

# Hong Kong Property

## Policy Address Confirms Lower Private Housing Supply

- **Announced housing policy generally in line with our expectations** — CY Leung, Hong Kong's Chief Executive, today delivered his second Policy Address. Last year property was the first topic in the Policy Address, unlike this year when it was accorded only a few paragraphs and was one of the last topics. The key major surprise is that the government admitted that private housing supply will be only 13,600 units each year in the next five years (versus the previous target of 20k units). This is similar to our predictions in our November 2013 sector report - [Hong Kong Property - 2014 Outlook: Home Price to Dip, Not Dive](#), where we first mentioned the government would miss its 20,000-unit target.
- **Cut private housing but lift public housing target** — The government has changed both the private and public housing supply targets this time. CY Leung mentioned that the private sector will, on average, produce about 13,600 flats each year in the next five years (against the previous target of 20k units). On the other hand, the government has set a new target of 20,000 public rental housing (PRH) units and 8,000 home ownership scheme (HOS) units, which is 36% higher than last year's budget. The government has identified sufficient land for 179,000 PRH units and 17,000 HOS units, as pledged.
- **Reiterating ways to create land from short to long term** — Long-term land planning may need a number of years and needs to start as soon as possible. The government has identified several ways to increase land supply from the short to long term. These include 1) streamlining procedures for land premium negotiations; 2) increasing development density by 20%; 3) relaxing development restrictions at Pok Fu Lam; 4) developing North East New Territories and Hung Shui Kiu; 5) extending Tung Chung New Town; 6) reviewing deserted agricultural land in North District and Yuen Long; 7) further studying reclamation and developing cavern and underground space. The government indicated altogether 150 sites will be available over the next five years, comprising about 210,000 residential units.
- **Home price seeing better support, prefer Developers** — The market generally expected no significant measures would be announced in the policy address, with the key focus being to outline an adequate housing and land supply picture to the market. Generally speaking, we expect the property market will be slightly positive on the policy address, with lower private housing supply. Sentiment has picked up on the primary market, while we believe primary sales should see decent growth in 2014 (Citi estimate: 13,000 units up 30% YoY). Developers' share prices are at the low end of trading ranges and should have upside as the residential sector outperforms market expectations. Top Buys: SHKP, Cheung Kong, Henderson Land and Sino Land.

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# Policy Address Confirming Lower Private Housing Supply

## Key surprise on a cut in private residential supply target

CY Leung, Hong Kong Chief Executive, delivered his second policy address in the Legislative Council at 11am HKT today (15 January). Last year property was the first topic in the Policy Address, unlike this year when it was accorded only a few paragraphs and was one of the last topics. The key major surprise is that the government admitted that private housing supply will be only 13,600 units each year over the next five years (versus a target of 20k units). This is similar to our predictions in our November 2013 sector report - [Hong Kong Property - 2014 Outlook: Home Price to Dip, Not Dive](#) where we first mentioned the government would miss its 20,000-unit target. We predict the private residential supply in 2014, 2015 and 2016 will be 16,069, 13,463 and 12,977 units respectively, which is similar to the government target of 13,600 units per year over the next five years.

## Cut private housing but lift public housing target

CY Leung has outlined some of his new targets on both private and public housing -

### To provide 13,600 private residential units each year over the next five years -

The private sector has only produced an average of about 9,680 flats each year over the past five years. Based on the preliminary assessment of private residential developments known to have started or to be started on disposed sites, it is projected that the private sector will, on average, produce about 13,600 flats each year in the next five years, an increase of about 40%. However, this represents a decline of 32% versus the government's previous target at 20,000 units per year on the private side.

**Target 20,000 public housing units and 8,000 HOS units each year** - The government has identified sufficient land for 179,000 PRH units and 17,000 HOS units as pledged. To meet the new housing supply target, the government aims to provide an average of about 20,000 PRH units and about 8,000 HOS units per year. This is 36% higher than last year's target.

