

AVISTA INSIGHTS

Northern Metropolis—A Once-in-a-generation Opportunity for Hong Kong Youth

December 2021

The Northern Metropolis Development Strategy is an ambitious scheme proposed in policy address which is set to revamp the development directions for the Northern part of Hong Kong by ways of prioritizing innovation and accelerating connectivity in the near future.

The Northern Metropolis will encompass Yuen Long, Tin Shui Wai, Fanling, Sheung Shui and their neighbouring rural areas, as well as some New Development Areas

(“**NDAs**”) such as Kwu Tung North, Fanling North and Hung Shui Kiu with 30,000 hectares of space. It stipulated a breakthrough from the long-term development plan with a focus on Hong Kong Island and Kowloon while the northern part of the New Territories being underdeveloped.

Railway being the backbone of the transport system and collaboration

With growing exposure and keen collaboration with the Greater Bay Area and Shenzhen in particular, the conceptual strategic plan pushes for development in innovation and technology (“I&T”) industry as a second economic engine for Hong Kong to enhance co-operation and integration with Shenzhen. To achieve a holistic regional integration, enhanced connectivity led by the government is the key to drive subsequent private investments and job creations in the Northern Metropolis, therefore, a proposed Hong Kong-Shenzhen Western Rail Link, Automated People Mover System, Northern Link and its Eastward Extension projects are underway to ensure efficient cargo and passenger transportation.

Emphasis on building a future-proof platform

I&T, Fin-tech, scientific research and supporting facilities and other support services are expected to form a complete I&T industry ecosystem in the central part of the Metropolis, where enterprises can capitalise on the supportive I&T infrastructure, community, and ambiance of the Northern Metropolis as a whole. Despite Hong Kong lacks an industrial sector and respective facilities

at the moment, San Tin Technopole and Hong Kong-Shenzhen Innovation and Technology Park (“HSITP”) in the Lok Ma Chau Loop will be able to provide sufficient dedicated space for research and advanced manufacturing industries as well as amass new and veteran talent in the right field.

Meanwhile, HSITP will focus on six research and development areas, which are all related to key emerging trends and matched with regional demand including big data and artificial intelligence, robotics, healthcare technologies, new material, microelectronics, and financial technology.

By location, HSIPT and the planned landmark facilities of I&T industries in Lau Fau Shan will create synergy with and build upon the progress of successful tech enterprises in the Shenzhen I&T zone located in Futian and Qianhai Co-operation zone respectively. The critical mass and entrepreneurial environment with immense innovation, collaboration and risk-taking can cultivate more tech-talents in Hong Kong and enable businesses to access and establish more networks.



Table 1: Head-to-head Comparison of Hong Kong and Shenzhen

City	Hong Kong	Shenzhen																
Land Area	1,107 sq. km	1,997 sq. km																
Population	7.5 million	13.4 million																
Gross Domestic Product (GDP)	RMB 2,529 billion	RMB 2,692 billion																
GDP Per Capita	RMB 312,975	RMB 203,000																
Breakdown of Economic Activities	<table><tr><th>Category</th><th>Percentage</th></tr><tr><td>Primary production</td><td>0.1%</td></tr><tr><td>Secondary production</td><td>6.8%</td></tr><tr><td>Tertiary production</td><td>93.1%</td></tr></table>	Category	Percentage	Primary production	0.1%	Secondary production	6.8%	Tertiary production	93.1%	<table><tr><th>Category</th><th>Percentage</th></tr><tr><td>Primary production</td><td>0.1%</td></tr><tr><td>Secondary production</td><td>39.0%</td></tr><tr><td>Tertiary production</td><td>60.9%</td></tr></table>	Category	Percentage	Primary production	0.1%	Secondary production	39.0%	Tertiary production	60.9%
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SOURCE: AVISTA Research, Census and Statistics Department, Statistics Bureau of Guangdong Province

Figure 1: Development Focus of Greater Bay Area Cities



SOURCE: AVISTA Research



Improving housing supply shortage and home-job balance

The provision of the leading transport and I&T infrastructure will unleash development potential for the largely underutilized land in the Metropolis. Given the convenience brought by the up-and-coming train stations and the emergence of International I&T Hub, it is expected to motivate property developers to increase their land banks and redevelop privately owned farmland for residential use through land premium settlement. Additionally, the government will further develop 600 hectares of housing and development land, providing up to 186,000 residential units, equivalent to 14.5 Taikoo Shing in number. While the public/ private housing split was revised from 60:40 to 70:30, we expect the Northern Metropolis Development's adjustment on land use planning will provide abundant land supply for private housing development and even more on public housing.

