

CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

Summary

- *The residential property market was generally buoyant in the first half of 2015, but quietened down in the second half as sentiment was dented by the downslide in the local stock market during the summer months, and as concerns over US interest rate hike grew. Trading activities slowed down visibly since July. Flat prices turned into a decline in the fourth quarter, though still up by 2% for 2015 as a whole.*
- *The Government's efforts to increase land supply and flat production continued to yield results, with total flat supply in the coming three to four years rising to a new record high of 87 000 units. On the demand side, speculative activities have largely subsided, while non-local demand stayed low, reflecting the notable effects of the various demand-side management measures.*
- *The commercial and industrial property markets also cooled off over the course of the year. Trading activities went generally lower after the third quarter. Prices and rentals fell off towards the year end, and recorded only modest gains or even slight declines for 2015 as a whole.*
- *Inbound tourism slackened visibly in 2015, heavily weighed down by subpar global economic growth, unfavourable currency factor, as well as the emerging impact of the "one trip per week" Individual Visit Endorsements implemented since April. Visitor arrivals fell in all major markets, cumulating to an overall decline of 2.5% to 59.3 million in 2015, the first annual decline since 2003.*
- *The logistics sector likewise suffered a setback in tandem with the fall-off in external trade and regional cargo flows. Total container throughput plunged by 9.7% to 20.1 million twenty-foot equivalent units, while air freight throughput recorded only marginal growth.*

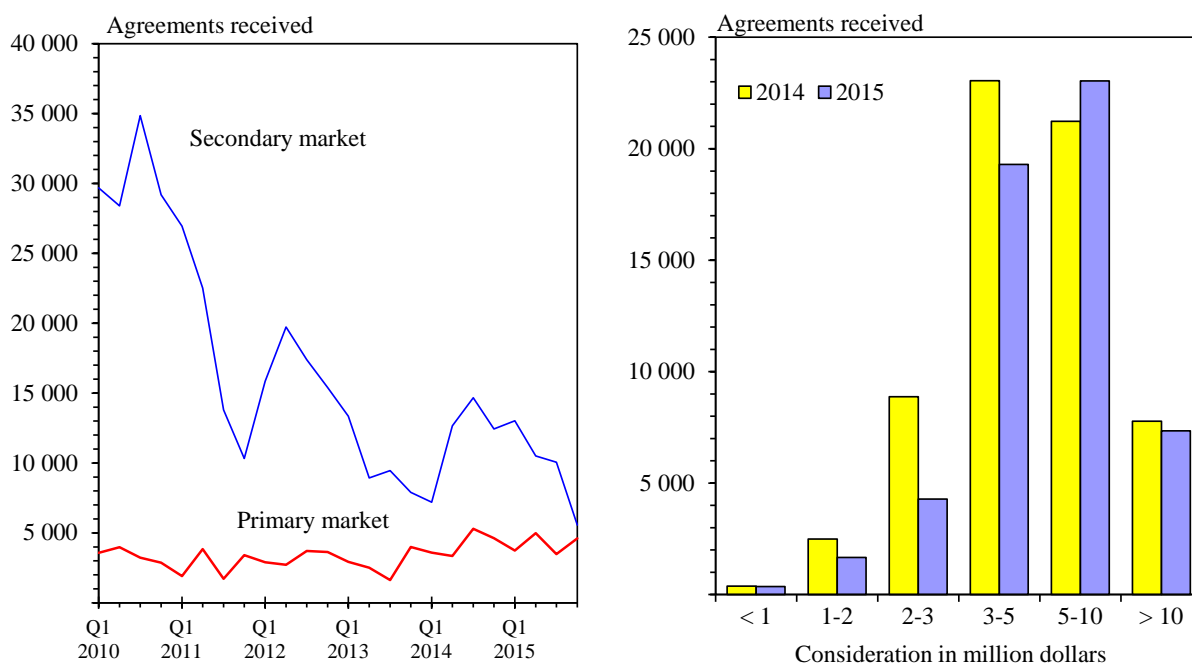
Property

4.1 The residential property market stayed generally buoyant in the first half of 2015, but quietened down in the second half as sentiment was dented by the stock market downslide during the summer months and as concerns over US interest rate hike grew. With buyers adopting a more cautious attitude, trading

activities have quietened down visibly since July. The increase in flat prices decelerated in the third quarter and then turned into a decline in the fourth quarter amid increasing adjustment pressure facing the market.

4.2 The total number of sale and purchase agreements for residential property received by the Land Registry fell by 12% to 55 982 in 2015, sharply below the long-term average of 92 910 over 1995 to 2014. There was a noticeable moderation through the year, from a monthly average of 5 377 in the first half to 4 517 in the third quarter and sharply further to 3 390 in the fourth quarter. Within the total, secondary market transactions plunged by 17% to a record low of 39 156 in 2015. Primary market transactions edged down by 0.2% to 16 826, as developers continued to launch new projects at favourable terms including the provision of cash rebates, tax subsidies and top-up financing schemes. Total consideration declined by a more modest 4% to \$416.5 billion.

