

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

- *The residential property market quietened down visibly in the third quarter of 2015, amid concerns over an imminent US interest rate uplift and the marked corrections in the Mainland and Hong Kong stock markets. Trading activities fell, while overall flat prices rose by a decelerated 2% during the quarter.*
- *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, projected total flat supply in the coming three to four years rose to 86 000 units.*
- *The commercial and industrial property markets generally stayed steady in the third quarter. Prices and rentals continued to record moderate increases, while trading activities for most market segments quietened down.*
- *Inbound tourism slackened further in the third quarter, conceivably weighed by the subpar global economic growth and currency factor. Overall visitor arrivals fell by 6.4% to 15.1 million, the first decline since the third quarter of 2009.*
- *In tandem with the sluggish external trade performance, the logistics sector continued to record tepid performance in the third quarter. Total container throughput declined by a sharp 7.1%, and air freight throughput by 0.7%.*

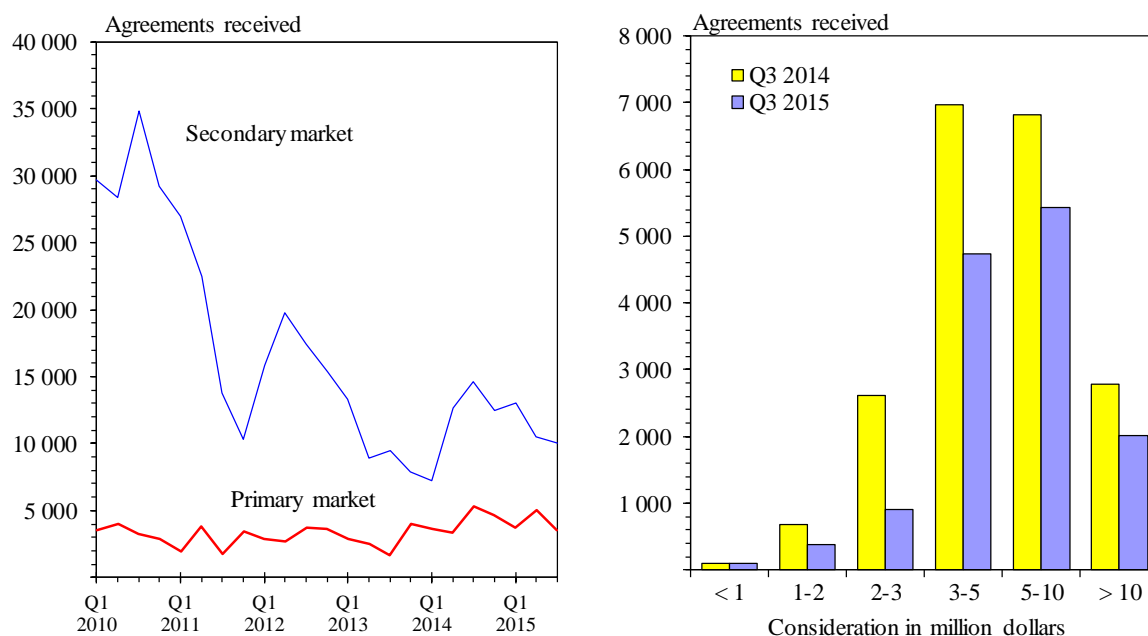
### **Property**

3.1 The *residential property market* quietened down visibly in the third quarter of 2015. Potential buyers became increasingly cautious amid concerns that the US interest rate uplift was drawing closer. Market sentiment was also affected by the marked corrections in the Mainland and Hong Kong stock markets. Trading in both the primary and secondary markets fell, while the rise in flat prices decelerated.

3.2 The total number of sale and purchase agreements for residential property received by the Land Registry fell by 13% from the preceding quarter to 13 552 in the third quarter, and there was an even sharper 32% fall when

compared with a year earlier. Primary market transactions plunged by 30% from the relatively high base in the preceding quarter, while secondary market transactions fell further by 4% with more potential buyers sitting on the side-line. In parallel, total consideration declined by 8% to \$109.1 billion.

