## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

***Summary***

* *The residential property market turned more sluggish in the third quarter of 2023. Market sentiment stayed cautious amid rising local interest rates and the challenging external environment. Trading activities quietened further and flat prices declined by 4% 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 rise to a high level of 107 000 units as estimated at end-September.*
* *The non-residential property market was quiet in the third quarter. Trading activities for all major market segments stayed subdued, while prices and rentals generally showed only small changes.*
* *The tourism sector continued to improve in the third quarter. Visitor arrivals rose further from 8.47 million in the preceding quarter to 10.44 million in the third quarter, equivalent to 65% of the level in the same quarter in 2018.*
* *The logistics sector remained rather sluggish in the third quarter amid the weak external trade performance. Total container throughput fell further by 13.1% from a year earlier, though air freight throughput rose back by 7.4% against a low base of comparison.*

**Property**

* 1. The *residential property market* turned more sluggish in the third quarter of 2023. Market sentiment stayed cautious amid rising local interest rates and the challenging external environment. Trading activities quietened further and flat prices declined during the quarter.
  2. The total number of sale and purchase agreements for residential property received by the Land Registry fell visibly by 25% from the preceding quarter or 21% from a year earlier to a low level of 9 174 in the third quarter, well below the quarterly average of around 14 800 cases in 2018-2022. Within the total, secondary market transaction dropped by 23% from the preceding quarter as more buyers and sellers adopted a “wait-and-see” attitude, while primary market transactions plunged by 30% as developers slowed down the launch of new projects. In parallel, total consideration decreased by 36% from the preceding quarter to $78.0 billion.



* 1. Overall flat prices fell further by 4% between June and September. The month-to-month decline in flat prices widened from 1% in July to 2% in both August and September as sentiment turned more cautious in the latter half of the quarter amid another round of local rate hike and the developers’ increasingly cautious pricing strategy for primary projects. Analysed by size, prices of small/medium-sized flats and large flats both dropped by 4% during the quarter. Flat prices in September 2023 were on average 1% below that in December 2022, and 17% below the recent peak in September 2021.
  2. Meanwhile, overall flat rentals rose further by 3% during the third quarter. Analysed by size, rentals of small/medium-sized flats and large flats rose by 3% and 2% respectively. Flat rentals in September 2023 were on average 6% higher than in December 2022, but still 7% below the recent peak in August 2019. The average rental yield for residential property rose from 2.5% in June to 2.7% in September.



* 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) edged down to around 72% in the third quarter alongside the decline in flat prices, though the effect was partially offset by higher mortgage rates. The latest figure remained 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 be 85%.



* 1. Increasing housing land supply is a policy priority of the Government(2). In October, the Government announced to put up one residential site for sale in the fourth quarter. Combining the various sources (including Government land sale, railway property development project, the Urban Renewal Authority’s projects, and private development and redevelopment projects), the total private housing land supply in the fourth quarter is expected to produce around 3 200 flats. Together with the supply in the previous two quarters, the total private housing land supply for the first three quarters of this financial year is estimated to have a capacity to produce about 9 740 units, which is around 76% of the annual private housing supply target of 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 rise to a high level of 107 000 units as estimated at end-September. Another 3 700 units could be added to the total supply after the conversion of a number of residential sites into “disposed sites”.
  3. To dampen speculative activities as well as investment and non-local demand against the backdrop of a tight housing demand-supply balance, the Government implemented a number of demand-side management measures during 2010 to 2017 to facilitate a healthy and steady development of the property market. 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 40 cases per month or 1.2% 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* stayed low at 27 cases per month or 0.8% 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 113 cases per month or 3.4% of total transactions in the third 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.
  4. In view of the increasing housing supply in the coming years and having considered the overall situation, the Chief Executive announced on 25 October several adjustments to the demand-side management measures for residential properties with immediate effect. For details of the adjustments and other measures on housing and land supply announced in the 2023 Policy Address, see ***Box 3.1***.







**Box 3.1**

**Latest Government measures on housing and land supply (October 2023)**

In the 2023 Policy Address, the Chief Executive announced various measures and plans on housing and land supply, as well as some adjustments to the demand-side management measures for residential properties, as summarised below.

