CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

Summary

- *The residential property market remained buoyant in the first half of 2011, but underwent some consolidation after mid-year amid heightened external uncertainties and successive mortgage rate hikes by local banks. Trading activities went sharply down in 2011. Flat prices fell by 5% between June and December, but still rose by a rather notable 9% for 2011 as a whole due to the hefty gain in the early part of the year.*

- *The Government's various measures to ensure a stable and healthy development of the residential property market have achieved noticeable results in curbing speculation and preventing excessive growth of mortgage lending during the year. On flat supply, a total of 21 residential sites were disposed in 2011, and the total flat supply over the next few years rose to 62 000 units as estimated at end-2011.*

- *In October the Chief Executive announced in the 2011-12 Policy Address the resumption of the Home Ownership Scheme and enhancements to the My Home Purchase Plan to help low and middle-income families buy their own homes.*

- *Alongside a more cautious sentiment, the commercial and industrial property markets likewise eased towards the latter part of the year, with dwindled trading activities and some stabilisation in prices and rentals.*

- *Inbound tourism stayed sturdy in 2011, thanks to further marked growth in Mainland visitors. The total number of visitor arrivals leapt by another 16.4% to a record high of 41.9 million. Visitor spending surged in tandem, providing an important source of growth driver to the local economy at a time when external trade was faltering.*

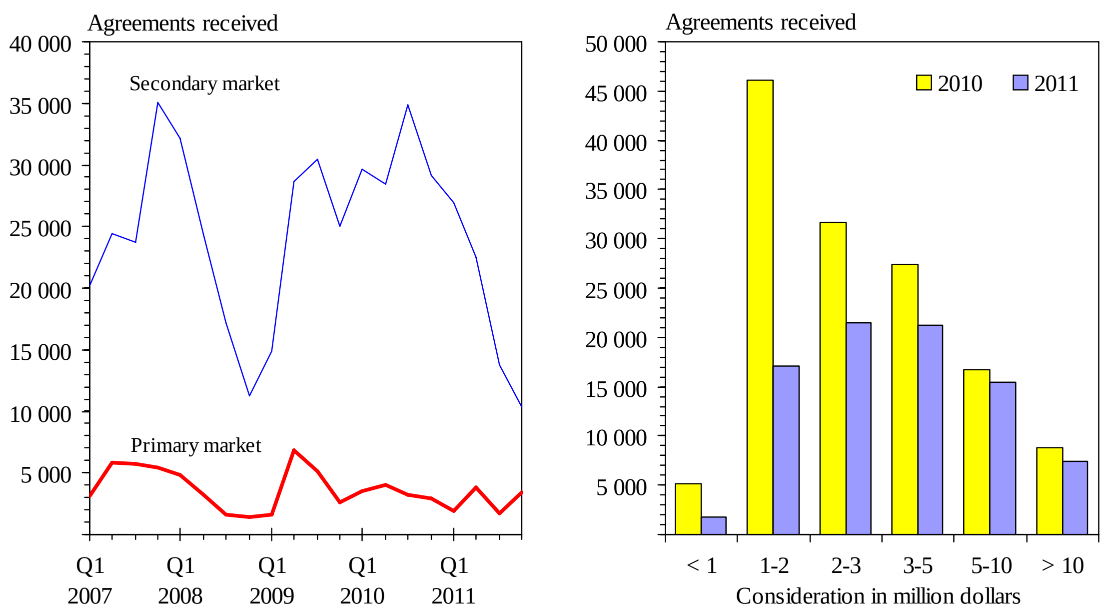
- *The logistics sector was however more severely affected by the slowdown in external trade. Container throughput moderated towards the end of the year. Air freight throughput relapsed to a decline starting the second quarter, cumulating to a 4.6% decline in 2011.*

Property

4.1 The *residential property market* started the year with further price upsurge amid bullish sentiment and broad-based improvements in the labour market. However, sentiment turned much more cautious since June, dented by successive negative developments, first the increasing worries over the sluggish growth in the advanced economies, then the escalation of the European debt crisis and increasing evidence that the fragilities in the advanced economies would hurt Asia's growth momentum. The successive hikes in mortgage rates by the local banks also added to the cautious sentiment.

4.2 Trading activities came down to a more normal level in the first half of 2011 following the introduction of the Special Stamp Duty (SSD) in November 2010, and turned very subdued in the second half in face of an increasingly uncertain market outlook. The number of sale and purchase agreements for residential property received by the Land Registry plunged by 38% from the high base last year to 84 462 in 2011. Both primary and secondary market transactions plummeted. Transactions also decreased across all major consideration ranges. In parallel, total consideration declined by 21% to $442.5 billion.

