

## CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

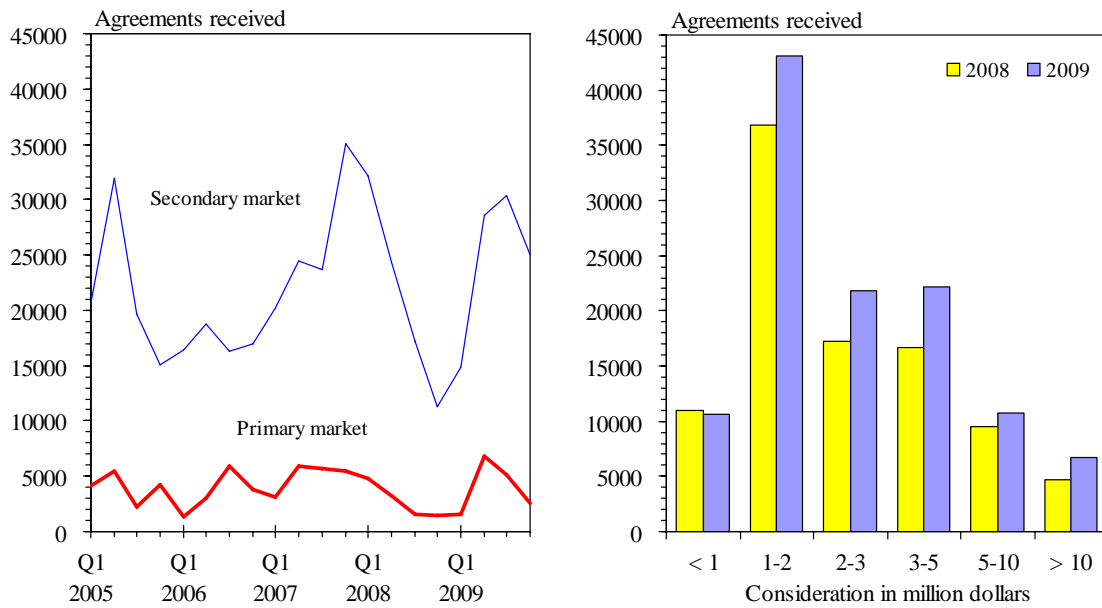
### *Summary*

- *The residential property market put up a strong performance through 2009, underpinned by the gradually improved economic situation and low interest rate environment. Both property prices and transactions surged in the year, though this largely represented a rebound from the sharp correction witnessed in the second half of 2008. The market was essentially end-user led, with the overall performance generally in line with the economic fundamentals.*
- *The tourism industry remained resilient in 2009 notwithstanding the challenging environment. Supported by the growing Mainland market and a steadily recovering global economy, visitor arrivals for the year were maintained at about the same level as in 2008. A number of new initiatives have been put in place in 2009 to support further development of the sector.*
- *The logistics sector also showed signs of stabilisation in the latter part of the year, as the global economy progressively emerged from the doldrums.*

### **Property**

4.1 Following the sharp correction in the second half of 2008 amid the severe shocks of the global financial crisis, the *residential property market* staged a strong rebound in 2009. The gradual improvement of the economy through the year has lent support to market demand, while strong inflow of funds and the consequential low interest rates have helped create an accommodative environment. For 2009 as a whole, the number of sale and purchase agreements for residential property received by the Land Registry jumped by 20% to 115 092, though this was partly due to a low base of comparison and the release of pent-up demand. Total consideration for the agreements rose by a slightly larger extent of 24%, to \$425.8 billion. Analysed by market segment, the number of primary sales jumped by 46% while secondary sales experienced a less rapid increase of 17%. Transactions rose across all consideration ranges except for flats priced at below \$1 million.