*Public Housing Supply*

* The Government has identified sufficient land for developing about 410 000 public housing units for the next ten years (2024-25 to 2033‑34), about 100 000 units above the public housing supply target of 308 000 units. Separately, about 30 000 Light Public Housing units will be completed by 2027-28.
* The Government will continue to advance the completion of 14 000 public rental housing units in phases, making them available about 3 to 18 months ahead of the completion date of the whole development project and enabling applicants to move in earlier than scheduled.
* The Government will continue to make full efforts to take forward Transitional Housing. As at the end of September 2023, about 8 000 units are already in operation and another 13 000 new units are expected to be completed and commissioned in the coming two years.
* The Hong Kong Housing Authority will relax the arrangements on mortgage default guarantee for subsidised sale flats, including extending the current maximum mortgage default guarantee period of the secondary market from 30 years to 50 years to allow purchasers to have mortgage loans of longer tenor and help the circulation of flats.

*Private Housing Supply*

* Sufficient land will be made available for the production of about 80 000 private housing units through land sale or railway property development in the next five years (2024‑25 to 2028‑29).

*Adjustments to the Demand-side Management Measures for Residential Properties*

* From 25 October 2023 onwards, the applicable period of the Special Stamp Duty is shortened from three to two years. The respective rates of the Buyer’s Stamp Duty (BSD) and the New Residential Stamp Duty (NRSD) are reduced by half, from 15% to 7.5%.
* From 25 October 2023 onwards, a stamp duty suspension arrangement for incoming talents’ acquisition of residential properties is introduced, where the BSD and NRSD payment is suspended at the time of property acquisition and such payment is required only if the talents are subsequently unable to become a Hong Kong Permanent Resident.

*Establishing a Task Force on Tackling the Issue of Subdivided Units (SDUs)*

* An in-depth study will be conducted on options for tackling the issue of SDUs in the long run, which include setting the minimum standards of living conditions for SDUs, measures to eradicate substandard SDUs and prevent their resurgence, and solutions to address the problem in an orderly manner, with a view to submitting a report to the Chief Executive in ten months.

**Box 3.1 (Cont’d)**

*Land Supply*

* More than 7 000 hectares of land supply will be available in the 30-year period up to 2048. Netting the projected land demand, there will be a land reserve of at least 1 000 hectares. For the coming ten year in particular (2024-25 to 2033-34), the supply of developable land (“spade-ready sites”) will reach 3 370 hectares, including no less than 1 400 hectares in the Northern Metropolis and about 400 hectares in the Kau Yi Chau Artificial Islands.
* The Government targets to complete the formulation of all land use and development proposals of the Northern Metropolis in 2024, commence land resumption by 2027, and form 40% of the new development land and complete 40% of the new flats by 2032.
* The Government will regularise the arrangement for charging land premium at standard rates for redevelopment of old industrial buildings and extend the arrangement to agricultural land in the New Territories in phases by end-2023.
* The Government plans to adopt a more target-oriented approach in lowering the compulsory sale application thresholds by adopting lower thresholds for older buildings in districts with more pressing need for redevelopment. An amendment bill will be introduced into the Legislative Council by end-2023.
* The Government will continue to streamline statutory and administrative procedures to expedite land production.

The Government is taking all possible steps to spearhead land production, and there have been signs of improvement in housing supply. The measures and plans put forward will enhance the quantity, speed, efficiency and quality in land and housing production and help solve the longstanding land supply issue.

