

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

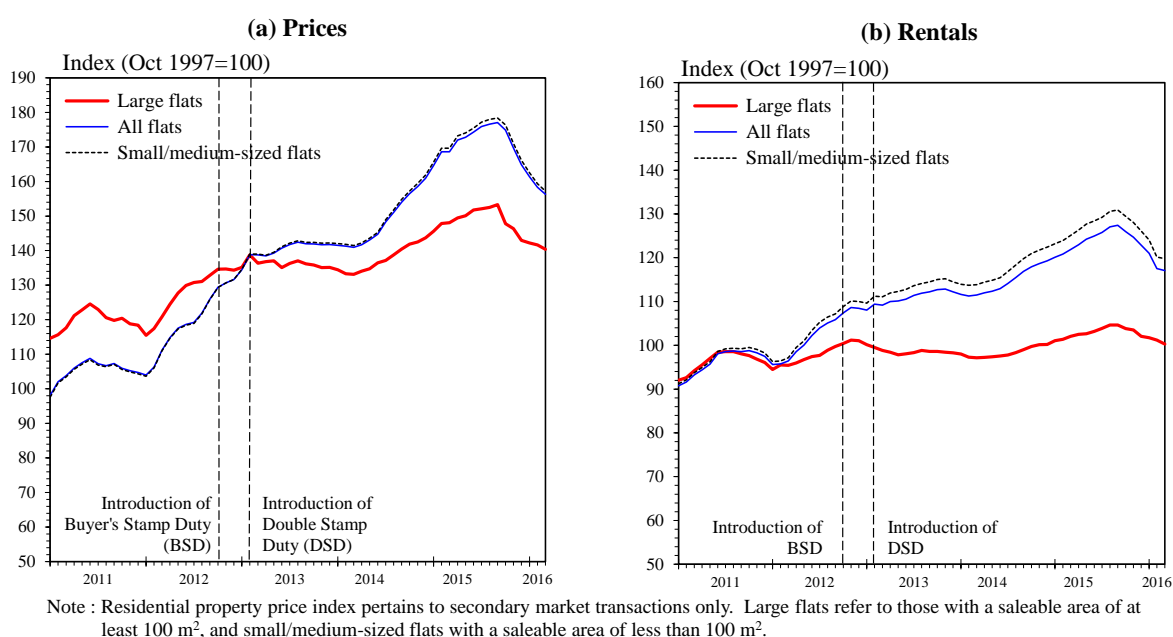
- *The residential property market consolidated further in the first quarter of 2016. Amid concerns over further US interest rate hike and a highly volatile local stock market, flat prices fell by a further 5% during the quarter. Trading activities also shrank to very low levels.*
- *Reflecting the Government's sustained efforts to increase land and flat supply, total flat supply in the coming three to four years rose to another record high of 92 000 units.*
- *The commercial and industrial property markets also remained quiet in the first quarter. Trading activities for most market segments plummeted to record lows. Prices and rentals generally went further lower.*
- *Inbound tourism remained in a consolidation mode under the on-going decline in Mainland visitors. Overall visitor arrivals dropped by 10.9% from a year earlier to 13.7 million in the first quarter.*
- *The subdued performance of external trade continued to put a drag on the logistics sector in the first quarter. Total container throughput dropped by another 10.4%, and air freight throughput by 3.5%.*

Property

3.1 The *residential property market* consolidated further in the first quarter of 2016. Amid concerns over further US interest rate hike and a highly volatile local stock market, flat prices fell further. With buying interests staying weak, trading activities shrank to very low levels.

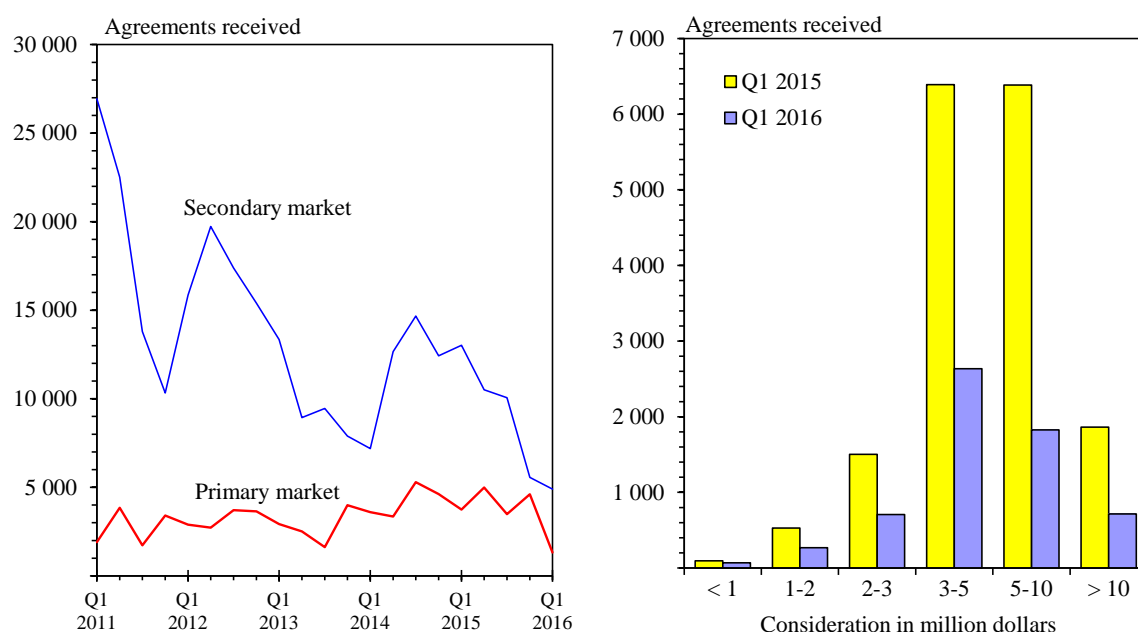
3.2 Overall flat prices fell by 5% between December 2015 and March 2016. Analysed by size, prices of small/medium-sized flats fell by a more rapid 5% during the first quarter, and those of large flats by 2%. Compared with the peak in September 2015, overall flat prices in March 2016 have fallen by a cumulative 12%.