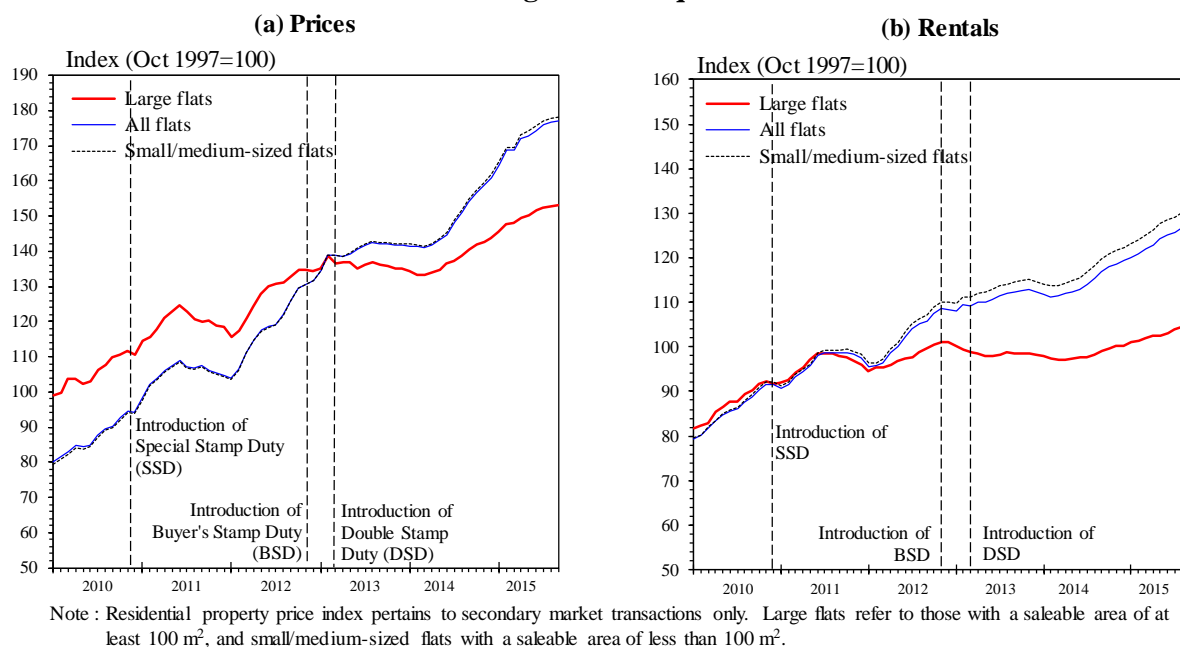
**Diagram 3.1 : Trading activities quietened down visibly in the third quarter**



3.3 Overall flat prices rose by a decelerated 2% between June and September 2015. The monthly increase in flat prices moderated from 0.9% in July to 0.2% in September amid concerns about an imminent US interest rate hike. Analysed by size, prices of small/medium-sized flats went up by 2% during the third quarter, and those of large flats by 1%. During the first nine months of 2015, overall flat prices rose by a cumulative 10%, led by a 10% rise in the prices of small/medium-sized flats.

3.4 Meanwhile, the leasing market held steady. Overall flat rentals in September 2015 rose by 2% over June, and were 6% higher than in December 2014. Analysed by size, rentals of small/medium-sized flats and large flats rose by 2% and 1% respectively during the third quarter. The average rental yield for residential property edged down from 2.7% in June to 2.6% in September.