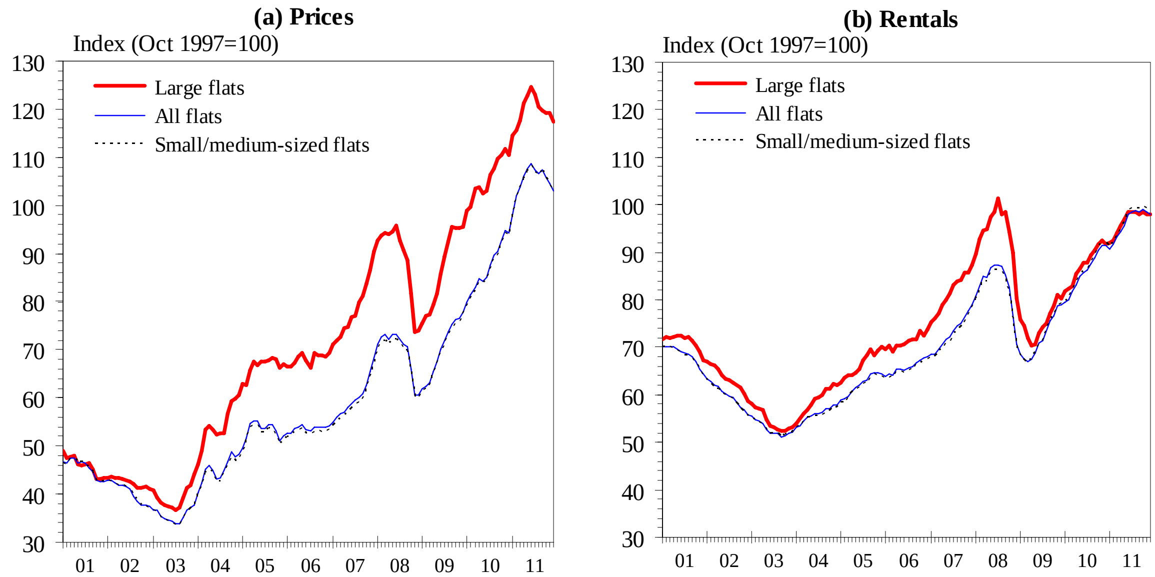
Diagram 4.1 : Trading in the residential property market contracted in 2011



4.3 As the earlier bullish sentiment switched to a more cautious tone, residential property prices fell by 5% between June and December, yet still rose by 9% between December 2010 and December 2011 due to the hefty gain in the first few months of the year. Downward price pressures were apparent across flats of all sizes, with prices of small/medium-sized flats down by 5% and those of large flats by 6% during the second half. For the year as a whole, there were however still price increases of 9% and 6% respectively. Also, when compared to the peak in 1997, overall flat prices in December 2011 were 3% higher, with prices of large flats exceeding the peak by a sharp 17%.

4.4 The leasing market also turned steadier towards the end of 2011, after staying generally buoyant through most part of the year. Overall flat rentals in December 2011 rose by 7% over a year earlier, though the gain concentrated in the first three quarters. Rentals of both large flats and small/medium-sized flats recorded similar increases of 7%. Following the surge since mid-2009, overall flat rentals in December 2011 were only 2% below the peak in 1997. The average rental yield for residential property hovered at a low level of 3.4% in December 2011, little changed from a year earlier.

Diagram 4.2 : Flat prices retreated in the second half, while rentals turned steadier towards end of the year



Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m^2, and small/medium-sized flats with a saleable area of less than 100 m^2.

