

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

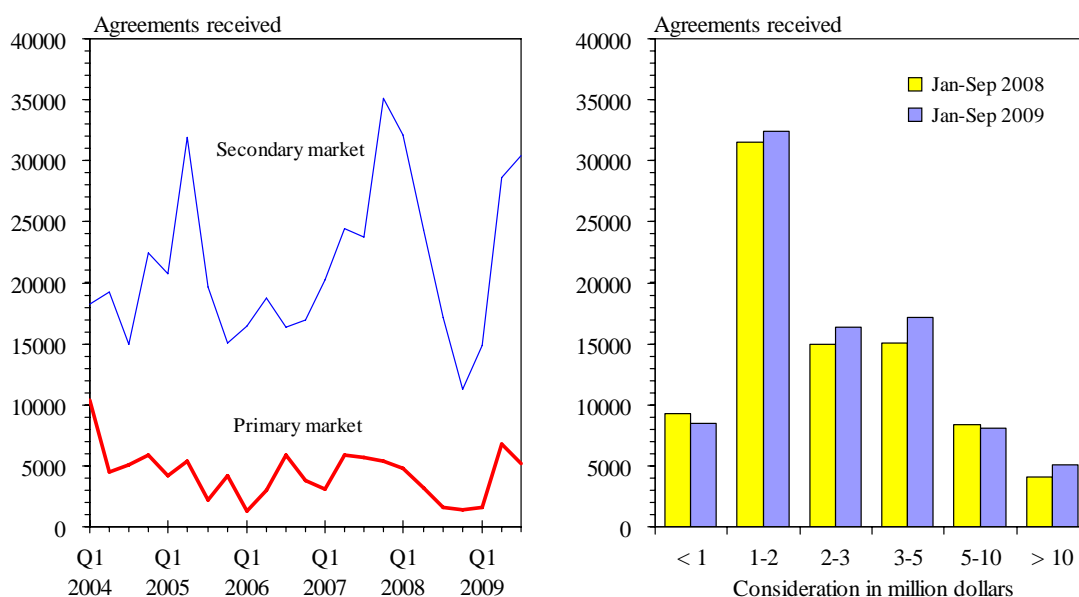
Summary

- *The residential property market continued to firm up in the third quarter of 2009, as improved economic conditions and low mortgage rates sustained strong buying interest. Consequential to the uptrend established since the beginning of this year, the overall flat prices in September 2009 have surpassed their preceding highs in mid-2008 by around 2%. The markets for non-residential properties were likewise active, with more notable price increases observed for the quality premises in prime locations.*
- *Inbound tourism showed signs of recovery in the third quarter, as the global economy gradually pulled out of recession. Both long-haul and Mainland visitor arrivals experienced a modest rebound, which helped cushion the impact of reduced visitors from the short-haul markets.*
- *The logistics sector remained generally subdued, though there seemed to be signs of moderating decline in throughput.*

Property

3.1 The *residential property market* maintained its upward momentum in the third quarter of 2009. Trading activities, sale prices and rentals all went up further during the quarter, on the back of strong property demand amid improved economic conditions and low mortgage rates. The total number of sale and purchase (S&P) agreements of residential property received by the Land Registry jumped by 89% over a year earlier to 35 558 in the third quarter, but the rise was exaggerated by the low base of comparison when the property market was hard hit by the global financial crisis. This was also partly due to realisation of pent-up demand that had been held back amid the immense economic uncertainties in the first half of this year. Taking the first nine months of 2009 as a whole, the total number of S&P agreements went up by only 5% over a year earlier. Trading activities rose across flats of most price ranges, with those of luxurious flats posting more distinct increases.

Diagram 3.1 : Transaction volume in the residential property market picked up further in the third quarter of 2009 amid recovered buying interest



3.2 Sale prices of residential property stayed on an uptrend, rising by 6% between June and September 2009. Compared with December 2008, the prices posted a cumulative gain of 23%, but this should be viewed against the sharp fall of 17% between June and December 2008 when the market came under the severe shocks from the global financial crisis. As a result, overall flat prices have moved back to a level slightly higher than the peaks in June 2008. Analysed by size of property, the prices of small/medium-sized and large flats in September were up by 6% and 11% over June. Compared with the peaks reached in 2008, prices of small/medium-sized flats were only 2% higher while those for large flats were little changed.