**Diagram 4.1 : Trading volume in the residential property market generally rebounded in 2009**



4.2 Flat prices rose sharply by 27% over a year earlier in December 2009. There was an uninterrupted increase through the year, though prices turned slightly steadier in the fourth quarter following the extended rally earlier on and upon the authorities' measures to stabilise the market. Yet the surge largely represented a bounce-back from the 17% drop in the second half of 2008 when the market was hard hit by the global financial crisis, and prices in December 2009 were only 5% higher when compared with the peak in 2008. Analysed by flat size, average prices of large flats in December 2009 rose by 29% over a year earlier, faster than the 27% gain for small/medium-sized flats.

4.3 Notwithstanding the active trading and lofty prices fetched by certain luxury flats, the property market remained largely end-user led. As an indication, nearly 90% of the secondary market transactions in 2009 involved flats smaller than 70 square metres, while units valued at over \$10 million accounted for less than 6% of transactions in the period. Furthermore, 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), at around 38% in the fourth quarter, was still much lower than the average of 53% over the past 20 years. While the figure was to some extent held down by the exceptionally low mortgage rates, it suggested that the market was still largely in line with the economic fundamentals. Nevertheless, the Government is mindful of the possible effect of sharp fluctuations in property prices on macroeconomic and social stability, and will ensure that the market adjusts and regulates by itself according to market forces. In this connection, the Government will continue to closely monitor the development and changes,

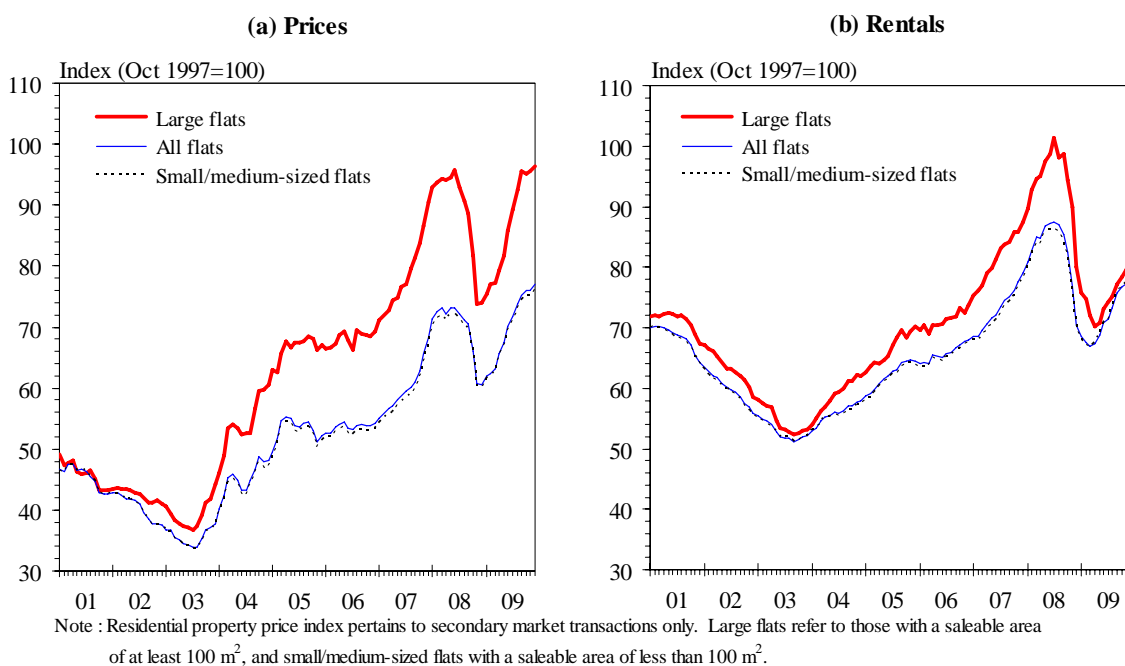
including supply and demand, in the private property market, and take appropriate and prudent measures to stabilise the market when necessary.