Diagram 3.1 : Flat prices and rentals fell further in the first quarter



3.3 Reflecting the subdued trading, the number of sale and purchase agreements for residential property received by the Land Registry plunged by another 39% from the preceding quarter or 63% from a year earlier to a record low of 6 221 in the first quarter. Within the total, secondary market transactions dropped by 12% from the preceding quarter, while primary market transactions plummeted by 71% as developers slowed down the launch of new projects. In parallel, total consideration shrank by 39% to \$44.7 billion.

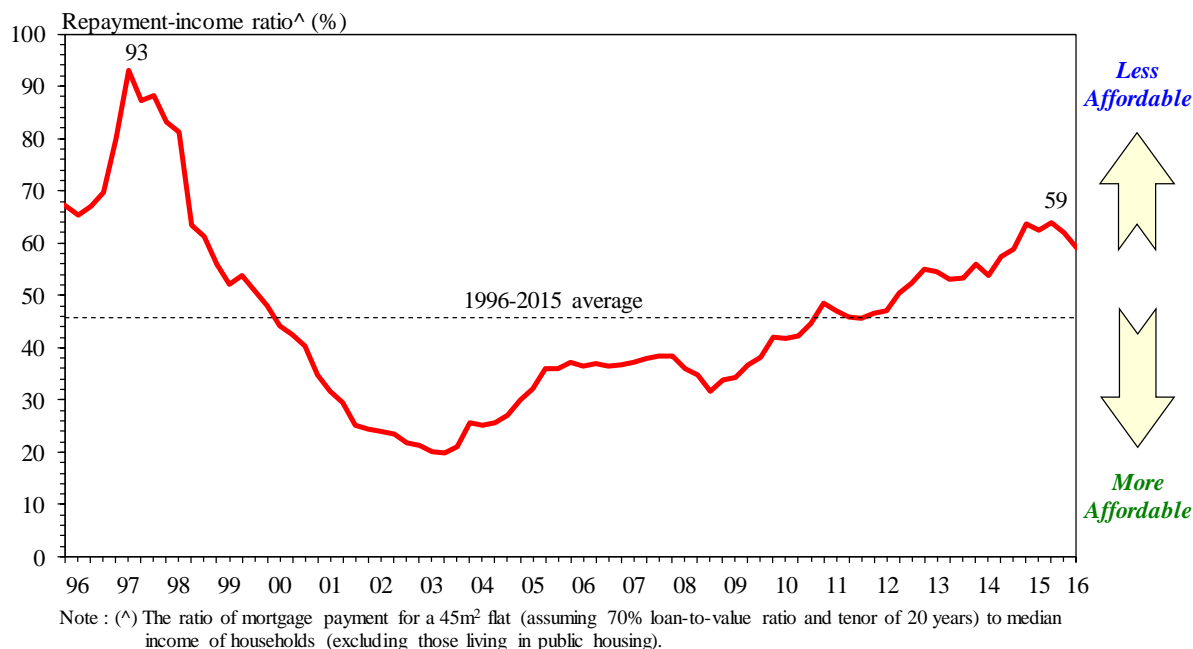
Diagram 3.2 : Trading activities dropped to a record low level in the first quarter



3.4 Likewise, the leasing market was quiet in the first quarter. Overall flat rentals dropped by 5% between December 2015 and March 2016. Within the total, rentals of small/medium-sized and large flats went lower by 5% and 2% respectively. Overall flat rentals in March 2016 were 8% down from the peak in September 2015. Reflecting the relative movements of flat prices and rentals, the average rental yield for residential property stayed at 2.8% in March 2016, unchanged from December 2015.

3.5 Notwithstanding the recent consolidation, overall flat prices in March 2016 still exceeded the 1997 peak by 56%. 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) fell from 62% in the preceding quarter to around 59% in the first quarter, but still significantly higher than the long-term average of 46% over 1996-2015. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 77%.

Diagram 3.3 : The mortgage payment to income ratio stayed elevated



3.6 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. In February, the Government announced the 2016-17 Land Sale Programme, which includes 29 residential sites capable of providing a total of about 19 200 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), it is estimated that the total housing land supply in 2016-17 could provide for around 28 600 private flats, much higher than the annual housing supply target of 18 000 units.

3.7 As a result of the Government's sustained efforts, the *total supply of flats* in the coming three to four 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 87 000 units as estimated at end-2015 to another record high of 92 000 units as estimated at end-March 2016. In addition, another 6 200 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites".

