

Insights**HONG KONG SAR POLICY ADDRESS 2023**

KEY REAL ESTATE, INFRASTRUCTURE AND DEVELOPMENT MEASURES TO BOOST THE PROPERTY MARKET

Oct 25, 2023

SUMMARY

The Policy Address 2023 was delivered by the Hong Kong SAR Chief Executive, John Lee (“CE”) on 25 October 2023. In addition to some expected initiatives to further promote the principle of “One Country, Two Systems” and further enhancements of National Security, the CE has introduced 73 new initiatives in what was probably one of the longest ever policy address speeches. Alongside the key initiatives to increase land and housing supply, the CE is also promoting various real estate, infrastructure and development projects to combat the slow-moving economy and a lacklustre property market. We set out a list of key takeaways which are relevant to our firm's practice in the real estate and infrastructure space. There are also other key areas which others may focus on such as the long awaited need to reform the GEM listing approach. A new listing route for R&D focussed companies will be created with new Listing Rules being promised for Q1 2024. An important boost for the financial services sector.

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We are also delighted to learn that various suggestions proposed via a White Paper^[1] (that was presented to the Chief Executive earlier on 8 September 2023) appear to have been considered. This White Paper was generated from ideas and suggestions from over 50 of Hong Kong's youngest and brightest minds (from a range of different industries), collated from the jointly run Impact Hackathon event co-created by our firm together with the Future Leaders Committee of the British Chamber of Commerce in Hong Kong. The event was organised to brainstorm solutions around two key issues: (1) how to re-brand Hong Kong positively locally and internationally, and (2) how to attract and retain talent in Hong Kong.

REAL ESTATE

The CE reinforces that sufficient supply of land and housing is paramount and fundamental to making Hong Kong a better place for living and working. As the top priority of this year's policy address, relevant measures include exploring solutions to long-standing housing concerns (relating, for example, to urban renewal, battling subdivided units and building safety etc.).

HOUSING SUPPLY**Public housing**

The Government has identified sufficient land to meet housing demands in the forthcoming ten 10 years to resolve long-term housing shortage.

The following measures will be adopted to enhance public housing:

- a. The maximum mortgage default guarantee period for the subsidised sale flats (“SSFs”) in the second-hand market will be extended from 30 years to 50 years to allow purchasers to have longer tenor mortgage loans to boost the circulation of flats.
- b. The Hong Kong Housing Authority (“HKHA”) is planning 10 redevelopment projects to provide 32,800 flats in total, additional local open space and recreational facilities to be included in the redeveloped public housing estates.
- c. The HKHA will select 10 public rental housing (“PRH”) estates as pilot sites in 2024 for the trial adoption of innovative technologies such as the Internet of Thing sensors, AI and mobile devices to help daily estate management.
- d. The HKHA will apply innovative construction technologies to optimise the Modular Integrated Construction approach to enhance building quality and expedite construction.

Sub-divided units (“SDU”)

The Government has been increasing the overall supply of public and private housing. The increasing supply of the PRH units in the coming ten years will help to resolve the long-standing issue of SDUs.

Currently, approximately 220,000 people are living in around 110,000 SDUs, and most occupants are awaiting PRH allocation.

A Government-led task force will be established to tackle the issue of SDUs. It is expected to present recommendations focusing on the following directions in 10 months' time:

- a. establish minimum living standards (the "Standards") for SDUs that cover building safety, fire safety, hygiene requirements, etc;
- b. populate measures to eradicate SDUs that do not meet the Standards;
- c. preclude resurgence of SDUs that fail to meet the Standards; and
- d. formulate suggestions to address the issue of SDUs that take in all necessary administrative and legislative proposals.

Private housing

The Government acknowledged the high demand for private housing – projected to be 132,000 units for the next decade. The Government aims at ensuring sufficient land supply to provide about 80,000 residential units in the next five years.

On top of stabilising private housing supply, the Government also targeted to enrich the housing ladder to bridge the gap between public and private housing markets. This is to be achieved by continuing to offer subsidised sale flats ("SSFs").

Examples of these SSFs projects include:

- the Home Ownership Scheme;
- the Green Form Subsidised Home Ownership Scheme;
- the Starter Homes for Hong Kong Residents; and
- the new Private Subsidised Sale Flat – Pilot Scheme.