* 1. In order to contain the possible risks to financial stability arising from the property market, the Hong Kong Monetary Authority has introduced multiple rounds of macro-prudential measures since 2009 and adjusted the measures in accordance with the evolving market situation. Further adjustment was made to the Mortgage Insurance Programme (MIP) for residential properties under construction on 22 September, to align the eligibility criteria with those for completed residential properties(3). The average loan-to-value (LTV) ratio of new *mortgages loans* stood at 54% in the third quarter. This was slightly lower than the 57% in the second quarter and well 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.
  2. The *non-residential property market* was quiet in the third quarter. Trading activities for all major market segments stayed subdued, while prices and rentals generally showed only small changes.
  3. Price index for overall *office space* was not available in both August and September, as there were insufficient transactions for Grade A office space in those months. Comparing the latest available data in July with that in June, prices of office space on average edged down by 1%. Analysed by office grade, prices of Grade A and Grade B office space declined by 1% and 4% respectively, while that for Grade C office space was virtually unchanged. Office rentals in September were on average virtually unchanged from 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 in July and rentals in September were on average 23% and 14% lower. The average rental yields of Grade A, B and C office space were 2.6%, 2.8% and 3.1% respectively in July, compared with 2.6%, 2.7% and 3.1% in June. Transactions for office space plunged by 30% from the preceding quarter to 140 cases in the third quarter, 10% lower than the level a year earlier and considerably below the quarterly average of 230 cases in 2018-2022.
  4. Prices and rentals of *retail shop space* both stayed virtually unchanged between June and September. Compared with the respective peaks in 2018 and 2019, prices and rentals in September were 17% and 10% lower. The average rental yield remained unchanged at 2.8% in September as compared with that in June. For all commercial spaces, transactions rose by 5% over the preceding quarter to 300 cases(4) in the third quarter, but were still 7% lower than a year earlier and below the quarterly average of 400 cases in 2018-2022.
  5. Prices of *flatted factory space* edged down by 1% during the third quarter, while rentals rose by 2%. Prices in September were 9% lower than the peak in 2019, while rentals were 4% higher than the peak in 2021. The average rental yield edged up from 3.1% in June to 3.2% in September. Transactions retreated by 23% from the preceding quarter to 420 cases in the third quarter, 18% lower than a year earlier and significantly below the quarterly average of 750 cases in 2018-2022.



**Land**

* 1. Two residential sites with a total area of about 1.6 hectares were disposed of in the third quarter, fetching a land premium of about $7.1 billion. In the third quarter, four land exchange cases and lease modifications of 20 sites were approved.

**Tourism**

* 1. The tourism sector continued to improve. *Visitor arrivals* rose further from 8.47 million in the preceding quarter to 10.44 million in the third quarter, recovering to 65% of the level in the same quarter in 2018. Mainland visitors, which accounted for 82% of the total in the third quarter, increased further to 8.57 million. Those from other short-haul markets and long-haul markets also continued to rise, to 1.33 million and 0.53 million respectively(5). Analysed by length of stay, overnight and same-day visitors rose to 5.27 million and 5.17 million respectively. Visitor spending, as measured by exports of travel services, surged by 791.2% in real terms over the extremely low level a year earlier and returned to 52.8% of the level in the same quarter 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 |
|  | Q3 | 10 438 100 | 8 574 500 | 1 331 700 | 531 800 |

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 |
|  | Q3 | 5 267 600 | 5 170 500 |

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 edged up from 83% in the second quarter to 84% in the third quarter, but was still below the average of 91% in the same quarter in 2018. The average achieved hotel room rate increased by 23.9% over a year earlier to $1,419(6).
  2. The Chief Executive announced in the 2023 Policy Address that the Government will take forward impact initiatives to set up its efforts in promoting the long-term and sustainable development of the tourism industry. Key initiatives include consulting the trade on updating projects and initiatives under the Development Blueprint for Hong Kong’s Tourism Industry, continuing to join hands with the Hong Kong Tourism Board to actively liaise with different event organisers and support their hosting of mega events with visitor appeal in Hong Kong, enhancing the development of cruise tourism and formulate an action plan, establishing an inter-departmental Working Group on Smart Tourism to promote smart tourism and exploring with the Shenzhen Municipal Government the feasibility of establishing a Hong Kong Sha Tau Kok and Shenzhen Shatoujiao cultural tourism zone.

**Logistics**

* 1. The logistics sector remained rather sluggish in the third quarter amid the weak external trade performance. *Total container throughput* fell further by 13.1% from a year earlier in the third quarter to 3.7 million twenty‑foot equivalent units (TEUs). The value of trade handled at the Hong Kong port plummeted by 26.4%, and its share in total trade dropped from 15.4% a year earlier to 11.8%.



