

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

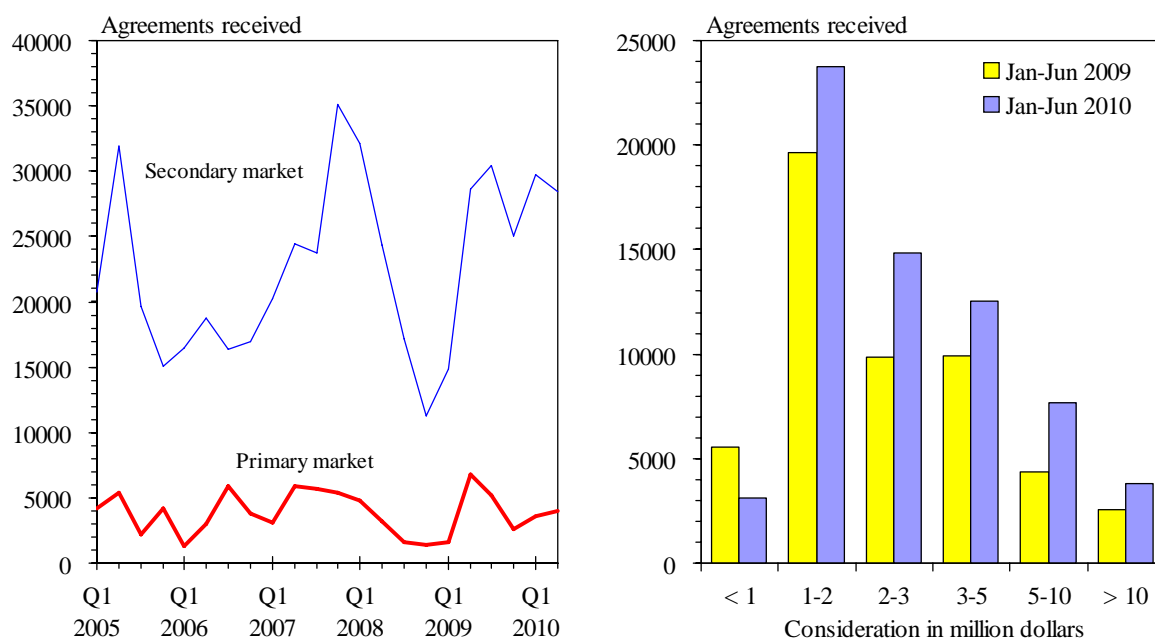
- *Supported by improved economic outlook and accommodative interest rates, the residential property market was buoyant in most part of the first half of 2010, except for some consolidation in May. On the back of active transactions, overall flat prices jumped by a cumulative 8% during the first six months of the year.*
- *While the residential property market remained largely end-user led, with the sustained surge in home prices the risk of a property market bubble remains. The Government has announced a series of measures in February and subsequently also in April to ensure a healthy and stable development of the property market, and will introduce further appropriate measures when necessary.*
- *Inbound tourism staged a strong performance in the first half of 2010 with a sharp growth of 23.1% in visitor arrivals. Mainland visitors remained the major growth impetus, while visitors from both the short-haul and long-haul markets also gained visibly.*
- *The logistics sector recovered further in the first half, with throughput of both port and air cargoes recording significant growth.*

Property

3.1 Supported by improved economic outlook and low interest rates, the *residential property market* regained momentum in the first four months of 2010. There was some cooling off in May following the announcement of further Government measures along the four directions as contained in the 2010-11 Budget to ensure the healthy and stable development of the property market in late April, namely increase flat supply, discourage property speculation, improve transparency of property transactions and prices, and prevent excessive expansion in mortgage lending⁽¹⁾. The market regained momentum in June, with both transactions and prices rebounding upon improved market sentiment after the favourable land auction result. Taking the first half of 2010 as a whole, the number of sale and purchase agreements for residential property received by the Land Registry reached 65 629, representing a sharp 26% increase over the low base a year earlier or 4% over the preceding half-year period. Likewise, total consideration for the agreements jumped by 45% over

a year earlier or 2% over the preceding half-year period to \$254.4 billion.

