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Insights

HONG KONG SAR POLICY ADDRESS 2022 – A QUEST FOR TALENT, PUBLIC HOUSING AND LAND SUPPLY

KEY TAKEAWAYS FOR THE REAL ESTATE, CONSTRUCTION AND INFRASTRUCTURE SECTORS

Oct 19, 2022

SUMMARY

Hong Kong SAR Chief Executive John Lee announced his maiden policy address on 19 October 2022. Alongside initiatives to attract foreign talent and safeguard national security, which are the main themes of his speech, he highlighted various key policies which are relevant to the real estate, construction and infrastructure sectors. We set out the key takeaways in this article.

1. Real Estate

2. Construction

3. Innovation and Technology

4. Transport and Logistics

5. Other key takeaways

6. Concluding remarks

REAL ESTATE

Talent Trawl

The Government acknowledged that, since 2020, the local workforce of Hong Kong SAR shrank by 140,000. A roadmap is announced to reverse the brain drain, retain and attract talent back to Hong Kong SAR. Plans that have implications on the real estate and construction sectors include:

- Stamp Duty Refund - Non-permanent residents who have been residing in Hong Kong SAR for seven years will be eligible for a refund of the buyer stamp duty and the new residential stamp duty paid for the purchase of their first residential property.

- Additional Accommodation - The Government will explore options to develop a new purpose-built "InnoCell" near the Hong Kong Science and Technology Park to provide accommodation for Information & Technology ("**I&T**") talent. It is not clear at this stage whether such development will be on a subsidised basis.

Land Supply

The Government will formulate and publish regularly the forecast of 10-year supply of developable land to enhance transparency and facilitate monitoring of work.

Regarding land reclamation, the Government has committed to:-

- Kau Yi Chau Artificial Islands – commence the first phase of reclamation in late 2025 at the earliest and bring forward the first population intake to 2033.

- Ma Liu Shui Reclamation – complete the Engineering Study in 2024, targeting to create about 60 hectares of land which, together with around 28 hectares of land to be vacated after the relocation of the Sha Tin Sewage Treatment Works to caverns, will provide about 88 hectares of land in total mainly for I&T development.

Regarding cavern development, the Government will explore the development of cavern data centres for effective use of land resources and utilisation of the edge of cavern space to support I&T development. Thereafter, will take forward the implementation model of underground quarry-cum-cavern development to enhance long-term land supply more efficiently as well as to provide a local source of rock material supply.

Regarding speeding up land supply, the Government has committed to:

- New round of "Green Belt" review – carry out technical studies on the 255 hectares of land shortlisted and rezone the first batch of land by 2024, and complete land formation for the first batch of land in around 2026.

- Tseung Kwan O Area 137 – commence detailed technical assessment as soon as possible, targeting to achieve the first population intake in 2030.

- Redevelopment of the three urban squatter areas – continue to take forward the redevelopment of Cha Kwo Ling Village, Ngau Chi Wan Village and Chuk Yuen United Village with a view to provide public housing unit in phases.

- Land Sharing Pilot Scheme – continue to vet the received applications and submit suitable ones to the Chief Executive-in-Council for consideration as soon as possible.

- Unlocking Tso/Tong lands in the New Territories – continue the review on the potential of unlocking potential of Tso/Tong lands with its management together with the Heung Yee Kuk

New Territories, the Development Bureau and other relevant departments.

- Large scale resumption of private land for development – to resume about 500 hectares of land, with 90% in the Northern Metropolis, in the next five years (with the total exceeding four times of the 120 hectares of land resumed in the past five years) and further resume about 200 hectares of land in the ensuing three years.

- "Single site, multiple use" initiative – continue to actively take forward existing "single site, multiple use ("SSMU")" projects and identify more SSMU projects to optimise land use and provide public services. Conduct a new round of review of Government, Institution or Community sites and put forward concrete proposals for sites with no development plans yet.

