

LCQ13: Promoting development of real estate investment trusts

Following is a question by Dr the Hon Kennedy Wong and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (March 20):

Question:

It has been reported that in recent years, the Mainland has been proactively promoting the issuance and listing of more infrastructure real estate investment trust (REIT) projects, which cover infrastructure areas such as new energy, water conservation and new infrastructure. Moreover, in the Administrative Measures on Domestic Investment of the National Social Security Fund (Draft for Comments), jointly drafted by the Ministry of Finance and the Ministry of Human Resources and Social Security earlier on, publicly raised infrastructure securities investment funds were included in the scope of investment. Regarding the promotion of the development of REITs, will the Government inform this Council:

(1) as the Government indicated as early as in 2020 that one of the measures to enhance Hong Kong's position as the premier asset and wealth management centre in the Asia-Pacific region was to promote the development of REITs, of the measures introduced by the Government, the Securities and Futures Commission and the Hong Kong Exchanges and Clearing Limited in the past few years to develop Hong Kong into a leading REIT market in the world;

(2) given that according to the Budget delivered last month, the Government was proactively discussing with the Mainland the expansion of the mutual-market access regime to cover REITs, whether the relevant arrangements can be implemented within this year; given that the Financial Secretary also announced in the aforesaid Budget the waiver of the stamp duties payable on the transfer of REIT units and the extension of the Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts for three years, whether the authorities have assessed the specific effectiveness of the aforesaid measures in promoting the growth of the REIT market; if so, of the details; and

(3) as some members of the market have pointed out that Hong Kong has the largest REIT in Asia in terms of market capitalisation, which proves Hong Kong's attractiveness to REIT investors and issuers, and cross-region infrastructure, upon integration, will provide more possibilities for the asset types of REITs in Hong Kong, whether the Government will take the lead in listing some of its assets such as tolled roads, bridges and tunnels in the form of REITs, so as to attract Mainland and overseas capital as well as the listing of more similar products in Hong Kong, thereby driving the further development of Hong Kong's REIT market and tying in with the Mainland's policy of promoting the further stable and healthy development of

the REIT market; if so, of the details; if not, the reasons for that?

Reply:

President,

In consultation with the Securities and Futures Commission (SFC), my consolidated reply to the question is as follows:

Hong Kong is an international asset and wealth management centre, with assets under management exceeding HK\$30 trillion. The Government has been making efforts in strengthening the competitiveness of Hong Kong's asset and wealth management industry through various measures, including promoting the development of the real estate investment trust (REIT) market. Specifically, the SFC revised the Code on Real Estate Investment Trusts in 2020 to relax the investment restrictions on REITs, including (i) allowing REITs to invest in minority-owned properties, (ii) allowing REITs to invest in property development projects in excess of the 10 per cent of gross asset value limit subject to unitholders' approval, and (iii) raising the borrowing limit to 50 per cent of gross asset value. The SFC has also set out in "frequently asked questions" that REITs may invest in infrastructure properties that can generate recurrent income or fee streams. In addition, the Mandatory Provident Fund Schemes Authority has relaxed restrictions on Mandatory Provident Fund schemes' investment in REITs since 2020 to broaden the REIT investor base. The SFC is exploring measures to facilitate corporate restructurings of REITs.

To further attract the industry to establish REITs in Hong Kong, the Government and the SFC launched a Grant Scheme in May 2021 to provide funding support for REITs listed in Hong Kong to pay the eligible expenses charged by Hong Kong-based professional service providers. The Grant Scheme has been generally well-received by the industry. In this light, the 2024-25 Budget (the Budget) has announced the extension of the Grant Scheme for three years to 2027 to promote the development of more REITs in Hong Kong. The Budget has also announced waiving the stamp duty payable on the transfer of REIT units to further enhance market competitiveness. In addition, mutual-market access between financial markets in the Mainland and Hong Kong has been expanding in scope and capacity. The Government and regulators are in discussion with the Mainland authorities over various enhancement measures, including the expansion of the mutual-market access regime to cover REITs, so as to bring in more enterprises and capital to the Hong Kong market. We expect that the above measures will reduce the transaction costs of REITs and enhance the liquidity and attractiveness of the REIT market. We will also review the relevant measures from time to time to strengthen market development.

As for the suggestion to spin off Government asset into REITs, as it involves valuation, risk assessment and financial costs, etc, the Government needs to consider various factors, such as the financial position, market condition and market development prospects.

The Government will continue to explore with the industry enhancement

measures to further strengthen the competitiveness of the REIT market and bolster the development of the asset and wealth management industry.