From Housing Market Outlook to Land Supply Strategy

13 July 2016

Overview

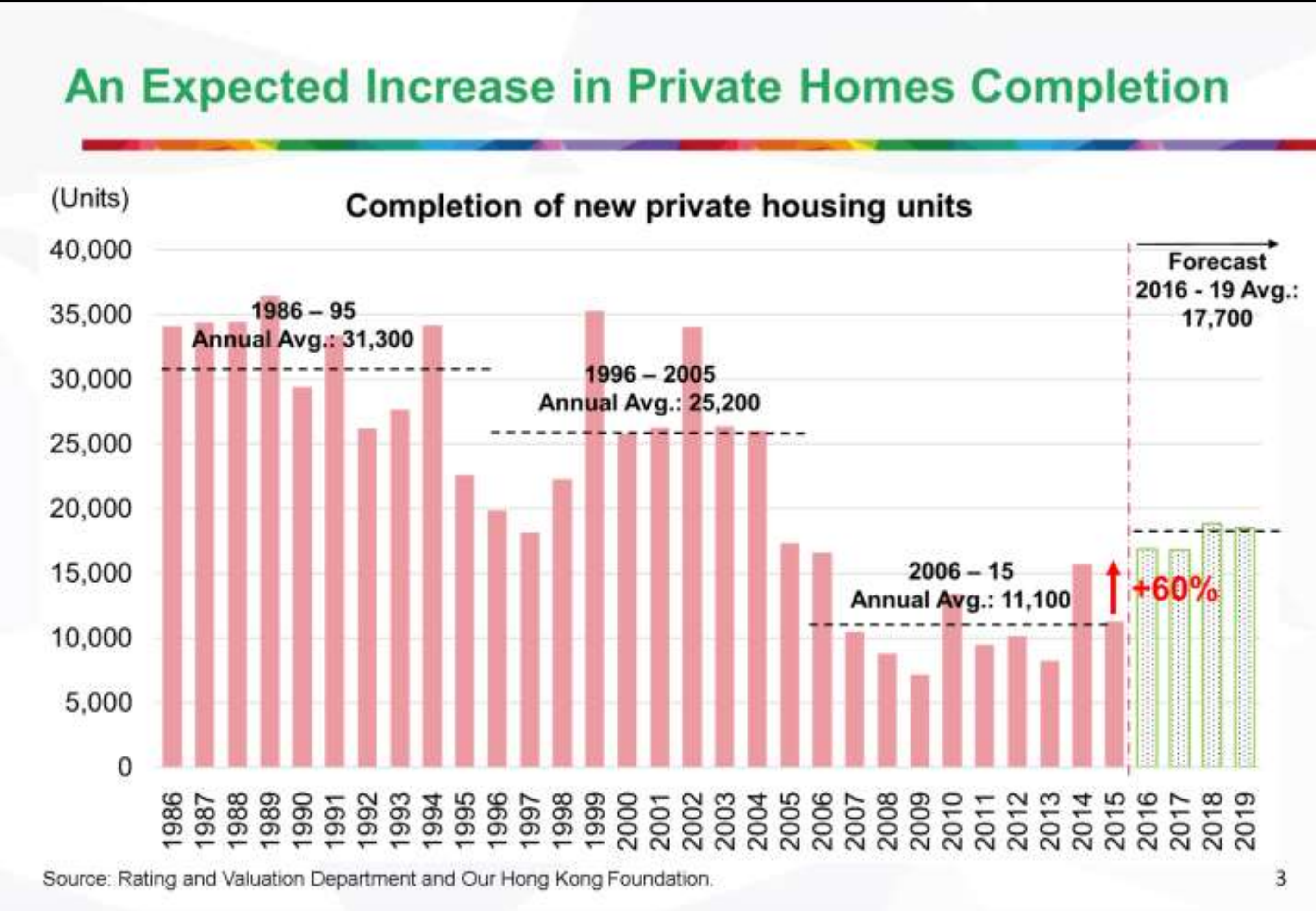
> **Housing market outlook :**

1. Increase in land supply in recent years
2. Expected new private unit completion in 2016 to 19: 18k p.a.
3. Supply of public housing trails significantly
4. Medium-term land supply situation warrants concerns
5. Housing demand continues to be strong

> **Policy implications :**

1. Increasing land supply via a multi-pronged approach
2. The “Brownfield First” principle is unrealistic
3. Imminent need to establish a land reserve

1. Land supply has sharply increased in recent years, which is encouraging.
2. Our Hong Kong Foundation (OHKF) expects the annual average private housing unit completion for 2016 to 2019 would be approximately 18,000 units, satisfying the supply targets set by the government and representing a c60%-increase compared with the average figure for the previous decade. However, supply of public housing units still trails behind, falling 30% short of the government 5-year supply target.
3. Medium-term land supply situation still warrants great concerns. Analysis shows that a lack of large-scale land development projects over a prolonged period of time in the city has contributed to the dwindling of readily developable land in the hands of the government, rendering its increasing reliance on sites that needs to go through rezoning processes to satisfy land demand.
4. Housing demand will continue to be strong, supported by demographic structure and family formation. Relevant statistics suggests that there still exists a substantial housing demand to be met in Hong Kong.
5. In light of the acute shortage of land and housing, Hong Kong needs to increase land supply via a multi-pronged approach.
6. OHKF does not support the notion of “Brownfield First”, or a policy that prioritise any particular land supply avenue. It is because the development of brownfield sites inevitably involves an abundance of land resumption, resettlement and compensation, which could be extremely time-consuming and does not help to alleviate current housing demand.
7. Therefore, as suggested in the first research report of OHKF published last year, the government should start establishing a land reserves for the long-term development needs of Hong Kong.



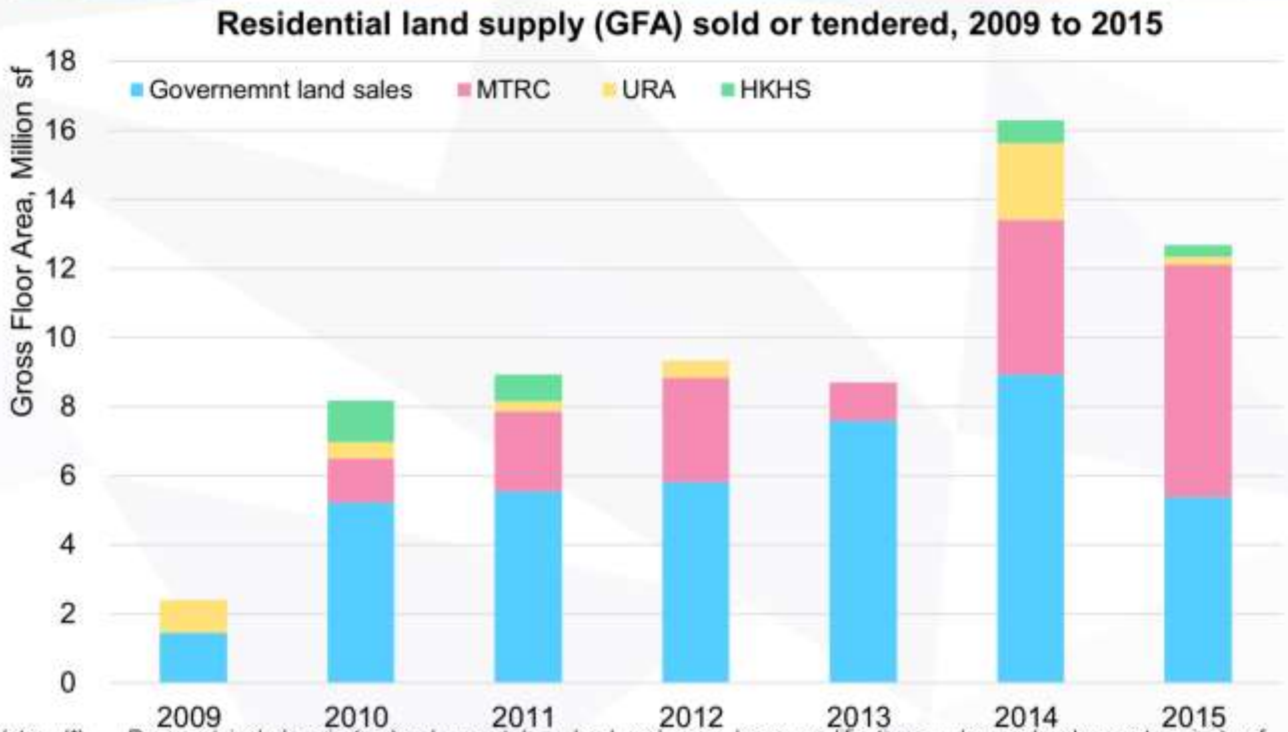
1. OHKF presents a comprehensive forecast of future supply of private housing in Hong Kong from 2016 to 2019 (Please see attached tables for details). OHKF forecasts that in the next four years the annual average completion of new private housing units will be approximately 18,000 units. This represents a c60%-increase compared to the corresponding figure of the preceding decade (2006-2015) of approximately 11,000 units. In particular, it is possible that the number of private units completed in 2018 and 2019 will approach 19,000 units.
2. The government and other organizations have published statistics about the supply of first-hand private residential property market. In particular, the Transport and Housing Bureau and Rating and Valuation Department estimate future private housing unit completions mainly based on notification of commencement of foundation and superstructure work received by the Buildings Department. However, such figures usually only entail the forecast completions for the future two years and are annual aggregate statistics without the information of each development.
3. OHKF publishes the estimated completion of private units in the next four years and the information of each development project by collecting and compiling public information from the Buildings Department, Lands Department and Town Planning Board; analysing projects held by different developers and conducting site inspection when necessary to determine actual construction progress.

