LIFE IS WHAT WE MAKE IT

HONG KONG

2023 POLICY ADDRESS INSIGHT

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CUSHMAN & WAKEFIELD
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INTRODUCTION

The Hong Kong Chief Executive, Mr. John Lee Ka-chiu, delivered his second annual Policy Address on Oct. 25, 2023, with the theme of *A Vibrant Economy for a Caring Community*. The address states that the Hong Kong Government will continue to adhere to the principles of a “result-orientated approach” by proposing policy measures to stimulate the economy, improve people's livelihoods, and enhance development of a range of industries.

In the Policy Address, we are pleased to see that the government has actively reviewed and revised property stamp duty measures currently in force. These changes comprise shortening the applicable period for the Special Stamp Duty (SSD) from three years to two years, reducing the Buyer's Stamp Duty (BSD) and the New Residential Stamp Duty (NRSD) by half, from 15% to 7.5%, and introducing a stamp duty suspension arrangement for the purchase of residential property by eligible incoming international professionals.

These measures aim to bring greater stability to the housing market in an environment of uncertainty and to help restore market confidence. The Policy Address also proposes recommendations on attracting incoming talent, enterprises, and investment to develop new industries, and to help shape a more diversified economy and uplift Hong Kong's overall competitiveness on the global stage.

In this special report, we summarize the real estate-related policies in the 2023 Policy Address, share our house views, and propose recommendations on current issues.

02

LAND POLICY

STREAMLINING STATUTORY AND ADMINISTRATIVE PROCEDURES

Policy Address: To introduce more administrative measures to simplify procedures, for example, to complete straightforward title checking cases within 12 weeks to expedite disbursement of land resumption compensation.

Our views: We are pleased to see the government's introduction of new administrative measures to streamline land procedures and to shorten the time required for land development and land use exchange applications, in an effort to expedite land for housing. We believe that the government should be a "facilitator" to help ease the land application process and to expedite approvals, so that land resources can be appropriately utilized to address the housing needs of the public.

The development plan process can be best implemented if the government can compensate the affected parties shortly after the land resumption. The government should also expedite the planning, consultation, land resumption, compensation and land tendering processes to fully utilize land resources, in turn enabling the public to benefit from greater land provision.

EXTENDING THE ARRANGEMENT FOR STANDARDIZATION OF LAND PREMIUMS

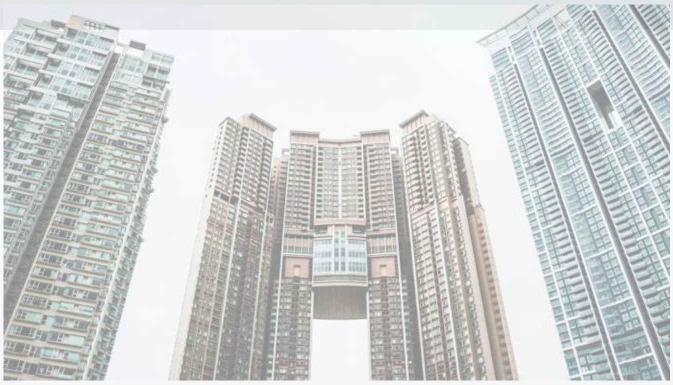
Policy Address: To introduce a pilot scheme to extend the arrangement in phases to agricultural land in the New Territories. The first phase targets private developments within the existing new towns of Yuen Long, North and Tuen Mun districts, as well as those in the vicinity of railway stations.

Our views: We welcome the government's arrangement to provide incentives for developers holding agricultural land in the New Territories for conversion to residential use, in turn freeing up development potential.

With the current lack of transparency in the agricultural land premium process, the government could consider extending the same "standard rate" practices, which are currently applicable to Kwu Tung North and Fanling North, to other parts of the New Development Areas in the New Territories or even to areas such as Yuen Long and Kam Tin. The government has previously indicated that a standardized premium arrangement would take around one month from the time of the premium proposal submission to the final agreement. We believe that if the government can regularly review and adjust land premium rates for each district as per market conditions it could then fast-track the release of agricultural land in the New Territories.

