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The Budget: Land supply programme fails to match Hong Kong's ambitious vision

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In his 2018 Budget, the Financial Secretary Paul Chan painted a new vision for Hong Kong based on rapid I&T development, while leveraging Hong Kong's advantages in the Belt and Road Initiative and the Greater Bay Area Plan to maintain strong economic growth. However, long-term ambition has failed to translate into the new land supply programme for 2018-19. The potential residential supply from government land sales, MTR, URA, and private projects are estimated to be 25,500 units – the lowest since 2011. Moreover, a lack of new warehouse land contradicts the budget's emphasis to strengthen Hong Kong's advantage in high value-added logistics. Also, we welcome the inclusion of the XRL Terminus site for commercial development. which should energise the Tsim Sha Tsui office market and attract new investments to expedite urban renewals in nearby areas.

Following a strong growth in 2017 with a real GDP increase of 3.8%, Financial Secretary Paul Chan has proposed to invest a total of HKD50 billion (USD6.4 billion) in shoring up the I&T industries, and developing a vibrant start-up culture by targeting overseas companies to set up a presence in Hong Kong.

We believe the expanding technology industry will be the new engine for the office market in the long term. With a booming technology start-up community, demand for new flexible workspace should rise further in Hong Kong. However, new strategies are required, since there are challenges for both operators and landlords as noted in Colliers' Flexible Workspace Outlook Report 2018.[1]

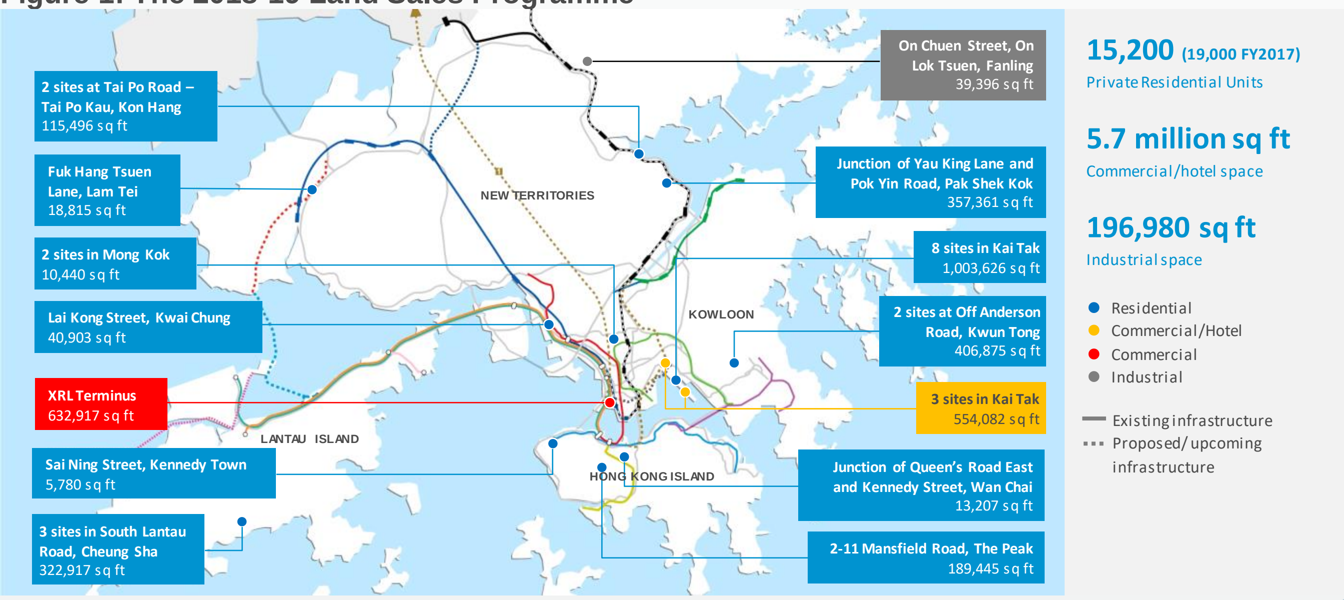
New land sales programme

The 2018-2019 land sales programme includes a total of 32 sites: 27 sites for residential development, providing a total of 15,200 units, four sites for commercial development, and one industrial site. We believe this is insufficient to resolve the acute housing problem and to accommodate increasing demand by new business activities in Hong Kong, limiting the long-term vision.