3.3 While the exorbitant prices fetched by some luxurious flats in the primary market were particularly eye-catching, the luxury end accounted for only 1-2% in terms of both the stock and transactions. Indeed, nearly 90% of all transactions in the secondary market in the first nine months of 2009 fell in the category of flats with saleable area of less than 70 square metres. Transactions for flats valued at over \$10 million amounted to less than 6% of total transactions. Also, reflecting the combined effects of property prices, income and mortgage rate, the home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) notched up to 36% in the third quarter of 2009, yet still comfortably lower than the average of 53% over the past 20 years. The level of speculative activities in the first nine months of this year was still slightly lower than the average in the past five years, indicating that the market was largely end-user led.

Diagram 3.2 : The rise in property prices has been largely in line with household income

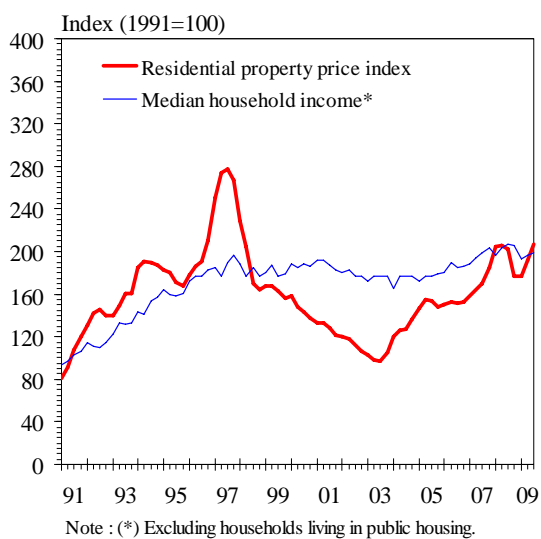
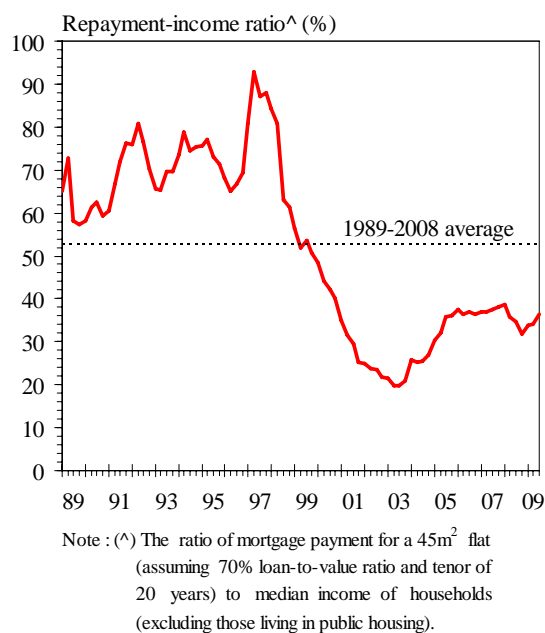


