





# MANAGEMENT DISCUSSION AND ANALYSIS

The persistently high interest rates, decreasing appetite for property investment and negative sentiment among homebuyers are casting a shadow over the economy and property market of Hong Kong. This has created pressure on the financial prospects of URA and the momentum of our work in urban renewal. In 2023/24, only one project of the URA was tendered at a price below acquisition cost, resulting in a loss and a shrinking cash flow for funding new projects.

**While navigating the headwinds of economic uncertainties and pressing urban decay, the URA is poised to take forward sustainable urban renewal with innovative solutions and an agile mindset. By leveraging collaborative efforts – much like the confluence of rivers symbolising unity and pooling of strengths – the URA strives to overcome urban renewal complexities in partnership with various stakeholders including the Government, community members, professional institutes and private developers.**

Apart from creating development capacity and maximising land resource utilisation through innovative planning concepts, the URA has also worked closely with the Government in various aspects to help expedite the renewal process. One of the initiatives is to assist the Government in setting up the Support Service Centre for Minority Owners under Compulsory Sale (SMOCS) to provide assistance to minority owners who are subject to compulsory sale applications.

On the building rehabilitation front, we joined hands with relevant Government Departments, professional institutes and trade associations to complete and refine the trial version of the Guidelines and Templates for preparing the Maintenance Manual for Residential and Composite Buildings (GTMM), intending to facilitate owners to devise preventive maintenance plans more effectively.

Moving forward, the URA is dedicated to maintaining financial prudence while also seeking out new funding sources. Through collaboration and innovative ideas, the URA will fulfil the mission of creating a sustainable and livable urban environment, ensuring the continued prosperity of our city for generations to come.

### Challenges

#### Market Uncertainty Casting Shadows over Urban Renewal Sustainability

In 2023/24, the economy and property market of Hong Kong faced a challenging situation as the post-COVID recovery was slower than expected and uncertainty loomed. This was exacerbated by persistent global inflation, the lagged effects of sharp monetary tightening, high interest rates, and ongoing geopolitical tensions. In February 2024, the withdrawal of the Government's demand-side management measures for residential properties rejuvenated the real estate market temporarily. Yet the Centa-City Leading Index was still down by 16 percent over the year. The sentiment among potential homebuyers was submerged under a deluge of unfavourable economic news and persistently high interest rates. Besides, the supply of residential flats remained sufficient and the disparity between rental yields and interest income continued to dampen property investment demand, impeding the property market from rebounding.

The high interest rate environment not only weakened homebuyers' purchasing power and property investment demand but also made it more difficult for developers to obtain financing at reasonable costs, resulting in developers' more conservative strategies in bidding and pricing for new development sites. As a result, land prices remained sluggish as seen in six failed tender exercises for land sales carried out separately by the Government, MTR Corporation and the URA due to low bidding prices or no submissions received.

Against the aforesaid challenges, the URA had only one project tender awarded in 2023/24, namely Shing Tak Street/Ma Tau Chung Road Development Project (CBS-1:KC) for the redevelopment of Civil Servants' Co-operative Building Society (CBS) buildings. The upfront payment of HK\$1.9 billion from this tender could only cover 56 percent of the project costs, resulting in a loss of nearly HK\$1.5 billion. Amid the sustained property market downturn, the URA is facing high uncertainty in the result of its future project tenders, thereby adversely affecting the funding available for implementation of new projects. The URA will closely monitor the market situation, prudently manage its cashflow, and timely adjust the project implementation programme to ensure financial sustainability.

On the other hand, the "Seven-Year Rule" continues to create a heavy financial burden from its redevelopment projects as it implies hefty acquisition costs of owner-occupied domestic properties calculated based on the value of a notional seven-year-old replacement flat situated in the same locality. The combined forces of a downward market trend and the "Seven-Year Rule" will inevitably put the sustainability of urban renewal work under pressure as the revenue generated from projects cannot cover the acquisition cost.

#### Urban Renewal Remains a Steep Hill to Climb

As the speed of urban decay continues to outpace our redevelopment efforts, urban renewal remains a steep hill to climb.

