

Box 3.1**Vacancies of properties in recent years**

In 2004 and 2005, vacancies of properties fell extensively as the economic recovery led to a strong revival in sales and leasing activities. Also relevant was the reduced new supplies of properties under the lagged impact of earlier slackening in building activities. Vacancies of newly completed properties are due to factors such as impending procedure for occupation, building defect rectification and interior decoration by owners.

In the *private residential property* market, the number of vacant flats fell markedly from 68 800 in 2003 to 63 500 in 2005, with the vacancy rate representing its proportion to total private housing stock dropping from 6.8% to 6.0%. The improvement was attributable in part to the distinct rebound in acquisition interest since mid-2003, thereby underpinning an excess of flat take-up over completions both in 2004 and 2005. Also contributed was the concurrent pick-up in leasing activities during these two years. Demand factors apart, the drop in vacancy rate of residential property was also caused by the reduction in completions of flats from 26 400 in 2003 to 17 300 in 2005. As the vacancy rate of new properties was relatively higher, the decrease in new supply had the effect of lowering the vacancy rate on average.

Completions, take-up and vacancy of private residential property

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(number of units, unless otherwise indicated)				
Completions in the year ^(a)	26 260	31 050	26 400	26 040	17 320
Take-up in the year ^(b)	19 320	18 240	22 490	31 400	17 450
Vacancy at year-end ^(c)	60 410	65 270	68 780	64 250	63 540
(as % of property stock)	(5.7)	(6.6)	(6.8)	(6.2)	(6.0)

Notes : (a) Completions comprise those premises deemed completed by virtue of the issue of an occupation permit from the Government, and represent new supply added to the stock of completed property. Figure is inclusive of village houses in 2001, but not so afterwards.

(b) Take-up figures represent the net change in the stock of property occupied in the year under review. 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.

(c) Vacancy indicates that the premises are not physically occupied. Premises under decoration are classified as vacant. Some vacancies can be due to premises not yet issued with the Certificate of Compliance or Consent to Assign, which therefore cannot have been occupied.

At the luxury end of the residential property market, however, the vacancy rate of large flats rose from 8.0% in 2003 to 9.9% in 2005. Despite vibrant sales, take-up of large flats was relatively slow in recent years, conceivably due to active participation of investors and speculators in this market segment. It is also note-worthy that the vacancy rate of large flats has been consistently higher than those for small and medium flats. Due to larger amount involved, the vacancy prior to resale and leasing transactions tends to be longer for more sizeable flats. The larger floor area involved also tends to require a longer vacant period for renovation and decoration process.

Regarding *private non-residential properties*, the vacancy situation fared even better in 2004 and 2005. Similar to residential property, the improvement was backed by the revival in acquisition and leasing interests on the demand side and the reduced completions on the supply side. Yet the pick-up in demand was even stronger, consistent with the greater sensitivity of non-residential property demand to economic cycle exhibited over the years.

Box 3.1 (cont'd)

Amongst the major non-residential properties, the vacancy rate of overall office space dropped from 14.0% in 2003 to its 10-year low of 8.7% in 2005, with that for A-graded premises hitting an even lower level of 8.1%. The vacancy rate of flatted factory space also fell visibly, from 10.6% to 7.3% over the same period. Yet for shopping space, the vacancy rate only edged lower from 10.8% to 10.3%. Anecdotal evidences showed that while the vacancy of shopping arcades improved generally, the reverse was observed for retail premises on the streets. This was probably related to the observation that the buoyant secondary sales of shopping space in recent years were concentrated in retail premises on the streets rather than those inside shopping arcades. As sales activities were often accompanied by a period of vacancy around the time of ownership transfer, there was a lifting impact on the vacancy of retail premises on the streets.

Completions, take-up and vacancies of major private non-residential properties

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(‘000 m ² , unless otherwise indicated)				
Completions in the year					
Office space	76	166	299	279	34
Shopping space*	132	138	118	91	111
Flatted factory space	30	3	0	1	0
Take-up in the year					
Office space	3	0.2	118	373	420
Shopping space	37	-110	54	66	139
Flatted factory space	-447	82	-107	329	219
Vacancy at year-end					
Office space	1 012	1 175	1 334	1 240	854
(as % of property stock)	(11.1)	(12.6)	(14.0)	(12.7)	(8.7)
Shopping space*	751	991	1 002	1 019	980
(as % of property stock)	(8.2)	(10.7)	(10.8)	(10.8)	(10.3)
Flatted factory space	1 923	1 840	1 844	1 512	1 273
(as % of property stock)	(10.9)	(10.5)	(10.6)	(8.7)	(7.3)

Notes : Definitions of completions, take-up and vacancies are the same as those for residential property.

(*) Completion and vacancy figures cover a minor portion of non-retail premises designed or adapted for commercial use, with the exception of purpose-built offices.