LAND SUPPLY

To expedite land production, the Government has committed to:

- Streamline Statutory and Administrative Procedures – introduce administrative measures to simplify procedures, such as (1) completion of straight-forward title-checking cases within 12 weeks to speed up disbursement of land resumption compensation and (2) relaxing the gross floor area (GFA) exemption for aboveground carparks to speed up the development process;
- Extend the Standardisation of Land Premium Arrangement – regularise the "standard rates" arrangement this year for redevelopments of industrial buildings and expand the scope to cover industrial buildings for special uses completed pre-1987. A pilot scheme will extend the arrangement in phases to agricultural land in the New Territories. The first phase targets private developments within the existing new towns of Yuen Long, North and Tuen Mun districts, as well as those in the vicinity of railway stations; and
- Expedite Building Plan Approvals – lay out a roadmap this year for full adoption of Building Information Modelling ("BIM"), which helps to improve building design and speed up construction, for preparation and approval of building plans on private development projects. The Hong Kong Housing Society, the Urban Renewal Authority (URA) and the MTRCL will pioneer efforts from Q2 2024 by adopting BIM in preparing building plans of residential projects.

Kau Yi Chau Artificial Islands

The Kau Yi Chau Artificial Islands will provide 1,000 hectares of land, creating a new central district with liveable, smart, green and resilient development strategies. The Kau Yi Chau Artificial Islands will connect the Hong Kong Island, Lantau Island, the airport, New Territories West and even Qianhai of Shenzhen. According to the updated annual forecast, Kau Yi Chau Artificial Islands will be able to deliver about 400 ha of newly formed land in the coming 10 years (2024-25 to 2033-34).

The Government will commence an environmental impact assessment process this year and the newly established Committee on the Financing of Major Development Projects will put forward proposals on the financing arrangements for the reclamation of the Kau Yi Chau Artificial Islands, associated infrastructure and strategic transport infrastructure development.

For redevelopment purposes and as a new mechanism for large-scale redevelopment projects, a study will be commissioned this year to explore feasible policy measures to use part of the reclaimed land outside the Kau Yi Chau central business district to facilitate implementation of urban redevelopment projects by the public and private sectors. More on redevelopment and urban renewal can be found on the relevant section below.

STAMP DUTY

Adjustment to the Demand-Side Management Measures for Residential Properties

Since 2010, the Government has introduced several rounds of demand-side management measures for residential properties (the “Measures”). The Measures aimed at restraining short-term speculation activities and lowering external demand for property purchase. The ultimate goal was to ensure steady property market development and to give priority to Hong Kong citizens’ home ownership needs.

This year, the Government has decided to relax the Measures in view of the downward adjustment of property prices alongside a decline in transactions in the local residential property market in the past year, and with the vision of future increasing housing supply. The Measures are adjusted as follows:

Shortened applicable period of the Special Stamp Duty (“SSD”) to 2 years - the applicable period of SSD, which amounts to 10% of the property price, is reduced to two years. A property owner who disposes of his/her property two years after acquisition will not need to pay the SSD.

Halved rates of the Buyer’s Stamp Duty (“BSD”) and the New Residential Stamp Duty (“NRSD”) - the rates for BSD and NRSD are reduced by half, from 15% to 7.5%. The Government aims at alleviating the financial pressure of both (i) Hong Kong Permanent Residents (“HKPRs”) acquiring additional residential properties under their name; and (ii) non-HKPRs in acquiring residential properties in Hong Kong.

New stamp duty suspension arrangement for incoming talents’ acquisition of residential properties - under this new arrangement, payment of stamp duty is suspended when an “incoming talent” acquires a property in Hong Kong – if the talent is unable to become a HKPR subsequently, he/she is then required to pay the relevant amount. The arrangement is an enhancement of the stamp duty refund arrangement introduced last year, under which eligible incoming talents will get a refund of the BSD and NRSD paid at the time of property acquisition when he/she becomes a HKPR.

