

## Technical Notes

### 1. Property Types

Premises are categorised according to the use for which the occupation permit was originally issued, unless known to have been subsequently structurally altered. Otherwise, no specific check is made on current use and no attempt has been made to distinguish those domestic units used for non-domestic purposes and vice versa.

#### 1.1 Private Domestic units are defined as independent dwellings with separate cooking facilities and bathroom (and/or lavatory). They are sub-divided by reference to floor area as follows:

Class A - saleable area less than 40 m<sup>2</sup>

Class B - saleable area of 40 m<sup>2</sup> to 69.9 m<sup>2</sup>

Class C - saleable area of 70 m<sup>2</sup> to 99.9 m<sup>2</sup>

Class D - saleable area of 100 m<sup>2</sup> to 159.9 m<sup>2</sup>

Class E - saleable area of 160 m<sup>2</sup> or above

Public sector developments, including domestic units built under the Private Sector Participation Scheme for subsidised sale, and all units built under the Home Ownership, Buy or Rent Option, Mortgage Subsidy, Sandwich Class Housing, Urban Improvement and Flat-for-Sale Schemes are not included. Data relating to rental estates built by the Housing Authority and Housing Society, units sold under the Tenants Purchase Scheme, and Government owned quarters are also excluded. Completions and forecast completions are exclusive of village houses.

#### 1.2 Private Office premises comprise premises situated in buildings designed for commercial/business purposes. Excluded are non-domestic floors in composite buildings. Offices are graded as follows:

Grade A - modern with high quality finishes; flexible layout; large floor plates; spacious, well decorated lobbies and circulation areas; effective central air-conditioning; good lift services zoned for passengers and goods deliveries; professional management; parking facilities normally available.

Grade B - ordinary design with good quality finishes; flexible layout; average-sized floor plates; adequate lobbies; central or free-standing air-conditioning; adequate lift services, good management; parking facilities not essential.

Grade C - plain with basic finishes; less flexible layout; small floor plates; basic lobbies; generally without central air-conditioning; barely adequate or inadequate lift services; minimal to average management; no parking facilities.

It should be noted that location is not a feature of grade. Offices owned by the Government of the Hong Kong Special Administrative Region and managed by the Government Property Agency are excluded.

#### 1.3 Private Commercial premises include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Carparking space is excluded. Commercial premises owned by the Housing Authority and Housing Society are excluded.

Following the divestment of selected commercial Housing Authority premises to The Link Real Estate Investment Trust (The Link REIT) at the end of 2005, these divested properties now owned by The Link REIT are classified as private sector properties and are included in the statistics from 2006 onwards.

- 1.4 Private Flatted Factories comprise premises designed for general manufacturing processes and uses, including offices, directly related to such processes, and normally intended for sale or letting by the developers. Specialised factories, as described below, are excluded. Similar premises built by the Housing Authority are not included.
- 1.5 Private Industrial / Office premises are floor space designed or certified for industrial/office use.
- 1.6 Private Specialised Factories comprise all other factory premises, primarily purpose-built for specialised manufacturing processes, usually for occupation by a single operator.
- 1.7 Private Storage premises comprise premises designed or adapted for use as godowns or cold stores and include ancillary offices. Premises located within container terminals are included.

## **2. Floor Areas**

A domestic unit is measured on the basis of 'saleable area' which is defined as the floor area exclusively allocated to the unit including balconies and verandahs but excluding common areas such as stairs, lift shafts, pipe ducts, lobbies and communal toilets. It is measured from the outside of the exterior enclosing walls of the unit and the middle of the party walls between two units. Bay windows, yards, gardens, terraces, flat roofs, carports and the like are excluded from the area.

Non-domestic accommodation is measured on the basis of 'internal floor area' which is defined as the area of all enclosed space of the unit measured to the internal face of enclosing external and/or party walls.

## **3. Completions**

Completions of private sector premises comprise those premises deemed completed by virtue of the issue of an occupation permit.

Public sector completion figures, as mentioned in paragraph 1.1 above for each property type, are not included.

## **4. Forecast**

Forecast figures of completions are presented as the number of units (for domestic premises) and the total internal floor area (for non-domestic premises) expected to come on stream in current year.

To arrive at the figures, data are compiled in respect of all known development and

redevelopment sites in the territory in accordance with information derived from Buildings Department returns, architects' and developers' plans and returns, professional estimates and/or site visits.

Public sector developments as mentioned in paragraph 1 above are not included.

## 5. Average Rents and Prices

Average rents are based on an analysis of rental information recorded by the Department for fresh lettings effective in the month being analysed. For non-domestic premises, rents negotiated on renewal are also included. The effective date is the commencement date of a tenancy agreement. However, rents are normally agreed earlier (2-4 weeks earlier for fresh lettings, and 1-3 months for lease renewals). Rental statistics of retail premises from mid-2006 onwards include properties owned by The Link REIT (for details, please refer to paragraph 1.3 above).

Information is obtained from a variety of sources including notifications of fresh lettings made under the provisions of the Landlord and Tenant (Consolidation) Ordinance, requisitions issued under the provisions of the Rating Ordinance and the Government Rent (Assessment and Collection) Ordinance, letters from landlords and tenants and site visits made by staff of the Department.

Rents are analysed on a net basis i.e. exclusive of rates, management and other charges.

Average prices are based on an analysis of transactions scrutinised by the Department for stamp duty purposes. The following types of transactions are excluded: those considered to be unacceptable for stamp duty purposes, those involving a mix of property types, premises which have not yet been assessed to rates, domestic premises sold subject to existing tenancies, and primary sales of domestic premises. Date of sale is the date on which an Agreement for Sale and Purchase is signed, or the date on which an Assignment is signed if there is no Agreement for Sale and Purchase. It should be borne in mind that provisional agreement is generally reached 2-3 weeks earlier than an Agreement for Sale and Purchase.

