

CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

Summary

- *Amid the low interest rates and a tight demand-supply balance of flats, the residential property market was buoyant in most part of 2012. Market sentiment reached a high in September upon the announcement of further monetary easing measures in the major advanced economies, before showing some cool-off in November after the Government introduced further measures to combat speculation and manage demand from non-local buyers. Overall flat prices surged by a cumulative 25% during the year.*
- *Raising flat supply through increasing land supply has been the Government's top policy priority in ensuring a healthy and stable property market. Much work has also been done in 2012 to manage demand and reduce the possible risks to financial stability arising from an exuberant property market. In the 2013 Policy Address the Chief Executive outlined a number of measures to increase housing and land supply.*
- *The commercial and industrial property markets were likewise buoyant. Prices showed hefty gains, along with a rebound in trading activities especially in the latter part of the year. Rentals also recorded solid gains, particularly for shop rentals which were well underpinned by vibrant inbound tourism and ongoing strength in the local consumption market.*
- *Inbound tourism continued to record sturdy performance in 2012, with the Mainland market remaining the major growth impetus. Total visitor arrivals surged by another 16.0% to a record high of 48.6 million.*
- *The logistics sector was generally subdued, but showed some improvement towards the year-end along with the pick-up in external trade. Container throughput declined by 5.2% while air freight throughput expanded by a modest 2.2% for 2012 as a whole.*

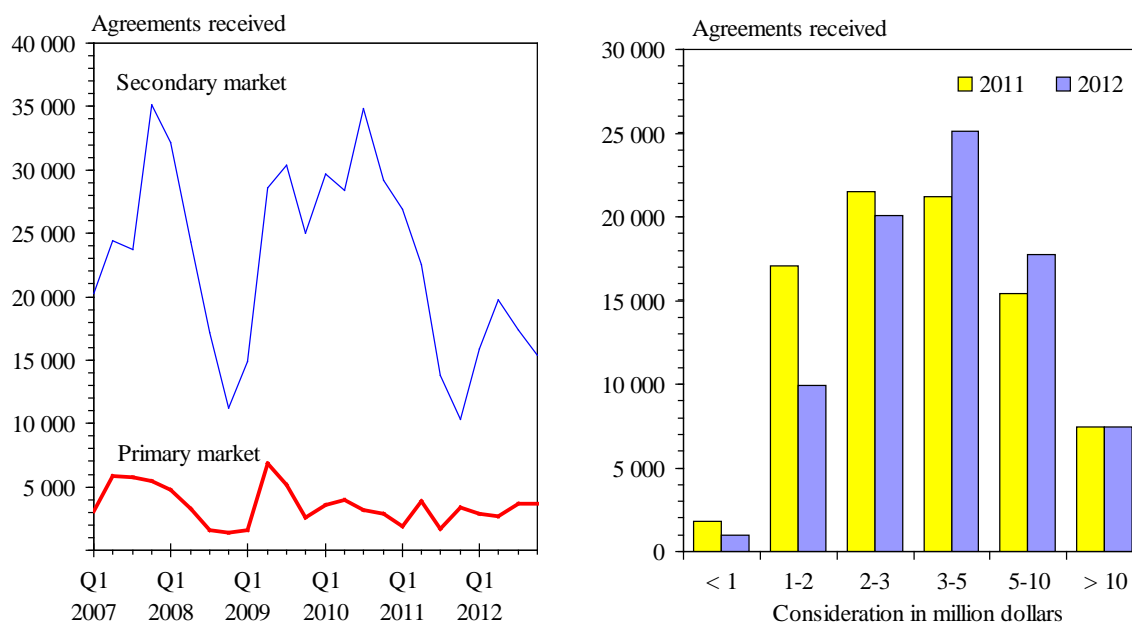
Property

4.1 Amid the environment of abundant liquidity with exceptionally low interest rates and a tight demand-supply balance of flats, the *residential property market* was buoyant in most part of 2012. After entering the year on a soft note, the market picked up momentum starting February, with sentiment reaching a high in September upon the announcement of another round of

monetary easing measures by the US Federal Reserve and other central banks in the major advanced economies. The market then showed some cool-off since November after the Government announced the enhanced Special Stamp Duty (SSD) to further curb speculation, and the Buyer's Stamp Duty (BSD) to manage demand from non-local buyers.

4.2 Trading activities gradually gathered momentum since February, before plummeting to very subdued levels after November. For the year as a whole, there were 81 333 sale and purchase agreements for residential property received by the Land Registry, slightly lower than the year before by 4%. Among the total, primary market transactions rebounded by 19% over the low base in 2011, while secondary market transactions fell by 7%. Yet total consideration edged up by 2% to \$452.3 billion due to rising property prices.

Diagram 4.1 : Trading activities gathered momentum over the course of the year before plunging in November

