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THE 2020-21 BUDGET: CUSHION FOR THE ECONOMIC DOWNTURN; YET NO EXTRA BOOST TO THE LAND SUPPLY

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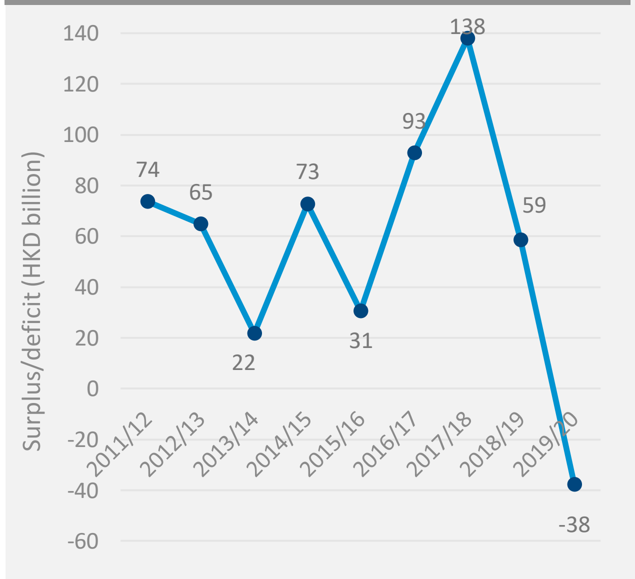
Summary & Recommendations

The financial secretary has reported a deficit of HKD37.8 billion (USD4.8 billion) for FY2019/20[2], the first in over 15 years, attributed to a new round of stimulus, including an injection of HKD120 billion (USD15.4 billion) to support the economy.

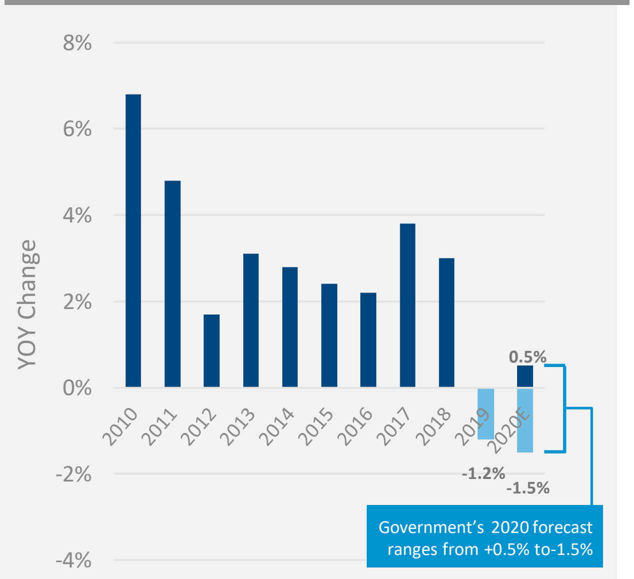
While supporting Hong Kong's economic pillars, the budget also focused on the development of innovation and the technology sector as city's future economic engine.

However, the budget did not offer any new policies to boost residential and commercial supply, which remain broadly undersupplied. Investors and occupiers should take advantage of the current discounted rental and capital values to position themselves to take advantage of longer-term opportunities.

Hong Kong budget surplus/deficit[2]



Hong Kong real GDP growth[2]



On 26 February 2020, Hong Kong's Financial Secretary Mr. Paul Chan Mo-po delivered the Budget Speech for FY2020/2021. This budget comes against a backdrop of a more difficult financial year, with the outbreak of coronavirus compounding recent challenges including the local demonstrations and the ongoing effects of US-China trade tensions.

The financial secretary estimated Hong Kong real GDP growth in 2019 declined 1.2% and expects a range of -1.5% to +0.5% for 2020[2]. Given the likelihood of the economy continuing to slow and rising unemployment, the financial secretary proposed several initiatives to stimulate economic and business activities and local consumption, including disbursing HKD10,000 (USD1,282) to Hong Kong permanent residents aged 18 or above, and introducing a concessionary low-interest loan for enterprises with 100% government guarantee.

The government included 15 residential sites and six commercial sites in the FY2020/21 land sale programme, similar to that announced in FY2019/20. That said, industrial and data-centre development sites are set to remain absent in the upcoming schedule.

[1]This report covers the Hong Kong Special Administrative Region of the People's Republic of China. [2]Source: The 2020-21 Budget
USD1 = HKD7.8

LAND SUPPLY TO STAY LOW

PROLONGED RESIDENTIAL SUPPLY SHORTAGE

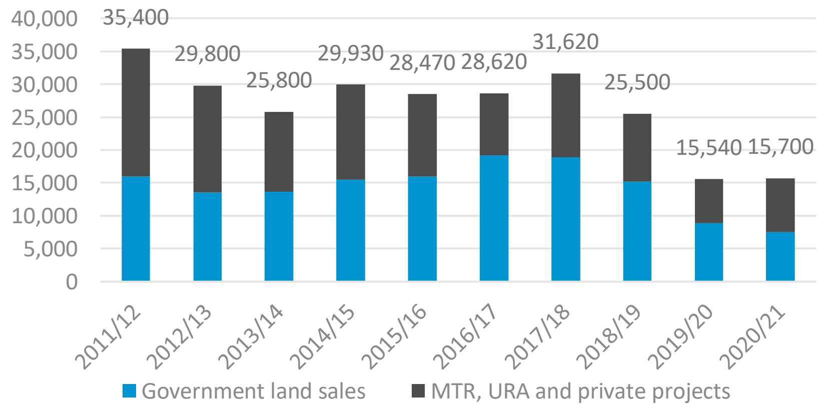
Residential supply from land sales to fall short

Following FY2019/20, FY2020/21 is set to be another year of low land supply, with only 21 development sites to be included in the upcoming land sale programme, including 15 residential sites and six commercial sites.

