



## Hong Kong Budget 2012/2013

### Implications for the real estate market

The key message for the real estate market in the 2012/13 Budget, announced by Hong Kong Financial Secretary, Mr John Tsang on 1 February 2012 can be summarised very simply - “to increase land supply”.

Although most of the initiatives outlined are not new, the Budget indicates a reinforced will by the Government to provide sufficient land supply to meet demand in the market over the medium to long-term, regardless of any short-term fluctuations. With the Government taking a more pro-active stance on the supply side of the market, residential completion rates are anticipated to return to historically more normal levels, in the order of 20,000 – 25,000 units per annum.

Initiatives to both increase land supply and relocate public sector offices out of core CBDs is expected to further narrow the price difference of CBD areas and decentralised sub-markets in the coming years.

The following are our views in response to the various key initiatives outlined in the latest Budget.

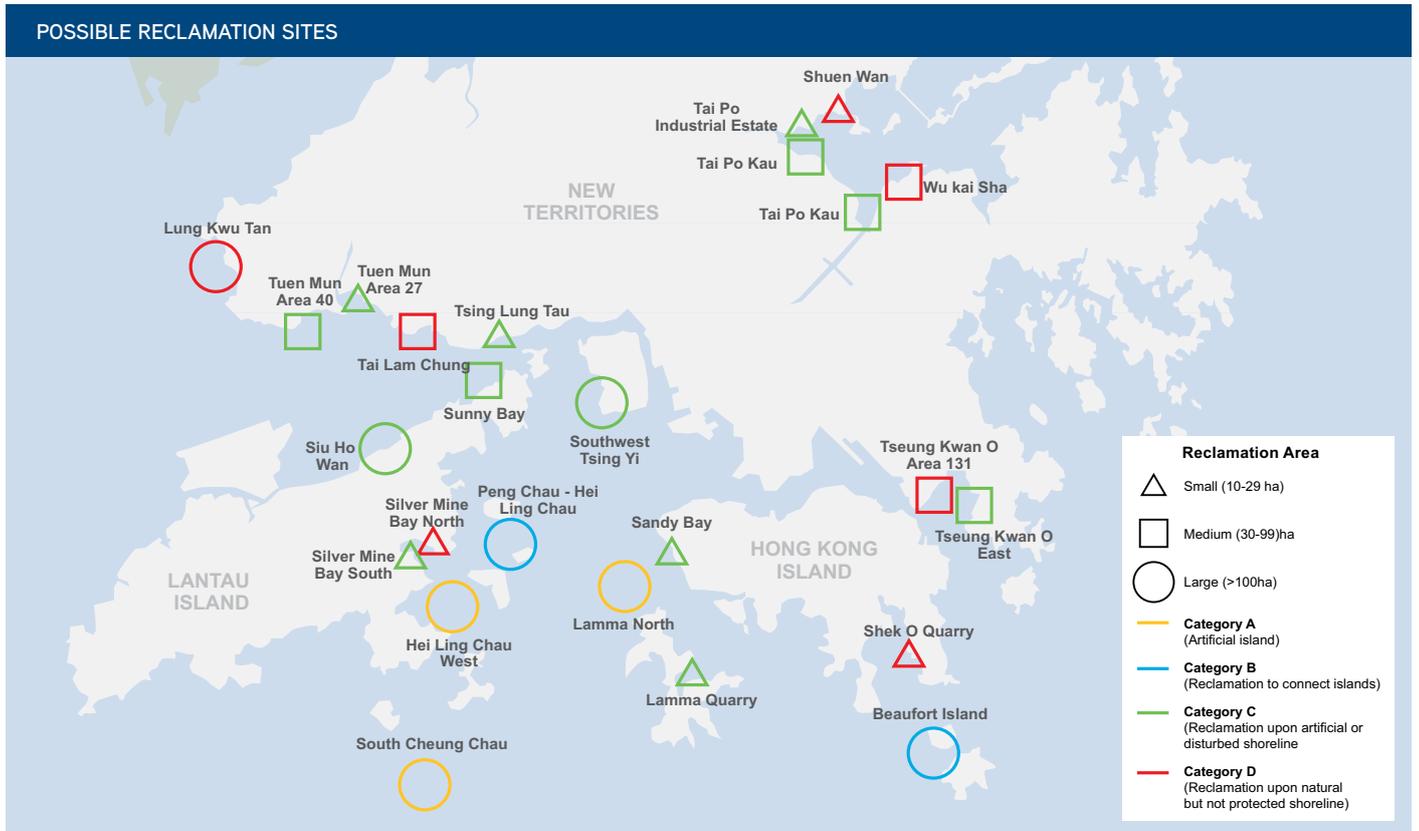
## RESIDENTIAL

### Boosting of Land Bank

In an attempt to build up a land reserve for the continued social and economic development of Hong Kong, the Government has conducted land use studies for a number of development sites covering 25 million sq m of land (about 10% of the developed land in the whole territory of Hong Kong). Public engagement exercises were initiated in North-East New Territories, Hung Shui Kiu, Tung Chung and various quarry sites, including potential spots for reclamation outside Victoria Harbour and the development of caverns.

