

Rating and Valuation Department

Hong Kong Property Review 2016

Preliminary Findings

Meanings of Terms

To assist in the interpretation of the findings, the definitions of the terms used are explained below:

- **Completions** refer to premises issued with an occupation permit.
- **Take-up** represents the net increase in the number of units or floor area occupied in the year under review. 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 (with figures for wholesale conversion, if any, already reflected).
- **Vacancy** indicates the number of units or floor area not physically occupied at the time of the survey conducted at the end of the year. It should be noted that some vacant domestic units are not yet issued with Certificate of Compliance or Consent to Assign after obtaining the Occupation Permit. Units under decoration are also classified as vacant.
- It should be noted that the **take-up** and **vacancy** figures bear **no** relationship to the number of units sold by the developers (i.e. primary market transactions) or still retained by them (the unsold stock).
- Completions, take-up and vacancy figures **exclude** village houses.

PRIVATE DOMESTIC

Completions in 2015 decreased by 28% to 11 280 units. About 61% of the completions were in the New Territories, 17% in Kowloon and 22% on Hong Kong Island. At district level, the top three suppliers Sha Tin, Islands and Wan Chai altogether accounted for 44% of the overall completions.

Take-up, at 10 530 units, was slightly lower than the year's completions. Vacancy at the year-end slipped marginally to 3.7% of the total stock, equivalent to 42 040 units. Among these vacant units, about 7 210 units were not yet issued with Certificate of Compliance or Consent to Assign after obtaining the Occupation Permit.

The number of units forecast for completions in 2016 and 2017 are around 18 200 and 17 930 units respectively. In 2016, 68% of completions will come from the New Territories. District-wise, Yuen Long and Sai Kung will provide 29% and 21% of the new supply respectively. In 2017, Kowloon will be the major supplier providing 43% of the total supply. District-wise, Kowloon City alone will contribute 24% and Sai Kung will provide another 17%.

The residential property market stayed generally buoyant in the first half of 2015. Both prices and rents peaked in the third quarter and went down by 4% and 2% respectively in the fourth quarter. Nevertheless, comparing the fourth quarter of 2015 with the same period last year, residential prices and rents still recorded a respective increase of 7% and 5%.

PRIVATE OFFICE

Office completions in 2015 were 165 000 m², 59% higher than 2014. Grade A completions were 124 000 m², of which about 62% came from Kwun Tong. Grade B completions were 41 000 m².

The overall take-up dropped to 27 000 m² in the year. Both Grade A and B offices have positive take-up of 15 000 m² and 24 000 m² respectively while Grade C offices have a negative take-up of 12 000 m². The year-end vacancy surged to 8.0%, amounting to 899 000 m². The vacancy rate of Grade A offices increased to 7.8%, Grade B offices to 8.9% while that of Grade C offices went up to 7.2%. For sub-districts, the vacancy rates of Grade A offices in Sheung Wan and Wan Chai / Causeway Bay however dropped.

More supply will come on stream in 2016, with 199 000 m², and in 2017, with 232 000 m². In 2016, new Grade A completions will account for 175 000 m², mainly on Kowloon side amounting to 64% of the anticipated supply. Grade A completions in 2017 will be 215 000 m², with Kwun Tong alone contributing 63%. Grade B forecast completions are about 22 000 m² in 2016 and 16 000 m² in 2017. There will be 2 000 m² and 1 000 m² of Grade C office completions in 2016 and 2017 respectively.

Office prices and rents grew in the first three quarters of 2015 and showed signs of contraction in the fourth quarter. Nevertheless, overall office prices still recorded a gain of 7% between the fourth quarters of 2014 and 2015. Prices of Grade A offices in the last quarter of 2015 hiked up for 10% from the corresponding quarter in 2014 while both Grade B and C office prices recorded a growth of 8% over the same period. Overall office rentals likewise rose by 6%, with each grade recording the same increase of 6% between the fourth quarters of 2014 and 2015.

