

Information note on non-residential property market

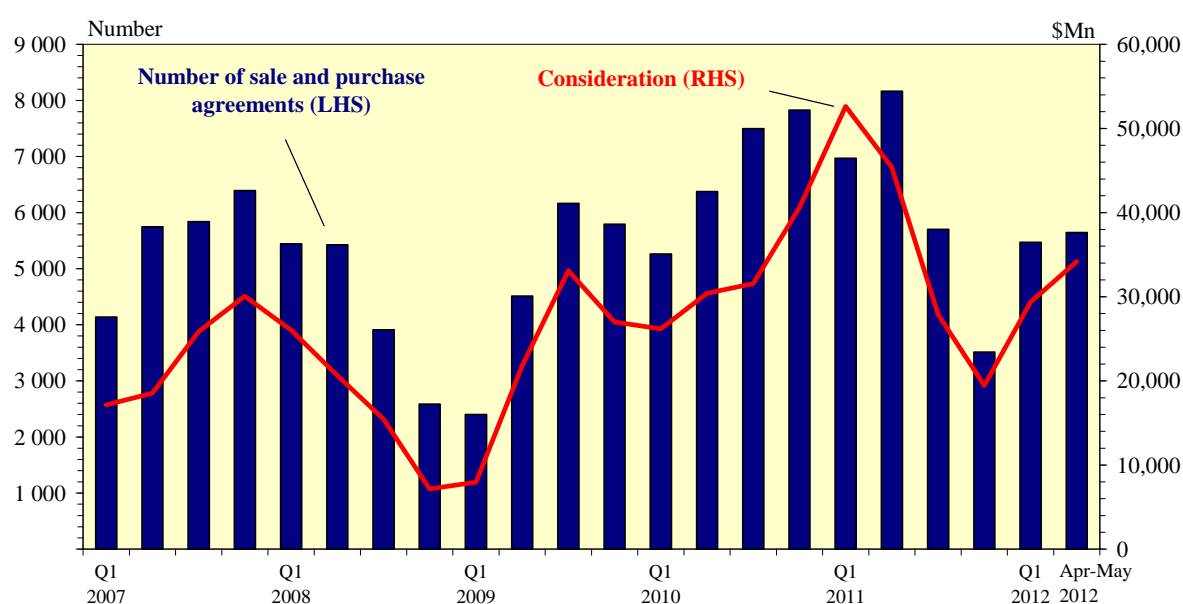
Introduction

The note summarises the recent performance of the non-residential property market, with particular attention to the office and retail space markets.

Recent performance of the non-residential property market

2. After some moderation in the latter part of 2011, the non-residential property market gathered an uptrend momentum again in early 2012 amid the temporary stabilisation in the external environment and the ongoing low interest rate environment with abundant liquidity. The number of sale and purchase agreements for non-residential property⁽¹⁾ received by the Land Registry jumped by 45% over the second half of 2011 to around 2 220 cases per month in the first five months of 2012 (*chart 1*). Nonetheless, this was quite close to the monthly average of 2 230 cases in January to November 2010 (i.e. before the introduction of the Special Stamp Duty (SSD) on short-term resale of residential property in November 2010). In parallel, total consideration rose by a sharp 61% over the second half of 2011 to \$12.7 billion per month in the first five months of 2012, or by 21% over the monthly average of \$10.5 billion in the pre-SSD period.

