SFST's speech at luncheon with Hong Kong Real Estate Investment Trust Association (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, at a luncheon with the Hong Kong Real Estate Investment Trust Association today (October 3):

Ladies and gentlemen, esteemed members of the Hong Kong Real Estate Investment Trust Association,

It is both an honour and a privilege to stand before you today as we gather to discuss the vibrant opportunities that lie ahead for our markets here in Hong Kong. As we navigate through a dynamic global landscape, it is crucial to recognise the unique position that Hong Kong holds as a leading financial hub, particularly in the realm of real estate investment trusts (REITs).

Hong Kong: a global financial hub

Hong Kong was recently ranked third globally in the Global Financial Centres Index (GFCI), and ranked first in the Asia-Pacific region. In the ranking of "investment management" our position advanced to first globally, thanks to our strengths as an international asset and wealth management centre with assets under management exceeding HK$31 trillion. This remarkable achievement underscores our status as a beacon for investors seeking stability and growth. The Government has been proactive in enhancing our competitiveness in the asset and wealth management industry, particularly through the development of our REIT market.

In recent years, we have taken significant steps to foster this growth. The Securities and Futures Commission (SFC) has revised the Code on Real Estate Investment Trusts, relaxing investment restrictions and allowing REITs to invest in minority-owned properties and property development projects. These changes are designed to attract a broader range of investors and stimulate market activity.

The current landscape of REITs

Globally, REITs have demonstrated resilience and recovery potential. Recent data from the market shows that global REITs outperformed broader equities. This trend reflects improving investor sentiment as economic conditions stabilise, particularly with easing inflation and expectations of interest rate cuts.

Here in Hong Kong, our REIT market has grown significantly since the launch of the first REIT in 2005. As of August this year, we rank fourth in size within the Asia-Pacific region, with a market capitalisation close to HK$137 billion. The Hang Seng REIT Index has quadrupled since its inception, showcasing the robust growth potential that exists within our local market.

Investor sentiment: a positive shift

After a challenging period marked by rising interest rates and inflation, investor sentiment towards REITs is improving. Many analysts believe that the sector is on the cusp of a recovery phase, with potential for sustained positive performance as economic conditions stabilise. This renewed confidence is essential for attracting both domestic and international investors to our REIT market.

Innovative measures for growth

To further bolster our REIT sector, the Government has introduced several policy measures:

* Grant scheme for REITs: Launched in May 2021, this initiative provides funding support for eligible expenses incurred by REITs listed in Hong Kong. Each REIT may receive up to HK$8 million, and the extension of this scheme until 2027 is a testament to our commitment to fostering a thriving REIT ecosystem.

* Waiving stamp duty: The decision to waive stamp duty on trading REIT units will enhance market competitiveness and encourage more transactions within our financial markets.

* REIT Connect: This initiative aims to expand mutual access between Mainland China and Hong Kong's capital markets. By incorporating REITs under Stock Connect, we are broadening investment options for both local and overseas investors, significantly increasing liquidity and attractiveness.

Facilitating corporate restructurings

Moreover, the SFC is exploring the introduction of a statutory scheme of arrangement and compulsory acquisition mechanism for REITs. These proposals would enable Hong Kong REITs to conduct privatisation and corporate restructuring similarly to other listed companies through a statutory scheme of arrangement. This will provide greater flexibility for REITs in managing their portfolios and responding to market changes.

Sector diversification: embracing new opportunities

As we look ahead, it is essential to recognise the evolving landscape of the REIT sector. Non-traditional sectors such as data centres, healthcare facilities, and logistics properties are gaining prominence due to structural demand drivers like e-commerce growth and an aging population.

The rapid advancement of technology, particularly artificial intelligence (AI), is generating unprecedented demand for data processing capabilities. This presents an exciting opportunity for REITs focused on data centres — an area where we can explore leading the charge.

Moreover, diversification strategies are becoming increasingly critical. Our mature markets are now looking beyond local assets to invest in high-growth sectors globally. This strategic approach not only mitigates risks associated with fluctuations but also enhances overall returns.

The importance of sustainability

In addition to sector diversification, sustainability is becoming a pivotal focus for investors globally. The push towards greener buildings and sustainable practices is not merely a trend, it is a necessity driven by climate change awareness and regulatory facilitations.

Hong Kong's commitment to sustainability can be seen through various initiatives aimed at promoting green building certifications. By investing in energy-efficient properties or retrofitting existing buildings with sustainable technologies, we can attract socially responsible investors who prioritise environmental impact alongside financial returns.

Long-term growth outlook

Looking towards the future, the global REIT market is projected to grow significantly, potentially reaching approximately US$5.8 trillion by 2030 — a compound annual growth rate (CAGR) of around 7.1 per cent from 2023 to 2030. This growth will be driven by ongoing demand for real estate assets coupled with favourable investment conditions.

In Hong Kong specifically, we are well positioned to capitalise on this upward trajectory. Our regulatory environment continues to evolve favourably, encouraging new listings and investments while maintaining high standards of transparency and governance.

Emerging markets: a source of opportunity

We must also consider the burgeoning potential within emerging markets across Asia. Markets like Mainland China and India are rapidly developing their own REIT frameworks, contributing significantly to regional growth. The recent establishment of new regulations supporting the growth of REITs in these regions indicates that opportunities are ripe for exploration.

Strengthening regional co-operation

Moreover, strengthening regional co-operation will be vital as we move forward. By fostering partnerships with neighbouring countries in Asia — such as those involved in ASEAN (Association of Southeast Asian Nations) — we can create synergistic opportunities that benefit all parties involved. Collaborative efforts could include joint ventures or cross-border investments that leverage each region's strengths while mitigating risks associated with individual markets.

Conclusion: a call to action

In conclusion, I urge each one of you — members of the Hong Kong Real Estate Investment Trust Association — to seize this momentous opportunity to drive innovation within our sector. Together, let us embrace these changes and work towards making Hong Kong an even more attractive destination for real estate investments.

The future is bright for our markets. Let us harness this momentum and continue building a prosperous landscape for all stakeholders involved.

As we embark on this journey together, I encourage you all to engage actively with one another — share insights, explore new ideas, and collaborate on initiatives that will propel us forward into this exciting new era.

Thank you.