Diagram 3.1 : Transactions for residential property were buoyant in most part of the first half of 2010



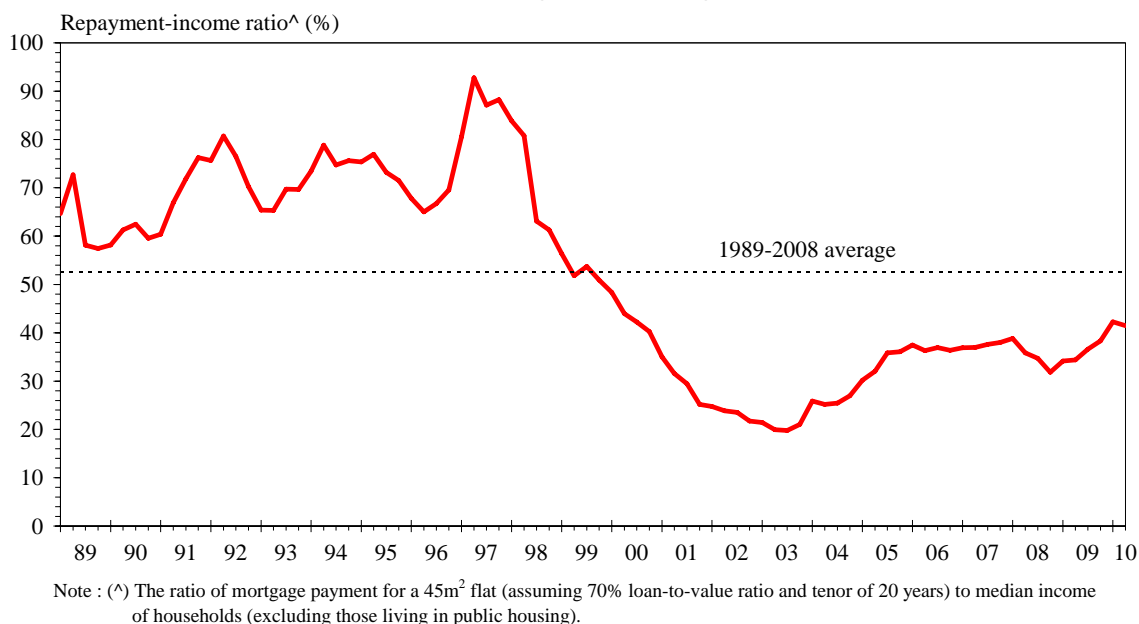
3.2 Flat prices rose further in the first half of 2010, though most of the gains occurred in the first four months. Overall flat prices rose by 8% between December 2009 and June 2010, and were 15% higher than the peak in 2008. Analysed by size of properties, prices of large flats and small/medium-sized flats rose by 7% and 8% respectively between December 2009 and June 2010. Compared with their highs in 1997, prices of large flats in June were already 2% higher while prices of small/medium-sized flats were still 16% lower.

3.3 Notwithstanding the active transactions, the residential property market remained largely led by end-users. In the first half of 2010, almost 90% of the secondary market transactions involved flats in the mass market (i.e. flats smaller than 70 square metres). Speculative activities, as indicated by the number of confirmor cases and their share in total transactions, were generally not rampant. Thanks to the exceptionally low mortgage interest rates, 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) was 41.5% in the second quarter, as compared with the long-term average of 52.6% over 1989 to 2008.

3.4 Nonetheless, the risk of a property market bubble remains with the surge in flat prices. The repayment burden to homebuyers would increase should the interest rates eventually return to a more normal level. The

Government has announced a series of measures in February and subsequently in April to ensure a healthy and stable development of the property market. The Government will continue to monitor the situation closely and introduce further measures when necessary.