Diagram 4.1 : Trading activities have quietened down visibly since July 2015

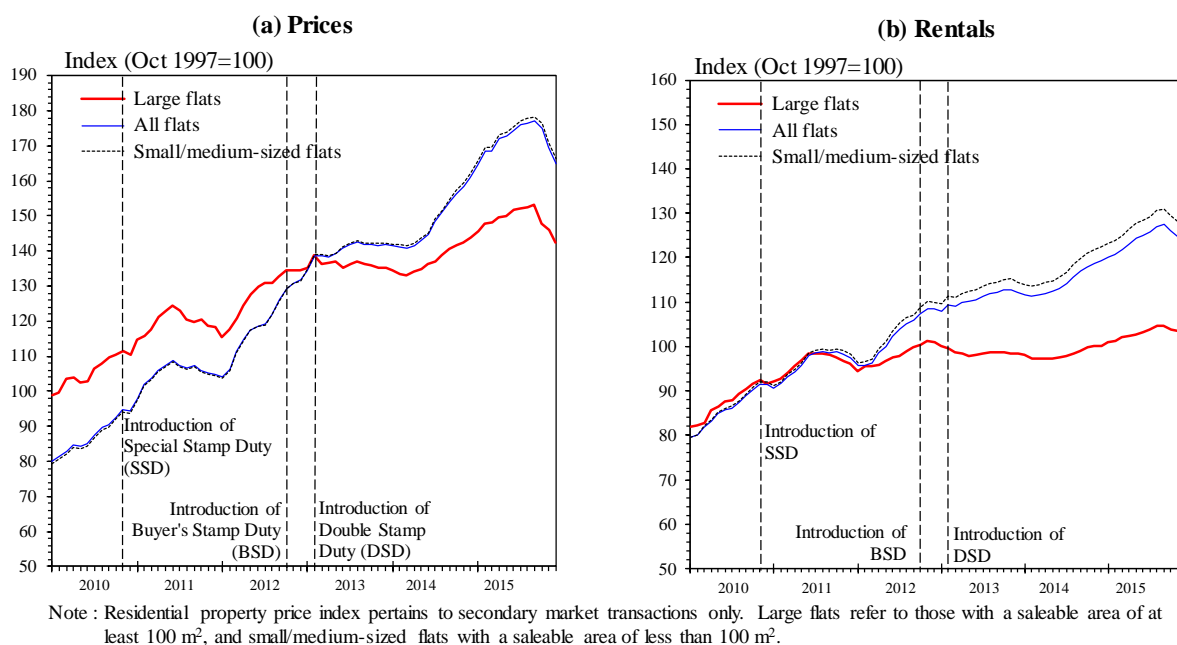


4.3 Having recorded further sharp increases during the first half of 2015, overall flat prices rose at a more modest pace during the third quarter and switched to a sharp fall of 7% during the fourth quarter. For the year as a whole, overall flat prices rose by 2% between December 2014 and December 2015. Analysed by size, large flats came under larger adjustment pressure with prices down by 1% during 2015, while prices of small/medium-sized flats still rose by 3%.

4.4 In parallel, the leasing market also cooled off in the second half of 2015. With the gains during the first three quarters being partially offset by the

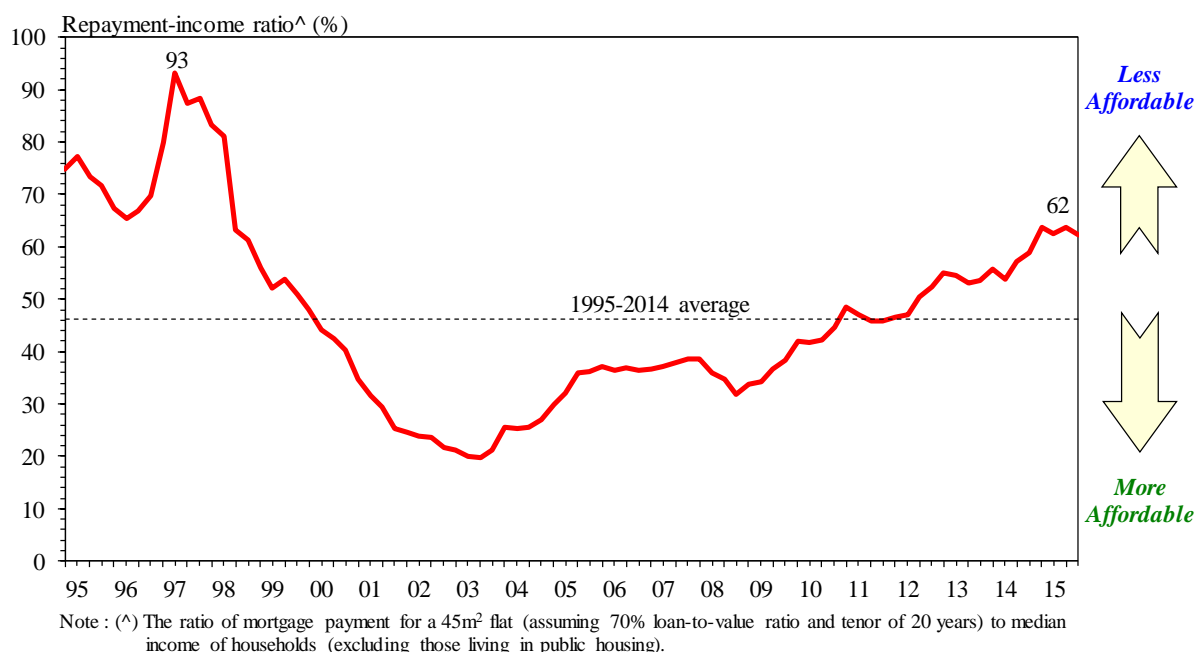
decline during the fourth quarter, overall flat rentals rose by only 3% between December 2014 and December 2015. Analysed by size, rentals of small/medium-sized and large flats increased by 3% and 2% respectively. The average rental yield for residential property edged up from 2.7% a year earlier to 2.8% in December 2015.