#### Colliers' View:

*It is generally perceived that the Government is determined to create land reserves sufficient for the long-term need. In terms of size, the aggregate total area is huge, but the question is the time required before these sites are ready for development. The production of land in the case of reclamation and cavern development will take significant time (5 years+). The increase in land supply will not have much impact on the traditional luxury residential markets in Hong Kong Island as a majority of the new sites are either located in New Territories or outside the urban core.*



Source: HKSAR Government



### Railway-property Projects

In addition to creating a long-term development land bank, the proposed short-term solution is to provide residential land to the market above existing railway stations. The Government has identified the West Rail Kam Sheung Road Station, Pat Heung Depot and the adjacent rural areas as potential housing land. This is estimated to provide a total of 8,700 flats.

#### Colliers' View:

*This initiative is not new, since similar projects have taken place in recent years. Two projects - MTR Nam Cheong Station and the West Rail Tsuen Wan West Station, TW5 (Cityside) - were recently awarded to the private sector in October 2011 and January 2012, respectively. The former involves a total development floor area of 2.6 million sq ft, while the latter is smaller at 0.7 million sq ft. On the flip side, another site at West Rail Tsuen Wan West Station, TW5 (Bayside) with a bigger development scale in the order of 2.2 million sq ft (2,384 units) which was scheduled to be awarded together with the TW5 (Cityside), had been withdrawn by the Government. Market analysts put the blame on the increasing price volatility, sizeable capital investment and the additional risk premium put in by the bidders. According to the Government the TW5 (Bayside) site will be re-launched for public tender in the 2Q or 3Q 2012. Including the two new schemes, there will be five railway-property projects available for public tender in 2012, which will eventually provide a total of 12,800 residential units.*

*Given the current market conditions, the sizeable allocation of two new sites (representing over 4,000 residential flats each), may pose a threat to the actual delivery of government sites to the private sector. The possibility of withdrawal by the Government is present unless developers team up to share risk and/or lower their bid prices.*

*It is our view that the two new schemes will provide small to medium-sized units with saleable floor area of 538 sq ft or less. The mass residential market targeting first-time buyers will see a relative softening in price levels in late 2012.*

District	MTR Station Name	Site Area (sq ft)	Residential Floor Area (sq ft)	Total Number of Residential Units	Award Date / Tender Invitation
<b>Awarded Sites</b>					
Sham Shui Po *	Nam Cheong	667,368	2,311,031	3,313	19 Oct 2011/-
Tsuen Wan **	Tsuen Wan West - TW5 (Cityside)	144,238	711,644	942	12 Jan 2012/-
<b>Total</b>				<b>4,255</b>	
<b>Future Sites</b>					
Yuen Long	Long Ping North	104,788	523,938	832	-/1Q 2012
Tsuen Wan	Tsuen Wan West - TW5 (Bayside)	460,699	1,798,665	2,384	-/2Q - 3Q 2012
Tsuen Wan	Tsuen Wan West - TW6	149,351	678,778	894	-/4Q 2012 - 1Q 2013
<b>Total</b>				<b>4,110</b>	