Diagram 3.3 : Home purchase affordability remained healthy

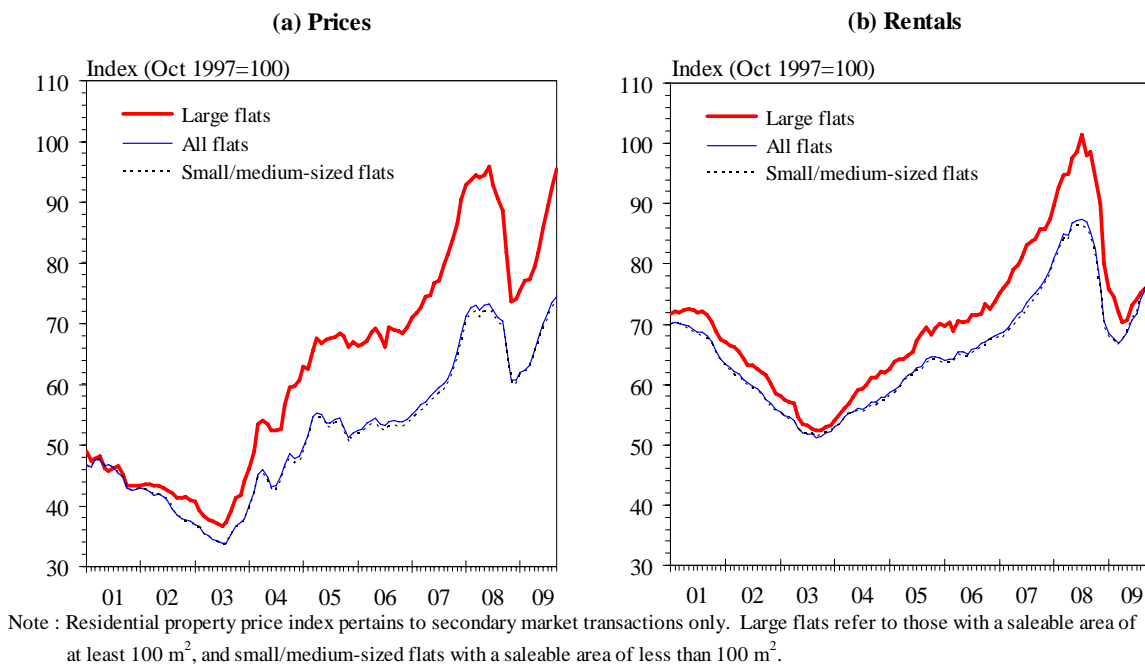


3.4 With a view to maintaining banking stability and enhancing banks' risk management on mortgage lending to high end residential properties, on 23 October 2009 the HKMA advised banks to cap the loan-to-value ratio at 60% for residential properties valued at \$20 million or more and set the maximum loan amount at \$12 million for mortgages on properties valued at below \$20 million. The HKMA also reminded lenders to be prudent in valuating properties and calculating borrowers' debt servicing ratios. Initial signs suggested that the property market might have eased back somewhat as a consequence.

3.5 The Government's policy is to maintain a fair and stable environment to enable the sustained and healthy development of the property market. It is the Government's wish to see the market developing naturally, adjusting and regulating by itself according to market forces. The Government is mindful that sharp fluctuations in property prices could affect the macroeconomic stability as well as social stability, and hence would act prudently when considering appropriate measures to stabilise the property market if necessary. As announced by the Chief Executive in his Policy Address, the Government will closely monitor the development and changes, including supply and demand, in the private property market in the coming months. When necessary, the Government will fine-tune the land supply arrangements and discuss with the Urban Renewal Authority and MTR Corporation Limited with a view to quickening the pace of bringing readily available residential sites to the market. The Government is of the view that developers should ensure and enhance market transparency when launching their projects for sale.

3.6 Having fallen by a cumulative 23% between July 2008 and March 2009, flat rentals began to pick up in April and rose by a further 7% between June and September. However, compared with the peaks in 2008, flat rentals in September were still 13% lower. The average rental yield for residential flats in September stayed at 3.6%.

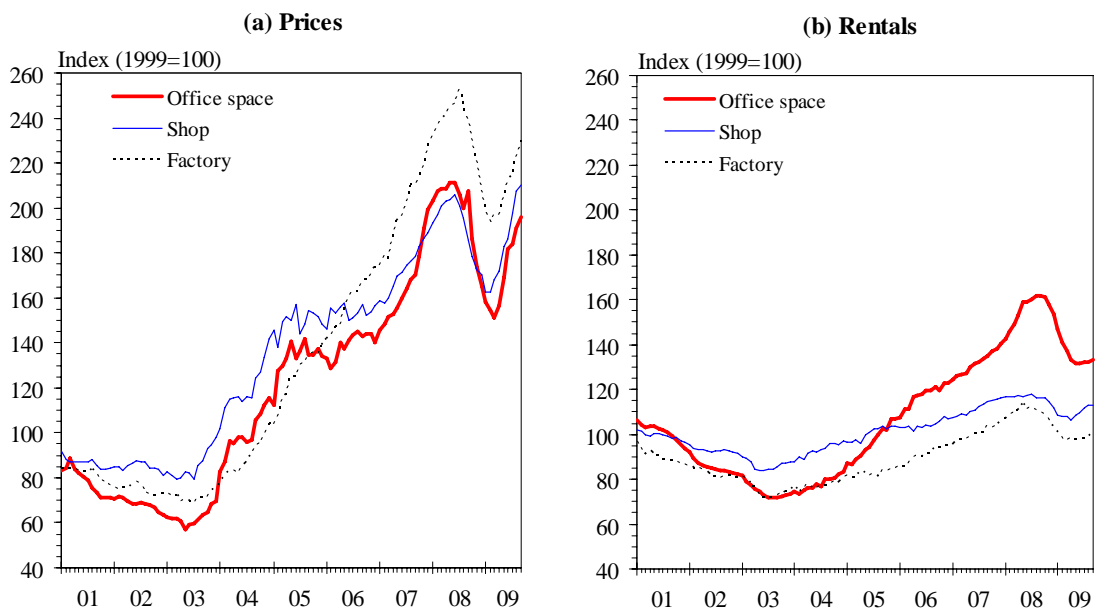
Diagram 3.4 : Both flat prices and rentals continued to firm up



