

CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

Summary

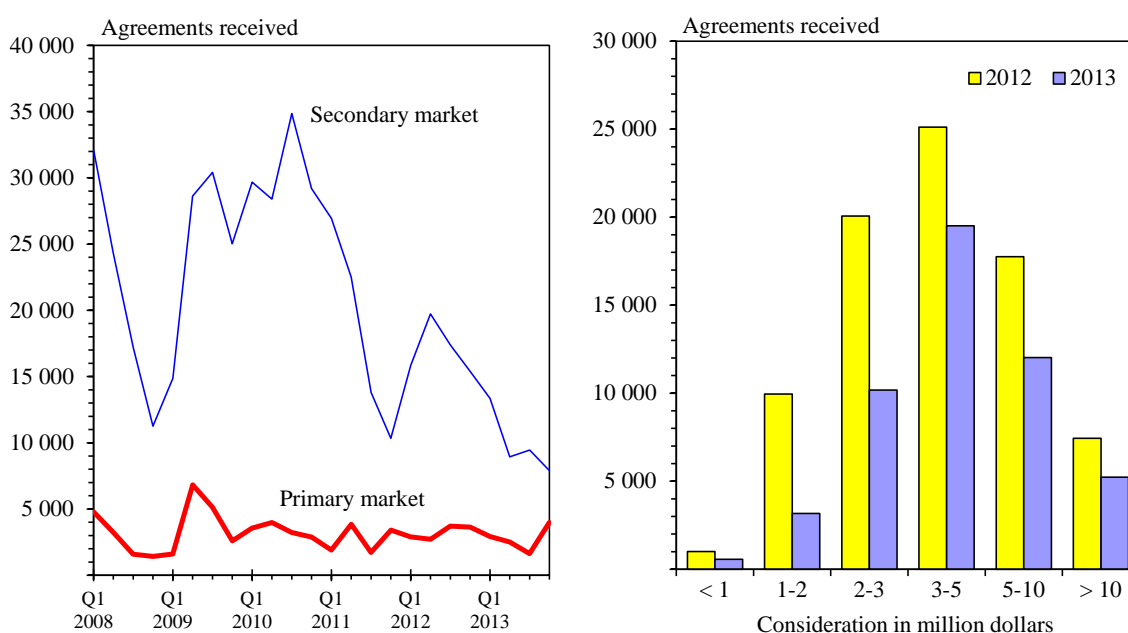
- *The residential property market has cooled off visibly since March 2013. While the Government's various counter-cyclical measures have helped manage short-term demand, market sentiment was also dented by expectations of the US Federal Reserve tapering its asset purchases. Trading activities plunged to subdued levels. With the uptrend decelerating noticeably, overall flat prices rose by 8% during 2013, the smallest annual increase in the current property market boom started in 2009.*
- *Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable development of the property market. Reflecting the Government's sustained efforts, total flat supply in the coming three to four years increased from 67 000 units at end-2012 to 71 000 units at end-2013. In the 2014 Policy Address, the Chief Executive also announced new initiatives and outlined the latest progress of the various on-going measures to increase the land and housing supply in the short, medium and long terms.*
- *The commercial and industrial property markets have likewise cooled off since March 2013. Trading activities turned very quiet. Prices and rentals recorded moderated increases or even slight declines in the second half of the year.*
- *Inbound tourism maintained strong growth in 2013. Supported by the Mainland market, total visitor arrivals recorded a notable increase of 11.7% to 54.3 million.*
- *Amid the challenging external trade environment, the logistics sector remained generally lacklustre in 2013. Yet there was some improvement in the latter part of the year along with the pick-up in trade flows. Container throughput declined by 3.7%, while air freight throughput grew modestly by 2.4%.*

Property

4.1 The *residential property market* has cooled off visibly since March 2013. While the Government's various counter-cyclical measures, the latest round introduced in late February 2013, have helped manage short-term demand, expectations of the US Federal Reserve tapering asset purchases also dented market sentiment in the second half of the year. Trading activities plunged to subdued levels, and the upward momentum in flat prices decelerated noticeably. In face of the market slowdown, many developers have adopted a conservative pricing strategy when launching new projects since the fourth quarter, offering various discounts and concessions.

4.2 Reflecting the subdued trading since March, the total number of sale and purchase agreements for residential property received by the Land Registry plunged by 38% to 50 676 in 2013, the lowest on record. Within the total, secondary market transactions plummeted by 42%, while primary market transactions declined by a lesser 15% as sales rebounded in the latter part of the year amid offers of substantial concessions by some developers. In tandem, total considerations plunged by 34% to \$298.9 billion in 2013. Transactions fell across all consideration ranges.