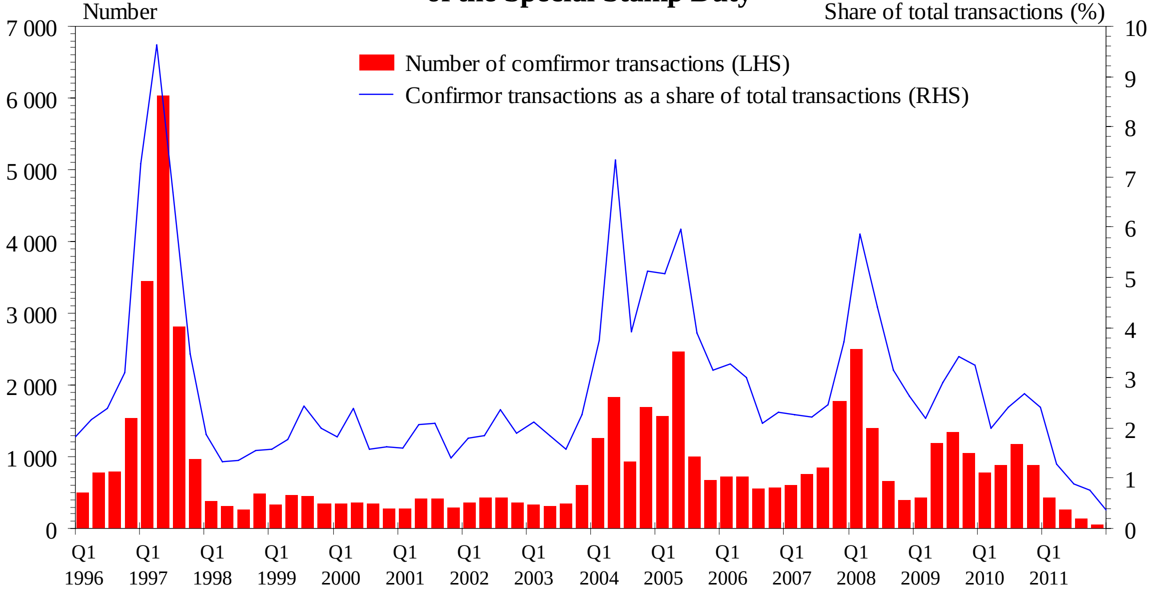
4.5 The Government has always been mindful of the ramifications that wild fluctuations in property prices would have on overall macroeconomic and financial stability. To ensure a healthy and stable development of the property market, the Government has introduced a series of measures since early 2010 along four directions, viz. raising flat supply through increasing the land supply, curbing speculative activities, preventing excessive growth of mortgage lending and increasing transparency of the property market. Following through these efforts, in April, June, September and December 2011 the Government successively announced the quarterly land sale programmes in order to sustain the momentum of supplying steady and sufficient land to the market. Also, in June the Hong Kong Monetary Authority (HKMA) further tightened the mortgage lending standards, the fourth time since October 2009. In October the Chief Executive announced in the 2011-12 Policy Address the resumption of the Home Ownership Scheme and enhancements to the My Home Purchase Plan, to help low and middle-income families buy their own homes(1).

4.6 The various measures have yielded noticeable results. Regarding *flat supply*, the total supply of flats in the coming few years (comprising unsold completed flats, flats already under construction but not yet sold and flats on disposed sites where construction has yet to commence) increased from 59 000 units as estimated at end-2010 to 62 000 units as estimated at end-2011. In addition, another 6 500 units could be added to the supply through the conversion of a number of residential sites into "disposed sites" and the completions of auction/tendering of some sites in the months ahead.

4.7 *Speculative activities* virtually vanished after the introduction of the SSD in November 2010. Confirmor transactions plunged by 76% to 883 cases in 2011, and its share in total transactions shrank to a meagre 0.9%. As regards *mortgage lending*, following the tightening of lending standards by the HKMA, the average loan-to-value ratio of new mortgages fell from 60.2% in 2010 to 54.7% in the first eleven months of 2011. With a view to better managing credit risks, the major banks tightened their mortgage lending terms and raised the margin for the HIBOR-based mortgage loans up to six times in the year.

4.8 Regarding *market transparency*, in November 2011 the Transport and Housing Bureau launched a two-month public consultation exercise on the proposed legislation to regulate the sale of first-hand residential properties, which was primarily based on the recommendations of the Steering Committee on the Regulation of the Sale of First-hand Residential Properties by Legislation(2).