Urban Renewal

To speed up redevelopment and step up maintenance of ageing buildings, the Government has agreed to:

- a. Fully embrace the “planning-led” redevelopment approach
 - i. The URA planning studies for Tsuen Wan and Sham Shui Po will be utilised when comprehensive urban renewal master plans and restructuring proposals become available in Q2 2024.
 - ii. The District Study recommendations for Yau Ma Tei and Mong Kok will be implemented to permit interchangeability between domestic / non-domestic plot ratios of selected areas, remove plot-ratio restrictions of the commercial zone along Nathan Road, and re-zone certain character streets to incentivise redevelopment.
 - iii. In the next 5 years, the URA will commence redevelopment projects of the “Nullah Road Urban Waterway” in Mong Kok East and the “Street Consolidation Areas” in Yau Ma Tei South
- b. Enhance URA’s financial capability - the borrowing limit of URA is raised from \$6 billion to \$25 billion, enabling it to cope with its future financing demand. The URA will be provided suitable land at nominal land premium to enhance the viability of the concerned redevelopment projects and increase the usable resources available to URA.
- c. Adopt a target-oriented approach toward lowering the compulsory sale application thresholds - a revised proposal and amendment bill will be introduced by the end of this year with lowered compulsory sale application thresholds. Apart from reference to building age, the need for redevelopment of the district will also be taken into account in determining the applicable threshold and, as a general principle, lower thresholds are to be adopted for older buildings in districts with more pressing need for redevelopment.
- d. Kau Yi Chau Artificial Islands - see above.

Development of Existing Land

In order to unleash development potential through optimised use of existing land, the Government will:

- a. Revitalise Hung Hom Station and nearby sites – upgrade the Hung Hom Station facilities, release commercial and residential floor area and create a vibrant harbourfront. The MTR Corporation Limited (MTRCL) will be invited to conduct a preliminary study and submit proposals in 2024 to re-plan and develop about 10 hectares of land covering Hung Hom Station, the railway facility sites in the vicinity and the waterfront and pier facility sites to the south of the Hong Kong Coliseum. Proposals are to be considered to enhance pedestrian connectivity between Hung Hom and Tsim Sha Tsui East and improve the waiting areas of the bus stops near the Cross Harbour Tunnel;
- b. Develop the ex-Lamma quarry site – the development direction of the 20-hectare site will be mapped out next year including considerations on developing the site for accommodation facilities with lower traffic demand, such as senior citizen residential units, residential buildings for talents, and accommodation for personnel involved in recreational training. Effective use of the quarry site and shoreline will be explored to provide leisure and recreational facilities for island tourism;
- c. Make better use of “Green Belt” areas – although it currently has no plans to further use the “Green Belt” areas for large-scale development on the basis that land for housing, industry and other developments for the coming 30 years has been identified, it will consider using some of the non-constrained sites for recreational and tourism purposes. For example, South Lantau could be developed for eco-tourism or recreational uses, including eco-recreational facilities at Cheung Sha, Shui Hau, Shek Pik and Pui O. The Development Bureau will gauge public views in the first half of 2024;

- d. Pursue mixed development under the "single site, multiple use" model – six pilot projects under the "single site, multiple use" model will be progressed. For instance, the Joint-user Complex project at Anderson Road Quarry is scheduled for completion in 2027 and the development concept will continue to be adhered to in providing sports, recreational, cultural and social welfare facilities for the community.

Building Safety and Building Management Improvements

Concerned with dilapidation of aged buildings, such as the spalling of concrete or renderings from building facades in recent months, the Government has vowed to continue close collaboration with the URA to provide owners with technical and financial support for building repairs. Starting from Q4 2023, the Buildings Department ("BD") are armed to initiate prosecution against owners' corporations ("OCs") or owners who have not complied with notices served under the Mandatory Building Inspection Scheme ("MBIS") and where there is a lack of progress.

The policy will be reviewed in pursuit of three directions and the Development Bureau will put forth specific recommendations on these directions in Q1 2024 to:

- a. adopt a precise consistent approach in selecting target buildings for issuance of the MBIS notices;
- b. proactively identify higher-risk buildings and enhance the BD's capabilities to inspect and carry out emergency repair works through outsourcing at such buildings; and
- c. review workflow of the various stages of Operation Building Bright 2.0 to provide practical assistance and urge owners or OCs who have applied for the subsidy to expedite actions including streamlining the procedures for engaging professionals to speed up building inspections and commencement of the works concerned.