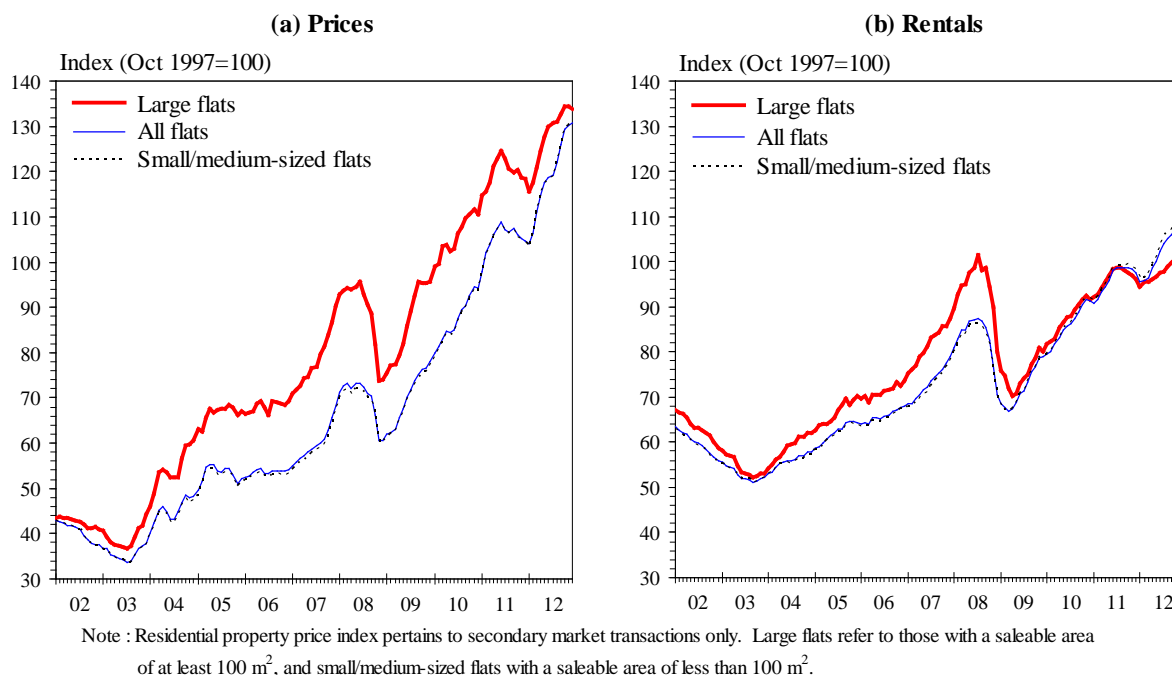


4.3 Overall flat prices surged by 25% in December 2012 over a year earlier, though the monthly increase has decelerated since November along with the plunge in transaction. Prices of small/medium-sized flats soared by 25% while prices of large flats also rose by a rapid 13%. Following the rally over the past few years, overall flat prices have surpassed the 1997 peak by a rampant 31%.

4.4 The leasing market was also buoyant, with overall flat rentals recording a marked gain of 11% in December 2012 over a year earlier. Rentals of small/medium-sized flats rose by 12%, faster than the 5% increase in rentals of large flats. Overall flat rentals have exceeded the 1997 peak by 9%.

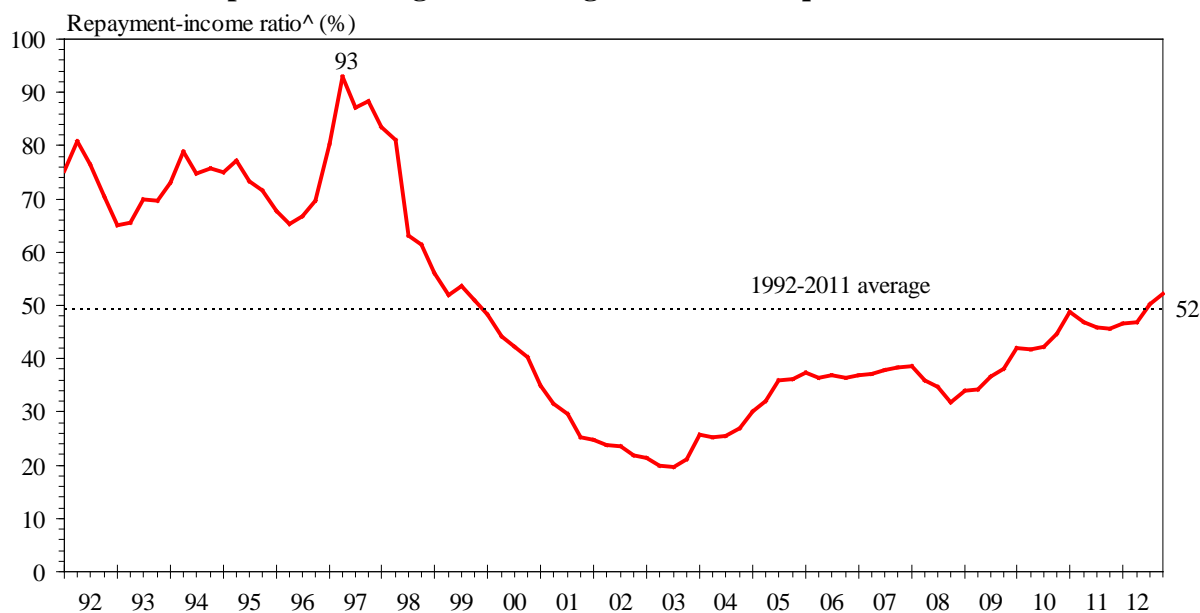
Reflecting the faster increase in prices than in rentals, the average rental yield for residential property declined further from 3.4% in December 2011 to 3.1% in December 2012.

Diagram 4.2 : Both flat prices and rentals surged further



4.5 As the surge in flat prices continued to outpace income growth, 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) worsened from 46% a year earlier to 52% in the fourth quarter of 2012, exceeding the long-term average of 49.3% over 1992-2011. The risks of a housing market bubble thus remained elevated, especially so in face of the accommodative monetary policies of the major central banks and the resulting liquidity glut and possible capital inflow into Hong Kong.

