## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

***Summary***

* *The residential property market showed some consolidation in the second quarter of 2023, after the rebound in the first quarter. Market sentiment turned cautious amid an uncertain global economic outlook, rising local interest rates and expectations of further rate hikes by the US Federal Reserve (Fed). Trading activities quietened visibly while flat prices retreated by 1% during the quarter.*
* *Reflecting the Government’s sustained efforts in increasing land and flat supply, total private first-hand flat supply in the coming three to four years would stay at a high level of 105 000 units as estimated at end-June.*
* *The non-residential property market largely held steady in the second quarter. While trading activities remained subdued, prices and rentals of different segments showed mixed performance.*
* *The tourism sector continued to recover in the second quarter. Visitor arrivals surged further from 4.4 million in the preceding quarter to 8.5 million in the second quarter, equivalent to 52% of the quarterly average in 2018.*
* *The logistics sector remained sluggish in the second quarter amid the weak external trade performance. Total container throughput plunged by 21.8% from a year earlier, while air freight throughput fell by 4.8%.*

**Property**

* 1. The *residential property market* showed some consolidation in the second quarter of 2023, after the rebound in the first quarter. Market sentiment turned cautious amid an uncertain global economic outlook, rising local interest rates and expectations of further rate hikes by the US Fed. Trading activities quietened visibly while flat prices retreated slightly during the quarter.
  2. The total number of sale and purchase (S&P) agreements for residential property received by the Land Registry declined by 13% from the preceding quarter or 18% from a year earlier to 12 199 in the second quarter, visibly below the quarterly average of around 14 800 cases in 2018-2022. While secondary market transactions dropped by 23% from the preceding quarter, primary market transactions rose by 27% over a low base as developers paced up the launch of new projects with generally conservative pricing. Total consideration edged up by 2% over the preceding quarter to $122.8 billion. For the first half of 2023 as a whole, the number of S&P agreements went up by 31% over the second half of 2022 to 26 222, and total consideration by 43% to $242.7 billion.



* 1. Having risen by 5% during the first quarter, overall flat prices recorded a 1% decline during the second quarter, with the small month‑to‑month increase in April followed by the declines in both May and June. Analysed by size, prices of small/medium-sized flats and large flats both edged down by 1% during the quarter. Flat prices in June 2023 were on average still 4% higher than in December 2022, but were 12% below the peak in September 2021.
  2. Overall flat rentals increased by 3% during the second quarter. Analysed by size, rentals of small/medium-sized flats and large flats both rose by 3%. Flat rentals in June 2023 were on average 3% higher than in December 2022, but still 9% below the peak in August 2019. The average rental yield for residential property edged up from 2.4% in March to 2.5% in June.



* 1. The index of 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 rental housing and public temporary housing) rose further to 75% in the second quarter along with the increase in mortgage rates, significantly above the long-term average of 51% over 2003‑2022(1). Should interest rates rise by two percentage points to a level closer to the historical standards, the ratio would reach 89%.



* 1. Increasing housing land supply is a policy priority of the Government(2). In June, the Government announced to put up two residential sites for sale in the third quarter. Taking into account the Government land sale and private development and redevelopment projects, the total private housing land supply in the third quarter is expected to produce around 4 050 flats. Together with the supply in the preceding quarter, the total private housing land supply for the first half of 2023‑24 is estimated to have a capacity to produce about 8 280 units, reaching around 65% of the annual target of private housing supply (12 900 units).
  2. Reflecting the Government’s sustained efforts in raising land and flat supply, the *total supply of first-hand flats in the private sector* 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) would stay at a high level of 105 000 units as estimated at end‑June 2023. Another 6 800 units could be added to the total supply after the conversion of a number of residential sites into “disposed sites”.
  3. To dampen speculative, investment and non-local demand, the Government implemented a number of demand-side management measures during 2010 to 2017. These 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 32 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* stayed low at 35 cases per month or 0.8% 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 the New Residential Stamp Duty stayed at a modest level of 166 cases per month or 3.9% of total transactions in the second quarter, markedly lower than the monthly average of 1 412 cases subject to Doubled Ad Valorem Stamp Duty or 26.5% in January to November 2016.