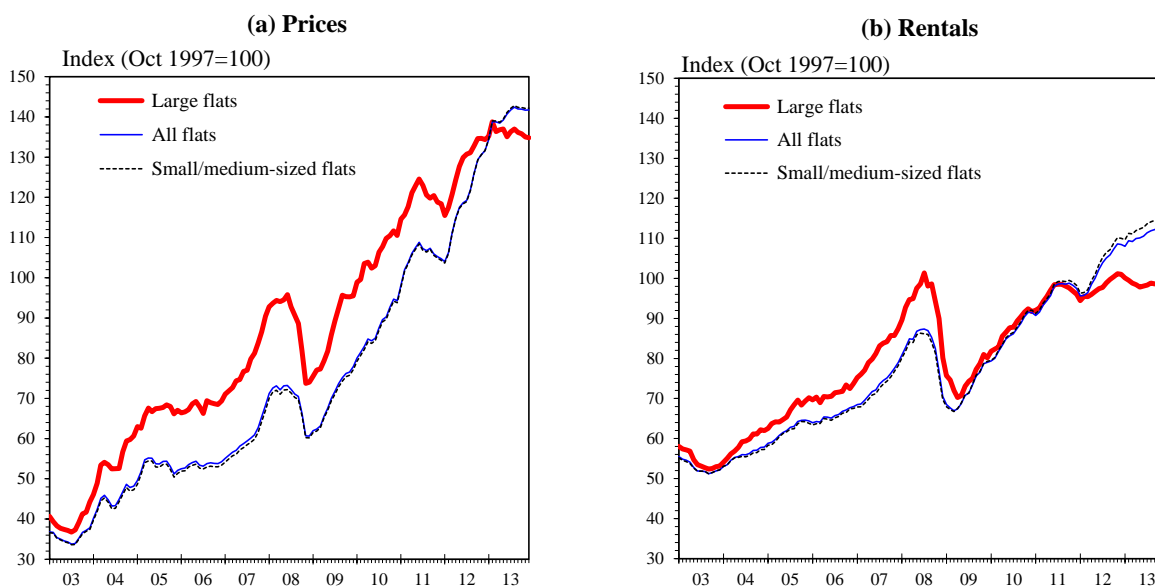
Diagram 4.1 : Trading activities were quiet in most of 2013



4.3 As buyers turned increasingly cautious, the rise in flat prices moderated noticeably from an average of 2.7% per month in January and February to 0.2% per month during March to December. Comparing December 2013 to December 2012, overall flat prices rose by 8%, the smallest annual increase in the current property market boom started in 2009. Analysed by size, prices of small/medium-sized flats rose by 8% during 2013, while prices of large flats only edged up by 0.4%. Nonetheless, following the rally in the past few years, overall flat prices in December 2013 still surpassed the 1997 peak by a sharp 42%.

4.4 The rise in rentals also decelerated in 2013. Between December 2012 and December 2013, overall flat rentals rose by a modest 3%. Rentals of small/medium-sized flats went up by 4%, while those of large flats declined by 3%. Overall flat rentals in December 2013 were 12% higher than the 1997 peak. Reflecting the faster increase in flat prices than in rentals, the average rental yield for residential property declined further from 3.0% in December 2012 to 2.8% in December 2013.

Diagram 4.2 : Uptrend of both flat prices and rentals moderated during 2013



Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m², and small/medium-sized flats with a saleable area of less than 100 m².

4.5 Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable development of the property market. The Government has abolished the Application Mechanism since 2013-14 to fully resume the lead in selling government land. Besides, the Government has been carrying out various land use reviews, including reviews on government land currently vacant, under Short Term Tenancies or different short-term or government uses, as well as review on Green Belt and industrial land. During the year, it has identified about 80 new sites that can be rezoned for residential use and made available in the next five years (i.e. from 2014-15 to 2018-19). Together with sites identified earlier, upon amendments to the respective statutory Outline Zoning Plans for change of use and/or increase in development intensity, about 150 potential housing sites could be made available for housing development in the coming five years for providing about 210 000 flats.

4.6 As a result of the Government's sustained efforts, the total supply of flats in the coming few years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) continued to increase, from 67 000 units as estimated at end-2012 to 71 000 units as estimated at end-2013. In addition, as at end-2013, another 16 800 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites". In the 2014 Policy Address, the Chief Executive also announced new initiatives and outlined the latest progress of the various on-going measures to increase the land and housing supply in the short, medium and long terms (**Box 4.1**).

4.7 Nonetheless, the demand-supply balance of the property market remains tight in the near term. According to the Rating and Valuation Department, the number of gross completions of private residential flats fell by 19% to 8 300 units in 2013. After netting out demolition of 1 600 units, the net completion of 6 700 units fell short of the take-up of 8 100 units⁽¹⁾. The vacancy rate declined from 4.3% at end-2012 to 4.1% at end-2013, the lowest level since 1997 and much below the long-term average of 5.0% over 1993-2012. The Rating and Valuation Department forecast completion at 17 600 units in 2014 and 12 700 units in 2015.

Box 4.1

Latest Government measures on land and housing supply

In the 2014 Policy Address, the Chief Executive announced further initiatives and outlined the latest progress of the various on-going measures to increase the land and housing supply, as summarised below.

(I) Land Supply

Over the past year, the Government has stepped up its efforts to boost land supply on various fronts. These include identifying through land use reviews about 80 additional sites with the potential to be rezoned for providing for some 89 000 residential units. Including sites identified earlier on, upon amendments to the respective Outline Zoning Plans, about 150 sites could be made available over the next five years (i.e. from 2014-15 to 2018-19) to provide around 210 000 units.