Proposals will be put forth next year to amend the Buildings Ordinance with a view to increasing its deterrent effect. Initial ideas to achieve this include streamlining prosecution procedures and lowering the prosecution threshold as well as raising the penalties against non-compliance with notices served under the MBIS and the Mandatory Window Inspection Scheme, repair and investigation orders, unauthorised building works and other illegal building works. Registration and disciplinary systems of contractors are set to be strengthened to enhance professionalism and ensure the quality and safety of works.

Finally, to promote good building management, the Government will introduce a bill into the LegCo in 2023 to amend the Building Management Ordinance to strengthen the regulation of OCs in respect of large-scale maintenance projects, minutes of meetings, financial statements, etc. and to provide support in compliance with the relevant legislation requirements on enhancing fire safety of old buildings, the Fire Services Department will establish a support centre by the end of this year.

NEW ENGINE FOR GROWTH

NORTHERN METROPOLIS ACTION AGENDA

The development of the Northern Metropolis will integrate with the planning of Shenzhen and other Guangdong-Hong Kong-Macao Greater Bay Area ("GBA") cities. The Northern Metropolis will be divided into four major zones.

- a. **High-End Professional Services and Logistics Hub.** The hub with a proposed location at Hung Shui Kiu and the surrounding area, and connecting with the Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone will focus on the provision of financial and professional services, and development of modern logistics industry by leveraging on the locational advantages of the boundary control points ("BCP").
- b. **Innovation and Technology ("I&T") Zone.** The I&T Zone that covers San Tin Technopole including the Hong Kong-Shenzhen I&T Park will serve as an I&T development hub.
- c. **Boundary Commerce and Industry Zone.** The largest zone of the Northern Metropolis that enjoys the geographic advantages of the BCPs at Lo Wu, Man Kam To and Heung Yuen Wai is expected to stimulate the development of advanced construction, green environment industries, health care, food technology, modern logistics, and cross-boundary business services and entertainment spending.
- d. **Blue and Green Recreation, Tourism and Conservation Circle.** The area for the promotion of recreation and tourism development is endowed with rich cultural heritage and natural resources like Robin's Nest, Sha Tau Kok and Yan Tong Chau

The Northern Metropolis focuses on the development of different industries to promote economic and social development. Some key initiatives include the building of the Northern Metropolis University Town, government offices buildings, iconic cultural and art facilities, and international schools in the reserving sites in Hung Shui Kiu, Kwu Tung North, San Tin Technopole, etc. The Government will also embark upon the establishment of Sam Po Shue Wetland Conservation Park that features the integration of development with conservation.

The Government will expedite the development of the Northern Metropolis by extending the "Enhanced Conventional New Town Approach" to all NDAs, applying land exchange arrangement to designated sites for industries and private community facilities, etc. The Government also plans to change the use of a two-hectare site at Sandy Ridge in the North District to effect the construction of a public columbarium to ensure sufficient supply of public niches going forward.

THE DEVELOPMENT PLAN FOR SHENZHEN PARK OF HETAO

The Hetao Shenzhen-Hong Kong Science and Technology Innovation Co-operation Zone (the "Hetao Co-operation Zone") is the convergence point of the Northern Metropolis and the Guangzhou-Shenzhen I&T corridor. The Government will render full support and work closely with the Shenzhen Municipal Government to the Central Government's development plan for Shenzhen Park within the Hetao Co-operation Zone promulgated in August.

Innovative measures under consideration include streamlining custom clearance for registered R&D personnel between the Hetao Co-operation Zone and the Shenzhen Park and facilitating exchanges on data and samples for research or trials, etc.

The spatial planning of Northern Metropolis, particularly the San Tin Technopole, will align with the development position of the Hetao Co-operation Zone.

BRITCHAM & BCLP IMPACT HACKATHON WHITE PAPER

We are pleased to see that a number of proposals spearheaded by Hong Kong's young minds have been considered and introduced in the Chief Executive's second Policy Address

ATTRACTING AND RETAINING TALENT

More international student exchanges and reciprocal recognition of qualifications

- a. Under the Government's new Vocational Professionals Admission Scheme starting from the 2024/25 admission cohort, non-local students of designated full-time professional Higher Diploma programmes of the Vocational Training Council ("VTC") will be allowed to stay in Hong Kong for one year after graduation to seek jobs relevant to their disciplines. The pilot arrangement seeks to alleviate the manpower shortage in skilled trades and will be reviewed after two years.
- b. The Government has vowed to promote multi-cultural learning experiences through its Funding Scheme for Mainland and Global Engagement and Student Learning Experience. Effective from the 2023/24 academic year, the UGC will inject \$100 million into the Scheme to encourage universities to offer students more exchange and learning opportunities outside Hong Kong and promote a diversified and inclusive international learning environment.
- c. The Government has committed to Enhance Cross-Boundary Mutual Recognition of Qualifications. It will collaborate with the relevant Mainland authorities on the arrangements for mutual recognition of sub-degree level qualifications, including higher diploma qualifications, and will put the arrangement on trial for selected pilot areas.