Diagram 4.3 : The mortgage payment to income ratio surpassed the long-term average in the fourth quarter of 2012



Note : (^) The ratio of mortgage payment for a 45m² flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

4.6 The relatively tight supply of flats has been a major factor underpinning the buoyant property market. Completion of private residential flats was at a modest 10 100 units in 2012, though it was already 7% higher than in 2011. Completion net of demolition, at 7 600 units, was similar to the take-up of 7 800 units⁽¹⁾. As a result, the vacancy rate stayed at a low 4.3% at end-2012, same as a year earlier but below the long-term average of 5.0% over 1992-2011.

4.7 Raising flat supply through increasing land supply is the Government’s top policy priority in ensuring a healthy and stable development of the property market. To step up efforts in this direction, in August and September the Government rolled out a series of measures to increase land and flat supply, such as changing the use of various sites to residential use (**Box 4.1**)⁽²⁾. 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 62 000 units as estimated at end-2011 to 67 000 units as estimated at end-2012, the highest since 2007. In addition, another 9 000 units could be added to the supply after conversion of a number of residential sites into “disposed sites” and the completions of auction/tendering of some sites in the months ahead. In the 2013 Policy Address, the Chief Executive also announced a number of short, medium and long term measures to raise housing and land supply (**Box 4.2**).

4.8 Before the supply side measures can fully redress the tight demand-supply balance of flats, the Government also puts strong emphasis on

managing demand and reducing the possible risks to financial stability arising from an exuberant property market. In September the Hong Kong Monetary Authority (HKMA) introduced the fifth round of macro-prudential measures to strengthen the risk management of the banking sector's mortgage lending business. In October the Government announced an enhancement of the SSD to further curb speculative activities and the introduction of a BSD to accord priority to the housing needs of Hong Kong permanent residents (HKPRs)⁽²⁾.

Box 4.1

Key Government measures on the property market in 2012

To ensure a healthy and stable development of the property market, the Government rolled out several rounds of measures in 2012.

(1) Ensure sufficient and steady land and flat supply

- In August and early September the Government announced a series of short and medium-term measures, such as selling flats under the My Home Purchase Plan at discounted prices, selling unsold Home Ownership Scheme flats, expediting the approval for pre-sale applications for uncompleted flats and changing the use of various sites to residential uses.
- In September the Government announced the implementation of the Hong Kong Property for Hong Kong People measure to give priority to the housing needs of Hong Kong permanent residents (HKPRs). For selected land sale sites, the sale and re-sale of flats built on these sites will be restricted to HKPRs for 30 years through land sale conditions.
- The Government established a two-tier institutional framework for the Long Term Housing Strategy, comprising the Steering Committee and the inter-departmental Working Group. The Government planned to publish a report and consultation paper in the second half of 2013 with recommendations for measures.

(2) Prevent excessive growth in mortgage lending

- To strengthen the risk management of the banking sector's mortgage lending business, the HKMA introduced a further package of macro-prudential measures, the fifth since October 2009, immediately following the US Federal Reserve's announcement of another round of quantitative easing measure in mid-September. These measures included standardising the maximum loan tenor for all new property mortgage loans to 30 years and further tightening debt servicing ratio and loan-to-value ratio for mortgage loan applicants with outstanding mortgage loans.

(3) Combat speculative activities

- In October the Government announced an enhancement of the SSD to further curb speculative activities. The restriction period was extended from two years to three years. The SSD rates were raised to 20% for resale within six months; 15% for resale for more than six months but 12 months or less; and 10% for resale more than 12 months but 36 months or less.

(4) Manage demand from non-HKPR buyers

- Together with the enhancement of the SSD, in October the Government also introduced the BSD targeting at non-HKPR buyers to ensure that the housing needs of HKPRs are accorded priority in a tight supply situation. A rate of 15% would be charged for all residential properties acquired by any person or entity except a Hong Kong permanent resident.

Box 4.2

Latest Government measures on housing and land supply (January 2013)

In the 2013 Policy Address, the Chief Executive stated the objectives of the Government's housing policy, and announced a number of measures regarding housing and land supply.

(I) *Housing Policy*

The four objectives of housing policy are to: (i) assist grassroots families to secure public housing to meet their basic housing needs; (ii) assist the public to choose accommodation according to their affordability and personal circumstances, and encourage those who can afford it to buy their own homes; (iii) provide subsidised home ownership flats on top of public rental housing (PRH) so as to build a progressive housing ladder; and (iv) maintain the healthy and steady development of the private property market, with priority to be given to meet Hong Kong permanent residents' needs. The following paragraphs summarise the key measures to achieve these objectives.

(1) Increasing supply of subsidised housing in short to medium term

- As a target, build at least 100 000 units of PRH over the five years starting 2018.
- Set aside a site in Sha Tin for the Hong Kong Housing Society (HKHS) to develop a subsidised housing project, and allocate a site in Sha Tau Kok for rental housing development by the HKHS, together providing about 1 000 units.
- Examine all projects in the pipeline and increase the plot ratio as appropriate.
- The Housing Department will step up its efforts to combat the abuse of PRH resources. Together with the PRH flats surrendered voluntarily by tenants, on average a net number of about 7 000 units will be recovered every year. With another 15 000 or so new flats completed, there will be more than 22 000 PRH flats available for allocation a year.
- Offer about 2 100 new home ownership scheme (HOS) flats for pre-sale in end-2014.
- Earmark four pieces of land in Tai Po, Diamond Hill, Choi Hung and Ma On Shan originally reserved for the My Home Purchase Plan for new HOS development.

(2) Long-term Housing Strategy

The Long Term Housing Strategy Steering Committee is undertaking a comprehensive review of public and private housing demand, including the demand for rental housing and home ownership, and devising a new long-term housing strategy. Also, the Committee will assess the medium and long-term housing needs of different social strata and groups, set priorities and make long-term plans. The Committee will publish a public consultation paper in mid-2013.