- Streamlining development procedures – introduce a bill into the Legislative Council to amend development-related statutory procedures, complete a review of the Environmental Impact Assessment Ordinance to optimize environmental impact assessment process, further streamline administrative procedures

- Extension of standard rates for charging land premium – consider regularizing the arrangement of charging land premium on standard rates for redevelopments of industrial buildings and explore the gradual extension of the approach to agricultural land outside New Development Areas in the New Territories, and put forward specific implementation plan by mid-2023.

Northern Metropolis

The Government will continue to develop the northern part of Hong Kong SAR along its border with Mainland China and will undertake studies on the four new land development areas proposed in the Northern Metropolis Development Strategy, with the target of putting forward development proposals in phases between the second half of 2023 and 2024.

A Steering Committee and an Advisory Committee to be led by the Chief Executive and the Financial Secretary respectively will also be established within this year, together with setting up an office within the next year to co-ordinate the overall development of the Northern Metropolis.

Urban Renewal

The Government seeks to lower the compulsory sale thresholds under the Lands (Compulsory Sale for Redevelopment) Ordinance within this year, to expedite title assembly to facilitate urban renewal.

In order to speed up redevelopment projects, the Government will enhance compensation and rehousing arrangements for development clearances and to continue to implement the relaxed rehousing and ex-gratia allowance arrangements for squatter households put in place since mid-

2018, and the enhanced ex-gratia compensation and allowance arrangements for landowners and business undertakings adopted since mid-2022.

A bill will be introduced within next year such that land leases expiring from 2025 onwards will be extended regularly in a consistent manner. This will provide great clarity for the future of real estate ownership and will be particularly appealing for international investors.

Public Housing

The Government will strive to increase the supply of public housing in the coming five-years (i.e. from 2023-24 to 2027-28) to about 158,000 units. Moreover, over 20,000 transitional housing units shall be provided by 2024-25.

The Government has committed to shorten the waiting time of public housing by the following measures/schemes:

- New Light Public Housing Scheme: 30,000 light public housing scheme units will be completed in 5 years to enable early intake of public housing applicants;
- Advance Allocation Scheme for Public Rental Housing: 12,000 units will be expedited within the coming 5 years for early intake by 3-18 months;
- Public-private partnership: New scheme to encourage private developers to apply for rezoning of their own private land for subsidised sale flat development;
- Redevelopment of public housing estates: The Hong Kong Housing Authority are invited to conduct studies for further redevelopment projects; and
- Redevelopment of urban squatter areas: Three urban squatter areas (Cha Kwo Ling Village, Ngau Chi Wan Village and Chuk Yuen United Village) are being redeveloped with hopes of providing 8,700 public housing units in phases, from 2029 onwards.

The Government will introduce the following new models and approaches to accelerate housing production:

- Modular Integrated Construction ("MiC") approach: All public housing projects scheduled for completion in the first five-year period are suggested to adopt the Design for Manufacture and Assembly approach for the first 5 year period and the MiC approach for the second 5 year period. As discussed above for further plans regarding MiC.
- "Design and Build" model: The Hong Kong Housing Authority are invited to require at least half of the total number of public housing flats scheduled for completion in the second five-year period to adopt the "Design and Build" procurement model.

The Government will seek to enhance transparency and facilitate work progress by the following methods:

Introducing a new “Composite Waiting Time for Subsidised Rental Housing” index, which accurately reflects the average waiting time of public rental housing applications;

Regularly publishing forecast of a 10-year supply of public housing; and

Setting up an inter-departmental action group on public housing projects to enhance collaboration and problem solving.

To improve the overall environment and quality of public housing estates, the Government will set up action groups to regularly study and review the living environment and facilities of public housing residents.

Transitional Housing

The Government aims to continue to take forward transitional housing by providing over 20,000 transitional housing units by 2024-25, of which about 5,400 are already in operation and about 1,600 are expected to be completed by end-2022.

Tenancy Control on Subdivided Units

The Government will step up enforcement and publicity efforts on tenancy control of subdivided units and acts of overcharging for water and electricity, including jointly visiting subdivided units households by the Rating and Valuation Department and the Water Supplies Department, and setting up specific task force for investigation and a team for enforcement of installation of separate meters for subdivided units.