PRIVATE COMMERCIAL

Completions in 2015 were 68 000 m², with Kowloon and the New Territories contributing 44% and 32% of the completions respectively. Take-up remained positive with 10 000 m² in the year and vacancy rate increased to 7.7% at 847 000 m².

More completions are expected in 2016, with 126 000 m² in total and Yuen Long surging to 40 000 m². In 2017, the completions will reduce to 93 000 m² of which Sai Kung alone will provide 19% of the total supply. Another 16% and 14% will come from Yau Tsim Mong and Sha Tin respectively.

Both private retail prices and rents recorded modest gains during the first three quarters of 2015 but declined in the fourth quarter, yet still recording a growth of 3% between the fourth quarters of 2014 and 2015.

PRIVATE FLATTED FACTORIES

Completions in 2015 decreased to 30 000 m², with 82% coming from Sham Shui Po. Take-up was again negative at 71 000 m² and vacancy at the year-end declined further to 5.0% at 843 000 m².

Completions in 2016 and 2017 will first plunge to 13 000 m² and then rise to 26 000 m².

Same as the other property sectors, the growing trend of flatted factory prices and rents started reversing downwards in the fourth quarter 2015. Nevertheless, comparing the fourth quarters in 2014 and 2015, prices and rents still rose by 7%.

PRIVATE INDUSTRIAL/OFFICE

There were no industrial/office completions in 2015. Take-up was negative at 7 000 m² and the vacancy rate decreased to 6.8% at 40 000 m².

There is unlikely to be any new supply in 2016 and 2017.

PRIVATE DOMESTIC

ALL UNITS COMPLETIONS, TAKE-UP AND VACANCY

	No. of units						
	2011	2012	2013	2014	2015	2016	2017
Completions	9 450	10 150	8 250	15 720	11 280	[18 200]	[17 930]
Take-up*	11 400	7 550	8 060	16 520	10 530		
Vacancy	47 920	48 000	46 570	43 260	42 040		
% ☆	4.3	4.3	4.1	3.8	3.7		

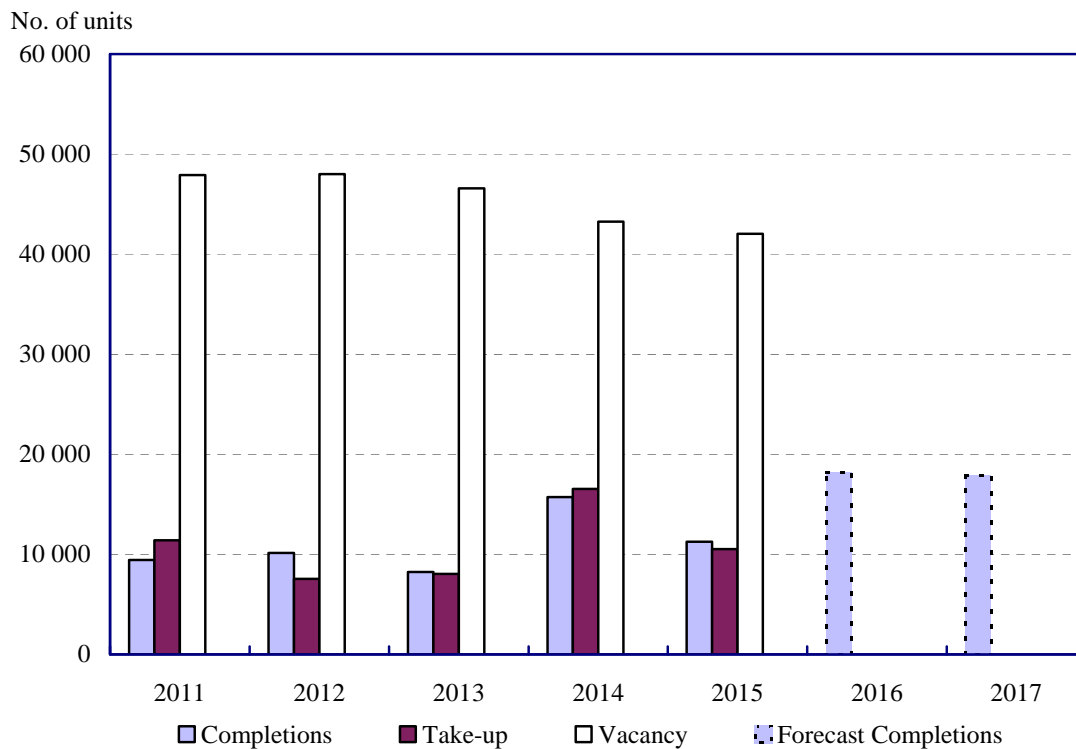
“Private domestic” excludes flats built under the Home Ownership, Private Sector Participation, Buy or Rent Option, Tenants Purchase, Urban Improvement, Flat-For-Sale and Sandwich Class Housing Schemes.