(II) *Land Supply*

The Government will continue to adopt a multi-pronged approach to expand the land resources and step up its efforts to meet housing and other needs. The Government will take a number of strong measures to increase housing land supply in the short to medium term and take forward a number of long-term land supply projects.

(1) Increasing supply of housing land in short to medium term

The Chief Executive announced 10 measures to increase residential land supply in the short to medium term. Among these, the seven measures below would make available over 300 hectares of land for the construction of about 128 700 residential flats in the

Box 4.2 (Cont'd)

short to medium term, based on already known information.

- Use 36 Government, Institution or Community (GIC) sites and other Government sites measuring 27 hectares for housing development to provide about 11 900 flats.
- Rezone 13 sites measuring 57 hectares which are devegetated, deserted or formed in Green Belt areas for residential use to provide about 23 000 units.
- Rezone 16 sites measuring 30 hectares of industrial land for residential use to provide about 20 400 units.
- Take forward the planning for residential development at Kam Tin South West Rail Kam Sheung Road Station and Pat Heung Maintenance Depot, with about 33 hectares of land to provide about 8 700 flats.
- The Urban Renewal Authority will supply approximately 4.9 hectares of land under its development projects, which will be mainly used for residential development to provide about 4 700 flats.
- Over the past three years, the Town Planning Board has approved 57 Planning applications relating to residential development. Excluding two sites identified in the last round of review of industrial land, the remaining 55 applications involve a total area of about 130 hectares and are expected to provide over 45 000 flats when the projects are fully implemented.
- Expedite four development projects, including the former Diamond Hill Squatter Areas, former Cha Kwo Ling Kaolin Mine, former Lamma Quarry and Anderson Road Quarry, to provide about 27 hectares of residential land for the construction of about 15 000 public and private residential units.

(2) Long-term Land Supply

The Government will take forward the following large-scale new development projects as soon as possible.

- The North East New Territories New Development Areas (NDAs) to provide about 533 hectares of developable land, including housing land for 53 800 units.
- The Hung Shui Kiu NDA to provide over 400 hectares of developable land according to preliminary assessment.
- Study the feasibility of taking forward further development of the New Territories North, with a view to developing a modern new town on a similar scale of the Fanling or Sheung Shui New Towns.
- Expedite the review of agricultural land in North District and Yuen Long which is currently used mainly for industrial purposes or temporary storage, or is deserted, for housing development.
- Explore the potential of developing Tung Chung into a new town with more comprehensive and better developed community facilities, and continue to explore the development potential of Lantau Island and areas along the trunk routes in New Territories West.
- Reclaim on an appropriate scale outside Victoria Harbour to build up the land reserve and make available around 2 000 to 3 000 hectares of land.
- Explore the feasibility of using rock cavern and underground space development as sources of land supply.

These measures should help achieve the Government's housing objectives and increase the land supply. The Government will continue to monitor the situation and introduce further measures when necessary.

4.9 These measures have yielded noticeable results. On *speculative activities*, there were on average only 25 confirmor transactions per month in 2012, representing a meager 0.3% of total transactions. This was much lower than the average of 318 cases or 2.4% in January to November 2010. Resale within 24 months after assignment also decreased through the year, to an average of only 315 cases per month or 4.6% of total transactions in the fourth quarter, much lower than the average of 2 343 cases or 17.6% in January to November 2010. Reflecting the effects of the BSD, *purchases by overseas individuals and overseas companies* plunged to 61 cases in December, 83% lower than the monthly average of 365 cases in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new residential mortgages in 2012, at 55%, was lower than the average of 64% in January to October 2009 before the first round of prudential measures for residential property mortgage lending was introduced by the HKMA.