Private unit completions forecast

Forecast of Future Private Housing Supply (2016)#					
District	Development Name	Developer*	No. of Units @	Residential GFA (sf)	Source
Yuen Long	Yuccie Square	Cheung Kong	1,129	610,310	Land Tender
Yuen Long	Ngau Tam Mei	Cheung Kong	67	101,290	Land Auction
Islands	Century Link (Phase 2)	SHK	932	546,990	Land Tender
Islands	Century Link (Phase 1)	SHK	1,407	819,990	Land Tender
Sai Kung	The Wings IIIA	SHK	960	720,980	Land Auction
Sai Kung	The Wings IIB[e]	SHK	326	234,220	Land Tender
Yuen Long	Park Vista Phase 2A	SHK	1874^	1,072,990	Private
Yuen Long	Grand YOHO (Phase 1)	SHK	1,128	739,990	Private
Islands	18 Peng Lei Road[e]	Sino	54	36,840	Land Tender
Tuen Mun	8 Kwun Fat Street	Emperor	14	38,840	Land Tender
Sai Kung	Twin Peaks	K Wah	372	270,500	Land Tender
Sai Kung	Corinthia By The Sea	Sino	536	413,580	Land Tender
Sai Kung	The Beaumont II	Cheung Kong	672	548,810	Private
Yuen Long	Tan Kwai Tsuen, Hung Shui Kui	Far East	24	48,360	Private
Shatin	Double Cove	Henderson	474	387,170	Private
Shatin	Double Cove[e]	Henderson	176	330,660	Private
Sai Kung	Mount Pavilia	New World	680	1,057,080	Private
Islands	TUNG WAN, PENG CHAU	Sino	10	14,370	Land Tender
Sai Kung	Pik Sha Road 18[e]	Chinachem	10	31,680	Private
New Territories Sub-total			**11,045**	**8,024,650**	
Kowloon City	Ultima (Phase 2)	SHK	271	454,500	Land Auction
Kowloon City	The Zumurud	Cheung Kong	228	394,530	Land Auction
Kowloon City	Inverness Park	Chinachem	134	229,590	Land Auction
Kowloon City	Homantin Hillside	Wing Tai	173	153,080	Land Auction
Kowloon City	The Grampian	Hanison	14	35,050	Private
Kowloon City	La Lumiere	Cheung Kong	216	105,030	Land Tender
Sham Shui Po	High One	Henderson	187	56,800	Private

Source: Our Hong Kong Foundation.

Residential Land Supply Surged in Recent Years

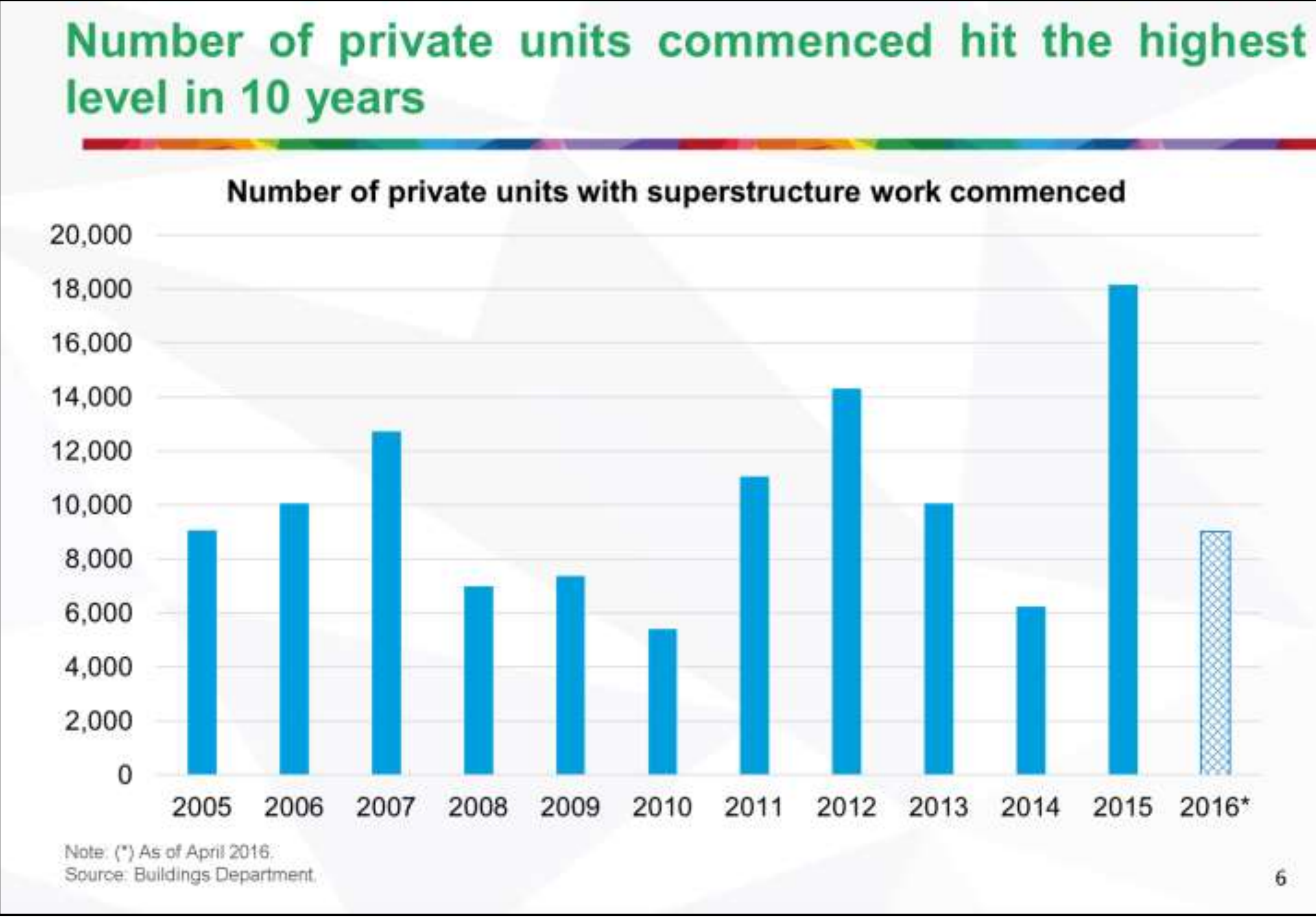


Note: (*) Does not include private development (e.g. land exchange, lease modifications, urban redevelopment projects of private developers etc.).

