

SAVE THE ECONOMY BY RENTAL DEFERRAL?

.....

(Hong Kong, July 21, 2022) – The PolyU DBA Alumni Association Limited (“DBAAA”) has today announced the results of its research coupled with an online survey related to the HKSAR Government’s “Temporary Protection Measures for Business Tenants (COVID-19 Pandemic)”. Referring to the findings, DBAAA supports HKSAR Government not to extend the rental deferral plan when the interest rate is anticipated to be going up.

According to recent studies in similar relieve measures adopted by many other countries, tenants of viable business can be benefited by enabling them to survive during short term financial crisis of the Pandemic. However, if the rescue measures are extended beyond their originally planned expiry, it would inevitably create inefficiencies in the property market in the long run. Support to tenants of little realistic chance of recovery may impede the allocation of resources to healthy tenants and restrict productivity growth. It could discourage new entries and reduce competitiveness of more efficient tenants. Many studies revealed that market adjusted and responded much quicker than expected. Landlords were willing to provide substantive relieve to their loyal tenants who needed it desperately during challenging time. In actual fact, it was the low interest rate which explained higher business survival rather than loan forbearance.

The survey aims to understand how DBAAA members and their peers react to the business rental moratorium introduced by the HKSAR Government. Over 90 valid responses were received. The key findings are outlined below:

1. More than 80% of the respondents' business has been suffering in the past 6 months.
2. Only 5.6% of the respondents indicated that the business rental moratorium would very much achieve its objectives while 45.6% of them said that it would only to a certain extent. In fact, around 40% of the respondents are

losing confidence in Hong Kong in different aspects due to the business rental moratorium, "macroeconomic environment" being the most while "tax and cost competitiveness" being the least.

3. Only a minor proportion of around a quarter of the respondents consider the "3-month period" and the "specified sectors" as appropriate. 18.9% of the respondents consider the "3-month period" to be either too long or too short. Around one third of the respondents made no comment.
4. The introduction of the "exemption (landlord and tenant renegotiate lease)" and the "deferral of rates" induced around 40% of the respondents to support the business rental moratorium. The "Interest-free rental advancement" is even less effective. More than 30% of the respondents indicated that these relieves didn't change their view on the business rental moratorium.
5. Around half of the respondents believed the business rental moratorium would achieve its objectives. However, there was more than one third of the respondents who thought it won't work.
6. Only a minor proportion of the respondents would take drastic actions on their leasing arrangement. There were more than 40% of the respondents who would increase their investment in commercial properties due to the business rental moratorium.

In order to prevent massive bankruptcies and serious unemployment, the HKSAR Government introduced the business rental moratorium, which should be welcome by SME tenants who have less bargaining power. Having said that, the rental deferral plan is not considered effective mainly because landlords and tenants have already started to renegotiate rent at a much earlier time. It also explains why the adverse impact on the productivity of the commercial property market is not expected to be severe. However, when interest rate is anticipated to be going up, it is not advisable to extend the rental deferral, which would inevitably pose serious threats to the property market and the banking sector and therefore on Hong Kong's economic stability. Instead, policymakers can entrust the market which would adjust by itself efficiently.

Professor Wilson Tong, PolyU DBA Program Director and Honorary Advisor to this study commented that the rental moratorium is effectively a shift of the business risk from the tenant to the landlord, who may pass it onto the banker. However, relative to the market which is supposed to possess

more information, it would be very difficult for the Government to tell who is more capable to bear the risk. It is at the time when the market is not efficient and distortion cannot be self-corrected, then Government should intervene to reduce the ripple effect. The rental moratorium can be viewed as a debt restructuring which help business tenants buy time to avoid massive bankruptcies and layoff.

"The survey results echo a general belief that the market responds in a much quicker and effective way. For example, landlords are willing to reduce the rent for trustworthy tenants to help them go through the difficult moment, which render the mandatory rental deferral relieve measures in-operative. Having said that, the HKSAR Government sent a strong message to the market that the whole community needs to be more accommodating in order to overcome the economic downturn brought by the Pandemic", said **Dr Danny Po, the Honorary Treasurer of DBAAA and the Convener of this study.**

We also want to draw the HKSAR Government's attention to some possible side effects of the rental moratorium. For example, landlords might consider charging a premium on the rental in the future lease renewals in the anticipation that legislative measures could hinder their exercising of legal rights, e.g., early lease termination. Furthermore, the longer the non-viable companies linger, the more financial loss the business owners bear. Deferring rental for three months may give SME owners a false hope that business will come back very soon. SME owners are usually less sophisticated to project the unknown and be decisive enough in cutting loss.

"We would like to draw the HKSAR Government's attention to the fact that the Fed's aggressive and continuous rates hikes could turn out to be sharply amid serious inflation and interest rate hedging activities. Very likely, the struggling business tenants may experience possible jeopardy in the nearest future. We support a firm pledge of the Government's decision that no extension of the Measures beyond the original 3-month period." said **Dr Derek Chung, Chairman of DBAAA.**

More information of the Mini-survey on the Temporary Protection Measures for Business Tenants (COVID-19 Pandemic) can be found at: https://drive.google.com/file/d/1VnGWqoze3KCBirV-4lAnrvz7LsVqL4i_/view?usp=sharing



THE POLYU DBA ALUMNI ASSOCIATION LIMITED

About DBAAA

The PolyU DBA Alumni Association Limited was established in 2000 to build and maintain a network among PolyU Doctor of Business Administration (“DBA”) graduates, and to encourage and sustain professional development of the Association’s members. DBAAA members are connected to an alumni network of PolyU DBA students spanning 25 years. Thus, DBAAA forms an extensive network of associates from diverse backgrounds, fields and locations. Currently, DBAAA has over 190 members.

The PolyU DBA places an emphasis on developing scholar-leaders, with a distinct focus on cross-disciplinary academic research that has real-world applications. It is widely recognised as one of the highest academic achievements for senior managers. The programme was launched in 1996. Graduates include prominent members of the business community, many of whom belong to DBAAA.

Media enquiry

Strategic Public Relations Group

Brenda Chan

Tel: +852 2527 0490

Email: brenda.chan@sprg.com.hk

The PolyU DBA Alumni Association Limited

Dr Danny Po

Website: <http://polyudbaaa.com/>

admin.dbaaa@polyu.edu.hk