Diagram 4.4 : Speculative activities were sharply curtailed

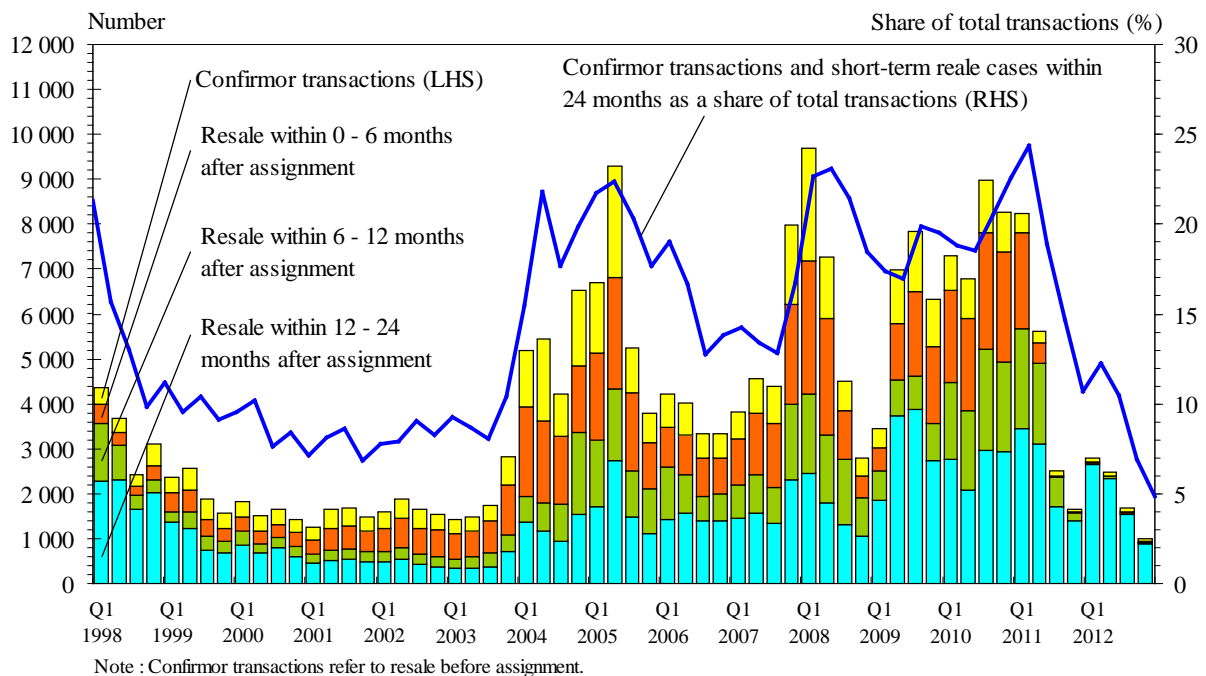
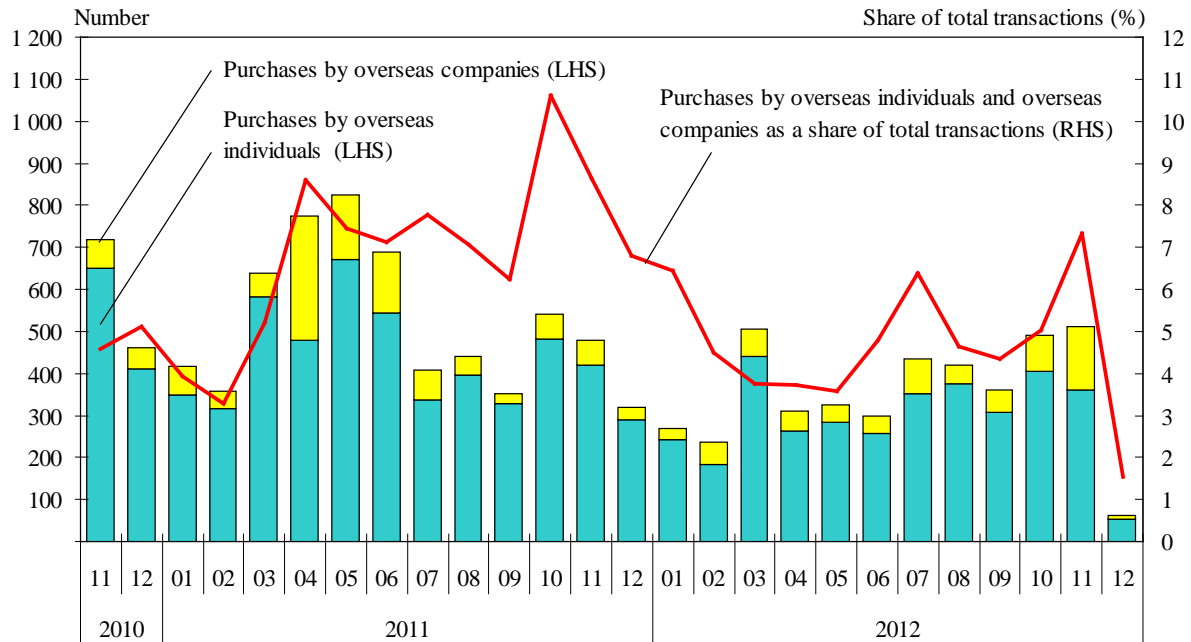


Diagram 4.5 : Purchases by overseas buyers plunged after the introduction of BSD



4.10 Much work has also been done in improving the *transparency of the residential property market*. The Residential Properties (First-hand Sales) Ordinance was enacted in July 2012. The Government is setting up an enforcement authority under the Transport and Housing Bureau. The enforcement authority will start enforcing the legislation in end of April 2013.

4.11 The *commercial and industrial property markets* were generally buoyant in 2012. Sale prices of *retail shop space* soared by 39% between December 2011 and December 2012 while rentals rose by 12%. As a result of the much faster rise in prices than in rentals, the average rental yield for retail shop space fell further from 2.9% in December 2011 to a record low of 2.3% in December 2012. As to trading, average transactions for retail shop space rebounded by 23% to an average of 615 cases per month in 2012⁽³⁾, mostly attributable to the surge in the latter part of the year. Yet this was still 5% lower than the average monthly transactions in January to November 2010 (i.e. before the introduction of the SSD on residential property). Take-up of retail shop space amounted to 165 000 m² in 2012, much higher than the completion of 90 100 m². As a result, the vacancy rate declined visibly from 8.0% at end-2011 to 6.9% at end-2012, the lowest level since 1994.

4.12 Overall prices of *office space* surged by another 23% between December 2011 and December 2012. Prices of Grade A, B and C office space surged by 17%, 23% and 29% respectively. Overall office rentals increased by a less rapid 7% over the period, with Grade A, B and C office space registering similar gains of 7%, 9% and 9% respectively. The average rental yield for

Grade A and B office space both declined from 3.3% in December 2011 to 3.0% in December 2012, and that for Grade C office space from 3.4% to 2.9%. Thanks to the buoyant trading in the second half, transactions for office space rebounded by 9.4% to an average of 280 cases per month for 2012 as a whole. This was however still 7% lower than the level in January to November 2010. Take-up and completion of office space amounted to 182 600 m² and 135 700 m² respectively in 2012. The vacancy rate declined further from 6.5% at end-2011 to 6.0% at end-2012, the lowest level since 1989.