Figure 1. HK Government Housing Target

	Now	Previous	Change
Private	13,600	20,000	-6,400
Public Housing – PRH	20,000	15,000	5,000
Public Housing – HOS	8,000	5,000	3,000
<b>Total</b>	<b>41,600</b>	<b>40,000</b>	<b>1,600</b>

Source: Citi Research

### Ten-year target is a total of 470,000 units, in both public and private sides -

The government accepts the recommendation of the Long Term Housing Strategy Steering Committee to increase housing supply. The new target is to provide a total of 470,000 units in the coming ten years, with public housing accounting for 60%.

## Boosting land supply from short to long term

HK government will continue to boost land supply in order to ensure adequate residential land bank is available to the market each year. The government has identified 80 additional green belt sites and GIC sites in various districts with a total area of over 150 hectares for residential use, which will provide about 89,000 units. Together with sites identified before, altogether 150 sites will be available for the next five years, comprising about 210,000 residential units.

The ways to increase land reserve include:

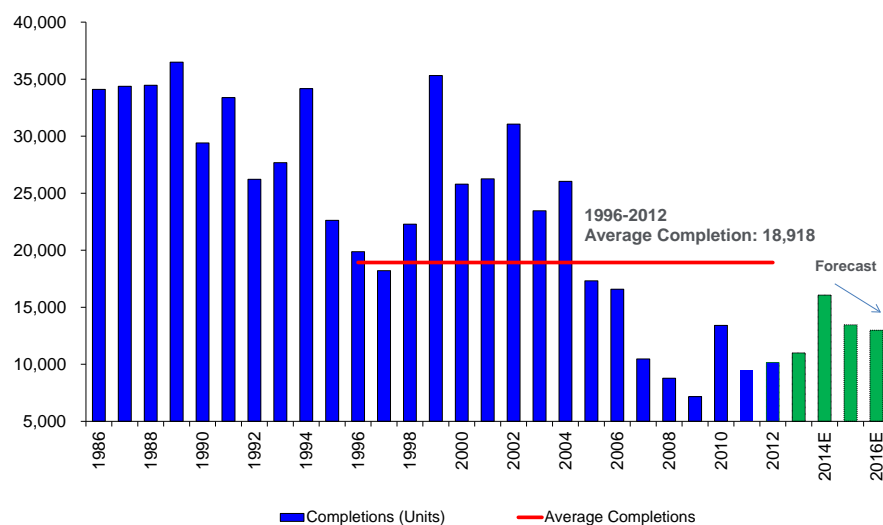
- a) **Streamlining procedures for land premium negotiations** - The government will introduce a Pilot Scheme for Arbitration on Land Premium to facilitate early agreement on land premium payable by way of arbitration. In addition, the Development Bureau (DEVB) will set up a dedicated cross-disciplinary team to assist the Steering Committee on Land Supply, chaired by the Financial Secretary, in monitoring land supply and promoting land development.
- b) **Increase plot ratio (density) by 20%** - Except for the north of HK Island and Kowloon Peninsula, the government considers it feasible to generally increase the maximum domestic plot ratio currently permitted for the other density zones in the territory by around 20% as appropriate. The government has completed the preliminary technical assessments of the Kai Tak New Development Area and Tuen Mun East, and proposes to increase as appropriate the plot ratios of the new housing sites and the number of flats to be built on them.
- c) **Relax development restriction at Pok Fu lam** – The government has decided to first lift the development moratorium at the south of Pok Fu Lam, i.e. the area close to Wah Fu Estate. This area will be used for public housing development and the future redevelopment of Wah Fu Estate, providing about 11,900 additional PRH and HOS units.
- d) **Developing North East New Territories and Hung Shui Kiu** – North East New Territories New Development Area will become the major source of housing supply from 2022 onwards, which will provide about 60,000 units in total. Hung Shui Kiu NDA can accommodate a new population of 175,000 and the government has formulated the development plan.
- e) **Extension of the Tung Chung New Town** – The government has proposed an extension of new town to the east and the west of Tung Chung, which would provide space to construct about 53,000 residential units.
- f) **Review of deserted agricultural land in North District and Yuen Long** – In North District and Yuen Long there are some 257 hectares of agricultural land mainly used for industrial purposes or temporary storage, or which is deserted. The government has identified four sites for planning and engineering studies. According to a preliminary assessment, some sites will be available for housing development as early as 2020.
- g) **Long-term land supply** - The government is taking forward further studies on reclamation and developing cavern and underground space. The government is now carrying out a cumulative environmental impact assessment of the northern Lantau waters and will initiate studies on various reclamation sites, including strategic studies on artificial islands in central waters for the development of the East Lantau Metropolis, and a planning and engineering study on the reclamation in Sunny Bay. The feasibility study on relocating the Sha Tin Sewage Treatment Works to rock caverns is largely completed. The

government has commenced a study to identify districts with potential for developing urban underground space, with a view to increasing usable space and enhancing connectivity in the urban areas.

