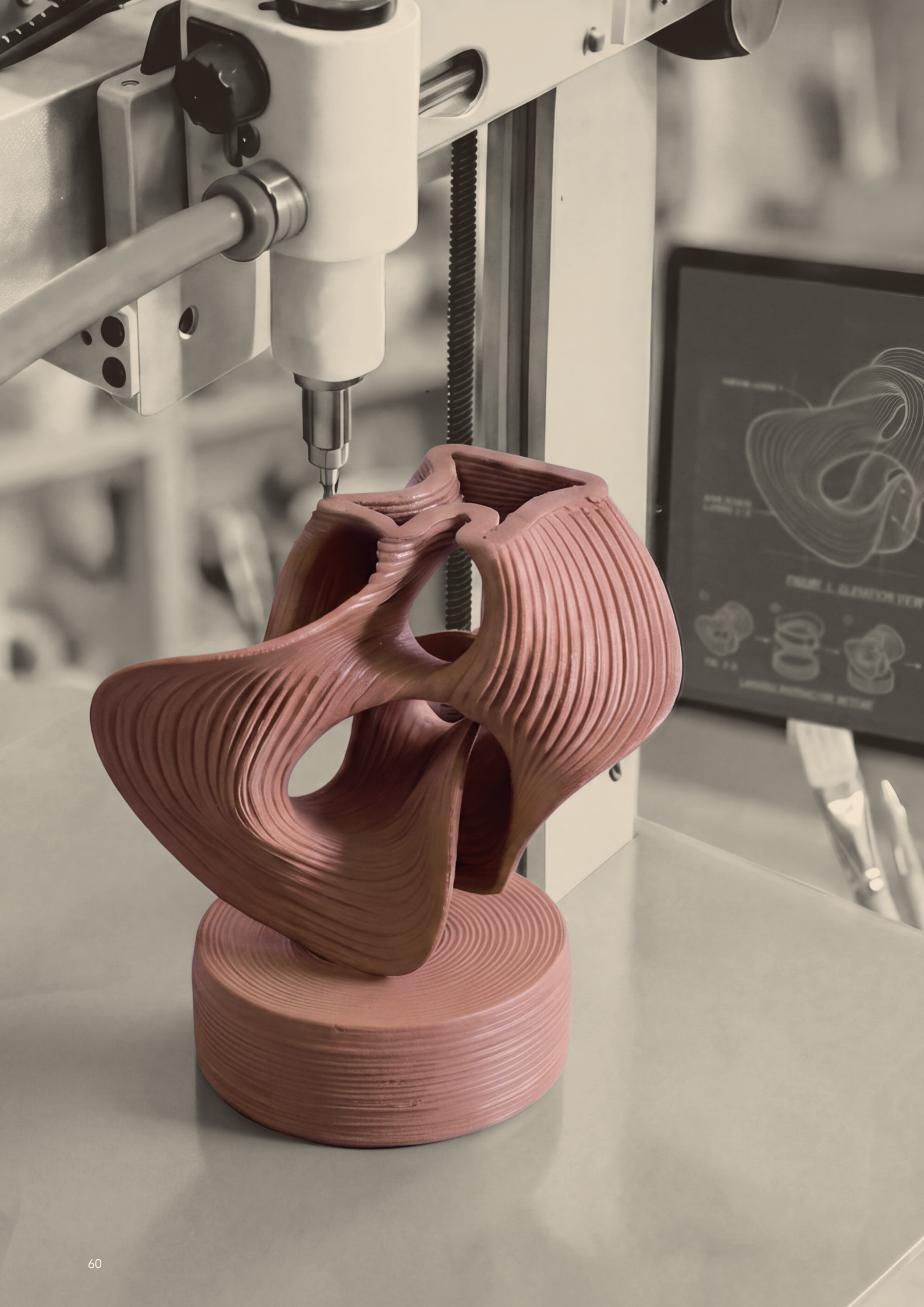




MANAGEMENT DISCUSSION AND ANALYSIS

Transforming Innovative Visions into a More Liveable City

Through the use of 3D printing technology, artists can push the boundaries of traditional ceramics to pioneer new creative realms. In a similar vein, the URA embraces innovative and forward-looking thinking to reshape its financing and operating model. By applying new technologies, we enhance planning and workflow efficiency, while expanding the dimensions of urban renewal, helping to create a liveable city.