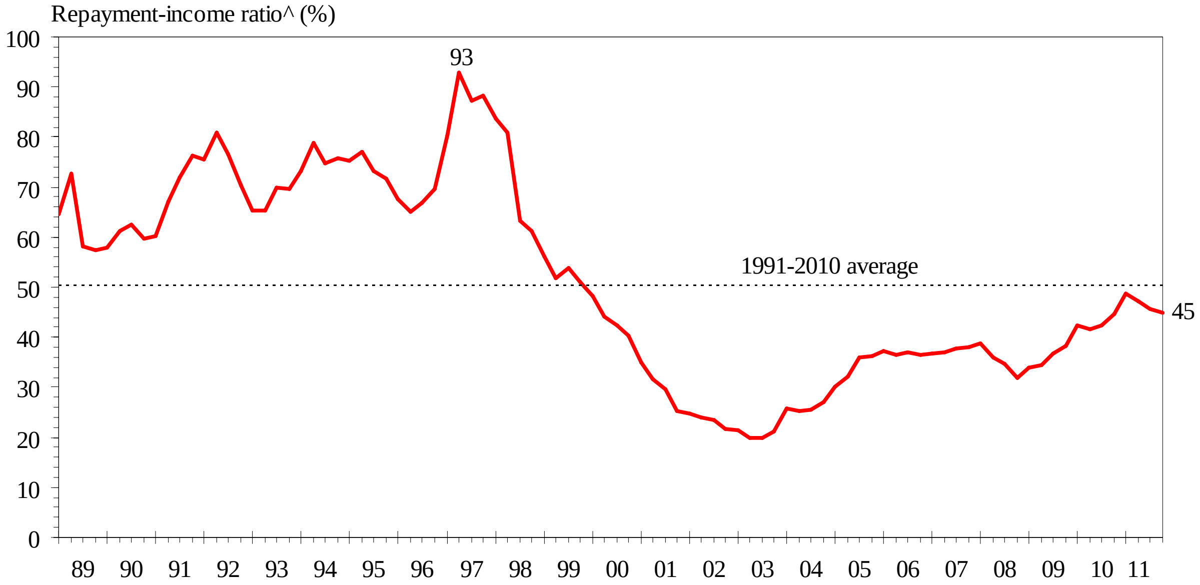
Diagram 4.3 : Speculative activities virtually vanished following the introduction of the Special Stamp Duty



Note : Confirmor transactions refer to resale before assignment.

4.9 Notwithstanding the recent market consolidation, the Government remains vigilant to the risk of a property market bubble. Following the surge in the past few years, flat prices have soared by a cumulative 70% over the trough in late 2008. 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) remained elevated at 45% in the fourth quarter of 2011, and would exceed the long-term average of 50% over 1991-2010 should interest rates return to a more normal level. Moreover, the major advanced economies are likely to maintain an ultra-loose monetary policy for a prolonged period, with the possible impacts on global asset prices still uncertain at this juncture.

Diagram 4.4 : The mortgage payment to income ratio remained elevated



Note : (^) The ratio of mortgage payment for a $45m^2$ flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

4.10 The *commercial* and *industrial property markets* were buoyant in the first three quarters of 2011, but also eased in the latter part of the year with prices and rentals either increasing at a moderated rate or even switching to a decline. In the first eleven months, transactions for *office space* fell by 12% from the high base a year earlier to 2 930 cases. While overall prices of office space in November 2011 were 17% higher than in December 2010, monthly declines were in fact recorded in September to November. Within the total, prices of Grade A, B and C office space went up by 13%, 18% and 24% respectively between December 2010 and November 2011. Overall office rentals rose by a cumulative 15% over the period, with Grade A, B and C office space registering gains of 18%, 10% and 11% respectively. The uptrend in rentals likewise slowed towards the year-end in tandem with heightened external uncertainties and the looming economic slowdown. The average rental yields for Grade A office space edged up from 3.1% in December 2010 to 3.3% in November 2011, while those for Grade B and C office space declined from 3.5% and 3.8% respectively to both 3.4% .

4.11 Transactions for *retail shop space* likewise retreated, by 21% from a year earlier to 5 630 cases in the first eleven months(3). Between December 2010 and November 2011, prices still surged by 17%, though rentals rose by a more moderate 9%. The average rental yield for retail shop space declined from 3.2% in December 2010 to 3.0% in November 2011.

4.12 For *flatted factory space*, transactions declined by 2% from a year earlier to 7 320 in the first eleven months of 2011. Prices and rentals rose further by 22% and 9% respectively between December 2010 and November 2011, leading to a decline in average rental yield from 4.3% to 3.8%.

