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THE HONG KONG SAR 2023-24 BUDGET – REAL ESTATE SECTOR HIGHLIGHTS, GREEN INITIATIVES AND OTHER UPDATES

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SUMMARY

On 22 February 2023, Paul Chan, the Financial Secretary of Hong Kong SAR, delivered the 2023-24 Budget (the "**Budget**"). Starting off by acknowledging the severe external environment, Chan went on to forecast that the Hong Kong SAR economy will see "a visible rebound" and can enjoy "abundant opportunities". Confirming speculation circulated by the press prior to the publication of the Budget, Chan announced the implementation of a further round of consumption vouchers of HK$5,000 per eligible citizen, as well as the launch of a "Happy Hong Kong" campaign consisting of gourmet experiences, sea-land carnivals, mega events and other collaboration events whether on the tech side with the Science Park and Cyberport, or with Hong Kong SAR's Ocean Park and Disneyland and the highly acclaimed cultural facilities of M+ and the Palace Museum.

Aside from these more eye-catching initiatives, the Budget contains various updates relevant to the real estate, construction and infrastructure sectors, many of which echo the policy address delivered by the Chief Executive in October 2022 (the "**Policy Address**"). It is these areas in the Budget that we will focus on in this article. You may also find our summary of the Policy Address on relevant issues in our earlier article "Hong Kong SAR Policy Address 2022 – A Quest for Talent, Public Housing and Land Supply".

REAL ESTATE SECTOR HIGHLIGHTS

LAND SUPPLY

A precise offering

The Government Land Sale Programme in 2023-24 will include the sale of 12 residential sites, 3 commercial sites and 3 industrial sites capable of providing about 20,550 residential units, 200,000 square metres of commercial floor area and 170,000 square metres of industrial floor area respectively.

Coupled with railway property developments projects, the Government is aiming to make land available to provide no less than 72,000 private housing units in the coming five years. More than half of such land comes from New Development Areas or New Town Extensions (see further updates below on the Northern Metropolis). Other land supply will come from development projects undertaken by the Urban Renewal Authority and other private 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. The Budget speech enhances this commitment with an update that the Government is now formulating the policy framework for such pilot scheme.

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

a. Public housing – Sufficient land has been identified for the provision of about 360,000 public housing units, meeting demand for public housing in the coming decade. However, it is acknowledged that as land creation takes time, there is still a shortage of supply in the short term;

b. Light Public Housing – To resolve such shortage, 8 sites have been identified for construction to fill the short-term gap of public housing supply; and

c. Transitional Housing – About 7000 units have been put into service as at end-2022, with a further 14,000 additional units expected in the next two years.

Private housing

It is estimated that over 19,000 private residential units will be completed annually in the next five years from 2023 onwards and that the potential supply of first-hand private residential units would remain at a relatively high level of about 105,000 units for the next three to four years.

STAMP DUTY

Spicy measures stay

Given the stagnant property market, there have been calls in recent months from stakeholders for the Government to withdraw or reduce the so-called "spicy measures" or "harsh measures", being a range of demand-side management stamp duty measures introduced by the Government throughout the past decade. To the disappointment of property investors, Chan announced in the Budget that these spicy measures will remain in place.

Scale 2 rates adjusted

However, to ease the burden on first time property purchasers (being permanent residents) of small to medium residential units, adjustments will be made to the value bands of the ad valorem stamp duty payable for the sale and purchase or transfer of residential and non-residential properties (i.e. rates at Scale 2). These benefits properties sold at less than HK$10 million. For example, a significant benefit can be seen where 3% stamp duty used to be charged on properties worth HKD 4 million to HK$6 million. This rate is now charged on properties sold between HKD6 million to HK$9 million. More precise details are set out in the following table which compares the present rates with those proposed in the Budget:

Comparison of present and proposed ad valorem stamp duty Scale 2 (including marginal relief)

Amount or value of the consideration (whichever is the higher)		**Rates**	
Present (HK$)	**Proposed (HK$)**	**Present (HK$)**	**Proposed (HK$)**
Up to $2,000,000	Up to $3,000,000	$100	
$2,000,001 to $2,351,760	$3,000,001 to $3,528,240	$100+10% of the excess over $2,000,000	$100 + 10% of the excess over $3,000,000
$2,351,761 to $3,000,000	$3,528,241 to $4,500,000	1.5%	
$3,000,001 to $3,290,320	$4,500,001 to $4,935,480	$45,000+10% of the excess over $3,000,000	$67,500 + 10% of the excess over $4,500,000
$3,290,321 to $4,000,000	$4,935,481 to $6,000,000	2.25%	
$4,000,001 to $4,428,570	$6,000,001 to $6,642,860	$90,000+10% of the excess over $4,000,000	$135,000 + 10% of the excess over $6,000,000
$4,428,571 to $6,000,000	$6,642,861 to $9,000,000	3.00%	
$6,000,001 to $6,720,000	$9,000,001 to $10,080,000	$180,000+10% of the excess over $6,000,000	$270,000 + 10% of the excess over $9,000,000
$6,720,001 to $20,000,000	$10,080,001 to $20,000,000	3.75%	
$20,000,001 to $21,739,120	$20,000,001 to $21,739,120	$750,000 + 10% of the excess over $20,000,000	
$21,739,121 and above	$21,739,121 and above	4.25%	

Decreased stamp duty revenue

Chan noted that, as a result of the sluggish property markets and decreased volume of transactions, the revenue from stamp duty in 2022/23 of HK$67 billion is lower than the original estimate by HK$46 billion, constituting a significant budget shortfall.

