

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

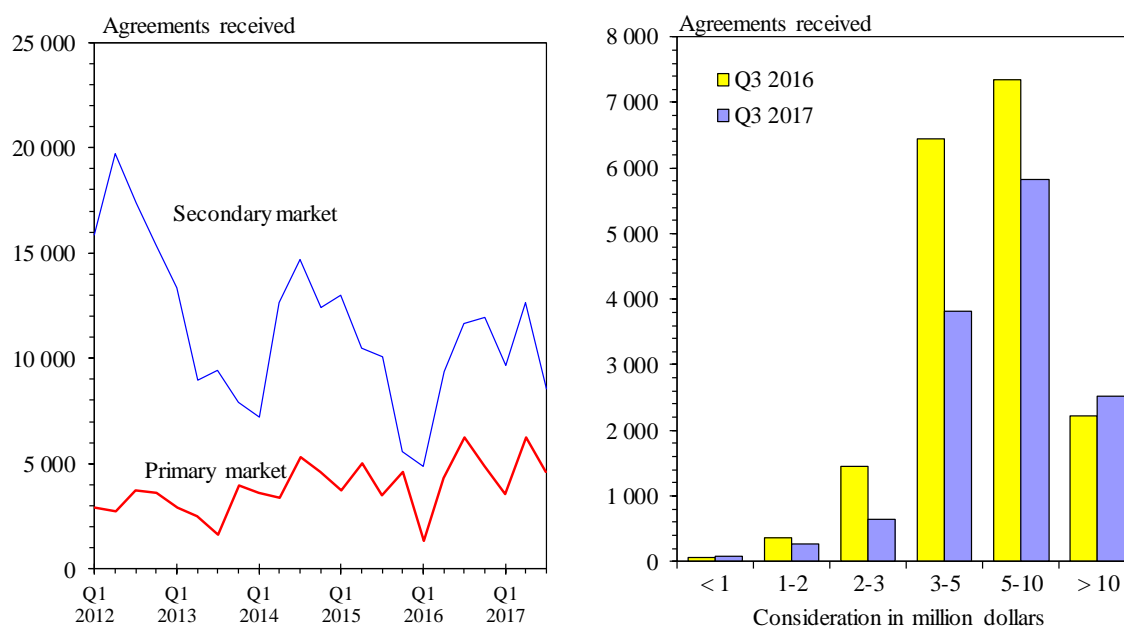
- *The moderation of the residential property market that started in June continued in the third quarter of 2017. Trading activities slowed down visibly from the hectic level in the preceding quarter. Flat prices on average recorded a decelerated increase of 1% during the quarter.*
- *Reflecting the Government's sustained efforts to increase land and flat supply, total flat supply in the coming three to four years stayed at a high level of 97 000 units.*
- *As to the commercial and industrial property markets, prices and rentals increased further during the third quarter while trading activities quietened down.*
- *Inbound tourism continued to recover in the third quarter, with the number of visitor arrivals up by 1.8% over a year earlier to 14.8 million. Growth in Mainland visitors accelerated, while visitors from short-haul and long-haul markets declined.*
- *The logistics sector saw a further pick-up in activity in the third quarter in tandem with strong growth in external trade. Total container throughput went up by 4.9% over a year earlier, while air freight throughput registered a sharp growth of 10.1%.*

Property

3.1 The moderation of the *residential property market* that started in June continued in the third quarter of 2017. Trading activities slowed down visibly from the hectic level in the preceding quarter. Flat prices on average recorded a decelerated increase during the quarter.

3.2 Reflecting the quieter trading activities, the total number of sale and purchase agreements for residential property received by the Land Registry fell noticeably by 30% from the preceding quarter or by 26% from a year earlier to 13 158. Within the total, primary and secondary market transactions dropped by 27% and 32% respectively from the preceding quarter. In parallel, total consideration plunged by 38% to \$112.1 billion.