Figures exclude village houses.

* Take-up figures represent the net increase in the number of units occupied in the year under review and 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 (with figures for wholesale conversion, if any, already reflected).

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures



PRIVATE DOMESTIC

SMALL / MEDIUM UNITS (Saleable Area less than 100 m²) COMPLETIONS, TAKE-UP AND VACANCY

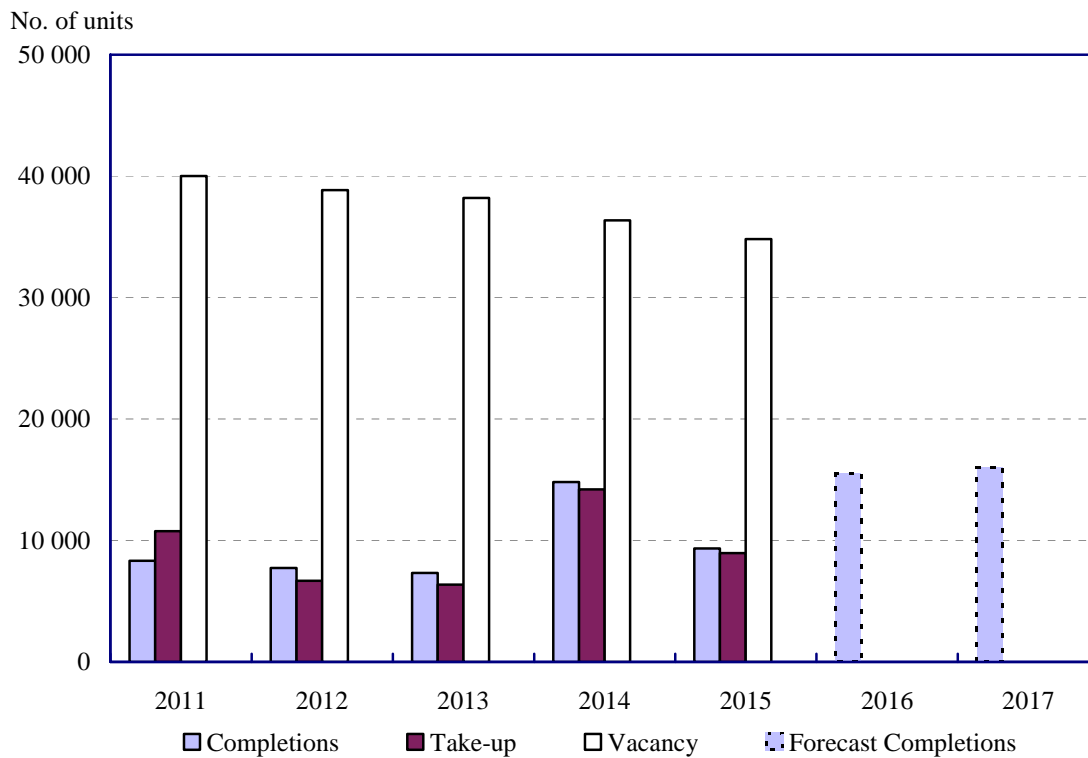
	2011	2012	2013	2014	2015	2016	2017
	No. of units						
Completions	8 320	7 730	7 310	14 810	9 360	[15 540]	[16 020]
Take-up*	10 770	6 680	6 390	14 210	8 970		
Vacancy	40 000	38 860	38 210	36 370	34 830		
% ☆	3.9	3.8	3.7	3.5	3.3		