3.7 Regarding *commercial and industrial properties*, both sale prices and rentals firmed up alongside the gradual revival in business activities. For *office space*, overall prices rose further, by 8% between June and September, but the level in September was still 7% lower than the peaks in 2008. Prices for both Grade A and B offices registered gains of 8% between June and September while those for Grade C recorded an increase of 7%. Meanwhile, office rentals managed to reverse their downtrend seen in the first half of the year and rose slightly by 1% during June to September. Compared with the peaks in 2008, office rentals in September were sharply lower, by 18%. Analysed by type of office space, rentals for Grade A and C offices increased by 1% and 3% respectively whereas those for Grade B offices were little changed. As a result of the faster increases in sale prices than in rentals, the average rental yield for Grade A, B and C offices declined from 3.6%, 4.2% and 4.4% in June to 3.4%, 3.9% and 4.2% in September respectively.

3.8 On *retail shop space*, sale prices in September jumped by 13% over June. But again this should be viewed against the 21% plunge following the outbreak of the global financial crisis. Compared with the peaks in 2008, prices were only 2% higher. By comparison, shop rentals recorded a lesser gain of 3% between June and September, and were still 4% lower than the peaks in 2008. For *flatted factory space*, while prices in September were distinctly higher by 8% over the level in June, they were still 9% lower than the peaks in 2008. Rentals in September registered a more moderate increase of 3% over June, which represented a decrease of 11% from the peaks in 2008. The average rental yields for retail shop space and flatted factory space both fell noticeably from 4.2% and 5.7% in June to 3.8% and 5.4% in September respectively.

Diagram 3.5 : Prices rallied in the non-residential property market while rentals also showed some gains