**Diagram 3.2 : Flat prices and rentals showed moderate increases during the third quarter**

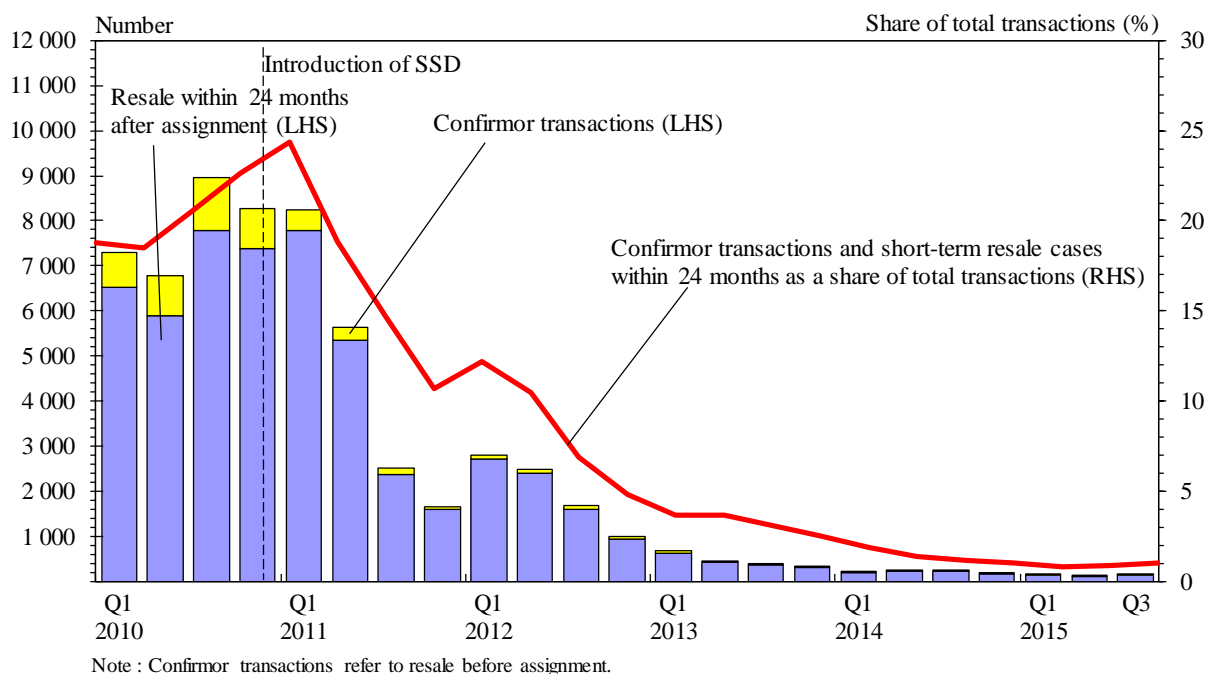


3.5 Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable development of the property market. Reflecting the Government's efforts on this front, the number of private domestic units commencing work surged by more than two folds (252%) over a year earlier to 14 000 in the first three quarters of 2015. Completions nevertheless declined by 35% to 7 900. As announced in September 2015, the Government will put up for sale a total of four residential sites in the fourth quarter, capable of providing about 2 850 flats. Combining the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority's projects and private re-development/development projects), the private housing land supply for the first three quarters of financial year 2015/16 (i.e. from the second to the fourth quarter of 2015) is estimated to be able to provide about 16 700 units, representing 88% of the 2015/16 private housing land supply target of providing 19 000 units. Over the medium term, 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) rose further from 83 000 units as estimated at end-June to 86 000 units as estimated at end-September. In addition, another 10 300 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites".

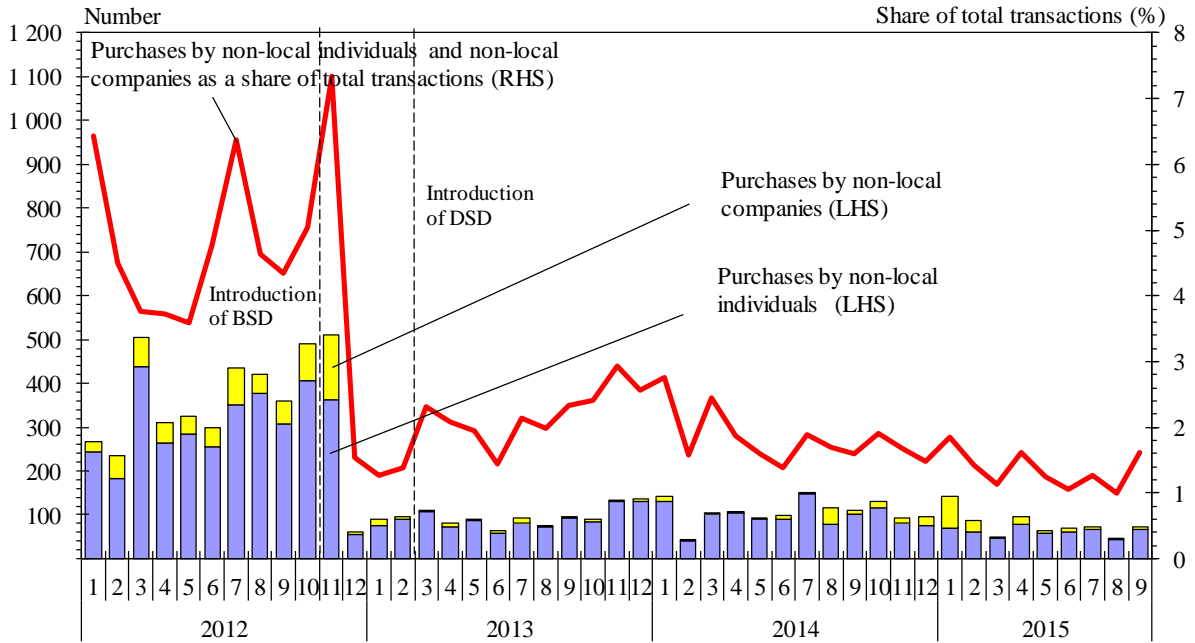
3.6 As it takes time to increase supply, the Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market<sup>(1)</sup>. These measures have

yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) stayed low at 50 cases per month or 1.0% of total transactions in the third quarter, compared with 84 cases per month or 1.2% a year earlier and 2 661 cases per month 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* also declined from 126 cases per month or 1.7% of total transactions a year earlier to 64 cases per month or 1.3% in the third quarter, 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 notched down from 56% a year earlier to 51% in the third quarter of 2015, below 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.

**Diagram 3.3 : Speculative activities stayed subdued**

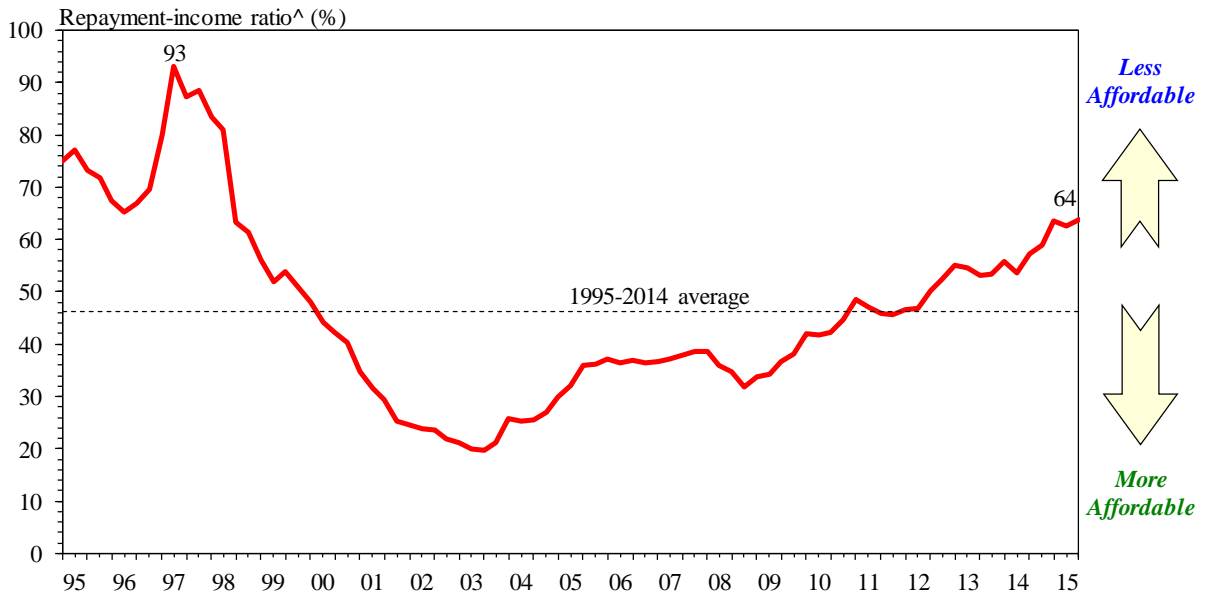


**Diagram 3.4 : Purchases by non-local buyers remained low**



3.7 With the further increase during the quarter, overall flat prices in September 2015 have surpassed the 1997 peak by a rampant 77%. 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) rose to around 64% in the third quarter, exceeding the long-term average of 46% over 1995-2014. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 83%.

**Diagram 3.5 : The mortgage payment to income ratio rose**



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

3.8 Looking ahead, the residential property market will be subject to considerable uncertainties. Externally, there is increasing market expectation that the US Federal Reserve will raise interest rate over the next few months, though it is difficult to predict the exact timing and pace of the interest rate hike. Domestically, following the Government's sustained efforts in providing enough residential land, the medium-term supply of flats has increased noticeably. With these various forces simultaneously exerting their effects, the residential property market might show sharp fluctuations in the period ahead. The Government would continue to monitor the situation closely and respond in a prompt manner.