## Home price seeing better support, prefer Developers

Predictions that the HK home price will drop 15-20% next year, and 30-50% over the next 2-3 years, are far too bearish, in our view. While the home price is due for a consolidation, the criteria for a price collapse are missing. One key reason for better home price performance is that we predict private residential housing supply will be on a downtrend in 2014 to 2016. Our supply targets of 16k, 13.4k and 12.9k units for 2014, 2015 and 2016 respectively are generally in line with the government's new private housing target of 13.6k units per annum.

Figure 2. HK Property – Residential Completions

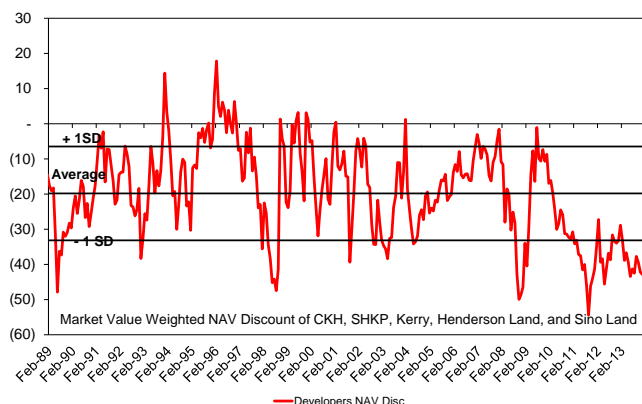


Source: RVD; Citi Research

The market generally expected no significant measures would be announced in the policy address, and for the key focus to be on outlining an adequate housing and land supply picture to the market. Generally speaking, we expect the property market will be slightly positive on the policy address, on lower supply. Sentiment has picked up on the primary market, while we believe primary sales should see decent growth in 2014 (Citi estimate: 13,000 units up 30% YoY). Secondary volume should continue to stay at low levels, as new launches have taken up demand in the secondary market.

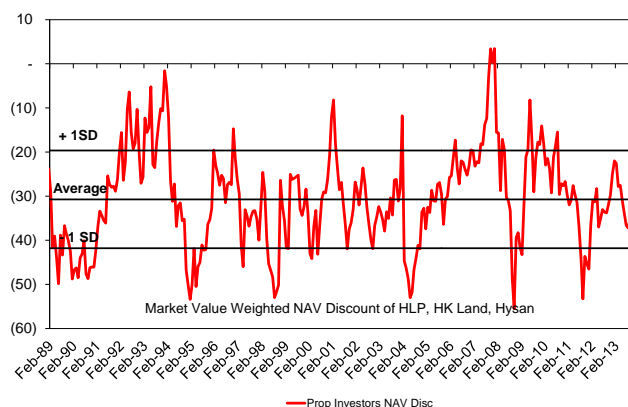
Our NAV discount bands show HK developers are now trading at an average 43% discount to NAV (vs. a mid-cycle discount of 20%) and landlords at a 37% discount (vs. a mid-cycle discount of 31%). Developers are still more than 1 S.D. below the historical average NAV discount while landlords are at fair value. We believe HK developer shares are pricing in a home-price decline of more than 20%.

Figure 3. HK Property — NAV Discount of Developers (14 Jan 2014)



Source: Company; Citi Research

Figure 4. HK Property — NAV Discount of Landlords (14 Jan 2014)



Source: Company; Citi Research

Developers' share prices are at the low end of trading ranges and should have upside as the residential sector outperforms market expectations. Rising bond yields, together with an unexciting office and retail outlook, will likely mean landlord and REIT stocks continue to lag those of developers. *Top Buys:* SHKP, Cheung Kong, Henderson Land and Sino Land.

