

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

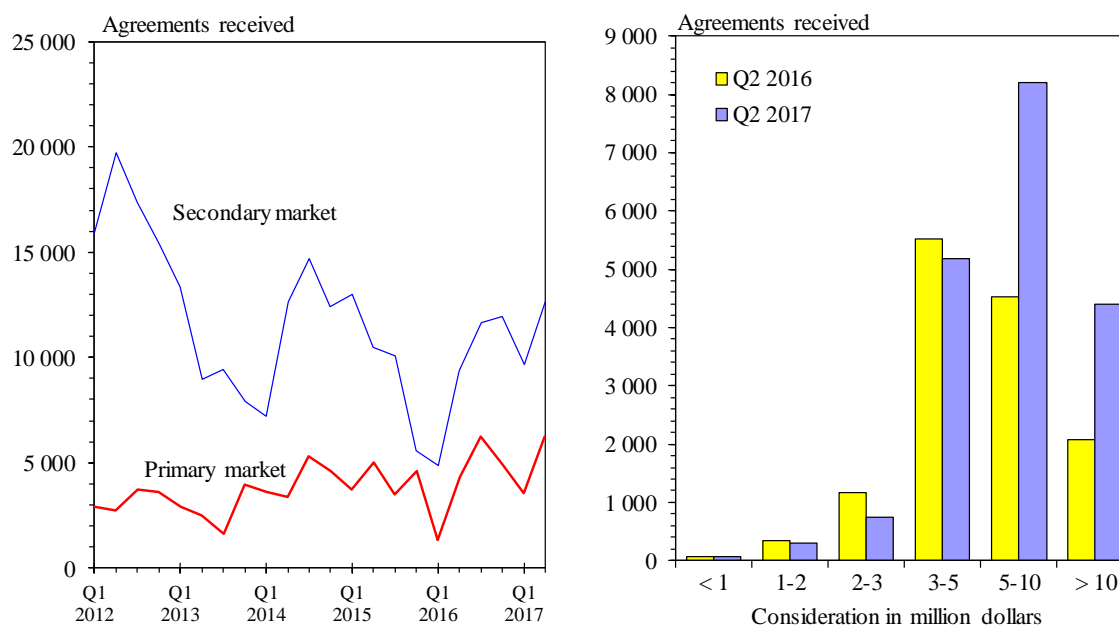
- *The residential property market remained generally buoyant in April and early May 2017 amid a still tight demand-supply situation and market expectation that local interest rates would remain low for some time. It showed some signs of moderation in June following the introduction of the eighth round of macro-prudential measures for property mortgage loans by the Hong Kong Monetary Authority. For the second quarter as a whole, trading still showed a notable increase while flat prices rose by 5%.*
- *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 98 000 units.*
- *The commercial and industrial property markets generally firmed up in the second quarter. Trading activities turned more active, while prices and rentals of most market segments showed further increases.*
- *The number of visitor arrivals continued to recover in the second quarter. Overall visitor arrivals increased by 1.0% over a year earlier to 13.6 million, with visitors from the Mainland, short-haul and long-haul markets up by 0.8%, 2.1% and 1.0% respectively.*
- *The logistics sector gathered further strength in the second quarter amid the continued improvement in external trade. Total container throughput and air freight throughput in the second quarter leapt by 8.5% and 11.1% respectively over a year earlier.*

Property

3.1 The *residential property market* remained generally buoyant in April and early May 2017 amid a still tight demand-supply situation and market expectation that local interest rates would remain low for some time. It showed some signs of moderation in June following the introduction of the eighth round of macro-prudential measures for property mortgage loans by the Hong Kong Monetary Authority (HKMA) in May (see paragraph 3.8 and note (2)). For the second quarter as a whole, trading still showed a notable increase while flat prices continued to rise.

3.2 The total number of sale and purchase (S&P) agreements for residential property received by the Land Registry surged by 43% over the preceding quarter or by 38% over a year earlier to 18 892 in the second quarter. Yet after reaching a high of 7 060 in April, it declined to 5 732 and 6 100 in May and June respectively as potential buyers turned more cautious. Within the total, primary market transactions in the second quarter soared by 75% over the preceding quarter as developers paced up the launch of new projects, which were mostly greeted with favourable responses. Secondary market transactions also rose noticeably by 31%. Likewise, total consideration leapt by 60% to \$182.3 billion. However, due to the less fervent trading in the first quarter, the number of S&P agreements for the first half of 2017 as a whole fell by 8% from the second half of 2016 to 32 113 while total consideration went up moderately by 8% to \$296.6 billion.