The Government is also taking forward the following new/on-going measures to increase the land supply over the short to medium term:

(1) Streamlining Procedures and Enhancing the Mechanism

- Continue to rationalise land administration processes, including consolidating the practice notes on granting approval under lease.
- Introduce a Pilot Scheme for Arbitration on Land Premium for lease modification/land exchange applications to facilitate early agreement on land premium payable.
- Set up a dedicated cross-disciplinary team to assist the Steering Committee on Land Supply chaired by the Financial Secretary in monitoring land supply and promoting land development.

(2) Increasing Development Intensity and Reducing Development Restrictions

- Increase the maximum domestic plot ratio currently permitted for some less densely populated areas by around 20% as appropriate.
- Increase the plot ratios and number of flats to be built on Kai Tak New Development Area and Tuen Mun East.
- Lift the development moratorium at south of Pok Fu Lam to provide about 11 900 additional public rental housing (PRH) and Home Ownership Scheme (HOS) units.

(3) Land Use Reviews, Development of Quarry Sites and Review of Deserted Agricultural Land

- Continue to carry out land use reviews and rezone suitable sites and, where the originally intended use is no longer required, convert the land for housing development or other uses that meet the more pressing needs of the community as soon as possible.
- Take forward the residential developments at the former Diamond Hill squatter areas and other quarry sites.
- Review the deserted agricultural land in North District and Yuen Long. Some sites will be available for housing development as early as 2020.

(4) New Development Areas (NDAs) and Extension of New Town

- Implement the North East New Territories NDAs project, which would become the major source of housing supply from 2022 onwards and provide for about 60 000 units in total.

Box 4.1 (Cont'd)

- The Preliminary Outline Development Plan for the Hung Shui Kiu NDA has been formulated. It can accommodate a new population of 175 000 and provide about 100 000 job opportunities.
- Propose to extend the Tung Chung New Town to the east and the west for supplying about 53 000 units.

(5) Other Long Term Land Supply

To ensure a steady and stable long-term land supply, the Government will continue to undertake a number of studies and assessments in several directions to keep developing new land :

- Commence the Preliminary Feasibility Study on Developing the New Territories North to facilitate optimal land use planning.
- Actively take forward further studies on reclamation outside Victoria Harbour, including strategic studies on artificial islands in central waters for the development of the East Lantau Metropolis, planning and engineering study on the reclamation in Sunny Bay, and preliminary feasibility studies on other near-shore reclamation sites.
- Commence the feasibility studies on rock cavern development, including relocating Sai Kung Sewage Treatment Works, Sham Tseng Sewage Treatment Works and Diamond Hill Fresh Water and Salt Water Service Reservoirs to rock caverns. Meanwhile, the feasibility study on relocating the Sha Tin Sewage Treatment Works to caverns is largely completed. The Government plans to carry out the investigation and design work soon.
- Continue a study to identify districts with potential for developing urban underground space. A pilot study for four selected strategic districts, i.e. Tsim Sha Tsui West, Causeway Bay, Happy Valley and Admiralty/Wan Chai will also be conducted.

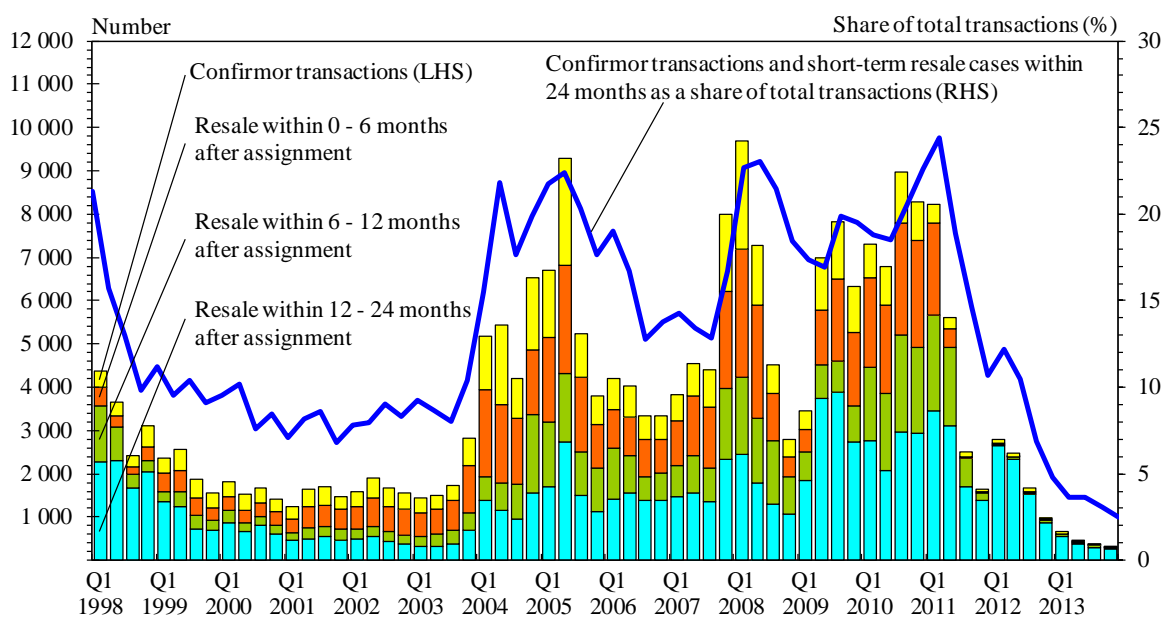
(II) Housing Supply

- The Government has adopted the recommendation of the Long Term Housing Strategy Steering Committee to increase housing supply with a target to provide a total of 470 000 units in the coming ten years, of which 60% will be public housing and 40% private housing.
- The Government aims at providing an average of about 20 000 PRH units and about 8 000 HOS units per year, and providing land for private housing according to the new target.