Residential: Lowest supply since 2011

According to the Budget, the future residential completion target for the next five years will increase to 20,800 units per year on average. The amount would be 50% higher than the average annual completion of the past five years – if the estimation is correct.

Figure 1: The 2018-19 Land Sales Programme



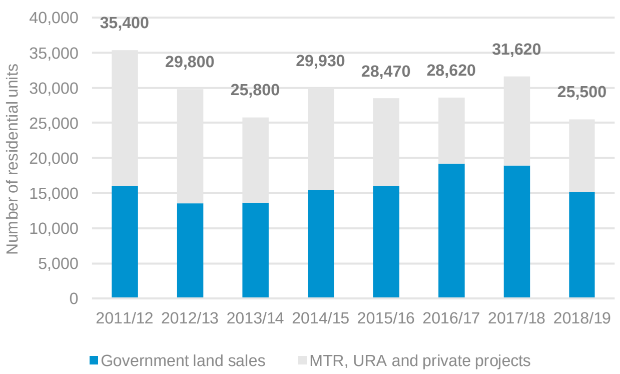
Source: Lands Department; Colliers Note: Areas on the map refer to site area. Commercial/ hotel space and industrial space refer to gross floor area.

[1] http://flexiblespace.colliers.com/

However, we doubt the government will achieve its land sales target for 2018-19, which includes a total of 17 sites to be rolled over from the 2017-18 Land Sales Programme, i.e. only nine out of 28 residential sites included in the 2017-18 Land Sale Programme have actually been sold so far. It is clear that the government will not meet its residential supply target of 19,000 units through land sales in FY2017 as stated in the 2017-18 Budget. It is premature to say the government will miss the target of providing 15,200 units again in 2018-19, but history likes to repeat itself.

Railway property development projects, the Urban Renewal Authority's projects, and private development/ redevelopment projects will provide an additional 10,300 potential units. Together, the total new supply is estimated to be 25,500 flats in FY2018, which is the lowest since 2011. Hence, there is a higher chance that the medium-term supply will stay low.

Figure 2: Estimated Potential Residential Supply



Source: Hong Kong Government Budgets

With eight out of the 27 sites available situated in the Kai Tak Development Area, Kai Tak will continue to be a market focal point. We expect land sales to attract numerous local and mainland developers to participate, and think the land value will break new records under the current market circumstances. For the luxury market, supply in the traditional luxury districts should stay tight with the 189,444 sq ft (17,600 sq m) site at 2-11 Mansfield Road on The Peak being the only site available for sale.

The Financial Secretary has deferred the long-term housing solution to the Task Force on Land Supply, which was set up by Chief Executive Carrie Lam. According to their schedule, no actionable solutions are available until H2 2018. While long term land supply is important, we believe the government should also consider temporary housing provisions to improve people's livelihoods. It is a disappointment that no relaxation of the cooling measure was mentioned.

Office: Tsim Sha Tsui market set to shine again

A total of 5.7 million sq ft (530,000 sq m) of commercial floor area will be provided by four commercial/hotel sites. The spotlight will be on the commercial/hotel site above the Express Rail Link (XRL) terminus in West Kowloon. The 632,917 sq ft (58,800 sq m) site will be the largest commercial site to be sold in the past 20 years. The site will provide a GFA of 3.16 million sq ft (293,574 sq m), comprising 2.85 million sq ft (264,780 sq m) of office space and 310,000 sq ft (28,800 sq m) of retail space. Located within two MTR stations and adjacent to the West Kowloon Cultural District, the new site will be developed into a premium Grade A office comparable to the International Commerce Centre (ICC), the land sale would draw a new record price on the Kowloon side.

