

Hits, Misses and Surprises of the Policy Address

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In her maiden Policy Address on 11 October 2017, Mrs. Carrie Lam, Chief Executive of Hong Kong SAR, has taken the length to elaborate her administration's vision for Hong Kong – a city of hope and happiness. However, a lack of detail on many policy initiatives made people wonder about the real implications.

With regard to issues concerning the real estate market, the Policy Address met market expectations about the new Starter Homes initiative, but the Address fell short of mentioning leveraging private developers' agricultural land banks. On the other hand, there was very little coverage on the resumption of the revitalisation scheme for industrial buildings, staying behind people's expectations. Overall, we are mostly excited about the plan to develop Wan Chai North into a convention and exhibition hub with additional 38,000 sq m (409,029 sq ft) of exhibition space together with new hotels and Grade A offices.

Expected: New Starter Homes

As mentioned in her election manifesto, the administration plans to rebuild the housing ladder for Hong Kong middle-class families who have been left out by the rising housing prices via the new Starter Homes scheme. However, given the limited land supply, these new units will heavily rely on private development projects. Provisions, such as the requirement for developers to include a specified number of Starter Home units and to sell these to target buyers based on Government criteria, will be incorporated into the land lease. The details of the scheme will be announced mid-2018 and the first batch including 1,000 units is scheduled to be launched by the end of 2018, provided by a residential site on Anderson Road, Kwun Tong.

We believe the Starter Homes scheme will not have a major impact on the private housing market. Firstly, the number of Starter Home units will be rather small as the Government is constrained by current land supply. Secondly, it will take some time for private developers to negotiate with the Government to incorporate a Starter Homes provision in private development units, especially when agricultural land banks are involved. Furthermore, we believe the Starter Home market and the private housing market will be two separated markets with differences in design, quality, and amenities.

On another note, the Policy Address has missed the opportunity to relax some of the demand management cooling measures, which has restrained market transactions in the secondary market, making it more difficult for end-users with a strong financial background to obtain home ownership in Hong Kong.

Misses: Revitalisation of Industrial Buildings

We were disappointed about the lack of new information regarding the administration's plans for the revitalisation of industrial buildings. The Policy Address simply recited the potential options that Mrs. Lam was mentioning before and after her election: to resume the revitalisation scheme for industrial buildings, to address the issue of fragmented ownership in certain old industrial buildings, and to facilitate the conversion of lower floors of industrial buildings for non-industrial purposes. The Policy Address mentioned the exploration of wholesale conversion of industrial buildings into transition housing with a waiver of land premium. While the market is waiting for new policy initiatives, investors continue to show strong interest in industrial buildings with the number of transactions and volume reaching new heights in Q2 and Q3 this year.