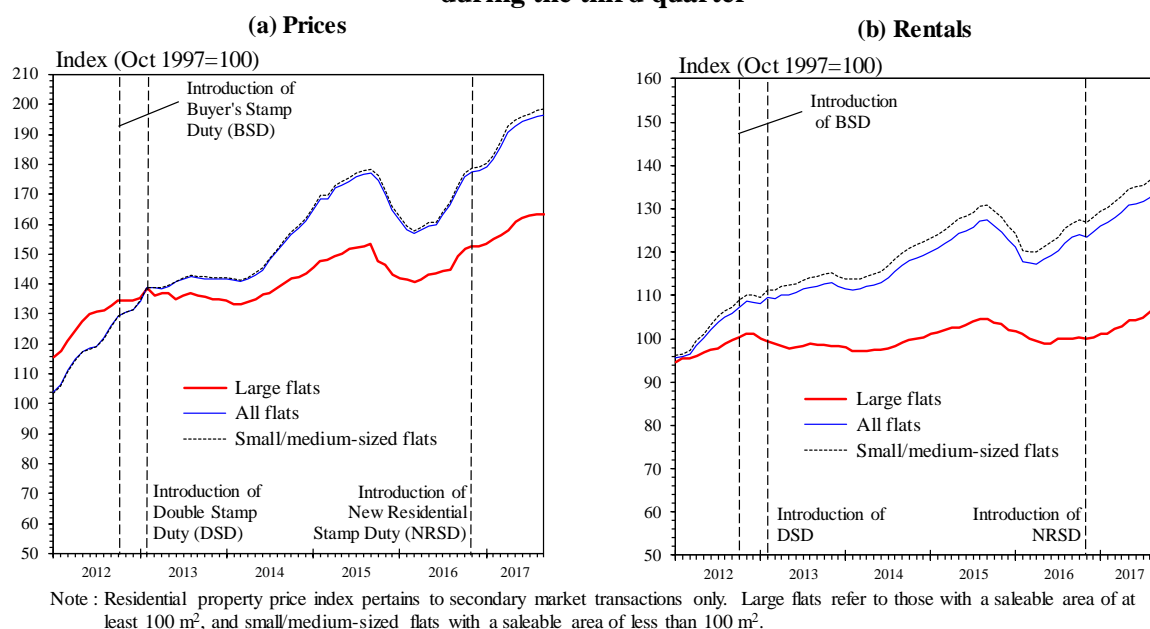
Diagram 3.1 : Trading activities slowed down visibly in the third quarter



3.3 The increase in overall flat prices moderated to 1% during the third quarter, compared with the hectic gain of 5% during the second quarter. Analysed by flat size, prices of small/medium-sized flats and large flats both increased by 1%. During the first nine months of 2017, overall flat prices rose by a cumulative 11%.

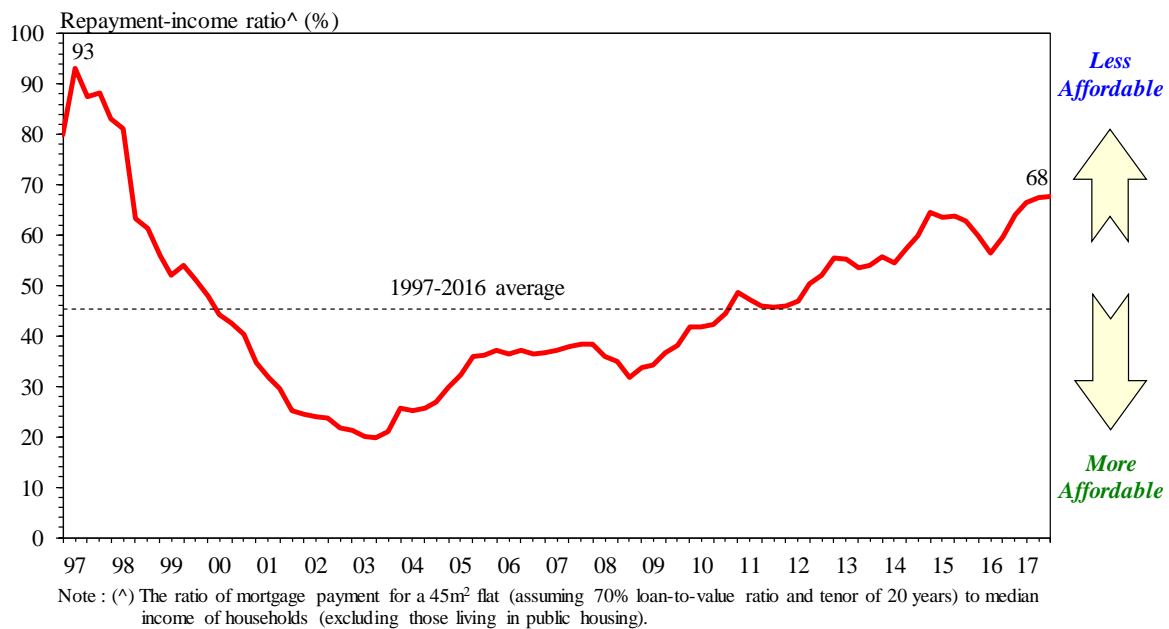
3.4 Similarly, the increase in overall flat rentals decelerated during the third quarter, though by a lesser extent to 2%. Within the total, rentals of small/medium-sized flats and large flats went up by 2% and 3% respectively. During the first nine months of 2017, overall flat rentals rose by a cumulative 7%. The average rental yield for residential property stayed at 2.6% in September, unchanged from June.

Diagram 3.2 : Both flat prices and rentals recorded decelerated increases during the third quarter



3.5 As a result of the surge over the past several years, flat prices in September 2017, on average, exceeded the 1997 peak by a rampant 97%. 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 68% in the third 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 88%.