Diagram 4.5 : Transactions for commercial and industrial property fell in the first eleven months of 2011

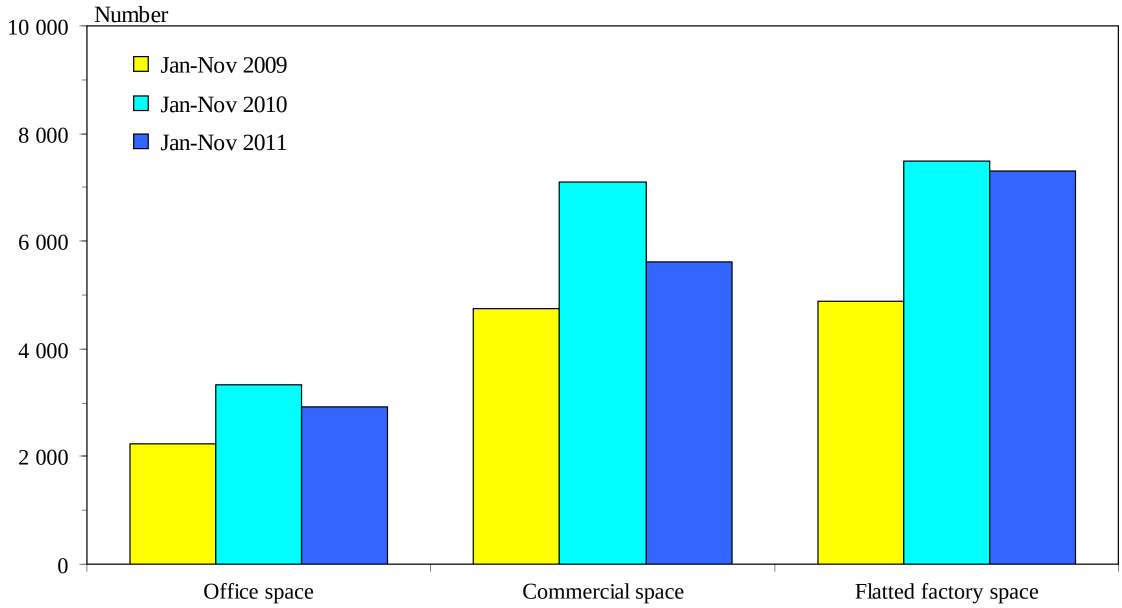
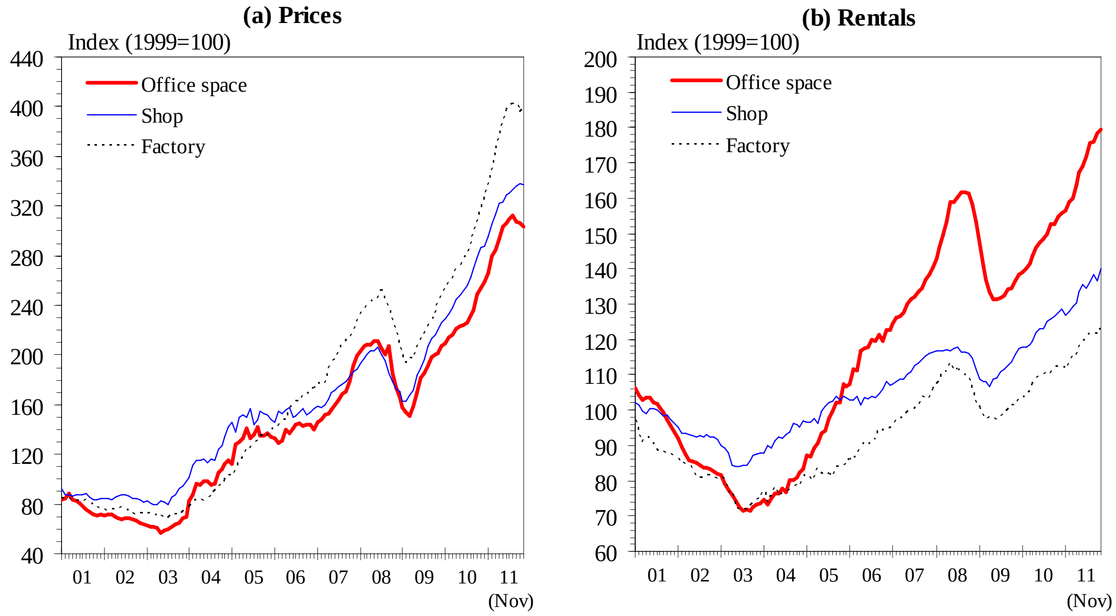


Diagram 4.6: Prices and rentals of non-residential properties rose rapidly during the first three quarters, but showed signs of tapering thereafter