Private housing

The Government acknowledged the demand for private housing is high – 129,000 units for the next 10 years. The Government aims to provide no less than 72,000 residential units in the next five years, to be achieved by getting land ready for sale or railway property developments. With development projects being undertaken by the Urban Renewal Authority and private development projects, it is predicted that the overall supply will exceed the demand projected.

Some of such railway property developments include:

- Pak Shek Kok Station of East Rail Line: In collaboration with the MTR Corporation Limited (“MTRCL”), the first batch of housing units, tied to the completion of the station, is expected to completed in 2033 or earlier.
- Development of MTRCL’s Siu Ho Wan Depot site: This project aims to provide around 20,000 residential units. The first phase of housing units is forecasted to be completed between 2030

and 2032.

- Development proposal for Tseung Kwan O (TKO) Area 137: This development is expected to be able to provide 50,000 residential units for the Hong Kong population. Where the first population intake shall be as early as 2030.

To expedite the approval of building plan submissions, “Dedicated Processing Units” will be set up in the Buildings Department to facilitate the approval process. This is expected to benefit over 500 units or more in various private residential projects.

Housing for Young People

The Government has outlined two main ways to help meet the housing needs of the younger generation:

- Starter Home Projects: aimed at helping those aged 40 or below and to be launched in the next financial year under the Land Sale Programme;
- Youth Hostel Scheme: aimed at increasing the supply of hostels by providing about 3,000 additional hostel places within the next five years. Youth tenants will be charged a discounted rent of around 60% of the market rate. Developers will be required to set aside a number of flats and providing subsidies to non-governmental organisations to rent hotels and guesthouse to be used as youth hostels.

CONSTRUCTION

Modular Integrated Construction

It is anticipated that the Hong Kong SAR’s annual capital works expenditure will exceed HK$100 billion in coming years. To support this growth in demand for infrastructure, the Development Bureau will encourage a wider adoption of MiC by establishing an interdepartmental steering committee. The plan is to roll out policies covering the following areas within next year:

- Strengthening the manufacturing, transporting, storing and testing of MiC modules;
- Streamlining the approval process for these modules;
- Setting aside land for the MiC industry within the Northern Metropolis and fostering collaboration with the Greater Bay Area; and
- In particular, to expedite housing supply, a dedicated one-stop platform will be set up to provide technical support for adopting MiC and other high-productivity construction methods in both public and private sectors.

Kowloon East

As the development of Kowloon East into Hong Kong SAR's new central business district continues, the Government aims to increase the supply of commercial space in this district to over 4 million square metres. In terms of local community facilities, the Government also aims to complete an integrated project comprising of open public spaces, a sports centre and a public vehicle park by 2026.

Island South

Hong Kong SAR Island South is also targeted for revitalization works through a series of policies, including connecting the southern waterside trails with other promenades along Hong Kong Island, enhancing public waterfront spaces in Aberdeen and commencing work on the Green Link within 2022, which will link up the MTR Wong Chuk Hang station with the Aberdeen Country Park.

INNOVATION AND TECHNOLOGY

The Hong Kong Innovation and Technology Development Blueprint

The Hong Kong Innovation and Technology Development Blueprint will be published to serve as a high-level guide in formulating general policies and directions for I&T efforts in Hong Kong. A skilled workforce is at the heart of these I&T initiatives, and some of the policies to attract global talent include:

- Attracting first tier enterprises in life science, artificial intelligence, data science, advanced manufacturing and new energy to set up operations in HK;
- Launching a new funding scheme to match university research projects with good commercialization prospects with suitable funding;
- Building more InnoCells as accommodation for I&T talent in the HK Science and Technology Park ("**HKSTP**"); and
- Enhancing the "Technology Talent Admission Scheme" so that admitted mainland and overseas talent can undertake research & development ("**R&D**") locally for two years.