3.8 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⁽¹⁾. 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 24 cases per month or 0.9% of total transactions in the first quarter, 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 47 cases per month or 1.8% of total transactions in the first 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 was 50% in the first quarter, 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 3.4 : Speculative activities stayed subdued

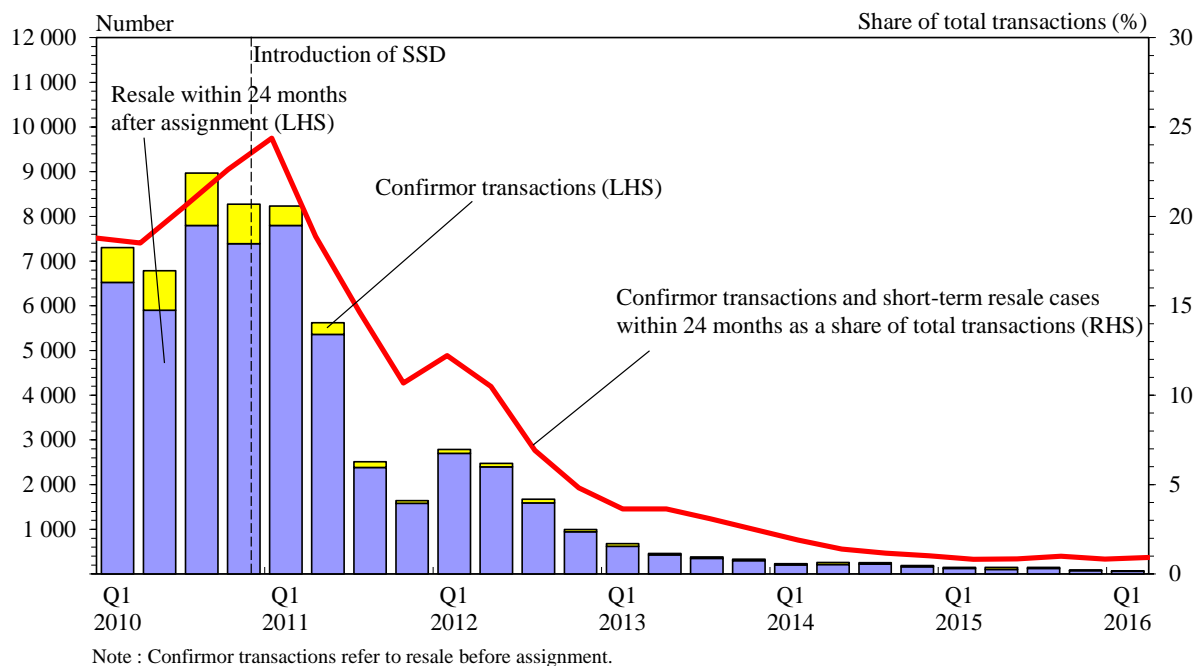
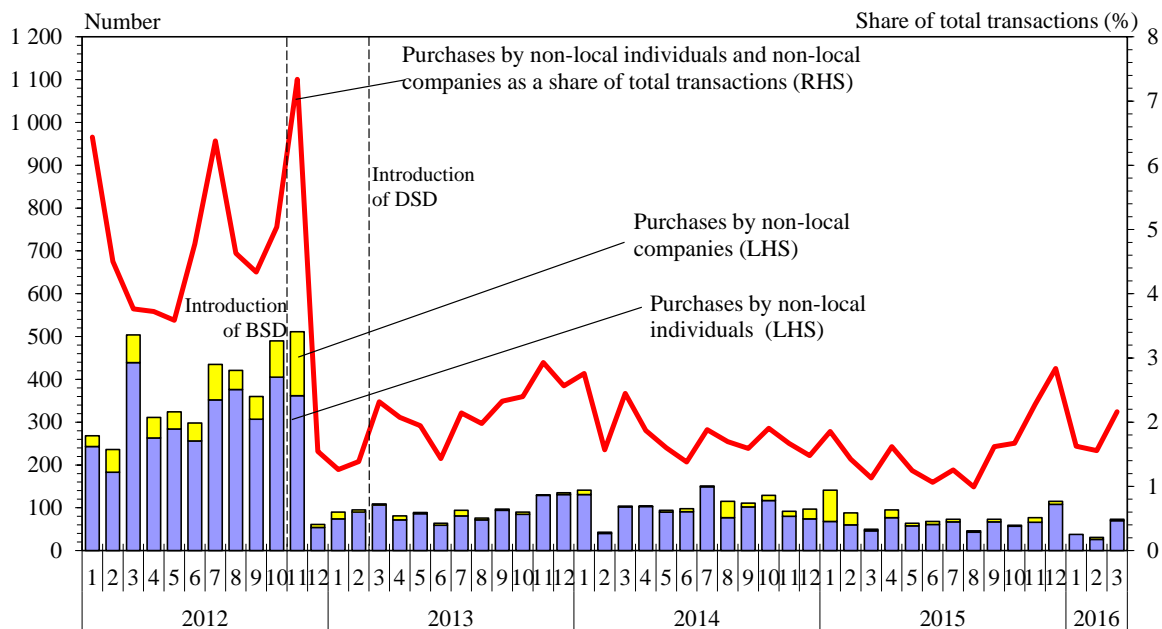


Diagram 3.5 : Purchases by non-local buyers remained low



3.9 Looking forward, the demand-supply balance of flats looks set to ease, putting further pressure on the property market. As a result of the Government's sustained efforts, the medium-term supply of flats has risen significantly. On the other hand, demand for flats will likely moderate given the subdued economic outlook. Externally, it is widely expected that the US Federal Reserve would further raise interest rate during the year, though the pace and magnitude is still uncertain.

3.10 The *commercial* and *industrial property markets* also remained quiet in the first quarter of 2016. Trading activities for most market segments plummeted to record lows. Prices and rentals generally went further lower.