MANAGEMENT DISCUSSION AND ANALYSIS

Challenges

Navigating a Mixed Economic Climate

The Hong Kong economy demonstrated remarkable resilience in 2025/26, with the property market showing signs of recovery, as evidenced by a notable rebound in residential transactions and a gradual restoration of market confidence. This improvement was supported by the Government's key move in February 2025 to expand the HK\$100 stamp duty to properties valued from HK\$3 million up to HK\$4 million, alongside a sustained low-interest-rate environment, both encouraging greater activity among buyers and investors. Additional demand was spurred by new arrivals to Hong Kong under various talent schemes, as well as increased investment from Chinese Mainland buyers. Alongside the rise in home purchases, the overall residential property prices in 2025 recorded a 4% year-on-year increase in December 2025 according to the Rating and Valuation Department, following three years of decline.

Despite this positive shift in sentiment, property developers continued to face significant challenges in managing high inventory levels. While the supply of private flats available for sale over the next three to four years (including unsold completed units and units under construction less units sold by presale) decreased by 11,000 units year-on-year as published by the Housing Bureau as at end of June 2026, the total supply remained at a high level of approximately 80,000 units. In an effort to clear stock, developers introduced more incentives and flexible financing schemes, which, together with elevated construction costs and debt servicing requirements, have continued to place pressure on profit margins and led to a more cautious approach toward new cash-intensive acquisitions.

In the past year, the global economic outlook has remained clouded by heightened geopolitical tensions and macroeconomic uncertainties. Notably, the outbreak of the Iran War in February 2026 has triggered volatility in energy market and increased risks to inflation, economic growth, and global stability. Ongoing spikes in energy prices and prolonged conflict may intensify inflationary pressures and force central banks to delay or reverse anticipated rate cuts. At the same time, elevated business expenses and eroding household incomes could further stifle growth and raise the risk of recession, particularly within a global economy impacted by escalating trade tensions and rising tariffs. Against this backdrop of persistent market volatility and a decelerating global economy, investor confidence and consumer demand may be dampened, potentially weighing on the Hong Kong property market and impacting the financial viability and returns of the URA's redevelopment projects.

Grappling with Long-Term Financial Sustainability

With improved market sentiment, land sales over the past year have reflected a gradual restoration of confidence in the local residential property sector. In May 2025, the URA successfully awarded the development contract for the Shantung Street/Thistle Street Development Scheme (YTM-012) at a tender price of HK\$861 million. Although the amount exceeded market expectations, it remained insufficient to cover the site assembly costs. This highlights the ongoing challenge to the financial viability of the URA's redevelopment projects, as the Home Purchase Allowance (HPA) under the existing acquisition policy, which compensates affected owner-occupiers based on the value of a notional seven-year-old replacement flat of a similar size in the vicinity (also known as the "Seven-Year Rule"), creates a structural "buy high, sell low" risk, particularly in volatile market conditions. With project revenue insufficient to offset the high acquisition costs required under the "Seven-Year Rule", the long-term sustainability of urban renewal initiatives remains under significant pressure.

Governed by the Urban Renewal Authority Ordinance and the Urban Renewal Strategy (URS), the URA is committed to improving the standard of housing and the built environment. It is also mandated to promptly initiate and continue property acquisitions following project authorisation, irrespective of market fluctuations. To support these obligations, the URA secured external financing, including bond issuance and bank loan facilities, to fund the acquisition offers for all remaining commenced projects in 2025/26. While external financing has replenished operating cash flow, prudent management of project acquisitions remains crucial to safeguarding the URA's financial position.