Figures exclude village houses.

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[] Forecast figures



PRIVATE DOMESTIC

LARGE UNITS (Saleable Area 100 m² or above) COMPLETIONS, TAKE-UP AND VACANCY

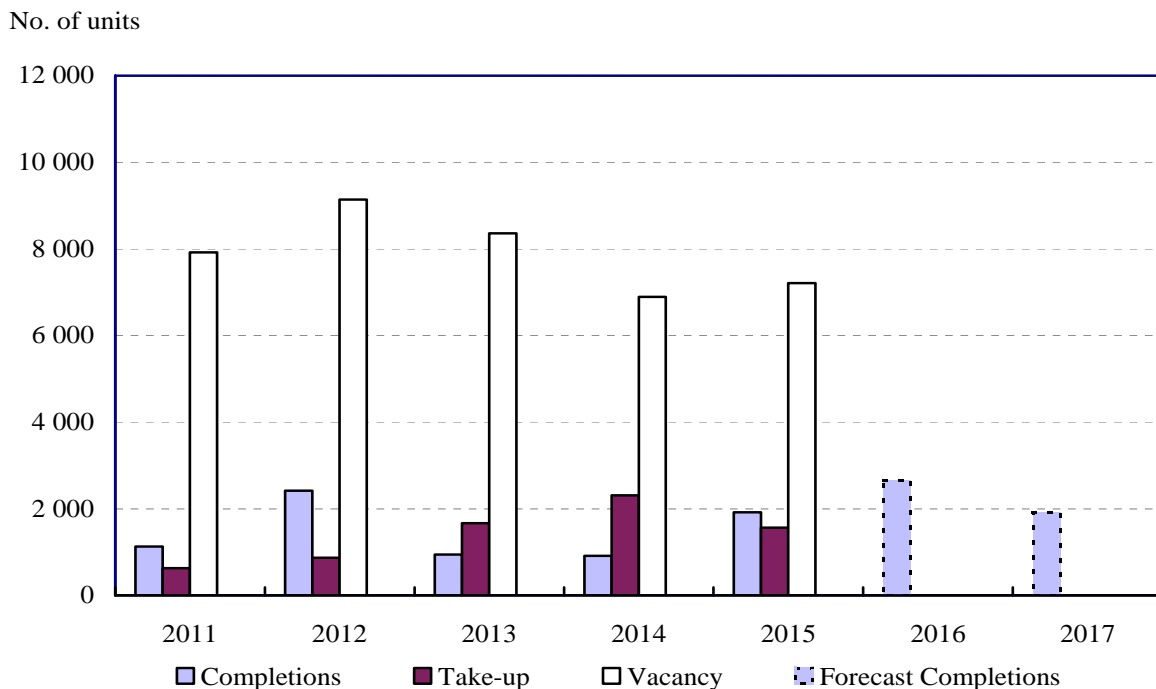
	No. of units						
	2011	2012	2013	2014	2015	2016	2017
Completions	1 130	2 420	940	910	1 920	[2 660]	[1 910]
Take-up*	630	870	1 670	2 310	1 560		
Vacancy	7 920	9 140	8 360	6 890	7 210		
% ☆	9.5	10.7	9.7	7.9	8.1		

Figures exclude village houses.