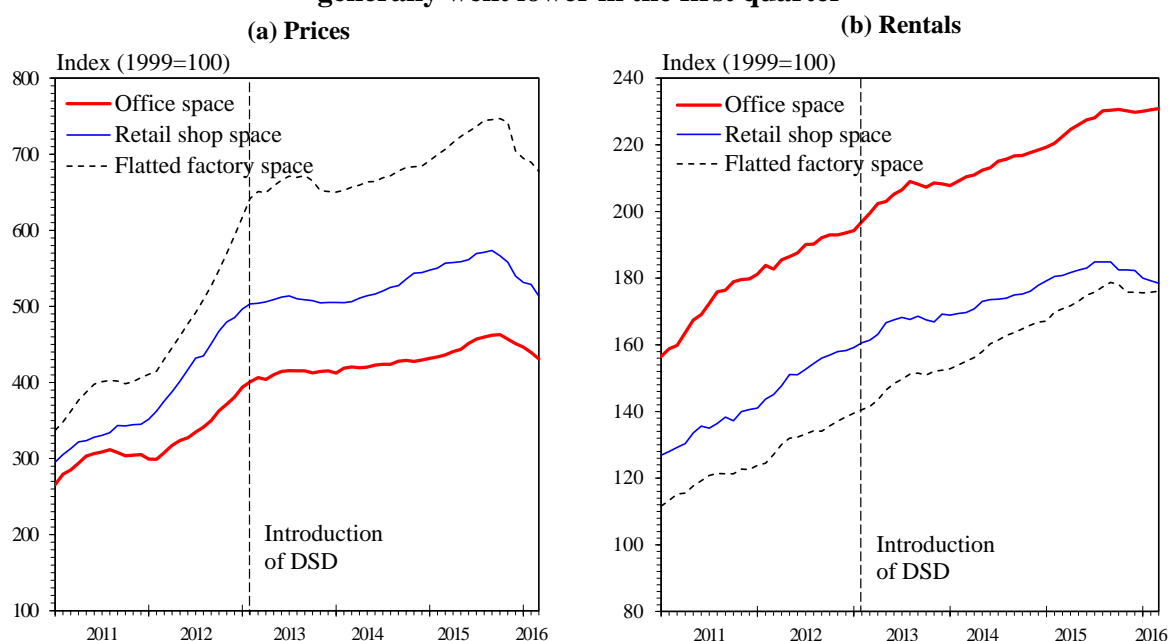
3.11 Comparing March 2016 with December 2015, overall sale prices of *office space* fell by 4%. Within the total, prices of Grade A, B and C office space declined by 2%, 4% and 7% respectively. Meanwhile, overall rentals were little changed. Within the total, rentals of Grade A and C office space were flat, while rentals of Grade B office space edged up by 1%. As a result, the respective average rental yields for Grade A, B and C office space were 2.9%, 3.1%, and 3.2% in March 2016, compared with 2.9%, 3.0% and 2.9% in December 2015. In the first quarter, transactions for office space plunged by 37% from the preceding quarter or 66% from a year earlier to a record low of 140 cases.

3.12 Affected by the weak retail sales performance, sale prices and rentals of *retail shop space* fell by 5% and 2% respectively between December 2015

and March 2016. Reflecting these movements, the average rental yield rose from 2.5% in December 2015 to 2.6% in March 2016. As to trading activities, transactions edged up by 2% over the preceding quarter to 320 cases in the first quarter, yet still representing a plunge of 42% from a year earlier⁽²⁾.

3.13 For *flatted factory space*, sale prices went down by 4% during the first quarter of 2016, while rental were virtually unchanged. Reflecting the relative movement of prices and rentals, the average rental yield went up from 3.0% in December 2015 to 3.1% in March 2016. Transactions for flatted factory space shrank by 44% from the preceding quarter or 58% from a year earlier to 400 cases in the first quarter, the lowest level on record.

