CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

Summary

- *The residential property market was generally buoyant in 2017, except for a temporary moderation around the middle of the year following the introduction of the eighth round of macro-prudential measures for property mortgage loans by the Hong Kong Monetary Authority in May. Improved global and local economic performance, the still-tight demand-supply balance of flats and sustained low local interest rates have all contributed to the fervent market situation. Trading turned more active again in the latter part of 2017 and overall flat prices recorded a hefty gain of 15% during the year.*

- *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. Meanwhile, as the various demand-side management measures yielded noticeable results, speculative activities continued to be subdued, non-local demand remained low, and investment activities stayed modest in 2017.*

- *The commercial and industrial property markets generally revived in 2017. Prices and rentals in individual market segments increased by varying degrees, while trading activities rebounded sharply.*

- *Inbound tourism turned up during the course of 2017, mainly driven by the strong revival of the Mainland market. Overall visitor arrivals rebounded by 3.2% to 58.5 million, after registering annual declines for two consecutive years.*

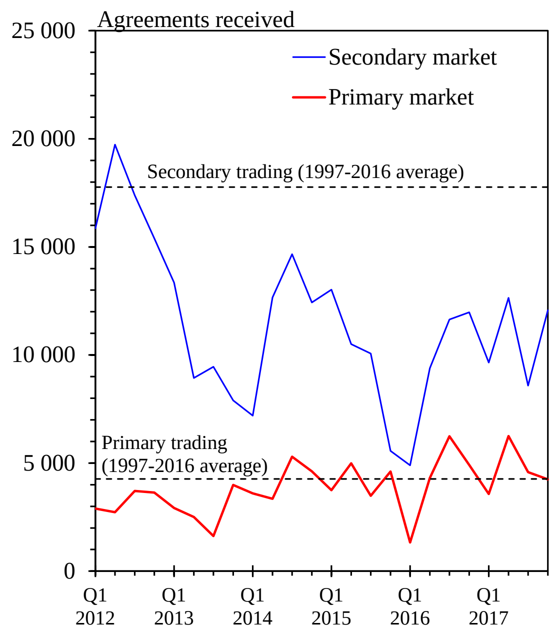
- *The logistics sector extended the recovery trend throughout 2017, benefitting from the resurgence in external trade. Total container throughput reverted to a growth of 4.8% to 20.8 million twenty-foot equivalent units, while air freight throughput exhibited an even better performance and leapt by 9.2%.*

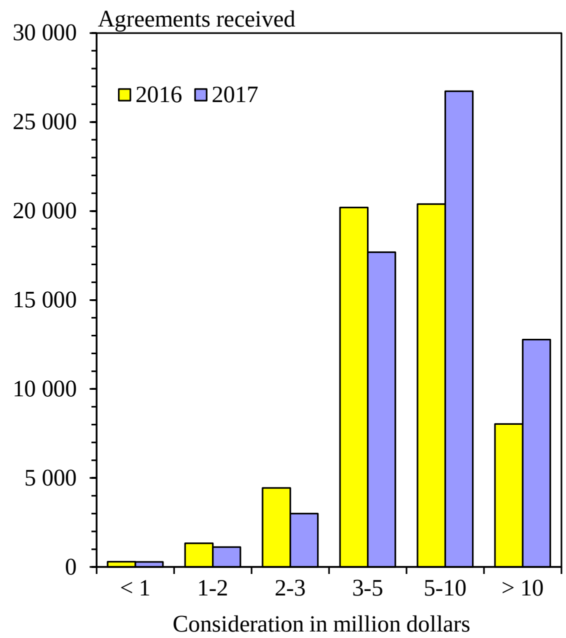
Property

4.1 The *residential property market* was generally buoyant in 2017, except for a temporary moderation around the middle of the year following the introduction of the eighth round of macro-prudential measures for property mortgage loans by the Hong Kong Monetary Authority (HKMA) in May. Improved global and local economic performance, the still-tight demand-supply balance of flats and sustained low local interest rates have all contributed to the fervent market situation.

4.2 The total number of sale and purchase agreements for residential property received by the Land Registry rose by 13% to 61 591 in 2017, though still below the long-term average of 88 139 from 1997 to 2016. Trading was generally active through the year other than for a couple of months when market sentiment was dented by the HKMA's macro-prudential measures. Within the total, primary market transactions rose by 11% to 18 645 with new launches generally greeted with favourable responses, while secondary market transactions increased by 13% to 42 946. Total consideration soared by 30% to $556.3 billion in parallel.