Chart 1: Transactions and consideration of non-residential property

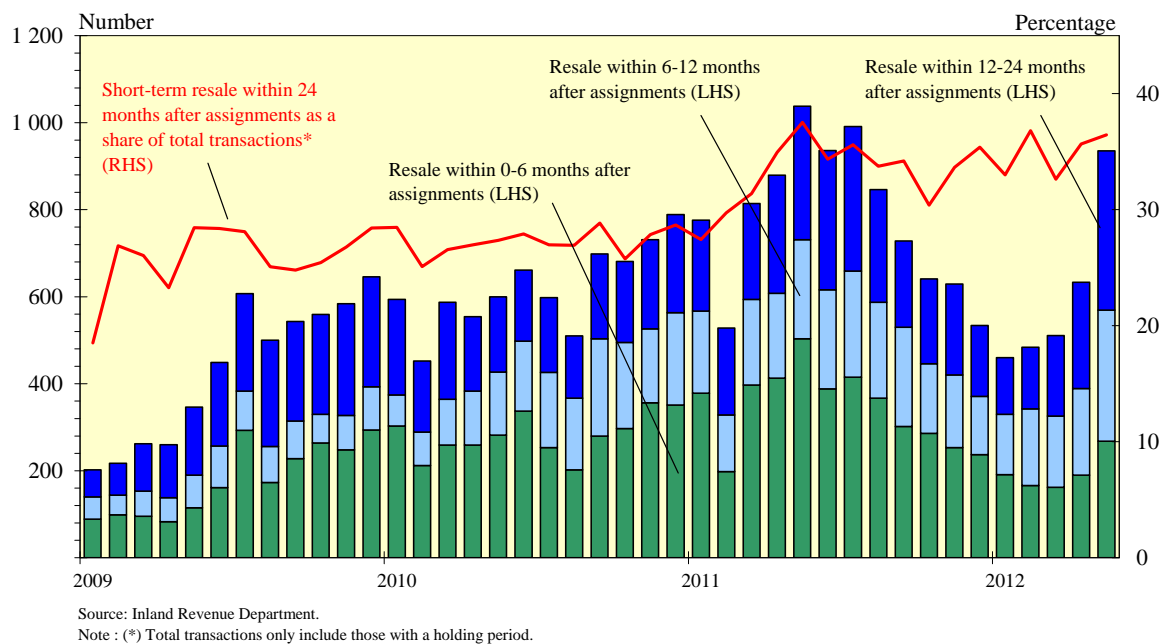


Source : Land Registry.

(1) Non-residential property includes office space, commercial premises, flatted factory, industrial/office, storage premises and other non-residential building units (e.g. carparking spaces).

3. Speculative activities for non-residential property, in terms of short-term resale within 24 months after assignments, remained relatively mild in the first quarter of 2012, though showing signs of some pick-up in April and May. In the first five months of 2012, resale within 24 months after assignments for non-residential property actually declined by 17% over the second half of 2011 to around 600 cases per month⁽²⁾(*chart 2*). Such level of resale within 24 months after assignments was also slightly below the monthly average of around 610 cases in January to November 2010.

Chart 2: Short-term resale for non-residential property

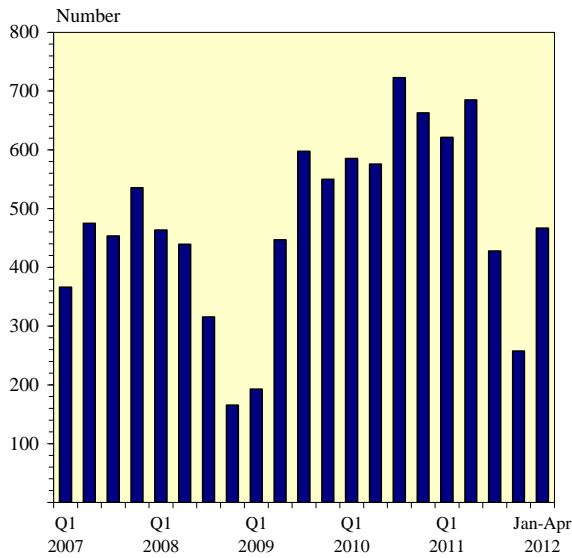


4. Analysed by market segment, the *retail shop space* market rebounded swiftly since February 2012, on the back of the generally solid retail sales market. Overall prices and rentals for retail shop space both rose, and in April have recorded year-to-date gains of 7% and 3% respectively (*charts 3a and 3b*). In the first four months of 2012, transactions for commercial space (mostly retail shop space) surged by 36% over the second half of 2011 to 470 around cases per month⁽³⁾, yet were still 28% below the level in January to November 2010.

(2) Short-term resale statistics are based on stamp duty statistics compiled by the Inland Revenue Department. As the sale and purchase agreement for non-residential property is not chargeable with stamp duty, there is no statistics on confirmor transactions (i.e. resale before assignment) for such property.

(3) Commercial property includes retail shop space and other premises for commercial uses but excludes office space. Also excluded are carparking spaces and commercial premises owned by the Hong Kong Housing Authority and Hong Kong Housing Society.

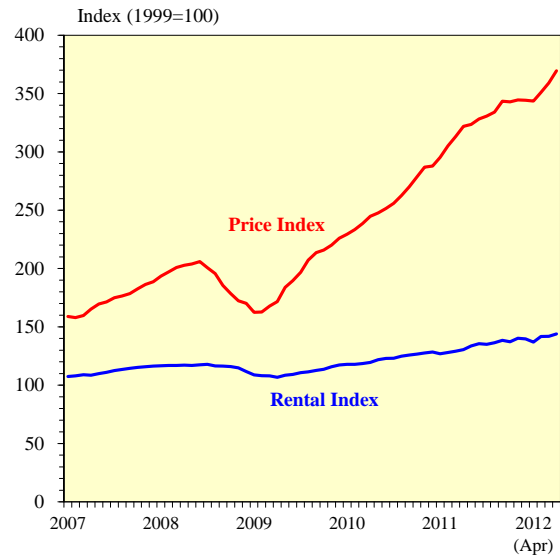
Chart 3(a): Monthly average transactions for commercial space*



Source : Rating and Valuation Department.