Diagram 4.2 : Flat prices and rentals reverted to a decline in the fourth quarter



4.5 Notwithstanding the recent consolidation, overall flat prices in December 2015 still exceeded 1997 peak by 65%. 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), at around 62% in the fourth quarter, was still significantly higher than 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 81%.

Diagram 4.3 : The mortgage payment to income ratio stayed elevated

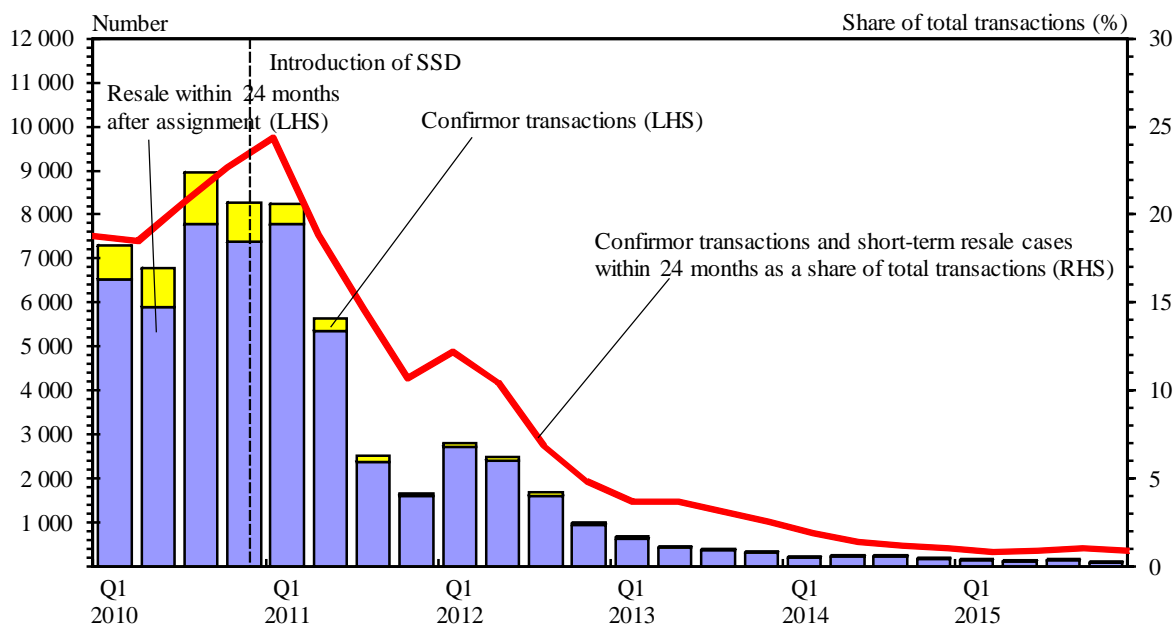


4.6 The demand-supply balance of flats remained tight in overall terms in 2015, yet the tightness looks set to ease in the years ahead. Gross completions of private flats dropped by 28% to 11 300 units in 2015, though still representing the second highest level in the past five years. After netting off the demolition of 2 000 units, the net completions, at 9 300 units, fell short of the take-up of 10 500 units⁽¹⁾. As a result, the vacancy rate edged down from 3.8% at end-2014 to 3.7% at end-2015. For 2016 and 2017, flat supply is expected to increase. Specifically, the Rating and Valuation Department forecasts completions to rise to 18 200 units and 17 900 units respectively⁽²⁾ in 2016 and 2017, compared with the annual average of 18 700 units per annum over 1995-2014.

4.7 Indeed, the aggregate private housing land supply from the various sources (including government land sale, railway property development projects, the Urban Renewal Authority's projects and private re-development/development projects) in the financial year 2015/16 had a capacity to provide about 20 100 flats as estimated at end-January 2016, exceeding the target of making available private housing land for 19 000 flats set for that year. Furthermore, 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 successively from 74 000 units as estimated at end-2014 to 87 000 units as estimated at end-2015, a record high since the statistics were published in September 2004. In addition, another 7 500 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites" and the completion of tendering of some sites in the months ahead.