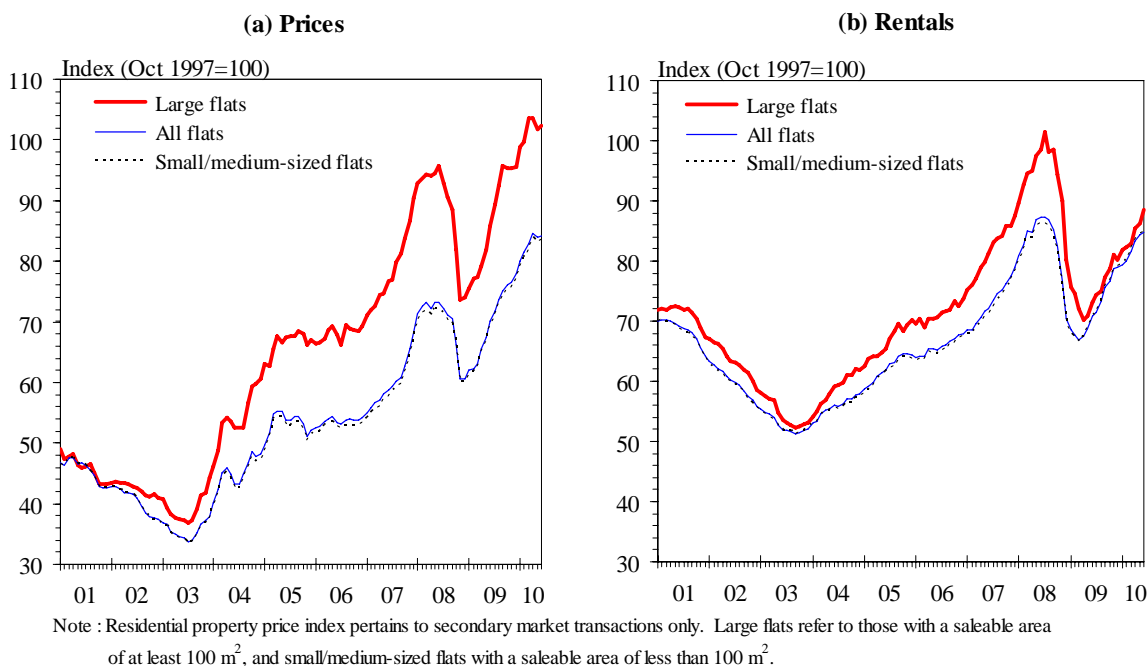
Diagram 3.2 : Home purchase affordability still compared favourably with the long-term average



3.5 As regards flat supply, *completions* of private residential properties surged by 124% over a year earlier to 7 030 units in the first half of 2010. The medium-term supply has also picked up, as a result of the developers' keener interest in land acquisitions and the Government's various land-related measures. In the first half of 2010, 26 sites that together could produce some 13 900 residential units were disposed, lifting the total supply of flats in the coming few years from 53 000 units as estimated at end-2009 to 61 000 units as estimated at end-June 2010. Granting the conversion of a number of residential sites into "disposed sites" and the completion of auctions/tendering of some sites in the months ahead, another 1 700 units could be added to the potential supply⁽²⁾.

3.6 As to the leasing market, flat rentals also picked up in the first half of 2010. Flat rentals in June 2010 rose by 7% over December 2009 and were only 3% below the recent peak in 2008. Analysed by flat size, the increase in rentals for large flats, at 11%, outpaced that for small/medium-sized flats, at 7%. The average rental yield for residential flats stayed at 3.6% in June 2010, virtually unchanged from December 2009.

Diagram 3.3 : Both flat prices and rentals showed sharp rise in the first half



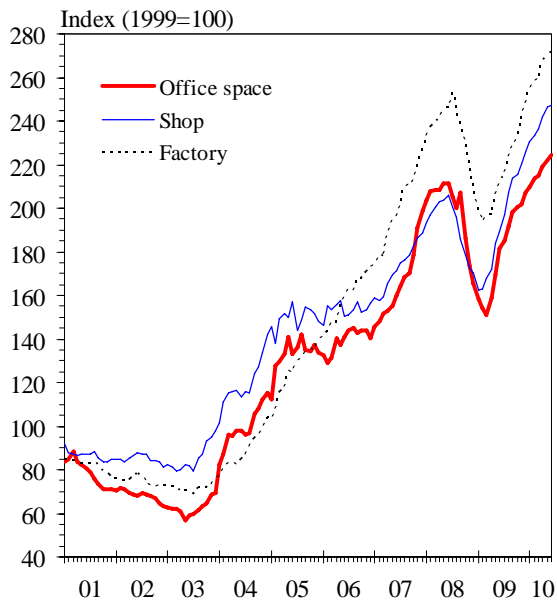
3.7 In tandem with the economic recovery, the *commercial* and *industrial property markets* firmed up further in the first half of 2010. For *office space*, overall prices in June 2010 rose by 8% over December 2009, and have surpassed the recent high in 2008 by 6%. Prices of Grade A, B and C office space all registered gains, of 9%, 11% and 7% respectively. On the leasing front, office rentals in June 2010 gained by 6% over December 2009, but were still 9% below the 2008 peak. Rentals of Grade A, B and C office space all registered gains of 6%. The average rental yields for Grade A, B and C office space were 3.3%, 3.8% and 4.2% respectively in June 2010, compared with 3.3%, 4.0% and 4.2% in December 2009.