**Diagram 3.6 : Prices and rentals of non-residential properties
generally went lower in the first quarter**



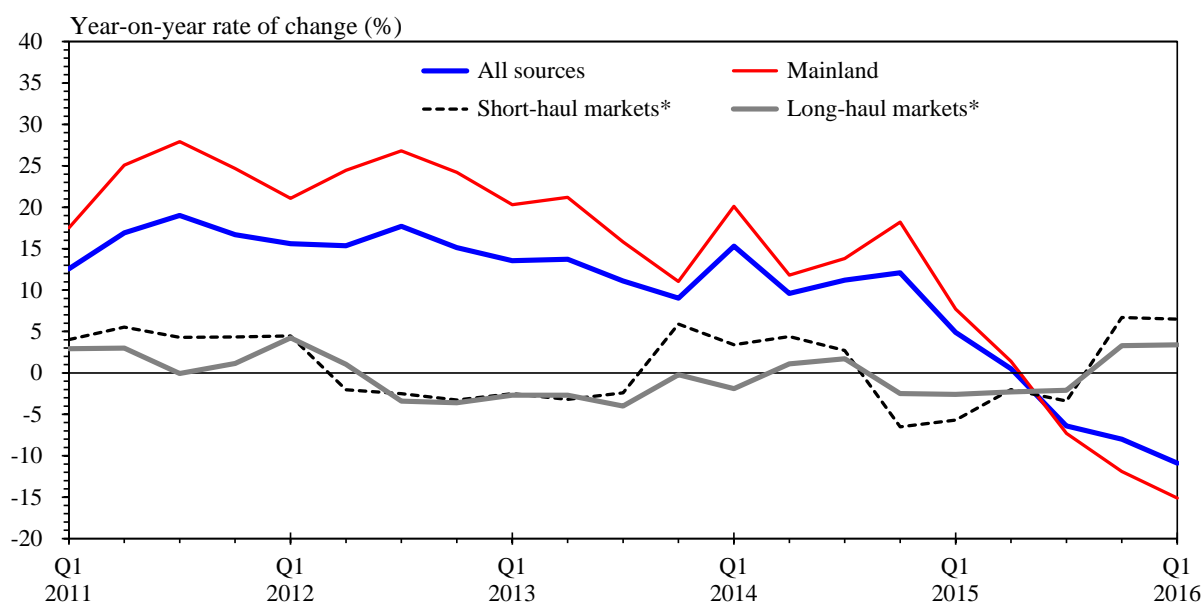
Land

3.14 Reflecting the Government's efforts to increase land supply, five residential sites, with a total area of about 7.9 hectares, were disposed in the first quarter, fetching a land premium of about \$12.9 billion. The tender exercises for one business site in Kwai Chung also commenced in the quarter. There was no land exchange approved in the first quarter, while lease modifications of 12 sites were approved.

Tourism

3.15 Inbound tourism remained in a consolidation mode in the first quarter of 2016 under the on-going decline in Mainland visitors. Overall *visitor arrivals* dropped by another 10.9% from a year earlier to 13.7 million. Mainland visitors plunged by 15.1% to 10.4 million, reflecting the impact of the “one trip per week” Individual Visit Endorsements implemented since last April⁽³⁾ and increased competition from neighbouring destinations. Other markets fared better by comparison. Short-haul and long-haul visitors⁽⁴⁾ rose by 6.5% and 3.4% respectively.

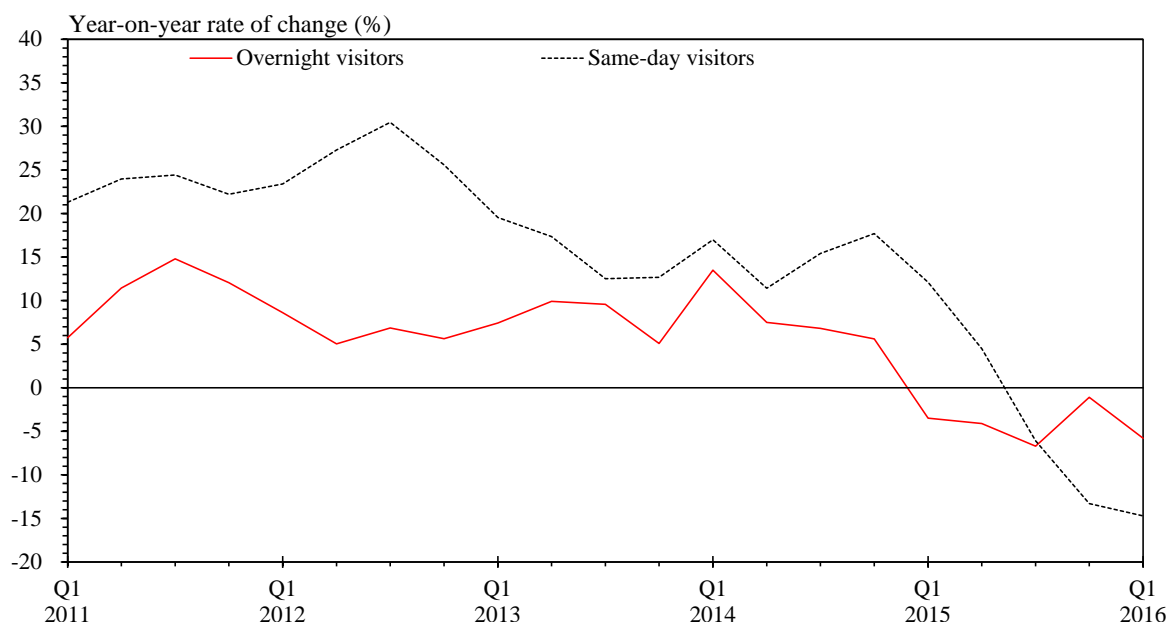
Diagram 3.7 : Inbound tourism remained in a consolidation mode in the first quarter of 2016 under the on-going decline in Mainland visitors



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

3.16 Analysed by the length of stay, same-day visitors fell by 14.7% from a year earlier, and overnight visitors by a less rapid 5.8%. Reflecting these movements, the share of same-day visitors declined from 57.6% a year earlier to 55.1% in the first quarter, while that of overnight visitors rose from 42.4% to 44.9%.

