LIFE IS WHAT WE MAKE IT

HONG KONG BUDGET 2024/25 HOUSE VIEWS

FEB 2024

CUSHMAN & WAKEFIELD
戴德梁行

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PROPERTY MARKET MEASURES

SYNOPSIS (RESIDENTIAL):

Cancelling All Demand-Side Management Measures

- No Special Stamp Duty, Buyers' Stamp Duty or New Residential Stamp Duty needs to be paid for any residential property transaction.

Adjusting Measures for Property Mortgage Loans

- For self-occupation residential properties, the maximum loan-to-value (LTV) ratios will be adjusted to 70% for properties valued at HK$30 million or below; and 60% for properties valued at HK$35 million or above. LTV ratios for properties valued between HK$30 million and HK$35 million will be adjusted downward gradually.
- For non-self-use residential properties, the maximum LTV ratio will be adjusted from 50% to 60%.
- The interest rate stress testing requirement for property mortgage lending that assumes a 200-basis-point rise in the mortgage rate will be suspended.

VIEWS FROM CUSHMAN & WAKEFIELD:

We appreciate the government's response to market demands by canceling all the demand-side management measures for residential properties. This action will facilitate an orderly adjustment of the residential market, guiding it towards a healthier direction. Currently, three key factors are challenging the Hong Kong housing market: high interest rates, stringent stamp duty measures, and economic downturns coupled with stock market volatility. With the government's complete withdrawal of these cooling measures, we anticipate a recovery in market confidence among potential homebuyers, hence supporting transaction volumes to pick up and facilitating people looking to buy new residential flats as replacements.

In terms of housing price trends, if the U.S. Fed initiates interest rate reductions later this year, we expect to see property prices stabilize and potentially rebound in 2H 2024 from the current low level.

SYNOPSIS (NON-RESIDENTIAL):

Adjusting Measures on Property Loans

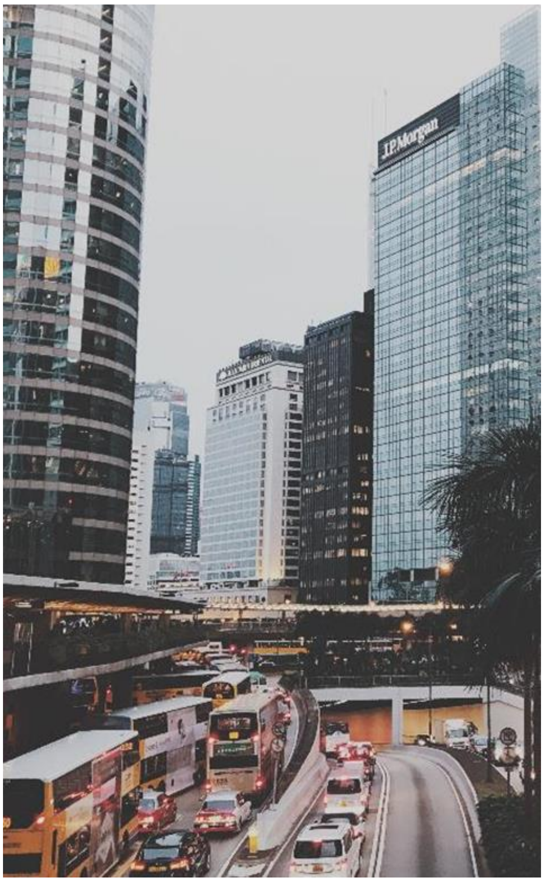
- The maximum LTV ratio for non-residential properties (including offices, retail shops and industrial buildings) will be adjusted from 60% to 70%.

Enhancement Measures for Deduction of Expenses

- Profits-tax payers will be granted a tax deduction for expenses incurred in reinstating the condition of the leased premises.
- Regarding allowances for industrial buildings and structures as well as commercial buildings and structures, the time limit for claiming the allowances will be removed. This will allow the new owner to claim allowances for the property after a change of ownership, subject to factors such as the construction cost of the property and the balancing charge of its previous owner, taking effect from the year of assessment 2024/25.