3.8 On *retail shop space*, prices in June 2010 surged by 9% over December 2009, and have surpassed the high in 2008 by a sharp 20%. Shop rentals in June 2010 rose by a relatively modest 5% over December 2009, and were 5% above the high in 2008. The average rental yield for retail space edged down from 3.7% in December 2009 to 3.5% in June 2010.

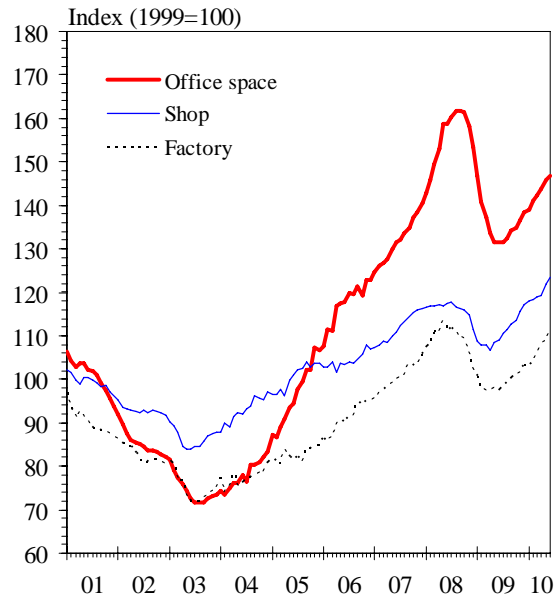
3.9 As to *flatted factory space*, prices and rentals gained notably by 10% and 9% respectively between December 2009 and June 2010. With the surge in the first half of 2010, prices of factory space in June 2010 were 8% above the high in 2008, while rentals have almost fully recouped the loss suffered in the global financial crisis. The average rental yield for flatted factory space was 5.1% in June 2010, unchanged from December 2009.