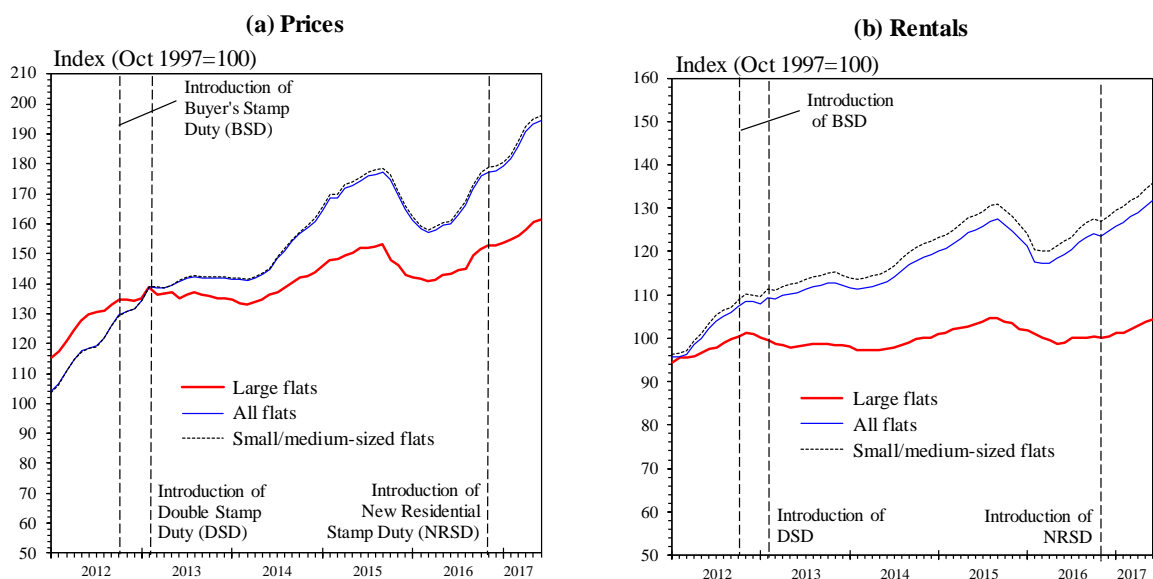
Diagram 3.1 : Trading remained buoyant in the second quarter of 2017



3.3 Overall flat prices rose further, by 5% during the second quarter. Yet the month-to-month increase decelerated from 2.7% in April to 1.2% in May and further to 0.7% in June. Analysed by size, prices of small/medium-sized flats and large flats increased by 5% and 3% respectively during the second quarter. During the first half of 2017, overall flat prices rose by a cumulative 9%.

3.4 Overall flat rentals also rose by 3% between March and June, with rentals of small/medium-sized flats and large flats up by 3% and 2% respectively. During the first half of 2017, overall flat rentals rose by a cumulative 6%. The average rental yield for residential property stayed at 2.6% in June, unchanged from March.

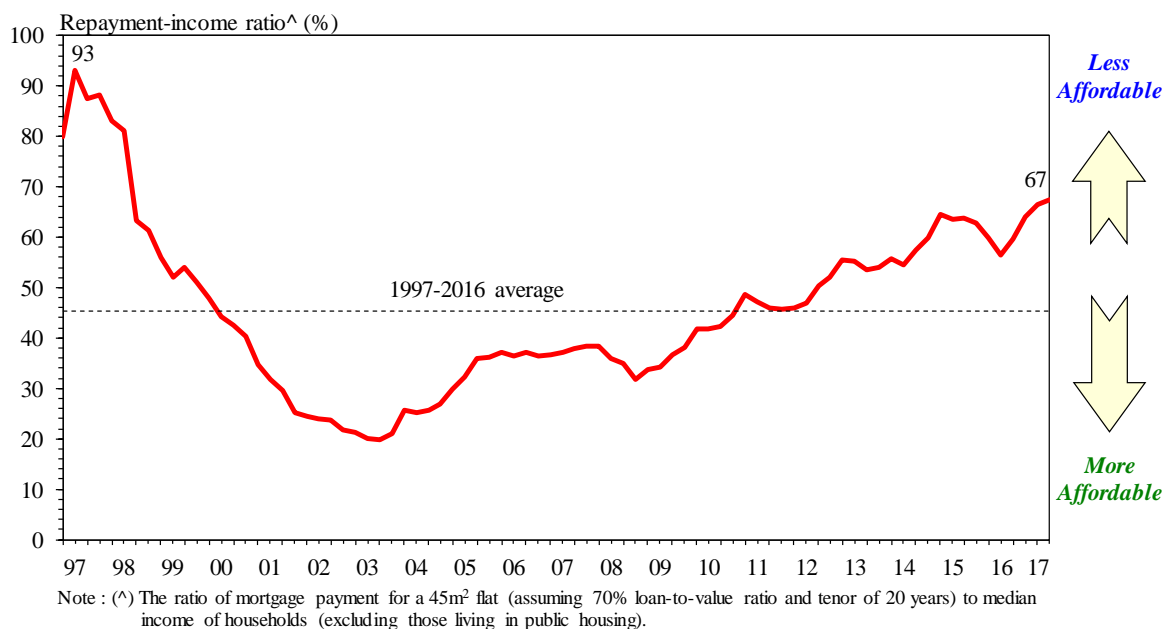
Diagram 3.2 : Flat prices and rentals rose further during the second quarter



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.