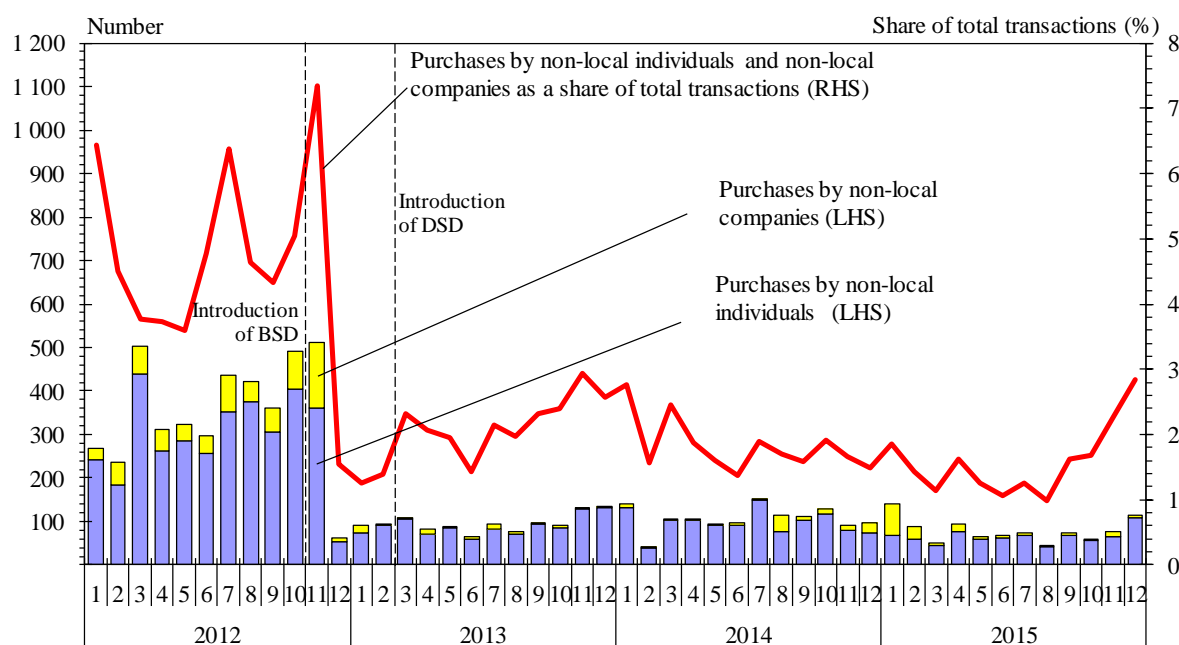
4.8 The Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market⁽³⁾. These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) declined further to an average of 45 cases per month or 0.9 % of total transactions in 2015, well 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* stayed low at an average of 79 cases per month or 1.5% of total transactions in 2015, 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 was 52% in 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 4.4 : Speculative activities stayed subdued



Note : Confirmor transactions refer to resale before assignment.

Diagram 4.5 : Purchases by non-local buyers remained low



4.9 Looking forward, the property market is facing increasing pressure for adjustment. Externally, the US has already started raising interest rates. Hong Kong dollar interest rates would eventually follow the steps of US interest rates under the Linked Exchange Rate System, though the actual pace of adjustment will depend on the pace of the US rate hike and the fund flow situation. Domestically, as a result of the Government's sustained efforts, the medium-term supply of flats has risen significantly. These, coupled with the various risks and uncertainties clouding the economy, could weigh on the property market in the period ahead.

4.10 The *commercial* and *industrial property markets* also cooled off in the second half of 2015. Trading activities have quietened down since the third quarter. Prices and rentals likewise came under pressure towards the year end, and recorded only modest gains or even slight declines for 2015 as a whole.

4.11 Weighed by the tepid retail sales performance, the *retail shop space* market was generally lacklustre in 2015. As the modest gains during the first three quarters were fully offset by the decline during the fourth quarter, sale prices dipped by 1% between December 2014 and December 2015. Meanwhile, rentals edged up by 1%. Reflecting these movements, the average rental yield rose slightly from 2.4% a year earlier to 2.5% in December 2015. Trading activities plunged by another 33% to only 2 100 cases in 2015⁽⁴⁾. As to demand-supply balance, there was a negative take-up of 6 600 m² and a completion of 68 300 m². The vacancy rate thus rose from 7.3% at end-2014 to 7.7% at end-2015, but still below the long-term average of 8.8% over 1995-2014.

4.12 Overall prices for *office space* recorded a moderate gain of 5% between December 2014 and December 2015. Within the total, prices of Grade A, B and C office space went up by 9%, 6% and 6% respectively. Overall office rentals also rose by 5% over the period, with those of Grade A, B and C office space all increasing by a broadly similar pace. The average rental yield of Grade A, B and C office space was 2.9%, 3.0% and 2.9% respectively in December 2015, virtually unchanged from a year earlier. Transactions rebounded by 16% to 1 500 cases in 2015 against a very low base of comparison, but this was still a low level by historical standards. The take-up for office space was a negative 53 700 m², while the completion was 164 500 m². As a result, the vacancy rate rose from 6.3% at end-2014 to 7.9% at end-2015, still lower than the long-term average of 10.0% over 1995-2014.