NORTHERN METROPOLIS

Echoing the Policy Address delivered by the Chief Executive in 2022, the Government will continue to develop the northern part of Hong Kong along its border with Mainland China. The Northern Metropolis serves an important base for promoting the development of I&T industries and also a new engine for the future development of Hong Kong.

San Tin Technopole

The Government is planning to commence consultation in the 2nd quarter of 2023 on the development proposals and land use planning of San Tin Technopole. Site formation works of the first batch of new land for innovation and technology uses will commence in 2024.

Lok Ma Chau Loop

The first three buildings of the Hong Kong-Shenzhen Innovation and Technology Park will be gradually completed from end-2024 onwards.

GREEN INITIATIVES

GREEN FINANCE

Besides setting up a Green Technology and Finance Development Committee, the Government will take the following five directions to further develop the city's green technology and finance:

a. building a green technology ecosystem;

b. green finance application and innovation;

c. green certification and alignment with international standards;

d. training for talent; and

e. enhancing the exchange and co-operation with the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) and international markets.

Further, an International GreenTech Week will be hosted at the end of 2023.

GREEN CITY

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 will continue to allocate resources in support of efforts to address decarbonising strategies.

Green Tech Fund (GTF)

In 2022, the Government injected an additional funding of $200 million into the GTF, doubling the provision to $400 million.

New energy transport

The Government is aiming to introduce electric buses and taxis by the end of 2027. The viability of testing the use of electric ferries is also in motion. A loan scheme, involving a loan guarantee of about $6.4 billion will also be introduced to encourage taxi owners to replace existing taxis with battery electric taxis.

Food waste reduction

The Government will allocate an additional funding of $62 million to increase food waste collection coverage.

Countryside conservation

The Government aims to enhance facilities in country parks in the next two to three years, such as converting wartime relics to museums.

OTHER RELEVANT UPDATES

INTERNATIONAL AVIATION HUB

The Government will press ahead with the “Airport City” development strategy. Infrastructure projects to be completed and commissioned include:

a. SkyPier Terminal – to commence operation in the middle of 2023; and

b. The entire Three-Runway System – expected to be completed by the end of 2024.

Moreover, the Government will aim to enhance the aircraft leasing preferential tax regime. Proposed measures include allowing tax deduction for the acquisition cost of aircraft, and expanding the scope of leases and aircraft leasing activities. We await further details from the Government, who are looking to introduce a bill into the LegCo in the fourth quarter of 2023.

ATTRACTING ENTERPRISES AND TALENT

Again, building on the focus on talent trawl as seen in the Policy Address, the Government has introduced mechanisms and schemes to attract businesses. The establishment of the Hong Kong Investment Corporation Limited aim to optimise the use of fiscal reserves for promoting the development of the economy and industries. A mechanism will also be introduced to facilitate companies domiciled overseas for re-domiciliation to Hong Kong, with further consultation and legislative proposals to be submitted in 2023-24.

END NOTE

As highlighted in this article, certain recurring topics can be seen running through the Policy Address and the Budget, such as the emphasis on housing and land supply, development in the Northern metropolis and talent attraction.

At the time of the Policy Address in October 2022, the Chief Executive referred to the pandemic and the "rapidly worsening global economic outlook" and acknowledged that these factors would affect the pace of the economic recovery of Hong Kong. A quarter later, as the Budget is announced today, we heard the Financial Secretary affirming in his speech his belief that Hong Kong's economy will "visibly recover and that he "remain[s] positive". At the time of the Policy Address last October, the borders with Mainland China remained closed. Today, the Government announced in the Budget that they expected to see a strong rebound in the number of visitor arrivals, with borders open and quarantine requirements for inbound persons removed. After some tough years for so many, could there have been more support given to those in need? Always debatable. What is enough? Always a little bit more! Chan has taken a "moderately liberal" fiscal stance in presenting Hong Kong SAR with this deficit budget. With forecasted economic growth of between 3.5% to 5.5%, he also predicts retaining healthy fiscal reserves of HK$983.7 billion by the end of March 2028. Encouraging to see the Year of the Rabbit starting with far greater optimism and stronger economic performance in the medium term. Let us hope that we can all enjoy a "happier Hong Kong" in 2023 and the years to come!

We will provide further updates as various measures and initiatives are being implemented.

This article was co-written by Andrew MacGeoch with Associates Tiffany Tam, Hilary Tai and Trainee Solicitor Nigel Chiang.

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