Source: Our Hong Kong Foundation.

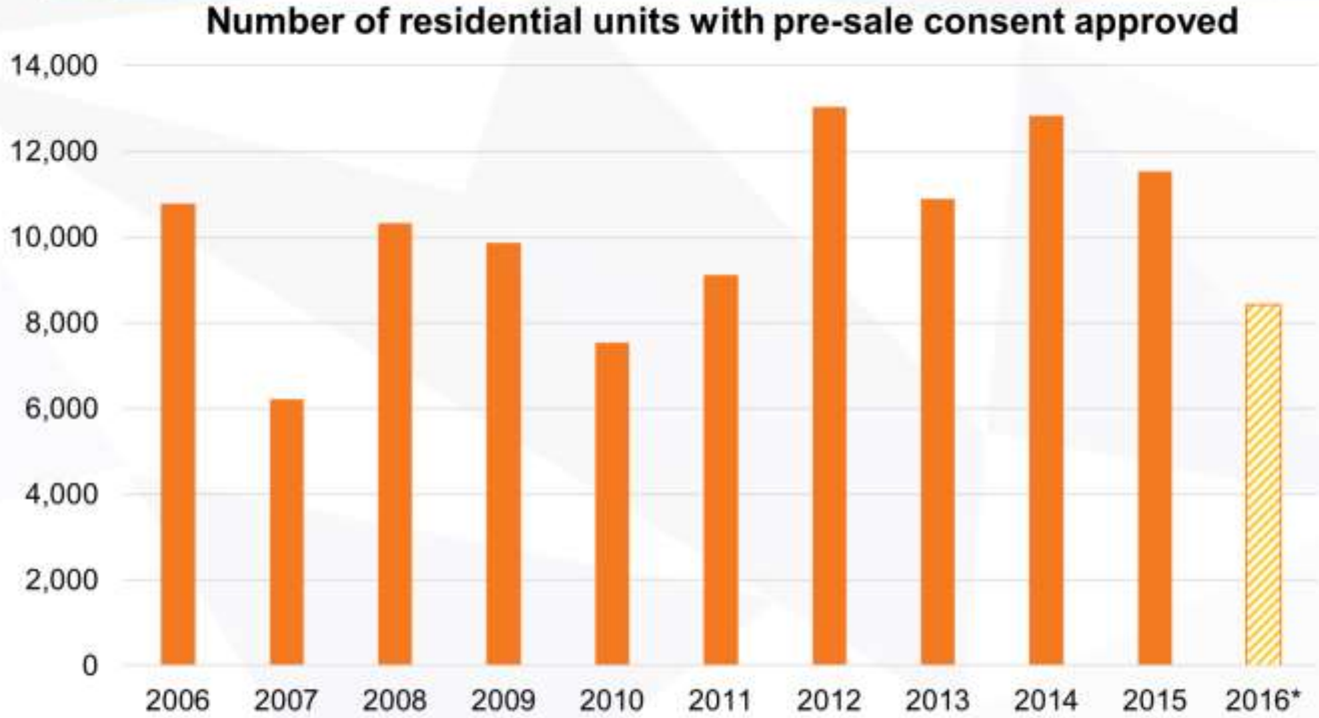
5

1. Examining the four sources of government-led residential land supply, namely: land auction / tender, MTR projects, the URA, and the HKHS in the past seven years (2009-2015), the two years of 2014 to 2015 saw an annual average of more than 14 million sf of residential GFA provided. This is a 75%-increase from the average of the preceding three years, which was about 8 million sf. Cumulatively, the years 2014 and 2015 alone provided nearly 30 million sf. This number is similar to the combined total of the preceding four years (2010-2013) which was 32 million sf.

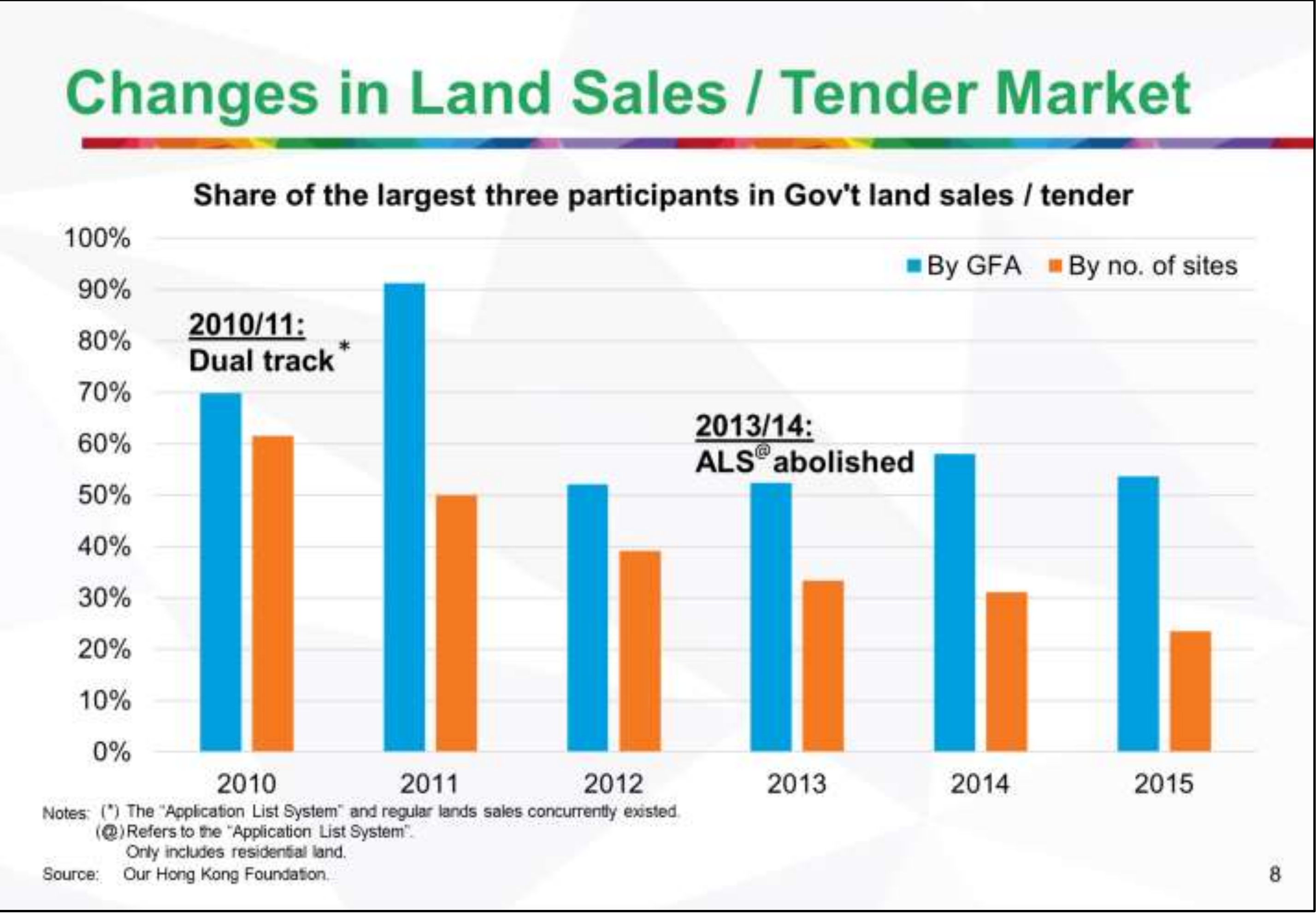


1. The number of private units with superstructure work commenced in 2015 refreshed its 10-year high. In the first four months of 2016, the figure already amounted to nearly half of that in 2015.