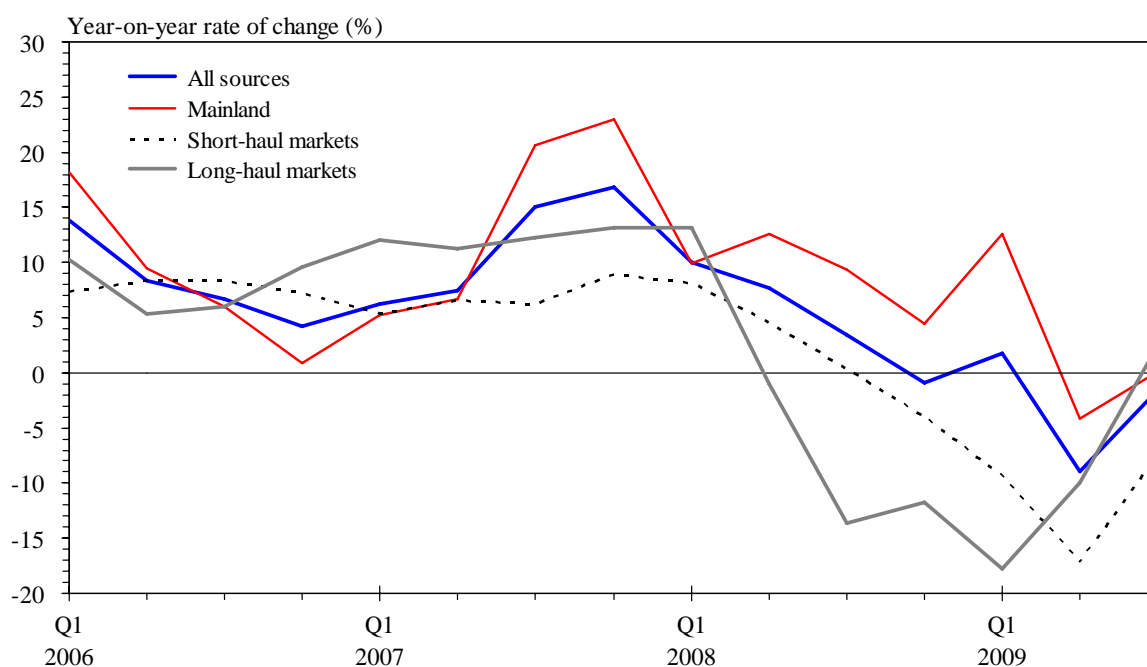
Land

3.9 The land sales market remained lacklustre, with only scanty transactions recorded in the third quarter of 2009 notwithstanding the buoyancy in the local property market. During the period, only two sites were sold via public tender at a total of \$238 million. No land site was successfully triggered for auction through the *Application List* system.

Tourism

3.10 Inbound tourism showed signs of stabilisation in the third quarter of 2009, as the negative impact of human swine flu gradually subsided. While the total number of *incoming visitor arrivals* still declined by 1.6% from a year earlier to 7.5 million in the third quarter, this represented a considerable improvement over the 8.9% fall in the second quarter. Analysed by source market, visitor arrivals from the Mainland (61.3% of which were visitors under the Individual Visit Scheme) and the long-haul markets grew by 0.1% and 2.4% respectively over a year earlier. On the other hand, visitor arrivals from the short-haul markets exhibited a relatively poor performance with a drop of 7.5%.

Diagram 3.6 : Inbound tourism showed signs of stabilisation in recent months



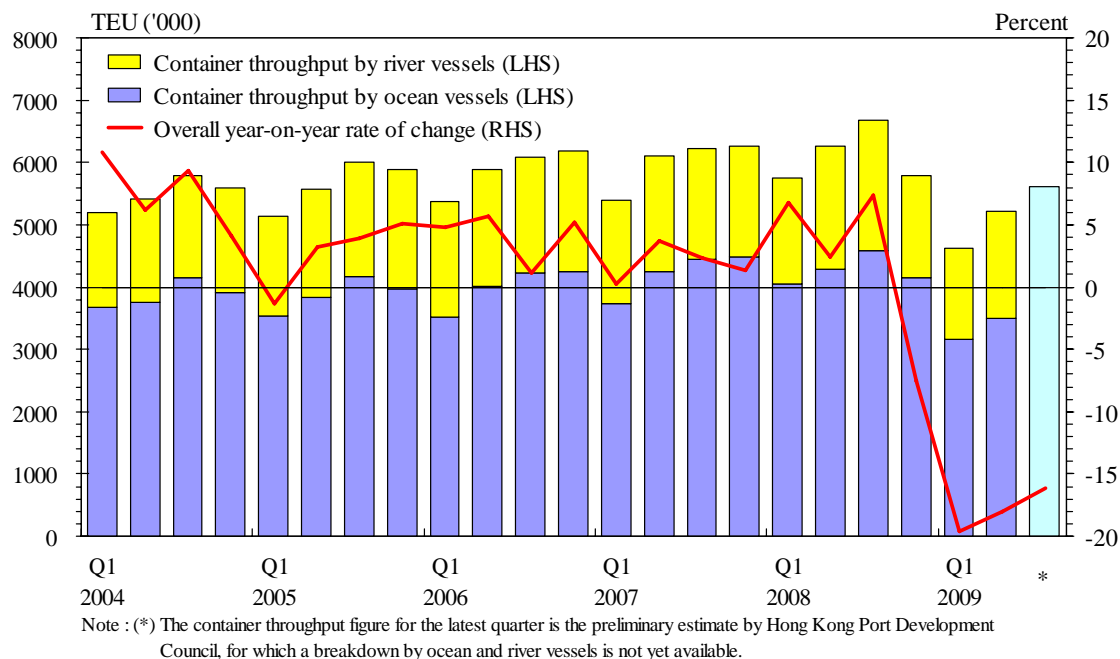
3.11 Analysed by length of stay, the number of same-day visitors went up by 2.9% year-on-year in the third quarter, while the number of overnight visitors fell by 4.7%. Consequently, the share of same-day visitors in total arrivals in the quarter rose to 42.9% from 41.1% a year earlier, while that for overnight visitors decreased from 58.9% to 57.1%.