Currently, Hong Kong has about 13,000 residential/composite buildings aged 50 years or above, and this number is expected to increase to around 28,000 by 2046. Despite that buildings in Hong Kong are mainly reinforced concrete structures designed to have a serviceable life of around 50 years and more, many buildings, aged below 50 are deteriorating rapidly and in dilapidated conditions of various degrees, threatening public safety, especially for those lacking proper management and maintenance. This was mainly caused by the low level of awareness and commitment to building maintenance due to property owners' lack of knowledge, capability and financial reserve. The situation has been worsened by the prevalence of sub-divided units in many old districts, creating a grave burden for the building structures and sewage systems, and degenerating the overall building conditions and living environment of its residents.

Adding to the aggravating problem is the excessive development intensity and the low redevelopment potential of most of the older building clusters which are unattractive for private developers to pursue redevelopment. Moreover, the pressure on finding sufficient rehousing resources remains high given the high population density, especially in old urban districts and the long waiting time for public housing in general. In view of the pressing and deepening problem of urban decay and the complexity of the situation, the URA would not be able to take on the challenging task of urban renewal alone. Collaborative efforts from all relevant stakeholders including the Government, private developers, building owners and the public are urgently required to make urban renewal sustainable.

## Opportunities

### A Multi-pronged Approach to Optimise Land Efficiency and Development Potential

To maximise planning and social gains from urban renewal projects for the wider community, the URA has, in recent years, adopted a holistic and forward looking "planning-led" and "district-based" approach to cater for the needs of Hong Kong. Apart from exploring restructuring and replanning opportunities in the project areas under the "planning-led" approach, the URA also applies new planning tools and concepts to optimise land use efficiency and maximise redevelopment potential of the old urban districts, thereby enhancing the financial viability and planning gains of the renewal projects.

One of the examples of maximising land resource utilisation is the Sai Yee Street/Flower Market Road Project (YTM-013). In addition to adopting "Transfer of Plot Ratio" which allows the migration of development potential from the four small lots along Flower Market Road and Yuen Ngai Street to the main site at Sai Yee Street enabling a greater scale development, the "Single Site, Multiple Use" model also permits the building of a multi-purpose complex with upgraded facilities for government and community uses, and mixed residential and commercial uses such as hotel/office/retail to multiply planning gains. In Development Areas 4 and 5 of Kwun Tong Town Centre Project (K7), the innovative planning concept of "Vertical City" enables the integration of multiple uses including domestic uses into one vertical environment, hence optimising the land potential at the strategic location and attracting potential private developers to take part in the joint venture (JV). This mixed-use development is further complemented by "Floating Planning Parameters" which provides the JV developer with the flexibility to determine the actual Gross Floor Area (GFA) within specific ranges for residential, retail, office and hotel uses according to the market situation on the condition that the total GFA would remain unchanged.

To alleviate the financial burden from acquisition under the uncertain market outlook, the URA has focused on implementing projects that do not involve the acquisition of a large number of property rights but will bring significant improvement to the old district's environment. One of the ways is to integrate under-utilised Government land and sub-standard Government, Institution and Community (G/IC) facilities with URA's projects to improve land resource utilisation, maximise planning and social gains, as well as enhancing the financial performance of the redevelopment, as demonstrated in the implementation of YTM-013, Cheung Wah Street/Cheung Sha Wan Road Project (SSP-018) and Nga Tsin Wai Road/Carpenter Road Project (KC-017). Since 2020, around six hectares of Government land have been included in 11 of the URA's redevelopment projects, with around 4.9 hectares expected to be granted in eight of the URA redevelopment projects in the coming five years.