These measures would help increase the land and flat supply over the short, medium and long terms, thereby ensuring the stable and healthy development of the property market.

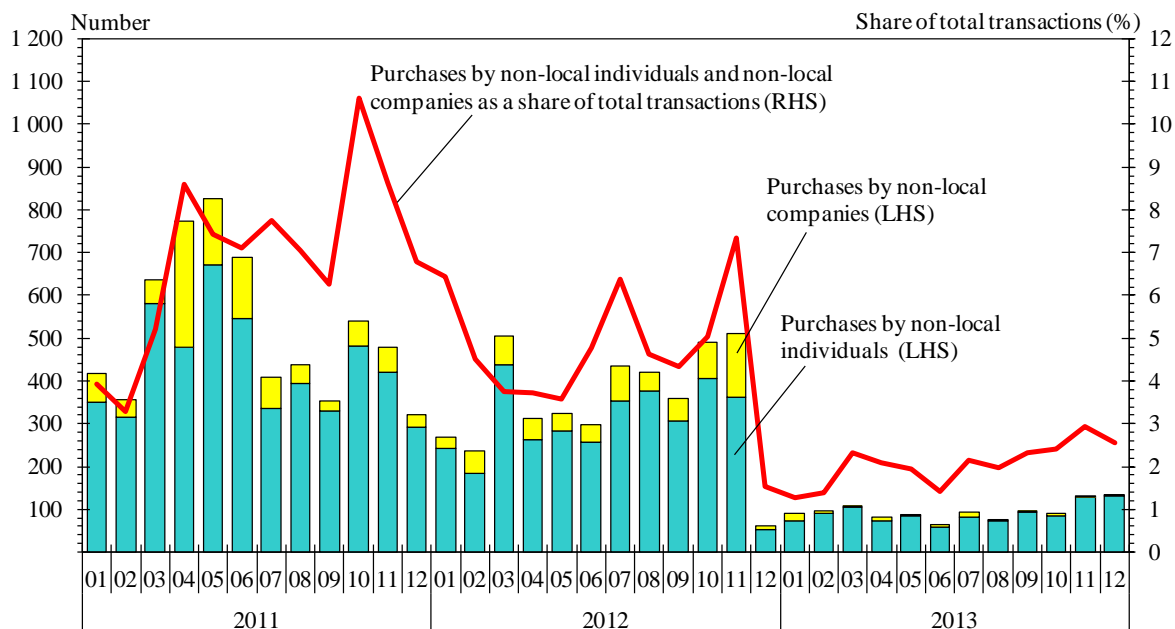
4.8 As it takes time to increase supply, the Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market⁽²⁾. These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) declined to an average of 155 cases per month or 3.2% of total transactions in 2013, markedly below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* plunged to an average of 96 cases per month or 2.0% of total transactions in 2013, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new mortgages in 2013, at 55%, was lower than the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority. Separately, the Residential Properties (First-hand Sales) Ordinance, which serves to improve the *transparency of the residential property market*, came into force on 29 April 2013.

Diagram 4.3 : Speculative activities stayed subdued



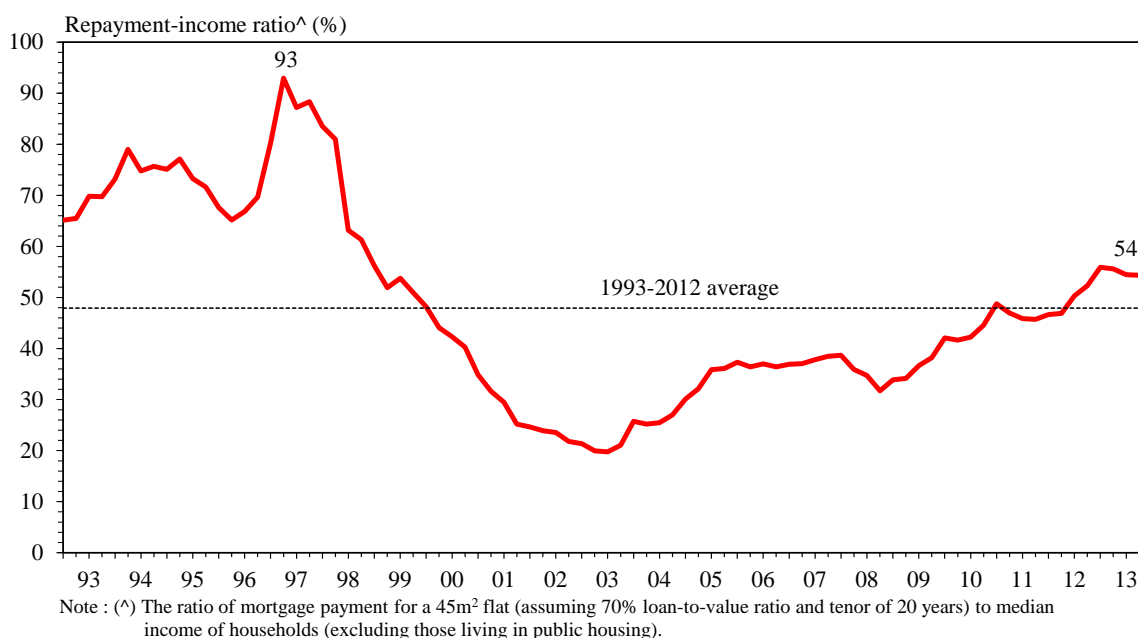
Note : Confirmor transactions refer to resale before assignment.