Fighting on Two Fronts: Accelerating Urban Decay and Systemic Issues in the Rehabilitation Service Sector

Hong Kong is facing a formidable challenge as its urban landscape ages, with the number of buildings aged 50 years or above increasing by about 510 per year over the past decade, while only an average of 160 buildings are demolished annually for redevelopment by the URA and private sector. This growing disparity is expected to intensify, with the number of such aged buildings projected to soar to 16,900 by 2033 and 24,300 by 2043.

Despite being mostly constructed from durable reinforced concrete designed for longevity, many poorly managed buildings in Hong Kong are falling into dangerous disrepair well before reaching 50 years. Underlying this aggravated urban decay are interconnected issues, including a lack of knowledge, financial resources, and organisational capability among property owners for proper maintenance. This vulnerability is coupled with persistent problems in the building rehabilitation service sector, such as bid-rigging, inflated quotations, and substandard workmanship, which have created significant barriers for property owners, leading to serious delays in repair and maintenance works, and leaving essential rehabilitation needs unmet.

The proliferation of Sub-divided Units (SDUs) in older districts further accelerates the structural deterioration by placing excessive strain on buildings and drainage systems, thereby worsening the living environment of the underprivileged residents. In response, the Government gazetted the Basic Housing Units Bill in June 2025 to establish a regulatory regime aimed at improving SDUs standards and mitigating their adverse impacts.

Further compounding these challenges is the low redevelopment potential of many older building clusters, which, due to excessive development intensity and various constraints, remain commercially unattractive to private developers, while pressures on rehousing resources make large-scale redevelopment difficult to achieve. Recognising these challenges, the Chief Executive's 2025 Policy Address introduced a number of innovative measures such as cross-district transfer of plot ratio and bonus plot ratios to incentivise private sector participation, and a new approach to explore the use of new land resources to support the redevelopment of old districts.

Solutions and Opportunities

Given the escalating urgency of urban decay and the sheer complexity of the challenges involved, the URA recognises that it cannot address the immense task of urban regeneration alone. Tackling this long-standing issue requires concerted efforts and robust, sustained collaboration among the Government, private sector partners, property owners, and the public, ensuring a united front to navigate the path toward sustainable urban renewal.

Reforming the Acquisition and Compensation Framework

The intricate process of urban renewal is highly resource-intensive, necessitating a new paradigm to overcome existing constraints and accelerate redevelopment in a sustainable manner. In response to the Government's request to review the URA's financing and operating model following the granting of two sites to the URA in May 2025, a comprehensive review of the URA's overall acquisition and compensation mechanisms, including the Seven-Year Rule and the "Flat-for-Flat" (FFF) Scheme, has been underway. Drawing on compensation practices from cities such as Beijing, Shanghai, and Singapore, the review aims to establish a new acquisition and compensation mechanism that offers replacement units as an option other than cash offers.

To support the initiative, the Government has reserved three sites in Kwu Tung North and Fanling North New Development Areas within the Northern Metropolis, enabling the URA to construct new flats as replacement units under a new FFF arrangement. With purpose-built replacement units available at the time of decanting and site clearance, the new acquisition and compensation mechanism and FFF arrangement are poised to address the rehousing needs of affected owner-occupiers while enhancing the financial sustainability of the URA's acquisition and compensation policy.

Dynamic Financial and Project Management

To mitigate financial risks amid a declining property market in the past three years, the URA has adopted a dynamic acquisition approach, ensuring that property purchases for ongoing projects commence only when sufficient funding is secured through revenues from joint venture (JV) development tenders and other income sources.