To incentivise private market participation in urban renewal to address the problem of urban decay which the URA alone is unable to do so, since the completion of Yau Mong District Study (YMDS), the URA has been closely collaborating with relevant Government departments and achieved major progress in taking forward the new planning tools identified from YMDS, including the amendment of Outline Zoning Plans in Mong Kok and Yau Ma Tei, the promulgation of new guidelines for application for Transfer of Plot Ratio and proposed mechanisms for piloting Street Consolidation Areas (SCAs). As announced in the 2023 Policy Address, the URA has included redevelopment projects involving SCAs in Yau Ma Tei South in the approved 23rd Corporate Plan for future implementation.

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### Expediting the Renewal Process

To speed up the redevelopment of old and dilapidated buildings by private sectors, the Government tabled the Land (Compulsory Sale for Redevelopment) (Amendment) Bill 2023 (“the Amendment Bill”) to the Legislative Council in December 2023 with suggestions to lower the compulsory sale application thresholds and streamline the legal process of compulsory sale regime. The Bill was passed in July 2024 and is expected to be effective at the end of the year. Such legislation change will help expedite the urban renewal process in the long run.

Commissioned by the Dedicated Office for Support Services for Minority Owners under Compulsory Sale under the Development Bureau, URA assisted in setting up the Support Service Centre for Minority Owners under Compulsory Sale (SMOCS) to provide assistance to minority owners who are subject to compulsory sale applications, in a bid to facilitate the negotiation process between owners and private developers. To align with the new compulsory sale application threshold requirements, the Urban Redevelopment Facilitating Services Company Limited, a wholly-owned subsidiary of the URA, is also considering lowering the threshold requirement for applying for and triggering the Joint Sale services, along with a study to examine the feasibility to include lots adjoining the applicant building in a joint-sale for increasing the redevelopment’s financial viability.

One of the biggest challenges in redevelopment is the various planning, acquisition and clearance processes which often take years to complete. To this end, the URA has been working closely with Government departments to compress the project delivery cycles according to the streamlined public consultation process for planning applications and the streamlined land grant approval process. In addition, the URA has been exploring ways to shorten the acquisition process in verifying tenants’ eligibilities, calculating compensation, and providing assistance for relocation, thereby expediting the relocation process and enabling the clearance of project sites for tender at an appropriate time. This in turn helps expedite the return of funds and reduce future interest expenses. At the same time, the URA is also exploring opportunities to carry out advanced works such as ground investigation, soil decontamination, and underground utilities diversion works to facilitate the early commencement of site works upon taking over the sites by the JV developers.

### Fostering Preventive Maintenance with New Initiatives

As Hong Kong currently lacks dedicated land and financial reserves for large-scale urban redevelopments amid the accelerating pace of urban decay, there is an imminent need to extend the service life of existing aged buildings which are still in acceptable conditions, to create a window for focusing resources on redeveloping those dilapidated old buildings that are beyond repair.

In this connection, the URA has taken a proactive approach to encouraging property owners to carry out repair and maintenance works through subsidising rehabilitation works, analysing the legal obligations in building rehabilitation and exploring ways to step up property maintenance and management. To provide a framework for owners to devise building maintenance and financial plans for undertaking preventive maintenance effectively, URA has completed the trial version of the Guidelines and Templates for preparing the Maintenance Manual for Residential and Composite Buildings (GTMM) and is carrying out consultations with over 100 stakeholders including Government departments, professional institutes and trade associations before publishing the GTMM for wider application in 2024. The URA also launched the new Preventive Maintenance Subsidy Scheme (PMSS) in April 2024 to encourage the preparation of maintenance manuals and owners’ regular contributions to a special fund for future maintenance. The GTMM supports applicants of PMSS and other owners to prepare maintenance manuals for their buildings. The proposed clauses for carrying out preventive maintenance and enhancing the property manager’s right to handle water seepage problems in the Deed of Mutual Covenant (DMC) of eResidence Tower 3 was approved by the Legal Advisory and Conveyancing Office of the Lands Department in August 2023. Recommendations have been submitted for the Government’s consideration to incorporate into the DMC Guidelines.