3.5 As a result of the surge over the past several years, overall flat prices in June 2017 exceeded the 1997 peak by a rampant 94%. The home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) worsened further to around 67% in the second quarter, significantly above the long-term average of 45% over 1997-2016. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 87%.

Diagram 3.3 : The mortgage payment to income ratio worsened further



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 June the Government announced that it would put up three residential sites for sale in the third quarter of 2017, which are capable of providing about 1 350 flats. The private housing land supply from Government land sale, railway property development project, the Urban Renewal Authority’s project, and private development and redevelopment projects in the first half of 2017-18 has a capacity to provide about 16 100 flats, representing about 89% of the 2017-18 supply target of 18 000 flats.

3.7 Reflecting the Government’s sustained efforts in raising land supply, the number of private domestic units commencing work went up by 16% over a year earlier to 12 600 in the first half of 2017, and completions by 19% to 8 800. 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 from 96 000 units as estimated at end-March to another record high of 98 000 units as estimated at end-June. In addition, 11 100 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⁾. To strengthen banks’ risk management and resilience, in May the HKMA introduced the eighth round of macro-prudential measures for property mortgage loans⁽²⁾. The various demand-side management measures

have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 44 cases per month or 0.7% of total transactions in the second 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* also stayed low at 100 cases per month or 1.5% of total transactions in the second quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As an indicator of *investment activities*, purchases subject to New Residential Stamp Duty were modest at 683 cases per month or 10.4% of total transactions in the second quarter, sharply below the monthly average of 1 412 cases subject to Double Stamp Duty or 26.5% in January to November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages approved was 50% in the second quarter, likewise considerably 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 HKMA.