Recognising the URA's pivotal role in advancing urban renewal, the Government provided substantial support by granting two sites to the URA, one at Bailey Street, Hung Hom, and another in Tseung Kwan O Area 137, by private treaty at a nominal land premium in May 2025. Furthermore, the Government approved an increase in the URA's borrowing limit from \$25 billion to \$35 billion in August 2025, significantly boosting its borrowing capacity to address future liquidity needs and facilitate the timely acquisition of projects and the implementation of urban renewal initiatives. Nonetheless, with the long-term objective of maintaining a self-financing urban renewal programme as set out in the URS, the URA continues to rigorously uphold financial prudence and stability. To this end, the URA is collaborating with the Government to review and refine its financing and operating model to maintain the urban renewal momentum in a financially sustainable manner in the long run.

In parallel, the URA has enhanced the development potential and planning gains of its projects, optimised property sales strategies, and launched enabling works and Development Facilitation Services (DFS) to improve project transparency and thereby, tender attractiveness. DFS was introduced for key projects in 2025/26, including Kwun Tong Town Centre 2.0, To Kwa Wan Road/Wing Kwong Street Development Scheme (KC-016), and Bailey Street/Chi Kiang Street Project, engaging stakeholders and incorporating investor and developer input to bolster project viability and tender success.

Preliminary works for Development Areas 4 and 5 of Kwun Tong Town Centre 2.0, such as underground utilities diversion and early preparations of relevant plans and data to secure approval for an MTR-connected footbridge, were carried out to reduce downstream development timeframes and allow future developers to focus on construction and design. Other measures being explored to increase the appeal of the URA's redevelopment projects include facilitating staged payments for tender amounts, removing inapplicable sales restrictions and unfavourable provisions, and considering the sub-division of larger sites into more marketable land parcels. The URA is also proactively examining the optimisation of Public Vehicle Parking (PVP) provisions in its projects. By conducting updated traffic demand surveys in close partnership with the Government, the URA strives to reduce the need for constructing basement car parks to save construction time and costs, thereby enhancing flexibility, financial viability, and the attractiveness of JV tenders, ultimately maximising potential revenue returns and reinforcing the sustainability of the URA's urban renewal programme. The URA is also exploring the adoption of Modular Integrated Construction for maximising the constructed floor and enhancing the financial viability of its projects.

Fostering Public-Private Partnerships to Accelerate Renewal

Confronting the deep-rooted challenge of urban decay requires a collective effort, and meaningful, lasting progress can only be achieved through the active cultivation and promotion of private sector participation. Building on the experience of the Yau Ma Tei and Mong Kok District Study (YMDS), the URA, in response to Government's invitation under the 2021 Policy Address, has initiated district studies in Sham Shui Po and Tsuen Wan to formulate master renewal plans with the aim to guide long-term development and tackle urban decay in these districts. These studies are exploring new planning tools and mechanisms aimed at encouraging private sector involvement in urban renewal and achieving planning gain through restructuring and regeneration.

Guided by the Government directives, the URA submitted its report on the Building Concession Study to the Government in 2025. The report put forward recommendations to optimise Gross Floor Area concessions in four key areas: open space provision, building interface with public streets, horizontal screen and covered walkways, and communal spaces in both domestic and non-domestic buildings. These recommendations are formulated to drive market participation, encourage innovative designs, thereby delivering greater planning benefits and enhancing the built environment.

The Transfer of Plot Ratio (TPR) mechanism enables the consolidation and transfer of redevelopment potential from small, scattered sites to larger projects. However, initial market response has been subdued, likely reflecting a soft property market and implementation constraints within the existing mechanism. To further incentivise market utilisation of the TPR tool and expedite urban renewal, the Government has pledged to explore cross-district plot ratio transfers, relaxing restrictions on the number and size of receiving sites. In addition, the Government is exploring a pilot scheme to increase the plot ratio for private redevelopment projects by up to 20 percent in seven designated areas with more pressing need, specifically for sites over 700 square metres, with a building age of at least 50 years or above, and with residential components. The value of these "bonus" plot ratios may also be used to offset development premiums in other districts, including the New Development Areas. The Government aims to finalise and implement these measures in 2026, thereby providing higher planning flexibility, unlocking additional redevelopment potential, and strengthening incentives for private sector participation in the urban renewal process.