Land

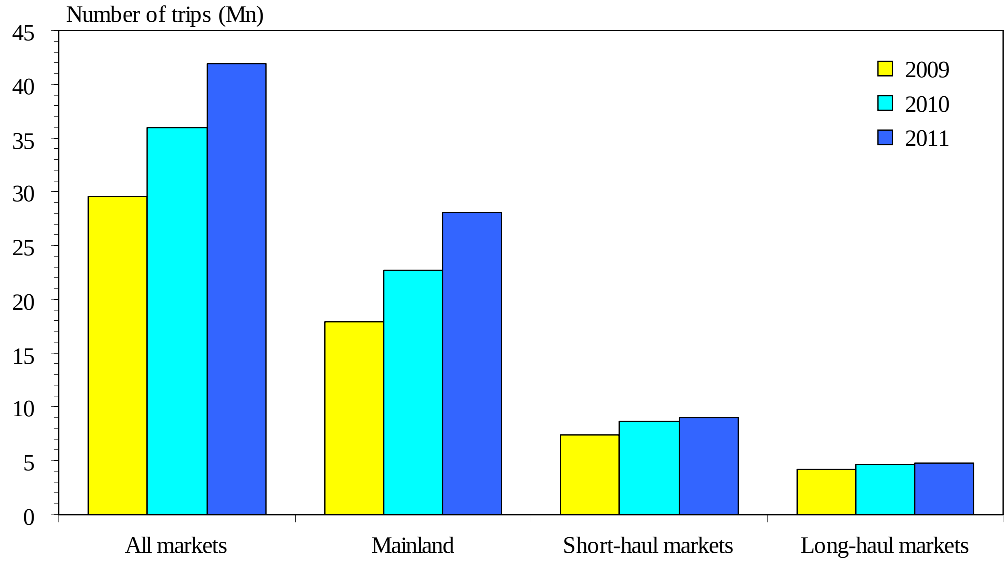
4.13 Reflecting the ongoing Government efforts to increase land supply, 33 land sites with a total area of 25.9 hectares were sold in 2011, fetching land premium of $59.8 billion in total. Among these sites, 21 were residential, residential/commercial and residential/commercial-cum-hotel sites, six were commercial/business sites, three were petrol filling stations and three were hotel sites. In December, the tender exercises for two residential sites in Tseung Kwan O and Tuen Mun and one logistics services site in Tsing Yi also commenced.

4.14 Regarding exchange of land, 10 sites with a total area of 26.0 hectares were approved in the year. Among the approved cases, six were designated for private residential property development. As to lease modifications, 71 sites were approved, of which 39 were for residential use.

Tourism

4.15 The inbound tourism sector stayed sturdy in 2011, though performance of different market segments was mixed. Overall *visitor arrivals* leapt by another 16.4% to a record 41.9 million. The Mainland market remained the principal growth impetus, with visitor arrivals from this source surging by 23.9% to 28.1 million, and accounting for 67% of the total. The growth momentum in visitors from the other markets, especially those from the US and Europe, was however far less impressive. Mirroring this, visitor arrivals from the long-haul markets only edged up by 1.7% while those from the short-haul markets rose by a moderate 4.6%(4). Analysed by length of stay, the growth in same-day visitors, at 24.8%, continued to outpace that of overnight visitors, at 9.7%. As a result, the share of same-day visitors in total arrivals picked up further from 44.3% in 2010 to 47.4% in 2011, while the share of overnight visitors declined from 55.7% to 52.6%.

Diagram 4.7 : Incoming tourism stayed sturdy on the back of a surge in Mainland visitors



Note : (*) See note (4) at the end of this chapter for the definition of short-haul and long-haul markets.

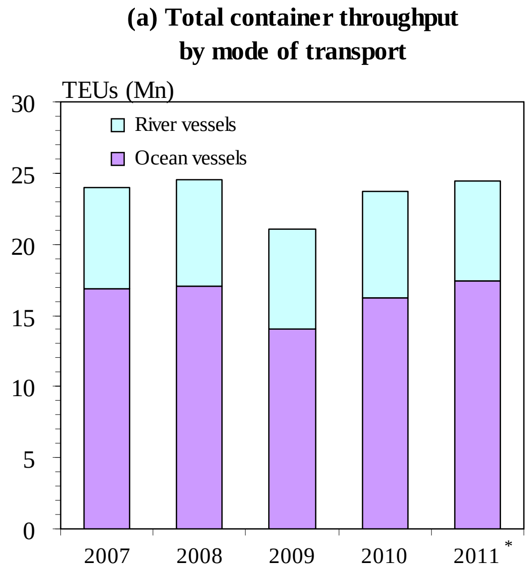
4.16 The average hotel room occupancy rate climbed further from 86% a year earlier to 89% in the first eleven months of 2011, and the average achieved hotel room rate jumped by 16.4% over the same period to $1,339[(5)]. In tandem with the surge in visitors, visitor spending as reflected by the exports of travel services had another year of strong growth (paragraph 1.4), thereby providing an important growth source to the local economy at a time when external trade was severely affected by the fragilities in the advanced economies.