Diagram 3.4 : Speculative activities stayed subdued

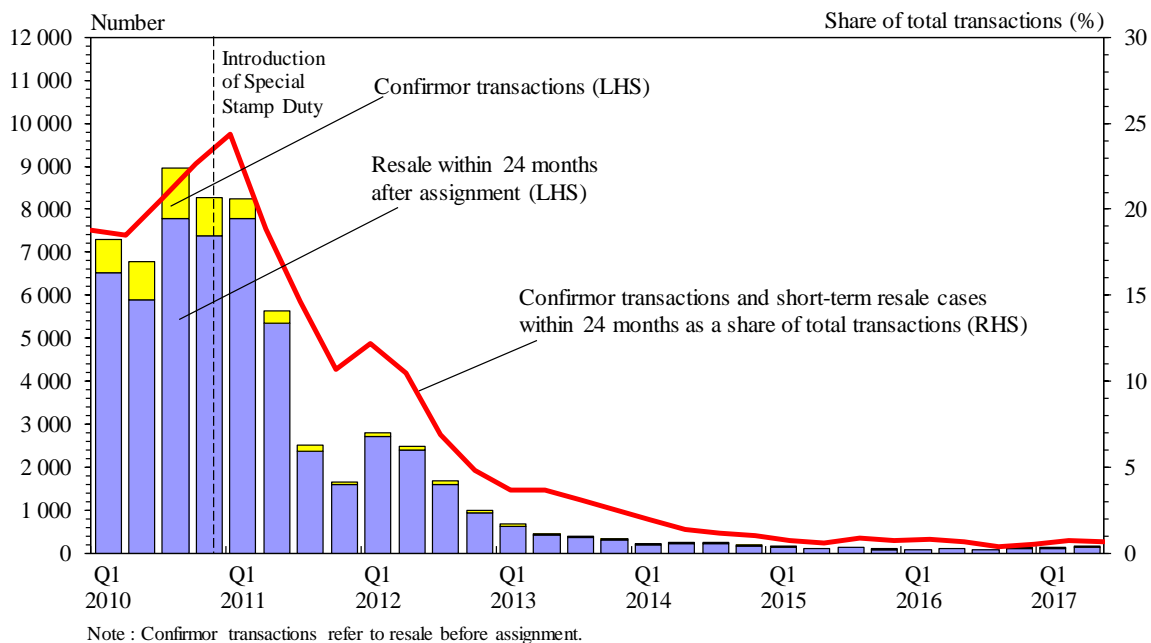


Diagram 3.5 : Purchases by non-local buyers remained low

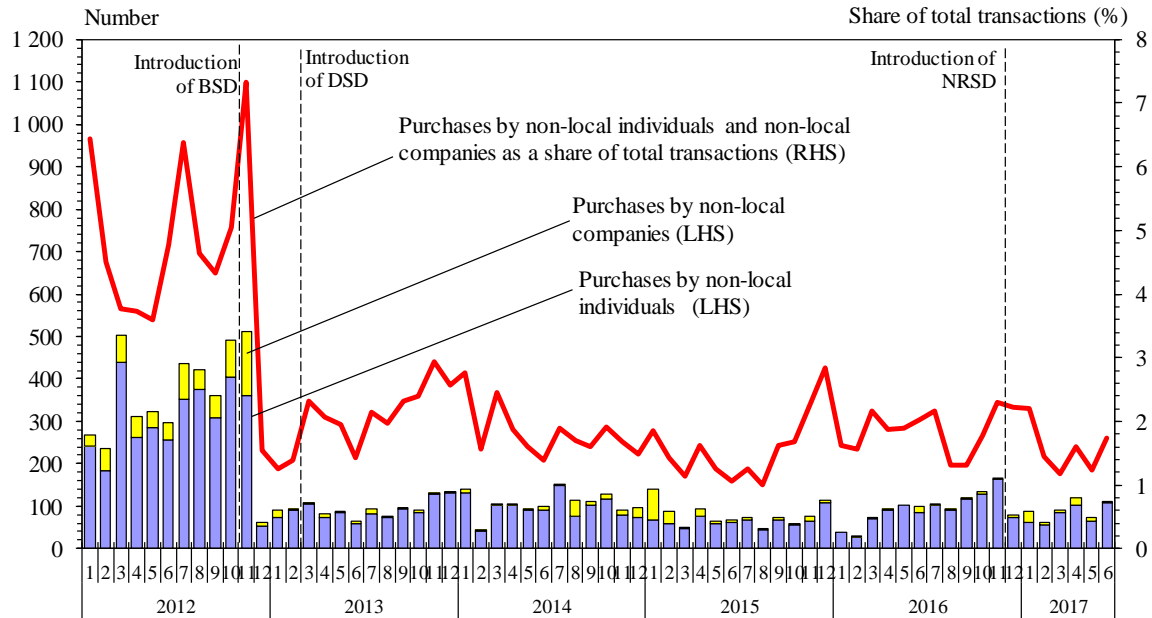
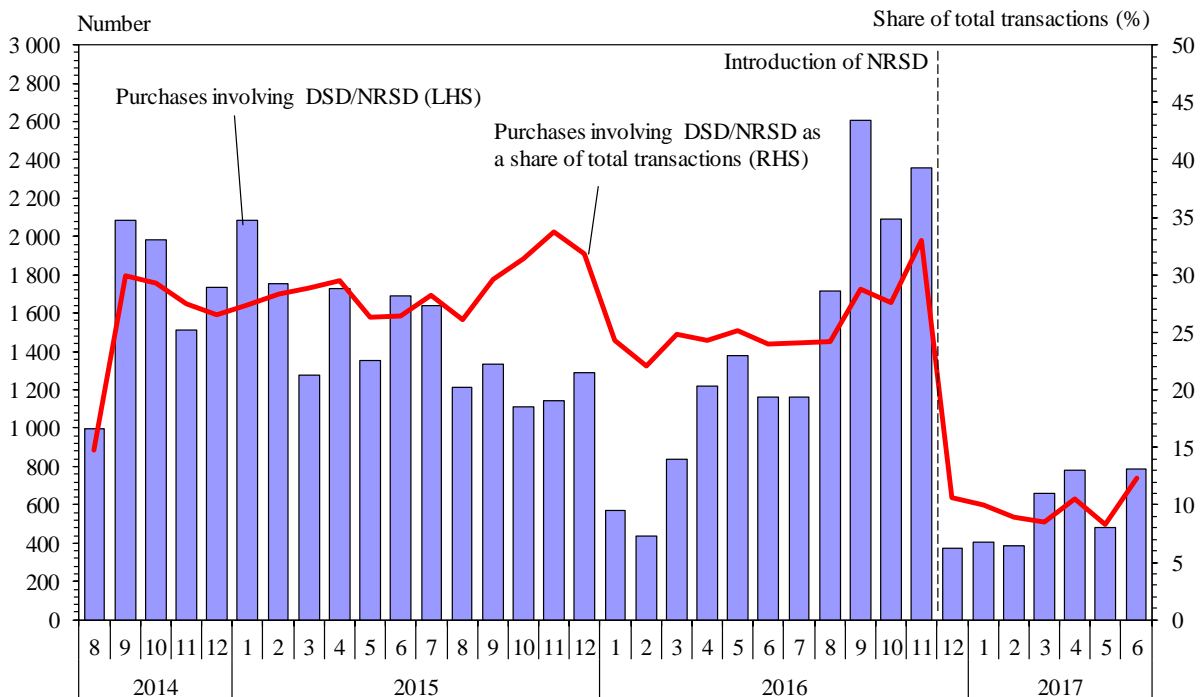


