

# A POLICY ADDRESS TO BENEFIT THE LAND & HOUSING SECTORS

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## Summary & Recommendations

The 2019 Policy Address focuses on new measures to assist young people getting on the property ladder by increasing the housing supply and raising the loan-to-value ratio for eligible buyers, which Carrie Lam believes is a priority to ease the recent continuing demonstrations.

We are encouraged by the focus on short-to-medium-term initiatives targeting the acute housing problem, at the same time offering solutions for the long-term land supply and encouraging the redevelopment of old or underutilised properties.

However, the Policy Address has limited measures to provide support to the weakening economic pillars and is short of vision on the commercial and industrial sectors. Property players should exercise prudence, with moderate expectations.

## 90%

Maximum loan-to-value (LTV) ratio for eligible first-time buyers of properties with value from HKD4 million to HKD8 million, increased from a previous ceiling of HKD4 million.

## 10,000

Units of transitional housing to be provided within the next three years, being located on temporarily vacant government land and public facilities, as well as land lent by private developers.

## 42,000

Number of flats in the 39 housing estates under the Tenants Purchase Scheme (TPS), which are on average priced at about 20% of their assessed market values, to be promptly put on sale.

## 400

Out of 700 hectares of private land where development will be resumed for new housing supply. Significantly more than the 20 hectares put up for development in the past five years.

On 16 October, 2019, Chief Executive (CE) Carrie Lam delivered her third policy address against the backdrop of the continuing demonstrations and overall challenging local environment in Hong Kong\*. This year's policy address was 53 paragraphs<sup>1</sup>, compared to the over 300 paragraphs delivered in 2018.

Without a surprise, the government largely focused on its mid-term vision for housing and land policy, with an emphasis on the public housing sector. One of the key highlights was the announcement of a policy change for first-time home buyers, by lowering the cap on the value of property eligible for a mortgage loan with a maximum cover of 90% loan-to-value (LTV) ratio, from the existing HKD4 million to HKD8 million.

Colliers welcomes most of the new policies announced in this year's policy address. However, the latest blueprint did not address other key policies regarding the commercial land supply and measures to support the retail and hospitality sectors, which have recently been dented due to the continuing protests in the city.

Source: [2019 Policy Address](#), HKSAR Government.

1 HKD = 7.8 USD. 1 Hectare = 107,639 sq ft. \*Hong Kong Special Administrative Region of the People's Republic of China.

# HOUSING

## Policies and measures

Solving the acute housing issue is the top priority in the Policy Address, and increasing the public housing supply and supporting first-time buyers are the major measures. Below are the summary of the measures:

- > For a first-time home buyer, under the Mortgage Insurance Programme, the cap on the value of a property eligible for a mortgage loan with a maximum cover of a 90% loan-to-value (LTV) ratio is to be raised from **HKD4 million to HKD8 million**. The cap on its value should be raised from **HKD6 million to HKD10 million** for the maximum cover of 80% LTV ratio.

### LTV ratios and their eligible property value

Max LTV Ratio	80%	80-90%	90%
Property Value (Existing)	≥\$6 mil	\$4 - \$4.5 mil	≤\$4 mil
Property Value (New)*	>\$6 - \$10 mil	>\$8 - \$9 mil	>\$4 - \$8 mil

Source: HKMA. Note: figures in HKD. \*Applicable to completed residential properties only.

- > Acceleration of the sale of about **42,000 flats in the 39 estates** under the Tenants Purchase Scheme (TPS), which are on average priced at about 20% of their assessed market values.
- > About **12,000 flats** from the **Home Ownership Scheme (HOS)** and **Green Form Subsidised Home (GSH)** are planned to be put up for sale in 2020.
- > A total of **10,000 units of transitional housing** are to be provided within the next three years, on temporarily vacant government land and public facilities, as well as on land lent by private developers.
- > Development of a private residential site, on Anderson Road in Kwun Tong, providing **1,000 below-market-price Starter Homes (SH)** for eligible buyers, commencing sales in Q1 2020. To provide more SH or other types of Subsidies Sales Flats (SSFs) in URA's redevelopment projects.
- > Redeveloping sites of more than 30 buildings under the Civil Servants' Co-operative Building Society Scheme (CBS) in Kowloon City, providing **five times** the total number of flats, mainly for public housing.