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PRIVATE OFFICE

ALL GRADES COMPLETIONS, TAKE-UP AND VACANCY

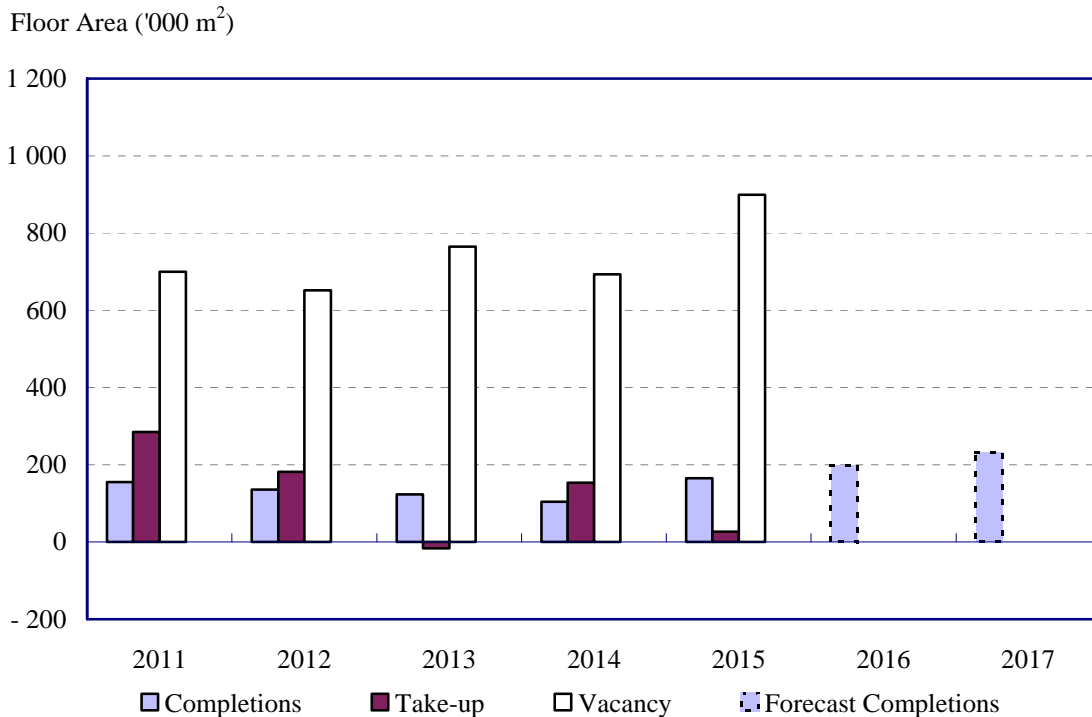
	2011	2012	2013	2014	2015	2016	2017
Completions ('000 m ²)	155	136	123	104	165	[199]	[232]
Take-up* ('000 m ²)	285	182	- 17	153	27		
Vacancy ('000 m ²)	700	652	764	693	899		
% ☆	6.5	6.0	7.0	6.3	8.0		

* Take-up figures represent the net increase in the occupied floor space in the year under review and 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 (with figures for wholesale conversion, if any, already reflected). A negative figure indicates a net decrease in occupied floor space.

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures

N.B. Office grades are determined in accordance with criteria which principally reflect the qualities of construction, finishes, facilities and management. Location is not a criterion.



PRIVATE OFFICE

GRADE A COMPLETIONS, TAKE-UP AND VACANCY

	2011	2012	2013	2014	2015	2016	2017
Completions ('000 m ²)	125	104	97	86	124	[175]	[215]
Take-up* ('000 m ²)	233	134	12	116	15		
Vacancy ('000 m ²)	448	418	502	455	558		
% ☆	6.6	6.1	7.2	6.4	7.8		