New infrastructure and office space will enhance Tsim Sha Tsui's competitiveness amid the decentralisation trend. We expect the positive land sale results will spread to nearby areas, providing further impetus to office prices in the Tsim Sha Tsui and Jordan areas, where investors should start looking for value-add and redevelopment opportunities. With the opening of the express rail link, the area near XRL terminus should become a hub for PRC companies.

Residential and Land Supplies (2018-19 Budget versus 2017-18 Budget)

	The 2018-19 Budget	The 2017-18 Budget
Number of private residential units to be completed in the next five years	20,800 per annum (2018-2022)	20,300 per annum (2017-2021)
Number of residential sites to be sold in FY2018	27 (includes 15 rolled over)	28 (includes eight rolled over); nine was sold to date
Number of units to be provided from Government land sales in FY2018	15,200	19,000 (5,800* sold)
Number of units to be provided from all potential land supply in FY2018**	25,500	32,000

Source: The 2018-2019 Budget; The 2017-2018 Budget; Lands Department, Rating and Valuation Department
*rough estimation **including residential sites in the 2018-2019 Land Sale Programme, railway property development projects, the Urban Renewal Authority's projects and private development/redevelopment projects

On the other hand, Kowloon East CBD2 will continue to expand with new developments coming onstream. The new Land Sale Programme will add approximately a GFA of 930,000 sq ft (86,400 sq m) of new office space to the area. The Kai Tak area will provide three new commercial/hotel sites, two of them providing a total GFA of 500,000 sq ft (46,450 sq m) rolling over from the 2017-18 Land Sale Programme.

For the medium to long term, there is nothing new compared to the 2017-18 Budget. The government has been proposing to redevelop the sites of the existing Food and Environmental Hygiene Department and Water Supplies Department offices into office, retail, and hotel developments. Based on the total site area of 127,000 sq ft (11,800 sq m), the site can provide about 1.5 million sq ft (139,350 sq m) of commercial and hotel space. The site will not be available in a short term as the existing building will not be demolished before 2020.

There will be no new commercial land supply on Hong Kong Island in FY2018. The timeline for Site 3 near Two International Finance Centre and Site 5 at the north of CITIC Tower on the new Central Harbourfront will not be ready until current facilities relocate to new sites.

The Planning Department is currently undertaking a planning and design study on the redevelopment of Queensway Plaza, which is expected to be completed in 2018. Considering the quickest schedule for the site to be included in the 2019-20 Land Sale Programme, the development will not be completed before 2022 due to a construction period of two to three years.

New warehouse lands are needed

In the Budget, the Financial Secretary has highlighted the government's objective to develop Hong Kong into a trading, storage, logistics, and distribution hub for high-value goods. However, no new warehouse sites are included in the land sales programme. The industrial property sector is facing a supply problem, and warehouse vacancy has stayed low, while new sites for warehouse development have been rare in the past 10 years. The government will need to make new warehouse land available for modern logistics and distribution centres, especially close to the Airport and along the key cross-border infrastructure routes to enhance Hong Kong's status as a high-value added logistics hub amid growing competition from China.

Final comment: Tackle the underutilised lands

Although the Budget wants to develop a long-term plan for Hong Kong, the government has continued to skirt around the land supply issue – which in our opinion will prevent Hong Kong from reaching its full potential. While new reclamation and expediting the conversion of farmland are important sources of new land supply, in our view the government needs to employ underutilised village lands for more efficient urban development.

So far, the government has left the "small village" issue untouched. In fact, Mr Chan has objected to the rezoning of underutilised land plots, notably in the New Territories, for residential development. In 2012 during his term as the Secretary for Development, Mr Chan suggested that the 932.9 hectares (9.3 million sq m) of lands zoned as "Village Type Development" might not be suitable for residential development as this involves complicated urban planning procedures. The Development Bureau reaffirmed this view in October 2017.

The "Small House Policy" introduced in 1972 allowed indigenous male villagers to apply for and build a small house of not more than three storeys and not exceeding a height of 8.23 metres, with a maximum roofed-over area not exceeding 700 sq ft. The policy was initially planned as an interim measure to improve housing and sanitary standards in the rural areas. However, it is still effective today.

We recommend that the government seriously consider amending the statutes and formulating new plans for the developable areas as housing supply remains short.

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