Combating Decay through Enhanced Rehabilitation and Governance

Building rehabilitation stands as a critical pillar in the fight against urban decay. It complements redevelopment efforts by addressing the widening gap between the accelerating rate of building degradation and the current pace of redevelopment. Timely rehabilitation is essential to extend the serviceable lifespans of existing buildings, thereby allowing redevelopment resources to be strategically directed toward structures that are beyond repair. This dual-pronged approach is vital to achieving sustainable urban renewal.

Beyond managing Government subsidy schemes, the URA has long partnered with professional institutes and practitioners to provide broad-based technical support to building owners undertaking rehabilitation projects. The Tai Po fire incident brought to light the problem of bid-rigging in building maintenance works. In response, the URA is working in close collaboration with the Development Bureau to comprehensively enhance owners support services. The enhanced services will strengthen various measures to assist Owners' Corporations and individual owners in the procurement of reputable consultants and contractors to carry out building maintenance works properly.

A new subsidiary will be established to implement more stringent "pre-qualified lists" for consultants and contractors, actively manage tendering and tendering assessment processes, and introduce enhanced governance and reporting requirements for projects receiving Government subsidy. These measures will enable the URA to provide timely advisory support to owners at critical junctures throughout the rehabilitation process.

Central to the success of building rehabilitation is raising owners' awareness of the importance of regular inspection and maintenance for buildings of all ages. To this end, the URA continues to promote the Preventive Maintenance Subsidy Scheme (PMSS), encouraging owners of buildings in acceptable condition to implement periodic maintenance plans and establish dedicated financial reserves for future upkeep. Since the release of the Guidelines and Templates for Preparing Maintenance Manual for Residential and Composite Buildings (GTMM) in January 2025, many estates have adopted these frameworks in their maintenance planning. The practice of preventive maintenance has been further strengthened through the inclusion of relevant clauses in the Deed of Mutual Covenant (DMC) of new developments, such as the URA self-developed eResidence Tower 3.

Looking ahead, the URA will continuously review its strategies and initiatives in the promotion of building rehabilitation among property owners to better empower them in undertaking rehabilitation efforts for their properties.

Driving Operational Efficiency and Resilience through Agility and Innovation

Amid prevailing economic uncertainties and challenges in building rehabilitation, the URA is motivated to look beyond traditional operations and routine planning cycles and undertake a fundamental review of its business model and operational regime. The Government's ongoing financial support, including tax exemptions, land premium waivers, and the initial HK\$10 billion capital injection, alongside the recent granting of two sites at Bailey Street and Tseung Kwan O Area 137, has further strengthened the URA's financial position. To maintain a financially stable portfolio, the URA will continue to leverage its borrowing limit, raise funds through bond issuance and bank loan facilities, and explore measures to improve tender attractiveness and cash flow. A dynamic management approach will continue to be adopted to adjust acquisition pace and implement cost optimisation measures, ensuring rigorous control of operating expenditure. Concurrently, a comprehensive review of the financing and operating model is being conducted to reinforce the URA's ability to deliver sustainable urban renewal regardless of market conditions.

To facilitate steadfast implementation of redevelopment and rehabilitation initiatives, the URA is committed to innovative and technology-driven operations in various fronts to enhance the efficiency in urban renewal, including the evaluation of urban renewal demands through analytics and the development of viable strategies, by utilising the self-developed Urban Renewal Information System (URIS) and 3D iMap. In 2024/25, the URA launched a case management system to expedite the release of rehabilitation subsidies and automated several acquisition and compensation processes.

The URA has also been actively exploring and applying artificial intelligence (AI) to further improve efficiency. An example would be the development of AI-based generative design tools for feasibility design and option analysis currently in use for master building layout, which has shortened preliminary design cycles and saved consultancy cost. Additionally, an AI-based street view evaluation and design tool is developed to enhance place-making and community-making capabilities, offering automated assessments, improvement recommendations, and visual presentations for stakeholder engagement. The URA will continue to research and pilot further AI applications to automate processes and advance effective solutions for urban renewal.