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. As announced in September, the Government would put up three residential sites for sale in the fourth quarter of 2017, which are capable of providing about 1 090 flats. The private housing land supply (including Government land sale, railway property development projects, the Urban Renewal Authority's projects, and private development and redevelopment projects) in the first three quarters of 2017-18 is estimated to have a capacity to provide over 20 000 flats, already exceeding the annual supply target of 18 000 flats. In October, the Chief Executive announced a series of policies and measures on land supply and housing market in her Policy Address (**Box 3.1**).

Box 3.1

Latest Government measures on land supply and housing (October 2017)

In the 2017 Policy Address, the Chief Executive announced a range of initiatives on land supply and housing to tackle the issues of difficulty in achieving home ownership and poor living conditions. The policies and measures are summarised below.

(1) Land supply

To take a macro review of the land supply options, the Task Force on Land Supply (Task Force) was established in September 2017. Serving as an objective and rational forum, the Task Force would lead the community to discuss and make trade-offs on the land supply options and their priorities through analyses of facts and the pros and cons, with a view to building the broadest consensus and mapping out the direction for land supply that would benefit the community as a whole. The Task Force plans to launch a public engagement exercise in the first half of 2018.

(2) Housing Policy

The Government's housing policy comprises four elements: (i) the Government has an indispensable role in the housing market, while maintaining respect of a free market economy; (ii) the Government would focus on home-ownership and strive to build a housing ladder to rekindle the hopes of families in different income brackets to become home-owners; (iii) the Government would step up the effort in increasing the supply of housing units on the basis of the Long Term Housing Strategy; and (iv) with insufficient land and when new supply is not yet available, the Government would optimise the existing housing resources to meet the housing needs of families that have long been on the waiting list for public rental housing (PRH) and to help residents in poor living conditions. Specific measures in the housing market include :

Green Form Subsidised Home Ownership Scheme (GSH)

- Propose that the Hong Kong Housing Authority (HKHA) regularises GSH and offers more GSH flats for sale.
- Subject to the outcome of review, convert some 4 000 new PRH units in Fo Tan into GSH units for sale in late 2018.

Interim Scheme to Extend the Home Ownership Scheme (HOS) Secondary Market to White Form Buyers

- Propose that the HKHA regularises the scheme, thereby allowing White Formers to become home-owners through the HOS Secondary Market and at the same time facilitating the turnover of subsidised sale flats.

Box 3.1 (Cont'd)

“Starter Homes” Scheme

- Introduce a “Starter Homes” Scheme for higher-income families who are not eligible for HOS and find it difficult to afford private housing.
- Launch a pilot scheme by the end of 2018 by using a residential site at Kwun Tong on the Government’s Land Sale Programme to provide about 1 000 “Starter Homes” units.

Community Initiatives on Social Housing

- Facilitate the implementation of various short-term community initiatives to increase the supply of transitional housing, with a view to alleviating the hardship faced by families on the PRH waiting list and the inadequately housed.

3.7 Reflecting the Government’s sustained efforts in raising land supply, the number of private domestic units commencing work stayed at a high level of 16 300 units in the first three quarters of 2017, virtually unchanged from a year earlier. Meanwhile, completions of private domestic units rose 20% over a year earlier to 12 900. 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) stayed at a high level of 97 000 units as estimated at end-September. In addition, 3 200 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⁾. 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 45 cases per month or 0.9% of total transactions in the third 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 110 cases per month or 2.2% of total transactions in the third 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 the New Residential Stamp Duty stayed at a modest level of 632 cases per month or 12.5% of total

transactions in the third 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 48% in the third 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 Hong Kong Monetary Authority.