**Diagram 3.4 : Prices and rentals likewise rose further
in the non-residential property market**

(a) Prices



(b) Rentals



Land

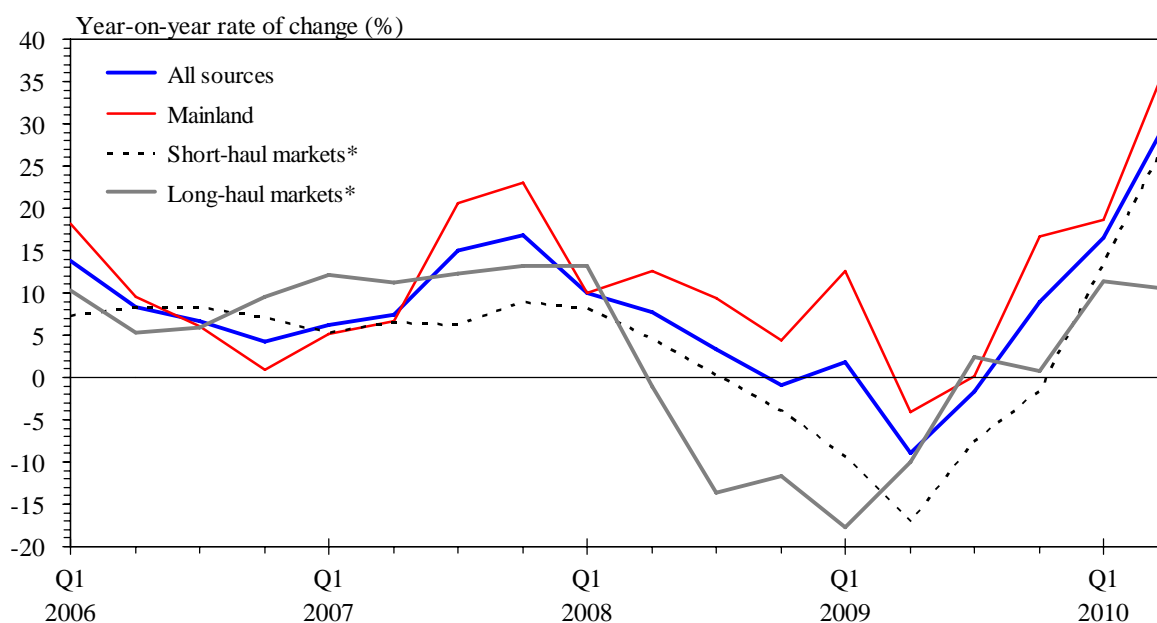
3.10 The land sales market turned more active in the first half of 2010, as developers showed keener interests in land acquisition amid the buoyant property market. A total of eight land sites were sold, comprising four sites from the *Application List* (AL) through auction (including one initiated by the Government) and four sites for petrol filling stations through public tender. These plots of land had a total area of 6.6 hectares and fetched a combined premium of \$19.5 billion. In addition, the Government has put up another residential site for auction in July, and three other residential sites on the AL have been successfully triggered for sale in August. As regards lease modification, 42 sites were approved in the first half of 2010, among which 27 were designated for residential use. On exchange of land, one site was approved for institution/community use, three for commercial/residential use and four for residential use.

Tourism

3.11 Riding on the global economic recovery, the inbound tourism sector continued to boom. The number of *incoming visitor arrivals* surged by 23.1% over a year earlier to a record high of 16.9 million in the first half of 2010. The growth was particularly strong in May and June, though partly boosted by a lower base of comparison last year amid heightened concern about the spread of human swine flu. Visitor arrivals from the Mainland remained the major growth impetus, soaring by 26.9% over a year earlier to 10.5 million in the first

half of 2010, among which 60.8% came under the Individual Visit Scheme. Visitor arrivals from the short-haul markets and long-haul markets also recorded visible gains, by 20.9% and 10.9% respectively⁽³⁾. Analysed by length of stay, growth in the number of same-day visitors, at 25.5%, continued to exceed that of overnight visitors, at 21.2%. As a result, the share of same-day visitors in total arrivals rose further from 42.9% in the first half of 2009 to 43.8% in the first half of 2010.

Diagram 3.5 : Growth of incoming visitor arrivals accelerated further in the second quarter of 2010



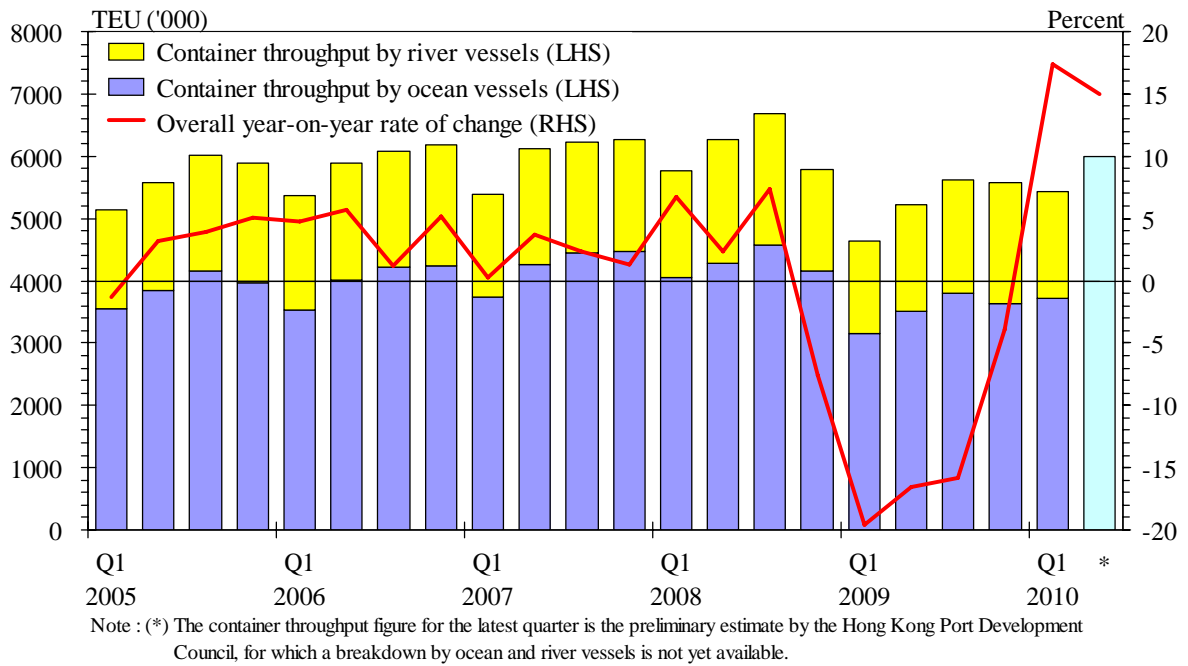
Note : (*) See note (3) at the end of this chapter for the definition of short-haul and long-haul markets.