Looking ahead

The URA remains steadfast in its commitment to advancing urban renewal in Hong Kong as it navigates ongoing economic uncertainties and an increasing complex and challenging operating environment. The URA will continue to adopt a forward-looking, innovative, and technology-driven approach to deliver practical and effective solutions for sustainable urban regeneration. Close collaboration with the Government, the private sector, and the community will be central to maximising redevelopment opportunities, addressing building rehabilitation challenges, and driving public-private partnerships. Through these adaptive and collaborative strategies, the URA endeavours to revitalise urban areas and support a more vibrant, resilient, and liveable Hong Kong for future generations.

Financial Review

(I) Review of 2025/26 Results

(a) Revenue

The revenue for the year ended 31 March 2026 was HK\$1,749 million, which comprised the upfront payment from one tendered project, share of surplus from joint development projects and proceeds from sale of properties. The amount was higher than the revenue of HK\$254 million in 2024/25 by HK\$1,495 million.

The upfront payment in 2025/26 of HK\$861 million was attributable to the successful tender of one project, namely Shantung Street/Thistle Street. In comparison, no upfront payment was received in 2024/25 due to the failure to award the only one tender for Kai Tak Road/Sa Po Road Project in that year amidst the prevailing weak property market.

The share of surplus from joint development projects of HK\$170 million in 2025/26 (2024/25: HK\$195 million), was revenue from the projects where the sales proceeds exceeded the thresholds stipulated in their respective development agreements. The majority was related to the net rental income of unsold commercial properties of certain joint venture projects, such as Citywalk in Tsuen Wan, which were held with a view to materialising a higher disposal value in the future. Their net rental income is treated as part of sales proceeds as per their Supplemental Agreements.

The revenue from sale of properties of HK\$718 million in 2025/26 (2024/25: HK\$59 million) was mainly related to the sale of remaining residential units at Kai Tak in the open market at market prices.

(b) Other Income

Of the HK\$926 million (2024/25: HK\$1,145 million) in other income for 2025/26, HK\$648 million (2024/25: HK\$934 million) were interest income from bank deposits and fixed income investments, with an overall yield of 3.32% p.a. (2024/25: 4.23% p.a.). The lower yield reflected the gradual decrease in interest rates as a result of interest rate cut over the year.

Other income also included rental income of HK\$213 million (2024/25: HK\$206 million) from certain properties retained by the URA, and gain on disposals of two commercial properties of HK\$43 million (2024/25: Nil).

(c) Administrative Expenses

Administrative expenses for 2025/26 of HK\$730 million (2024/25: HK\$736 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(o) to the financial statements, a net write back of provision for impairment on properties and committed projects of HK\$138 million was made in 2025/26, principally resulting from rising property prices during the year and recent updates of project development plans.

(e) Result for the Year

For the year 2025/26, the URA recorded an operating surplus of HK\$338 million. After inclusion of the write back of provision for impairment on properties and committed projects, the net surplus was HK\$476 million, compared to the net deficit of HK\$2,720 million for 2024/25. The favourable performance for 2025/26 was mainly attributable to the rebound of the property market in the year, which led to the successful tender of one project and write back of provision for impairment made for committed projects as mentioned in paragraphs (I)(a) and (I)(d) respectively.

(II) Financial Position at 31 March 2026

(a) Properties under Development

Properties under development before provision for impairment was HK\$51,206 million as at 31 March 2026 (31 March 2025: HK\$38,812 million). This sum represented the acquisition and development costs of the URA's commenced 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 93 percent of the total value.