Diagram 3.4 : Speculative activities stayed subdued

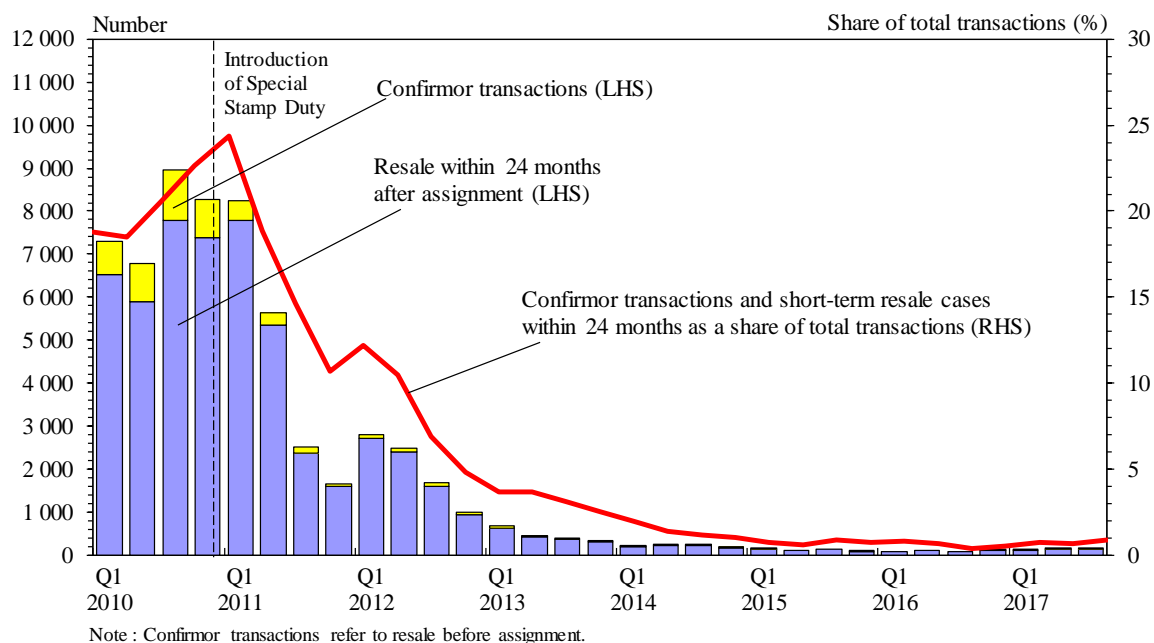


Diagram 3.5 : Purchases by non-local buyers remained low

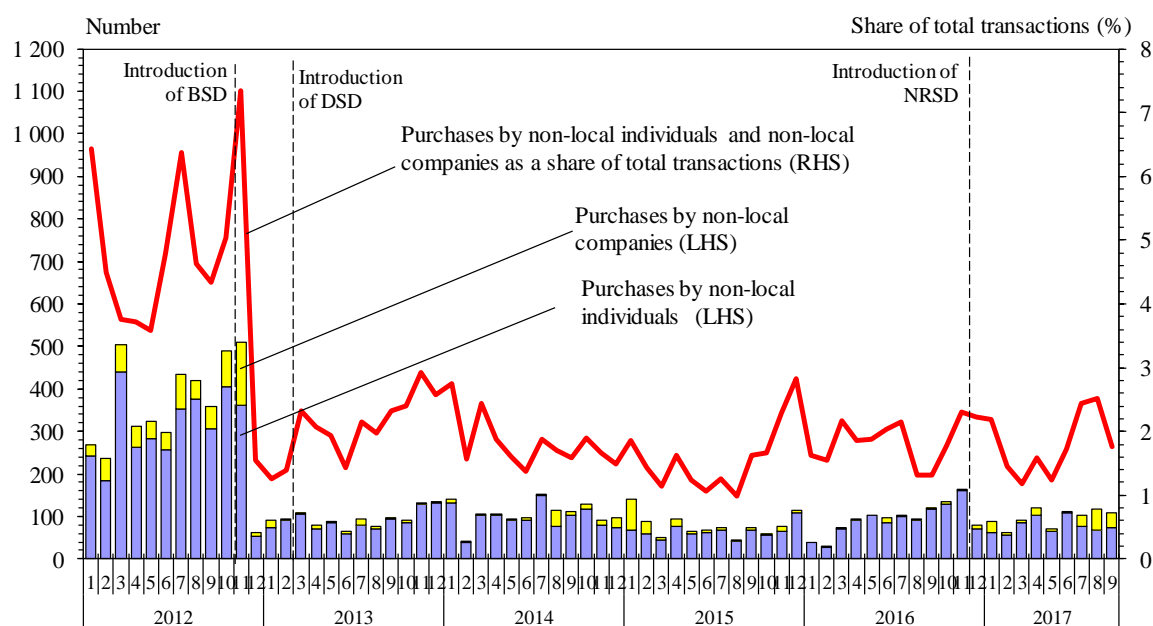
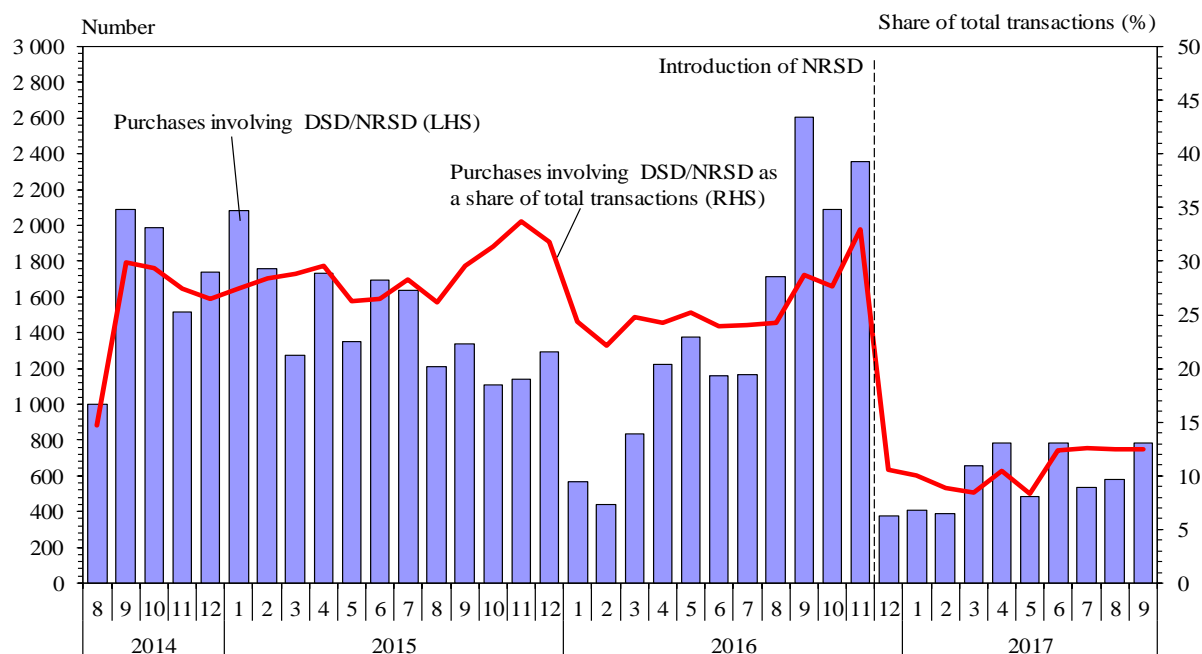