3.12 Boosted by the surge in incoming visitor arrivals, the hotel room occupancy rate soared by ten percentage points over a year earlier to 84% in the first half of 2010. The average achieved hotel room rate also rose by 7.7% to \$1,105 per night⁽⁴⁾.

Logistics

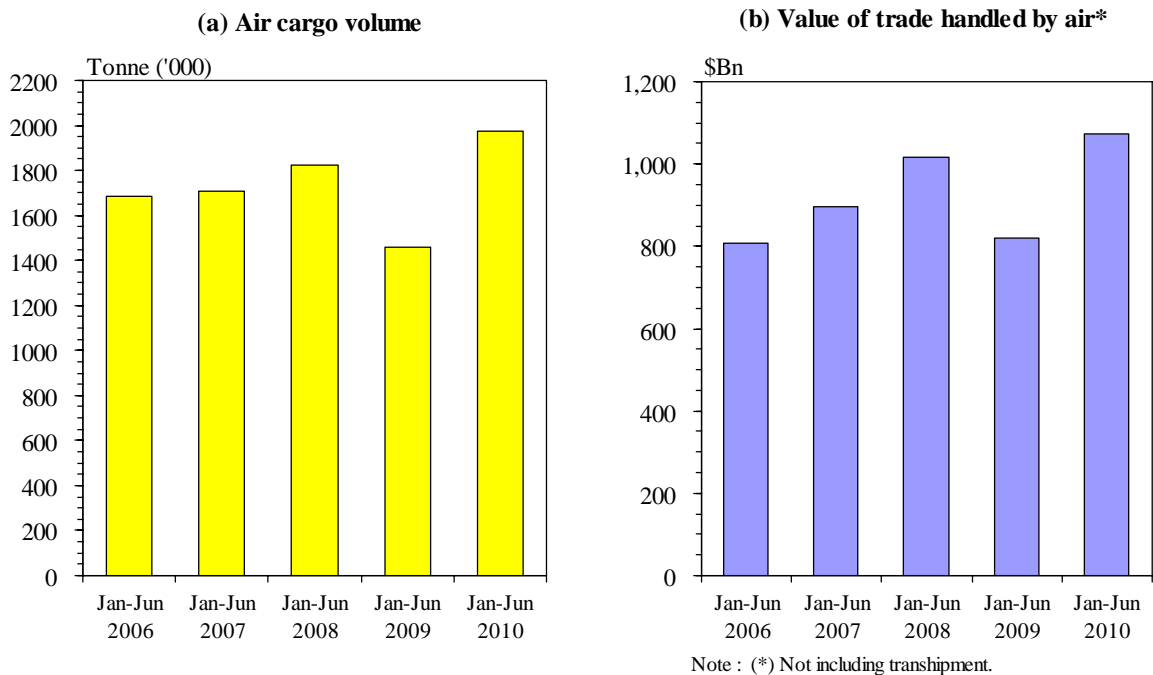
3.13 The logistics sector fared well in the first half of 2010 on the back of vibrant external trade. The total *container throughput* jumped by 16.1% from the trough a year earlier to 11.4 million TEUs. The value of trade handled at the Hong Kong Port likewise soared by 18.5%, though its share in the overall trade value declined from 29.2% in the first half of 2009 to 27.0% in the first half of 2010.