Diagram 4.4 : Purchases by non-local buyers remained low



4.9 However, the risks of a property market bubble remained elevated. 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) stayed high at around 54% in the fourth quarter of 2013, far exceeding the long-term average of 47.9% over 1993-2012. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 71%.

Diagram 4.5 : The mortgage payment to income ratio stayed elevated



4.10 While the US Federal Reserve has begun to reduce asset purchases since January 2014, there is still uncertainty about the future path of US monetary policy. This might lead to possible fluctuations in international capital flows and market expectation, with ramifications on asset prices, including flat prices in Hong Kong. The Government will continue to monitor the situation closely, and respond in a prompt and appropriate manner.

4.11 The *commercial* and *industrial property markets* likewise have cooled off since March 2013, dampened by the latest demand-side management measures and also the expectations of the US' gradual exit from the extremely loose monetary policy. Trading activities turned very quiet, while sale prices and rentals generally recorded moderated increases or even modest declines in the second half of the year.

4.12 Transactions for *retail shop space* shrank by 41% to 4 280 cases in 2013⁽³⁾. Between December 2012 and December 2013, sale prices of retail shop space rose moderately by 3% and rentals by 6%, with the monthly gains decelerating over the course of the year and reverting to small declines in the latter part of 2013. As the rise in rentals outpaced that in prices, the average rental yield for retail shop space edged up from 2.3% in December 2012 to 2.4% in December 2013, yet still a low level by historical standards. As for demand-supply balance, there was a negative take-up⁽¹⁾ of 14 000 m² for retail shop space in 2013, while completion was 38 400 m². As a result, the vacancy rate rose back from 6.9% at end-2012 to 7.2% at end-2013, still below the long-term average of 8.7% over 1993-2012.

4.13 For *office space*, transactions plummeted by 48% to 1 700 cases in 2013. Between December 2012 and December 2013, overall office prices rose by 9%, yet most of the gain occurred during the first quarter. Prices of Grade A, B and C office space went up by 4%, 11% and 14% respectively. Over the same period, overall office rentals rose by 7%, with Grade A, B and C office space recording gains of 6%, 8% and 11% respectively. Reflecting the relative movements of prices and rentals, the average rental yields for Grade A and B office space, at 2.9% in December 2013, were little changed from a year earlier, while that for Grade C office space edged down to 2.8% from 2.9%. During 2013, office space recorded a negative take-up of 17 100 m², while completion was 122 700 m². The vacancy rate thus rose back from 6.0% at end-2012 to 7.0% at end-2013, yet still much below the long-term average of 10.2% over 1993-2012.

4.14 Similarly, transactions for *flatted factory space* plunged by 56% to 4 270 cases in 2013. Sale prices and rentals jumped by 10% and 9% respectively between December 2012 and December 2013, but the increase for rentals tapered towards the end of the year and that for prices even showed a moderate decline. The average rental yield fell further to a low of 2.8% in December 2013 from 2.9% a year earlier. There was a negative take-up of 83 500 m² for flatted factory space in 2013, while completion was 85 100 m². The vacancy rate rebounded from 5.0% at end-2012 to 5.8% at end-2013, still much below the long-term average of 8.2% over 1993-2012.