VIEWS FROM CUSHMAN & WAKEFIELD:

We are glad to see the government's relaxation of mortgage policies for non-residential properties, together with the increase in tax allowances. With banks' cooperation, investors can now be more flexible in buying properties without being confined to specific timeframes. Additionally, new property owners can calculate tax exemptions based on construction costs and the remaining tax liabilities of previous owners, further reducing transaction costs. We anticipate that these measures could bring positive signals and foster a more flexible and favorable environment for Hong Kong's property investment market, boosting market confidence and stimulating transaction volumes.



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02

LAND AND HOUSING SUPPLY

SYNOPSIS:

Public Housing

- On public housing supply, the government has identified sufficient land for meeting the supply target of 308,000 public housing units over the next ten years (from 2024/25 to 2033/34).
- As at the end of 2023, construction of about 105,000 units under the Hong Kong Housing Authority (HKHA) has commenced with satisfactory progress. As the Cash Allowance Trial Scheme is due to expire by mid-2024, the Government has decided to extend the scheme for one year until June 2025, to help grassroots families on the waiting list for public rental housing.

Private Housing

- On private housing supply, the government has estimated that the private residential unit completion will average more than 19,000 units annually in the five years from 2024, representing an increase of about 15% over the annual average of the past five years. The potential supply of first-hand private residential units for the next three to four years will be around 109,000 units.

VIEWS FROM CUSHMAN & WAKEFIELD:

We welcome the government's proactive efforts in seeking land for future public and private housing. However, with the frequent delays in the completion of private housing projects, we hope the government can expedite infrastructure development, as well as provide incentives to developers and encourage them to develop land in the New Territories to increase the private housing supply. Regarding public housing, we hope that the government can conduct a more in-depth review of the current public housing policies, such as implementing measures to screen out the wealthier so that grassroots families on waiting lists can move in quickly and fairly.

Based on government data, Hong Kong’s population aged 65 and above is projected to rise from 1.45 million in 2021 to 2.74 million by 2046, with one in three citizens expected to be seniors, adding pressure on social services. We recommend the government to lead by setting policies to address the aging population situation, such as funding enhancement of senior housing, and adopting successful models such as the Ming Wah Dai Ha, managed by HKHA, to provide suitable accommodation. Furthermore, the government could offer land premium subsidies as an incentive to encourage private developers to develop senior housing projects.

SYNOPSIS:

Private Residential Sites

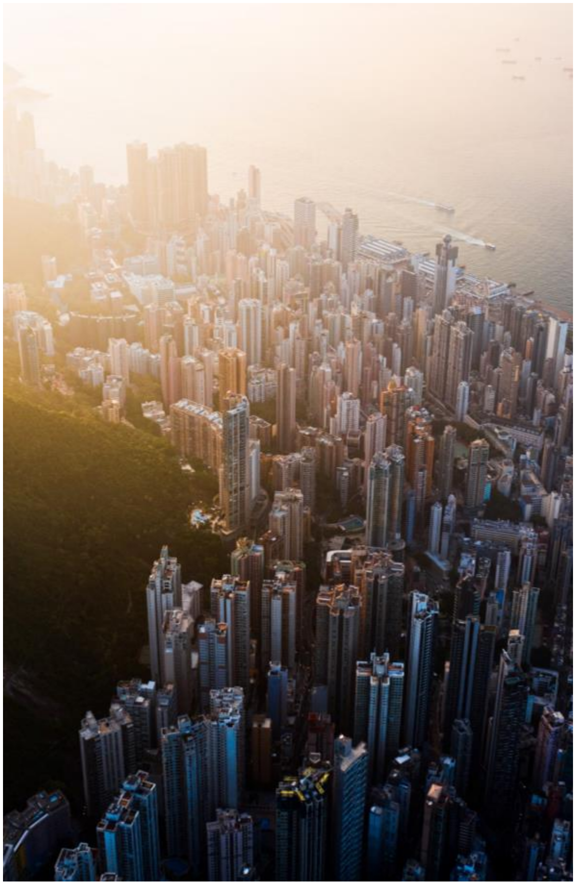
- The 2024/25 Land Sale Programme will cover a total of eight residential sites. Combined, railway property developments, private development and redevelopment projects, and projects undertaken by the Urban Renewal Authority, mean the potential land supply for the whole year is expected to have a capacity for providing about 15,000 units.