The aforesaid value was off-set against the cumulative provision for impairment totalling HK\$7,658 million (31 March 2025: HK\$9,168 million), resulting in a net value of HK\$43,548 million (31 March 2025: HK\$29,644 million). The increase in the net value was mainly due to the costs incurred for property acquisitions for the Kau Pui Lung Road/Chi Kiang Street Project, Ming Lun Street/Ma Tau Kok Road Project, and Nga Tsin Wai Road/Carpenter Road Project.

(b) Total Liquidity

Liquidity refers to cash, bank deposits and debt securities investments. The URA placed its surplus cash on deposits with a number of financial institutions. It would also invest in fixed income products with the required credit rating should suitable opportunities with attractive returns arise, in accordance with the investment guidelines approved by the Financial Secretary with capital preservation as the priority.

As at 31 March 2026, the URA's total liquidity was HK\$22,102 million (31 March 2025: HK\$21,174 million).

(c) Borrowings

The URA is rated at "AA+" with "Stable" outlook by Standard & Poor (S&P) Global Ratings. As at 31 March 2026, the total borrowings of the URA amounted to HK\$27,238 million (31 March 2025: HK\$13,961 million), comprising HK\$23,338 million outstanding bonds issued under the Medium Term Note (MTN) Programme and HK\$3,900 million bank loans. The net gearing as at 31 March 2026 was 10.4%.

(d) Net Asset Value

The URA's net asset value as at 31 March 2026 was HK\$44,116 million (31 March 2025: HK\$43,640 million), representing the Government's capital injection of HK\$10,000 million (31 March 2025: HK\$10,000 million) and an accumulated surplus of HK\$34,116 million (31 March 2025: HK\$33,640 million).

The financial summary of the past ten years is described on page 104 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 58 land grants have been waived with aggregate land premia totalling HK\$26,286 million up to 31 March 2026.

Without this waiver, the URA's accumulated surplus as at 31 March 2026 would have been lowered by HK\$26,286 million to HK\$7,830 million; and its net asset value as at 31 March 2026 would have been decreased to HK\$17,830 million.

(V) Financial Outlook and Management

In 2026, the Hong Kong property market transitioned into a phase of relatively stable recovery, spearheaded by the residential sector. The land market has also recorded a modest rebound, supported by improved market sentiment and recent transactions. Capitalising on these favourable market conditions, the URA will seize opportune moments to tender out its project sites in an orderly and strategic manner over the coming years.

However, the external macroeconomic environment remains clouded by uncertainties. Ongoing geopolitical tensions continue to threaten global financial stability, potentially triggering volatility in interest rates and property prices. These headwinds pose a risk to the URA's cash inflows from future project tenders, which could impact its overall financial position. In response, the URA will continue to exercise prudent financial stewardship, applying a cautious yet flexible approach to project and business management to safeguard financial sustainability and mitigate downside risks.

With the Government's support by granting two sites, one in Bailey Street, Hung Hom and another in Tseung Kwan O Area 137, to the URA in May 2025, the Authority has issued acquisition offers for all remaining commenced projects in 2025/26. The URA intends to meet its future funding requirements through a combination of cash on hand, cash flow from operations, and external financing.

In August 2025, the Financial Secretary approved the URA's request to raise its borrowing limit from HK\$25 billion to HK\$35 billion to accommodate its future funding requirements to meet operational needs. In April 2026, 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 at "Almost Certain".

Subsequently, on 16 June 2026, the URA updated its MTN Programme to facilitate future bond issuance. As a public sector entity with a credit rating on par with the HKSAR Government, the URA is in a strong position to raise sufficient funds from the financial markets for taking up new urban renewal projects or refinancing, when necessary.

Currently, the URA is working with the Government to review and refine its financing and operating model. The review covers the redevelopment approach and cycle, the acquisition policy, building rehabilitation strategies, and revenue-generating and cost-saving initiatives. After implementation of the new policies and measures under the review, it is expected that the URA will achieve a healthy and stable financial position, enabling it to maintain the momentum of urban redevelopment irrespective of market ups and downs.