Diagram 4.6 : The non-residential property market quietened down in 2013

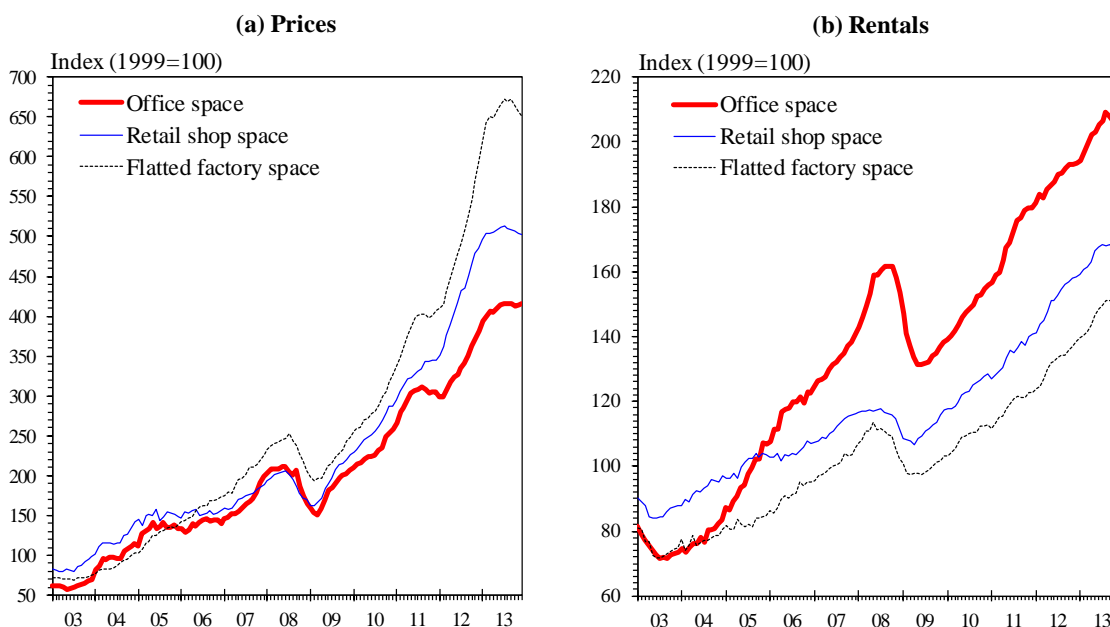
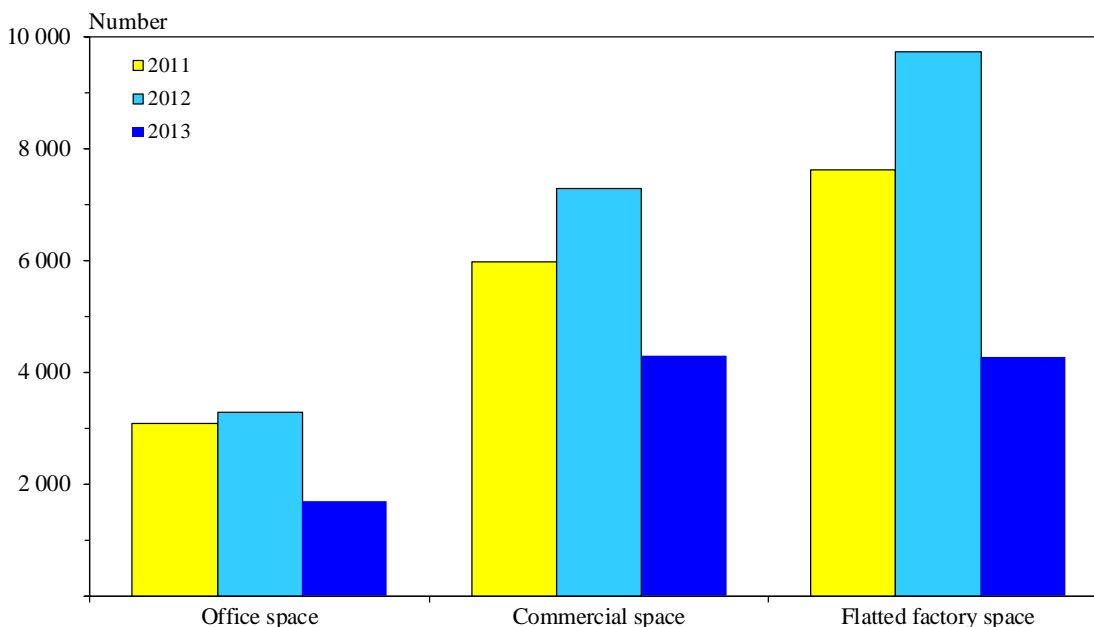


Diagram 4.7 : Transactions for commercial and industrial properties plummeted



Land

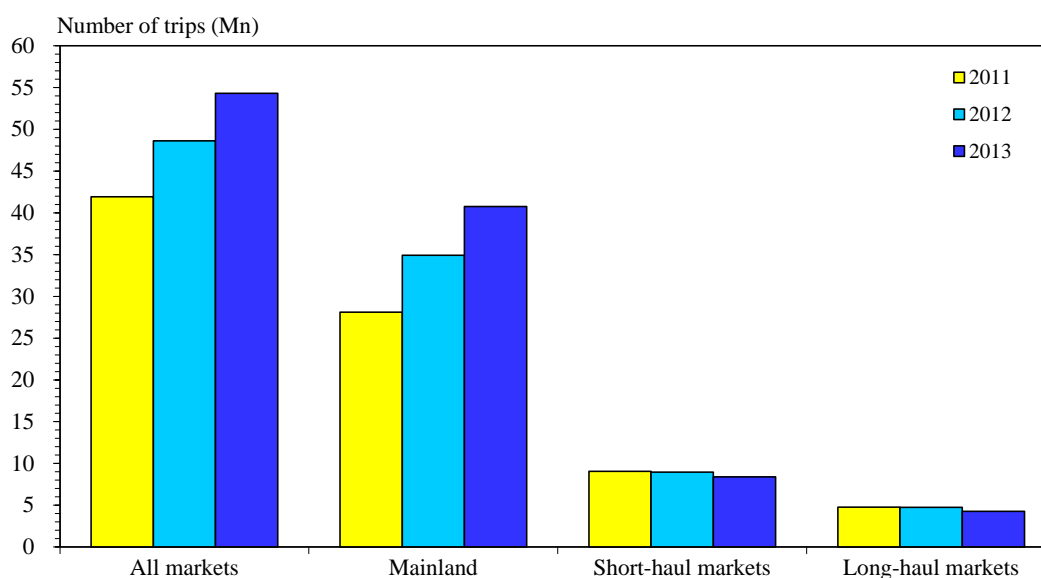
4.15 Reflecting the Government's efforts to increase land supply, 37 sites with a total area of about 38.4 hectares were disposed in 2013, fetching a land premium of about \$65.0 billion. Among these sites, there were 27 residential sites, three commercial sites, two hotel sites, one site for logistics development, one site for high-tier data centre, and three sites for other uses. The tender exercises for six residential sites in Sha Tin, Kai Tak and Tuen Mun, and one business site in Kwun Tong also commenced towards the end of the year.

