Box 6.2

The relationship between commercial rental costs and macroeconomic variables

Rentals for commercial premises have a bearing on local consumer price inflation, since higher business costs may eventually drive up prices at the retail level and be reflected in some of the major components in the Composite CPI, such as meals bought away from home and clothing and footwear. This article looks at the relationship between commercial rentals (i.e. those of retail premises and office space) and some macroeconomic variables, and discusses the possible implications on local inflation.

Market rentals for retail shop space

As illustrated in Chart 1, there has been a close relationship between market rentals for retail shop space and retail sales performance over the years. While average rentals for retail shop space rose visibly by 10.8% in 2010 and 9.3% in 2011, the corresponding growth rates of retail sales value were even more impressive, at 18.3% and 24.9% respectively, suggesting that rising shop rentals were well underpinned by improvement in business receipts. Yet, the pace of increase in shop rentals eased somewhat during the first quarter of 2013, in tandem with some slight moderation in retail sales growth of late.

![Chart 1: Shop rentals moved in sync with retail business performance](chart1.png)

Note: The retail sales statistics from January 2009 onwards are based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0, and those before that are based on HSIC Version 1.1.

Market rentals for offices

Similar to retail shop rentals, office rentals are also sensitive to the economic conditions. Chart 2 illustrates that the movements of office rentals tend to track, with a certain time lag, the local economic performance as measured by real GDP growth. Indeed, the year-on-year increase in office rentals has decelerated progressively in 2012, from 15.3% in the first quarter to 7.5% in the fourth quarter, and further to 7.3% in the first quarter of 2013, alongside the subpar local economic growth.
To conclude, the movements of commercial rentals are strongly influenced by prevailing economic conditions. While shop rentals depend much on the state of the consumption market, office rentals tend to move in sync with the business cycle over time. As such, retail and office rentals have exhibited some divergent movements of late, with the latter showing a greater pace of moderation amid the below-trend GDP growth and the former still being supported by the robust retail market.

The Government fully recognises the importance of a steady and sufficient supply of commercial land to Hong Kong’s long-term economic development and its status as an international business and financial centre. To this end, the Chief Executive proposed in his 2013 Policy Address a number of initiatives to increase the supply of commercial land over the short, medium and longer run. The Government would continue to consolidate and enhance the existing Central Business Districts in Hong Kong, while also expedite the development of new business districts (e.g. Kowloon East) with a view to increasing the supply of quality office space. Meanwhile, the 2013-14 Land Sale Programme will include nine sites for commercial and business use to provide room for further development of different economic activities in Hong Kong.