4.4 Banks have been offering increasingly favourable terms for mortgage loans since early 2009, driven by the ample liquidity in the local financial system. In addition to enlarging the discount from the Best Lending Rate in setting the interest rates for conventional mortgage loans, banks also offered loans priced with reference to HIBOR. The share of this type of loans in newly approved mortgage loans jumped from below one-fifth in December 2008 to 61.6% in December 2009 as customers took advantage of the prevailing low interbank interest rates.

4.5 With a view to maintaining banking stability, in 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 conducting valuation of properties and calculating borrowers' debt servicing ratios.

4.6 In the leasing market, flat rentals started to rebound in April 2009 after eight consecutive months of decline. Comparing December 2009 with December 2008, rentals posted an overall increase of 12%. Yet they were still 10% lower than the 2008 high recorded before the onset of the global financial crisis. With prices showing larger gains than rentals, the average rental yield for residential flats fell from 4.1% in December 2008 to 3.6% in December 2009.

**Diagram 4.2 : Overall flat prices showed larger gains than rentals**



4.7 Take-up of private residential flats rebounded sharply by 61% from the record low in 2008 to 11 090 units in 2009, while completions fell further by 18% to 7 160 units over the same period<sup>(1)</sup>. Consequently, the vacancy rate declined from 4.9% at end-2008 to 4.3% at end-2009. Looking forward, completions in the near term are expected to remain below the annual average of 19 100 units in the past ten years. As to the potential supply of new private residential flats, it is projected that the number of unsold completed flats and flats already under construction but not yet sold, together with the number of flats on disposed sites where construction has yet to commence, would be around 53 000 units in the next few years.