4.13 Similarly, prices of *flatted factory space* surged by 44% between December 2011 and December 2012 while rentals rose by 13%. The average rental yield plunged from 3.7% to a record low of 3.0%. Transactions for flatted factory space increased sharply by 30% to an average of 824 cases per month in 2012. This was also 21% higher than the average in January to November 2010. Take-up of flatted factory space, at 150 600 m² in 2012, much exceeded completion, at 46 200m². In consequence, the vacancy rate of flatted factory space fell further from 6.0% at end-2011 to 5.0% at end-2012, the lowest level since 1988.

Diagram 4.6 : Prices and rentals of non-residential properties surged further

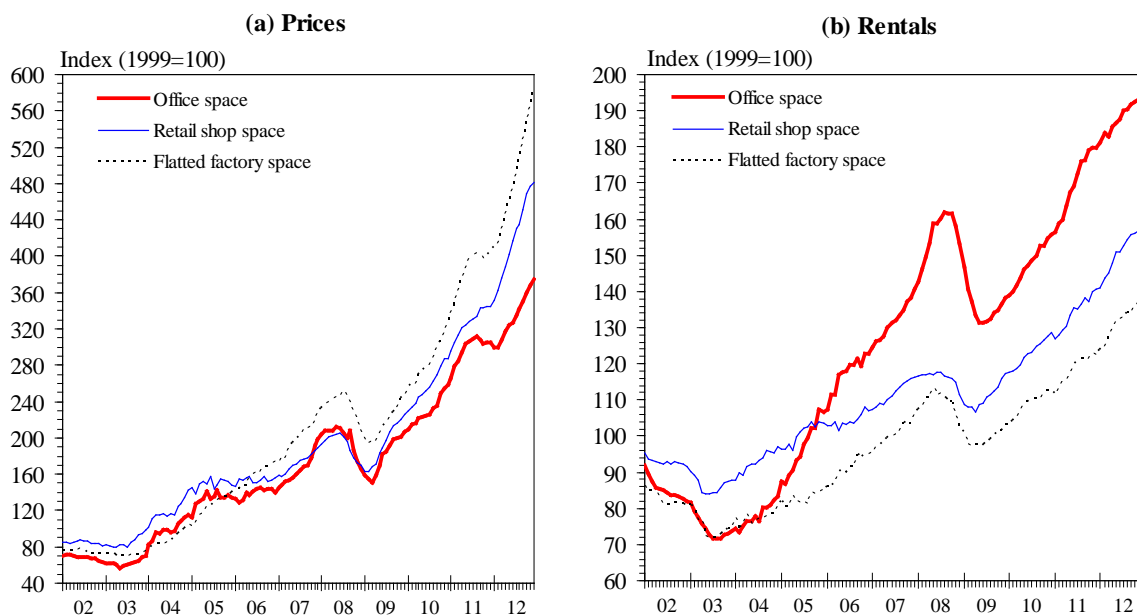
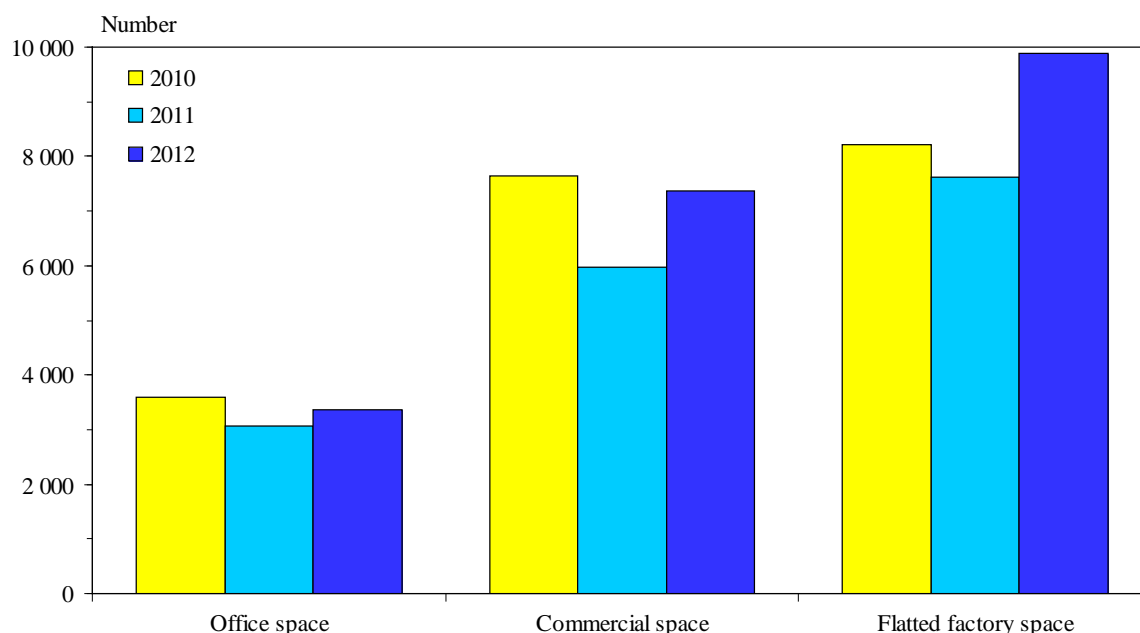