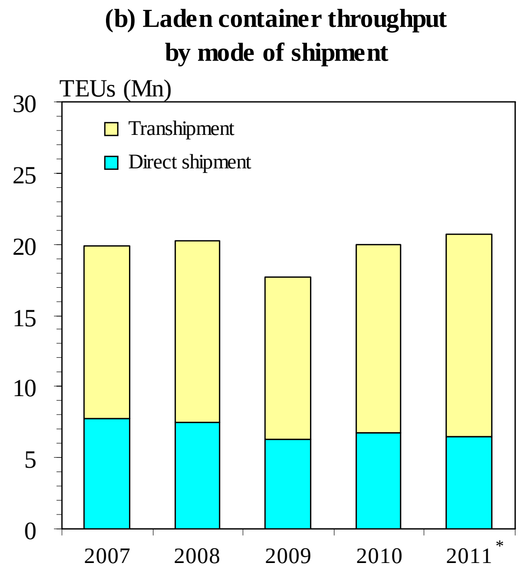
4.17 Following the earlier public consultation, in December the Government announced the proposed way forward for reforming the regulatory regime of the tourism sector. To instil a higher degree of independence, credibility and transparency of the current regulatory framework, the Government proposed to set up an independent statutory body, tentatively named the Travel Industry Authority, with non-trade members constituting the majority of its Board, as the overall regulatory body to perform the current regulatory and licensing functions of the Travel Industry Council of Hong Kong and the Travel Agents Registry. The Government also proposed to raise the minimum capital requirement for Travel Agents Licences and to introduce a statutory licensing system for tourist guides and tour escorts to help sustain a healthy development of the sector. The Government targets to introduce draft new legislation into the Legislative Council in about two and a half years.

Logistics

4.18 The logistics sector was more severely affected by the slowdown in external trade. *Total container throughput* grew by a mild 3.0% to 24.4 million TEUs in 2011. Within the laden container throughput, transhipment increased by 7.7% while direct shipment actually fell by 4.5%. The value of trade handled at the Hong Kong Port rose by 10.0%, but its share in overall trade value edged down from 26.9% in 2010 to 26.7% in 2011.