**Diagram 4.3 : Completions would remain low in the near term**

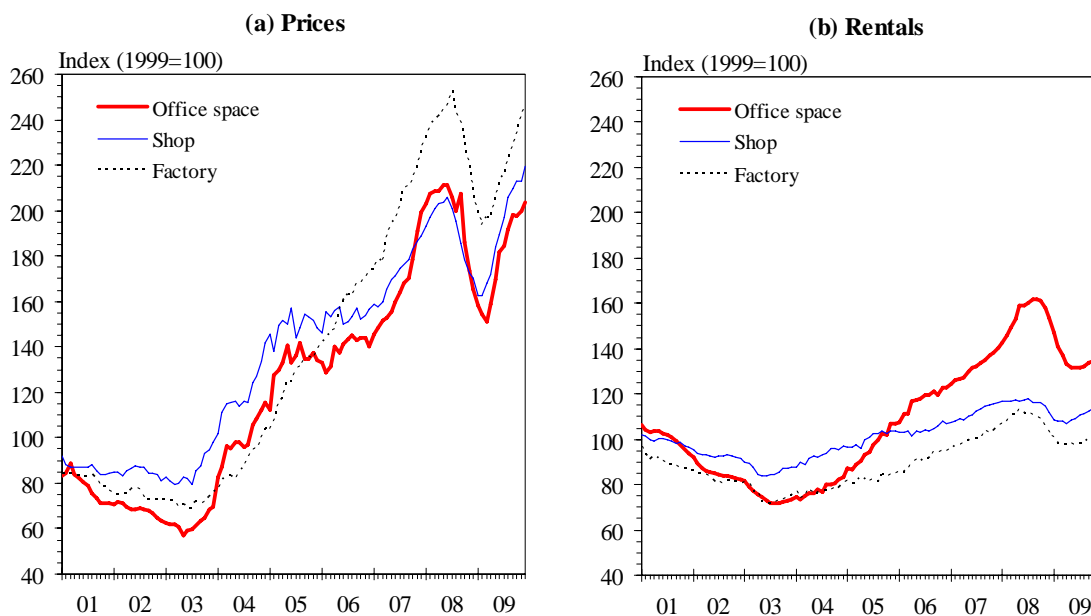


4.8 Regarding *commercial and industrial properties*, the revival in economic activities through the year has lent support to both the sale and rental markets. For *office space*, overall sale prices switched back from decline to increase starting from the second quarter, though the momentum tapered somewhat towards the end of the year. Comparing December 2009 with December 2008, prices gained by 23%, but it remained 4% lower than the high in 2008. Analysed by type of office space, prices of Grade A, B and C offices in December 2009 were respectively 24%, 17% and 26% higher than a year earlier. Office rentals also trended up gradually after bottoming out in May 2009, but for the year as a whole there was still a decline of 9%. Rentals for Grade A, B and C offices in December 2009 dropped by 12%, 7% and 2% respectively from a year earlier. Consequently, the average rental yield for Grade A, B and C offices eased visibly from 5.1%, 5.2% and 5.3% to 3.5%, 4.0% and 4.1% respectively. Notwithstanding a more stable market, the vacancy rate for office space rose from 8.4% at end-2008 to 10.3% at end-2009.

4.9 The market for *retail shop space* also staged a strong recovery, with sale prices jumping by 29% between December 2008 and December 2009. Nevertheless, prices in December 2009 were only 7% higher than the peak in 2008. By contrast, rentals in December 2009 recorded a much more modest gain of 5% over a year earlier, and remained 1% lower than the 2008 peak. As the rise in prices outpaced that in rentals, the average rental yield fell from 4.7% in December 2008 to 3.8% in December 2009. Meanwhile, the vacancy rate, at 8.7% at end-2009, was unchanged from a year earlier.

4.10 For *flatted factory space*, while prices surged by 20% between December 2008 and December 2009, they have yet to fully recover from the 19% decline between July and December 2008. Meanwhile, rentals in December 2009 edged up by 1% from a year earlier and were still 9% below the high in 2008. As a result, the average rental yield declined from 6.2% in December 2008 to 5.2% in December 2009. Despite the rebound in both sale prices and rentals, the vacancy rate for flatted factory space increased from 6.5% to 8.0% between end-2008 and end-2009.

**Diagram 4.4 : Prices rallied in the non-residential property market, outpacing the rebound in rentals**



## Land

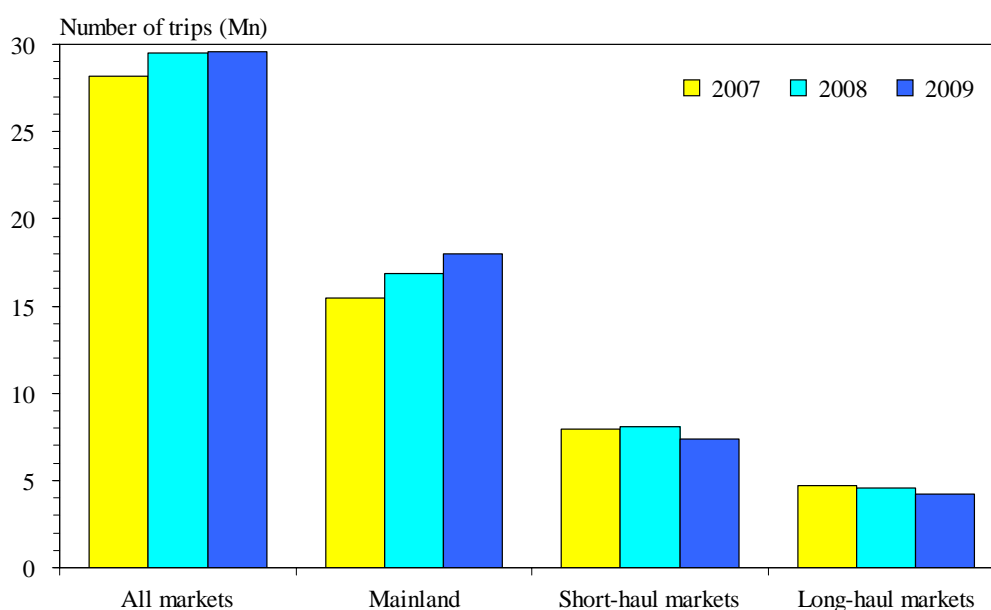
4.11 While the property market was generally buoyant in 2009, land acquisition was rather subdued until the end of the year. A total of eight land sites were sold in the year, with three of them triggered from the *Application List* for auction and five sold through public tender. While these eight plots of land together involved a total land area of 4.6 hectares and fetched \$11.1 billion of land premium, a dominant portion was attributable to the two residential sites in Tai Po auctioned in late December.