Diagram 3.8 : Both same-day and overnight visitor arrivals continued to fall



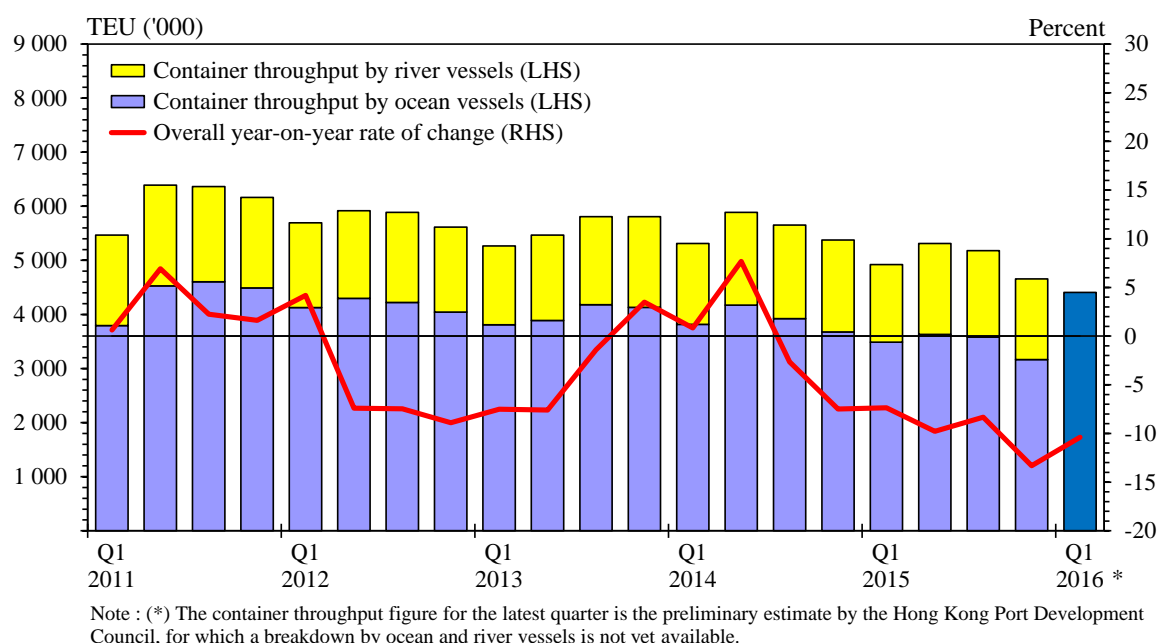
3.17 In parallel to the decline in overnight visitors, the average hotel room occupancy rate declined from 86% a year earlier to 83% in the first quarter. Likewise, the average achieved hotel room rate fell by 9.1% to \$1,292⁽⁵⁾. As to spending by visitors, due to a fall in both visitor arrivals and per-capita spending, total tourism expenditure associated to inbound tourism dropped by 7.5% to \$332.3 billion in 2015, the first annual decline since the sector was hit by the Severe Acute Respiratory Syndrome epidemic in 2003.

3.18 To provide support to the tourism industry and enhance the attractiveness and competitiveness of Hong Kong, a series of short, medium and long-term measures were announced in the 2016-17 Budget. As to short-term measures, a total of some \$140 million of licence fees would be waived for one year for the tourism-related trades and industries (e.g. travel agents, hotels and guesthouses as well as restaurants). In the medium term, the Government would allocate \$240 million to launch five measures, including expanding the scale of this year's major events, re-packaging Hong Kong's tourism image, assisting the industry to open up new visitor sources, subsidising small and medium-sized travel agents to make use of information technology, and continuing to promote Hong Kong's natural scenery as well as unique history and culture. In the long run, the Government would continue to upgrade the tourism infrastructure.

Logistics

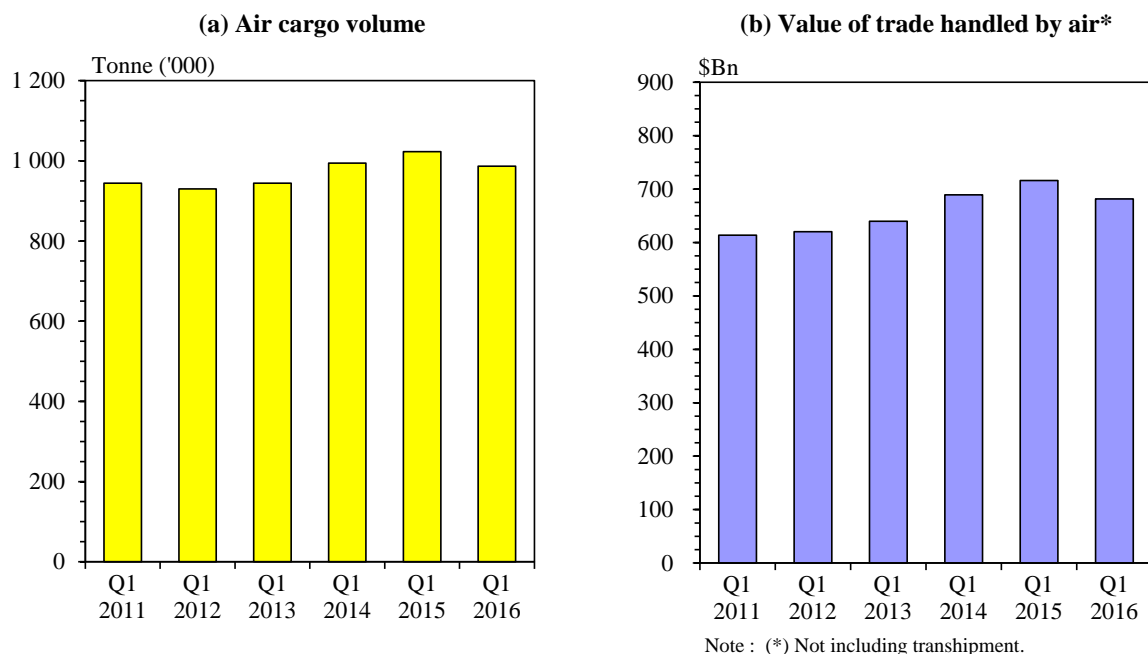
3.19 The subdued performance of external trade continued to put a drag on the logistics sector in the first quarter of 2016. *Total container throughput* plunged by another 10.4% from a year earlier to 4.4 million twenty-foot equivalent units (TEUs). In parallel, the value of trade handled at the Hong Kong port plummeted by 14.5%, and its share in total trade dwindled from 21.7% a year earlier to 20.0%.