Apart from easing the most concerning housing problem just like other NDAs did, the Northern Metropolis will also alleviate the situation of "Home-job imbalance" by providing some 650,000 job opportunities envisaged in the Metropolis. Hence,

residents would not have to spend an hour or so to commute to core business districts and other urban areas for work, which would unleash the potential of the local workforce and improve Northern Hong Kong's liveability.

Furthermore, the Hong Kong-Shenzhen Western Rail Link will strengthen the linkage with technology intensive region Qianhai by shortening the travelling time from Hung Shui Kiu in the Metropolis to Qianhai to only 10-15 minutes and vice versa. The number of Hong Kong residents who commute to work in the Greater Bay Area on a daily basis as well as same-day in-town visitors will increase notably.

As the "one-hour living circle" in the Greater Bay Area begins to take shape, the property price gap of two cities will narrow down and a longer-term implication for capital markets is the invigorating cross-border investment activities between Hong Kong, Shenzhen and eight other Greater Bay Area cities.

Implications for home prices

Considering the latest launch of two residential projects LYOS by CK Asset Holding and Wetland Seasons Bay Phase 2 by Sun Hung Kai Properties, which were sold for HK\$15,800 per sq.ft. and HK\$14,800 per sq.ft. on average respectively, the price of first-hand properties in Hung Shui Kiu and Tin Shui Wai outperformed the average prices of second-hand properties in the same district by approximately 30% and 25% respectively. Previously, Wheelock Properties acquired a residential site in Kwu Tung for HK\$4.2 billion, with a unit price of HK\$8,500 per sq.ft. which is 18% above the site nearby acquired by Sun Hung Kai earlier in Q2 2021.

These factors will potentially be set as a benchmark for other districts in the Metropolis. Without cooling measures to curb property prices, home prices are set to increase, and It is believed that the homeowners in the proposed Northern Metropolis will ask for higher prices when putting their apartments up for sale. The price

premium and heated market sentiment shows the optimism among developers as well as the buyers for the Metropolis’ outlook especially for the residential projects adjacent to existing well-developed railway networks and new towns in Yuen Long, Tin Shui Wai and Sheung Shui.



Figure 2: Residential Property Prices in Different Districts as of End of November 2021



SOURCE: AVISTA Research, fang.com and Midland

Table 2: Recent Land Sale Records in the Districts Covered by Northern Metropolis Development Strategy

Date	Lot Number	Location	Premium	Unit Price (per sq. ft.)	Successful Tenderer
August 2021	Lot No. 1677 in Demarcation District No. 115	Yuen Long	HK\$716 million	HK\$9,112	CK Asset Holdings
July 2021	Fanling Sheung Shui Town Lot No. 278	Kwu Tung	HK\$4,185 million	HK\$8,499	Wheelock Properties
April 2021	Fanling Sheung Shui Town Lot No. 279	Kwu Tung	HK\$8,614 million	HK\$7,183	Sun Hung Kai Properties

SOURCE: AVISTA Research, Lands Department

In a nutshell, the Northern Metropolis will require massive support from the government, whilst private sector should benefit from the upgrade of infrastructure and closer social and economic ties with the Mainland, convenient transportation network and a flourishing business environment. According to the development strategy presented by the Chief Executive, the Northern Metropolis will be fully functioning in 20 years from now. Regardless of the exact scenario comes to pass, this is the moment for Hong Kong entrepreneurs and companies to start building on the current supportive regulatory momentum to deliberate a clear strategy to embrace the once-in-a-generation opportunities in the Northern Metropolis and Greater Bay Area.

About AVISTA

AVISTA Group ("AVISTA") is a leading professional advisory firm. We are experienced in performing a full range of Valuation Advisory, ESG Advisory and Risk Management Advisory for various purposes.

With a strong presence in the Asia-Pacific region, we are headquartered in Hong Kong, and have offices in Shanghai and Beijing.

The AVISTA professional team comprises professional consultants with different areas of expertise and detailed familiarity of financial reporting standards and regulatory standards. Our team of experienced professionals come from globally-renowned valuation firms, consulting firms and international accounting firms with global qualifications such as CFA, CPA, CPV, FRM, MRICS, FCCA, CIA, CISA, ACS and so on.



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