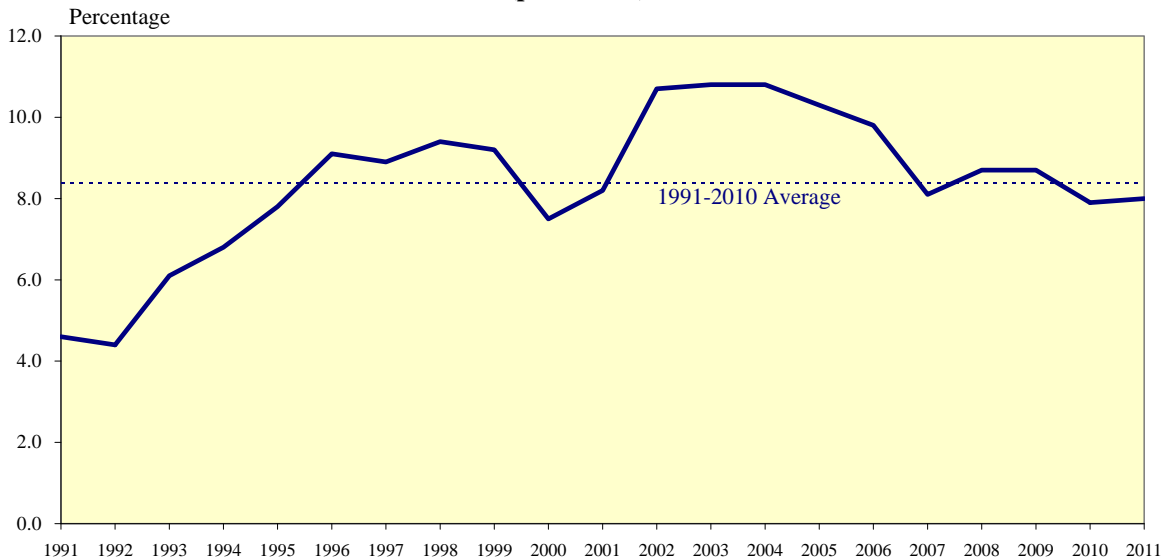
Note : (*) Commercial property includes retail shop space and other premises for commercial uses but excludes office space. Also excluded are carparking spaces and commercial premises owned by the Hong Kong Housing Authority and Hong Kong Housing Society.

Chart 3(b): Price and rental indices for retail shop space



5. As to the demand and supply situation, vacancy rate for commercial space hovered at 8.0% at end-2011, below the long-term average of 8.4% over 1991-2010 (*chart 4*). Recent market intelligence suggested that as end-user demand remains largely solid, competition for retail shop space in prime locations stays intense and vacant units would generally be taken up swiftly.

Chart 4: Vacancy rates for commercial space* (period-end)

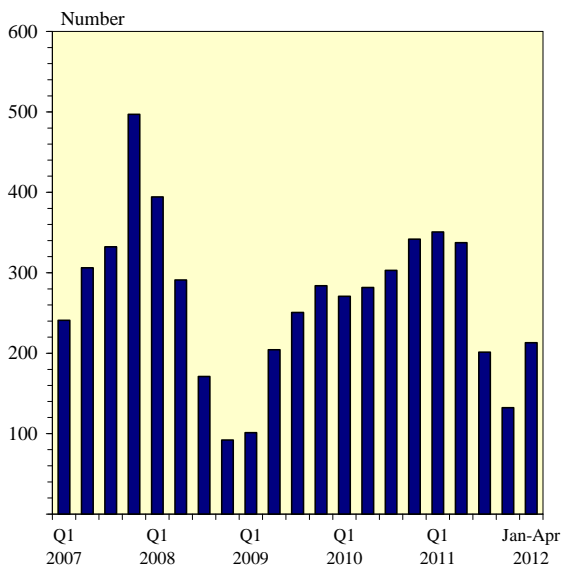


Source : Rating and Valuation Department.

Note : (*) Commercial property includes retail shop space and other premises for commercial uses but excludes office space. Also excluded are carparking spaces and commercial premises owned by the Hong Kong Housing Authority and Hong Kong Housing Society.