Diagram 4.1 : Trading turned active again in the latter part of 2017



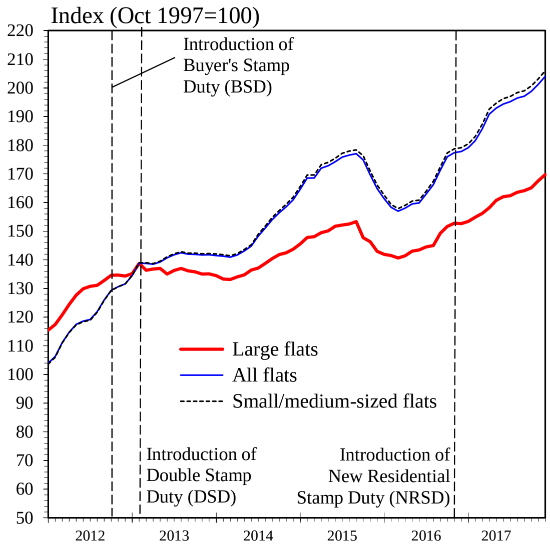


4.3 Overall flat prices recorded a hefty gain of 15% between December 2016 and December 2017. While the rate of increase decelerated somewhat around the middle of the year, it accelerated again towards the end of the year along with the revival in transactions. Analysed by size, prices of small/medium-sized flats and large flats went up by 15% and 11% respectively.

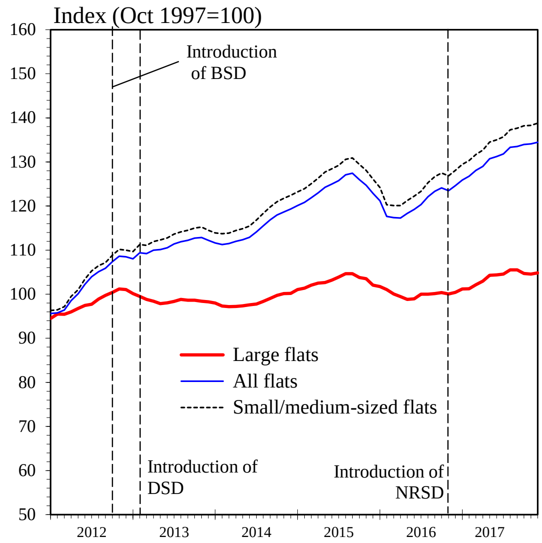
4.4 As to the leasing market, overall flat rentals also picked up to an increase of 8% between December 2016 and December 2017 amid the favourable economic environment. Analysed by size, rentals of small/medium-sized and large flats increased by 8% and 4% respectively. Reflecting the relative movements of flat prices and rentals, the average rental yield for residential property edged down from 2.6% a year earlier to 2.5% in December 2017.

Diagram 4.2 : Flat prices recorded a hefty gain during 2017 while the increase in rentals accelerated

(a) Prices



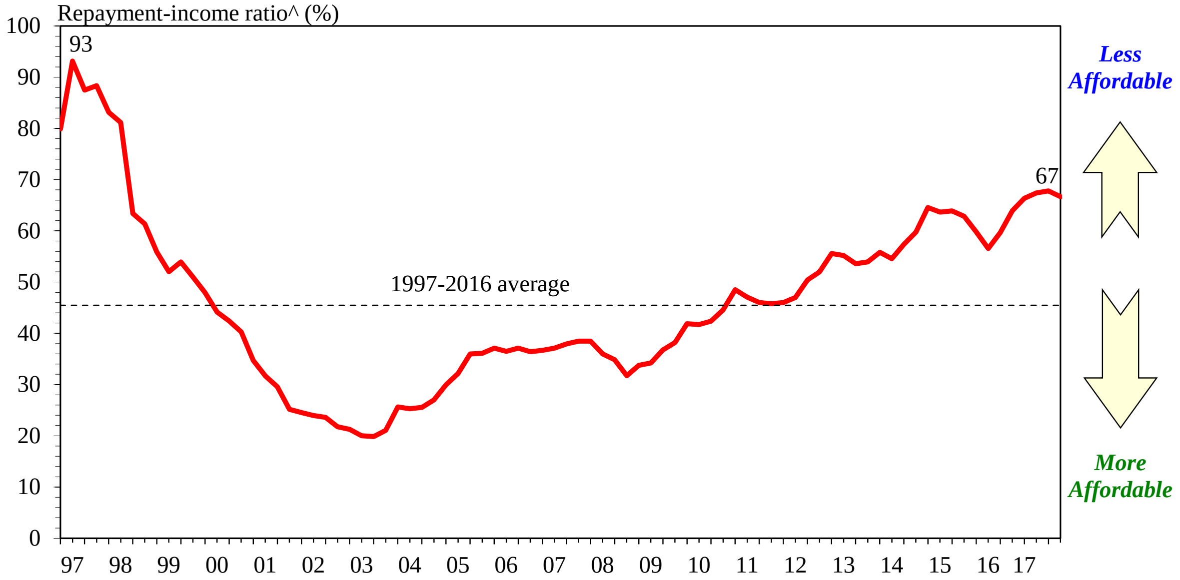
(b) Rentals



Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m^2, and small/medium-sized flats with a saleable area of less than 100 m^2.

4.5 As a result of the surge over the past several years, overall flat prices in December 2017 exceeded the 1997 peak by 104%. 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 housing and assuming a 70% loan-to-value ratio and tenor of 20 years) stayed elevated at around 67% in the fourth 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 87%.

