



## 2013 /14 Budget: Implications for the Real Estate Market

The Government's intention to increase the land supply was the key message for the real estate market in the 2013 /14 Budget, which was announced by the Financial Secretary, Mr John Tsang, on 27 February 2013.

Like last year, the latest Budget indicates the Government's determination to supply sufficient land to meet the market's demand in the medium to long term, and most of the initiatives it outlined were not new. The Government's pro-active stance on this issue is expected to increase residential completion rates gradually in the next few years to a level of more than 20,000 units per annum.

Kowloon East will remain the major source of the commercial land supply in the near future. Besides considering speeding up the release of two clusters of Government sites for commercial development, three commercial/business sites in the district are included in the 2013-14 Land Sale Programme that was announced the day after the Budget Speech.

Meanwhile, initiatives to provide about 12 hectares of land in Tsing Yi and Tuen Mun West will assist the development of the logistics industry. These will provide a total of about 3.2 million sq ft of logistics facilities.

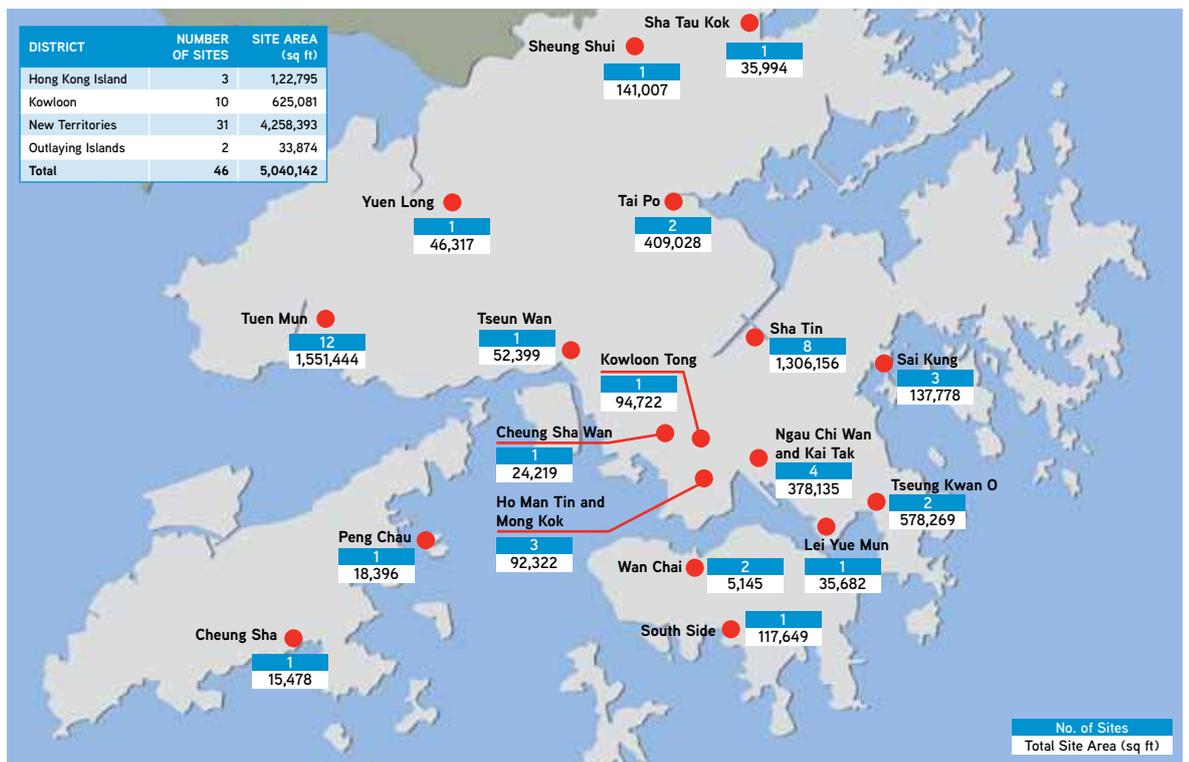
# ➤ Our views about the various key initiatives outlined in the latest budget are as follows

## EXPANDING THE LAND RESERVE

The Government is determined to continue building up a land reserve, as it has been doing in the past two years. Over the next five years, it will allocate HK\$4.5 billion to carry out studies and design work and progressively roll out land-development projects relating to reclamation outside Victoria Harbour. These will be on an appropriate scale, and they will open up new development areas and the development of caverns.

