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# 2024 HONG KONG POLICY ADDRESS INSIGHT

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Better never settles





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# 01

## INTRODUCTION



Hong Kong Chief Executive Mr. John Lee Ka-chiu delivered the third Policy Address of his term of office on Oct. 16, 2024, with the theme of *Reform for Enhancing Development and Building Our Future Together* aiming to consolidate and enhance Hong Kong's status as an international financial, shipping, and trade center. While innovation and technology (I&T) and finance are the focus, he has also proposed measures to attract talent and funds, as well as several actions to promote industry development.

We are pleased to see that in the Policy Address, the government has actively reviewed and initiated a number of policies that will benefit the economy, attract talent and develop industries. These include relaxing the loan-to-value (LTV) ratio of properties and allowing the purchase of big-ticket residential properties in the New Capital Investment Entrant Scheme, bringing positive momentum to the property market. The Policy Address also proposes to promote Hong Kong as an international hub for post-secondary education, increase student housing supply, and pilot a large-scale land disposal approach for developers in the Northern Metropolis, all striving to promote the development of different industries and the improvement of Hong Kong's long-term competitiveness.

In this special report, we summarize the real estate-related policies in the 2024 Policy Address, share our house views, and propose recommendations on current issues.



# 02

## HOUSING & LAND POLICY



### INCREASING PUBLIC HOUSING SUPPLY

#### Policy Address:

- Including Light Public Housing (LPH), the total public housing supply in the coming five years to reach 189,000 units.
- The first batch of LPH units to be completed for intake next year, moving towards the target of completing about 30,000 units by 2027-28.
- The composite waiting time to be shortened to 4.5 years in 2026-27.



### ENHANCING THE HOUSING LADDER

#### Policy Address:

- To gradually adjust the ratio between public rental housing (PRH) and subsidized sale flats (SSF) from the current 7:3 to 6:4.
- The next Home Ownership Scheme (HOS) and Green Form Subsidised Home Ownership Scheme (GSH) sale exercises, will allocate an extra ballot number to applicants who failed to purchase a SSF in the last two consecutive sale exercises of the same type of SSF.
- The ratio between Green Form and White Form in respect of HOS flats to be revised from 4:6 to 5:5.

#### Our views:

We are pleased to see that the government will gradually build and launch Light Public Housing (LPH) and utilize undeveloped land for rapid housing solutions through Modular Integrated Construction (MiC), which has successfully reduced the composite waiting time. We recommend that the government continue to seek suitable public housing sites and expedite the redevelopment of aging housing estates to effectively allocate resources to those in greatest need.

We are also pleased to see that the government has responded positively to the public's demand for home ownership, including the adjustment of the ratio between PRH and SSF, as well as increasing the chances of applicants who have made repeated attempts to purchase SSF, allowing PRH residents and the sandwich class to purchase their own flats. This could in turn speed up the turnover of PRH flats, making the city a better place to live.



## TACKLING THE ISSUE OF SDUS

### Policy Address:

- To put in place, through legislation, a system on the renting of subdivided units (SDUs) in residential buildings. SDUs meeting the required standards will be named as Basic Housing Units, while substandard SDUs in residential buildings must be converted into Basic Housing Units that meet the required standards.
- To allow time for owners of existing SDUs to carry out the necessary works.

### Our views:

We are pleased to see the government's proactive measures to address the housing problem. The introduction of a rental system for subdivided units, which will be renamed as Basic Housing Units, aims to improve the living conditions for low-income individuals and grassroots families, gradually alleviating the subdivided units issue. However, the costs associated with renewing SDUs may reduce the supply, potentially leading to higher rents and greater financial burdens for grassroots households. Therefore, it is important to formulate a comprehensive rehousing plan.

In the long run, we believe the key to tackling the issue of SDUs is to formulate a sound rehousing policy. It is crucial to consider the affordability of grassroots housing via a gradual approach, balancing supply and demand, while carefully analyzing the potential risks.



## LAND POLICY

### Policy Address:

- To make available land over the next five years to provide about 80,000 private housing units.
- The supply of developable land from government-led projects will reach about 3,000 hectares in the next decade.
- To facilitate co-ordination between departments in expediting the approval of land use and related matters for large-scale private residential and commercial developments.

### Our views:

The government has indicated that 3,000 hectares of developable land will be available for development over the next decade, which is a step toward stabilizing long-term housing supply. However, we anticipate that part of this land will be in the Northern Metropolis. We recommend that the government closely monitor the infrastructure development timetable for the area, ensuring that supporting facilities in the New Development Areas (NDAs) keep pace with land development.