Smart City

To expedite construction processes and promote sustainability, the Government will encourage the industry to adopt applied R&D as a whole through adopting new construction materials, using digital data and monitoring processes, and implementing innovative construction technologies in public works. Continuous financial assistance and labour retraining support will also be provided to these goals. This transition towards "smart construction" further ties in with the Government's plan

to develop Hong Kong into a smart city via initiatives such as digitalising various applications to the Government and providing an electronic one-stop hub for all government services by the end of 2025.

Re-industrialisation

To promote re-industrialisation in Hong Kong, the post of "Commissioner for Industry" will be set up to promote I&T and re-industrialisation. Specifically, the following schemes aimed at promoting smart development and enhancing the built infrastructure for I&T industries will be implemented:

- Exploring the construction of a second Advanced Manufacturing Centre at the Tai Po InnoPark in addition to the recently unveiled one at Tseung Kwan O;
- Subsidising the setting up of smart production lines under the Re-Industrialisation Funding Scheme with a view to increase the number of these lines from 30 currently to 130;
- Pushing for the completion of the Hong Kong-Shenzhen Innovation and Technology Park and aiming to complete the first 8 buildings in phases starting from 2024 with a view to commence business development and attract investments as soon as practicable;
- Ensuring that the expansion of Cyberport will be completed in phases starting from 2025 onwards;
- Exploring the early extension of leases of InnoParks in the HKSTP for 50 years so that businesses will be attracted to commence long term operations there;
- Expediting the development of San Tin Technopole by aiming to complete the relevant studies within 2023 so that it can begin operations as soon as possible; and
- In order to provide transportation support to the Science Park regions, the Government is planning to commission the Science Park/Pak Shek Kok Station of the East Rail Line by 2033.

5G Infrastructure

In support of developing I&T industries and strengthening Hong Kong SAR as a regional communications hub, the government will continue with developing 5G infrastructure via policies such as:

Encouraging early deployment of 5G technology across different industries and utilising HK$100 million of funding to support innovative business services and smart city applications; and

Providing financial incentives to network operators for extending fibre-based networks to remote areas.

TRANSPORT AND LOGISTICS

Logistics industry

A strong logistics network is not only crucial for facilitating the movement of cargo but can help shape Hong Kong SAR into an international transportation centre. To this end, the Government is keen on implementing the following policies to develop smart modern logistics:

- Promoting new tax concession measures for shipping commercial principals in order to attract high value-added maritime companies to set up in Hong Kong;
- Encouraging the industry to make use of technology to improve productivity and to develop services for the transport of cold chain goods and pharmaceuticals;
- Enhancing marine services by implementing electronic certificates for Hong Kong SAR registered vessels and launching the “Maritime and Aviation Training Fund” by mid-2023 to nurture maritime talent; and
- Building a smart and green port by encouraging sustainable shipping initiatives such as providing Liquefied Natural Gas bunkering for ocean-going vehicles.

Land boundary control points will be continuously upgraded to improve the efficiency and movement within these boundary areas:

- Redeveloping the Huanggang Port and initiate work plans to redevelop the Sha Tau Kok Port/ Control Point; and
- Finalising details of a quota-free scheme which would allow Hong Kong SAR vehicles to enter Guangdong via the Hong Kong Zhuhai Macau Bridge.

Transport Infrastructure

In order to meet the needs of the Northern Metropolis (as discussed above) and other long-term developments, the Government aims to build three major road projects plus three railway projects, and consultation for the same will become in Q4 of 2022.

Local railway projects will continue as planned and the following are targeted to commence in 2023 with aimed completion between 2027 and 2030:

- Tung Chung Line Extension;
- Tuen Mun South Extension; and
- Northern Link Phase 1 (Kwu Tung Station).

Cross boundary railway projects

To encourage the co-operation between HK and Shenzhen, the Hong Kong SAR Government will look into preliminary studies for the Hong Kong-Shenzhen Western Rail Link together with Shenzhen authorities, which are expected to complete by Q1 2023.

