

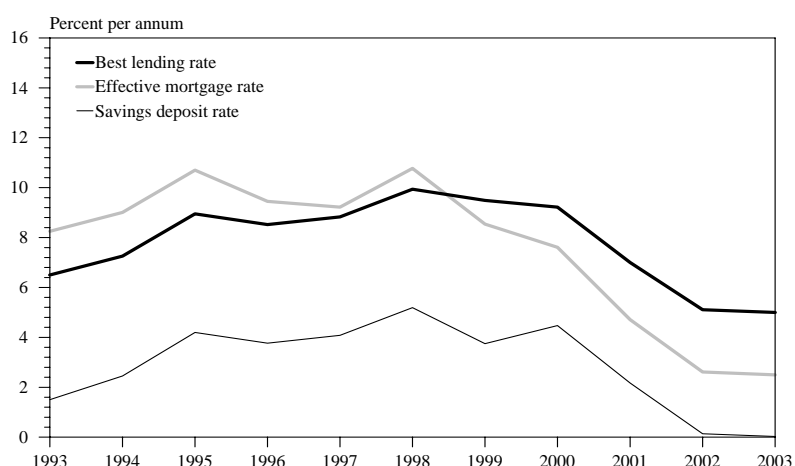
## Box 3.2

### Rental yields of residential and commercial property

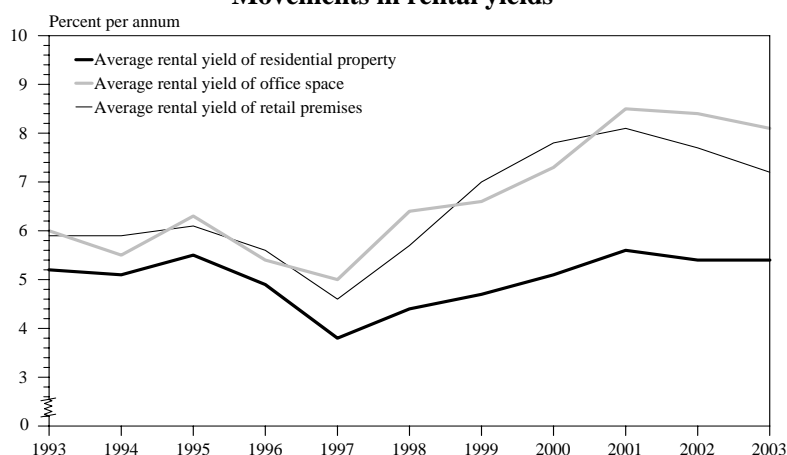
Rental yield is a measure of the recurrent return from a property investment. The rental yields of private residential and commercial property had fluctuated by a varying degree over the past decade. In general, they tended to go down when the property market was booming, and go up when the property market was sluggish. This could be seen as a manifestation of the underlying market adjustment mechanism.

The average rental yield of residential property reached a low of about 3.8% in 1997, following a period of rapid increase in flat prices at a rate faster than that in flat rentals. As the residential property market entered a period of adjustment since 1998, flat prices had been falling faster than flat rentals, giving a higher average rental yield of around 5.4-5.6% in recent years. It stood at around 5.4% in 2003. This made investment in residential property relatively more attractive, when viewed against the very low interest rates in the recent past.

**Movements in local interest rates**



**Movements in rental yields**



Similar observations can be made from the movements in the average rental yields of private office space and private retail premises. The average rental yield of office space fell to a low of about 5.0% in 1997, yet rose back to around 8.0% in recent years. The average rental yield of retail premises touched a trough of about 4.6% in 1997, before rising back to around 7-8% in recent years. The average rental yields of these two types of private property were 8.1% and 7.2% respectively in 2003.