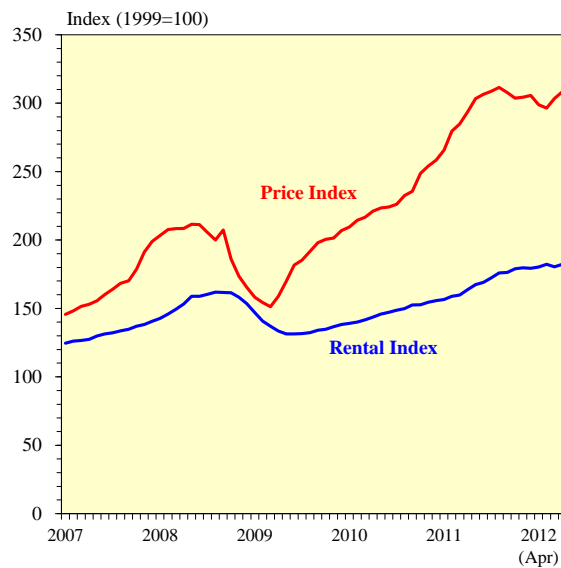
6. By comparison, the *office space* market has been relatively steady in 2012 so far. Overall prices and rentals for office space in April rose by modest 1% and 2% respectively over December 2011 (*charts 5a and 5b*). Reportedly, recent market activities were mainly driven by enterprises' cost-saving initiatives to decentralise from the core districts in light of the increasingly uncertain business environment. Reflecting this, prices and rentals for different grades of office space showed varied performance. Prices of Grade B and C office space went up by 1% and 5% respectively between December 2011 and April 2012 while prices of Grade A office space declined by 2%. Meanwhile, rentals for Grade B and C office space rose by 3% and 4% respectively, and rentals of Grade A office only by a marginal 1%. On the trading front, transactions for office space in January to April jumped by 28% over the second half of 2011 to around 210 cases per month, yet were significantly below the monthly average transaction level in January to November 2010 by 30%.

Chart 5(a): Monthly average transactions for office space



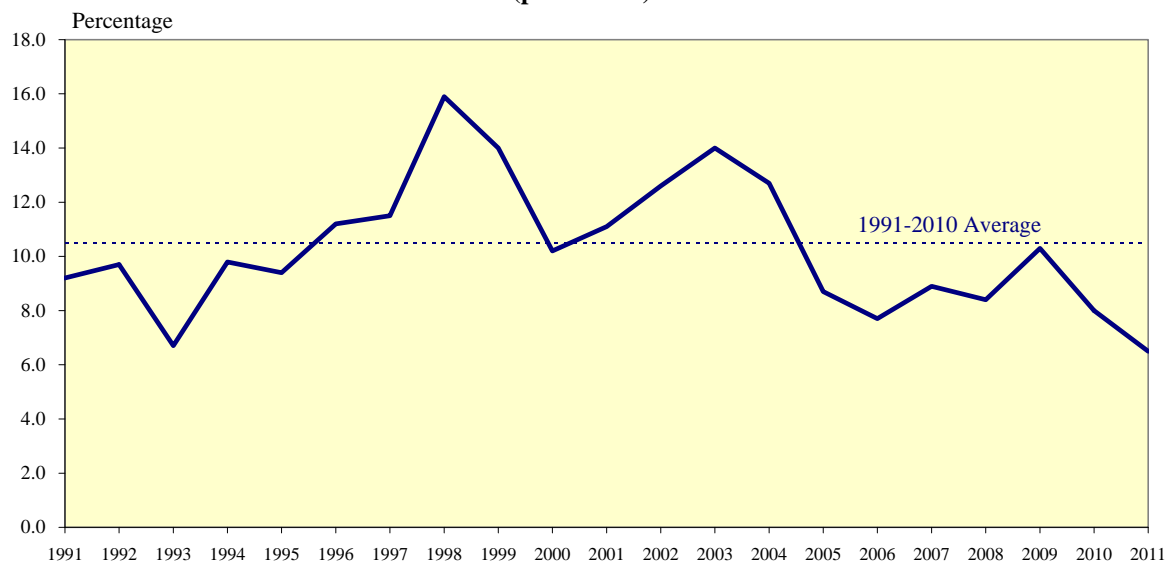
Source : Rating and Valuation Department.

Chart 5(b): Price and rental indices for office space



7. Indicating the persistent strength of demand relative to a tighter supply, the vacancy rate for office space fell further from 8.0% at end-2010 to 6.5% at end-2011, the lowest since end-1990 and well below the long-term average of 10.5% over 1991-2010 (*chart 6*). Market intelligence suggested that recent supply-demand situation for office space remained generally tight, especially for high quality office space in popular business areas in Hong Kong.