Number of units with pre-sale consent approved also hovers around high level



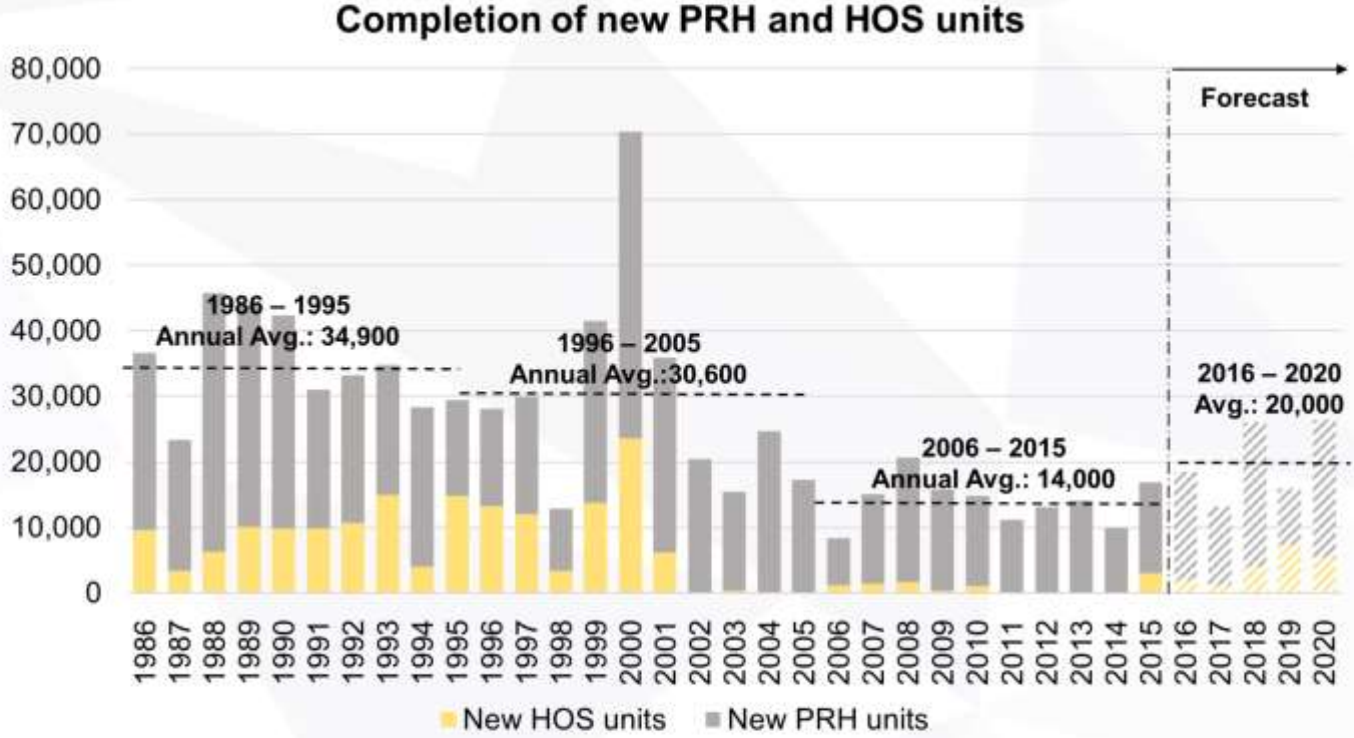
Note: (*) As of June 2016.
Source: Lands Department



1. From the data analysis of residential land auction and tender from 2009 to 2015, OHKF finds that there is a significant increase of market participants. In the period from 2009 to 2015, the share of the total residential GFA successfully sold or tendered to the three largest participants decreased from about 70% to 90% to about 50%.

2. In the period concerned, the government has implemented a number of policy measures to reinforce its control over private residential first-hand property supply, including the "dual track system" in 2010/11 under which regular land sales and the "Application List System" concurrently existed. Subsequently, the government in 2013/14 announced the abolishment of the "Application List System". The government has also recently inclined to use tendering (instead of auction) to execute land sales, as well as providing more small- to medium-sized sites with a view to encouraging new and smaller developers into the market. An increase in the number of market participants in the past six years should have a positive effect on improved market competition and enhanced market efficiency.

Supply of PRH and HOS



Sources: Transport and Housing Bureau and Our Hong Kong Foundation.

Supply Target: Satisfactory for Private; Some Catch-up Needed for Public

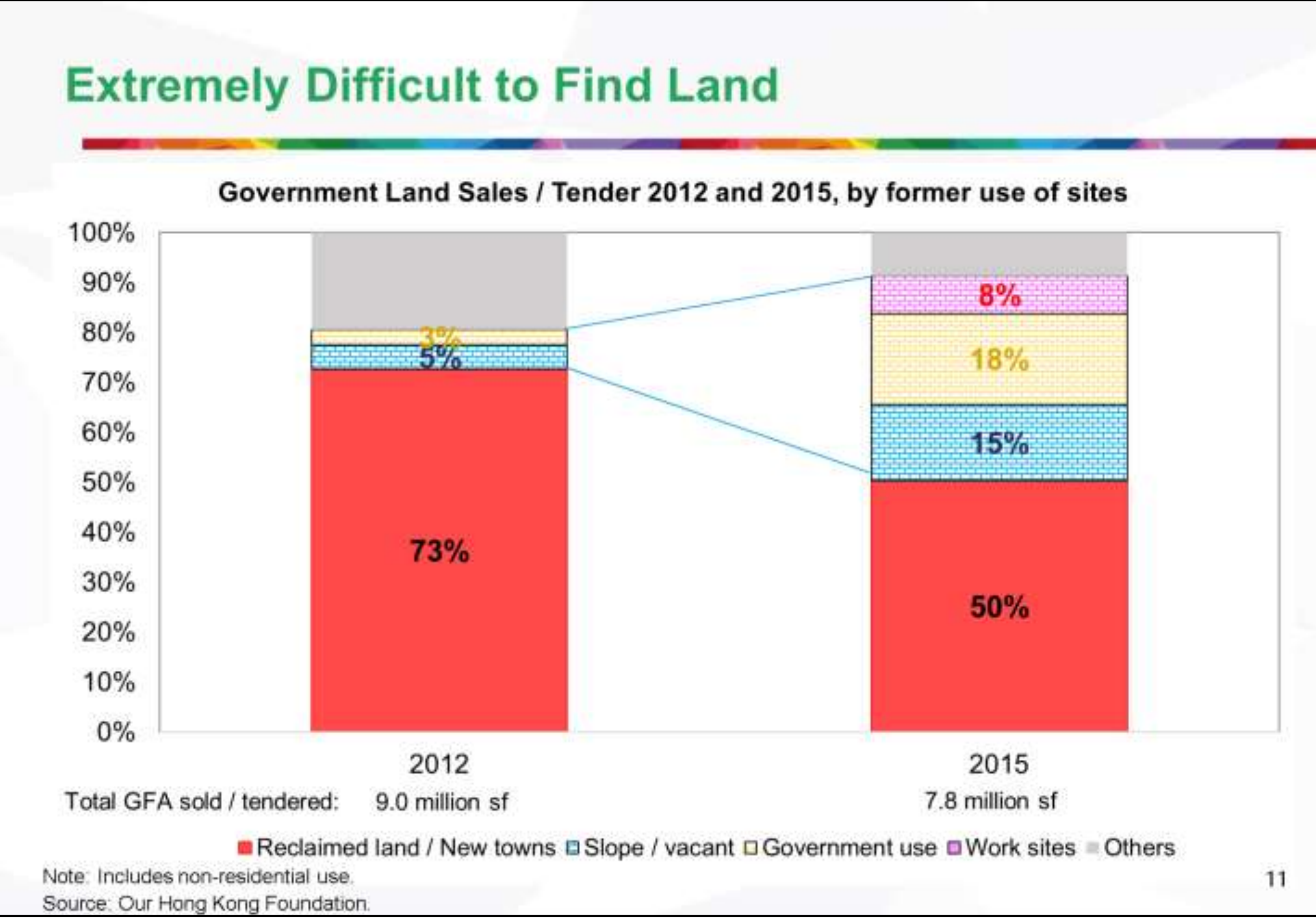
Type of Housing		Completion (Units)	2 Years	5 Years	10 Years
			2016 – 2017	2016 – 2020	2016 – 2025
Public Housing	Public Rental Housing	Target^	40,000	100,000	200,000
		Expected	28,600	80,100	?
	Homeowner-ship Scheme	Target^	16,000	40,000	80,000
		Expected	3,100	19,800	?
Total supply of Public Housing		Target^	56,000	140,000	280,000
		Expected	31,600	99,900	255,000
Private Housing		Target^	36,000	90,000	180,000
		Expected	33,700	70,900*	?
All Housing		Target^	92,000	230,000	460,000
		Expected	65,300	170,900	?