Diagram 3.6 : Investment activities were modest



3.9 The outlook for the property market will hinge on interest rate movements, the demand-supply balance of flats as well as market sentiment. Notwithstanding the interest rate hike by the US Federal Reserve in June, local interbank rates remained stable and no bank in Hong Kong has raised the best lending rate. Yet as the US interest rate normalisation process proceeds, local interest rates are set to rise under the Linked Exchange Rate System. The demand-supply balance of flats would also ease when the increased residential land supply over the past few years gradually turns into actual flat production.

The combined effects of higher interest rates and increased flat supply would reverse the fervent market sentiment in due course.

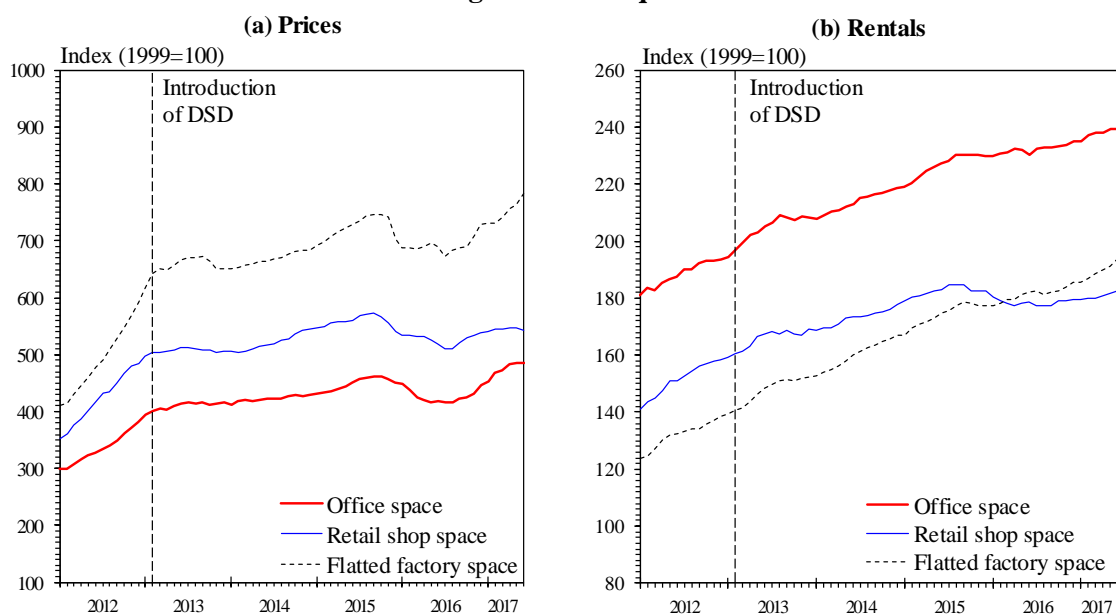
3.10 The *commercial* and *industrial property markets* generally firmed up in the second quarter of 2017. Trading activities turned more active, while prices and rentals of most market segments showed further increases.

3.11 Overall sale prices of *office space* rose by another 3% between March and June. Within the total, prices of Grade A and C office space increased by 2% and 6% respectively, while those of Grade B office space stayed little changed. Over the same period, overall rentals edged up by 1%, with those of Grade B and C office space both rising by 1% and those of Grade A office space remaining unchanged. The average rental yields of Grade A, B and C office space edged down to 2.7%, 2.8% and 2.8% respectively in June, from 2.8%, 2.9% and 2.9% in March. Transactions for office space increased by 23% over the preceding quarter or by an even sharper 104% over a year earlier to 530 cases in the second quarter.

3.12 For *retail shop space*, sale prices edged down by 1%, while rentals rose by 2% during the second quarter. The average rental yield stayed unchanged at 2.5%. Trading activities rose to 580 cases in the second quarter, representing an increase of 17% over the preceding quarter or 113% over a year earlier⁽³⁾.

3.13 Sale prices and rentals of *flatted factory space* in June rose by 5% and 3% respectively over March. Reflecting these movements, the average rental yield edged down from 3.0% to 2.9% over the period. Transactions increased by 26% over the preceding quarter or by a much sharper 106% over a year earlier to 1 210 cases in the second quarter.

