

## Insights

# HONG KONG 2024-25 BUDGET - REAL ESTATE SECTOR HIGHLIGHTS, GREEN INITIATIVES AND OTHER UPDATES

Feb 28, 2024

## 1. INTRODUCTION

On 28 February 2024, Paul Chan, the Financial Secretary of Hong Kong, delivered the 2024-25 Budget (the “**Budget**”). Starting off by acknowledging the “challenging external environment” including “heightened geopolitical tensions around the world”, Chan went on to forecast that the Hong Kong economy will see modest growth estimated to be around 3.2% each year for the next few years.

His key themes and sound bites are: Advance with Confidence. Seize Opportunities. Strive for High-quality Developments (with a focus on green initiatives)! Given the economic background he prefaced his speech with a stronger need for fiscal prudence to reduce the fiscal deficit progressively.

From a real estate perspective Mr Chan has announced some sweeping reforms to abolish the demand side measures for residential properties with immediate effect. Special Stamp Duty (“**SSD**”), Buyer’s Stamp Duty (“**BSD**”) and what was called the New Residential Stamp Duty (“**NRSD**”) are now abolished. Later in the afternoon the Hong Kong Monetary Authority (“**HKMA**”) has also issued revised measures which will enable borrowers to borrow more while the HKMA also keeps a careful eye on measures to safeguard banking stability.

The budget also includes a strong focus on:

1. attracting more talent to supplement the 140,000 applications approved under the Top Talent Pass Scheme;
2. opening up new sources of capital including those from the Middle East;
3. moving towards a green future with initiatives involving green finance, technology, aviation and shipping and more to create greener cities;
4. technology including measures to boost a digital economy;

5. the development of AI and an AI Supercomputing Centre
6. boosting international trade, further consideration of reform for the stock exchange
7. promoting the rule of law and the establishment of the International Organisation for Mediation in HK; and
8. significant boosts for tourism, the creative arts and mega events.

## 2. REAL ESTATE SECTOR HIGHLIGHTS

### STAMP DUTY

#### **Abolition of SSD, BSD and NRSD**

In our last update we had commented on the need to remove the so called “spicy” stamp duty measures”. Given the significant declines in the property market over the last year the cries for abolition and reduction of these harsh measures have finally been heard. With immediate effect the 7.5% BSD and NRSD have been abolished as have the SSD rates which ranged from 10% to 20%. A significant dumbing of the spice but let’s hope still suitable tasty for some.

### REITS

In many markets REITS are successful because of certain tax concessions available to REIT related products. To further enhance market competitiveness, stamp duties payable on the transfer of REIT units and the jobbing business of option market-makers will be waived. It is estimated that the this will reduce government revenue by about HK\$ 1 billion annually.

### PROPERTY MORTGAGE LOAN MEASURES SOFTENED

#### **A softened policy**

Shortly after the conclusion of Mr Chan’s speech the HKMA announced significant adjustments to enable borrowers to borrow higher percentages of the purchase price. At the same time the HKMA will continuing to maintain banking stability and ensuring the proper risk management of property lending by banks.

#### **LTV relaxations**

The LTV ratios have now been relaxed with immediate effect as follows:

1. **For residential properties for self-occupation**, the maximum loan-to-value (LTV) ratios will be adjusted to 70% for properties valued at HK\$30 million or below; and 60% for properties valued at HK\$35 million or above. To avoid a sudden drop in applicable LTV ratios, ratios for properties valued between HK\$30 million and HK\$35 million will be adjusted downward gradually.

2. **For non-self-use residential properties**, the maximum LTV ratio will be adjusted from 50% to 60%.
3. **For non-residential properties** - The maximum LTV ratio for non-residential properties (including offices, retail shops and industrial buildings) will be adjusted from 60% to 70%.
4. **For mortgage loans assessed based on the net worth of mortgage applicants**, the maximum LTV ratio will be adjusted from 50% to 60%. This adjustment is applicable to both residential properties and non-residential properties.

## **Banking Risk Management**

1. The HKMA has now agreed to suspend the interest rate stress testing requirement for property mortgage lending that assumes a 200-basis-point rise in the mortgage rate.
2. The HKMA had tightened the financing caps for property development projects in June 2017. In view of the current property market situation, the HKMA has now agreed to raise the relevant financing caps back to the pre-2017 levels – in other words, the overall financing cap will be increased from 50% of the expected value of the completed properties to 60%, within which the financing cap for the value of the property site will be increased from 40% to 50% and the financing cap for the construction cost will be increased from 80% to 100%. In addition, the existing requirement for banks to set aside additional capital for exposures to property developers which offer mortgage financing with high LTV ratios will be lifted.

## LAND SUPPLY

### **A modest offering?**

The Government Land Sale Programme for 2024-25 will include the sale of eight residential sites, 2 commercial sites and 1 industrial site capable of providing about 15,000 residential units, 120,000 square metres of commercial floor area and 540,000 square metres of industrial floor area respectively. In short, an increased amount of industrial space but a reduced offering in the context of residential and commercial when compared to the amounts promised last year.

Last year, the Financial Secretary promised to provide no less than 72,000 private housing units in the coming five years. This year he promised no less than 80,000 residential units over the next five years with about 60% of such land to come from New Development Areas or New Town Extensions with another 40% from government land sale and railway property development projects.

## HOUSING SUPPLY

### **Public housing**

In last year's Policy Address, the Government committed to shorten the waiting time for public housing. One of its proposed measures is to promote public-private partnerships by providing

subsidies to developers to apply for rezoning of their own private land for subsidised sale flat developments. We wait to hear more on this.