### Colliers' Views

*The Government proposals have shown its determination to satisfy imminent demand for land for housing developments, with the ultimate goal of establishing a more stable housing market. The production of land via reclamation and cavern development is a lengthy process that takes 10 to 20 years. It involves public consultation, as well as assessments of environmental conditions, site formation and development.*



Source: Development Bureau



## RESIDENTIAL PRODUCTION RATE

The Government aims to continue providing sufficient land for building an average of around 20,000 residential units a year.

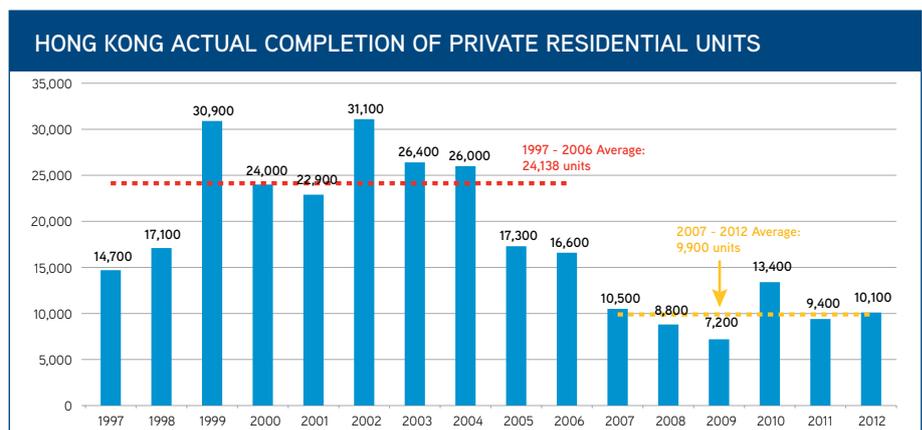
The Government's 2013-14 Land Sale Programme includes 46 residential sites – three on Hong Kong Island, 10 in Kowloon and 33 in the New Territories. Between them, these are capable of providing about 13,600 units. In the coming fiscal year, the combined major sources of supply for private housing will provide land for about 25,800 private residential flats.

SOURCE OF LAND SUPPLY	2013-14 ESTIMATED FLATS
Government Land Sale Programme	13,600
West Rail property development: Long Ping Station (South) and Yuen Long Station	2,600
MTRC property development: Tseung Kwan O Area 86 Package 4 and Tin Shui Wai Light Rail Terminus	3,100
Projects of the Urban Renewal Authority	1,800
Projects subject to lease modifications/land exchange (average of 2003 – 2012 figures)	3,500
Private redevelopment projects not subject to lease modifications/land exchange (average of 2003 – 2012 figures)	1,200
<b>Total:</b>	<b>25,800</b>

Source: HKSAR Government

### Colliers' Views

*It is still premature to say that those sites will translate into 25,800 units, as several in the land sale programme have not yet been rezoned under the town planning process. New supply is expected to average 20,000 units per year. However, no exact timeline has been provided for housing construction and completion. Although the anticipated annual future supply of 20,000 units is an improvement on the annual average of 9,900 over the six years, it is still much lower than the previous average of 24,138 units per year between 1997 and 2006.*



Source: Transport and Housing Bureau, HKSAR Government



## INCREASING COMMERCIAL LAND

The objective of increasing the commercial land supply is to provide room for the further development of different economic activities in Hong Kong. The 2013-14 Land Sale Programme includes nine sites for commercial/business use, plus one "hotel only" site. Between them, they will provide a total floor area of about 3.6 million sq ft and 300 hotel rooms.

The planned relocation of Government departments will enable the Government to release existing premises and sites in core business locations to the private sector. According to the latest plans, potential redevelopment sites in Kowloon East, Central and Wan Chai will provide a total of 7.7 million sq ft:

- Kowloon East: 5.5 million sq ft
- Central: 431,000 sq ft
- Wan Chai: 1.9 million sq ft

The Trade and Industry Department plans to relocate to the new Trade and Industry Tower at the Kai Tak Development Area, which is scheduled for completion by the end of 2014. This will release approximately 194,000 sq ft of commercial space at the existing Trade and Industry Department Tower in Mong Kok to the private market. In addition, the Department of Justice and other departments will start relocating in 2015, and that is expected to provide about 26,600 sq ft of office space to the market.