Diagram 4.3 : The mortgage payment to income ratio stayed elevated



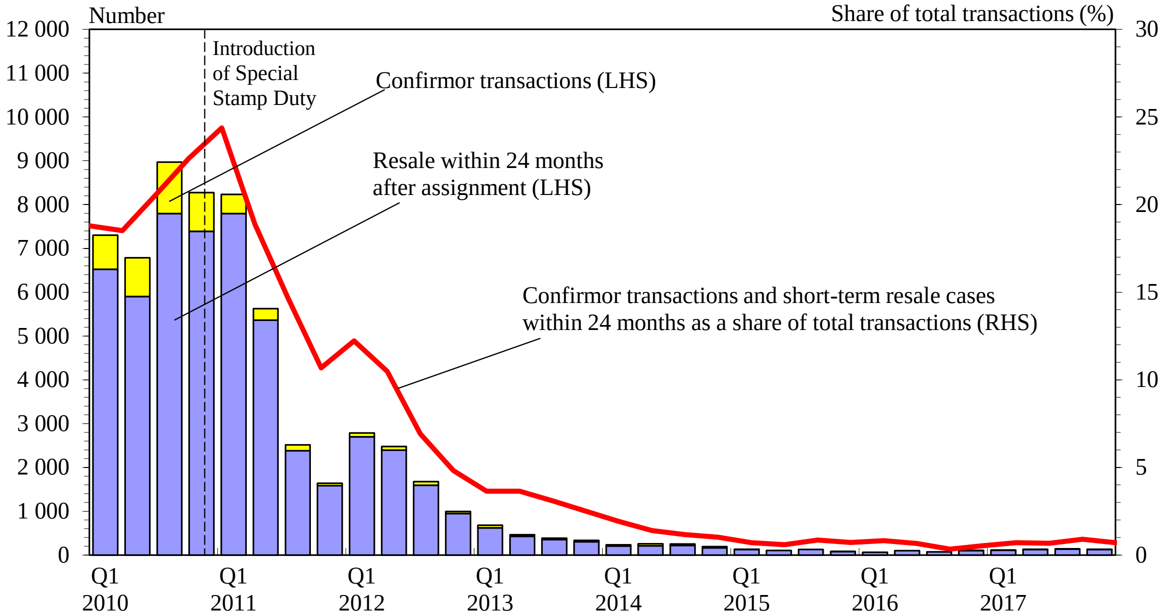
Note : (^) The ratio of mortgage payment for a 45m² flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

4.6 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 December 2017, a total of 11 sites were sold or would be put up for sale in 2017-18 by the Government under the Land Sale Programme, capable of providing about 5 800 flats in total. The aggregate private housing land supply from the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority's projects, and private development and redevelopment projects) in 2017-18 was estimated to have a capacity to provide about 24 300 flats, exceeding the annual supply target for the fourth consecutive year.

4.7 Gross completions of private flats increased by 22% to 17 800 units in 2017. After netting off demolition of 1 600 units, the net completions of 16 200 units fell short of the take-up of 17 000 units(1), and the vacancy rate thus edged down from 3.8% at end-2016 to 3.7% at end-2017. While the demand-supply balance of flats remained tight for the time being as indicated by the vacancy rate, it is set to ease in the years ahead. The Rating and Valuation Department forecasts that completions will rise to 18 100 units and 20 400 units respectively(2) in 2018 and 2019, from the average of 17 900 units per annum over 1997-2016. Reflecting the Government's sustained efforts in raising land supply, the number of private domestic units commencing work rose by 9% to 22 700 in 2017. 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-December 2017. Also, 3 900 units could be further added to the total supply after the conversion of a number of residential sites into "disposed sites".

4.8 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[3]. 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 an average of 42 cases per month or 0.7% of total transactions in 2017, 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 92 cases per month or 1.6% of total transactions in 2017, 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 675 cases per month or 11.7% of total transactions in 2017, markedly lower than the monthly average of 1 412 cases subject to Double Stamp Duty or 26.5% in January-November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages approved was 49% in 2017, 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 HKMA.

Diagram 4.4 : Speculative activities stayed subdued



Note : Confirmor transactions refer to resale before assignment.