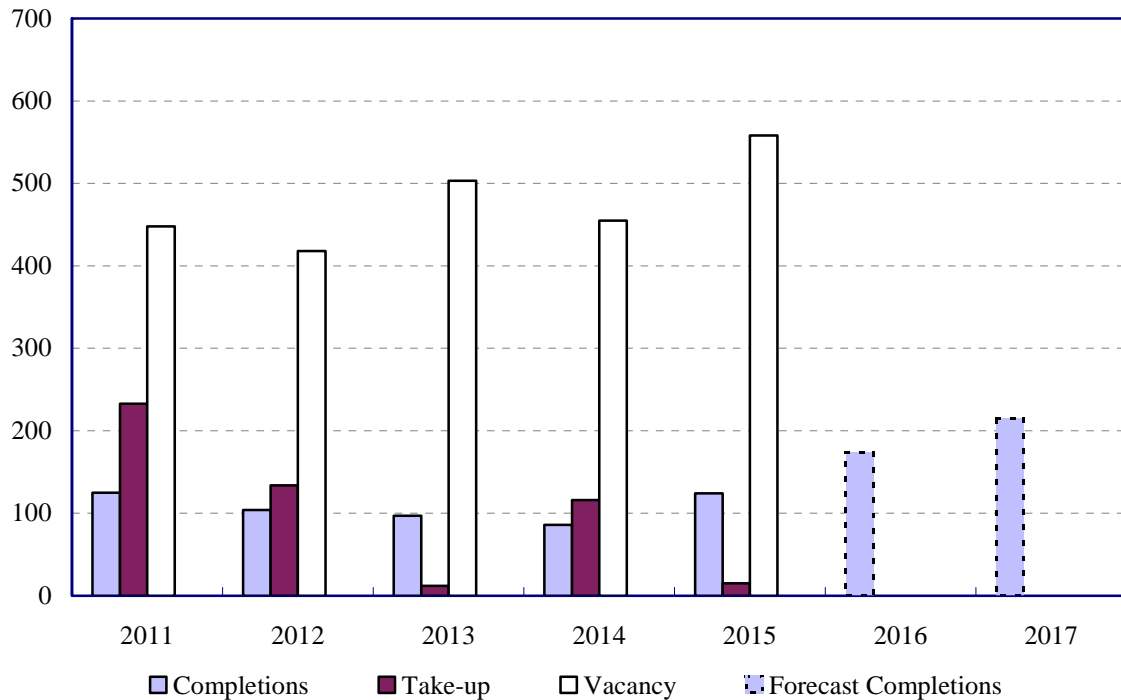
* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected).

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures

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Floor Area ('000 m²)