Diagram 3.6 : Port container traffic rebounded sharply amid ongoing global economic recovery



3.14 *Air freight throughput* recorded an even sharper growth of 35.1% over a year earlier to 1.97 million tonnes in the first half of 2010. The total value of trade by air also surged by 30.9%, and its share in overall trade value rose slightly from 35.4% a year earlier to 36.0%.

Diagram 3.7 : Both air cargo volume and the value of trade soared in the first half



Transport

3.15 In parallel with the continued economic recovery, traffic flows for the various modes of transports recorded accelerated growth. Air passenger traffic grew by 9.3% from a year earlier to 24.5 million in the first half of 2010, and water-borne passenger trips by 7.0% to 12.5 million. As to cross-boundary land traffic, two-way land-based passenger trips increased by 7.5% to an average of 490 600 per day, and cross-boundary vehicular movements by 9.2% to 42 000 per day.

3.16 In May 2010, Hong Kong International Airport (HKIA) has been named the World's Best Airport among facilities serving 40 million-plus passengers annually by the Airports Council International (ACI) for the fourth consecutive year⁽⁵⁾. To strengthen Hong Kong's competitiveness as an international and regional aviation centre, the Airport Authority Hong Kong will launch the midfield expansion project in phases to provide additional aircraft stands and apron facilities, and a new passenger concourse. The project will increase both the passenger and cargo handling capacity of HKIA to cope with air traffic demand up to 2020.

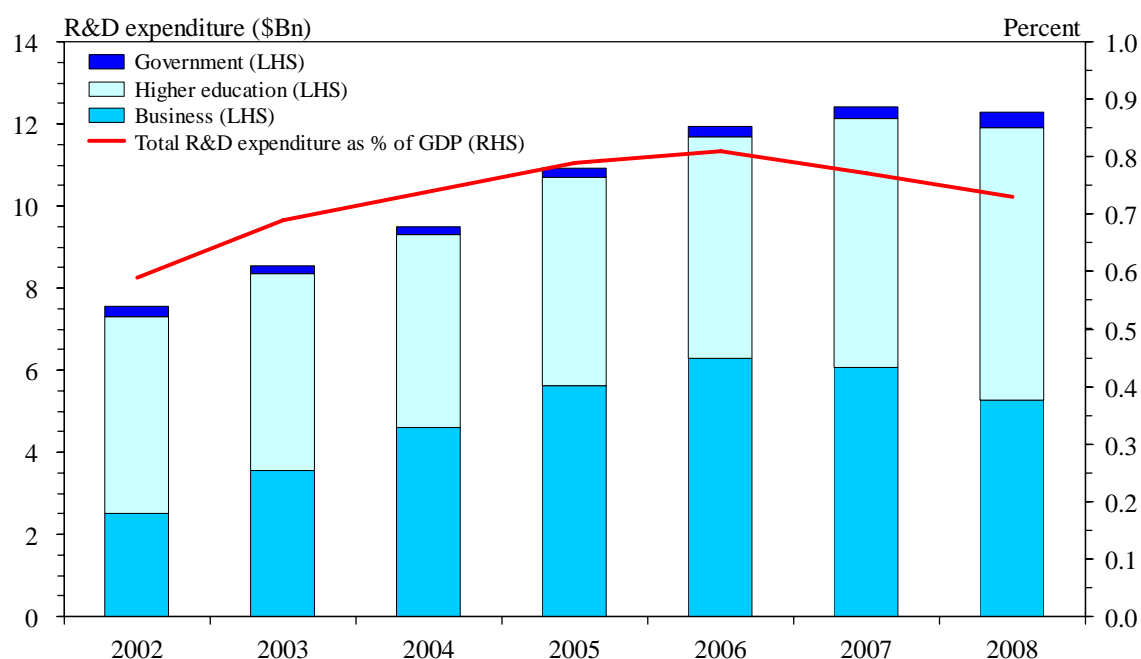
3.17 On the domestic front, amendments to the railway scheme of the South Island Line (East) and the Kwun Tong Line Extension were gazetted under the Railways Ordinance in June 2010. The proposed amendments are to address public concerns expressed after the railway schemes were gazetted in 2009, and to incorporate the latest improvement measures proposed by the MTR Corporation Limited (MTRCL). The Government and the MTRCL will continue to engage the local community and various stakeholders closely. Subject to the authorisation of the railway schemes by the Chief Executive in Council, construction works for the above railway lines will start in 2011 for completion in 2015.