4.12 Regarding exchange of land in the private sector domain, eight sites totalling 12.5 hectares were approved in the period, as compared to the corresponding figures of 15 sites and 7.8 hectares in 2008. Among the approved cases, four sites totalling 9.8 hectares were designated for private residential property development, and four sites totalling 2.6 hectares for non-residential property development. As to lease modifications on the existing developed and developable land, 90 sites were approved in 2009, of which 54 sites were for residential use and 36 for non-residential use.

## Tourism

4.13 Inbound tourism went through a difficult time in the first seven months of 2009, but recovered gradually thereafter as the global economic situation improved and the impact of the human swine flu subsided. For the year as a whole, the number of *incoming visitor arrivals* edged up by 0.3% to 29.6 million. Mainland visitors remained the engine of growth, increasing by 6.5%. Growth in visitors under the Individual Visit Scheme (IVS), at 10.1%, outpaced that of non-IVS visitors, at 1.7%. By contrast, arrivals from the long-haul and short-haul markets recorded decreases of 6.5% and 8.8% in 2009, though their performance improved notably towards the end of the year<sup>(2)</sup>. Analysed by length of stay, the number of same-day visitors went up by another 3.9% in 2009 while the number of overnight visitors declined by 2.3%. As a result, the share of same-day visitors in total arrivals rose from 41.3% in 2008 to 42.8% in 2009, while that for overnight visitors was down from 58.7% to 57.2%.

**Diagram 4.5 : The Mainland market continued to be the main support to the tourism sector**



4.14 Reflecting the combined effects of increased hotel room supply and reduced number of overnight visitors, average hotel room occupancy rate fell from 85% in 2008 to 78% in 2009. The average achieved hotel room rate also dropped visibly by 16.3% to \$1,023<sup>(3)</sup>.

4.15 A number of facilitation measures were introduced in 2009 to enhance the convenience for visitors. With effect from 1 April 2009, Shenzhen permanent residents could apply for multiple-entry IVS endorsements to visit Hong Kong. Up to end-2009, 1.47 million Shenzhen residents have visited Hong Kong under this new scheme. In addition, under Supplement VI to CEPA signed in May 2009, Mainland group tours to Taiwan are allowed to stop over in Hong Kong. Moreover, since 15 December, eligible non-Guangdong residents ordinarily residing in Shenzhen could apply for IVS endorsements in Shenzhen for travelling to Hong Kong. Furthermore, the visa-free arrangement for Russian visitors was implemented on 1 July. Immigration facilitation measures for Macao and Taiwan residents were also put in place in the past year.