Diagram 4.7 : Transactions for commercial and industrial properties rebounded



Land

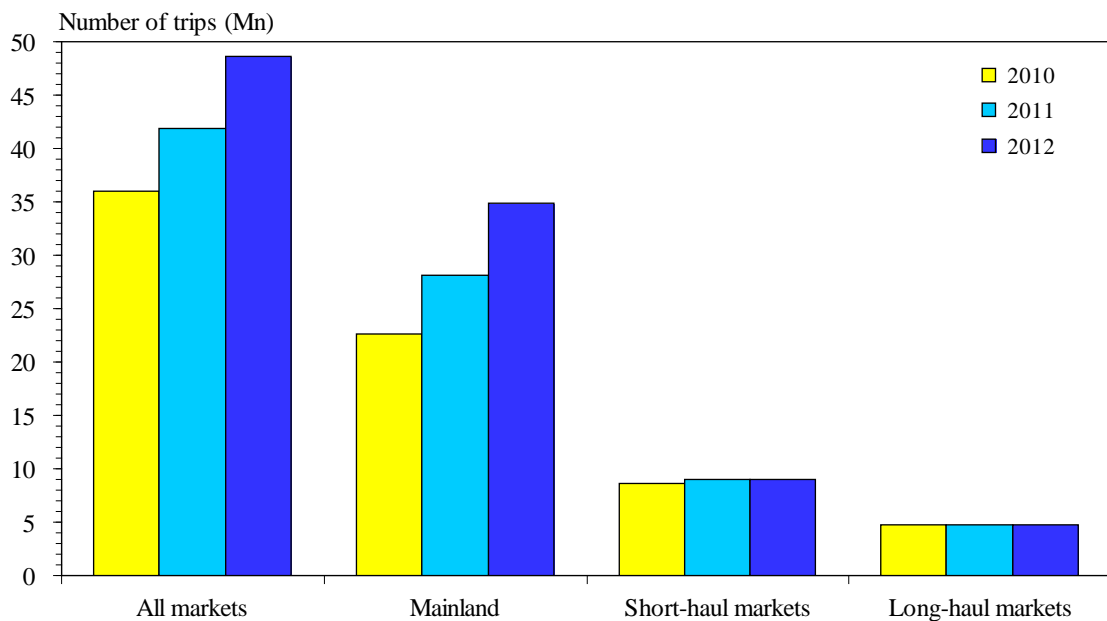
4.14 Reflecting the Government efforts to increase land supply, 27 sites with a total area of about 29.7 hectares were disposed in 2012, fetching land premium of \$45.1 billion in total. Among these sites, there were 20 residential sites, two residential and commercial sites, one business site, one commercial site and three sites for other uses. In November and December, the tender exercises for three residential sites in Sha Tin, Sai Kung and Tuen Mun also commenced.

4.15 Regarding exchange of land, 13 sites with a total area of about 12.2 hectares were approved in 2012, of which four were residential sites. As to lease modifications, a total of 66 sites were approved.

Tourism

4.16 The inbound tourism sector remained sturdy in 2012, though performance varied across different market segments. Overall *visitor arrivals* grew by another 16.0% to a record high of 48.6 million. Visitor arrivals from the Mainland remained the major source of growth, surging by another 24.2% to 34.9 million and accounting for 71.8% of all visitor arrivals. Meanwhile, visitor arrivals from the short-haul and long-haul markets recorded declines of 1.0% and 0.6% respectively⁽⁴⁾. Analysed by the length of stay, same-day visitors grew by 26.7%, faster than the 6.5% growth in overnight visitors. As a result, the share of same-day visitors rose further from 46.8% to 51.1%, while the share of overnight visitors declined from 53.2% to 48.9%.

Diagram 4.8 : Mainland market remained the principal growth impetus to inbound tourism



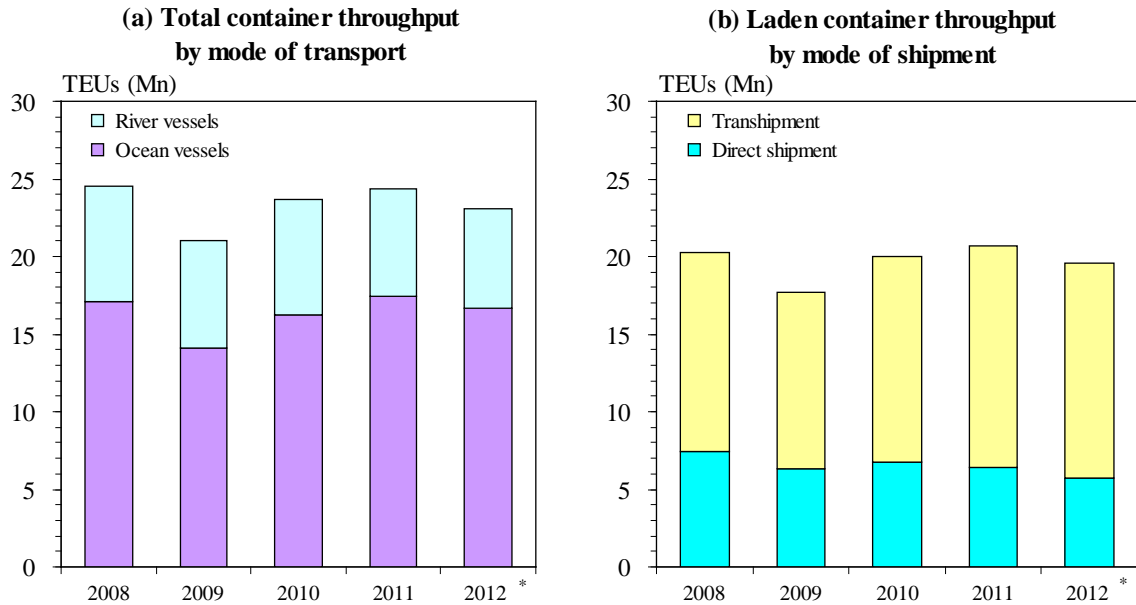
Note : (*) See note (4) at the end of this chapter for the definition of short-haul and long-haul markets.