Diagram 3.6 : Investment activities were modest



3.9 Looking ahead, the changing fundamental factors would eventually put pressures on the residential property market. In September, the US Federal Reserve announced its preliminary timetable for scaling back its balance sheet. The market also widely anticipates another US interest rate hike before the end of this year. As the US interest rate normalisation process continues, local interest rates are set to rise under the Linked Exchange Rate System. Moreover, the demand-supply balance of flats would eventually ease when the increased residential land supply over the past few years gradually turns into actual flat production.

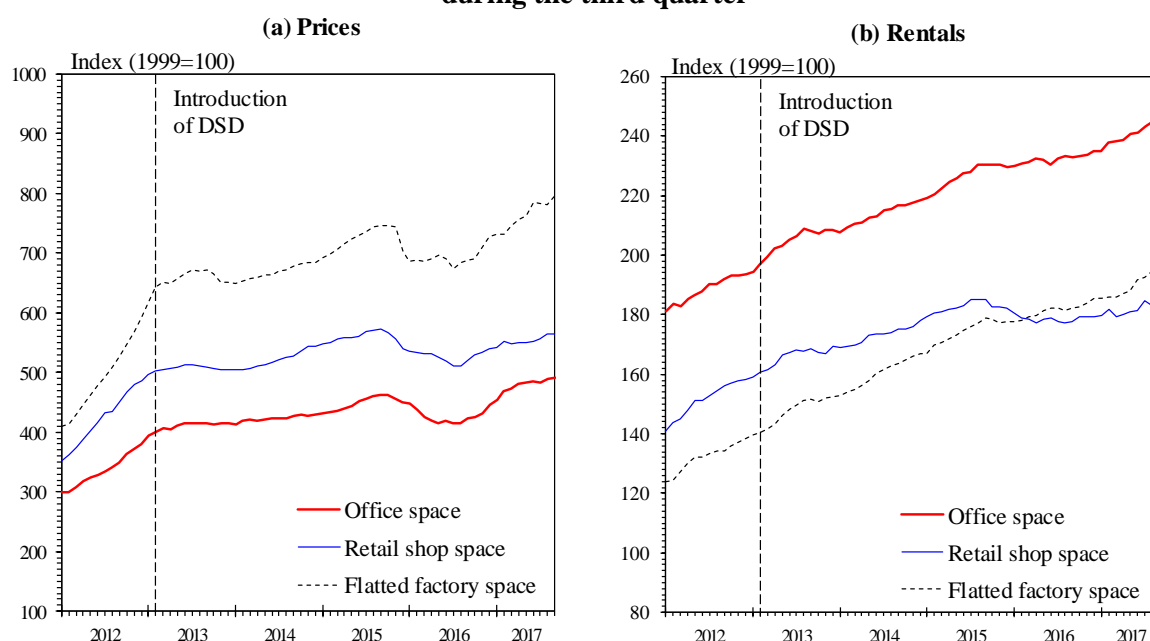
3.10 As to the *commercial* and *industrial property markets*, prices and rentals increased further during the third quarter, though trading activities quietened down from the high levels in the preceding quarter.

3.11 Overall sale prices of *office space* rose by another 1% between June and September. Within the total, prices of Grade A and B office space increased by 3% and 1% respectively, while prices of Grade C office space showed little change. Meanwhile, office rentals on average rose by 2%, with rentals of Grade A, B and C office space increasing by 3%, 1% and 3% respectively. The average rental yields of Grade A and B office space in September, at 2.7% and 2.8% respectively, were unchanged from June, while those of Grade C office space edged up from 2.8% to 2.9%. In the third quarter, transactions for office space fell by 32% from the preceding quarter to 360 cases, though still 23% higher than a year earlier.