## Looking Ahead: The Importance of Ensuring URA's Financial Prudence

Since its establishment, the URA has been backed by a HK\$10 billion injection from the Government to fund its operations. Under the long-term objective of achieving a self-financing urban renewal programme, the URA has been channelling its revenues mainly from the upfront payments of tendered projects to support other redevelopment projects and renewal works. This model allows the URA to carry out its mandate without relying on government funding or taxpayers' money, yet on the other hand, implying its cash flow is susceptible to market fluctuations. To uphold the principle of self-financing and maintain a prudent financial position, the URA has been exercising due care and diligence in the handling of its finance.

To ensure sufficient cash inflow and financial resources to cope with the acquisition expenses of redevelopment projects, the URA flexibly adjusts the programme of its revenue tenders for the project sites, aligning it as much as possible with the timing of project acquisition so that the upfront payment received can provide timely financial support to the project acquisition and minimise any financial risk due to market fluctuation. In order to attract participation from developers of different sizes in larger-scale projects such as Kwun Tong Town Centre Project Development Areas 4 and 5, the URA is exploring feasible proposals to allow more flexibility for the settlement of the upfront payment by developers.

In some cases, the URA may use the surplus generated from individual projects to subsidise projects that incur losses. URA will continue to leverage the District Studies to identify projects with higher development potentials and planning benefits, and explore the opportunity of incorporating under-utilised government land and sub-standard G/IC facilities in the projects for restructuring and replanning in districts such as Tsuen Wan, with a view to generating substantial returns to subsidise projects in other urban areas with expected loss. Such an inter-district financing model will enable the URA to continue to deliver the committed projects even if they may imply financial losses. In the long run, the strategic district studies of Tsuen Wan and Sham Shui Po can help build up more project reserves to realise the URA's holistic "district-based" and "planning-led" approach to urban renewal.

To sustain the momentum of the urban renewal effort, the URA must strive to acquire resources from various channels. With the continuous support from the Government including waiver of land premia for redevelopment sites and the provision of under-utilised Government land and G/IC facilities for incorporation into redevelopment projects, the land resource utilisation and hence the financial viability of projects can be greatly enhanced. With the Government reiterating its commitment to building the Kau Yi Chau Artificial Island to generate new land supply in the next decade, the URA will continue to explore with the Government the decanting opportunities for households affected by urban renewal. This will help facilitate the implementation of urban redevelopment projects without having to exhaust existing land resources for rehousing.

The staunch support from the Government also includes the approval from the Financial Secretary for uplifting URA's borrowing limit from HK\$6 billion to HK\$25 billion for the URA to cope with the anticipated additional capital expenditure requirement arising from the implementation of several large redevelopment projects in coming years. URA intends to partially fund the larger capital expenditure through external financing. Its Medium-Term Note Programme was updated in June 2024 to facilitate upcoming bond issuances. Concurrently, alternative financing channel via syndicated or club loans will also be considered to support the operations and liquidity of URA. The affirmation of URA's rating at AA+ with "Stable" outlook, and an upgrade of URA's "Likelihood of Extraordinary Government Support" from "Extremely High" to "Almost Certain" by S&P Global Ratings (S&P) in 2023/24 fortified URA's credit positioning in implementing sound financial planning so that urban renewal resources are channelled towards the long-term goal of self-financing.

Urban renewal is a complicated and resource-intensive process which cannot be done by the URA alone. It requires the collective wisdom and efforts of all relevant parties, including the Government, property owners, private developers, community groups, and professional institutes. In the coming years, the URA will continue to work with the Government in exploring innovative solutions to motivate participation from the private sector while fostering close collaborations with various stakeholders to sustain the momentum of urban renewal. The ultimate objective of the URA is to create a more sustainable and liveable city for our present and future generations.

## Financial Review

### (I) Review of 2023/24 Results

#### (a) Revenue

The revenue for the year ended 31 March 2024 was HK\$3,024 million, which comprised upfront payment from one tendered project, share of surplus from joint development projects and proceeds from sale of properties. The amount was lower than the revenue of HK\$5,513 million in 2022/23 by HK\$2,489 million.

