer ties will bring about positive demand and recovery for property assets such as residential, office, commercial, and logistics, which will require a more systematic coordination across the border.

In addition, the policy address mentions the importance of attracting both domestic and overseas I&T enterprises to enter the Hong Kong-Shenzhen Innovation and Technology Park (HSITP), which will serve as a vital engine for transforming the city into a GBA technology hub. We hope that the government will continue to strive for policy transparency and prevent internal competition within GBA, allowing the city to work closely with Shenzhen and other GBA cities. Hong Kong should take advantage of its strength as a global core city to enrich the industries in the nearby GBA cities. We should integrate innovation and technology into different industries and supply chain pillars, such as R&D, sales, talent training, and marketing. Notwithstanding, Hong Kong should work closely with Mainland China to achieve strategic positioning and labor allocation among various industries to achieve synergy.

07

CONCLUSION

From Chief Executive Mr John Lee Ka-Chiu’s first Policy Address, this summary report outlines several measures aimed at enhancing Hong Kong's competitiveness, supported by clear action plans on advancing industries, infrastructures and people's livelihoods. The government continues to forge ahead with the "infrastructure provision first" principle and has outlined a comprehensive plan and reinforced the government's determination to further advance the Northern Metropolis vision.

The other measures, such as extending of the standard land premiums arrangement to agricultural lands, relaxation of the compulsory sale threshold, expediting the land approval process, and development of LPH, will all contribute to housing supply and accelerate the urban renewal process. Furthermore, the policy address also try to help bring about new impetus to the future development of Hong Kong, by attracting overseas talent and developing new industries. We believe that, through developing the Northern Metropolis vision, Hong Kong will be able to take advantage of its strategic positioning, bring synergies with other Greater Bay Area cities and forge greater integration with the future national plan.

BUSINESS CONTACTS

KK Chiu

International Director
Chief Executive
Greater China

kk.chiu@cushwake.com

Alva To

Vice President, Greater China
Head of Consulting
Greater China

alva.to@cushwake.com

John Siu

Managing Director
Hong Kong

john.siu@cushwake.com

KB Wong

Executive Director
Head of Valuation &
Advisory Services
Hong Kong

kb.wong@cushwake.com

Tom Ko

Executive Director
Head of Capital Markets
Hong Kong

tom.wh.ko@cushwake.com

RESEARCH CONTACTS

Rosanna Tang

Executive Director
Head of Research
Hong Kong

rosanna.tang@cushwake.com

Thomas Lai

Senior Associate Director
Valuation & Advisory Services
Greater China

thomas.cc.lai@cushwake.com

CUSHMAN & WAKEFIELD
戴 德 梁 行