**Chart 6: Vacancy rates for office space
(period-end)**



Source : Rating and Valuation Department.

Observations

8. Transactions for non-residential property are essentially commercial activities. In the first four months of 2012, the monthly transactions for office space and commercial space, at 210 cases and 470 cases respectively, were 30% and 28% lower than the monthly average transaction level in January to November 2010. Also, speculative activities in terms of short-term resale within 24 months after assignments were around 600 cases per month in the first five months of 2012, slightly below the monthly average of 610 cases in January to November 2010. There is thus not much evidence that the introduction of SSD on short-term resale of residential property has led to a significant shift in investment interest in the non-residential segment. It has also to be noted that in terms of transaction level, the office and commercial space segment is only around one-tenth of the residential segment. Moreover, investments in commercial properties generally require much larger amount of capital. Average consideration per transaction for office space and commercial space was \$9.6 million and \$14.5 million respectively, compared to \$5.4 million for residential property in the first four months of 2012.

9. As for the concern about rising rentals on business costs, it is worth noting that there has been a very close relationship between the rentals for non-residential properties and the economic/business cycle. Indeed, the rise in the rentals for such properties over the past two years was underpinned by a concurrent economic upswing. Average rentals for retail shop space over the

past year or so have risen by 10% over a year earlier, yet retail sales values have shown an even more impressive growth of 22% (*charts 7a and 7b*). This suggested that the improvement in business receipts should help cushion the operating cost pressure arising from rising rentals.

Chart 7(a) : Growth of nominal GDP and office rentals

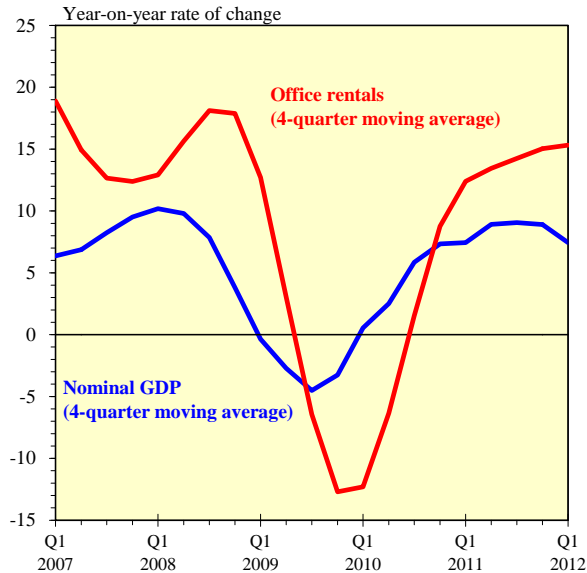
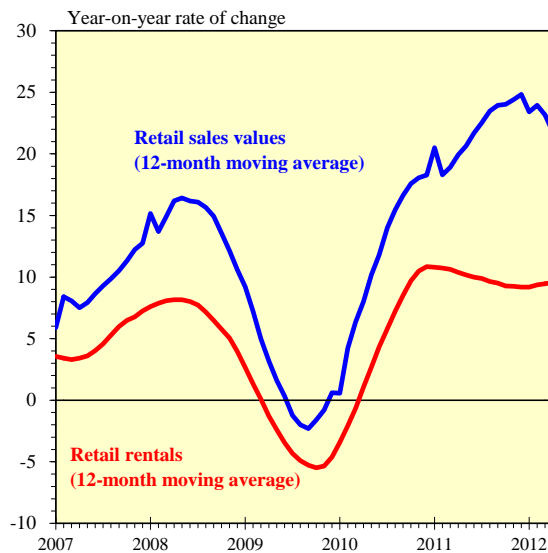


Chart 7(b) : Growth of retail sales values and retail shop rentals



Source : Census and Statistics Department, Rating and Valuation Department.

10. The Government fully recognises that a steady and sufficient supply of commercial land is vital to Hong Kong's long-term economic growth and to strengthen its status as an international business and financial centre. In this regard, the Government disposed of seven commercial/business sites in 2011/12 that could provide gross floor area (GFA) of about 320 000 m² in total. In the 2012/13 Application List, there are four commercial/business sites that together could provide GFA of about 100 000 m². The Government would continue to consolidate and enhance the existing Central Business Districts in Hong Kong (e.g. making available office development sites including those in Central and relocating the Wan Chai Government Offices), while also expedite the development of new premier office nodes (e.g. Kai Tak area, West Kowloon area, Kowloon East), with a view to increasing the supply of quality office space.