Diagram 3.7 : Prices and rentals of most non-residential properties rose further during the second quarter



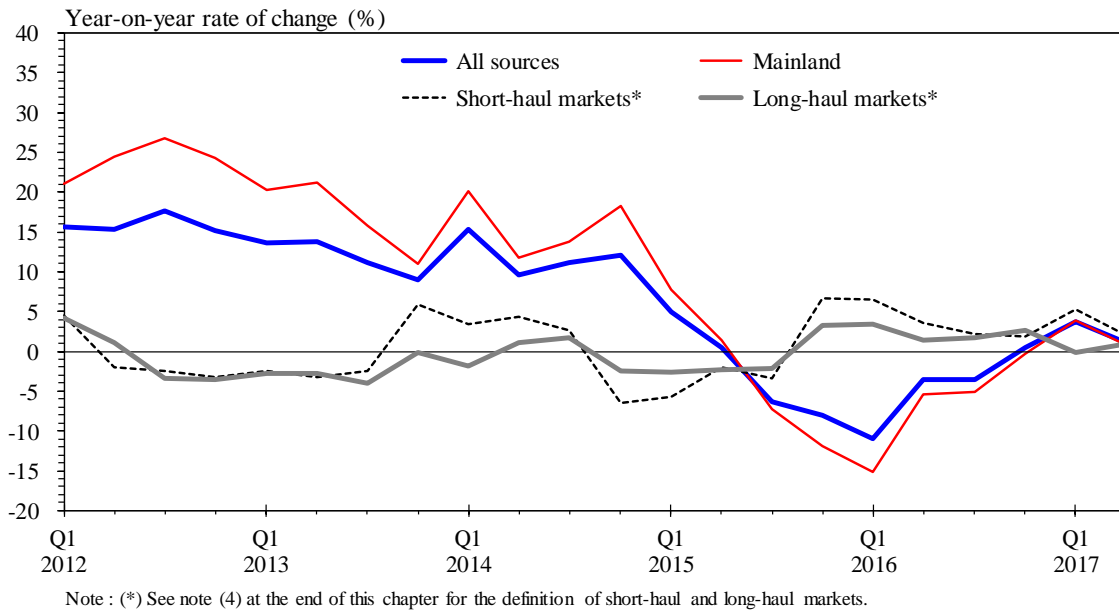
Land

3.14 Two residential sites, two commercial sites, one commercial/hotel site, one industrial site and three sites for petrol filling station, with a total area of about 5.4 hectares, were disposed of in the second quarter, fetching a total land premium of about \$63.5 billion. In addition, the tender exercises for one residential site in Sha Tin and one business site in Cheung Sha Wan also commenced in the quarter. In the second quarter, two land exchange cases and lease modifications of 13 sites were approved.

Tourism

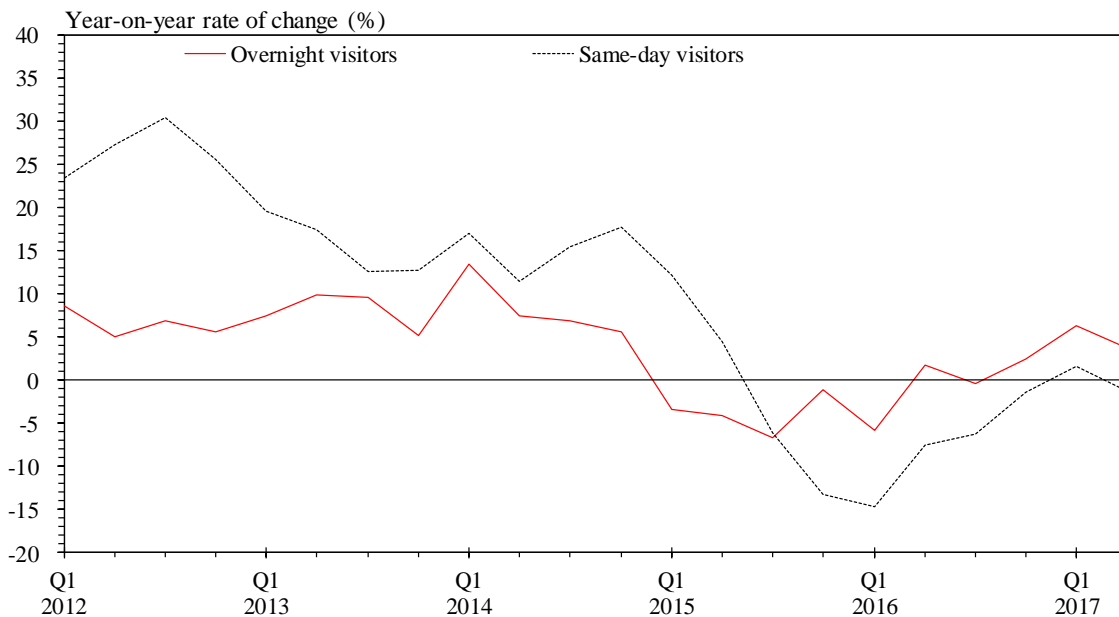
3.15 The number of *visitor arrivals* continued to recover in the second quarter of 2017. Overall visitor arrivals increased by 1.0% over a year earlier to 13.6 million. Mainland visitors, which accounted for 74.2% of the total, edged up by 0.8% to 10.1 million. Visitor arrivals from the short-haul and long-haul markets went up by 2.1% and 1.0% respectively⁽⁴⁾.