4.13 Sale prices and rentals of *flatted factory space* rose by 3% and 5% respectively between December 2014 and December 2015. The average rental yield, at 3.0% in December 2015, was unchanged from a year earlier. While transactions rose by 13% to 3 400 cases in 2015, this was still a very low level by historical standards. As the take-up of 94 300 m² was much higher than the completion of 29 700 m², the vacancy rate dropped from 5.6% at end-2014 to 5.0% at end-2015, markedly below the long-term average of 8.2% over 1995-2014.

Diagram 4.6 : Prices and rentals of non-residential properties declined in the fourth quarter

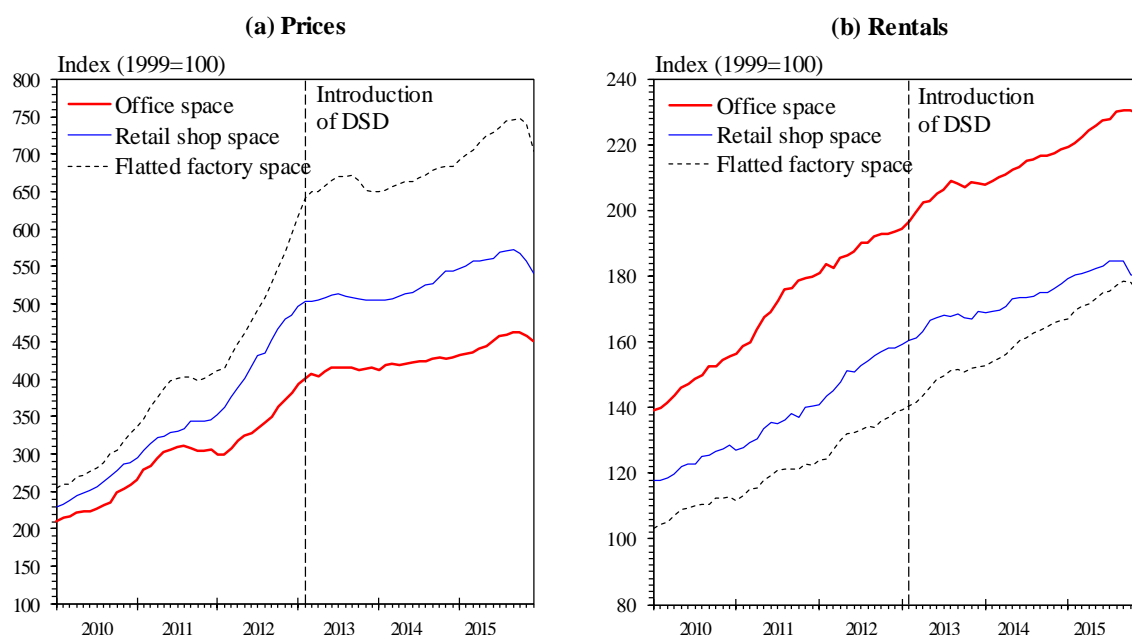
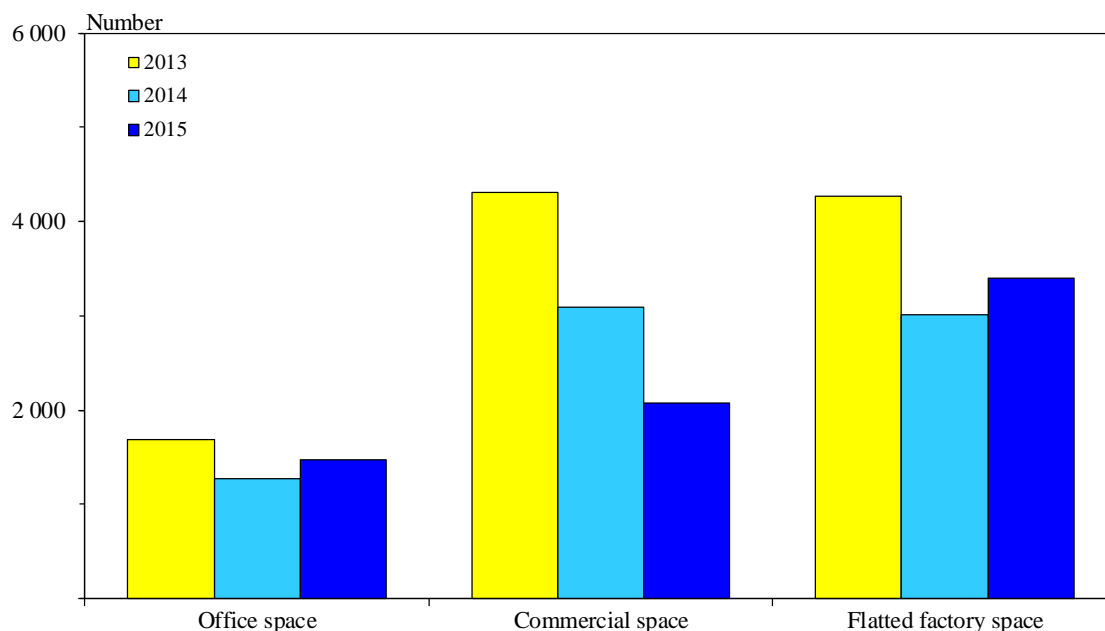


Diagram 4.7 : Trading activities for commercial and industrial properties were generally quiet in 2015



Land

4.14 Twenty five sites with a total area of about 20.9 hectares were disposed in 2015, fetching a land premium of about \$44.9 billion. Among these sites, there were 17 residential sites, three business sites, two commercial/office sites, one industrial site and two sites for petrol filling station. The tender exercises for three residential sites in Yuen Long, Tai Po and Sham Shui Po also commenced in the last quarter of the year.