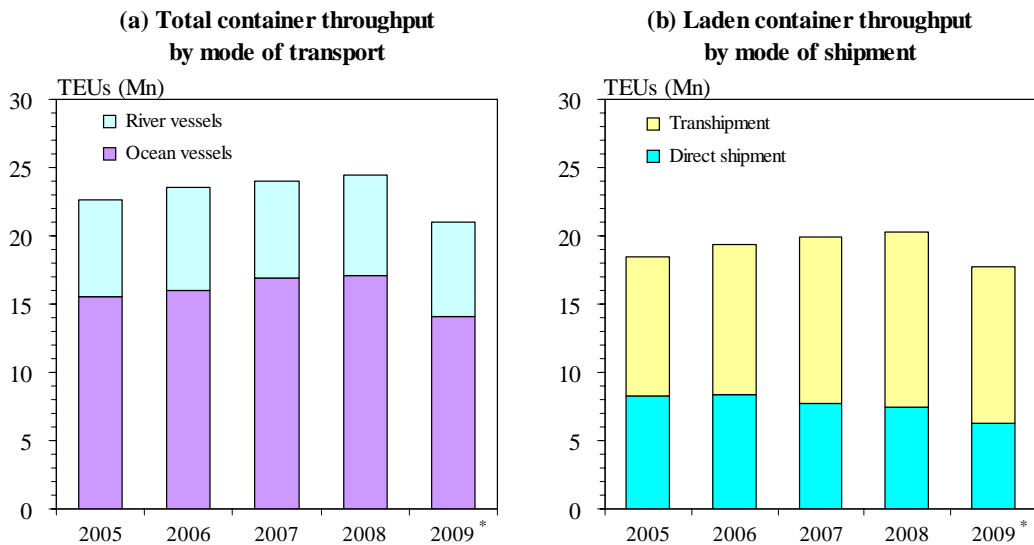
4.16 In the Financial Secretary's 2009-10 Budget, \$100 million was earmarked for assisting local non-profit-making organisations to host more attractive arts, cultural and sports events over the next three years. The objective is to reinforce Hong Kong's position as the events capital of Asia. The Mega Events Fund was subsequently established in May. Among the first-round applications, a total of \$25.2 million would be granted from the Fund to support six mega events.

4.17 Regarding tourism-related infrastructure, new attractions including the Noah's Ark, Hong Kong National Geopark and 1881 Heritage (formerly the Marine Police Headquarters) were opened in 2009. Two new attractions of Ocean Park's redevelopment plan were unveiled during the year as well. Also, the construction works of the Kai Tak Cruise Terminal and expansion of Hong Kong Disneyland both commenced in December 2009. The first berth of the new cruise terminal will come into service by mid-2013. And upon completion of Disneyland's expansion in 2014, the number of attractions in the theme park will grow to over 100.

## **Logistics**

4.18 The logistics sector showed signs of stabilisation towards the end of 2009. While *total container throughput* declined by 14.3% to 21.0 million TEUs for the year as a whole, the rate of decline narrowed through the period, particularly in the fourth quarter. Within the total, both transshipment and direct shipment cargo movements registered decreases in the year, at 11.1% and 15.5% respectively. The value of trade handled at the Hong Kong Port dropped by 17.2% in 2009, and its share in Hong Kong's total trade fell in tandem to 28.7%.

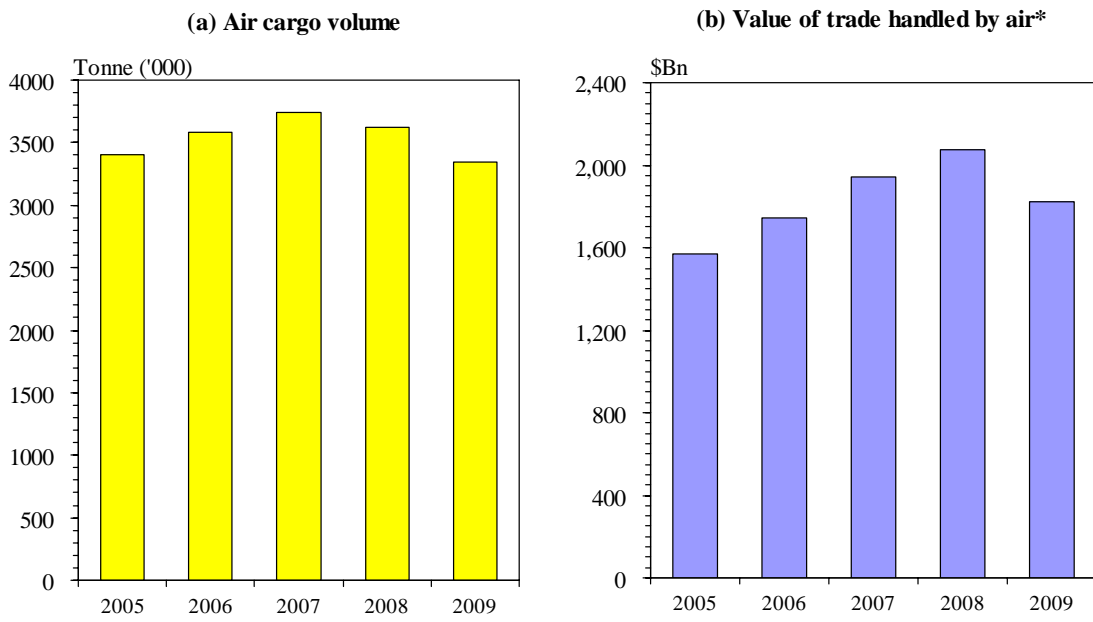
**Diagram 4.6 : Port container throughput recorded a sharp fall in 2009, with declines observed in both transshipment and direct shipment**