Average rents and prices are analysed for general reference only. Their levels at a certain period depend to a large extent on the special characteristics, including quality and location, of the premises which are leased or sold during the period. Thus changes between different periods may be due to variations in the characteristics of the different properties being analysed, and should **not** be taken as necessarily indicating a general change in value over the period. In particular, figures in brackets denote limited number of transactions, and should be used with caution. Rental and price indices are a better reflection of change in value.

The rental and price figures for the recent few months are provisional, pending the availability of further data for analysis.

Unlike the coverage of completion figures, rental and price statistics include village houses, and also open market lettings and sales of Government-subsidised housing units upon expiry of the restriction period and payment of the premium to the relevant bodies.

## 6. Rental and Price Indices

As explained above average rents and prices may change from one period to another not only because of value changes but also because of variations in quality. The rental and price indices, on the other hand, are designed to measure rental and price changes with quality kept at a constant. Movement of indices may therefore differ from changes in the average rents and prices for the same period.

The rental and price indices are derived from the same data that are used to compile average rents and prices. The indices measure value changes by reference to the factor of rent or price divided by rateable value of the subject properties rather than by reference to the rent or price per square metre of floor area. In effect, by utilising rateable value, allowance is made not only for floor area but also other qualitative differences between properties.

Following a General Revaluation of rateable values, the new rateable values are matched with the old ones for the purpose of maintaining the index series.

The component index (the index for a property class or grade) has been derived from analysis of all transactions effective in a given period. The composite index for a certain type of premises is compiled by calculating a **weighted** average of the component indices. The weights for compiling the composite index for each type of non-domestic premises are based on the total floor area of components in respect of the current and previous 11 months. For domestic premises the weights for both rental and price indices are based on the number of transactions effected in the current and previous 11 months.

Monthly, quarterly and annual indices are shown. Quarterly and annual indices are the simple average of the monthly indices in respect of the relevant period.

The indices, especially the rental indices, will tend to understate market trends. Although all rents are analysed on a net basis (see paragraph 5 above), allowances will not be made for the “value equivalent” of other contractual terms that are unknown to the Department. In a “tenants market” for example, landlords are normally prepared to make concessions to tenants such as refurbishment or the granting of extended rent-free periods. If rents were adjusted to reflect standard terms of agreement, the rents as adjusted would tend to be lower than the quoted rents when the index is moving downwards and vice versa.

## 7. Price Indices for Selected Popular Residential Developments

The indices are based on an analysis of prices paid for units in selected developments as recorded in Sale and Purchase Agreements. **Developments** selected for analysis from **2007 onwards** are slightly different from those of previous years, and include:

**Hong Kong** - Baguio Villa, Beverly Hill, Braemar Hill Mansions, Chi Fu Fa Yuen, Convention Plaza Apartments, Dynasty Court, Grand Promenade, Heng Fa Chuen, Hong Kong Parkview, Illumination Terrace, Island Place, Island Resort, Kornhill, Les Saisons, Pacific View, Residence Bel-Air & Bel-Air On The Peak, Robinson Place, South Horizons, Taikoo Shing, The Belcher's, The Leighton Hill, The Orchards, The Redhill Peninsula, Tregunter, Villa Lotto;

**Kowloon** –Banyan Garden, Galaxia, Harbourfront Landmark, Island Harbourview, Laguna City, Laguna Verde, Liberte, Mei Foo Sun Chuen, Metro Harbour View, One Beacon Hill, Parc Oasis, Park Avenue, Royal Peninsula, Sceneway Garden, Sky Tower, Sorrento, Telford Gardens, The Waterfront, Whampoa Garden;

**New Territories** –Aegean Coast, Bellagio, Beneville, Caribbean Coast, Castello, City One Sha Tin, Constellation Cove, Dawning Views, Discovery Bay, Discovery Park, Fanling Centre, Flora Plaza, Grand Pacific Views, Hong Kong Gold Coast, Hong Lok Yuen, Kingswood Villas, Marina Cove, Metro City, New Town Plaza (Phase III), Ocean Shores, Palm Springs, Park Central, Park Island, Parkland Villas, Rambler Crest, Riviera Gardens, Royal Ascot, Royal Palms, Sea Crest Villa, Serenity Park, Sunshine City, Symphony Bay, The Parcville, Tierra Verde, Tuen Mun Town Plaza, Villa Athena, Villa Esplanada, YOHO Town.

The component index for each property group in the sample developments is calculated by reference to the factor of price divided by rateable value of the subject properties. The composite index for a property group is compiled by calculating a weighted average of the component indices. For the year 2007, the weights are based on the number of transactions effected in 2006.

## 8. Property Market Yields

The yields have been derived by comparing the average rent/rateable value and price/rateable value factors. The properties included in the rental analysis may be different from those in the price analysis. The figures should therefore only be regarded as providing a broad indication of market yields and trends.

## 9. Sales Transactions

Statistics on domestic sales are sourced from the Land Registry, derived from sale and purchase agreements of domestic units **received for registration** in the Land Registry for the relevant periods. Statistics on non-domestic sales are based on analysis made of sales transaction records obtained by this Department from the Land Registry and Inland Revenue Department for stamp duty purposes. As distinguished from the Land Registry statistics on domestic sales, non-domestic figures for each relevant period refer to the **date on which an Agreement for Sale and Purchase is signed** (or the date on which an Assignment is signed if there is no Agreement for Sale and Purchase), and not the date on which the document is submitted for registration.