## Colliers' View

- > We are **delighted to see the government reinforcing the supportive policies to help buyers get on the property ladder**. The low property value ceiling for a high LTV ratio has hindered buyers entering the market, as the high lumpsum and down payment have been the major hurdle even though they pass the pressure test for mortgages (i.e. debt-to-income ratio).
- > We expect the higher ceiling for property values eligible for high mortgage ratios will likely **increase the liquidity in the secondary market** and **encourage owners to upgrade and trade their flats**. As the new scheme is planned to only be applicable to completed residential properties, it should have a limited impact on the primary market as developers tend to presell their properties quickly, especially with the upcoming vacancy tax. Also, developers have already been offering additional mortgages and discounts for perspective buyers.
- > Although activities in the secondary market are likely to increase, **prices are unlikely to be driven up significantly as some positive spin from the policy could partly offset the currently gloomy market sentiment** with the continuing demonstrations remaining unresolved.
- > Developers should reconsider their future development strategies, to build new flats within price ranges that can benefit from the new LTV ratio for the first-time buyers, especially for units priced between HKD6 million to HKD10 million, which have much lower LTV ratio than before.
- > **Increasing supply for public housing should assist buyers with lower purchasing power** to solve their general accommodation issue. However, it will likely take away some land resources and hence put pressure on private residential supply the other way around. Limited supply for private housing is likely to support prices. For buyers with a greater purchasing power, and the desire to purchase private housing, a reduction in options and firmer outlook for private residential prices might not be enticing, however, private home owners looking to sell should benefit.

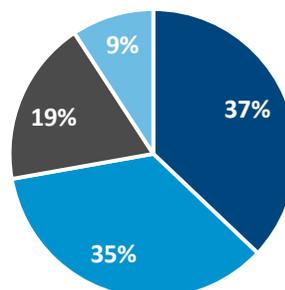
## LAND SUPPLY

### Policies and measures

- > Invoke the [Lands Resumption Ordinance to resume development on three types of private land for public housing and Starter Homes \(SH\)](#): (1) privately-owned brownfield sites in the New Territories; (2) private land which has been zoned for high-density housing under the outline zoning plan but currently lacks a plan; and (3) urban private land in Chai Kwo Ling Village, Ngau Chi Wan Village and Chuk Yuen United Village.
- > [Review over 300 “Government, Institution or Community” \(GIC\) sites](#) that are planned for public facilities with a view to developing them under the “single site, multiple use” model, while assisting non-governmental organisations to optimise the use of their sites.
- > Of the [450 hectares of brownfield sites](#) in the New Territories with development potential, 160 hectares that are in the vicinity of existing infrastructure and public housing developments are planned to be included in a study for possible public housing development in the future.
- > The [coastal development of Tuen Mun West, including the River Trade Terminal, is scheduled to be re-planned](#) and the feasibility of developing the coastal areas into residential areas is to be explored.
- > Commence detailed planning and design for the [Tung Chung Line Extension, Tuen Mun South Extension and Northern Link](#).

Distribution of brownfield sites covered by the large-scale development projects

- Other areas in New Territories North
- Hung Shui Kiu
- Yuen Long South
- Kwu Tong North / Fanling North



Source: Task Force on Land Supply, HKSAR Government.

<sup>1</sup> [Task Force on Land Supply](#), 10 October 2017, Development Bureau.

### Colliers' View

- > Although the use of the Lands Resumption Ordinance can boost the supply of public housing in both urban and suburban areas, it **is unlikely to boost the residential supply in the coming few years** due to the amount of time and monetary resources needed. Increasing the provision for Starter Homes may help to relieve the middle class housing pressure.
- > The review of “GIC” sites to allow mixed uses of land can make better use of land. However, the **government would need to streamline existing application procedures**. For instance, building as well as fire safety regulations should be fine tuned to encourage the mixed use of land. In addition, the provision of special housing from a “single site, multiple use” model like senior housing and transitional housing would help to cater social needs.
- > The development of brownfield sites for residential purposes should **force logistics service providers that already operate their business on the brownfield sites to relocate**, posing additional demand to the supply-constrained warehouse market. Currently, brownfield sites in Hung Shui Kiu and Yuen Long South being used for warehousing and logistics operations alone account for 114 hectares<sup>1</sup>.
- > Upon the completion of major transport infrastructure such as the Tuen Mun-Chek Lap Kok Link, **Tuen Mun West should become the major logistics hub** between the Mainland and Hong Kong International Airport (HKIA), increasing demand for warehousing space in the area. Coupled with the existing 385,000 sq feet (36,000 sq metres) of warehousing space in the area, Goodman’s future logistics development in Siu Lang Shui is scheduled to provide 852,000 sq feet (79,200 sq metres), but even this will likely be insufficient to meet the future logistics demand.
- > We expect the construction of **new rail lines and infrastructure** to help the development of residential neighbourhoods in new town areas, at the same time increasing the opportunities for commercial activities.

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