Figure 5. HK Property and Conglomerates – Valuation (14 Jan 2014)

Stock	RIC	14 Jan 2014		Market Cap (US\$M)	Citi Rating	Est. NAV	NAV Disc	Target Price	P/E			P/B			Yield		
		Price							FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E
Cheung Kong	0001.HK	119.90		35,813	1	197.60	-39%	158.08	10.7	9.4	8.6	0.8	0.7	0.7	2.6%	2.8%	3.0%
Wharf	0004.HK	59.15		23,114	1	106.24	-44%	80.00	14.9	12.6	11.1	0.6	0.6	0.6	3.1%	3.7%	4.4%
Henderson Land	0012.HK	44.50		15,489	1	79.61	-44%	59.70	15.3	14.6	13.2	0.6	0.6	0.5	2.4%	2.5%	2.7%
Hysan	0014.HK	33.45		4,588	2	63.44	-47%	38.07	16.3	15.3	14.9	0.6	0.6	0.6	3.7%	4.0%	4.2%
SHKP	0016.HK	96.75		33,744	1	173.82	-44%	139.06	13.7	12.1	13.1	0.7	0.6	0.6	3.5%	3.5%	3.5%
Swire	0019.HK	87.70		16,878	1	118.71	-26%	107.00	15.2	12.4	11.0	0.6	0.6	0.6	4.0%	4.0%	4.0%
Wheelock	0020.HK	35.50		9,302	1	60.28	-41%	57.50	8.7	7.6	5.4	0.4	0.4	0.4	3.5%	4.1%	5.4%
MTR Corporation	0066.HK	28.30		21,162	1	41.35	-32%	36.50	19.4	14.7	12.7	1.1	1.1	1.0	2.9%	3.0%	3.1%
Shangri-la	0069.HK	15.04		6,075	1	26.11	-42%	15.00	55.8	41.7	35.2	1.0	1.0	1.0	1.1%	1.3%	1.8%
Sino Land	0083.HK	10.82		8,346	1	19.34	-44%	13.54	9.7	17.2	9.5	0.6	0.6	0.6	4.6%	3.7%	4.2%
Hang Lung Ppt	0101.HK	23.85		13,776	3	33.24	-28%	19.94	20.4	17.6	16.5	0.9	0.9	0.8	3.1%	3.1%	3.1%
K Wah Intl	0173.HK	5.43		1,899	1	11.77	-54%	5.88	9.0	7.9	7.1	0.7	0.7	0.6	2.8%	2.8%	2.8%
Kerry Prop	0683.HK	26.00		4,843	1	75.99	-66%	36.95	8.5	8.3	7.9	0.5	0.5	0.5	3.5%	3.5%	3.7%
Fortune REIT	0778.HK	6.08		1,454	1	9.99	-39%	7.82	22.9	17.7	15.9	0.6	0.6	0.6	5.8%	6.6%	7.2%
The Link REIT	0823.HK	35.25		10,505	2	39.04	-10%	40.70	24.0	21.4	19.9	1.0	1.0	1.0	4.2%	4.7%	5.0%
Langham-SS	1270.HK	3.72		960	1	5.22	-29%	4.35	19.9	17.4	16.3	0.7	0.7	0.7	6.9%	7.8%	8.0%
Swire Properties	1972.HK	20.40		15,390	1	34.72	-41%	31.00	19.2	18.4	17.2	0.6	0.6	0.6	2.6%	2.7%	2.9%
Champion REIT	2778.HK	3.43		2,527	3	6.52	-47%	3.00	20.8	20.4	19.9	0.4	0.4	0.4	5.7%	5.3%	5.4%
Hongkong Land (US\$)	HKLD.SI	6.24		14,682	1	10.81	-42%	7.57	16.0	15.5	14.9	0.6	0.5	0.5	3.0%	3.2%	3.4%
MGCCT (S\$)	MAPE.SI	0.81		1,714	1	0.97	-16%	1.06	nm	18.6	17.6	0.9	0.9	0.9	0.4%	6.8%	7.5%
<b>Average</b>							<b>-37%</b>		<b>15.9</b>	<b>14.1</b>	<b>12.9</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>3.2%</b>	<b>3.4%</b>	<b>3.6%</b>

Note: In HK\$, unless stated

Source: DataCentral; Citi Research Estimates

## Appendix A-1

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