\* Total development floor area is 2,608,739 sq ft

\*\* Total development floor area is 832,314 sq ft

Source: MTRC Corporation



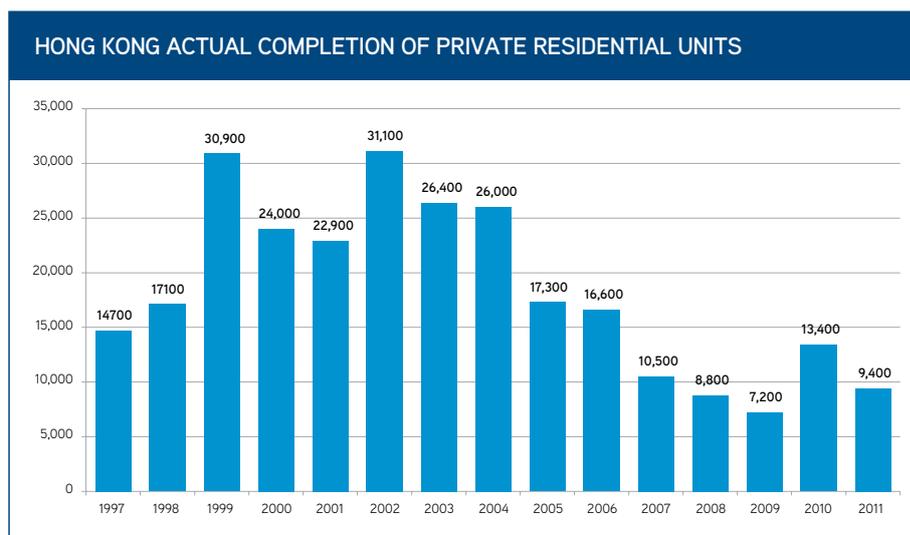
### Residential Production Rate

The Budget 2012-13 has a number of initiatives to increase land supply such as the continued launch of railway-related projects and the offering of more residential sites in the land sale application programme for 2012-13. It is estimated that the housing land supply in 2012-13 will eventually provide about 30,000 residential flats.

#### Colliers' View:

*While it remains pre-mature to say that the new land will translate into 30,000 residential flats in one single year, it is clear that the supply of completed residential flats will rise in the next couple of years. During the past five years from 2007 to 2011, the average completion rate of private residential units was at all time historical lows (10,000 units per annum).*

*The Government has been increasing residential land supply since 2Q 2011, as a result the completion rate is anticipated to gradually increase to its historical long-term average at about 25,000 units per annum.*



Source: Rating and Valuation Department, HKSAR Government



### More Residential Sites for Sale in 2012-13

A day after the Budget announcement, Mrs Carrie Lam, the Secretary of Development provided detail of the Government’s 2012-13 Land Sale Programme. A total of 23 residential sites were added to the land bank. Together with the 24 residential sites rolled over from last year, the expanded land bank now has a capacity to produce about 13,500 residential units.

#### Colliers’ View:

The quantity of new residential sites in terms of site area, to be added to the Government’s land bank, is 3.17 million sq ft in 2012-13. The total area is very close to that of 2011-12 (i.e. 3.14 million sq ft) although the number of new sites in 2012-13 is more at 24 (2011-12: 18).

One of the major differences in 2012-13 is that there are sites available for first time sale in Kai Tak – the new development area at the ex-Kai Tak airport. On an overall basis, the sources of supply for new residential sites are centered in the New Territories including Shatin, Tseung Kwan O and Tuen Mun. The development site at RBL 1197 located at Mount Austin Road, the Peak, is the only new residential site in one of the traditional luxury districts of Hong Kong Island. Once again, the increase of land supply is predicted to have a more significant impact on the mass residential market and no effect to the luxury sector.



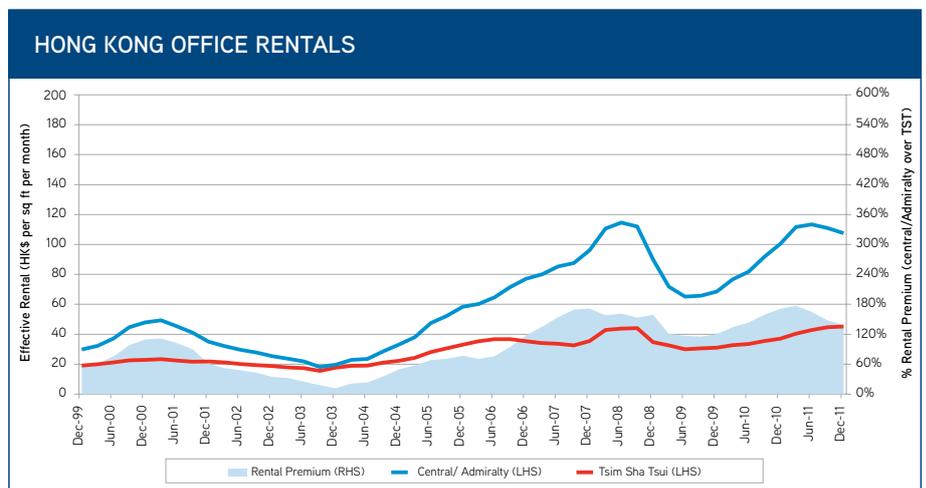
Source: Development Bureau



## COMMERCIAL

### New Office Supply

In the Policy Speech 2011-2012, the Financial Secretary reiterated the intention to increase the supply of business development sites through the industrial revitalisation initiative and relocation of some government departments from traditional business districts to non-core areas. In the latter case, the Government will reduce its leased office space in Central/Admiralty from 4,300 sq m in 2012 to 230 sq m in 2015. In Mong Kok, the Water Supplies Department Facility together with the neighbouring Food and Environmental Hygiene Department depot and temporary car park will be vacated for a 65,000 sq m commercial development. By 2014, the Trade and Industry Department Tower in Mong Kok comprising 18,000 sq m will be released for commercial use.