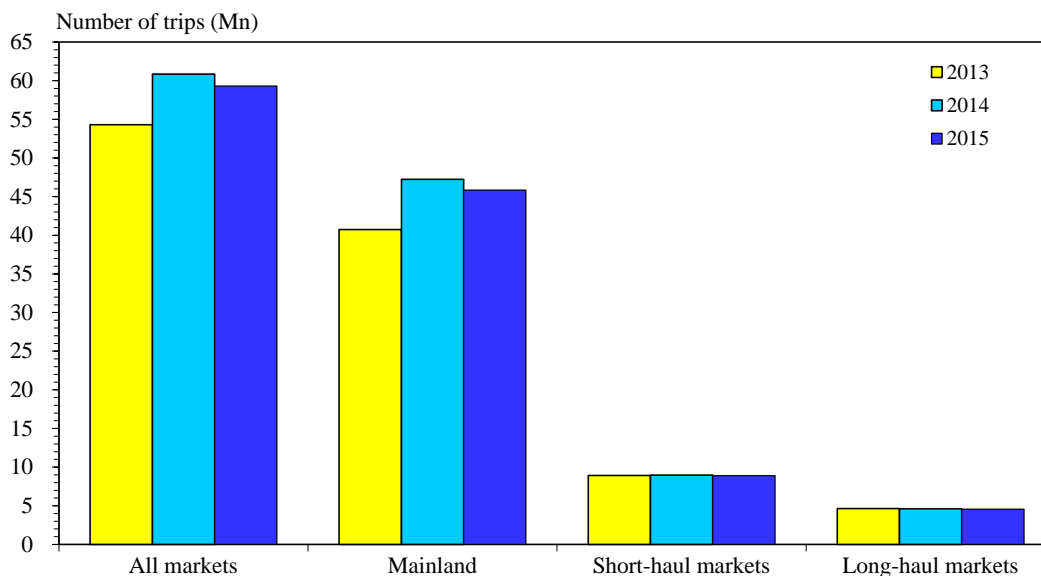
4.15 Regarding exchange of land, seven sites with a total area of about 1.7 hectares were approved in 2015, of which four were residential sites. As to lease modifications, a total of 80 sites were approved.

Tourism

4.16 Weighed down heavily by subpar global economic growth, unfavourable currency factor, as well as the emerging impact of the “one trip per week” Individual Visit Endorsements implemented since April⁽⁵⁾, inbound tourism slackened markedly during 2015. Overall *visitor arrivals* fell by 2.5% to 59.3 million, the first annual decline since 2003. The performance weakened over the course of the year, with visitor arrivals reverting from modest growth of 4.9% and 0.5% in the first and second quarters to notable fall of 6.4% and 8.0% in the third and fourth quarters. Analysed by major market, Mainland visitors, which accounted for 77.3% of the total, fell by 3.0% to 45.8

million in 2015. The performance of other markets remained generally lacklustre. Visitors from the short-haul and long-haul markets declined by 1.0% and 0.8% respectively⁽⁶⁾, though showing signs of recovery in the fourth quarter.

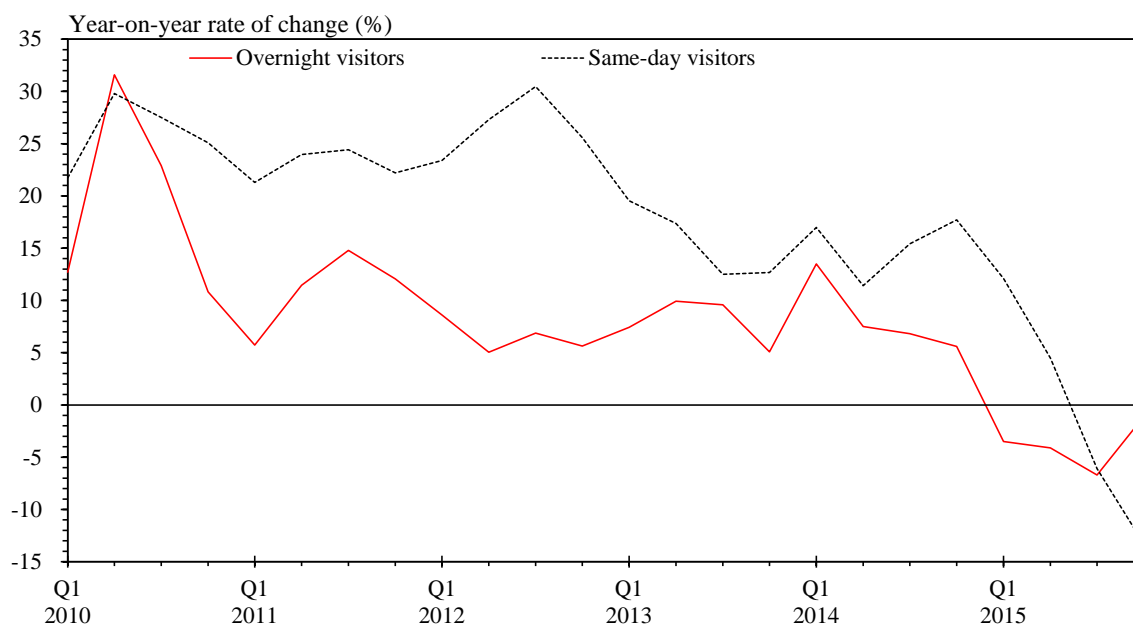
Diagram 4.8 : Visitor arrivals declined in all major markets in 2015