3.12 Hotel room occupancy rate fell to 76% in the third quarter from 84% a year earlier, reflecting the combined effect of an increase in the supply of hotel rooms and a decline in number of overnight visitors⁽¹⁾. The achieved hotel room rate was down by 18% over the period to \$935.

Logistics

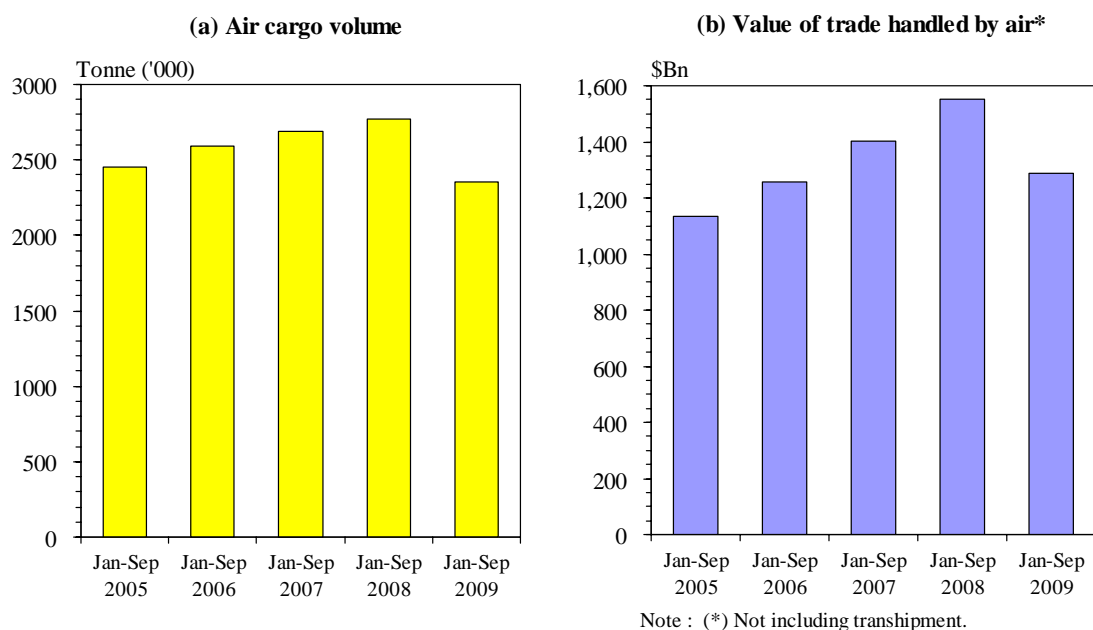
3.13 The logistics sector remained generally subdued. The *total container throughput* continued to fall sharply, by 16.1% over a year earlier to 5.6 million TEUs in the third quarter of 2009. The value of trade handled at the Hong Kong Port recorded a more distinct drop of 18.6% over the period, and its share in Hong Kong's overall trade value declined to 29.1%.

Diagram 3.7 : Port container traffic continued to record sharp fall



3.14 Meanwhile, the rate of decline in air freight volume tapered, as the severe drag from the global recession diminished. *Air freight throughput* amounted to 890 000 tonnes in the third quarter, representing a year-on-year decline of 5.9% that is much improved from the plunge of 17.0% in the second quarter. While the total value of trade by air still witnessed a visible drop of 12.3%, its share in overall trade value edged up to 34.2%.