The 15 private residential sites are set to provide 7,500 units, a decline of 15% YOY, and the lowest annual amount since 2004/05, although the total amount of potential supply (including supply from MTR Corp., Urban Renewal Authority and private projects) is set to be maintained. Realistically, the government is not likely to sell all the sites included in the land sale programme, and the actual supply will likely be lower than the already lower 10-year supply target for private housing of 12,900 units[3].

We believe the housing supply will continue to fall short in the foreseeable future. Developers should continue to seek opportunities to replenish or expand their land banks through redeveloping old properties or converting brownfield sites.

Maximum capacity of residential units from the potential land sale



Source: The 2020-21 Budget; Oxford Economics

[3] Long Term Housing Strategy Annual Progress Report 2019, Transport and Housing Bureau

Commercial land supply

The six commercial sites should provide up to 8.9 million sq ft (830,000 sq m) of commercial space, compared to 8.8 million sq ft (814,600 sq m) planned for FY2019/20. We welcome a consistent land supply policy for the commercial sector to provide the future supply for the economy to expand while the market recovers. We believe Hong Kong will continue to be an international financial centre, playing a key role in the Greater Bay Area (GBA) and Belt and Road initiatives. The government has been increasing its support for the existing economic pillars while promoting a new economy driven by the tech sector. The recent outbreak of COVID-19 also suggest that office density should be lowered to enhance long-term staff wellness.

More data centre sites needed

Whilst the upcoming land sale programme is giving a miss to new industrial and data centre land supply, investors should explore conversion opportunities through the revitalisation scheme 2.0 or pursue existing industrial developments that can benefit from the growing demand from e-commerce and data centres. We recommend the government increase the data centre land supply to match the increasing demand, riding on the back of smart cities initiatives, increasing cloud usage, as well as the upcoming launch of 5G services.

Comparison of Land Sale Programmes in FY2020/21 and FY2019/20

	FY2020/21	FY2019/20
Residential		
No. of residential sites in Land Sale Programme	15	15
No. of residential units from Land Sale Programme	7,500	8,800
Total no. of units including MTRC, URA & private projects	15,700	15,500
Five-year supply forecast (units per year)	19,600 (2020-24)	18,800 (2019-23)
Commercial		
No. of commercial/hotel sites	6	7

Source: The 2020-21 Budget; The 2019-20 Budget

OFFICE

Key Measures

- Establish a limited partnership regime and provide tax concession for carried interest issued by private equity funds to attract them to domicile and operate in Hong Kong.
- Proposed stamp duty waiver on stock transfers paid by ETF market makers in the course of creating and redeeming ETF units listed in Hong Kong.
- Promote the development of professional services sector in the GBA under the “early and pilot implementation” approach.
- Explore the feasibility of Phase 2 of the Science Park Expansion Programme to support tech development.

Colliers’ View

- The budget targets new growth channels while strengthening the long-term competitiveness of the financial market, whilst maintaining Hong Kong’s status as a global financial centre while maintaining a key role in the GBA and Belt and Road initiatives.
- Development of private equity funds should help draw in capital, talent, businesses, and related professional services, increasing long-term office demand.
- IT and telecommunications should be one of the key growth drivers for office demand moving forward, thanks to increasing policy focus and funding from the government.

Retail

Key Measures

- Cash payout of HKD10,000 (USD1,282) to Hong Kong permanent residents aged 18 or above.
- Reduce salaries tax and tax under personal assessment for 2019-20 by 100%, subject to a ceiling of HKD20,000 (USD2,564).
- Introduce a concessionary low-interest loan with 100% government guarantee for enterprises. Maximum loan of HKD2 million (USD256,410) with repayment period up to three years. Moratorium on principal repayment for first six months.
- Reduce profits tax for 2019-20 by 100%, subject to a HKD20,000 ceiling.

Colliers’ View

- With the background of declining tourism, retail sales are relying more on local consumption. We believe the cash payout, involving a total sum of HKD7.1 billion and the salary tax reduction should help maintain cashflow into the local economy.
- Retail tenants were suffering from a retail sales plunge after the local demonstrations and COVID-19 outbreak. The concessionary low-interest loan is believed to provide support to small and medium sized enterprises (SMEs) in this market downturn.
- We believe the reduction in profits tax will ease the financial burden of business operators, especially for SMEs.

Industrial

Key Measures

- Inject HKD2 billion (USD256 million) for launching the Re-industrialisation Funding Scheme to provide financial support for manufacturers setting up new smart production lines in Hong Kong.
- Encourage the logistics industry to enhance productivity through technology application, introducing a pilot subsidy scheme with an injection of HKD345 million (USD44 million).
- Provide HKD2 billion for converting an old factory in the Yuen Long Industrial Estate into a Microelectronics Centre to provide modern manufacturing facilities.
- The Government is adopting a multi-pronged approach in facilitating the development and application of the 5G network.

Colliers’ View

- We expect the overall industrial sector to grow with the government’s significant re-industrialization and high-tech industry funding.
- The continued subsidies to technology and start-ups should increase demand for industrial sites, particularly for those reliant on manufacturing and on-site product testing.
- Demand for data centers should continue to over the next three to five years, with robust government facilitation of 5G networks and subsidy support.

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