Diagram 4.5 : Purchases by non-local buyers remained low

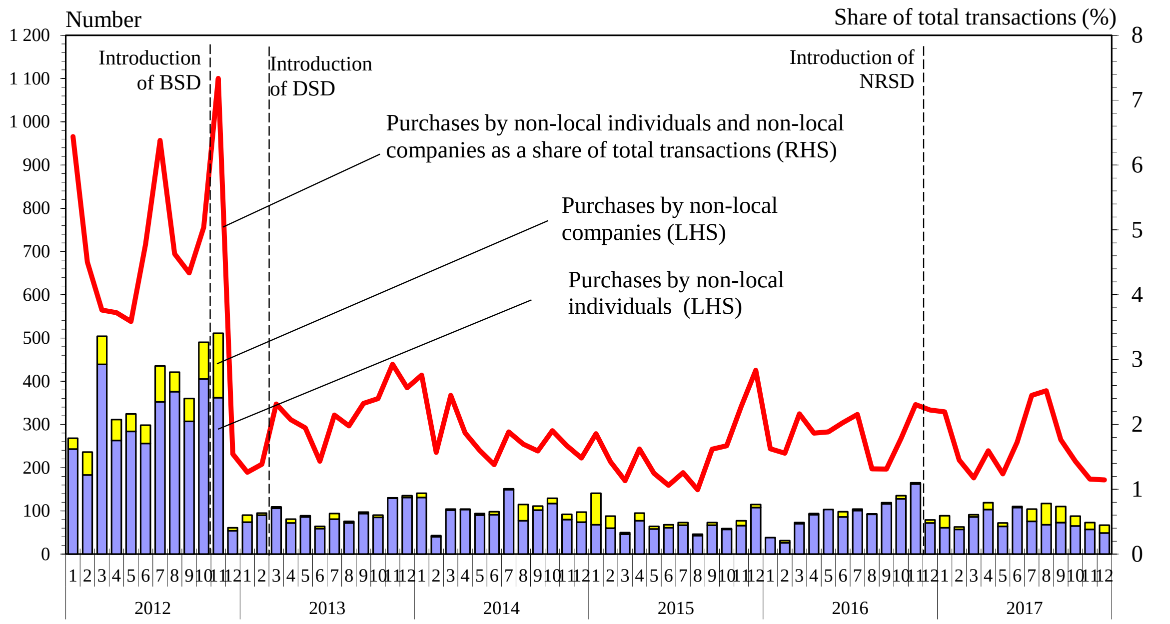
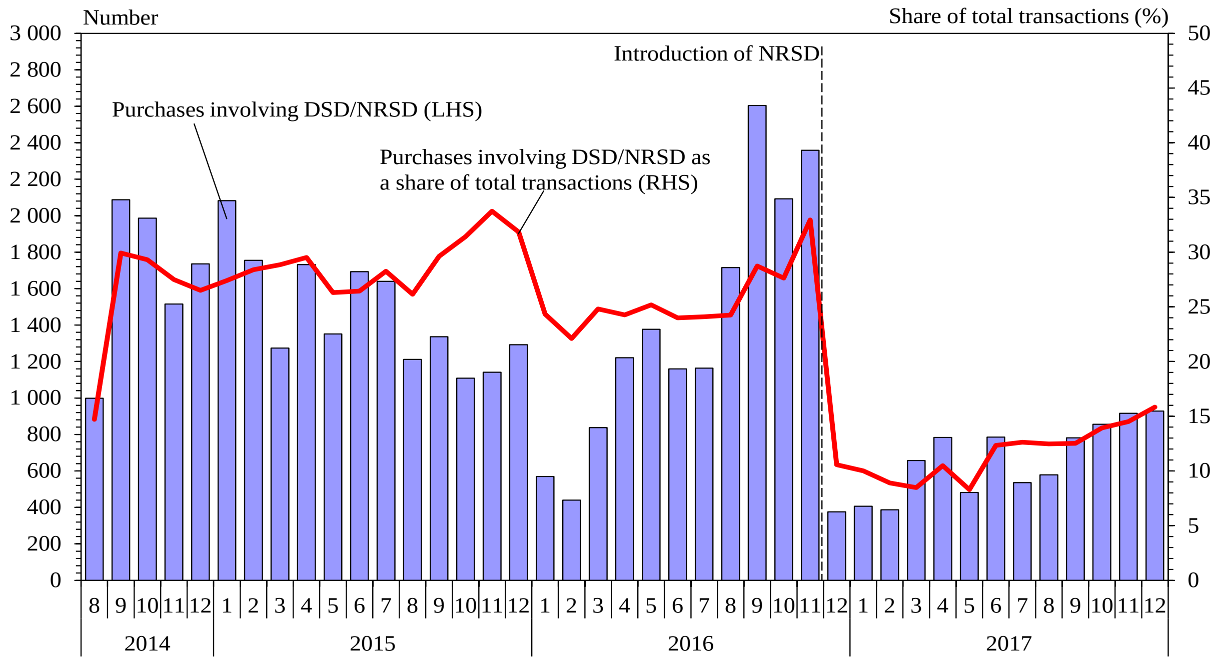


Diagram 4.6 : Investment activities were modest



4.9 While market sentiment remains sanguine at the present moment, the changing fundamental factors will pose increasing adjustment pressures on the residential property market over time. In addition to an expected gradual easing of demand-supply balance of flats resulted from a projected increase in flat production in the coming few years, local interest rates are set to rise under the Linked Exchange Rate System as the US monetary policy normalisation process continues. The Federal Reserve has already raised US interest rates five times by a total of 125 basis points since December 2015, and started scaling back its balance sheet in October 2017.

4.10 The *commercial* and *industrial property markets* generally revived in 2017. Prices and rentals in individual market segments increased by varying degrees, while trading activities rebounded sharply.