4.16 Regarding exchange of land, four sites with a total area of about 2.0 hectares were approved in 2013, of which two were residential sites. As to lease modifications, a total of 67 sites were approved.

Tourism

4.17 Inbound tourism maintained strong growth in 2013, particularly in the first half of the year. For the year as a whole, overall *visitor arrivals* rose notably by 11.7% to another record high of 54.3 million. Visitors from the Mainland continued to be the growth driver, surging by 16.7% to 40.7 million, and its share in total visitor arrivals rose further to 75.0%. Yet visitor arrivals from the short-haul and long-haul markets declined modestly by 0.4% and 2.3% respectively⁽⁴⁾, reflecting the rather tepid economic conditions in most advanced economies. Analysed by the length of stay, same-day visitors grew by 15.3%, faster than the 8.0% growth in overnight visitors. As a result, the share of same-day visitors rose further from 51.1% in 2012 to 52.7% in 2013, while that of overnight visitors declined from 48.9% to 47.3%.

Diagram 4.8 : Mainland market remained the growth driver of inbound tourism



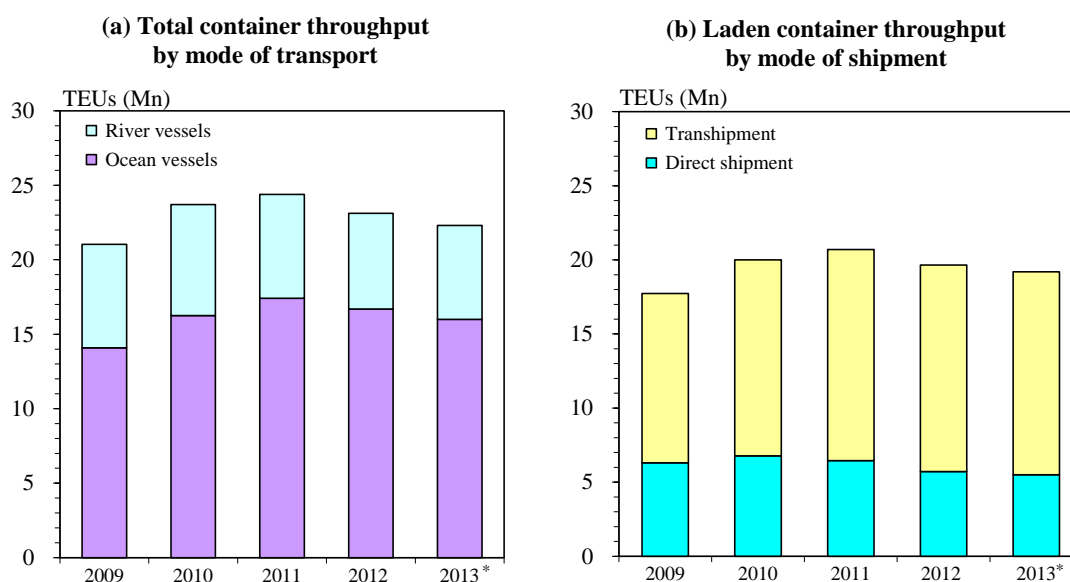
Note : See note (4) at the end of this chapter for the definition of short-haul and long-haul markets.

4.18 The average hotel room occupancy rate held at a high level of 89% in 2013. Having risen notably over the past three years, the average achieved hotel room rate declined modestly in 2013, by 2.8% to \$1,447⁽⁵⁾.

Logistics

4.19 Amid the challenging external trade environment, the logistics sector remained generally lacklustre in 2013. Yet there was some improvement in the fourth quarter along with the pick-up in trade flows. For the year as a whole, *total container throughput* declined by 3.7% to 22.3 million TEUs. Within the laden container throughput, transshipment fell by 1.7% and direct shipment by a larger 4.2%. In parallel, the value of trade handled at the Hong Kong Port decreased by 2.6%, and its share fell further from 24.6% in 2012 to 23.1% in 2013.