* 1. The Hong Kong Monetary Authority (HKMA) also introduced eight rounds of counter-cyclical macro-prudential measures for property mortgage loans from 2009 to 2017 to reduce the possible risks to financial stability arising from an exuberant property market, before making several adjustments in July 2023 (see ***paragraph******3.10***). The average loan-to-value (LTV) ratio of new *mortgage loans* was 57% in the second quarter, below the average of 64% in January to October 2009 before the first round of measures was introduced.
  2. On 7 July, the HKMA made several adjustments to the counter-cyclical macro-prudential measures for property mortgage loans, while continuing to maintain banking stability and ensuring the proper risk management of property mortgage loans. The adjustments, which took immediate effect, included: (i) raising the maximum LTV ratio for self-occupied residential properties to 70% for properties valued at $15 million or below, and 60% for properties valued above $15 million and up to $30 million; (ii) increasing the maximum LTV ratio for non-residential properties from 50% to 60%; (iii) increasing the maximum LTV ratio for mortgage loans assessed based on the net worth of mortgage applicants from 40% to 50% (applicable to both residential and non-residential properties); and (iv) lifting the requirements to lower the applicable maximum LTV ratio and debt servicing ratio (DSR) limit by 10 percentage points for mortgage applicants whose incomes are mainly derived from outside of Hong Kong, and removing the requirement to apply a 5‑percentage‑point knock down on applicable DSR limits when mortgage applicants’ total mortgage finance exceeds HKMA’s normal permissible LTV ceilings by 20 percentage points.  In tandem, the HKMC Insurance Limited (HKMCI) made adjustments to the Mortgage Insurance Programme(3).
  3. The *non-residential property market* largely held steady in the second quarter. While trading activities remained subdued, prices and rentals of different segments showed mixed performance.
  4. Prices of *office space* on average edged down by 1% during the second quarter, with the 4% increase in prices of Grade B office space more than offset by the respective 3% and 1% declines in prices of Grade A and Grade C office space. Meanwhile, overall office rentals were virtually unchanged between March and June. Within the total, rentals of Grade C office space edged up by 1%, while those of Grade A and Grade B office space both showed little changes. Compared with the respective peaks in 2018 and 2019, prices and rentals in June were on average 21% and 14% lower. The average rental yields of Grade A, B and C office space were 2.6%, 2.6% and 3.1% respectively in June, compared with 2.5%, 2.7% and 3.0% in March. Transactions for office space increased by 5% over the preceding quarter to 190 cases in the second quarter, though remaining 12% lower than a year earlier and were considerably below the quarterly average of 230 cases in 2018-2022.
  5. Prices and rentals of *retail shop space* both increased by 2% during the second quarter. Compared with the respective peaks in 2018 and 2019, prices and rentals in June were 17% and 10% lower. The average rental yield remained unchanged at 2.7% in June, the same as that in March. For all commercial spaces, transactions declined by 10% from the preceding quarter to 280 cases(4) in the second quarter, 39% lower than a year earlier and visibly below the quarterly average of 400 cases in 2018-2022.
  6. Prices of *flatted factory space* showed little change between March and June, while rentals increased by 2%. Prices in June were 7% lower than the peak in 2019, while rentals were 2% higher than the peak in 2021. The average rental yield edged up from 3.0% in March to 3.1% in June. Transactions increased by 7% over the preceding quarter to 560 cases in the second quarter, though still 10% lower than a year earlier and were far below the quarterly average of 750 cases in 2018-2022.



**Land**

* 1. No land sites were disposed of in the second quarter. In addition, the tender exercises for two residential sites in Kennedy Town and Tsuen Wan commenced in the quarter. In the second quarter, one land exchange case and lease modifications of 13 sites were approved.

**Tourism**

* 1. The tourism sector continued to recover. *Visitor arrivals* surged further from 4.4 million in the preceding quarter to 8.5 million in the second quarter, recovering to 52% of the quarterly average in 2018. Mainland visitors, which accounted for 80% of the total in the second quarter, increased sharply to 6.7 million, and those from other short-haul markets and long-haul markets also rose strongly to 1.2 million and 0.5 million respectively(5). Analysed by length of stay, overnight and same-day visitors both soared to 4.2 million. Visitor spending, as measured by exports of travel services, surged by 770.7% in real terms over the extremely low level a year earlier and returned to 48.2% of the quarterly average in 2018.