Notes: (^) Assume that the total housing target stipulated in the Long Term Housing Strategy is evenly distributed over the 10-year period.
(?) Question marks denote unavailable information.
(*) Figures are OHKF projections for the next 4 years (2016 – 2019).

Sources: Transport and Housing Bureau, Rating and Valuation Department, Our Hong Kong Foundation.

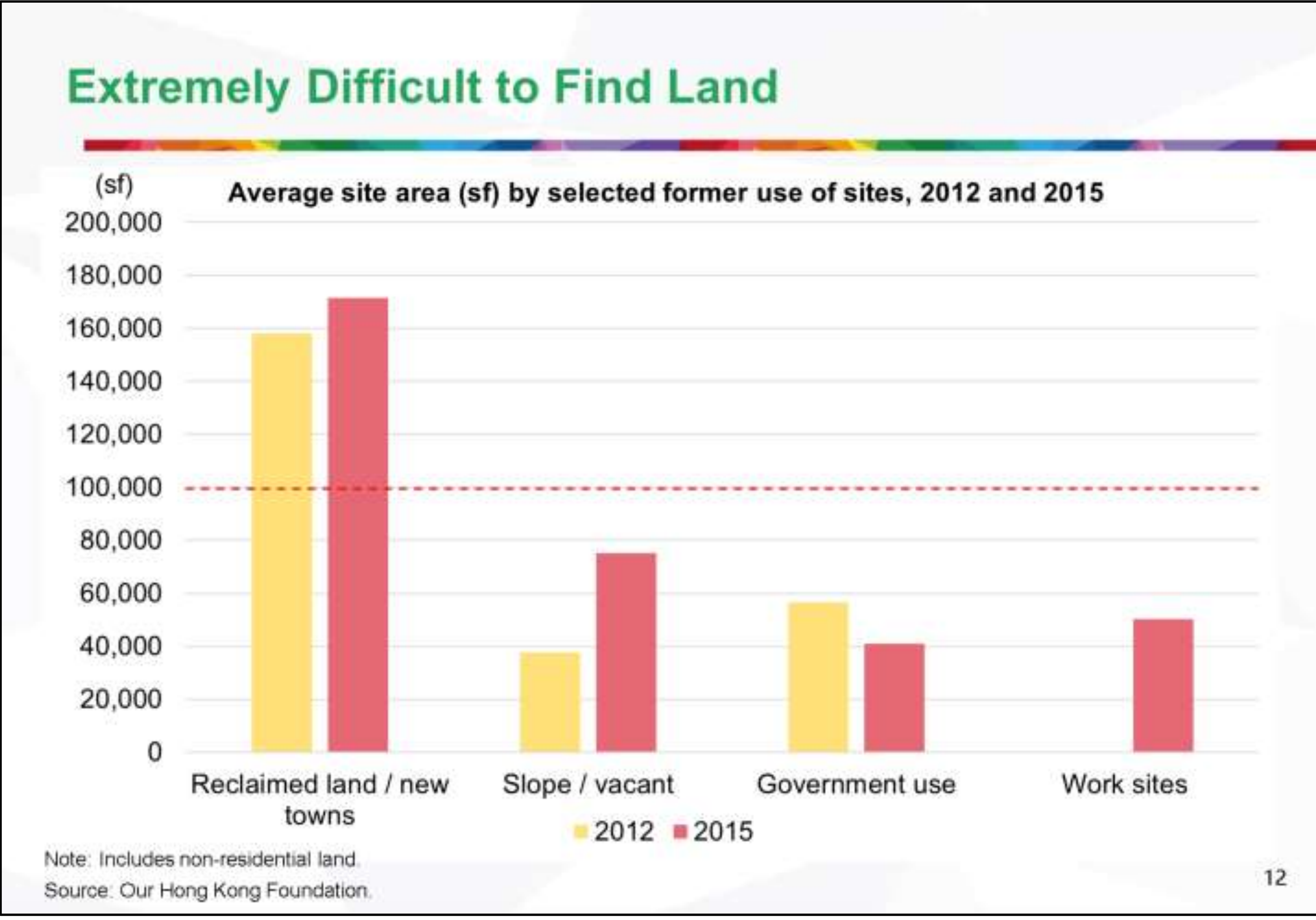
10

1. While short-term housing supply in the private sector has increased, public housing supply still trails significantly. More specifically, it is expected that only 100,000 public housing units (Public Rental Housing and Home Ownership Scheme units) will be completed in the period from 2016 to 2020. This falls 30% short of the government's target of providing 140,000 public housing units in the said period as stipulated in "The Long Term Housing Strategy".