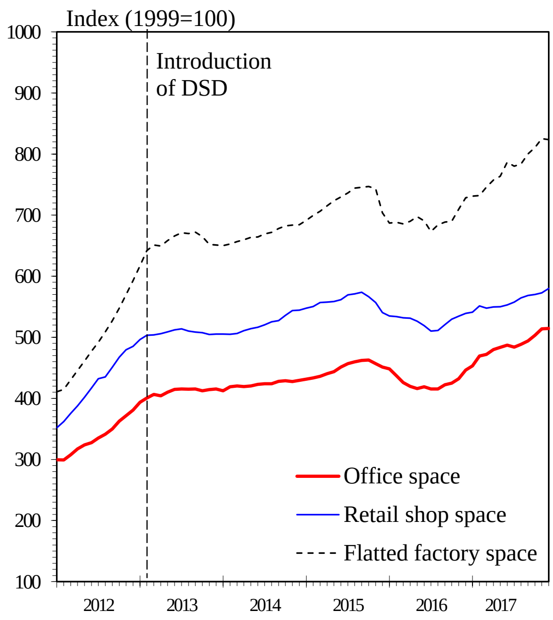
4.11 Overall prices of *office space* rose by 15% between December 2016 and December 2017. Within the total, prices of Grade A, B and C office space went up by 17%, 13% and 14% respectively. Over the period, overall rentals increased by a less rapid 5%, with those of Grade A, B and C office space rising by 6%, 3% and 4% respectively. The average rental yield of Grade A, B and C office space fell to 2.6%, 2.7% and 2.7% respectively in December 2017, all from 3.0% a year earlier. Meanwhile, transactions increased sharply by 77% to 1 960 cases in 2017. As the take-up of 23 300 m^2 was lower than the completion of 198 100 m^2, the vacancy rate went up from 8.2% at end-2016 to 9.5% at end-2017, but was still slightly below the long-term average of 9.8% over 1997-2016.

4.12 The *retail shop space* market gradually improved during 2017 along with the rebound in retail sales. Between December 2016 and December 2017, prices rose by 8%, while rentals went up by 4%. As a result, the average rental yield edged down from 2.5% to 2.4%. Trading activities likewise rebounded by 44% to 2 190 cases in 2017[(4)]. The take-up and completion of retail shop space were 76 600 m^2 and 105 000 m^2 respectively. The vacancy rate stayed unchanged from a year earlier, at 9.0% at end-2017, slightly above the long-term average of 8.8% over 1997-2016.

4.13 Prices and rentals of *flatted factory space* rose by 13% and 5% respectively between December 2016 and December 2017. The average rental yield fell from 3.1% to 2.9% over the period. Transactions soared by 87% to 5 090 cases in 2017. As to the demand-supply balance, there was a negative take-up of 119 700 m^2 against a completion of 22 500 m^2. The vacancy rate therefore rose from 5.8% at end-2016 to 6.1% at end-2017, but was still below the long-term average of 7.7% over 1997-2016.

Diagram 4.7 : Prices and rentals of non-residential properties increased by varying extents during 2017

(a) Prices



(b) Rentals

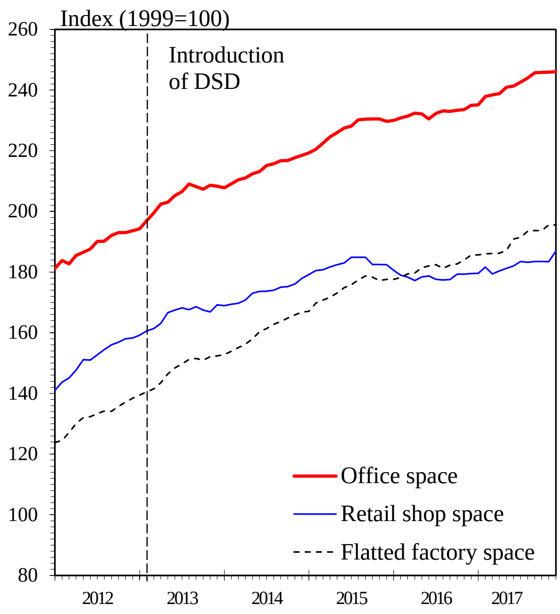
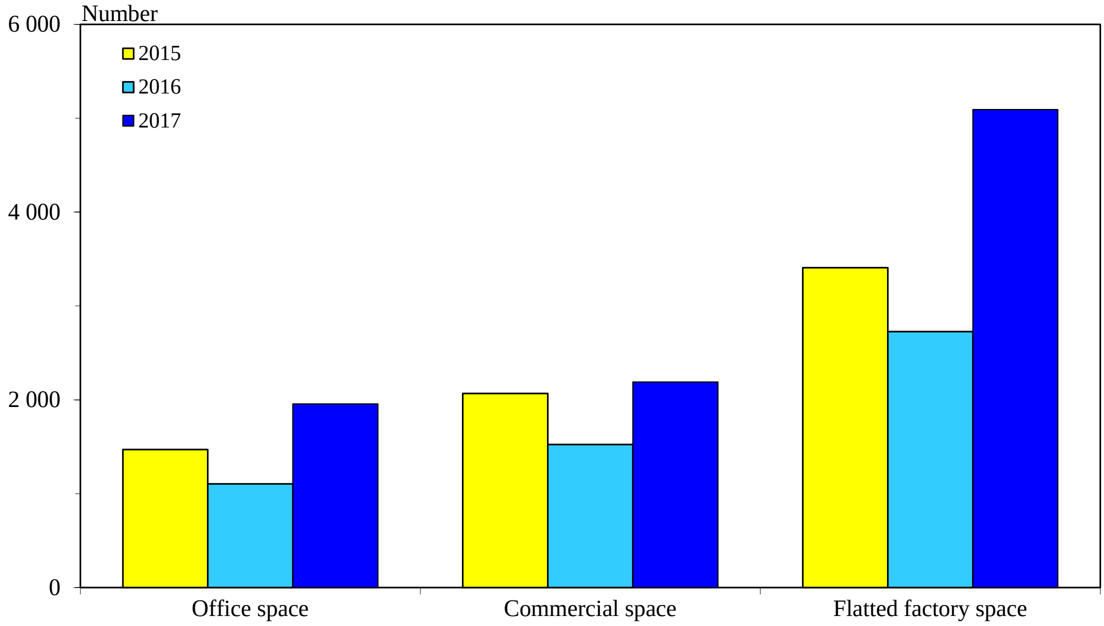