3.12 For *retail shop space*, sale prices went up by 2% and rentals by 1% during the third quarter. The average rental yield stayed unchanged at 2.5%. Trading activities fell by 7% from the preceding quarter to 530 cases in the third quarter. This was however still 36% higher than a year earlier⁽²⁾.

3.13 For *flatted factory space*, sale prices and rentals rose by 1% and 2% respectively between June and September. Reflecting these movements, the average rental yield edged up from 2.9% to 3.0% during the period. Transactions declined by 5% from the very high level in the preceding quarter to 1 270 cases in the third quarter, but still representing a jump of 107% over a year earlier.

Diagram 3.7 : Prices and rentals of non-residential properties increased further during the third quarter



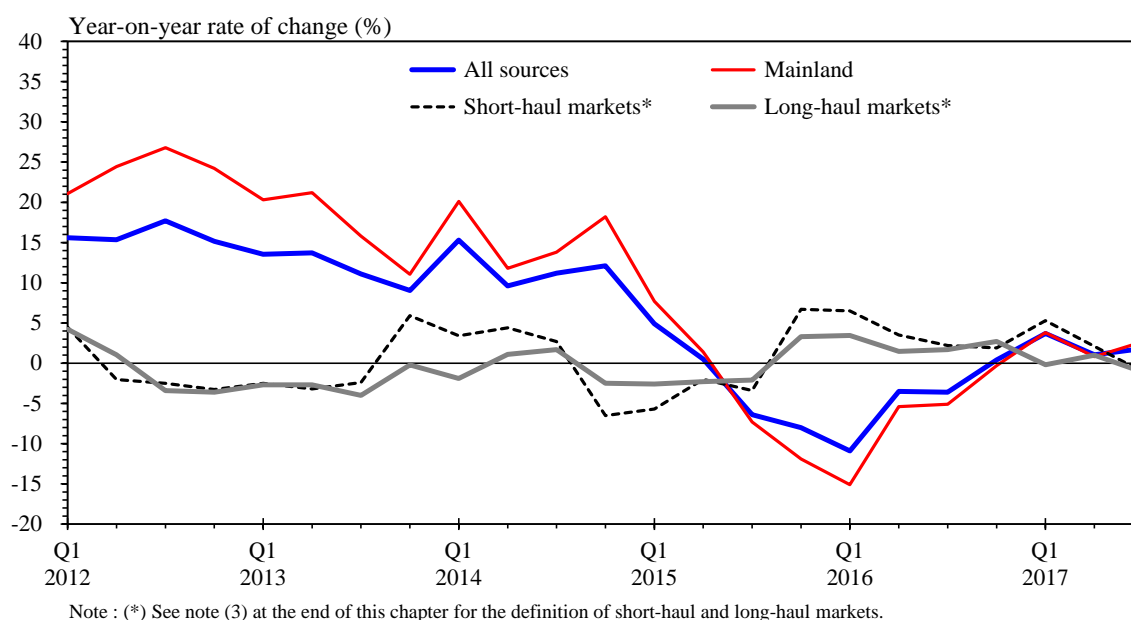
Land

3.14 Three residential sites and one business site, with a total area of about 1.8 hectares, were disposed of in the third quarter, fetching a total land premium of about \$4.9 billion. In addition, the tender exercises for a residential site and a hotel site, both in Cheung Sha Wan, commenced in the quarter. In the third quarter, four land exchange cases and lease modifications of seven sites were approved.