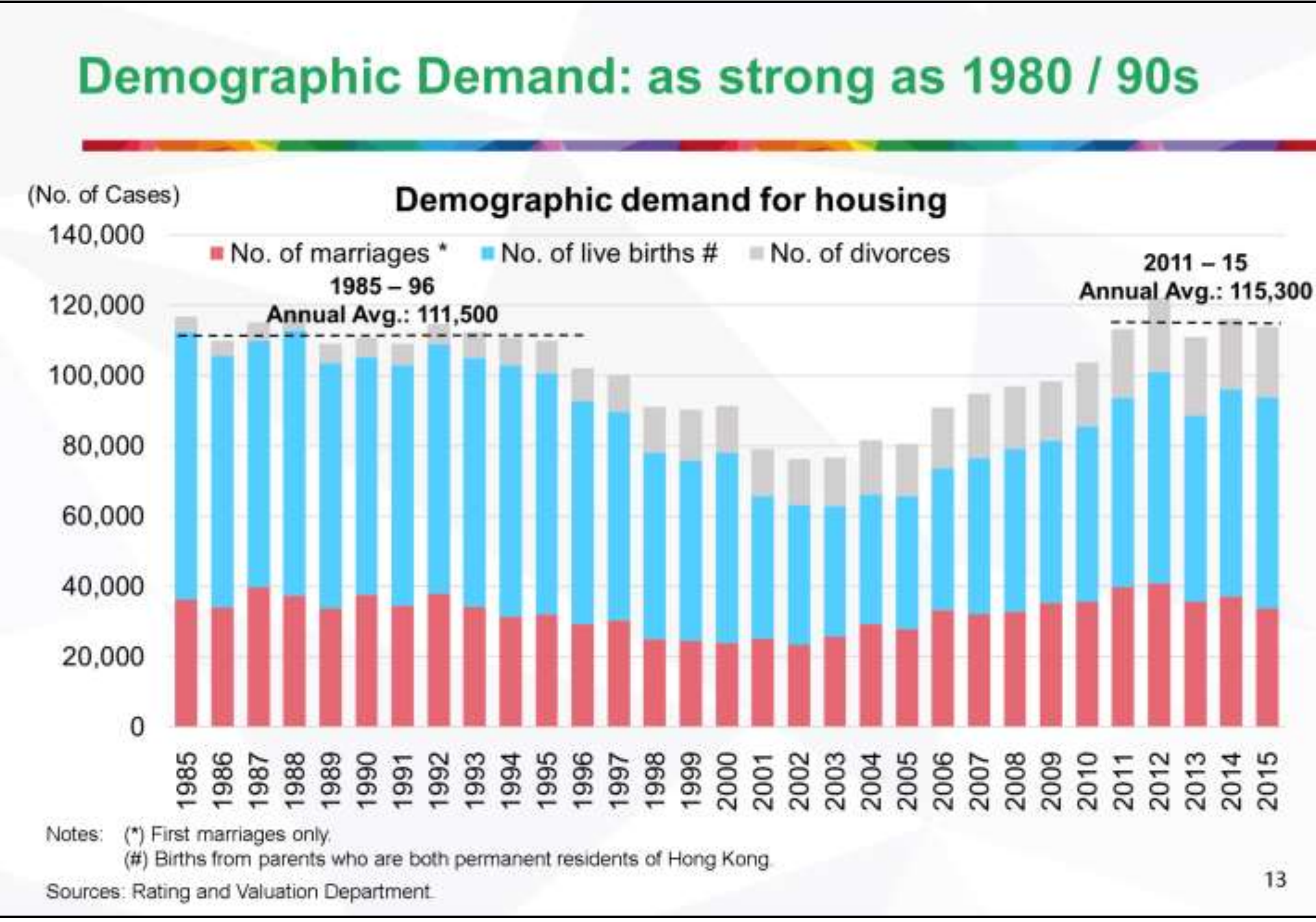


1. OHKF finds that over 70% of government land auction / tender in 2012, as measured by GFA, originated from reclaimed land from the 1990s, e.g. Area 66 in Tseung Kwan O, and from developable land in the previous generation of New Towns, e.g. Tuen Mun East and Kau To, Shatin.

2. By 2015, the total GFA originating from reclaimed land and developable land in the New Towns encompassed only 50% of the overall figure. On the contrary, land that needs to go through town planning processes of rezoning for development such as slopes, government sites (such as former staff quarters), work sites etc. surged from 8% of the total residential GFA in 2012 to 41% in 2015. This reflects that readily developable government land is dwindling, and therefore the government is increasingly relying on change of land use as a means of land supply.

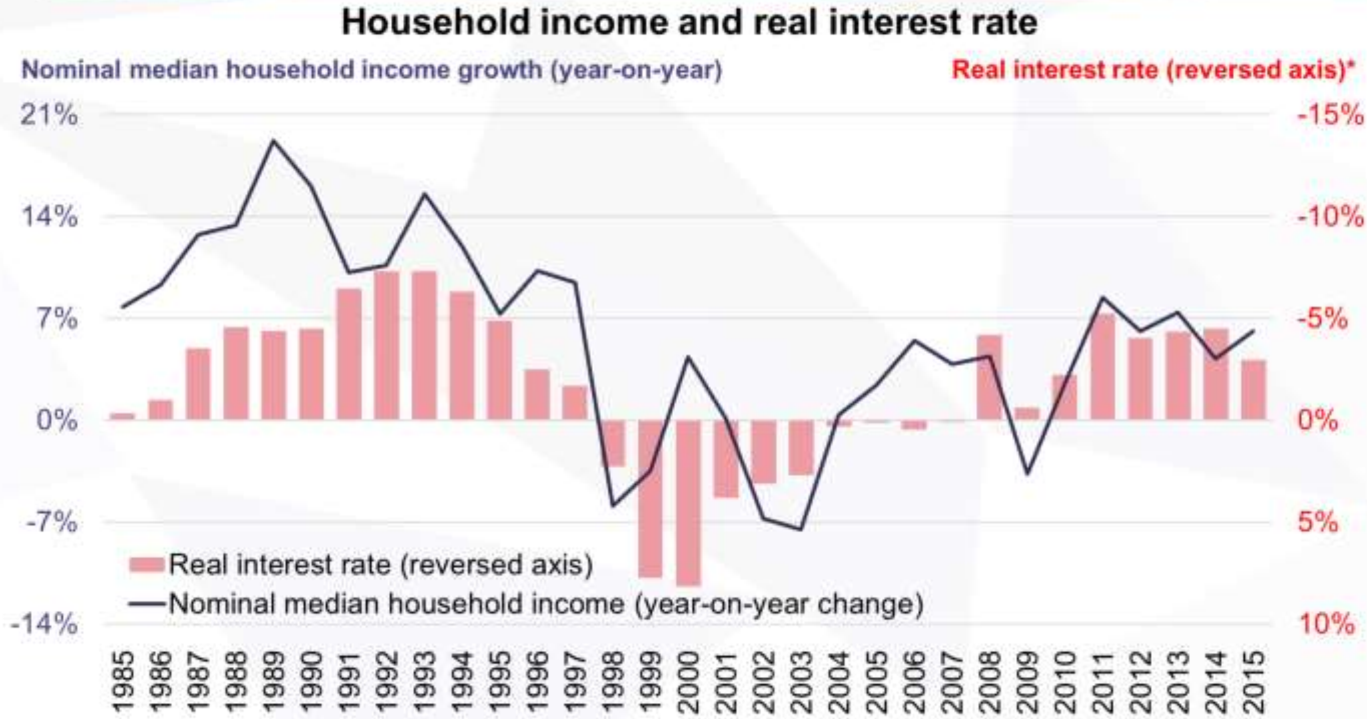


1. If further comparison is made, the site area from reclaimed land and developable land from the previous generation of New Towns are generally larger, with an average size of more than 160,000 sf. On the other hand, the site area of rezoned land is significantly smaller, with an average site area of about 50,000 sf. Land with a larger site area will not only generate economies of scale by lowering average costs for large-scale developments, it could also lead to a more comprehensive and optimal planning process. For instance, it can more easily accommodate development of large-scale commercial and residential complexes with adequate transport facilities such as transport terminals and car parks to be placed near residential areas. On the contrary, in addition to being unable to enjoy the benefits above, the shape of smaller sites are usually unconducive to development, indirectly raising construction costs, and this will ultimately be reflected on housing prices.



1. Data analysis over the past 30 years suggests that at the present, there is a substantial and genuine demand for housing yet to be met. Therefore, OHKF does not believe that there is any room for slowing down in land supply. For example, from 2011 to 2015, the combined average annual number of first marriages, live births (excluding births from singly and doubly non-permanent residents), and divorces is even higher than the corresponding figure for the period 1986 to 1995. In other words, demographic-driven housing demand in recent years is in fact higher than that in the 1980s and 1990s. However, the overall number housing unit completions has plummeted by 60%.

And Supported By Affordability



Note: (*) Refers to the excess of Deposit Rate over Inflation Rate (measured by the Consumer Price Index) on a reversed axis.
Source: Census and Statistics Department, CEIC.

But Supply Only 40% of 1980 / 90s

Sources: Rating and Valuation Department, Census and Statistics Department.

Conclusions So Far

- Substantial genuine end-user demand for housing ➔ supply still relatively low
- No room for "slacking off" in land supply
- Absence of large-scale land development project for a prolonged period of time➔ very difficult to catch up

"Brownfield First": Is that feasible?