Diagram 3.8 : Visitor arrivals continued to recover in the second quarter



3.16 Analysed by the length of stay, overnight visitor arrivals increased further by 3.7% over a year earlier, while same-day visitor arrivals fell by 1.3%. Reflecting these movements, the share of overnight visitors rose from 46.6% a year earlier to 47.9% in the second quarter, while that of same-day visitors declined from 53.4% to 52.1%.

Diagram 3.9 : Overnight visitors increased further while same-day visitors declined

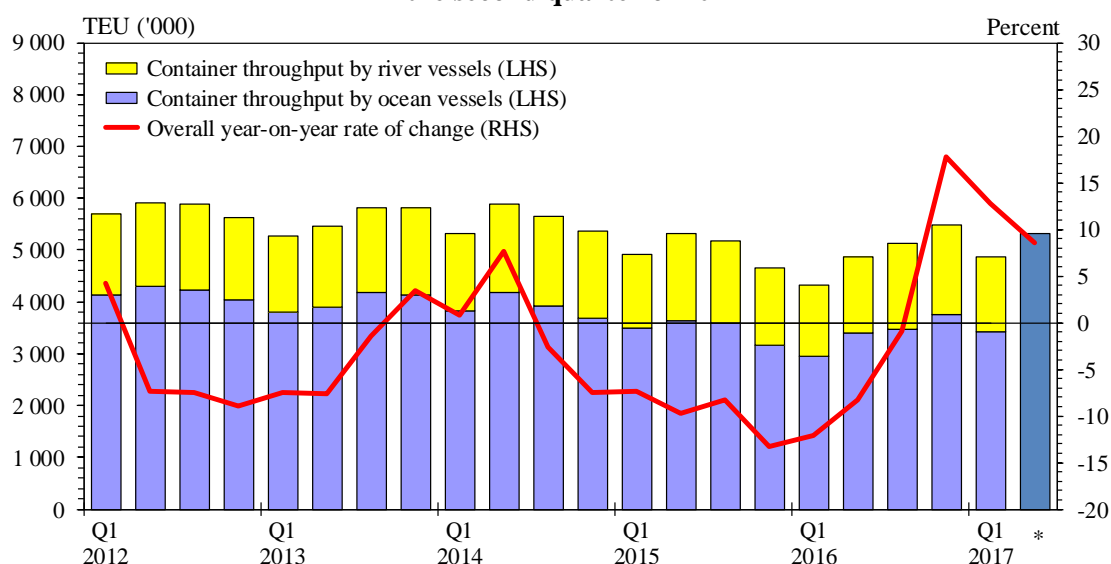


3.17 Supported by the modest increase in overnight visitors, the average hotel room occupancy rate rose from 85% a year earlier to 87% in the second quarter, though the average achieved hotel room rate declined further by 2.5% to \$1,187⁽⁵⁾.

Logistics

3.18 The logistics sector gathered further strength in the second quarter of 2017 amid the continued improvement in external trade. *Total container throughput* in the second quarter leapt by 8.5% over a year earlier to 5.3 million twenty-foot equivalent units (TEUs). The value of trade handled at the Hong Kong port likewise rose by 3.7%, though its share in total trade shrank further from 19.2% a year earlier to 18.5%.