* 1. *Air freight throughput* rose back by 7.4% in the third quarter over a year earlier to 1.1 million tonnes, partly due to a low base of comparison. Yet, the value of trade by air fell by 6.4% and its share in total trade decreased from 48.4% a year earlier to 47.3%.



**Transport**

* 1. Traffic flows for all modes of cross-boundary passenger transport continued to recover in the third quarter. Air passenger traffic and land-based cross‑boundary passenger trips rose visibly further from 9.5 million and 43.1 million trips in the preceding quarter to 11.1 million and 49.9 million trips respectively, while water‑borne passenger trips increased from 2.2 million to 2.3 million. The passenger trips of these three modes of transport returned to 58.3%, 87.1% and 33.8% of their corresponding levels in the same quarter in 2018. Meanwhile, average daily cross‑boundary vehicle movements also increased further from 27 105 to 31 872, equivalent to 74.6% of the daily average in the same quarter in 2018.

**Innovation and technology**

* 1. In the 2023 Policy Address, the Chief Executive announced the setting up of the Digital Policy Office, by merging the existing Office of the Government Chief Information Officer and the Efficiency Office, to consolidate and leverage on the resources and know-how within the Government so as to formulate policies on digital government, data governance and information technology, promote the opening up of data and offer more digital services, thereby advancing the development of the digital government and digital economy.

**Arts, Cultural and Creative Industries**

* 1. In his 2023 Policy Address, the Chief Executive announced a host of measures to support the development of arts, culture and creative industries. Among these measures, the Chief Executive highlighted that the Government would inject a total of $4.3 billion to the Film Development Fund and the CreateSmart Initiative to provide incentives for attracting private sector capital and expanding new markets. Other measures include establishing the Cultural and Creative Industries Development Agency, strengthening the efforts of Economic and Trade Offices on cultural promotion, developing the film market, launching the Signature Performing Arts Programme Scheme, increasing the provision for cultural exchanges, organising Hong Kong Fashion Design Week and launching the Pilot Scheme on the Use of School Venues by Arts Groups.

**Environment**

* 1. The Chief Executive reiterated in the 2023 Policy Address that the Government is striving to achieve carbon neutrality before 2050 and reduce Hong Kong’s carbon emissions by 50% before 2035 as compared to the 2005 level. Among the various measures, the Government will enhance energy conservation and decarbonisation in buildings and extend the recovery and recycling schemes to more products. Meanwhile, the Government will make every effort to promote the use and supply of new energy in sea, land and air transport so as to spearhead green transformation of the relevant trades. The Government will also explore the development of new energy industrial chains to promote green economy. Initiatives include developing a green maritime fuel bunkering centre, promoting the supply of sustainable aviation fuel, supporting green transformation of public land transport, promoting the use of electric private cars and formulating the Strategy of Hydrogen Development in Hong Kong.
  2. Separately, Municipal Solid Waste (MSW) charging sits at the centre of the overall waste reduction strategy of the Government and it encourages the community to reduce waste at source and practise clean recycling with financial disincentives. The Government has gazetted the notice to implement MSW charging on 1 April 2024.

**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. For details of the measures promulgated in 2023, see Box 3.1 of this report.
2. On 22 September, the HKMC Insurance Limited made adjustments to the MIP for residential properties under construction so that the applicable eligibility criteria aligned with those for completed residential properties, i.e. (i) eligible properties under construction with property value up to $10 million will be subject to a maximum LTV ratio of 90%; (ii) eligible properties under construction with property value above $10 million and up to $15 million will be subject to a maximum LTV ratio of 80% or that derived from a mortgage loan cap of $9 million, whichever the higher; and (iii) eligible properties under construction with property value above $15 million and up to $30 million will be subject to a maximum LTV ratio of 70% or that derived from a mortgage loan cap of $12 million, whichever the higher.
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 third quarter of 2023, visitor arrivals from the Mainland, other short-haul and long‑haul markets accounted for respective shares of 82%, 13% and 5% 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.