Tourism

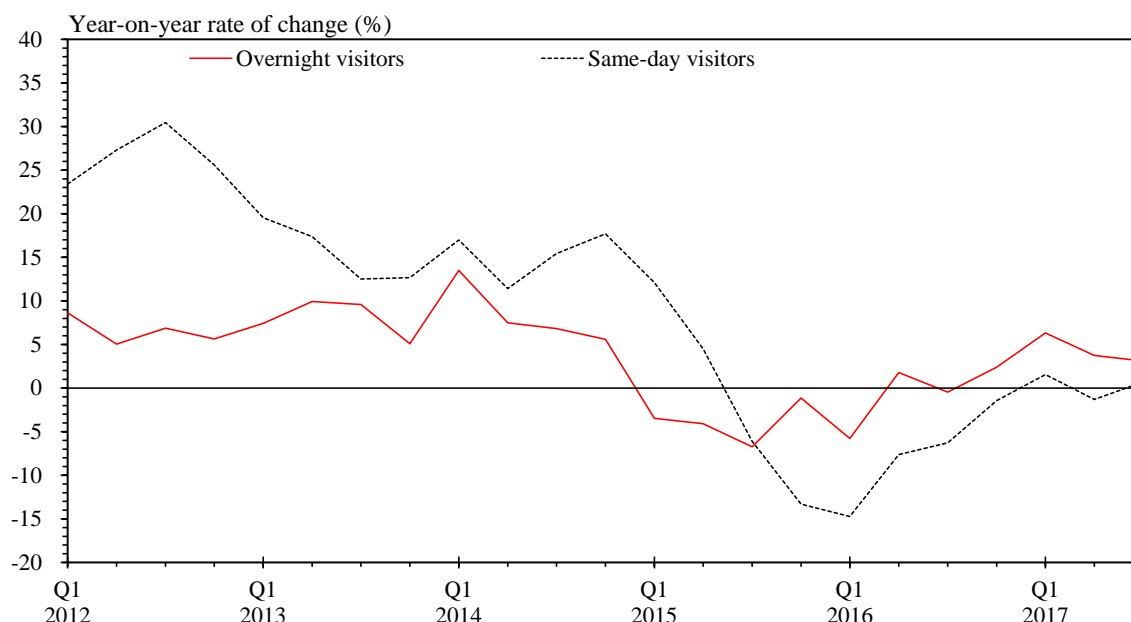
3.15 Inbound tourism continued to recover in the third quarter, with the number of *visitor arrivals* up by 1.8% over a year earlier to 14.8 million. Along with the Mainland's strong economic growth, Mainland visitors, which accounted for 78.3% of the total, increased further by 2.7% to 11.6 million. Yet visitor arrivals from short-haul and long-haul markets both fell by 1.1%⁽³⁾.

Diagram 3.8 : Inbound tourism continued to recover in the third quarter



3.16 Analysed by the length of stay, overnight visitor arrivals increased by another 3.1% over a year earlier, while same-day visitor arrivals edged up by 0.7%. Thus, the share of overnight visitors rose further from 47.9% a year earlier to 48.5% in the third quarter, while that of same-day visitors declined from 52.1% to 51.5%.

Diagram 3.9 : Both overnight and same-day visitors increased

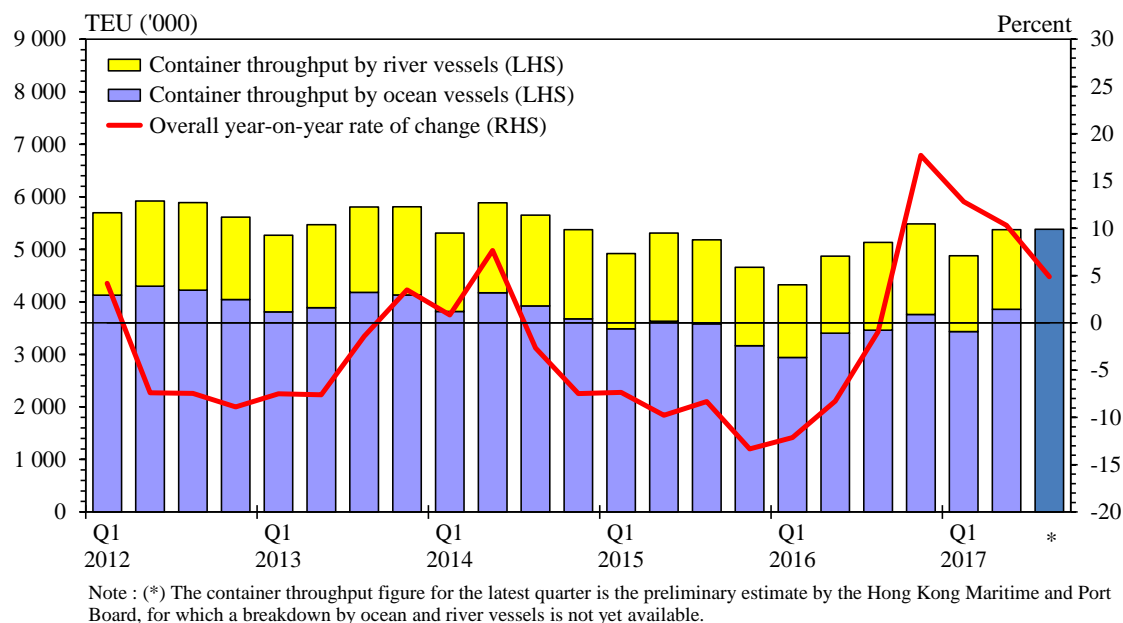


3.17 Along with the increase in overnight visitor arrivals, the average hotel room occupancy rate rose from 88% a year earlier to 90% in the third quarter. The average achieved hotel room rate also edged up by 0.5% to \$1,193⁽⁴⁾.