The total upfront payment in 2023/24 of HK\$1,940 million was significantly lower than that in 2022/23 of HK\$4,841 million, primarily attributable to sustained property market downturn and only one project tender awarded in the year. The project tendered in 2023/24 referred to the Civil Servants' Co-operative Building Society (CBS) Scheme site at Shing Tak Street/Ma Tau Chung Road with a site area of about 5,164 square metres. Comparatively, there were three project tenders awarded in 2022/23, which had a total site area of 6,182 square metres.

The share of surplus from joint development projects of HK\$449 million in 2023/24 (2022/23: HK\$476 million), largely contributed by Seaside Sonata (SSP/1/003-005) and Grand Central (K7 Area 2&3), was revenue from the projects where the sales proceeds exceeded the thresholds stipulated in their respective development agreements.

The revenue from sale of properties of HK\$635 million in 2023/24 (2022/23: HK\$196 million) mainly related to the sale of residential units at Kai Tak, L • Living 23 in Tai Kok Tsui and The Harmonie in Sham Shui Po.

#### (b) Other Income

Of the HK\$1,024 million (2022/23: HK\$575 million) in other income for 2023/24, HK\$890 million (2022/23: HK\$518 million) were interest income from bank deposits and fixed income investments, with an overall yield of 4.54 percent p.a. (2022/23: 2.06 percent p.a.). The higher yield reflected the continued high interest rate throughout the year.

Other income also included rental income, net of rental relief, of HK\$181 million (2022/23: HK\$130 million) from certain properties retained by the URA, and exchange loss of HK\$54 million (2022/23: HK\$76 million) relating to Renminbi deposits due to the fluctuation of exchange rate.

#### (c) Administrative Expenses

Administrative expenses for 2023/24 of HK\$676 million (2022/23: HK\$637 million) mainly covered staff costs, outsourcing service charges, accommodation costs and office expenses. Cost control measures were implemented whenever possible to minimise administrative expenses.

#### **(d) Provision for Impairment on Properties and Committed Projects**

Based on the accounting policy detailed in Notes 2(h) and 2(n) to the financial statements, provision for impairment on properties and committed projects of HK\$3,089 million was made in 2023/24, mainly arose from the declining assessed land value of the committed projects, reflecting the sustained property market downturn.

#### **(e) Result for the Year**

For the year 2023/24, the URA recorded an operating deficit of HK\$831 million. After inclusion of the provision for impairment on properties and committed projects, the net deficit was HK\$3,920 million, compared to the net deficit of HK\$3,530 million for 2022/23. The unfavourable performance for 2023/24 mainly attributable to property market downturn, which led to (a) lower upfront payment from the project tender awarded in the year as mentioned in paragraph I)(a) above, and (b) substantial provision for impairment made for committed projects.

### **(II) Financial Position at 31 March 2024**

#### **(a) Properties under Development**

Properties under development before provision for impairment was HK\$28,684 million as at 31 March 2024 (31 March 2023: HK\$25,249 million). This sum represented the acquisition and development costs of 10 projects under various states of implementation, out of which Kowloon City Projects, Kwun Tong Town Centre Project and Kim Shin Lane/Fuk Wa Street Project accounted for 85 percent of the total value.

The aforesaid value was off-set against the cumulative provision for impairment totalling HK\$6,514 million (31 March 2023: HK\$4,053 million), resulting in a net value of HK\$22,170 million (31 March 2023: HK\$21,196 million). The increase in the net value was mainly due to the costs incurred for property acquisitions for Kim Shin Lane/Fuk Wa Street Project and the remaining Kowloon City Projects, after offsetting (i) the removal of the development costs of Project CBS-1:KC tendered out in 2023/24 as mentioned in paragraph I)(a) above and (ii) additional provision for impairment on committed projects made for the year as explained in paragraph I)(e) above.



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### **(b) Total Liquidity**

As at 31 March 2024, the URA's total liquidity, including cash, bank deposits and debt securities investments, was HK\$18,194 million (31 March 2023: HK\$23,623 million).