Diagram 3.9 : Container throughput continued to fall in the first quarter



3.20 *Air freight throughput* fell by 3.5% from a year earlier to 1.0 million tonnes in the first quarter, the sharpest fall since the fourth quarter of 2011 when the sector was hit by the eurozone sovereign debt crisis. The value of trade by air also declined by 5.9%, though its share in total trade rose from 40.0% a year earlier to 40.7%.

Diagram 3.10 : Air cargo throughput and value of trade handled by air declined in the first quarter



Transport

3.21 Traffic flows for different major modes of transport continued to show a mixed performance in the first quarter of 2016. Air passenger traffic rose by 7.5% over a year earlier to 17.6 million, while water-borne passenger trips fell by 4.7% to 6.3 million. As to land-based cross-boundary traffic, passenger trips dropped by 3.4% to 53.8 million and average daily vehicle movements also declined slightly by 0.8% to 39 233.

Creativity and Innovation

3.22 Various measures were announced in the 2016-17 Budget to nurture innovation and support the creative industries⁽⁶⁾. On application of research and development, the Hong Kong Science and Technology Parks Corporation (HKSTPC) is planning for two pilot high-efficiency multi-storey building projects in the Tseung Kwan O Industrial Estate. Also, the Government would, among others, inject \$2 billion into the Innovation and Technology Fund to launch a Midstream Research Programme for Universities. On promoting start-ups (**Box 3.1**), the Government has earmarked \$2 billion to set up the Innovation and Technology Venture Fund to co-invest with selected private venture capital funds on a matching basis in local innovation and technology start-ups. The Cyberport would also earmark \$200 million to invest in its start-ups. In addition, the HKSTPC plans to expand the Hong Kong Science Park in phases to provide additional floor area for start-ups and other technology companies. The first stage of the expansion programme will

provide some 70 000 square metres of new floor space by 2020. As to creative industries, the Government would inject additional financial resources and launch different events and schemes to support the fashion and design industry, film industry and arts and sports.

Environment

3.23 The Steering Committee on Climate Change, chaired by the Chief Secretary of Administration, held its first meeting on 7 April. A key task of the Steering Committee is to formulate long term climate strategies to meet a new carbon reduction target beyond 2020. To this end, bureaux and departments were asked to review the scope for enhancing their mitigation, adaptation, and resilience actions against climate change. Also, publicity and education effort would be stepped up further to mobilise the society to join hands in combating climate change.

Box 3.1

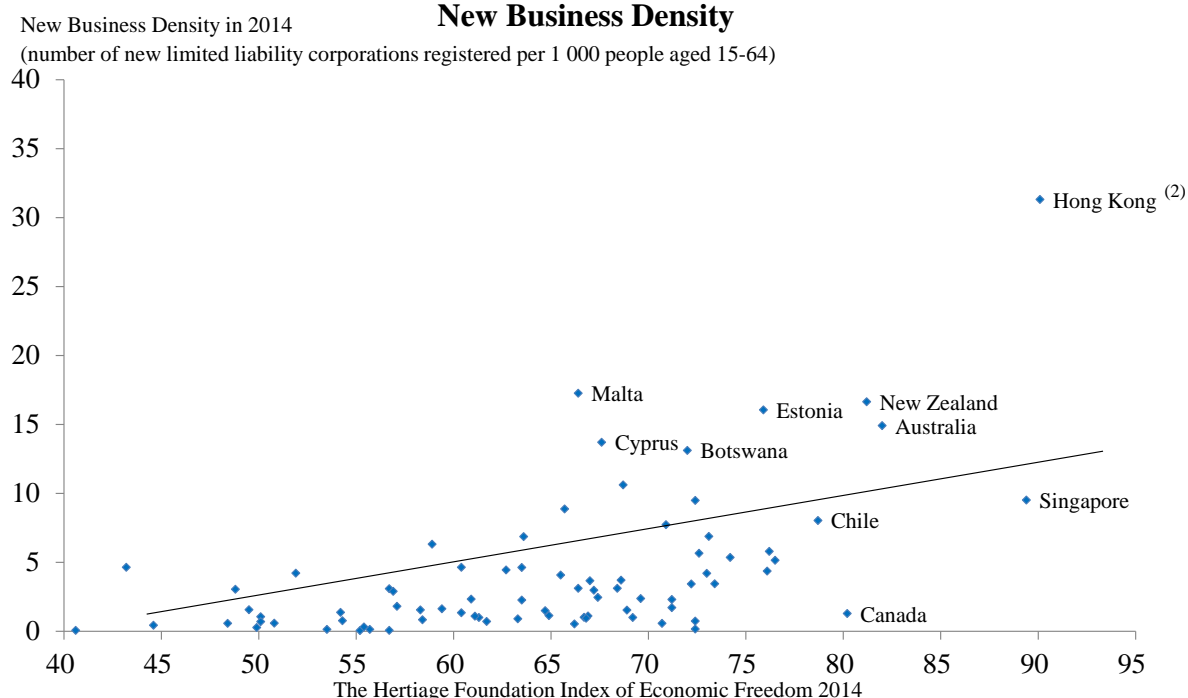
Entrepreneurship and Economic Freedom

Entrepreneurship has always been at the core of Hong Kong's economic development. Decades gone by, entrepreneurs are behind every turn in the Hong Kong economy, adopting new technologies, establishing new practices, tapping into new geographical markets, venturing into new sectors, thereby propelling productivity growth and providing sustained momentum to Hong Kong's drive towards higher value-added activities. This article seeks to establish a statistical link between entrepreneurship activities in economies around the world and a certain set of institutional qualities, as summarised in the Index of Economic Freedom by The Heritage Foundation under four main qualities in the Rule of Law, Government Size, Regulatory Efficiency and Open Market.