Note : See note (6) at the end of this chapter for the definition of short-haul and long-haul markets.

4.17 Analysed by the length of stay, same-day visitor arrivals fell by 1.4% in 2015, dragged by a decline in the second half due to the implementation of the “one trip per week” Individual Visit Endorsements. Meanwhile, overnight visitor arrivals declined by 3.9%, though the decline narrowed in the fourth quarter. Reflecting these movements, the share of same-day visitors rose from 54.4% in 2014 to 55.0% in 2015, while that of overnight visitors retreated from 45.6% to 45.0%.

Diagram 4.9 : Both same-day and overnight visitor arrivals declined in 2015

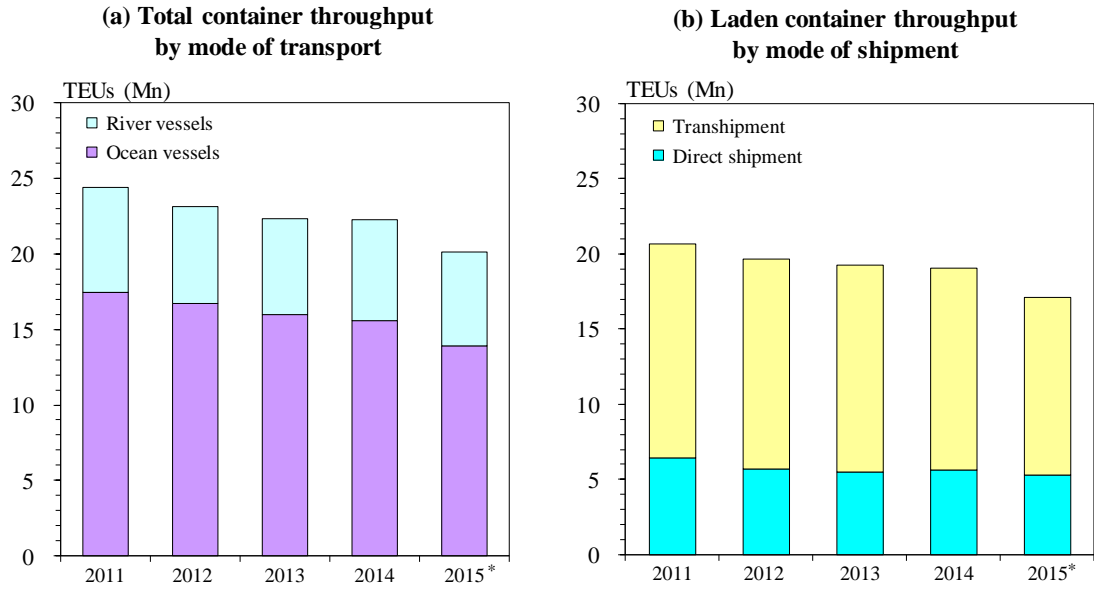


4.18 Much affected by the decline in visitor arrivals, the average hotel room occupancy rate declined from 90% in 2014 to 86% in 2015. The average achieved hotel room rate also fell by 9.2% to \$1,337⁽⁷⁾.

Logistics

4.19 Amid the subdued external trade and regional cargo flows, the logistics sector stayed sluggish throughout 2015. *Total container throughput* plunged by 9.7% from a year earlier to 20.1 million twenty-foot equivalent units (TEUs), with the rate of decline widening from 7.4% in the first quarter to 13.2% in the fourth quarter. Within the laden container throughput, direct shipment fell by 6.0%, and transshipment by a more visible 11.7%. In parallel, the value of trade handled at the Hong Kong port plummeted by 10.5%, and its share in total trade shrank further from 22.2% a year earlier to 20.5% in 2015.