Note : (\*) Total container throughput for 2009 is the preliminary estimate by Hong Kong Port Development Council. Its breakdowns by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2009.

4.19 *Air freight throughput* likewise shrank by 7.6% to 3.3 million tonnes in 2009. Yet again notable improvement was observed through the year, with the volume reverting to growth in the fourth quarter partly due to a low base of comparison. While the total value of trade by air witnessed a fall of 12.2% in 2009, its share in overall trade value remained high at 35.3%.

**Diagram 4.7 : Both air cargo volume and value of trade handled by air fell**



Note : (\*) Not including transshipment cargoes

## Transport

4.20 Air passenger traffic declined for the first time since 2003, by 5.0% to 46.1 million in 2009, largely due to the global economic recession and concerns about human swine flu in the first half of the year. Likewise, the number of water-borne passenger trips fell by 10.5% to 23.8 million. Nevertheless, traffic volume has shown signs of improvement towards the end of the year.

4.21 Land-based cross-boundary traffic movements were relatively less perturbed, with land-based passenger trips showing a modest growth of 2.5% to 465 300 per day in 2009. While cross-boundary vehicular movements decreased by 5.6% to 40 700 per day for the year as a whole, traffic volume regained momentum in the fourth quarter.

4.22 The State Council approved the Feasibility Study report of the Hong Kong-Zhuhai-Macao Bridge (HZMB) Project in October 2009. The construction of the HZMB Main Bridge commenced subsequently in December. The Government is pressing ahead with the necessary statutory procedures for the HZMB Hong Kong Link Road and the Hong Kong Boundary Crossing Facilities to enable their synchronised completion with that of the Main Bridge. The HZMB is of strategic significance to the further economic development of Hong Kong, Macao and the Western Pearl River Delta region (Western PRD), by markedly reducing transportation costs and time for travellers and goods on the road between Hong Kong and the Western PRD.

4.23 Notable progress has been achieved on the proposed Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL), another major cross-boundary transportation project. The Legislative Council's Finance Committee has endorsed the funding for the project in January 2010, and construction works are expected to be completed by 2015. Upon its completion, the Hong Kong Section of XRL will become part of the national high-speed rail network.

4.24 On the domestic front, the railway scheme for the Kwun Tong Line Extension was gazetted in November. The proposed railway line would be an extension from the Yau Ma Tei Station, with two new stations in Ho Man Tin and Whampoa. Passengers can interchange at the proposed Ho Man Tin Station for the future Sha Tin to Central Link. Subject to the authorisation of the scheme by the Executive Council, the construction works are expected to be completed by 2015.

## **Creativity and innovation**

4.25 Significant headways have been made in cross-boundary technology co-operation between Hong Kong and the Mainland in 2009. At the third meeting of the Steering Group on Shenzhen/Hong Kong Co-operation in Innovation and Technology held in March 2009, an action plan for the “Shenzhen/Hong Kong Innovation Circle” for the coming three years was formulated. At the fourth meeting of the Mainland/Hong Kong Science and Technology Co-operation Committee held in September, the Central Government and SAR Government 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. Furthermore, the Hong Kong, Guangdong and Shenzhen governments have agreed to jointly provide funding under the “2009 Guangdong-Hong Kong Technology Co-operation Funding Scheme” for 12 applied research and development (R&D) projects, involving intelligent industry robots, high precision manufacturing equipment, data-mining and decision-making technologies, medical biotechnology, R&D of novel medical devices, materials technologies for photovoltaics, core technology for multimedia signal processing and productisation, design and applications of high precision analog-to-digital converter integrated circuits, and platform technologies for integrated circuits.