Commercial and Industrial Sites

- The Land Sale Programme will also include two commercial sites and one industrial site, capable of providing about 120,000 sqm of commercial floor area and 540,000 sqm of industrial floor area, respectively. The government will consider the market situation when deciding on the quantity and types of land to be put up for sale as well as the pace of sale.

VIEWS FROM CUSHMAN & WAKEFIELD:

We are pleased to see that there are a total of eight residential sites in the 2024/25 Land Sale Programme. This is crucial for and instrumental in ensuring a stable and long-term housing supply. Although the government will consider market conditions in determining the quantity and timing of land sales, a steady and continuous land sale pipeline is of vital importance in ensuring adequate housing supply. In some past cases, we believe that the government's valuation of the reserve price may have deviated from market expectations. Looking ahead, we hope the government can consistently review and align with prevailing market conditions when making the value assessment.



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PROMOTING A MEGA EVENT ECONOMY

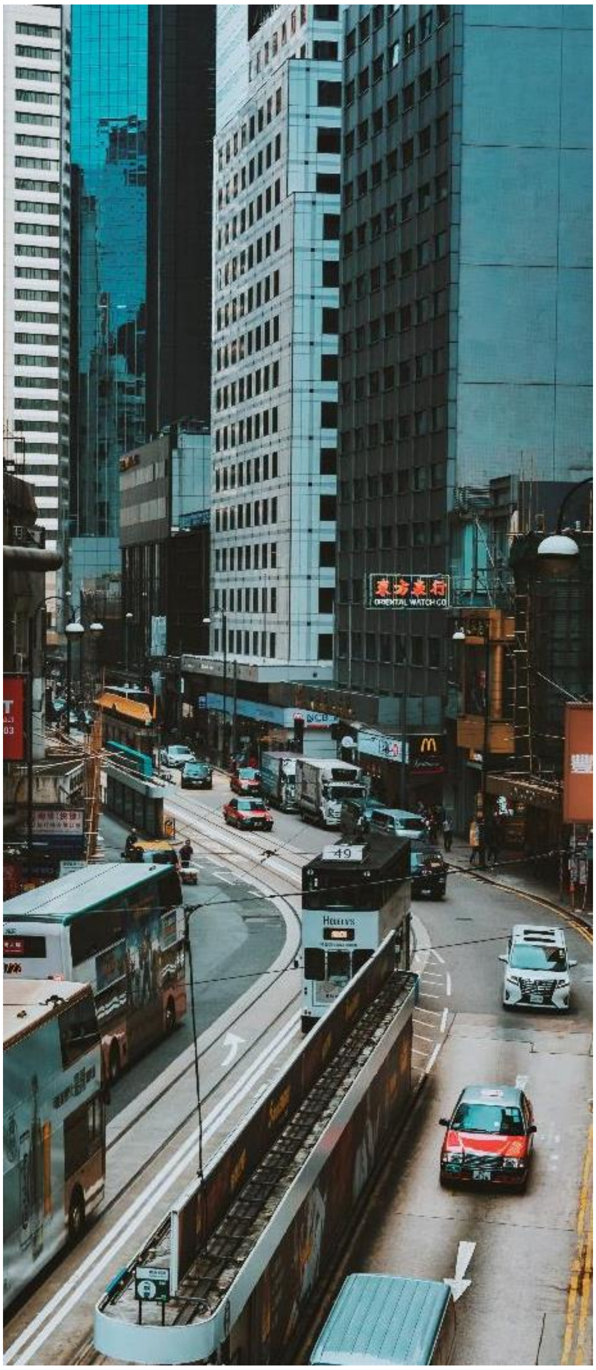
SYNOPSIS:

Staging Mega Events

- More than 80 mega events in a variety of themes and genres will be staged in Hong Kong in the first half of this year.
- Hong Kong, Guangdong Province and Macao will co-host the 15th National Games in 2025.
- The government has set up a Mega Events Coordination Group to reach out for more mega events to be staged in Hong Kong, as well as earmarking $100 million to boost mega event promotions over the next three years.