Diagram 4.8: Container throughput registered modest growth

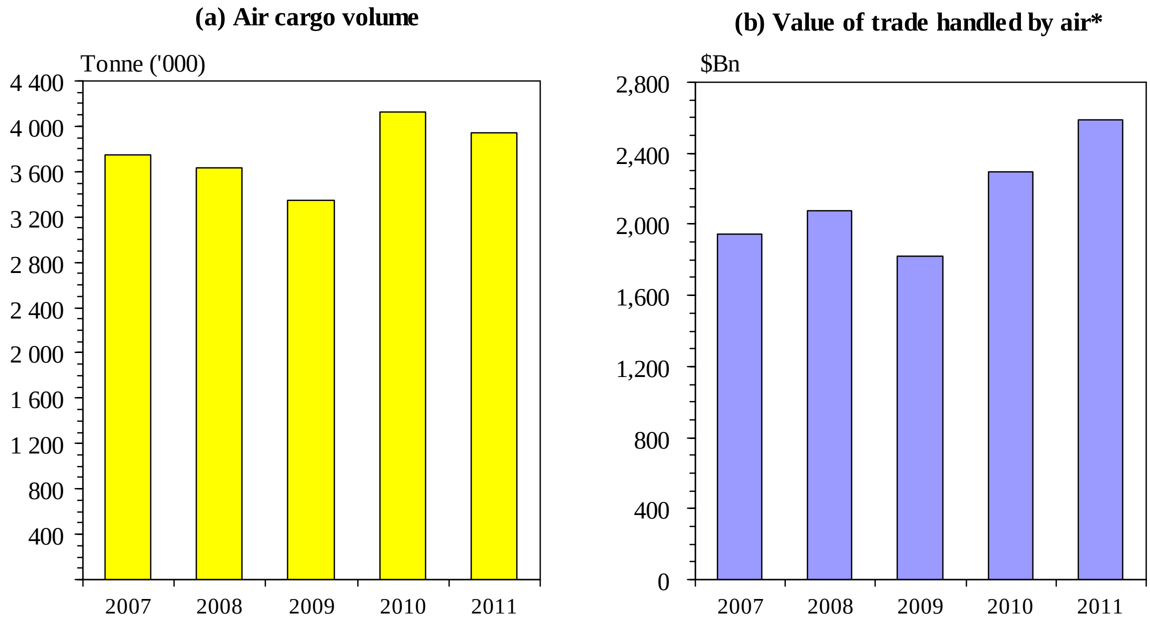




Note : (*) Total container throughput for 2011 is the preliminary estimate by Hong Kong Port Development Council. Its breakdowns by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first ten months of 2011.

4.19 *Air freight throughput* contracted by 4.6% to 3.9 million tonnes in 2011, similarly affected by the fall-off in trade in the second half of the year. Also relevant were the temporary disruptions in air cargo to/from Japan after the earthquake and nuclear crisis in March. The total value of trade by air still expanded by 12.9% in 2011, and its share in overall trade value climbed further from 35.8% to 36.4%.

Diagram 4.9 : Air cargo volume declined but the value of trade by air rose further



Note : (*) Not including transhipment.

Transport

4.20 Traffic flows for most major modes of transport recorded solid growth in 2011. Air passenger traffic rose by 5.9% to 53.9 million, and water-borne passenger trips by 5.5% to 27.3 million. As to land-based cross-boundary traffic movements, average daily passenger trips notched up by 4.8% to 522 200 while average daily vehicular movements edged down by 0.8% to 42 800.

4.21 Further progress was achieved in several transport infrastructure projects in 2011. For cross-boundary projects, construction of the Hong Kong-Zhuhai-Macao Bridge (HZMB) Hong Kong Boundary Crossing Facilities (HKBCF) commenced in late 2011. Located at the north-eastern waters off Hong Kong International Airport and linked to the strategic road network leading to the New Territories, the HKBCF will provide efficient and convenient services to inbound and outbound passengers and vehicles, and also serve as a strategic multi-modal transportation hub for Hong Kong, Zhuhai and Macao. The HKBCF is expected to complete for commissioning the HZMB Main Bridge in 2016.

4.22 On the domestic front, the first and second stage amendments to the railway scheme of the Shatin to Central Link were gazetted in July and November respectively to take into account the views and concerns of the public and stakeholders. The Government plans to complete the statutory process in early 2012 with a view to commencing the construction works within 2012. Separately, the construction works for the South Island Line (East) and Kwun Tong Line Extension commenced in mid-2011 for completion by 2015.

Creativity and innovation

4.23 The West Kowloon Cultural District (WKCD) Authority exhibited information on the proposed Development Plan (DP) for the WKCD in the Stage 3 Public Engagement exercise during September to October 2011. There was strong support for the overall layout of the proposed DP as well as the early implementation of the WKCD project. The DP, based on the "City Park" concept proposed by Foster+Partners and taking into account views from the public and stakeholders, was submitted to the Town Planning Board on 30 December 2011 for consideration. The statutory planning process is targeted to complete in early 2013. To commence construction works once the process is completed, the WKCD Authority is preparing for design competitions for a number of signature facilities in the WKCD.

Environment

4.24 The Motor Vehicle Idling (Fixed Penalty) Ordinance came into effect on 15 December 2011. Under the Ordinance, drivers are prohibited from leaving their vehicle engines idling for more than three minutes in any 60-minute period except under certain traffic or weather conditions or for some motor vehicles that require engines to be kept on for proper operation or reasonable service requirements. Through banning unnecessary idling of engines, the Ordinance can effectively reduce the air pollution, heat and noise nuisances generated at roadside.

Notes :

(1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011.

(2) On 10 October 2011, the Steering Committee on the Regulation of the Sale of First-hand Residential Properties by Legislation submitted its recommendations on how to regulate the sale of first-hand residential properties by legislation, including the scope of the legislation, requirements on the sales brochure, price lists, sales arrangements, sales order and show flats, prohibition of misrepresentation, the nature and levels of penalties and the proposed set up of an enforcement agency.

(3) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.

(4) Short-haul markets refer to North Asia, South & Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In 2011, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 67%, 22% and 11% of total visitors.

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