**Table 3.1 : Number of visitor arrivals**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | All sources | Mainland China | Other short-haul markets\* | Long-haul markets\* |
|  |  |  |  |  |  |
| 2019 | Q1 | 18 234 400 | 14 582 200 | 2 486 500 | 1 165 700 |
|  | Q2 | 16 637 500 | 12 991 300 | 2 448 200 | 1 198 000 |
|  | Q3 | 11 891 600 | 9 356 000 | 1 648 000 | 887 600 |
|  | Q4 | 9 149 200 | 6 845 100 | 1 356 900 | 947 100 |
|  |  |  |  |  |  |
| 2020 | Q1 | 3 489 200 | 2 665 900 | 483 500 | 339 800 |
|  | Q2 | 26 900 | 15 300 | 4 800 | 6 700 |
|  | Q3 | 34 100 | 14 300 | 10 200 | 9 700 |
|  | Q4 | 18 600 | 10 900 | 5 100 | 2 700 |
|  |  |  |  |  |  |
| 2021 | Q1 | 16 500 | 11 600 | 3 100 | 1 900 |
|  | Q2 | 17 200 | 12 700 | 2 400 | 2 100 |
|  | Q3 | 29 400 | 21 800 | 4 300 | 3 200 |
|  | Q4 | 28 300 | 19 700 | 5 200 | 3 500 |
|  |  |  |  |  |  |
| 2022 | Q1 | 11 500 | 8 600 | 2 000 | 900 |
|  | Q2 | 64 500 | 53 400 | 5 700 | 5 500 |
|  | Q3 | 173 700 | 139 600 | 17 300 | 16 800 |
|  | Q4 | 354 900 | 173 500 | 103 700 | 77 600 |
|  |  |  |  |  |  |
| 2023 | Q1 | 4 414 800 | 3 361 200 | 779 100 | 274 400 |
|  | Q2 | 8 469 100 | 6 749 600 | 1 224 100 | 495 500 |

Notes : (\*) See note (5) at the end of this chapter for the definitions of other short-haul and long‑haul markets.

Figures may not add up to the corresponding totals due to rounding.

**Table 3.2 : Number of overnight and same-day visitor arrivals**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Overnight visitor arrivals | Same-day visitor arrivals |
|  |  |  |  |
|  |  |  |  |
| 2019 | Q1 | 7 775 100 | 10 459 300 |
|  | Q2 | 7 145 100 | 9 492 400 |
|  | Q3 | 5 108 400 | 6 783 200 |
|  | Q4 | 3 723 700 | 5 425 500 |
|  |  |  |  |
| 2020 | Q1 | 1 280 900 | 2 208 300 |
|  | Q2 | 26 500 | 300 |
|  | Q3 | 33 800 | 300 |
|  | Q4 | 18 100 | 500 |
|  |  |  |  |
| 2021 | Q1 | 16 300 | 200 |
|  | Q2 | 16 900 | 300 |
|  | Q3 | 29 000 | 300 |
|  | Q4 | 26 900 | 1 400 |
|  |  |  |  |
| 2022 | Q1 | 10 700 | 800 |
|  | Q2 | 62 700 | 1 800 |
|  | Q3 | 164 600 | 9 100 |
|  | Q4 | 329 800 | 25 100 |
|  |  |  |  |
| 2023 | Q1 | 2 340 400 | 2 074 400 |
|  | Q2 | 4 237 500 | 4 231 700 |

Note : Figures may not add up to total visitor arrivals due to rounding.

* 1. Hotel businesses showed further improvement in tandem. The average hotel room occupancy rate rose from 76% in the first quarter to 83% in the second quarter, though still below the average of 91% in 2018. The average achieved hotel room rate increased by 29.5% over a year earlier to $1,404(6).

**Logistics**

* 1. The logistics sector remained sluggish in the second quarter amid the weak external trade performance. *Total container throughput* plunged by 21.8% from the high level a year earlier to 3.7 million twenty‑foot equivalent units (TEUs). The value of trade handled at the Hong Kong port plummeted by 40.3%, and its share in total trade dropped from 18.6% a year earlier to 12.8%.



* 1. *Air freight throughput* also fell, by 4.8% from a year earlier to 1.0 million tonnes in the second quarter. The value of trade by air shrank by 17.3%, and its share in total trade decreased from 49.0% a year earlier to 46.8%.