PRIVATE OFFICE

GRADE B COMPLETIONS, TAKE-UP AND VACANCY

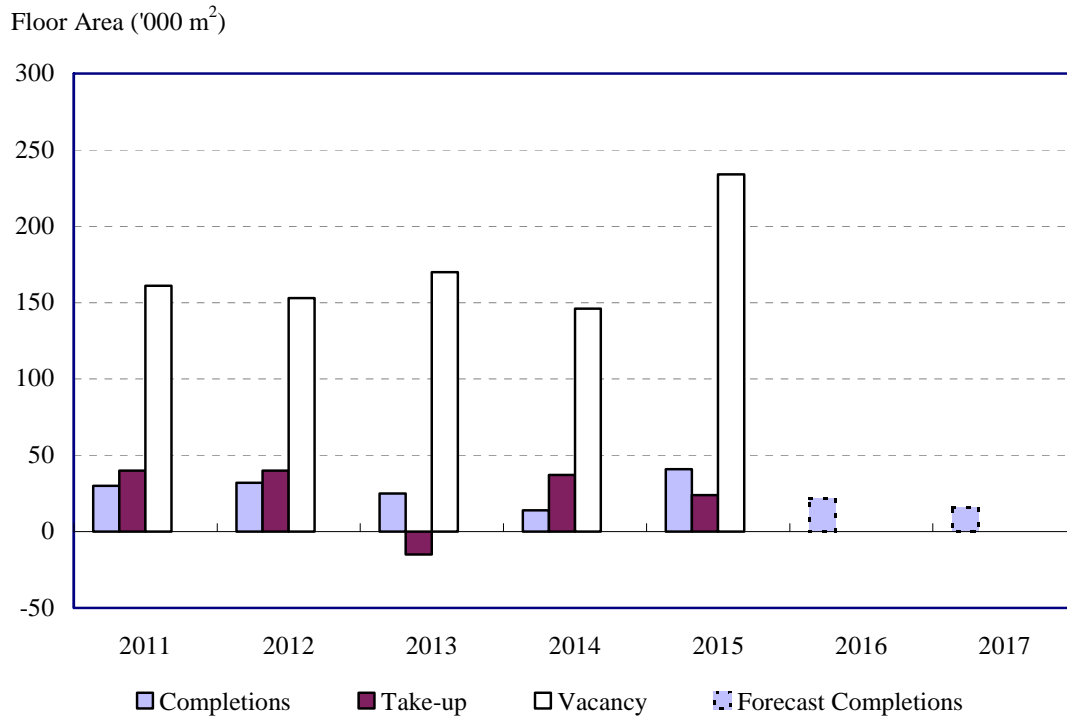
	2011	2012	2013	2014	2015	2016	2017
Completions ('000 m ²)	30	32	25	14	41	[22]	[16]
Take-up* ('000 m ²)	40	40	- 15	37	24		
Vacancy ('000 m ²)	161	153	170	146	234		
% ☆	6.6	6.1	6.8	5.8	8.9		

* Take-up figures represent the net increase in the occupied floor space in the year under review and 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 (with figures for wholesale conversion, if any, already reflected). A negative figure indicates a net decrease in occupied floor space.

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures

N.B. Office grades are determined in accordance with criteria which principally reflect the qualities of construction, finishes, facilities and management. Location is not a criterion.



PRIVATE OFFICE

GRADE C COMPLETIONS, TAKE-UP AND VACANCY

	2011	2012	2013	2014	2015	2016	2017
Completions ('000 m ²)	0	0	1	4	0	[2]	[1]
Take-up* ('000 m ²)	12	8	- 14	0	- 12		
Vacancy ('000 m ²)	91	81	92	92	107		
% ☆	6.0	5.4	6.1	6.2	7.2		

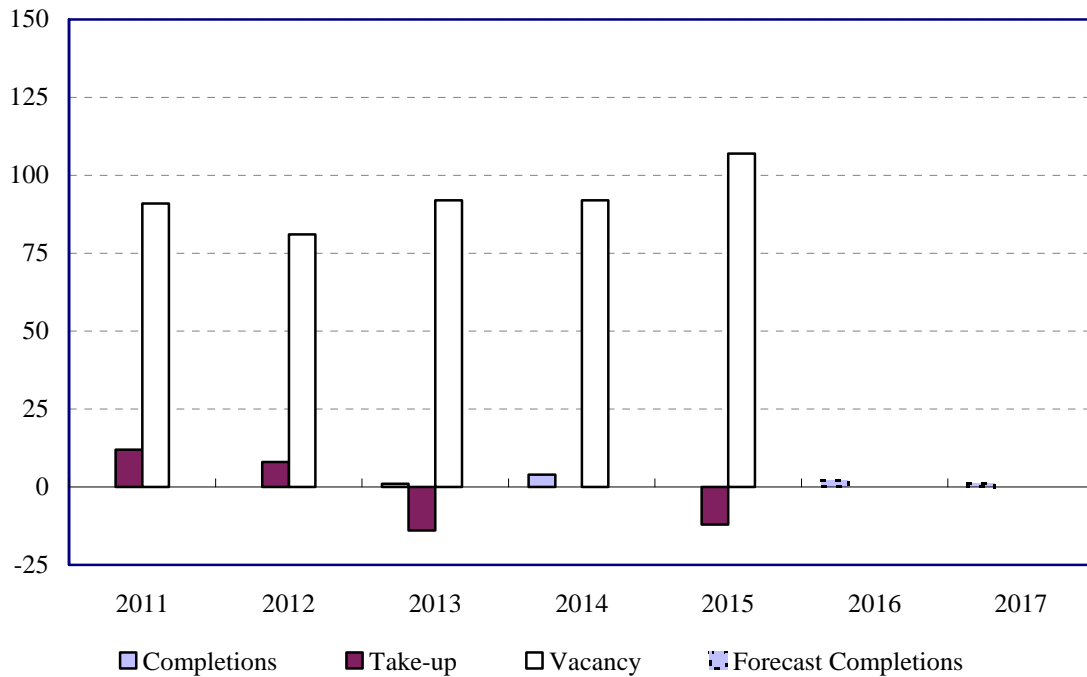
* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected). A negative figure indicates a net decrease in occupied floor space.