What is brownfield?

1. No standardised definition
2. Various definition in different jurisdictions

Jurisdiction	Definition
United Kingdom	**Previously developed land** with future potential for being redeveloped
United States	**Abandoned industrial land** which has been contaminated
Hong Kong	**Agricultural land in the rural New Territories**, occupied by various haphazard industrial operations, which are often incompatible with the surroundings.

17

1. There is an emerging discourse in the community that land supply does not necessarily have to rely on reclamations or development of New Towns. The said discourse believes that there are still a large amount of land resources that has not been efficiently used in Hong Kong. Therefore, the formulation of land supply strategy by the government should prioritise optimising inefficiency in the existing land resources.

2. An example of the inefficient use of land resources is brownfield sites. "Brownfield sites" refer to abandoned agricultural and industrial land in the rural New Territories that are converted into open storage, container yards, warehouses, and industrial recycling yards etc., which are often incompatible with the surrounding environment. The concept of "Brownfield First" means that such land should be the first option to take as a source of land supply before considering other options, including land reclamation and land within the green belt.

3. OHKF does not agree with the said discourse. Firstly, the vast majority of our brownfield sites are privately owned, and are with different operations. This means that to develop brownfield sites, the planning process must involve such issues as land resumption, relocation, resettlement, and compensation. OHKF has analysed public housing projects involving similar issues and established that they all require an exceedingly long lead-time.

Land Development Takes Time…

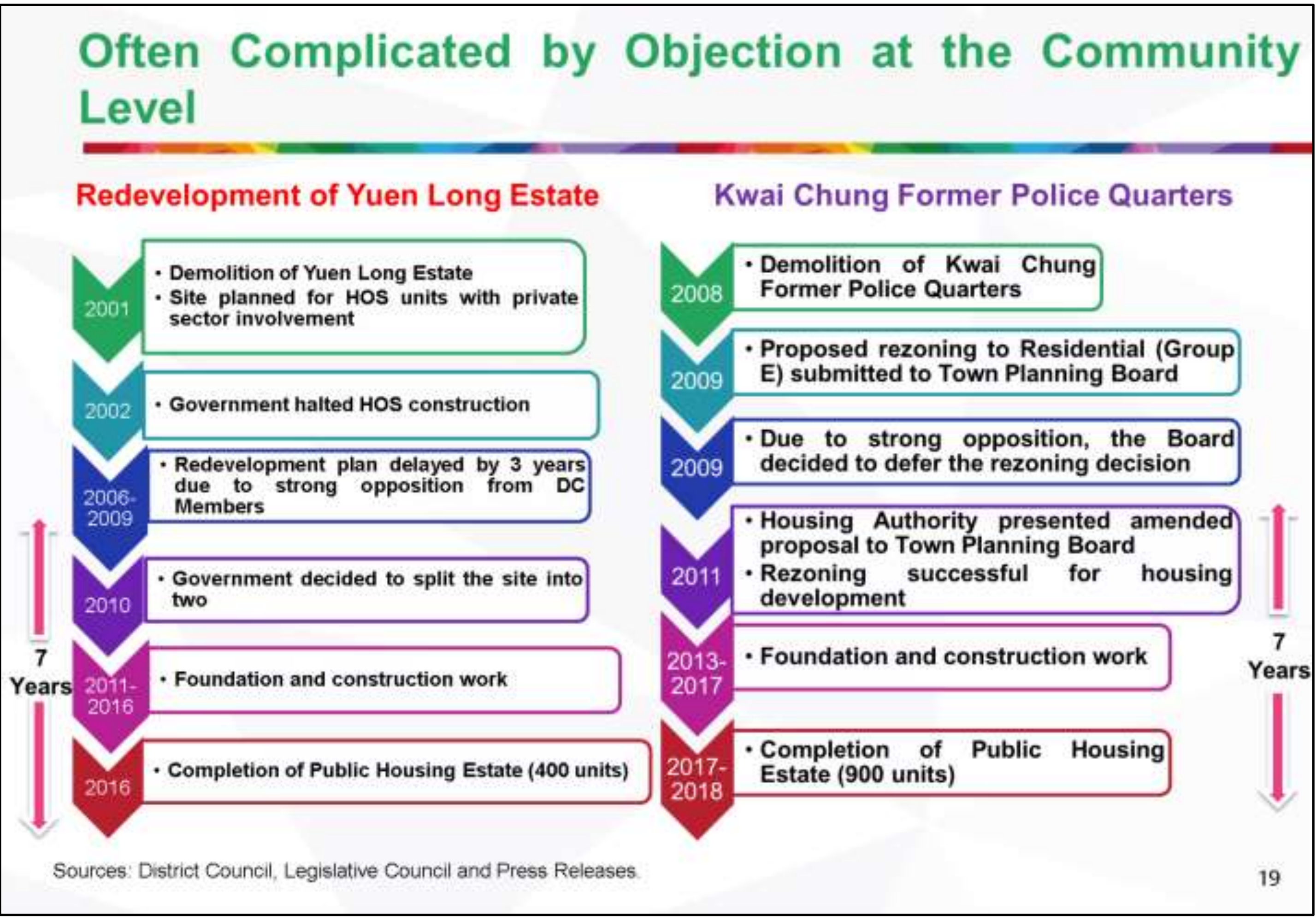
Wing Tai Road, Chai Wan

2015 — Housing Authority Proposal presented to District Council

2016 - 20 — Demolition and Construction Work

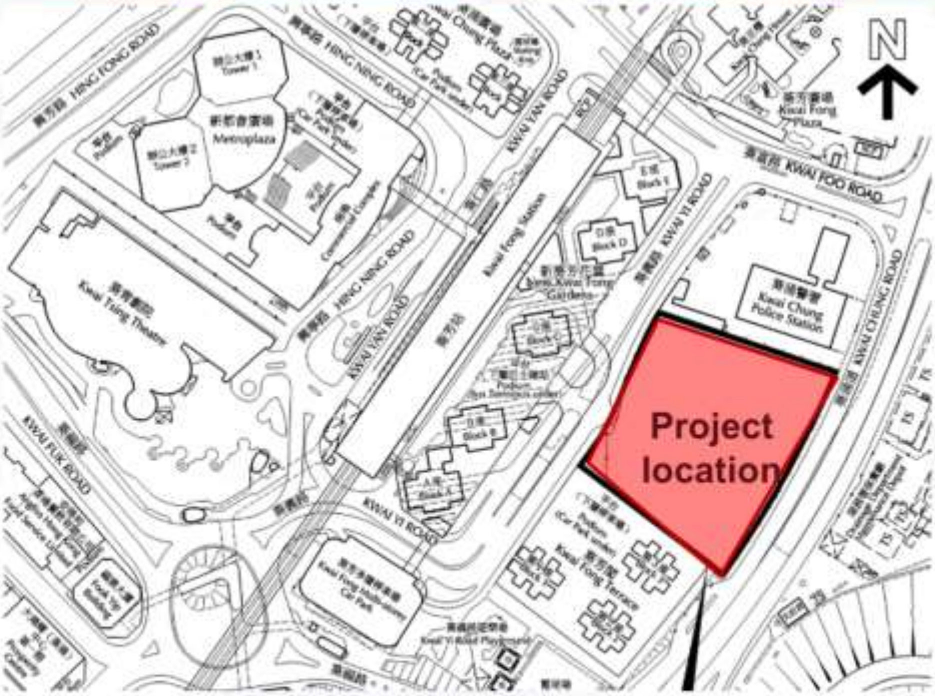
2020 — Public Housing Estate Completed (approx. 800 units)

Sources: District Council, Legislative Council and Press Releases.