03

HOUSING POLICY



SHORTENING THE APPLICABLE PERIOD OF THE SPECIAL STAMP DUTY

Policy Address: To shorten the applicable period of the Special Stamp Duty (SSD) from three years to two years. In other words, if a property owner disposes of his/her property two years after the acquisition, he/she will no longer need to pay the SSD, which amounts to 10% of the property price.

REDUCING THE BUYER'S STAMP DUTY AND THE NEW RESIDENTIAL STAMP DUTY RATES BY HALF

Policy Address: To reduce the respective rates of the Buyer's Stamp Duty (BSD) and the New Residential Stamp Duty (NRSD) by half, from 15% to 7.5%.

Our views: We welcome the government's proposal to adjust stamp duty policies in response to market demands. Specifically, the application period for the Special Stamp Duty (SSD) has been shortened from three years to two years, and the Buyer's Stamp Duty (BSD) and New Residential Stamp Duty (NRSD) rates have been halved, from 15% to 7.5%. We believe this adjustment will help alleviate costs for Hong Kong permanent residents when purchasing second residential properties and for non-permanent residents to acquire properties, thereby improving market sentiment and restoring confidence among potential buyers and upgraders. These changes are also expected to increase supply and turnover in the secondary property market.

The stamp duty policies will have a positive impact on the residential market. We hope that the government will continue to pragmatically review its policies by collecting and studying real-time changes and data from the market from multiple perspectives, and to make policy adjustments proactively without waiting until the next Policy Address is issued. Looking ahead, we forecast that Hong Kong residential property transaction numbers will recover by 20% to 30% following the stamp duty reduction. However, factors such as higher interest rates, stock market fluctuations and global economic uncertainties are still impacting the housing market. Developers also hold significant unsold inventory, resulting in high supply. As a result, we do not think an immediate and significant V-shaped rebound in property prices is likely. Nevertheless, in the longer term the adjustments to and relaxation of stamp duty measures will contribute to restoring stability in the property market.

OPTIMISING THE MODULAR INTEGRATED CONSTRUCTION (MIC) APPROACH TO ENHANCE SPEED, EFFICIENCY AND QUALITY

Policy Address: The Hong Kong Housing Authority (HA) will continue to apply innovative construction technologies, as well as testing and improving the techniques of the MiC approach, to enhance building quality and expedite construction.

Our views: We acknowledge the government's proposal to use the MiC system to enhance the quality of and expedite the construction of public housing. However, as the demand for public housing still far outweighs supply, we recommend that the government review the overall public housing policy. For instance, for public housing, the upper limits of income and asset assessment for eligibility should be tightened, to prevent misuse and ensure that public housing resources are allocated to those most in need. Furthermore, we suggest that the sale of Home Ownership Scheme (HOS) flats should only be permitted to those eligible applicants approved by the HA. HOS flats should not be sold in the open market through the land premium procedure, in order to maintain adequate supply for eligible applicants.

04 ATTRACTING TALENT

STAMP DUTY SUSPENSION FOR INCOMING TALENT

Policy Address: To suspend the payment of the BSD and the NRSD at the time of property acquisition for eligible incoming talents, but the talent needs to pay the relevant amount if he/she is subsequently unable to become an HKPR, as an enhancement of the refund arrangement introduced last year.

Our views: We are pleased to see that the government has adopted industry feedback and implemented the stamp duty suspension arrangement for incoming international talent. This move better aligns the market with the "trawl for talent" policies by lifting barriers for professionals looking to develop careers in Hong Kong, thus enabling the city to attract and retain skilled talent.

Hong Kong's economic situation, positioning and industry development have undergone notable changes since the government implemented the stamp duty cooling measures. Driven by the Greater Bay Area and the Belt and Road initiatives, Hong Kong has become even more so a world-class city and a strategic hub connecting mainland China with the world. The city's government needs to provide a stable, efficient, safe and free business environment to support the operations of international enterprises and investors. It should also minimize restrictive policies, such as the stamp duty measures. We hope the government will continue to review these measures to facilitate the city's future development.