Diagram 4.8 : Transactions for commercial and industrial properties rebounded sharply in 2017



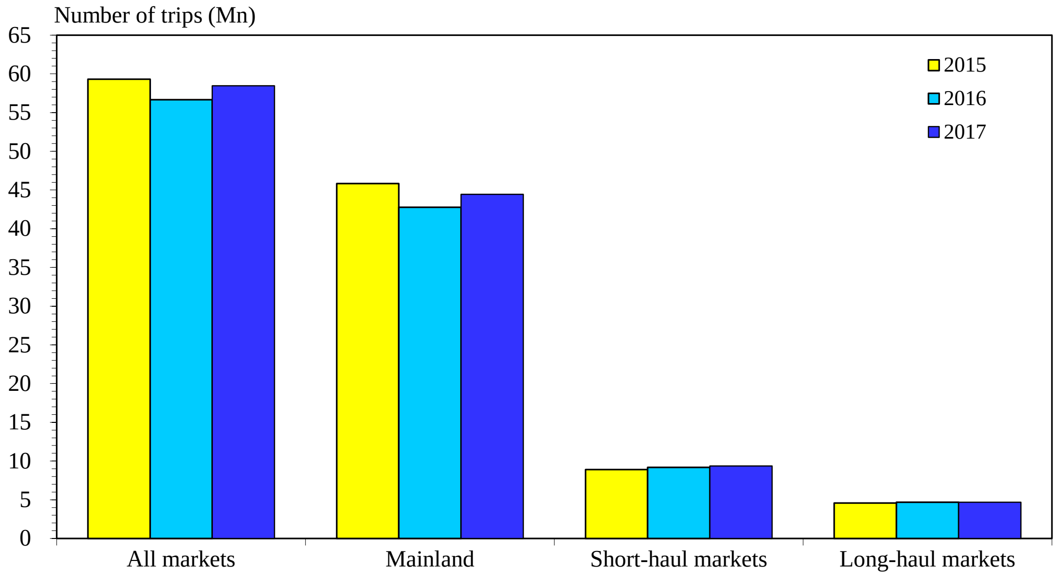
Land

4.14 Twenty sites with a total area of about 13.2 hectares were disposed of in 2017, fetching a land premium of about $128.4 billion. Among these sites, there were ten residential sites, two business sites, two commercial sites, one industrial site, one hotel site, one commercial/hotel site and three sites for petrol filling station. In addition, the tender exercises for another two residential sites and one industrial site commenced in the last quarter of the year. Regarding exchange of land, 19 sites with a total area of about 86.0 hectares were approved in 2017. As to lease modifications, a total of 64 sites were approved.

Tourism

4.15 Inbound tourism turned up during the course of 2017, mainly driven by the strong revival of the Mainland market. Overall *visitor arrivals* rebounded by 3.2% to 58.5 million, after registering annual declines for two consecutive years. With the performance gradually improving over the course of the year, the year-on-year growth rate picked up to a solid 6.0% in the fourth quarter. Mainland visitors, which accounted for 76.0% of the total, rose by 3.9% to 44.4 million in 2017 along with the robust economic growth there. As to the non-Mainland markets, visitor arrivals from the short-haul markets increased by another 1.8%, while those from the long-haul markets edged down by 0.3%(5).