Surprises: The Remake of Wan Chai North

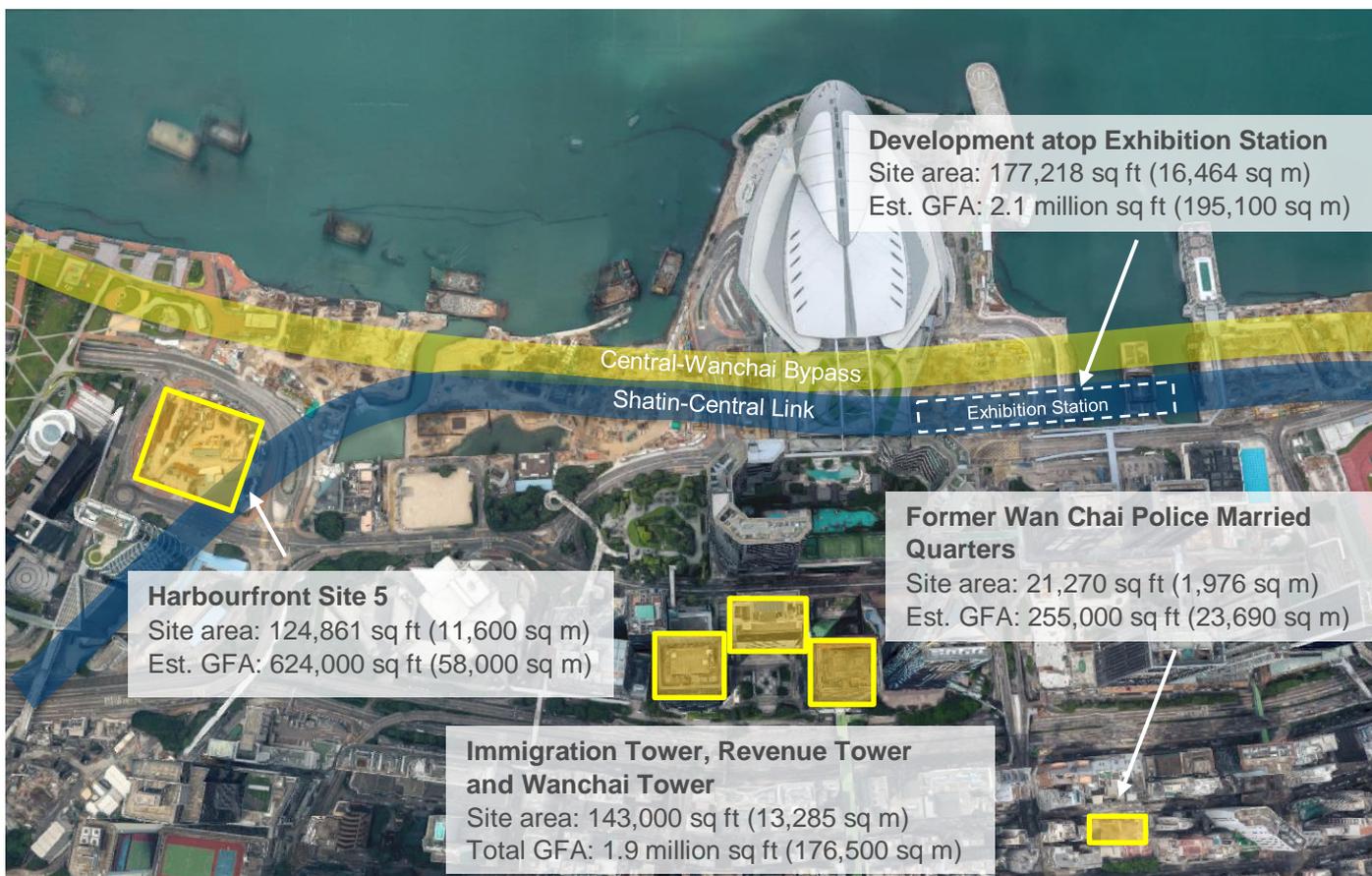
We believe the plan to expand Hong Kong Convention and Exhibition Centre (HKCEC) in Wan Chai will have long-term positive effects for Hong Kong. The demolition of the three government buildings and their redevelopment into a new convention facility, together with hotels and Grade A offices will inject new energy

into Wan Chai North. The plan will not only strengthen Hong Kong's status as Asia's hub for conventions and exhibitions, but will also u Wan Chai North into a prime office destination, supported by its strategic location.

Central has the most expensive office rents in the world and a long-term lack of new supply has forced tenants to look for quality office space with a more favourable rental profile in more decentralised areas. The completion of the Shatin-Central Link in 2021 and the addition of new MTR stations will make Wan Chai North a more desirable destination for MNCs and professional services firms. Considering the existing vacant sites suitable for office development in Wan Chai North together with the

HKCEC expansion, the total new Grade A office stock in Wan Chai North has the potential to amount to 4.9 million sq ft in the coming years.

Office rents in Wan Chai North currently amount to HKD68.4 per sq ft, representing a discount of 45% compared to Central; and its growth rate has been lagging behind Sheung Wan and Causeway Bay in the last couple of years. In contrast, office prices in Wan Chai have increased rapidly in 2017, 20% YTD, with the office tower at the Convention Centre being popular among investors. With the new development potential, we are confident that office prices in Wan Chai will continue to outperform the market growth average.



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