Promoting Hong Kong's Topography and Improving Access to the Mainland

The "Multiple-entry Visa" to the Mainland for Foreigners Working in Companies Registered in Hong Kong seeks to attract overseas companies into setting up operations in Hong Kong and facilitate foreigners working in these companies to travel to the Mainland for business purposes. Effective tomorrow, foreign staff of companies registered in Hong Kong may apply with the Chinese Visa Application Service Centre in Hong Kong for "multiple-entry visas" valid for two or more years to the Mainland, enjoying priority processing thus reinforcing Hong Kong's role to connect the Mainland with the world.

Bonded Scholarships to Students

The Government has committed to **Increase Allowance of the Apprenticeship Scheme**. For a period of three years starting from the 2024/25 academic year, the VTC will provide each registered apprentice with an additional monthly training allowance, and subsidise graduated apprentices in undertaking upskilling courses of relevant trades. The two subsidy arrangements will each last for 36 months.

REBRANDING HONG KONG LOCALLY AND INTERNATIONALLY

Culture

- i. The Culture, Sports and Tourism Bureau ("CSTB") will promulgate and implement the Blueprint for Arts and Culture and Creative Industries Development. The Government will also allocate HK\$4.3 billion to provide incentives to attract private sector capital and expanding new markets.
- ii. The Government will launch the Signature Performing Arts Programme Scheme to support representative and large-scale local signature performing arts productions;
- iii. The Government will increase annual funding to support local arts group to perform, or participate in exhibitions and other activities overseas.

Tourism

BCLP has had the pleasure to meet with Mr Dane Cheng, the Executive Director of the Hong Kong Tourism Board ("HKTB") in its preparation of the White Paper, and we are delighted to learn that many of our suggestions on re-branding Hong Kong align with HKTB's future plans.

Some key recommendations that were adopted include:

- encourage global recognition of Hong Kong as a destination for cultural activities and understanding of Hong Kong's cultural landscape...to music festivals and concerts which echoes the CE's efforts to launch signature tourism products including pop culture tours; and

- the need to digitalise Hong Kong on many levels, including the promotion of smart tourism to enhance visitors' experience.

ENDING ON A GREEN NOTE

There are many other initiatives for example to promote green maritime bunkering, sustainable aviation fuel, green transformation of public land transport, promoting the use of electric cars and formulating a strategy of hydrogen development. Many will also be delighted by the promise of a streamlining of the licensing regime of food businesses.

CONCLUDING REMARKS

The highlight of the 2023 policy address, for most individuals, will no doubt be the further commitment to improve Hong Kong's housing issues...a core issue for many years. We also note the introduction of welcome developments such as initiatives on nurturing local talents and fund injections to the arts industry as proposed by our White Paper. There is also a long overdue focus on providing additional resources to promote a caring community whether for the "silver tsunami" which is emerging or to better care for those with disabilities and their carers.

The policy address also follows up on some real estate-related initiatives which were featured in the Chief Executive's maiden policy address last year, including the development of the Northern Metropolis and increase in private land supply. While it is promising to see the Government's continued commitment to these initiatives, this also demonstrates that land supply issues and urban development remain key concerns which can only be addressed through consistent policy-making and multi-pronged support from different stakeholders. A strong civil service will also be needed to ensure timely implementation...and the CE has a plan for that too! Can Hong Kong return to the "can do" mentality of previous decades? It "must do" to ensure significant progress is made.

[1]

<https://www.britcham.com/common/Uploaded%20files/News/ChamberNewsPolicyWork/2023/BritCham%20x%20BCLP%20Impact%20Hackathon%20Whi>

This article was written with Trainee Solicitors Judy Lam, Mohini Mann and Chloe Tan.

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MEET THE TEAM



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