In addition, we suggest that the government flexibly adjust the reserve price and land sale conditions in response to market conditions, in order to prevent excessive restrictions that could lead to failed bids, and ultimately contributing to the stability of housing supply in the long run.





# 03

## COMMERCIAL PROPERTIES



### OFFICE / HOTEL

#### Policy Address:

- To launch a pilot scheme to streamline the processing of applications in relation to planning, lands and building plans.
- To encourage the market to convert hostels and other commercial buildings into student hostels on a self-financing and privately funded basis, increasing the supply of student hostels.

#### Our views:

We are pleased to see the government strengthening the "Nurture Talents" initiatives. While the new measures will enhance the future supply of student hostels, this will also help alleviate the vacancy pressure of underutilized office buildings.

We suggest the government adopts the waiver policy to facilitate the conversion of office or hotel buildings on commercial use sites into student or talent hostels. This can minimize the costs and time required for owners/operators to apply for and maintain a hotel operation license, while allowing them to legally use the office buildings or hotels for living purposes. Additionally, the government may also consider providing subsidies or loans to owners/operators to reduce conversion costs, expediting project implementation and completion.



### LOGISTICS / WAREHOUSE

#### Policy Address:

- To adjust the duty on the import price of liquor to promote liquor trade and boost the development of logistics and storage, tourism, and high-end F&B consumption.
- To reduce the liquor tax with an import price of over HK\$200 from 100% to 10% for the portion above HK\$200.

#### Our views:

We believe that reducing the liquor tax will help increase the sales of spirits, thereby supporting the demand for warehousing facilities for spirits.

According to current policies in Hong Kong, spirits must be stored in Dangerous Goods warehouses, which require licenses from multiple government departments. The license application processes are stringent and time-consuming, while most industrial and warehouse sites in Hong Kong have user restrictions that prohibit the storage of Dangerous Goods. If the demand for spirits storage increases, the relevant government departments should introduce corresponding measures to facilitate the logistics industry in providing sufficient storage and logistics services legally for their spirits supplier clients.

# 04

## TALENT ATTRACTION



### TRAWLING FOR TALENTS

#### Policy Address:

- To update the Talent List.
- To expand the list of universities under the Top Talent Pass Scheme.
- To enhance the General Employment Policy, the Admission Scheme for Mainland Talents and Professionals and the Quality Migrant Admission Scheme.
- To extend for two years the pilot arrangement of including graduates from the GBA campuses of Hong Kong universities under the Immigration Arrangements for Non-local Graduates.



### ESTABLISHING THE "STUDY IN HK" BRAND

#### Policy Address:

- To establish the "Study in Hong Kong" brand and attract more overseas students, especially those from ASEAN and other B&R countries, through the provision of scholarships.
- To increase the supply of hostel facilities by launching a pilot scheme to streamline the processing of application in relation to planning, lands and building plans, in order to encourage the market to convert hotels and other commercial buildings into student hostels on a self-financing and privately funded basis.
- Earmarked over 80 hectares of land in the Northern Metropolis for the Northern Metropolis University Town.

#### Our views:

We are delighted to see that the government attaches greater importance to attracting high-caliber talent and has proposed more policies to trawl for talent. According to the Policy Address, in the next five years, there will be an estimated manpower shortage of about 180,000 workers in a range of industries. The Government is also committed to building the "Study in Hong Kong" brand and developing the Northern Metropolis University Town. These policies will all help attract talent and students from all over the world to come to Hong Kong in the longer run.

According to our latest estimates, on average, more than three university students compete for one bed in Hong Kong. The supply shortage of student beds in the future may exceed 40,000 beds, forcing those students who are unable to secure hostel places to look for rental housing in the private market. We are also pleased to see that the government is willing to work towards relaxing regulations to potentially convert suitable commercial buildings or hotels into student accommodations. However, the Government still needs to make long-term plans for the future supply of student hostels and talent apartments. The rising number of people working and studying in Hong Kong is expected to bring greater growth momentum to rental apartments, and this will likely attract more investors to focus on the talent and student housing sectors, benefitting investment opportunities on convertible serviced apartments and hotel assets.



# 05

## CAPITAL MARKETS



### EXPANDING THE NEW CAPITAL INVESTMENT ENTRANT SCHEME

#### Policy Address:

- To allow the purchase of residential properties under New Capital Investment Entrant Scheme.
- Eligible for HK\$50 million or above transactions.
- The amount of real estate investment to be counted towards the total capital investment capped at HK\$10 million.