Logistics

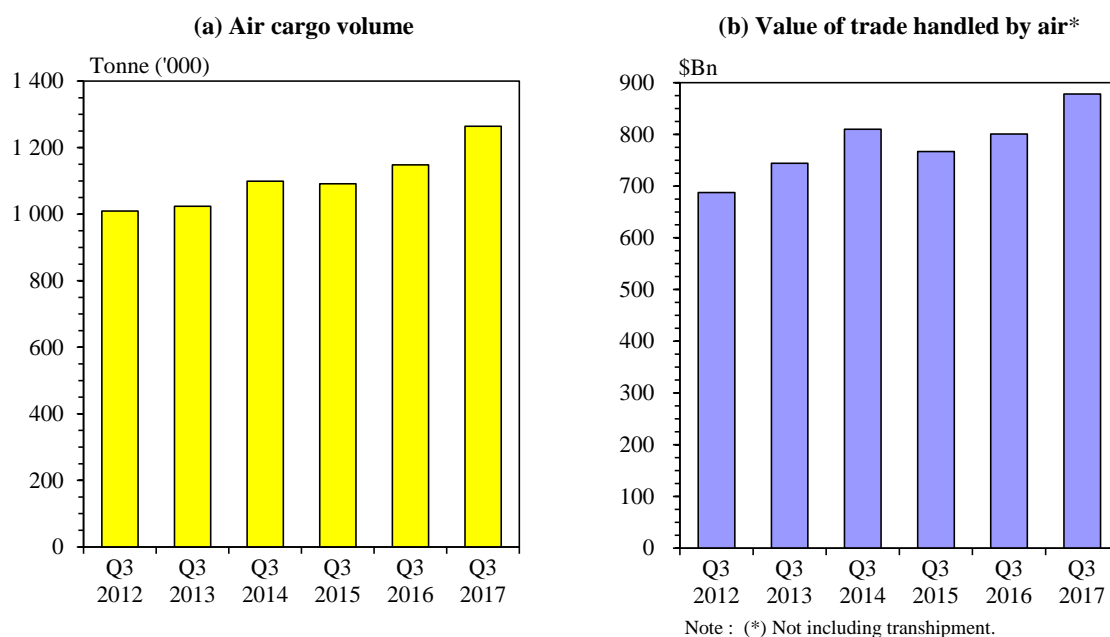
3.18 The logistics sector saw a further pick-up in activity in the third quarter in tandem with strong growth in external trade. *Total container throughput* went up by 4.9% over a year earlier to 5.4 million twenty-foot equivalent units (TEUs), though the rate of increase decelerated somewhat from the high growth rate in the previous quarter. In parallel, the value of trade handled at the Hong Kong port rose by 4.5%, though its share in total trade shrank further from 18.5% a year earlier to 18.0%.

Diagram 3.10 : Container throughput continued to grow in the third quarter



3.19 *Air freight throughput* remained buoyant in the third quarter, leaping by 10.1% over a year earlier to 1.3 million tonnes. Likewise, the value of trade by air jumped by 9.7%, with its share in total trade rising from 40.3% a year earlier to 41.0%.

Diagram 3.11 : Air cargo throughput and value of trade handled by air recorded sharp growth in the third quarter



Transport

3.20 Traffic flows for different major modes of transport recorded a mixed performance in the third quarter. Air passenger traffic rose by 3.7% over a year earlier to 18.6 million, while water-borne passenger trips fell by 5.4% to 6.7 million. As to land-based cross-boundary traffic, passenger trips declined by 1.5% to 54.6 million, but average daily vehicle movements increased by 4.4% to 45 288.

Innovation and technology

3.21 In her Policy Address, the Chief Executive announced various measures to promote the development of innovation and technology in Hong Kong. No less than \$10 billion has been set aside as funding for university research. Moreover, the Government would kick-start the \$500 million “Technology Talent Scheme” to nurture and bring together more technology talents. Separately, \$3 billion would be injected into the Research Endowment Fund and the generated investment income would be used to provide studentships for local students enrolled in University Grants Committee-funded research postgraduate programmes. The Government would also deploy \$2 billion under the Innovation and Technology Venture Fund Scheme to co-invest with venture capital funds in local innovation and technology start-ups, and deploy \$500 million to encourage Government departments to make good use of technology to enhance service quality.

Creative industries

3.22 The Chief Executive announced a series of measures to support the creative industries in her Policy Address. These include, among other things, injecting \$1 billion into the CreateSmart Initiative to strengthen support for the development of the design and creative industries, and providing more resources for the Hong Kong Design Centre to implement a series of measures to reinforce Hong Kong’s status as a city of design excellence in Asia. A review of the operation of the Film Development Fund would also be undertaken to promote further development of the local film industry and nurture talents.

Environment

3.23 The Chief Executive pledged in her Policy Address to work further on environment and nature conservation, which includes establishing a Countryside Conservation Office to co-ordinate conservation projects that promote sustainable development of remote countryside.

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, note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2017 and Box 3.1 of this report.
- (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) 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 third quarter of 2017, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 78%, 15% and 7% of total visitors.
- (4) The figures on hotel room occupancy and achieved room rate do not include guesthouses.