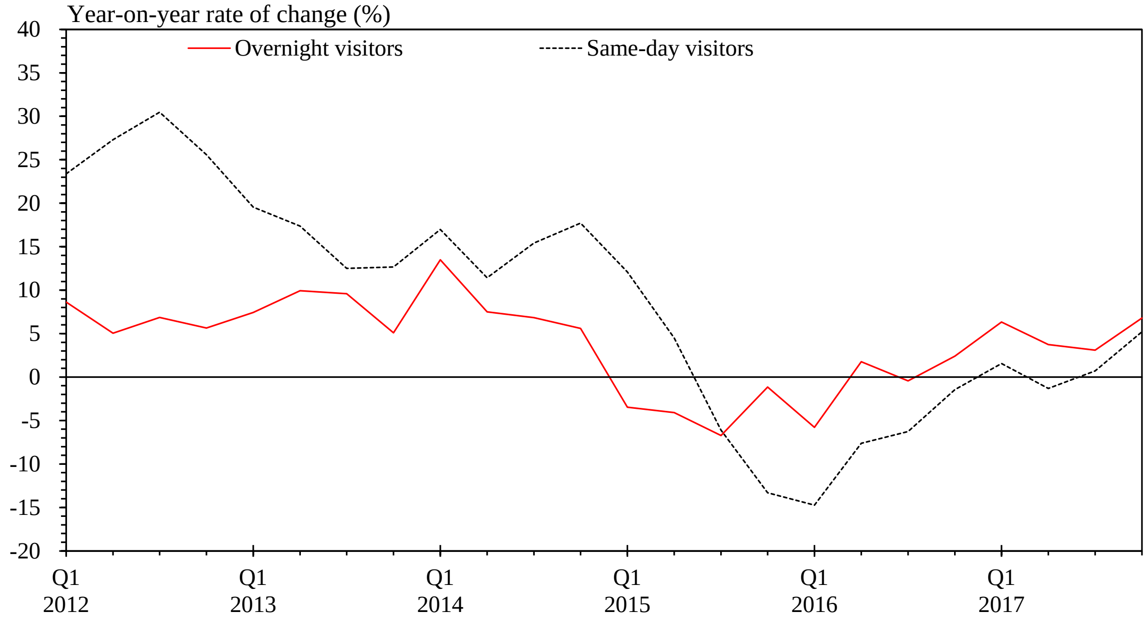
Diagram 4.9 : Inbound tourism turned up during 2017



Note : See note (5) at the end of this chapter for the definition of short-haul and long-haul markets.

4.16 Analysed by the length of stay, overnight visitor arrivals reverted to an increase of 5.0% in 2017 following two consecutive years of decline, while same-day visitor arrivals also returned to a small growth of 1.6%. Reflecting these movements, the share of overnight visitors rose further from 46.9% in 2016 to 47.7% in 2017, while that of same-day visitors declined from 53.1% to 52.3%.

Diagram 4.10 : Both overnight visitors and same-day visitors reverted to an increase in 2017



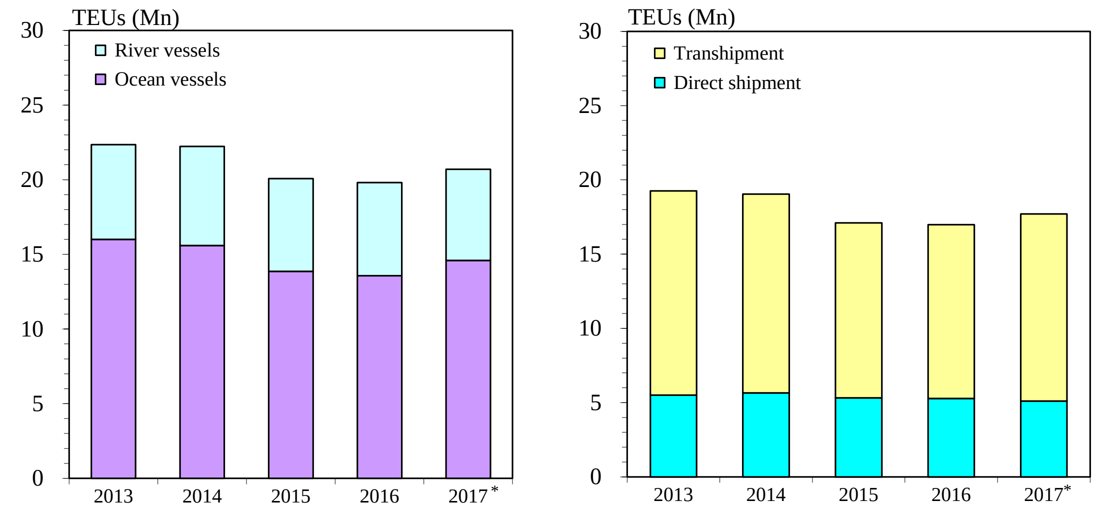
4.17 In tandem with the increase in overnight visitor arrivals, the average hotel room occupancy rate rose from 87% in 2016 to 89% in 2017, while the average achieved hotel room rate edged up by 0.1% to $1,288[(6)].

Logistics

4.18 The logistics sector extended the recovery trend throughout 2017, benefitting from the resurgence in external trade. Following five consecutive years of decline, *total container throughput* reverted to a growth of 4.8% to 20.8 million twenty-foot equivalent units (TEUs). Within the laden container throughput, transhipment jumped by 9.9% while direct shipment fell by 2.0%. In parallel, the value of trade handled at the Hong Kong port rebounded by 4.4%, though its share in total trade by value shrank further from 18.8% in 2016 to 18.1% in 2017.