Other major road projects will continue to be developed; these include the Route 6 currently under construction, Route 11, the Tuen Mun Bypass, Tsing Yi – Lantau Link and more. Together, these transport infrastructure is aimed to meet the long term development goals of HK beyond 2030.

OTHER RELEVANT TAKEAWAYS

Green and Sustainable Finance

The Government has reaffirmed Hong Kong's commitment to promoting greener and more sustainable financing:

- Green Bond Issuance: Issuing government green bonds totalling HK$175.5 billion within five financial years from 2021-22;
- Green and Sustainable Finance Grant Scheme: Providing a subsidy for eligible bond issuers and loan borrowers to cover expenses on bond issuance and external review services to facilitate enterprises' transition to low carbon solutions; and
- Three-year Pilot Green and Sustainable Finance Capacity Building Support Scheme: Continuing to educate and train individuals on sustainable financing.

Aviation

The Government has committed to the following agendas:

- Development at the Airport City: To continue various development projects under the "Airport City" vision to enhance operations at Hong Kong International Airport;
- Third Runway: To complete the remaining works under the Three Runway System by 2024; and
- Redevelopment of the Air Mail Centre: To complete the redevelopment by 2027 in order to strengthen Hong Kong's status as a postal and logistics hub in the Greater Bay Area.

Culture, Sports and Leisure

Cultural Infrastructure: The Government aims to upgrade cultural infrastructure by:

- Launching a 10-year development plan to improve existing cultural facilities and create new museums, libraries and performance venues in New Development Areas; and
- Considering introducing incentives to encourage developers to include arts and cultural facilities in their developments.

Convention and Exhibition Facilities: The Government has committed to expansion plans for convention and exhibition facilities, including the AsiaWorld-Expo expansion in 2023.

Sports and Recreation Facilities: With regard to sports facilities, there will be a launch of a 5-year development plan to improve sports and recreation facilities across Hong Kong.

Leisure and Recreational Facilities: Furthermore, the following initiatives are announced in respect of leisure and recreational facilities:

- Extending the promenades on both sides of the Victoria Harbour to 26km by the end of 2022 and to 34 km by 2028;
- Reviewing the Protection of the Harbour Ordinance to facilitate works to be carried out to enhance the connectivity of the harbour-front;
- Eradicating the seafront odour problem at Tsuen Wan, Kowloon City and Sham Shui Po by carrying out rectification works required to connect sewer pipes to stormwater drains;
- Rolling out transformation projects of public play areas and upgrade over 70 soccer pitches across Hong Kong;
- Researching the development of Green Belt sites in Lantau for eco-tourism or recreation purposes; and
- Updating existing country park facilities and develop treetop adventures and open museums for public enjoyment.

Heritage Trails: There is also a commitment to maintain and manage popular heritage trails, including Pin Shan Heritage Trail and Lung Yeuk Tau Heritage Trail.

Healthcare Premises

A Steering Committee on Healthcare Facilities Planning and Development will be established to take forward relevant development and redevelopment projects including setting up District Health Centres ("**DHC**") or smaller interim DHC Expresses in 18 districts by the end of 2022.

In order to promote the development of Chinese medicine, two flagship institutions – i.e. the Chinese Medicine Hospital and the Government Chinese Medicines Testing Institute will be commissioned with a view to commencing services in phases from 2025.

CONCLUDING REMARKS

While we all await the opening of the borders with Mainland China, we can see that the Government is committed to opening up internationally, to retain and recruit talent and to create quick wins in housing and increasing land supply, as well as to promote ESG by introducing significant green financing initiatives and to advance investment in technology in many forms. There is a lot to digest and the teams at Bryan Cave Leighton Paisner will help to expand on the address in more depth as further details unfold. It is an exciting new start for the new Chief Executive to rebuild Hong Kong SAR's local, regional and international reputation. The policy address also covers other important aspects including measures on advancing intellectual property trading and financial services, but for the purpose of this article we have focused on policies relating to real estate, construction and infrastructure. If you have other queries, please contact your usual contacts at Bryan Cave Leighton Paisner.

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