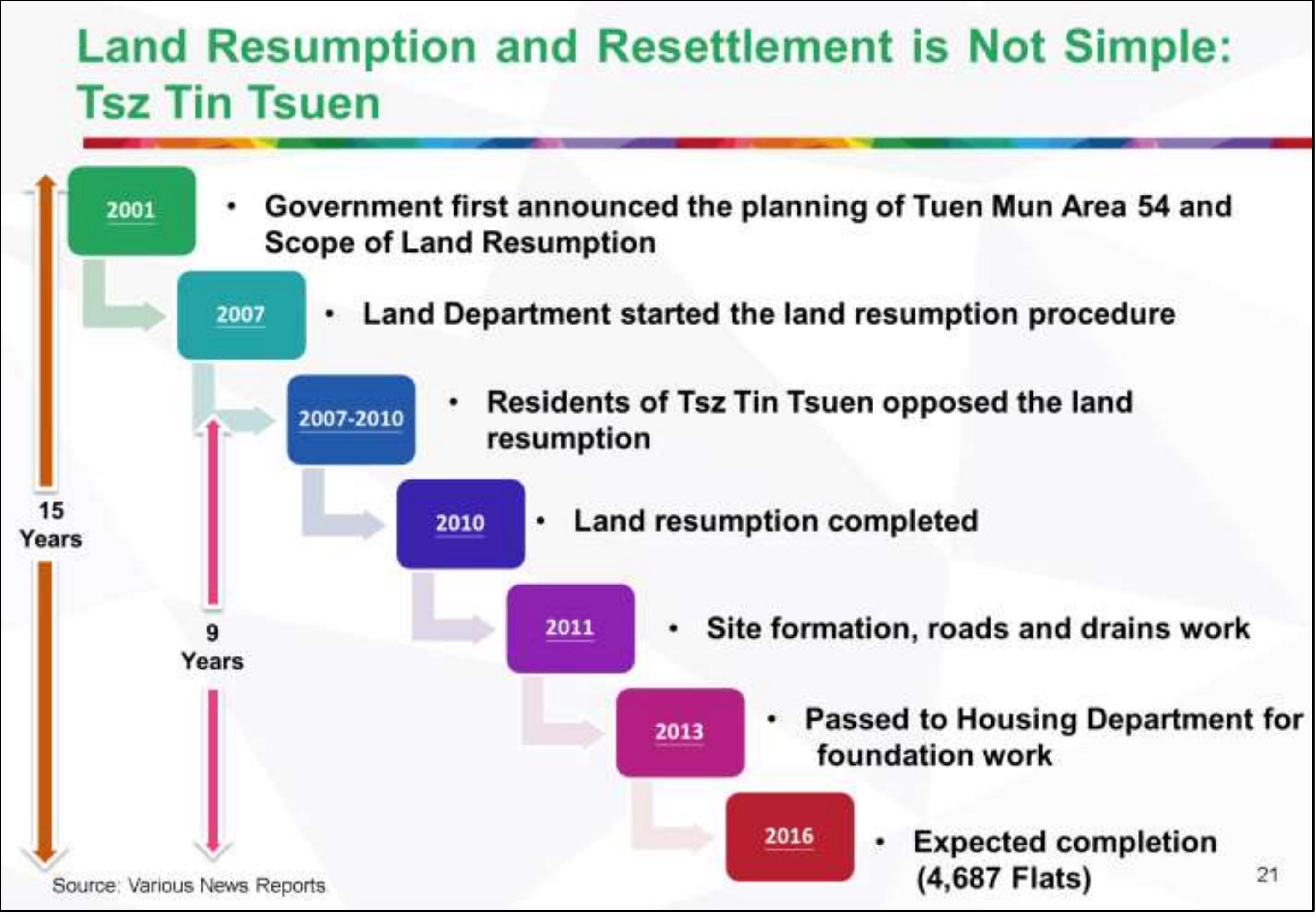


1. For example, during the redevelopment process of Yuen Long Estate and the Kwai Chung former police quarters, oppositions from local residents were met. Although the scale of the projects is small (at about 400 and 900 public rental housing units respectively), the lead-time from the plan first being raised to the completion of the project took nearly a decade.

PRH Project at Kwai Chung Former Police Quarters



Source: Town Planning Board.



1. Another similar example is the development of Tsz Tin Tsuen with a local population of about 80 to 100 households. The government first announced the development proposal in Tuen Mun Area 54 back in 2001. By 2007, the Lands Department began land resumption but was met with opposition from the local residents. It was only until 2010 that land resumption was completed and site formation and roads and drains works began. The development is expected to be completed in 2016 with approximately 5,000 public rental housing units. The lead-time of the entire process from land resumption to the completion of the project took nearly 10 years.

PRH Project at Tsz Tin Tsuen (Yan Tin Estate)

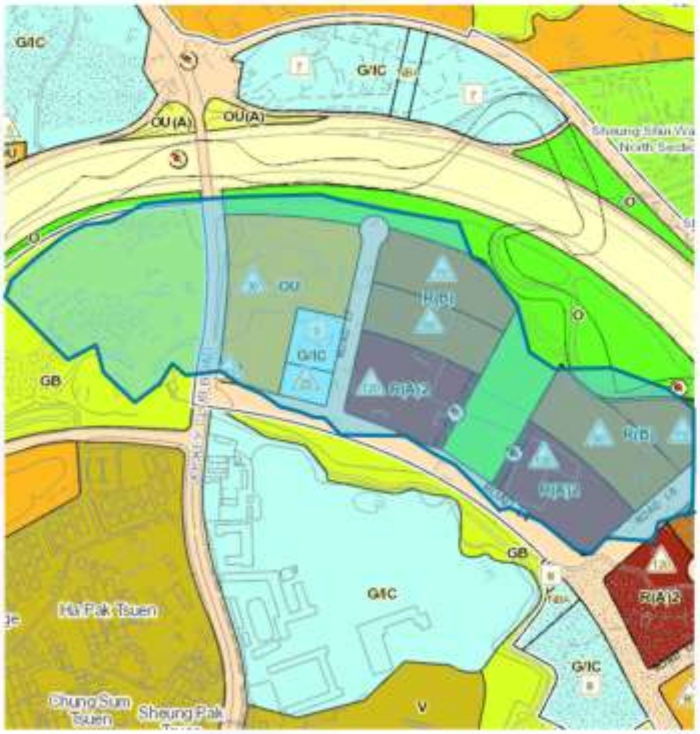
Source: Wikipedia.

PRH Project at Tsz Tin Tsuen (Yan Tin Estate)

Source: Town Planning Board.

1. In light of the serious shortage of land, OHKF supports the notion that the utilisation efficiency of land resources must be improved. OHKF therefore supports the call for a review of the existing use of brownfield sites. However, OHKF is not in favour of a policy prioritising any particular source of land supply. This is because any method to increase land supply will ultimately be faced with an assortment of challenges and difficulties. Take brownfield sites as an example, such large-scale, systematic development will naturally involve an abundance of land resumption and resettlement procedures, which could be extremely time-consuming. Indeed, the several New Development Areas being implemented by the government cover sizeable areas of brownfield sites.

Brownfield sites covered by NDA: Fanling North



Sources: Google, Liber Research Community, Town Planning Board.

Conclusions

1. Land supply is costly and time-consuming
2. Efficiency in existing land utilization should be improved
3. A policy prioritising any particular land supply avenue is unrealistic
4. A multi-pronged approach must be adopted for land supply
5. Establishment of a land reserves is essential over the long term

1. Taking into account that Hong Kong has not seen any large-scale land development projects for an extended period of time, land supply policy must follow a multi-pronged approach. For example, in the short-term, the government will rely on changing land use by rezoning sites near urban areas or transportation networks to obtain developable land, before New Development Areas (including large areas of brownfield sites) could be delivered to meet housing demand in the medium term. In the long-term, land reclamation and new town development are, at any rate, important sources of land supply.