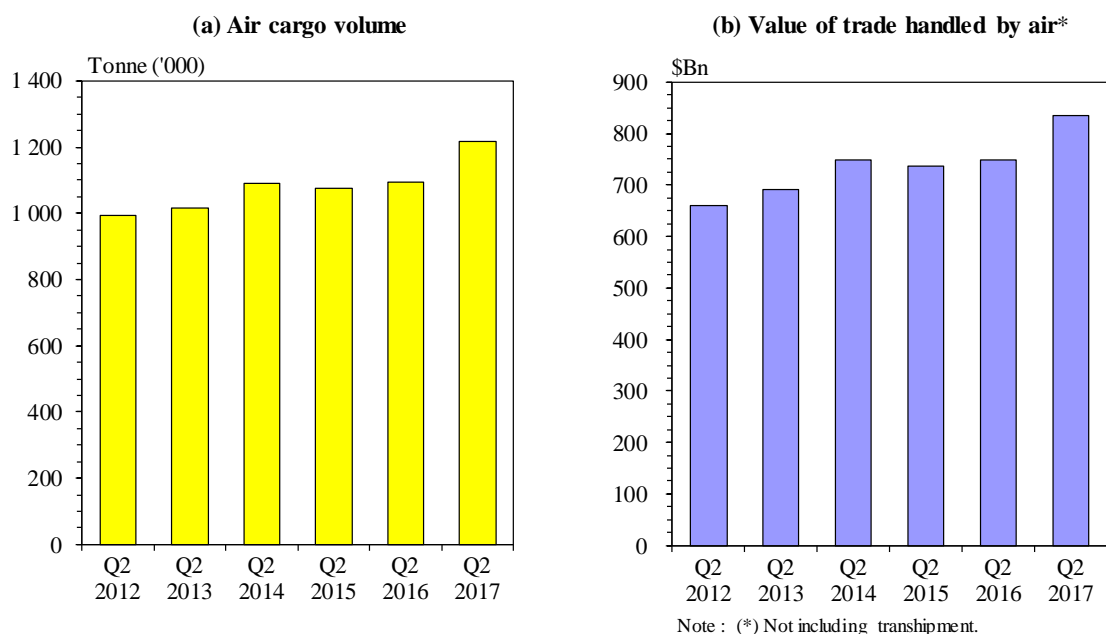
Diagram 3.10 : Container throughput gathered further strength in the second quarter of 2017



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

3.19 *Air freight throughput* jumped by 11.1% over a year earlier to 1.2 million tonnes in the second quarter. Likewise, the value of trade by air rose by 11.6%, with its share in total trade rising from 40.5% a year earlier to 41.9%.

Diagram 3.11 : Air cargo throughput and value of trade handled by air increased further in the second quarter



Transport

3.20 Traffic flows for the major modes of transport increased in the second quarter. Air passenger traffic rebounded by 3.0% over a year earlier to 18.2 million, while water-borne passenger trips rose by 5.2% to 6.6 million. As to land-based cross-boundary traffic, passenger trips increased by 1.1% to 54.9 million, and average daily vehicle movements by 4.6% to 44 277.

3.21 In June, the Legislative Council passed the Bill for increasing the maximum seating capacity of both public and private light buses from 16 to 19. The new maximum seating capacity would help better meet passenger demand for public light bus services and reduce passengers' waiting time, in particular during peak periods. The new legislation was effective on 7 July.

Environment

3.22 In April, the Government entered into new Scheme of Control Agreements (SCAs) with the two power companies, which would be effective upon the expiry of the current SCAs at end-2018. To strike a balance between public expectation of a lower return to the power companies and the need to encourage investments to meet Hong Kong's electricity demand and help improve the environment, the term of the new SCAs will be 15 years and the permitted rate of return of the power companies will be reduced from the existing 9.99% to 8% under the new SCAs. Other features that would promote energy saving and renewable energy are also included in the new SCAs to

reflect the Government's commitments to reducing energy intensity and 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. For details of the measures promulgated in 2016, see note (1) at the end of Chapter 4 in the 2016 Economic Background and 2017 Prospects. For details of the measures promulgated in 2017, see note (3) at the end of Chapter 3 in the First Quarter Economic Report 2017 and note (2) below.
- (2) On 19 May 2017, the Hong Kong Monetary Authority announced the following measures for property mortgage loans to strengthen banks' risk management and resilience:
 - (a) Raising the risk-weight floor from 15% to 25% for new residential mortgage loans granted after 19 May 2017 by banks using Internal Ratings-Based Approach to calculate capital charges for credit risk;
 - (b) Lowering the applicable loan-to-value ratio (LTV) cap by 10 percentage points for property mortgage loans extended to borrowers with one or more pre-existing mortgages, in addition to observing the existing requirement of lowering the applicable debt servicing ratio (DSR) limit by 10 percentage points; and
 - (c) Lowering the applicable DSR limit by 10 percentage points for property mortgage loans extended to borrowers whose income is mainly derived from outside of Hong Kong, in addition to observing the existing requirement of lowering the applicable LTV cap by 10 percentage points.
- (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 the second quarter of 2017, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 74%, 17% and 9% of total visitors.
- (5) The figures on hotel room occupancy and achieved room rate do not include guesthouses.