4.26 The Office of the Telecommunications Authority (OFTA) conducted two radio spectrum auctions in 2009. The first auction was held in January to assign radio spectrum in the 2.3 GHz and 2.5/2.6 GHz frequency bands for the provision of the next generation high-speed mobile broadband services using Broadband Wireless Access (BWA) or other advanced wireless technologies. The second auction was held in June to assign spare radio spectrum in the 1 800 MHz frequency band for the existing mobile service operators to expand their services. The OFTA also plans to auction one frequency multiplex in the UHF frequency band in 2010 for the provision of broadcast-type mobile TV services. In addition, the OFTA has conducted public consultation on the proposed auction of the available frequency spectrum in the 850 MHz, 900 MHz and 2 GHz frequency bands from November 2009 to January 2010 and is formulating the auction plan. These auctions would help meet the need of service providers for capacity expansion, thereby facilitating the deployment of advanced technology and innovative telecommunication services in Hong Kong.

4.27 The Government started to implement digital terrestrial television (DTT) broadcasting in December 2007, and the progress has been smooth to date. The take-up rate of DTT reached 46% in December 2009, representing approximately 1.06 million television households territory-wide. This compared with the take-up rate of 32% a year earlier. With the completion of five more fill-in transmitting stations in December, the coverage of DTT broadcasting in Hong Kong was extended from 75% of the population to about 85%, allowing an additional 700 000 people to enjoy the service.

## **Energy**

4.28 In September 2009, the Government gave approvals for CLP Power Hong Kong Limited (CLP Power) to extend the contract for the supply of nuclear electricity from Daya Bay Nuclear Power Station for another term of 20 years from 7 May 2014 onwards. At present, power generated by Daya Bay accounts for one-third of CLP Power's supply to its local customers. The continued contracting of electricity supply from Daya Bay provides an assurance of electricity supply at reasonable and affordable prices.

4.29 The Government continued to put efforts in encouraging energy saving practices among consumers and businesses. The initial phase of Mandatory Energy Efficiency Labelling Scheme had been fully implemented since 9 November 2009. Room air-conditioners, refrigerating appliances and compact fluorescent lamps were required to carry energy labels before they were supplied to the local market. It was estimated that annual electricity saving of 150 million kilowatt-hours could be achieved under the initial phase of the scheme. In addition, the Buildings Energy Efficiency Bill for mandatory implementation of the Building Energy Codes was gazetted on 4 December and introduced into the Legislative Council on 9 December. Implementation of the proposal could result in energy saving of 2.8 billion kilowatt-hours for new buildings in the first decade.

4.30 Promoting the use of electric vehicles (EVs) was identified as one of the key measures to promote green economy in the 2009-10 Budget, and subsequently a steering committee was set up under the leadership of the Financial Secretary to make recommendations on strategy and specific measures to promote the use of EVs. The Government has been co-operating with manufacturers to conduct trials on EVs and plug-in hybrid vehicles in Hong Kong. Moreover, the two local power companies have launched their first batch of charging stations for EV users in 2009 and plan to launch a total of 28 charging stations in the first half of 2010. Encouraging the use of EVs will not only improve roadside air quality, but will also create business opportunities for the related industries in Hong Kong.

**Notes :**

- (1) Take-up figures represent the net increase in the number of units occupied for domestic premises. The figures are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year end vacancy figures. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units sold by developers.
- (2) Long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific; Short-haul markets refer to North Asia, South & Southeast Asia, Taiwan and Macao, but excluding the Mainland.
- (3) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.