**Transport**

* 1. Traffic flows for all modes of cross-boundary passenger transport continued to revive in the second quarter. Air passenger traffic increased from 7.0 million trips in the preceding quarter to 9.5 million trips, and water‑borne and land-based cross‑boundary passenger trips surged from 1.3 million and 23.2 million to 2.2 million and 43.1 million respectively. The passenger trips of these three modes of transport have returned to 51.4%, 34.2% and 73.1% of their corresponding quarterly averages in 2018. Meanwhile, average daily cross‑boundary vehicle movements increased further from 16 340 to 27 105, equivalent to 63.1% of the daily average in 2018.

**Innovation and technology**

* 1. In June, the Government and the Cyberspace Administration of China (CAC) signed the Memorandum of Understanding on Facilitating Cross‑boundary Data Flow Within the Guangdong‑Hong Kong-Macao Greater Bay Area (MoU) to jointly promote cross-boundary data flow in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). Under the MoU, the Innovation, Technology and Industry Bureau and the Office of the Government Chief Information Officer will work closely with the CAC and explore effective management measures with a view to fostering cross-boundary data flow within the GBA, which will be conducive to promoting the integrated and high-quality development of the GBA, lowering the compliance costs of enterprises, driving the development of Hong Kong’s digital economy and building Hong Kong into a global data hub.

**Environment**

* 1. The Fines and Fixed Penalties (Public Cleanliness and Obstruction) (Miscellaneous Amendments) Bill 2023 was passed by the Legislative Council in mid-July and will come into effect on 22 October 2023. The Bill mainly seeks to raise the fixed penalties for scheduled offences under the Fixed Penalty (Public Cleanliness and Obstruction) Ordinance (Cap. 570) (including display of bills or posters without permission; depositing of litter or waste and spitting in public spaces, country parks and special areas; fouling of street by dog faeces; marine littering; obstruction of public places and unlawful depositing of waste) and the maximum fines which may be imposed by the court for certain offences relating to public cleansing or obstruction, so as to enhance deterrent effect and achieve long-term and sustainable improvements in environmental hygiene.

**Notes :**

1. Starting from the third quarter of 2019, the index of home purchase affordability is calculated based on, among others, the mortgage rates of new mortgage loans with reference to both the Best Lending Rate (BLR) and the Hong Kong Interbank Offered Rate (HIBOR). As such, the data from the third quarter of 2019 onwards may not be strictly comparable with those in previous quarters, which were based on the mortgage rates of new mortgage loans with reference to the BLR only.

Figures are subject to revision later as more data become available.

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 the Third Quarter Economic Report 2017. For details of the measures promulgated in 2018, see Box 3.1 in the Half-yearly Economic Report 2018 and Box 3.1 of the Third Quarter Economic Report 2018. For details of the measures promulgated in 2019, see Box 3.1 of the Third Quarter Economic Report 2019. For details of the measures promulgated in 2020, see Box 4.1 of the 2020 Economic Background and 2021 Prospects. For details of the measures promulgated in 2021, see Box 3.1 of the Third Quarter Economic Report 2021. For details of the measures promulgated in 2022, see Box 3.1 of the Third Quarter Economic Report 2022.
2. On 7 July, the HKMCI extended the coverage of the Mortgage Insurance Programme to completed residential properties with value up to $30 million and made the following adjustments: (i) raising the cap on the value of a property eligible for a mortgage loan of a maximum cover of 80% LTV ratio from $12 million to $15 million; (ii) eligible properties with value above $15 million and up to $17.15 million will be subject to a maximum LTV ratio derived from a mortgage loan cap of $12 million (i.e. 70%-80%); and (iii) eligible properties with value above $17.15 million and up to $30 million will be subject to a maximum LTV ratio of 70%. Meanwhile, the HKMCI will also provide first-time homebuyers with special premium concession for properties valued up to $15 million, by waiving premium on insurance coverage for the mortgage loan portion not more than 5% above the maximum LTV ratio for banks.
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. Other 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 2023, visitor arrivals from the Mainland, other short-haul and long‑haul markets accounted for respective shares of 80%, 14% and 6% of the total.
5. The figures on hotel room occupancy and achieved room rate do not include guesthouses. The figures are subject to revision later as more data become available.