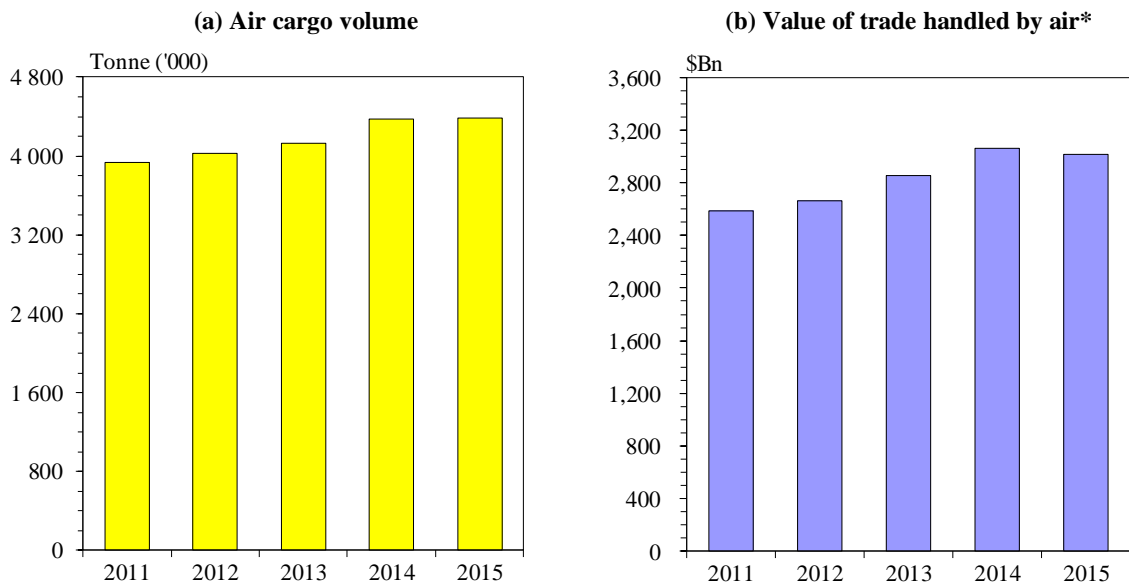
Diagram 4.10 : Container throughput plunged in 2015



Note : (*) Total container throughput for 2015 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 2015.

4.20 *Air freight throughput* was also lacklustre, rising marginally by 0.1% to 4.4 million tonnes in 2015. Meanwhile, the value of trade by air edged down by 1.4%, though its share in total trade rose from 38.8% to 39.5%.

Diagram 4.11 : Air cargo throughput rose marginally in 2015, while the value of trade handled by air edged down



Note : (*) Not including transhipment.

Transport

4.21 Traffic flows for the different major modes of transport showed mixed performances in 2015. Air passenger traffic rose by another 8.1% to 68.5 million, while water-borne passenger trips fell by 2.5% to 27.7 million. As to land-based cross-boundary traffic, passenger trips rose slightly by 1.7% to 222.6 million, while average daily vehicle movements edged down by 0.4% to 41 517.

4.22 In December, the Government commenced a three-month consultation on an electronic road pricing pilot scheme for Central and its adjacent areas, with a view to building up community consensus on issues pertinent to the planning of the pilot scheme. Based on the “user pays” principle, the electronic road pricing scheme will levy on vehicles using the roads in targeted areas during designated periods, so as to rationalise traffic flow in those areas where severe traffic congestion occurs almost daily. After collecting views of the public, the Government will appoint a consultant to conduct a feasibility study, so as to develop detailed options for further public engagement.

Creativity and innovation

4.23 The Innovation and Technology Bureau was formally established on 20 November 2015. The bureau is responsible for formulating holistic policies relating to innovation and technology, thereby fostering the development of innovation, technology and related industries in Hong Kong. The bureau would help promote the upgrading and transformation of the economic structure of Hong Kong, with a view to raising its competitiveness and improving the people’s quality of life.

Competition

4.24 The Competition Ordinance (Cap. 619), which was enacted in June 2012, came into full effect on 14 December 2015. The Competition Commission, an independent statutory body established under the ordinance, would investigate conduct that may contravene the competition rules and enforce the provisions of the ordinance, promote public understanding of the ordinance, advise the Government on competition matters and conduct market studies into matters that may affect competition in markets in Hong Kong. The ordinance will ensure Hong Kong remains a competitive, dynamic and free market, bringing the benefits of a level-playing field to Hong Kong consumers,

businesses and the wider economy.

Environment

4.25 To contribute towards the global co-operation in addressing climate change, the Chief Executive pledged to take forward a series of mitigation measures in the 2016 Policy Address. Taking into account views received during the public consultation on the future development of the electricity market conducted in 2015, the Government will discuss with the power companies the new Scheme of Control Agreements to improve the current regulatory arrangements, including enhancing the promotion of energy efficiency and the development of renewable energy. The Government will also expand the coverage of the Mandatory Energy Efficiency Labelling Scheme to include more electrical appliances and encourage the use of electric vehicles in the public transport system, so as to advocate low-carbon living. As to waste management, the Government will press ahead with the two producer responsibility schemes on waste electrical and electronic equipment and glass beverage containers. The Government will also proactively introduce a quantity based charging scheme for municipal solid waste and pursue measures complementary to the charging scheme.

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. 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). Also, take-up, demolition, completion and vacancy figures on residential and non-residential properties are preliminary figures from the Rating and Valuation Department, and are subject to revision.
- (2) Forecast completions in 2016 and 2017 are preliminary figures only, and are subject to revision upon the availability of more data.
- (3) 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.

- (4) 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.
- (5) For details of the change in Individual Visit Endorsements policy in April 2015, see paragraph 3.17 in the Half-yearly Economic Report 2015.
- (6) 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 2015, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 77%, 15% and 8% of total visitors.
- (7) The figures on hotel room occupancy and achieved room rate do not include guesthouses.