EXPANDING THE COVERAGE OF THE TOP TALENT PASS SCHEME

Policy Address: To expand the global talent network by adding eight top-notch institutions from the mainland and overseas to the list of eligible universities, making a total of 184 institutions.

Our views: We recognize the government's commitment to expanding the talent pool by introducing a series of policies to attract and retain skilled professionals. The Policy Address states that approximately 160,000 talent scheme applications were received as at the end of September 2023. More than 100,000 applicants have been approved, of which around 60,000 have arrived in Hong Kong.

As mentioned in our recent research report titled *Hong Kong Talent Housing: A New Niche Sector*, we can expect that numbers of overseas talent and students settling in Hong Kong will continue to grow in the coming years, in turn indicating investment opportunities for rental housing properties such as co-living, multi-family, and student housing. Tertiary education institutions have recently voiced plans to acquire hotels for use as student hostels. We also expect further investment opportunities in serviced apartments and hotel properties, as the demand for such rental accommodation rises with the expected inflow of international skilled professionals and students.

BUILDING AN INTERNATIONAL HUB FOR POST-SECONDARY EDUCATION

Policy Address: To double the admission quota of non-local students to government-funded post-secondary institutions to 40% starting from the 2024/25 academic year, where the institutions may take into account their capacity to proceed, step by step, with the admission of more non-local students, especially those from Belt and Road countries and the Mainland; UGC-funded universities to take forward a number of hostel projects cumulatively providing about 13,500 additional hostel places by 2027, to cater for the needs of students, including those arising from the additional intake.

Our views: We welcome the government's proposal to shape Hong Kong into an International Hub for post-secondary education, by raising the quota for non-local students in the eight subsidized universities to 40%, which could support the new industries development and cultivation of future talent. Yet, the existing student dormitories fall far short of meeting the students' accommodation needs. Some tertiary institutions even face a situation where an average of six students compete for one bed. Moreover, some students are unable to afford the high rental costs and struggle to find suitable units. Therefore, we recommend the government to review and plan for the long-term dormitory supply, such as considering to support the construction or renovation of private student accommodation through land leases. Besides, reserving land in the northern New Territories for educational use and engaging with educational institutions to improve related facilities would facilitate the future study experience of non-local students in Hong Kong.

05 COMMERCIAL DEVELOPMENT

ADVANCE DEVELOPMENT OF DIGITAL GOVERNMENT

Policy Address: To press ahead with the digitalisation of government services, using artificial intelligence (AI) and opening up more government data to accelerate the development of the digital economy. To set up the Digital Policy Office, and to launch over a hundred digital government initiatives in 2024 to promote digital government and the smart city. These projects include issuing and verifying certain licences and certificates electronically by using blockchain technology.

Our views: The government is determined to transform Hong Kong into an international I&T center. In line with the Hong Kong Innovation and Technology Development Blueprint, the government is expediting the establishment of a supercomputing center to foster AI development. From next year onwards, Cyberport will establish an AI supercomputing center in phases, to support the huge demand for computing power from R&D and relevant sectors and to promote industry development.

Hong Kong possesses a comprehensive and reliable network infrastructure, robust demand, and a wide range of cloud service providers. It has always enjoyed a favorable business environment and a low tax rate structure, making it highly conducive to the development of the data center industry. However, the medium to long-term supply will be constrained by land scarcity, lengthy and complex approval procedures, and limitations in power supply. To promote Hong Kong as a world-class I&T center, Cushman & Wakefield suggests the government should expand suitable land supply in areas such as Sha Tin, Tsuen Wan, Kwai Chung, and Fanling, through streamlining the approval process for infrastructure and collaborating with power companies to enhance power allocation. These measures will attract more I&T center operators to establish their presence in Hong Kong and drive the city's transformation into an international I&T center.