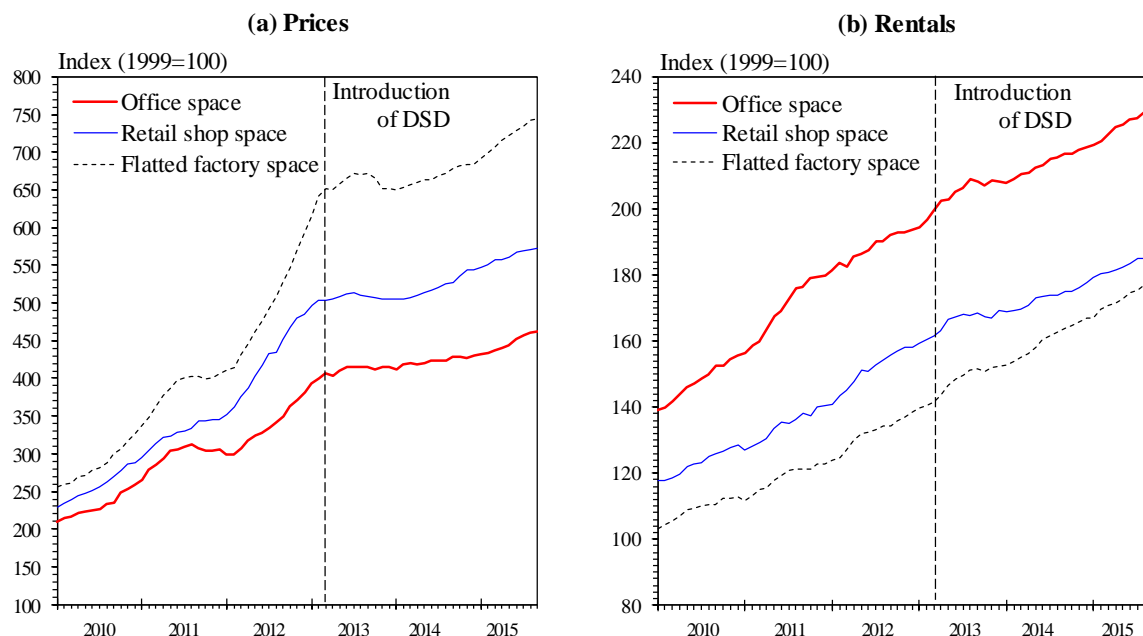
3.9 The *commercial* and *industrial property markets* generally stayed steady in the third quarter of 2015. Prices and rentals continued to record moderate increases, though trading activities for most market segments quietened down.

3.10 Overall sale prices of *office space* in September rose by 2% over June. Within the total, prices of Grade A, B and C office space went up by 3%, 3% and 2% respectively. Overall office space rentals increased by 1%, with rentals of Grade A, B and C office space all rising by 1%. Compared with December 2014, overall sale prices and overall rentals in September 2015 were 8% and 5% higher. The average rental yields for Grade A, B and C office space were 2.8%, 2.9% and 2.9% respectively in September, compared with 2.9%, 3.0% and 2.9% in June. Transactions for office space dwindled by 35% from the preceding quarter or 30% from a year earlier to 330 cases in the third quarter.

3.11 Both sale prices and rentals of *retail shop space* rose by 1% between June and September. Comparing September 2015 with December 2014, sale prices and rentals were higher by 5% and 4% respectively. Reflecting the movements in prices and rentals, the average rental yield for retail shop space stayed low at 2.4% in September, unchanged from June. Meanwhile, transactions rebounded by 19% over the low base in the preceding quarter to 600 cases in the third quarter, but were still 33% lower than a year earlier<sup>(2)</sup>.

3.12 As to *flatted factory space*, both sale prices and rentals in September rose by 2% over June. During the first nine months of 2015, sale prices and rentals rose by 9% and 7% respectively. The average rental yield hovered at a low level of 2.9% in September, same as in June. Transactions declined by 22% from the preceding quarter or 15% from a year earlier to 780 cases in the third quarter.