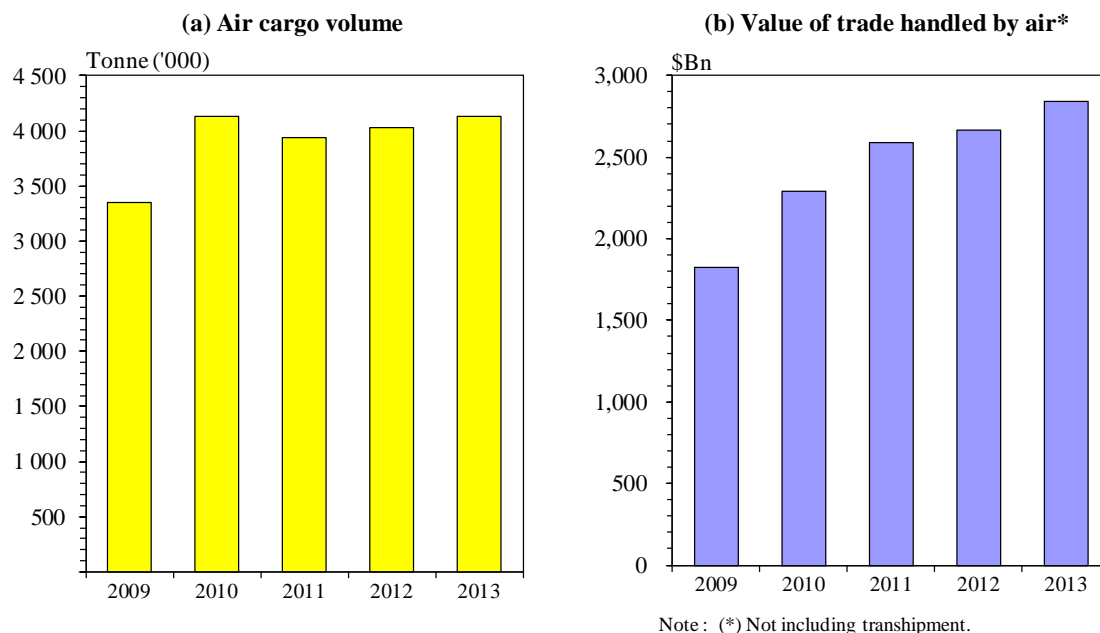
Diagram 4.9 : Container throughput declined further



Note : (*) Total container throughput for 2013 is the preliminary estimate by Hong Kong Port Development Council. Its breakdown 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 2013.

4.20 *Air freight throughput* fared relatively better, recording a modest growth of 2.4% to 4.1 million tonnes in 2013. The total value of trade by air increased notably by 7.2%, and its share in overall trade value rose from 36.2% to 37.4%.

Diagram 4.10 : Both air cargo volume and value of trade by air grew further



Transport

4.21 Traffic flows for most major modes of transport recorded growth in 2013. Supported by the further growth in visitor arrivals, air passenger traffic increased by 6.1% to 59.9 million, and water-borne passenger trips by 1.5% to 27.8 million. As for land-based cross-boundary traffic movements, average daily passenger trips rose by 3.3% to 572 000, while average daily vehicular movements were little changed at 42 500.

4.22 The Government has commissioned a consultant to conduct a study for the Review and Update of the “Railway Development Strategy 2000”, with a view to updating the long-term railway development blueprint for Hong Kong to cater for the latest development needs of the society. Two stages of Public Engagement exercise have been conducted in April to July 2012 and February to May 2013 respectively. After considering the recommendations of the consultant, the Government will report to the public the way forward for the new railway projects in 2014.

Creativity and innovation

4.23 In January 2013, the Government established the Economic Development Commission which is led personally by the Chief Executive. The Economic Development Commission is underpinned by four working

groups, one of which is the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries (MICWG). The MICWG held three meetings in 2013, and has identified some initial possible directions to support the industries under its purview. Relevant Government bureaux and departments are working closely with the MICWG to study and explore the feasibility of the initial directions. The MICWG will make concrete recommendations after the completion of the studies and deliberation.

Telecommunications

4.24 In November 2013, the Communications Authority announced that upon the expiry of the existing assignments in October 2016, it would reassign the spectrum currently used for the provision of third generation (“3G”) mobile services using a hybrid approach combining market-based and administrative assignment methods. Under the approach, each of the four incumbent 3G mobile network operators will be given the right of first refusal to be reassigned with two-thirds of the concerned 3G spectrum they currently hold, and the remaining spectrum will be reassigned by open auction. This approach would help ensure customer service continuity while facilitating the efficient use of spectrum, promoting competition, and encouraging investment and innovation services.

Environment

4.25 To improve roadside air quality and better protect public health, the Government has adopted an incentive-cum-regulatory approach to phase out some 82 000 pre-Euro IV diesel commercial vehicles including goods vehicles, light buses and non-franchised buses before 2020. For this purpose, the Air Pollution Control (Air Pollutant Emission) (Controlled Vehicles) Regulation has been enacted for commencement on 1 February 2014 and the Government will launch an ex-gratia payment scheme on 1 March 2014. The Regulation also limits the service life of newly registered diesel commercial vehicles to 15 years to help the timely replacement of these vehicles in the long run. Taken together, these measures would help contribute towards the attainment of the new Air Quality Objectives that already took effect on 1 January 2014, so as to protect the public health and foster the sustainable development of Hong Kong.

Notes :

- (1) Take-up figures for residential and non-residential properties 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. Negative take-up means that there is a decrease in the number of units occupied (i.e. property previously occupied was released during the year and remained vacant at the year-end).
- (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 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013.
- (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 and 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 2013, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 75%, 16% and 9% of total visitors.
- (5) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.