The URA placed the surplus cash on deposits with a number of financial institutions, and also invested in fixed income products of the required credit rating in accordance with the investment guidelines as approved by the Financial Secretary with capital preservation as the priority.

The liquidity position, off-set by the borrowings of HK\$499 million (31 March 2023: HK\$799 million) mentioned in paragraph II (c) below, resulted in the net liquidity position including the securities holdings as at 31 March 2024 of HK\$17,695 million (31 March 2023: HK\$22,825 million).

### **(c) Debt Securities Issued**

The URA is rated AA+ by Standard & Poor's Rating Services. As at 31 March 2024, the outstanding debt securities issued by the URA under the Medium Term Note (MTN) Programme was HK\$499 million.

### **(d) Net Asset Value**

The URA's net asset value as at 31 March 2024 was HK\$46,360 million (31 March 2023: HK\$50,280 million), representing the Government's capital injection of HK\$10,000 million (31 March 2023: HK\$10,000 million) and an accumulated surplus of HK\$36,360 million (31 March 2023: HK\$40,280 million).

The financial summary of the past 10 years is described on page 109 of this Annual Report.

## **(III) Capital Injection and Tax Exemption**

Following approval by the Finance Committee of the Legislative Council on 21 June 2002, the Government injected HK\$10,000 million of equity capital into the URA in five tranches of HK\$2,000 million each over a five-year period from 2002/03 to 2006/07. The Government continues to exempt the URA from taxation.

## **(IV) Waiver of Land Premia by the Government**

The Government waives the land premia for redevelopment sites granted to the URA. A total of 56 land grants have been waived in respect of all the tendered projects with aggregate land premia totalling HK\$25,304 million up to 31 March 2024.

Without this waiver, the URA's accumulated surplus as at 31 March 2024 would have been lowered by HK\$25,304 million to HK\$11,056 million; and its net asset value as at 31 March 2024 would have been decreased to HK\$21,056 million.

## (V) Financial Outlook and Management

The local property and financial markets, which are impacted by external environment factors including sustained interest rate hikes, trade disputes and geopolitical tensions, remain volatile. With the cancellation of all demand-side management measures for residential properties with effect from 28 February 2024, the sentiment among flat purchasers has shown improvement but the developers' appetite for land bids is yet to be tested. The result of URA's future project tenders and related revenue are still uncertain.

On the expenditure side, it is estimated that a total cash outlay of about HK\$82,000 million, excluding operational overheads, will be required to meet both of the URA's currently outstanding commitments and its forthcoming cash outlay in the coming five years for the implementation of all projects included in the latest Corporate Plan. This amount covers the URA's works in redevelopment, rehabilitation, preservation, revitalisation and retrofitting.

According to the latest estimate, a total funding of about HK\$64,300 million is required to complete those ongoing redevelopment projects only. In addition to current net liquidity of HK\$17,695 million, the projected cash outlay will be met by future upfront payments from project tenders, share of surplus sales proceeds from joint development projects and proceeds from sale of properties in the corresponding period. Moreover, external financing will also be arranged to cope with anticipated cash shortfall in coming years.

In July 2023, the Financial Secretary approved the URA's request to raise its borrowing limit to HK\$25 billion. On 19 April 2024, Standard & Poor (S&P) Global Ratings affirmed the URA's long-term issuer credit rating and senior unsecured notes rating at "AA+" with "Stable" outlook, same as the HKSAR Government. At the same time, S&P also affirmed the "Likelihood of Extraordinary Government Support" for the URA from the HKSAR Government at "Almost Certain". The URA has updated its MTN Programme to facilitate bond issuance for 2024/25 and onwards.

As a public sector entity with a sovereign credit rating, the URA is in a strong position to raise sufficient funds from the financial markets. With the approved borrowing limit of HK\$25 billion, the URA plans to borrow in phases to meet the financial requirements at different stages for implementing the latest Corporate Plan.

Facing the financial uncertainties and challenges ahead, the URA will continue to manage its businesses in an agile manner and monitor its financial position closely, with an aim to accomplish its urban renewal missions while maintaining long-term sustainability.