Meanwhile, below is a summary on the progress of the provision of public housing supply:

1. Public housing – Sufficient land has been identified for the provision of about 306,000 public housing units, meeting demand for public housing in the coming decade. Last year the promise was for 380,000 over the next decade.
2. Government will also extend the Cash Allowance Trial Scheme until June 2025 to help grass roots families on the waiting list for public rental housing. However, it is acknowledged that as land creation takes time, there is still a shortage of supply in the short term;

## **Private housing**

Mr Chan repeats his promise of last year that over 19,000 private residential units will be completed annually in the next five years from 2024 onwards. The potential supply of first-hand private residential units would remain at a relatively high level of about 109,000 units for the next three to four years.

## **3. GREEN INITIATIVES**

### **GREEN THOUGHT LEADERSHIP**

With the aim of achieving carbon neutrality before 2050, the Government set up the Office of Climate Change and Carbon Neutrality in January 2023 and continues to allocate resources in support of efforts to address decarbonising strategies.

Hong Kong is this week hosting “Hong Kong Green Week” comprising events covering technology, finance and other related fields. This was promised in last year’s budget. It has brought together industry leaders from the Asia-Pacific region to examine green development and climate finance.

Another significant event is planned in the Autumn when the HKMA will co-host a Joint Climate Finance Conference in HK to explore transition financing opportunities and challenges for the Middle East and Asia.

### **GREEN FINANCE**

#### **Green and Sustainable Finance Grant Scheme**

The Government has already provided subsidies to eligible bond issuers and loan borrowers for the issuance of more than 340 green bonds and sustainable debt instruments in HK through this Scheme. To date subsidies have been very significant. The Scheme was due to expire later this year

but now will be extended further to 2027 and the scope expanded to cover transition bonds and loans.

## **New Energy Transport**

The Government continues to support a wider use of electric vehicles (EV). Concessions for EVs will be extended for a further two years. Further details to be announced. Meanwhile, efforts are also being made to incentivise Hong Kong registered ships to attain higher ratings under the international standards on decarbonisation formulated by the International Maritime Organisation. On the aviation side, efforts will be made to simplify approval procedures for the transportation of Sustainable Aviation Fuel (SAF) to encourage more airlines to use SAF in Hong Kong.

## **Green Tech Fund**

This fund supports R&D projects to help Hong Kong to decarbonise and enhance environmental protection. The fund size is HK\$ 400 million. The Fund has approved HK\$ 130 million worth of grants to subsidise local research projects.

## **Launch of Green and Sustainable Fintech Proof of Concept Subsidy Scheme**

This new scheme will be launched in the first half of this year. It is intended to supply support for green fintech, facilitating commercialisation and fostering of new green fintech initiatives.

# **4. TOURISM AND MEGA EVENTS**

## **Mega Events**

There are more than 80 mega events planned for the first half of this year. The Government has now set up a Mega Events Coordination Group to facilitate more mega events. It has earmarked HK\$ 100 million to boost mega event promotions over the next three years.

## **Financial Forums**

More significant events are planned such as the Financial Mega Event Week to be held later in March. This will supplement the Financial Leaders Investment Summit and the Asian Financial Forum held last year.

## **Hong Kong Tourism Board (HKTB)**

The HKTB will be holding more pyrotechnic and drone shows along Hong Kong's spectacular waterfront. Many other events and group tours, trails and walks will be developed to promote and energise tourism in Hong Kong with over HK\$ 1 billion being committed to this important sector.

# **5. OTHER RELEVANT UPDATES**

We do not intend to cover all aspects of the budget speech. However, the budget also includes a strong and important focus on:

- attracting more talent to supplement the 140,000 applications already approved under the Top Talent Pass Scheme;
- opening up new sources of capital including those from the Middle East;
- technology including measures to boost a digital economy;
- the development of AI and an AI Supercomputing Centre;
- boosting international trade, further consideration of reform for the stock exchange and listing regimes; and
- promoting the rule of law and the establishment of the International Organisation for Mediation in HK.

## 6. END NOTE

There are many themes which are now recurring from Paul Chan's previous budgets and the Chief Executives Policy Address last year. Of course, housing and land supply are addressed although this time with more focus on how (ie green) than any enhanced numbers of units being developed.

Quite rightly a lot of attention is being given to re-branding Hong Kong, green initiatives, technological developments especially in the area of AI and super computing. Many initiatives are being pursued and the public sector will need to interact more with private sector to ensure the success of some of these policy directions.

With more fiscal prudence to slowly balance the books we query if the Government will look to diversify the tax base in future to solve the imbalance. Can a revitalised property market solve the problem? The prediction is that revenue from land premia will increase by over 70% and revenue from stamp duty to increase by over 40%. A typical reliance on property. It may help but let's see how the market reacts to the latest initiatives to boost the market and re-fill Government reserves this way. With a much larger budget deficit of over HK\$ 100 billion for last year and an estimated deficit of just under HK\$ 50 billion for 2024-25, there is still much work to be done to re-balance the books.

May this Lunar New Year supported by a prudent budget bring some renewed confidence for steady and sustainable growth with a greener, smarter future.

We will provide further updates from time to time as various measures and initiatives are implemented.

## RELATED PRACTICE AREAS

- Real Estate
- Real Estate Retail
- Corporate
- Real Estate Finance
- Real Estate Sector
- Private Client
- Real Estate Private Equity, Investments & REITs
- Real Estate Tax
- Finance
- Tax & Private Client

## MEET THE TEAM



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