To measure entrepreneurship, this article adopts the New Business Density from the World Development Indicators provided by the World Bank. It is defined as the number of newly registered corporations with limited liability per 1 000 people aged 15-64.

A casual scatter plot of the New Business Density in 2014 and Index of Economic Freedom 2014 across 80 economies⁽¹⁾ (**Chart 1**) suggests a positive relationship between entrepreneurship and economic freedom.

**Chart 1 : The Heritage Foundation Index of Economic Freedom and
New Business Density**



Sources: World Development Indicators and Terry Miller and Anthony B. Kim, 2014 Index of Economic Freedom (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2014), <http://www.heritage.org/index>.

(1) The number of economies for which both sets of data are available.

(2) According to the Study Report on History of Company Incorporation in Hong Kong released by Companies Registry in 2013, the number of new incorporation surged each year after the CEPA signed in 2003 and the introduction of one-member companies in 2004. Hong Kong's New Business Density also increased from 13.1 in 2004 to 31.3 in 2014.

Box 3.1 (Cont'd)

To further investigate the relationship, the following regression model is estimated using country-level data from 2005 to 2014:

$$NBD_{it} = \beta_0 + \beta_1 Freedom_{it} + \varepsilon_{it},$$

where NBD_{it} denotes New Business Density for economy i in year t ;
 $Freedom_{it}$ denotes Index of Economic Freedom for economy i in year t .

Column 1 of **Table 1** reports the key results. The coefficient of Index of Economic Freedom is positive and statistically significant. This is fully understandable. A fine tradition of the rule of law that respects property rights and reduces occasions of corruption into rare cases would encourage individuals to start their businesses. A small and disciplined government sector, together with a sound and light regulatory regime, would also create favourable conditions for entrepreneurship, whereas a highly open market that ensure the free flows of people, goods, capital and information would be conducive to new business opportunities.

Table 1 : Regression results with New Business Density as the dependent variable

Independent variables	(1)	(2)
Intercept	-13.209 ***	-1.162 **
Index of Economic Freedom	0.263 ***	0.027 ***
<i>Dummy variables</i>		
D_M		-7.772 ***
$D_M \times$ Index of Economic Freedom		0.162 ***
D_H		-14.285 ***
$D_H \times$ Index of Economic Freedom		0.272 **
Number of economies	126	126
Sample size	933	933
Adjusted R-square	0.284	0.298

Notes: ** denotes statistical significance at 5% significant level; *** denotes statistical significance at 1% significant level.

To examine how the finding above varies with stages of economic development, the base model is further enriched with dummy variables D_M and D_H , together with their interactions with the Index of Economic Freedom. D_M denotes if the economy is classified as either upper-middle-income economy or lower-middle-income economy by the World Bank, and D_H denotes if the economy is classified as high-income economy by the World Bank.

Box 3.1 (Cont'd)

As shown in *Column 2* of *Table 1*, the coefficients of both interaction terms are positive and statistically significant, suggesting that the extent of boosting effect from the same set of institutional qualities on entrepreneurship in economies would vary in different stages of development. In particular, the coefficient of the interaction term of D_H and Index of Economic Freedom is larger than that of D_M and Index of Economic Freedom, indicating a potentially stronger role by economic freedom in entrepreneurship in the more advanced economies. Differences in motivation and nature of entrepreneurship might be the possible reasons behind. Compared to the low-income economies, entrepreneurship in the high-income economies is relatively opportunity-motivated instead of necessity-motivated⁽³⁾. Hence, it is understandable that a better set of institutional qualities is more relevant in enhancing entrepreneurship in the more advanced economies, considering that there are more viable alternatives to entrepreneurship for individuals.

This article points to one of the channels where good institutions lead to economic growth and sustainable development, through fostering entrepreneurship. The Government will continue to upkeep Hong Kong's institutional strength, in the rule of law, a level playing field for fair competition, an efficient public sector, a simple and low tax regime, and an open market for all. At the same time, noting the rising tide of entrepreneurship in the form of start-ups, the Government has also introduced specific measures in recent years to facilitate start-ups that can span across various industry sectors. All these aim at bringing sustainable, diversified and quality economic development in Hong Kong for the years to come.

(3) According to the Global Entrepreneur Monitor (<http://www.gemconsortium.org>), entrepreneurship is opportunity-motivated when individuals perceive a business opportunity and take it. On the other hand, entrepreneurship is necessity-motivated when individuals become entrepreneurs simply because they have no better choices for work.

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) For details of the change in Individual Visit Endorsements policy in April 2015, see paragraph 3.17 in the Half-yearly Economic Report 2015.
- (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 the first quarter of 2016, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 76%, 16% and 8% of total visitors.
- (5) The figures on hotel room occupancy and achieved room rate do not include guesthouses.
- (6) For a full list of the details, see paragraphs 44 to 75 of the 2016-17 Budget.