REVITALISING TOURISM

Policy Address: To enhance its efforts in promoting the development of tourism and retail industries, formulate the Development Blueprint for Hong Kong's Tourism Industry 2.0, develop the film market, launch the Signature Performing Arts Programme Scheme, attracting more non-local audiences.

Our views: We welcome the government's proposal in the Policy Address to promote large-scale events with an innovative and proactive approach, such as local cultural tourism, exhibitions, and artistic performances to leverage Hong Kong's strengths in becoming an international hub for major events, thereby enhancing local competitiveness. We anticipate the series of proposed activities will synergize and build upon last year's urban sports and other local sports events, to attract both domestic and regional participants. This will support the growth of tourism, hospitality, retail, and food and beverage businesses, mitigating the impact of local consumer spending going overseas. We also support the streamlining of licensing procedures for the catering industry, to help alleviate pressure on the industry's operations.

PURSUIT OF MODERN LOGISTICS AND HIGH-QUALITY DEVELOPMENT

Policy Address: To formulate Action Plan on Modern Logistics Development to realise smart development, modernisation, green and sustainability, internationalisation and facilitation, with a view to promoting high-quality development of the logistics industry. In the first phase, we will develop modern logistics clusters in Hung Shui Kiu/Ha Tsuen New Development Area (NDA), which will serve as a logistics gateway to the GBA.

Our views: We welcome the government's proposal in the Policy Address for the Northern Metropolis action agenda, which will closely align with the planning of Shenzhen and other cities in the Greater Bay Area. Such planning undoubtedly contributes to Hong Kong's development as a vital logistics hub connecting the mainland, particularly in the Hung Shui Kiu area, in leveraging its advantages as a port to establish a modern logistics center. We recommend the government promptly implement the development plan and to drive Hong Kong to become an important base for diversified logistics and supply chain operations.

06

NORTHERN METROPOLIS

INDUSTRY-DRIVEN AND INFRASTRUCTURE-LED APPROACH

Policy Address: To divide the Northern Metropolis into four major zones from the west to the east, including the "high-end professional services and logistics hub," the "I&T zone," the "boundary commerce and industry zone" and the "blue and green recreation, tourism and conservation circle."

Our views: We welcome the government's proposal of accelerating the development of the Northern Metropolis. Building upon the foundation of the four major zones, the government will further consolidate and position land in multiple districts by providing a more focused and practical direction for the overall development. The focus should not solely be on residential supply, but also the development of industries and transportation networks. The former can help generate substantial employment opportunities and function as an engine for economic growth, while the latter can serve as a catalyst for the development of the region and industries, enhancing external connectivity and sustainable development. The I&T zone is particularly important, as the San Tin Technopole and the Hong Kong-Shenzhen Innovation and Technology Park determine the industrial positioning of the whole Northern Metropolis. Therefore, we suggest the government expedite the development of the Lok Ma Chau Loop and strengthen the execution capabilities of government departments, and these actions should be promptly implemented to align with the rapid progress made by Shenzhen and to maintain Hong Kong's competitiveness.

EXPEDITING THE NORTHERN METROPOLIS DEVELOPMENT

Policy Address: The development of the Northern Metropolis will span across 20 years, with a target to release all the land use and development proposals by 2024, commence land resumption by 2027, and form 40% of the new development land and complete 40% of the new flats by 2032.

Our views: We welcome the government's multi-pronged approach to increasing land supply, demonstrating a strong commitment to addressing the housing needs of Hongkongers. In addition to the three designated areas in the Northern Metropolis, we recommend that the government promptly establish a comprehensive development blueprint and infrastructure plan for the new development areas. We are pleased to see the government is promoting new projects, two rail lines and one road project, which will help accelerate the new town developments in the eastern part of the Northern Metropolis. These will also facilitate the private sector's development in the area, hence expediting the development of new towns and enhancing the surrounding facilities.

To ensure adequate future land supply, we support the government's efforts in identifying sites for land formation, and hope that more details of the reclamation plans, new towns and the Northern Metropolis will be released promptly to set a timetable for the city's future land provision.

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