Digital Transformation Support Pilot Scheme

- SMEs in the food and beverage industry and the retail industry will be invited to select suitable options among ready-to-use basic digital solutions and apply for subsidies on a matching basis early this year.
- The solutions will focus on three areas: digital payment and shopfront sales, online promotion, and customer-management solutions. It is expected that at least 8,000 eligible SMEs will benefit from the pilot programme.



VIEWS FROM CUSHMAN & WAKEFIELD:

We support the government's initiative to promote digital transformation in the retail and food and beverage industries in Hong Kong via subsidy programs. We believe that with further upgrades in payment and storefront systems, this will assist merchants in welcoming a new wave of mainland tourists through the Individual Visit Scheme (IVS), in turn enhancing the consumer experience with more direct and convenient services and creating new business opportunities.

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ATTRACTING STRATEGIC ENTERPRISES

SYNOPSIS:

Attracting Strategic Enterprises

- In March 2024, 10+ strategic enterprises will sign a partnership agreement with the Office for Attracting Strategic Enterprises (OASES). These companies have either confirmed setting up or expanding their businesses in Hong Kong, or they are planning to do so. Together with the 30 companies from the first batch, they are expected to bring about over HK$40 billion in investment to Hong Kong, creating about 13,000 jobs over the next few years.
- In 1H 2024, the government will submit a legislative proposal enabling companies domiciled overseas, especially enterprises with a business focus in the Asia-Pacific region, to re-domicile in Hong Kong.

VIEWS FROM CUSHMAN & WAKEFIELD:

We are pleased to see the government now taking a more proactive and comprehensive approach to attract businesses to Hong Kong. With more than 10 key enterprises signing memoranda of understanding with OASES next month, we hope that the government will swiftly implement plans with these enterprises and enable new job opportunities, thereby helping to spur economic growth.

However, given that the overall development blueprint for the Northern Metropolis area has yet to be approved by the Town Planning Board or endorsed by the Legislative Council, the implementation timeline remains distant. We hope the government will introduce more specific economic stimulus measures in the short- to medium-term.

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NORTHERN METROPOLIS DEVELOPMENT

SYNOPSIS:

Industry-Led

- To issue bonds of about HK$95 billion to HK$135 billion per annum in the next five years to drive the development of the Northern Metropolis and other infrastructure projects.
- The government is also drafting the White Paper on the Development of the Hong Kong-Shenzhen Innovation and Technology Park (HSITP) in the Lok Ma Chau Loop (the Loop) targeting to be announced this year.
- To set up the Greater Bay Area International Clinical Trial Institute in the Hetao Shenzhen-Hong Kong Science and Technology Innovation Co-operation Zone.
- The government will set up the InnoLife Healthtech Hub in the HSITP to attract top-notch research teams and talent from around the world.

Infrastructure-First

- The government will continue to work with the Shenzhen authorities through the Task Force for Hong Kong-Shenzhen Co-operation on Cross-Boundary Railway Infrastructure. We will take forward two cross-boundary projects, namely the Hong Kong-Shenzhen Western Rail Link (Hung Shui Kiu – Qianhai) and the Northern Link Spur Line, to jointly develop the concept of "GBA on the Rail."
- The government plans to put in place smart and green mass transit systems in Hung Shui Kiu/Ha Tsuen, inviting within the year the relevant suppliers and operators to submit expressions of interest.

VIEWS FROM CUSHMAN & WAKEFIELD:

We have seen that the government has provided specific and actionable details regarding the transportation and industry development of the Northern Metropolis. We wholeheartedly agree with the government's adoption of the planning principle of "infrastructure-led," prioritizing the transportation networks development and fostering diverse industrial sectors. In conjunction with the development of the Greater Bay Area (GBA), this approach will effectively attract talent and businesses.

We also welcome the government's efforts in defining the development models and positioning for Hong Kong industries, including fisheries and agriculture, biomedicine, and the digital economy. These clear and specific directions contribute to determining Hong Kong's distinctive roles and responsibilities within the GBA industrial chain and align with the three-year action plan released by the National Development and Reform Commission for the GBA, laying a solid foundation and world-class business environment for the Northern Metropolis development.

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