### **Colliers' Views**

*The supply situation in Central and Wan Chai is expected to remain tight for the next two to three years. Given their relatively small total floor area of 26,600 sq ft, the release of the premises currently occupied by the Government in Central and Admiralty for commercial purposes will have a negligible effect on the market. In addition, the potential redevelopment project in Central will not immediately relieve the current tight supply situation. In Wan Chai, the future redevelopment project for the three waterfront Government towers will provide 1.9 million sq ft of prime office space to the private sector. This will attract occupiers seeking prime office space in decentralised locations on Hong Kong Island.*

*All three commercial sites in the latest Land Sale Programme are located in Kowloon East, and they involve a total floor area of 2.3 million sq ft. The relocation of the two clusters of Government sites in Kowloon East will add about 5.5 million sq ft of commercial space to the district. From a long-term perspective, the sizeable new supply of commercial premises will further boost Kowloon East's status as a new commercial hub.*

*The future release of 194,000 sq ft of office space in the Trade and Industry Department Tower in Mong Kok will have a limited impact on the sub-market, considering there are already 9.1 million sq ft of office stock in Yau Ma Tei and Mong Kok, according to the Rating and Valuation Department.*



## SITES FOR THE LOGISTICS INDUSTRY'S DEVELOPMENT

The Government has reserved a logistics site with an area of about two hectares at Tsing Yi. This will be put on the market during the first half of 2013. The Government also plans to designate about 10 hectares of land at Tuen Mun West for the development of logistics facilities. Upon completion, the future projects will provide a total floor area of about 3.2 million sq ft.

### **Colliers' Views**

*The market has approximately 21.4 million sq ft of warehouse premises in the Kwai Chung, Tsing Yi, Tsuen Wan and Tuen Mun districts, according to the Rating and Valuation Department. The future projects will be the equivalent of around 15% of the existing warehouse stock in these districts, they should satisfy the market's pent-up demand, thereby facilitate the development of the logistics industry and enhance Hong Kong's role as Asia's premier logistics hub.*

## RELIEF MEASURES

The government announced some relief measures in response to the uncertain external outlook and risk of rising inflation caused by quantitative easing measures in various Asian countries. The following are directly related to the real estate market:

- A two-month rent holiday for public housing tenants;
- A waiver of rates for 2013-14, subject to a ceiling of HK\$1,500 per quarter for each rateable property (2012-13: up to HK\$2,500 per quarter);
- Increased basic and additional child allowances of HK\$70,000 for each child (2012-13: HK\$63,000);
- An additional one-off allowance of HK\$70,000 for each child during its year of birth (2012-13: HK\$63,000); and
- A reduction in salaries tax and tax under personal assessment for 2011-12 by 75%, subject to a ceiling of HK\$10,000 (2012-13: a ceiling of HK\$12,000).

### **Colliers' Views**

*Unlike last year, the Government will not be raising tax thresholds. The increase in child allowances will have only a marginal positive effect on disposable income levels, and the relief measures will not have a material impact on the residential property sector.*



## CONCLUSION

Overall, the HK\$33 billion one-off relief measures included in the Budget will help to ease the pressure on the middle class, the grassroots, and small and medium enterprises.

In the real estate sector, a gradual increase of the land bank and the Government's intention to dispose of all the sites included in the 2013-14 Land Sale Programme indicates its determination to provide sufficient land to meet demand, particularly in the mass residential sector, over the medium to long term. The luxury residential sector will not feel any impact, as only two sites in traditional luxury areas are available under Government land sale proposals – one in South Side and the other in Kowloon Tong.

Regarding commercial land, Kowloon East will be a major source of land supply. The sites in the Land Sale Programme and the two clusters of Government sites in the district are expected to provide a total commercial floor area of about 7.8 million sq ft. The emergence of Kowloon East as a Central Business District 2 (CBD2) will be facilitated by the completion of a sizeable stock there, coupled with future developments scheduled for completion in the coming years. The latter include the full completion of the MTR Shatin – Central Link in 2020 and the Kai Tak Cruise Terminal (where the first berth will be commissioned in mid-2013). Depending on how rapidly new floor space is launched in the market, the sizeable new supply may exert pressure on the leasing market in the district.

The Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong has made the latter an ideal business base for entrepreneurs looking to do business on the Mainland. It has also given Hong Kong logistics companies priority access to the Mainland's booming domestic market. The initiatives to provide about 12 hectares of land in Tsing Yi and Tuen Mun West will facilitate the industry's development in Hong Kong.

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