**Diagram 3.6 : Prices and rentals of non-residential properties continued to record moderate increases**



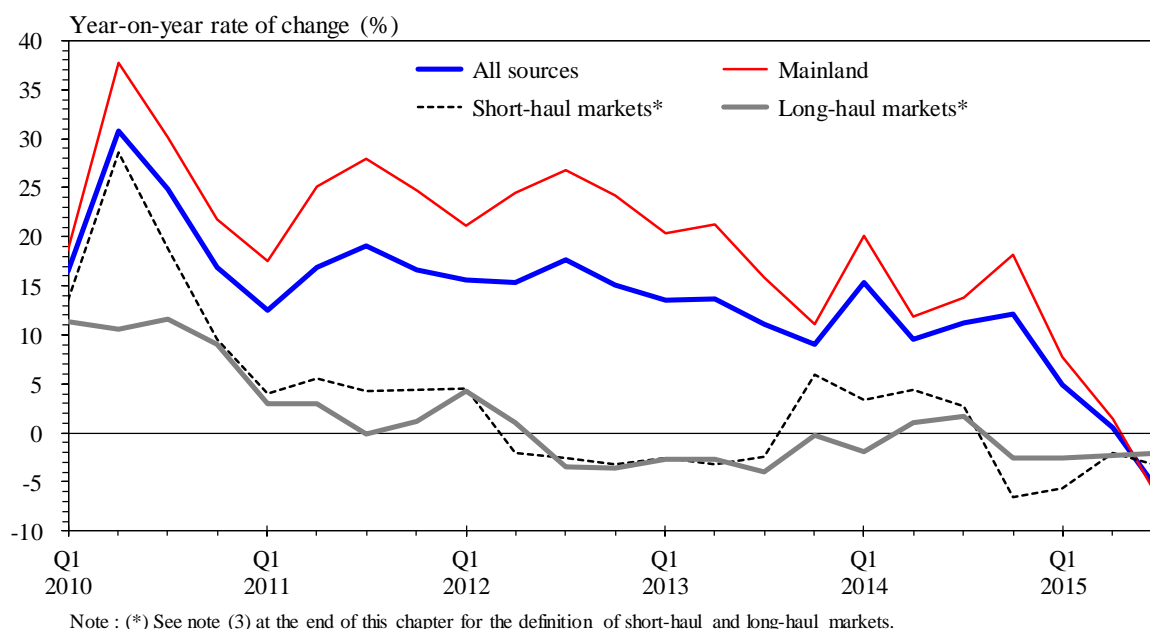
## Land

3.13 Five residential sites, with a total area of about 8.1 hectares, were disposed in the third quarter, fetching a land premium of about \$16.2 billion. The tender exercises for two business sites in Sha Tin and Yuen Long, and one residential site in Tsing Yi also commenced in the quarter. As to land exchange, there was one land exchange approved in the third quarter. Meanwhile, 13 sites were approved for lease modifications.

## Tourism

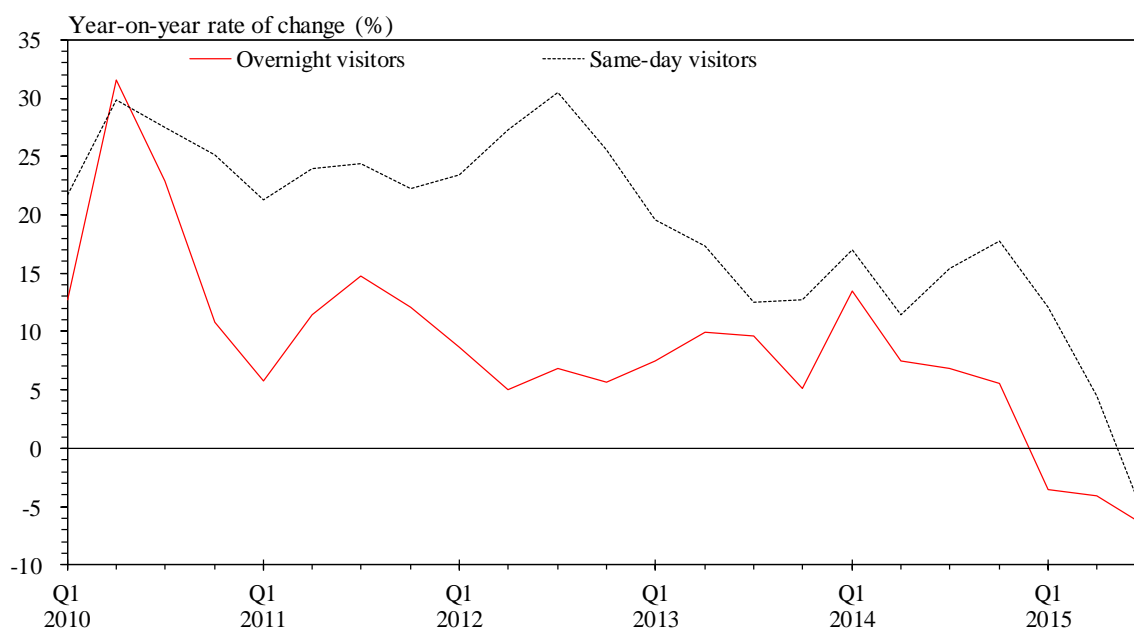
3.14 Inbound tourism slackened further in the third quarter of 2015, conceivably weighed by the subpar global economic growth and currency factor. Overall *visitor arrivals* fell by 6.4% from a year earlier to 15.1 million, the first decline since the third quarter of 2009 when the tourism sector was hard hit by the Global Financial Tsunami and the spread of human swine flu. Visitors from the Mainland, which constituted 79% of the total, plunged by 7.3%. Visitors from the short-haul markets and long-haul markets<sup>(3)</sup> also fell, by 3.4% and 2.1% respectively.