Diagram 4.11 : Container throughput showed some improvement in 2017

(a) Total container throughput by mode of transport | **(b) Laden container throughput by mode of shipment**

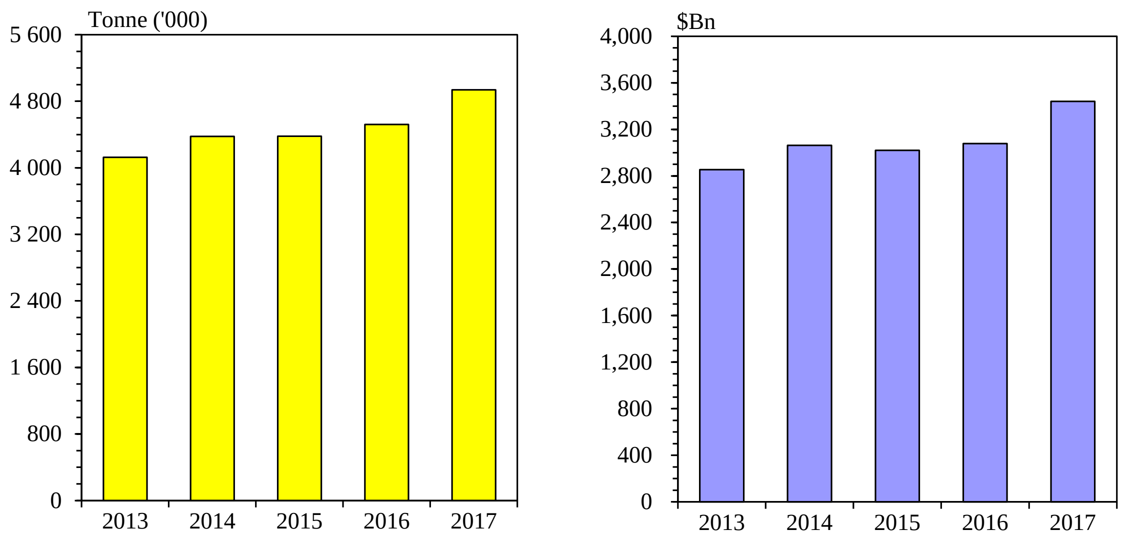


Note : (*) Total container throughput for 2017 is the preliminary estimate by Hong Kong Maritime and Port Board. Its breakdown by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2017.

4.19 By comparison, *air freight throughput* exhibited an even better performance and jumped by 9.2% to 4.9 million tonnes in 2017. Likewise, the value of trade by air leapt by 11.7%, with its share in total trade rising further from 40.5% to 41.8%.

Diagram 4.12 : Air cargo throughput and the value of trade handled by air registered sharp growth in 2017

(a) Air cargo volume | **(b) Value of trade handled by air***



Note : (*) Not including transhipment.

Transport

4.20 Traffic flows for all the major modes of transport increased in 2017. Air passenger traffic rose by 3.3% to 72.9 million trips, and water-borne passenger trips edged up by 0.3% to 26.8 million. As to land-based cross-boundary traffic, passenger trips inched up by 0.2% to 221.7 million, and average daily vehicle movements increased by 3.8% to 43 921.

Innovation and technology

4.21 In December 2017, the Government published the Smart City Blueprint for Hong Kong with a vision to build Hong Kong into a world-class smart city. The Blueprint maps out development plans in the next five years, aiming to enhance the effectiveness of city management and improve people's quality of living as well as Hong Kong's attractiveness and sustainability by making use of innovation and technology.

Environment

4.22 Domestically, the Government announced the modified implementation arrangements for municipal solid waste charging, and target to implement it towards the end of 2019 at the earliest after the endorsement of the enabling legislation by the Legislative Council. Moreover, the Government commissioned a landfill gas utilisation project at the South East New Territories Landfill which turns surplus landfill gas into synthetic natural gas as a renewable energy source and reduces greenhouse gas emissions.

4.23 Regionally, the HKSAR Government and the Guangdong Government finalised the emission reduction targets of key air pollutants for 2020 for both sides with a view to further improving regional air quality. The HKSAR Government also signed a cooperation agreement with relevant Shenzhen authorities to establish the Shenzhen-Hong Kong Office for Marine Emissions and Control and collaborate on the implementation of the Domestic Marine Emission Control Area in the Pearl River Delta.

Notes :

(1) Take-up figures represent the net increase in the number of units occupied. 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. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units sold by developers. Negative take-up means that there is a decrease in the number of units occupied (i.e. property previously occupied was released during the year and remained vacant at the year-end). Also, take-up, demolition, completion and vacancy figures on residential and non-residential properties are preliminary figures from the Rating and Valuation Department, and are subject to revision.

(2) Forecast completions in 2018 and 2019 are preliminary figures only, and are subject to revision upon the availability of more data.

(3) 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.

(4) The figures on transaction and vacancy rate refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.

(5) 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 2017, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 76%, 16% and 8% of total visitors.

(6) The figures on hotel room occupancy and achieved room rate do not include guesthouses.