#### Our views:

We are pleased to see the government's enhancement of the New Capital Investment Entrant Scheme to further review the investment thresholds, streamlining the approval process, and diversifying asset classes.

Allowing investment in the residential sector and diversifying asset classes will make the Scheme more attractive to investors. As Asia's acclaimed "World City," Hong Kong is closely connected to other influential financial centers, facilitating 24-hour financial transactions. Hong Kong's unique geographical advantages, well-established financial infrastructure, thriving innovation and technology ecosystem, world-class talent pool, and vibrant urban atmosphere make it an ideal choice for investors seeking to capitalize on the world's fastest-growing opportunities.



### RELAXATION OF LTV RATIO

#### Policy Address:

- Residential Premises - regardless of property value, whether it is for self-use or held by companies, and whether the purchasers are first time home buyers
  - LTV ratio - capped at 70%
  - Debt servicing ratio - capped at 50%
- Non-residential premises to be capped at the same levels.

#### Our views:

We welcome the government's initiative to relax the loan-to-value (LTV) ratio policy as this will help lower the entry cost requirements for commercial and residential properties (particularly for big-ticket sales), benefitting the longer-term development of the residential and investment markets.

However, the current residential market is still largely impacted by high interest rates and economic fundamentals. Combined with local banks' cautious lending approach, this will likely limit the immediate stimulus effect on the residential and non-residential investment markets in the short term.







## OPTIMIZING MUTUAL MARKET ACCESS, STRENGTHENING THE INTEGRATION OF GBA

### Policy Address:

- To implement an array of measures to attract new capital and products to the stock market, including more Renminbi (RMB)-denominated products and refining the regulatory regime to boost efficiency.
- To better utilize the currency swap agreement with our country to enhance offshore RMB liquidity.
- To actively explore the suitable expansion of the Bond Connect (Southbound Trading) to deepen mutual market access.

### Our views:

We are pleased by the government's ongoing efforts to enhance the mutual market access regime and to strengthen Hong Kong's status as the world's largest offshore Renminbi (RMB) business hub, contributing to the RMB's internationalization. Key measures effectively respond to the National Development and Reform Commission's *Three-Year Action Plan for the Development of International Business Environment in the Guangdong-Hong Kong-Macao Greater Bay Area* announced at the end of 2023.

These measures include continuous improvement of Hong Kong's infrastructure and upgrades to the Central Moneymarkets Unit (CMU), facilitating the settlement of various assets in different currencies for international investors. Developing the fixed-income market infrastructure, for instance, and setting up a central clearing system for RMB-denominated bond repurchase (repo) transactions, will make RMB sovereign bonds issued in Hong Kong a more popular choice of collateral in offshore markets.

We believe that the government will successfully align with the Three-Year Action Plan to attract foreign enterprises and capital, enhance the internal management system, unify the law enforcement frameworks, and create an open environment for cooperation, co-existence, and strengthened connectivity. In turn, this will accelerate the in-depth promotion of the Bay Area Connect project, ultimately enhancing the level of integration across the region. In the long run, the measures will help attract foreign capital and family offices to invest in Hong Kong, both strengthening Hong Kong's status as an investment market and underpinning office demand in the city.



# 06

## NORTHERN METROPOLIS



### DRIVING INDUSTRY DEVELOPMENT

#### Policy Address:

- To advance the Northern Metropolis development with innovative mechanism, and to adopt a "large-scale land disposal" approach for developers to undertake composite development.
- To establish a government-led company to formulate development and operation strategies for building a pilot industrial park.
- To develop the Northern Metropolis with innovative technology industries, education, and medical research as its economic engines.
- Earmarked over 80 hectares of land for developing the Northern Metropolis University Town, and reserve sites in the Northern Metropolis for developing the third medical school by local universities.

#### Our views:

We are pleased to see the government adopting a large-scale land disposal approach, on a pilot basis, to expedite development of the Northern Metropolis. The Northern Metropolis is envisioned as a livable, workable, and tourist-friendly region in Hong Kong, and we are encouraged to see that the government is considering innovation, technology, education, and medical research as key drivers for industry development.

We recommend the government to introduce low-altitude economy industries into the Northern Metropolis. The development must consider the entire industry chain, including mainstream industries, dependent industries, complimentary industries, related industries, and supporting facilities. These require significant land areas and flexible land use and planning.

While promoting the development of the area, the government must ensure the coordination of the overall transportation infrastructure and public facilities in the Northern Metropolis. Industry development should align with the industry chain structures of other cities in the Greater Bay Area, fostering a complementary role that enhances Hong Kong's integration into the broader national development strategy.





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