**Diagram 3.7 : Inbound tourism slackened further in the third quarter**



3.15 Analysed by the length of stay, overnight visitor arrivals fell further by 6.7% from a year earlier while same-day visitor arrivals also switched to a decrease of 6.1%. Reflecting these movements, the share of overnight visitors declined further from 46.6% a year earlier to 46.4% in the third quarter, while that of same-day visitors rose further from 53.4% to 53.6%.

**Diagram 3.8 : Both same-day and overnight visitors recorded declines in the third quarter**



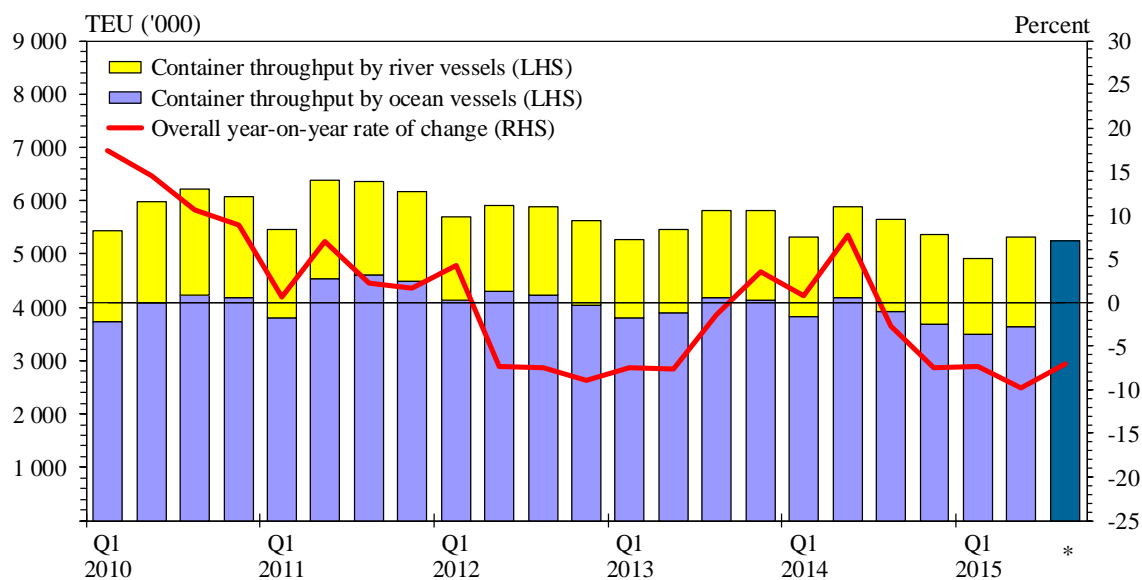


3.16 The hotel sector also suffered a setback upon the further slowdown in inbound tourism. The average hotel room occupancy rate declined from 90% a year earlier to 86%. The average achieved hotel room rate dropped by 13.1% from a year earlier to \$1,227<sup>(4)</sup>.

## Logistics

3.17 In tandem with the sluggish external trade performance, the logistics sector continued to record tepid performance in the third quarter. *Total container throughput* plunged further by 7.1% from a year earlier to 5.25 million twenty-foot equivalent units (TEUs). In parallel, the value of trade handled at the Hong Kong port plummeted by 11.4%, and its share in total trade declined from 21.7% to 20.4%.