Source: Colliers

### Colliers' View:

The reiteration of the Government's intention to increase land supply for office development through various options, including the relocation of its departments in traditional districts to non-core areas, demonstrates their determination to provide adequate long term commercial development options.

Essentially, this move by the Government is welcomed by the business community as it creates more office space alternatives in traditional business locations, particularly when the current office vacancy is generally below 5%. Currently, rents in the core business locations on Hong Kong Island are at least double of that in Kowloon. In anticipation of the future relocation of both the private and public sector to Kowloon, the existing price difference between core business locations on Hong Kong Island and Kowloon will narrow over the coming years.

Using Central/Admiralty and Tsim Sha Tsui as an example, the rental premium of Central/Admiralty expanded from 60% during the period between 2000 and 2003 to currently be at 120%. If the relocation trend persists, the rental premium is anticipated to narrow to under 100% in the coming years.



## Relief Measures

In order to ease the pressure on the community brought about by the economic downturn, the Government has announced some relief measures. The following are some items directly related to the real estate market.

- Pay two months' rent for public housing tenants
- Waive rates for 2012-13, subject to a ceiling of HK\$2,500 per quarter for each rateable property
- Reduce salaries tax and tax under personal assessment for 2011-12 by 75%, subject to a ceiling of HK\$12,000
- Raise the basic allowance to HK\$120,000 (2011-12: HK\$108,000)
- Extend the entitlement period for the tax reduction for home loan interest from 10 to 15 years of assessment

TAX THRESHOLDS				
		Income Level		Change
		2012/13	2011/12	
<b>No taxable</b>				
Single person/no children	up to	<b>\$120,000</b>	\$108,000	<b>11%</b>
Married person/no children		<b>\$240,000</b>	\$216,000	<b>11%</b>
Married person/two children		<b>\$366,000</b>	\$336,000	<b>9%</b>
Married person/two children and two dependent parents		<b>\$442,000</b>	\$408,000	<b>8%</b>
<b>Tax at standard rate</b>				
Single person/no children	over	<b>\$1,620,000</b>	\$1,518,000	<b>7%</b>
Married person/no children		<b>\$2,640,000</b>	\$2,436,000	<b>8%</b>
Married person/two children		<b>\$3,711,000</b>	\$3,456,000	<b>7%</b>
Married person/two children and two dependent parents		<b>\$4,357,000</b>	\$4,068,000	<b>7%</b>

Source: PwC

### Colliers' View:

*The increase in disposable income as a result of the change in tax thresholds will not have a material impact on the residential property sector. Assuming a married couple with no children and earning a household income of HK\$336,000, the amount of saving arising from the proposed tax reduction is HK\$2,880, representing 0.9% of their household income.*

*The extension of the entitlement period for the tax reduction for home loan interest from 10 to 15 years of assessment is a key initiative. This measure is likely to alleviate the burden on homebuyers who are owner-occupiers with a mortgage. Using the same family owning a mortgaged residential flat (say, a mortgage loan of HK\$2.45 million for a repayment period of 20 years), the amount of tax savings on the 11<sup>th</sup> year will be HK\$3,636, representing 1.1% of their household income. Again, the slight increase of disposable income is going to help but unlikely to create strong buying demand in the residential market.*

## CONCLUSION

Overall, the Budget 2012-2013 has responded to a number of welfare issues raised by the community. However, there was no announcement by the Government to lift its Special Stamp Duty ("SSD") which was implemented in November 2010 to curb short-term residential sales transactions. This time around, the Budget 2012-2013 is set to benefit a wider group of people compared with its previous budget. For example, the proposed tax reduction will benefit about 1.5 million taxpayers. In addition, almost 90% of all properties will have no rates charged in 2012-2013 due to the waiving of rates for 2012-2013.

On the real estate front, the gradual build up of a development land bank and the introduction of 24 new residential sites in sub-urban locations indicates reinforced will by the Government to provide sufficient land supply to meet demand, particularly in the mass market over the medium to long-term. The luxury residential sector, will not feel any impact, as all but one of the new sites are either located in New Territories or in areas outside the urban core.

With regards to commercial land supply, the reiteration of the Government's intention to build up land supply for office development through various options, including the relocation of its departments in traditional districts to non-core areas in the Budget speech displays their determination to carry out their objective of creating additional vacated sites available for private development. In anticipation of the future relocation of both the private and public sector to Kowloon, the existing price difference between core business locations on Hong Kong Island and Kowloon will narrow over the coming years.

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