Diagram 3.8 : Air freight traffic volume showed moderated decline though the value of trade involved continued to plunge



Transport

3.15 Having suffered a significant drop in the first half of 2009, air passenger traffic stabilised somewhat in the third quarter, thanks to the improved global economic conditions and alleviated concerns about human swine flu. The number of air-borne passengers, at 11.8 million in the third quarter of 2009, was still down by 3.5% from a year earlier. Again, this was already a distinct improvement when compared with the 9.2% drop in the second quarter. Meanwhile, the number of water-borne passenger trips fell by 15.3% over a year earlier to 5.9 million.

3.16 Land-based cross-boundary traffic movements fared better. Land-based passenger trips recorded a year-on-year growth of 1.4% to an average of 466 000 per day in the third quarter. Passenger vehicle movements grew in tandem by 4.9% to an average of 19 900 per day, although overall cross-boundary vehicular movements still recorded a 3.2% decrease to a daily average of 43 000.

3.17 Work on the large-scale transport infrastructure projects remained in good progress. Regarding the Hong Kong-Zhuhai-Macao Bridge (HZMB), the construction works of the Link Road and the Hong Kong Boundary Crossing Facilities (HKBCF) were both gazetted in August 2009. Works will start in mid-2010 and mid-2011 respectively and are expected to be completed by 2015-2016.

3.18 On the domestic front, the construction works of the Mass Transit Railway (MTR) West Island Line (WIL) have commenced after the Finance Committee approved the funding support in July. The WIL is an extension of the MTR Island Line from Sheung Wan to Kennedy Town and is expected to be commissioned in 2014. The proposed railway scheme of the South Island Line (SIL) (East) was also gazetted in July. The SIL (East) will provide passenger service between Admiralty and South Horizons with three intermediate stations near the Ocean Park and at Wong Chuk Hang and Lei Tung Estate, and is aimed at commencing construction in 2011 for commissioning in 2015.

3.19 The construction of the Tuen Mun-Chek Lap Kok Link was gazetted in August. The project will link up Tuen Mun and the HZMB HKBCF at the north-east of Hong Kong International Airport (HKIA). The new road link is planned to meet the anticipated traffic demand between Northwest New Territories and North Lantau, as well as to serve as an alternative access to the HKIA in addition to the existing North Lantau Highway.

Creativity and innovation

3.20 The Hong Kong Council for Testing and Certification was established on 17 September 2009. This demonstrates the staunch support from the Government for the sustained growth of the testing and certification industry, which has been identified by the Task Force on Economic Challenges as one of the six industries where Hong Kong enjoys clear advantages. The priority task of the Council is to work with the industry to formulate a three-year market-oriented development plan.

3.21 The fourth meeting of the Mainland/Hong Kong Science and Technology Co-operation Committee was held on 25 September. At the meeting, the Central Government and SAR Government discussed the progress of work and mapped out future innovation and technology co-operation projects between the two sides. The meeting also agreed to set up the “Working Group on Pilot Implementation for Guangdong-Hong Kong Technology Co-operation” to study and formulate measures for pilot implementation in Guangdong. It was also agreed that the governments would follow up on the establishment of seven Partner State Key Laboratories in Hong Kong.

Energy

3.22 On 22 September 2009, the Executive Council gave approval for CLP Power Hong Kong Limited to extend the contract for supply of nuclear electricity from Daya Bay Nuclear Power Station for another 20 years from May 2014 to May 2034. This is in accordance with the Memorandum of Understanding on Energy Co-operation signed between the Government and the National Energy Administration of the Central Government in August 2008, which indicated support for the extension of nuclear electricity supply upon expiry. The projected average unit price of nuclear electricity from Daya Bay in the extended contract period will be 6-12% lower in real terms than the average unit price during 2006 to 2008.

3.23 The Energy Efficiency (Labelling of Products) Ordinance (Amendment of Schedule 1) Order 2009 was submitted to the Legislative Council on 30 September to introduce the second phase of the Mandatory Energy Efficiency Labelling Scheme (MEELS). The second phase of the MEELS will extend its coverage by including washing machines and dehumidifiers. It is estimated that the extension of the scheme will bring about an additional annual energy saving of around 25 GWh, or a saving of about \$25 million in household electricity bills every year.

Note :

- (1) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.