4.17 Supported by the strong growth in visitor arrivals, the hotel room occupancy rate stayed at a high 89% in 2012, same as in the preceding year. Over the period, the average achieved hotel room rate rose by 9.8% to \$1,489⁽⁵⁾.

Logistics

4.18 The logistics sector was subdued in most part of 2012, but showed some improvement towards the year-end along with the pick-up in external trade. Taking the year as a whole, *total container throughput* declined by 5.2% to 23.1 million TEUs. Within the laden container throughput, transshipment edged down by 2.1% while direct shipment fell by 11.9%. The value of trade handled at the Hong Kong Port fell by 4.6%, leading to a further decline in its share in overall trade value, from 26.7% in 2011 to 24.6% in 2012.

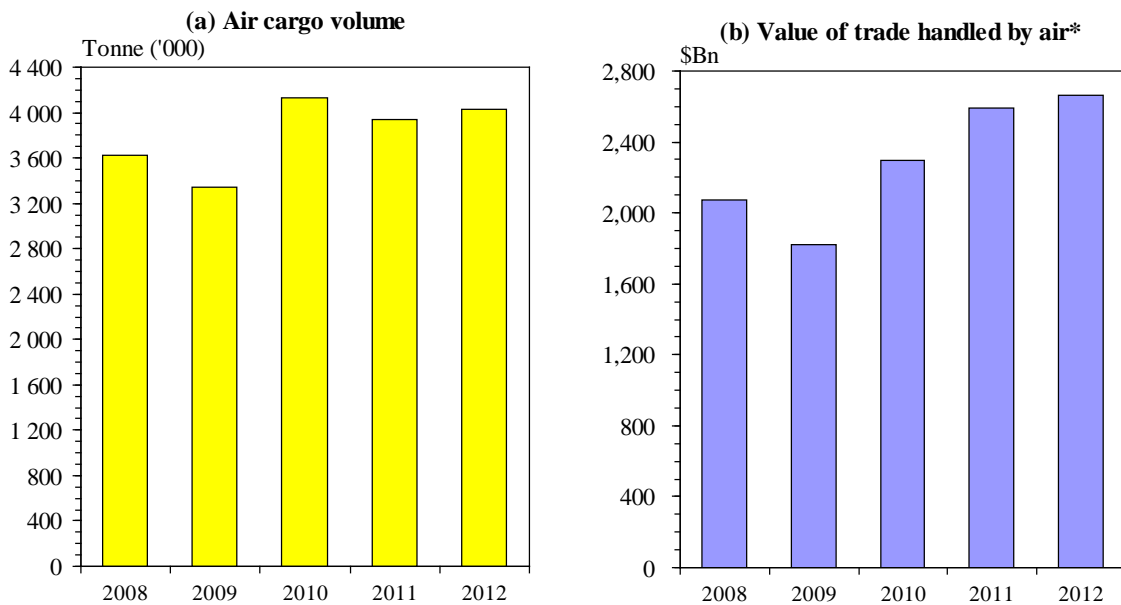
Diagram 4.9 : Container throughput showed some decline



Note : (*) Total container throughput for 2012 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 2012.

4.19 Air cargoes had a slightly better performance by comparison. Thanks to the rebound in the fourth quarter, *air freight throughput* expanded by a modest 2.2% to 4.0 million tonnes for 2012 as a whole. The total value of trade by air expanded by 2.9%, though its share in overall trade value edged down from 36.4% to 36.2%.

Diagram 4.10 : Both air cargo volume and the value of trade by air recorded modest growth



Note : (*) Not including transshipment.

Transport

4.20 Traffic flows for major modes of transport showed mixed performance in 2012. Air passenger traffic increased by 4.7% to 56.5 million while water-borne passenger trips were little changed at 27.4 million. As to land-based cross-boundary traffic movements, average daily passenger trips rose by 6.3% to 553 500 while average daily vehicular movements edged down by 0.5% to 42 400.

4.21 The Government has undertaken to review the Fare Adjustment Mechanism (FAM) of the MTR Corporation Limited (MTRCL). To gauge public views on the subject, the Government conducted a public consultation exercise from September to November. The Government plans to complete the review and discussions with MTRCL in early 2013, so that the new FAM can be applied in the MTR fare adjustment in 2013.

Environment

4.22 In November the Hong Kong-Guangdong Joint Working Group on Sustainable Development and Environmental Protection (JWGSDEP) endorsed a major air pollutant emission reduction plan for up to 2020 for the Pearl River Delta region. To achieve the emission reduction targets for 2015 and 2020 and bring continuous improvement to the regional air quality, the two governments will implement additional emission reduction measures focusing on major emission sources, such as tightening of vehicle emission standards. The JWGSDEP also agreed on other key environmental co-operation areas for 2013, including promoting cleaner production, protecting the water environment and managing forestry and marine resources.

4.23 To improve air quality, in the 2013 Policy Address the Chief Executive proposed to set aside \$10 billion as subsidies to owners of over 80 000 heavily polluting pre-Euro and Euro I to III diesel commercial vehicles in order to progressively phase out these vehicles. The scheme will significantly reduce the emissions of particulates and nitrogen oxides from the vehicle fleet by 80% and 30% respectively. The Government also proposed to set a service life limit for newly registered diesel commercial vehicles at 15 years.

Notes :

- (1) Take-up figures represent the net increase in the number of units occupied. 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) 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, Box 3.1 in the Third Quarter Economic Report 2011. For further details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 of this report.
- (3) The figures on transaction and vacancy rate 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 2012, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 72%, 18% and 10% of total visitor arrivals.
- (5) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.