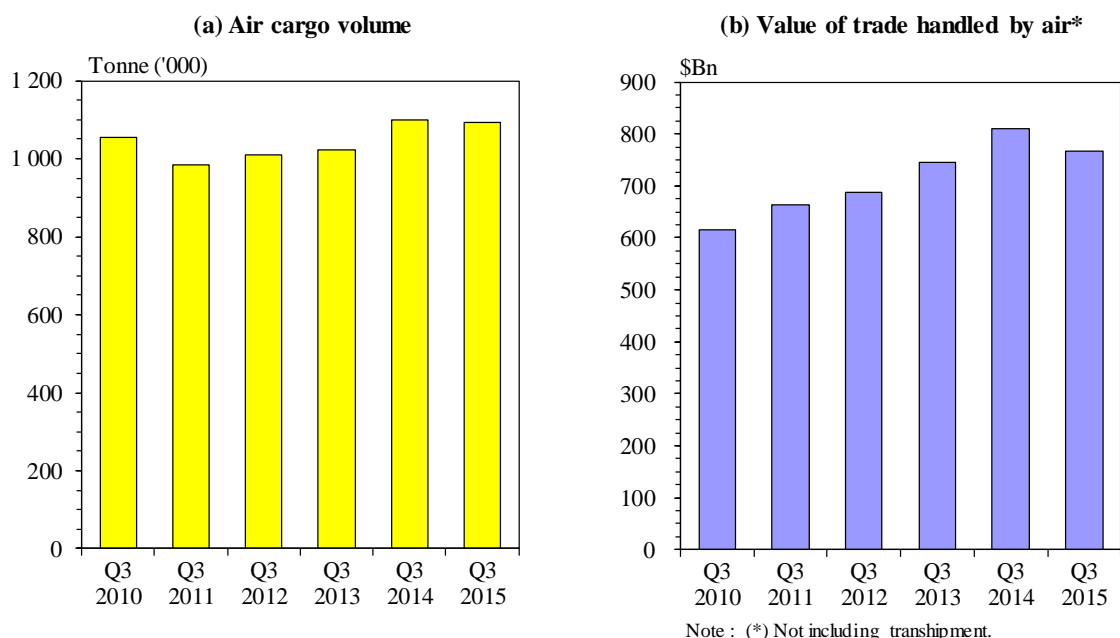
**Diagram 3.9 : Container throughput continued to fall during the third quarter**



Note : (\*) The container throughput figure for the latest quarter is the preliminary estimate by the Hong Kong Port Development Council, for which a breakdown by ocean and river vessels is not yet available.

3.18 *Air freight throughput* also edged down by another 0.7% from a year earlier to 1.09 million tonnes in the third quarter. The total value of trade by air fell more sharply by 5.3% from a year earlier, though its share in overall trade value edged up from 38.7% to 38.8%.

**Diagram 3.10 : Air cargo throughput and value of trade handled by air continued to decline in the third quarter**



## Transport

3.19 Traffic flows for the different modes of transport recorded varied performance in the third quarter. Air passenger traffic continued to rise, by 7.1% over a year earlier to 17.6 million, while water-borne passenger trips decreased by 3.2% to 7.3 million. As to land-based cross-boundary traffic movements, passenger trips declined by a marginal 1.0% to 55.4 million, and average daily vehicular movements by 1.2% to 42 400.

## Testing and certification

3.20 In July, the Certification and Accreditation Administration of the People's Republic of China promulgated the implementation details that essentially allow staff employed by certification bodies in Hong Kong to provide certification services to export enterprises on the Mainland. The introduction of this measure under Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) would help the testing and certification industry in Hong Kong to better seize the business opportunities in the Mainland market.

## **Environment**

3.21 The Hong Kong/Guangdong Joint Liaison Group on Combating Climate Change held its fourth meeting in Hong Kong in August, reviewing the progress of cooperation in the past year and agreeing on a work plan for 2015-16. In the coming year, the two Governments will carry out further exchanges on urban drainage system design and slope safety management, as well as low-carbon products certification and carbon labelling for construction materials, on top of other initiatives to further strengthen their co-operation in combating climate change.

### **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. 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. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015.
- (2) 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.
- (3) 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 the third quarter of 2015, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 79%, 14% and 7% of total visitors.
- (4) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.