Creativity and innovation

3.18 Research and development (R&D) expenditure in 2008 retreated by 1% from a year earlier to \$12,290 million, equivalent to about 0.7% of GDP. Within this total, the expenditure by the business sector dropped by 13% to \$5,260 million, as some businesses suspended or postponed their R&D projects amid the global financial crisis. In contrast, R&D expenditures by the higher education and government sectors continued to grow, by 10% to \$6,650 million and 28% to \$380 million respectively. Notwithstanding the recent decline, total R&D expenditure in 2008 still represented a surge of 63% from the level in 2002, manifesting Hong Kong's continuous transition towards a

knowledge-based economy.

Diagram 3.8 : The transition towards a knowledge-based economy continues



3.19 As to cross-boundary technological cooperation, the Fourth meeting of the Steering Group on Shenzhen/Hong Kong Co-operation in Innovation and Technology was held in late June 2010. At the meeting, the two sides reviewed the progress of work since the third meeting, and examined the first-year operation of the three-year action plan under the Shenzhen/Hong Kong Innovation Circle. The action plan, comprising 24 co-operation projects with involvement from government departments, universities, R&D institutions and community organisations in the two places, achieved satisfactory results over the past year.

3.20 Regarding the West Kowloon Cultural District (WKCD), the three Conceptual Plan Consultants presented their respective Conceptual Plans to the WKCD Authority in July 2010. In addition to the consultants' innovation and inspiration, the Plans have incorporated the views from the public and stakeholders expressed during the Stage 1 Public Engagement exercise about the visions and expectations for a world-class integrated arts and cultural district. The three Conceptual Plans will be displayed to the public during the Stage 2 Public Engagement exercise from August to November 2010, with the aim of soliciting public and stakeholders' views on the master planning and land use of WKCD.

Environment

3.21 Following the introduction of the Environmental Levy Scheme on Plastic Shopping Bags in July 2009, plastic shopping bags distributed by registered retailers have reduced by almost 90%, and many people have developed the habit of bringing their own shopping bags. Considering that the achievement of the Scheme is obvious and the Scheme should move forward, the Government is now consolidating and analysing the relevant data and materials, as well as studying in detail the experiences of other places. In bringing the Scheme to the next stage, the Government will present different options for discussion by the public and the trade, and then draw up a feasible proposal.

3.22 In April 2010, the Government submitted the Motor Vehicle Idling (Fixed Penalty) Bill to the Legislative Council. To reduce air pollution, heat and noise nuisances caused by idling motor vehicles with running engines, the Bill introduces a statutory requirement for drivers to switch off the engines while the vehicles are stationary. The requirement is applicable to all roads, including private roads and car parks, and a driver contravening the prohibition against idling vehicles is liable to a fixed penalty.

Notes :

- (1) The Government announced a series of measures in February 2010 to ensure the healthy and stable development of the property market, targeting at four different aspects, namely increase the flat supply via fine-tuning the land supply arrangements, discourage property speculation, improve transparency in property transactions and transaction prices, and prevent excessive expansion in mortgage lending. In April, Government announced further measures along the same directions and indicated that it would consider introducing further appropriate measures when necessary. See Box 3.1 in the First Quarter Economic Report 2010 for details.
- (2) Position as at 30 June 2010.
- (3) Short-haul markets refer to North Asia, South & Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets here refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific.
- (4) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.
- (5) Airports Council International (ACI) was established in 1991 as the global trade representative of airports. As of May 2010, it had 575 members operating 1 633 airports in 179 countries and territories, which account for 96% of the world's airport traffic. For the annual ACI Airport Service Quality passenger survey of 2009, over 275 000 passengers were surveyed worldwide at the 118 eligible airports.