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures

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Floor Area ('000 m²)



PRIVATE COMMERCIAL

COMPLETIONS, TAKE-UP AND VACANCY

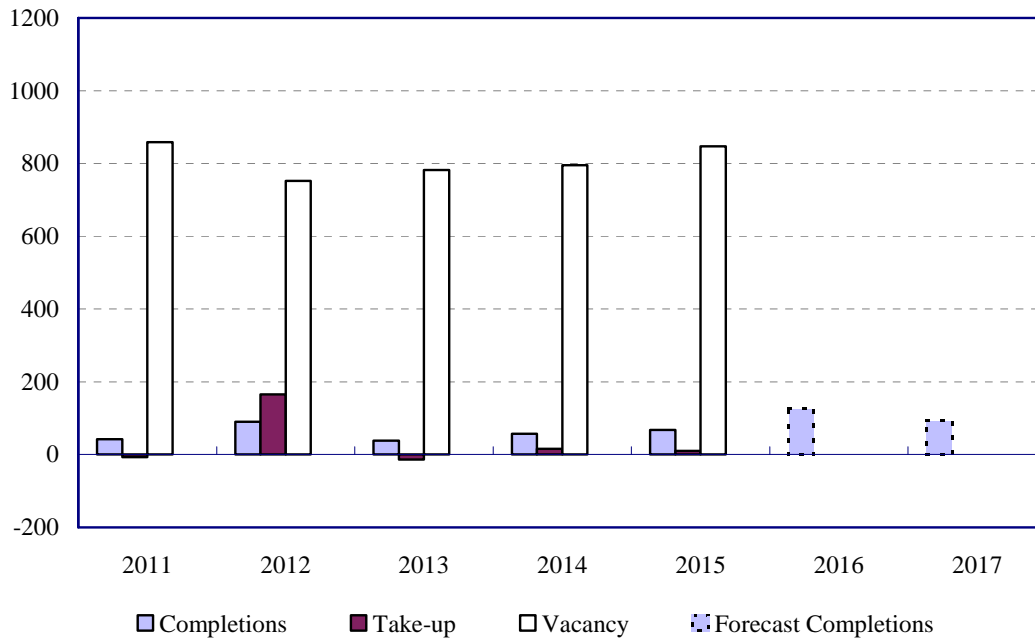
	2011	2012	2013	2014	2015	2016	2017
Completions ('000 m ²)	42	90	38	57	68	[126]	[93]
Take-up* ('000 m ²)	-7	165	-14	16	10		
Vacancy ('000 m ²)	859	752	782	795	847		
% ☆	8.0	6.9	7.2	7.3	7.7		

* Take-up figures represent the net increase in the occupied floor space in the year under review and 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 (with figures for wholesale conversion, if any, already reflected). A negative figure indicates a net decrease in occupied floor space.

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures

Floor Area ('000 m²)



PRIVATE FLATTED FACTORIES

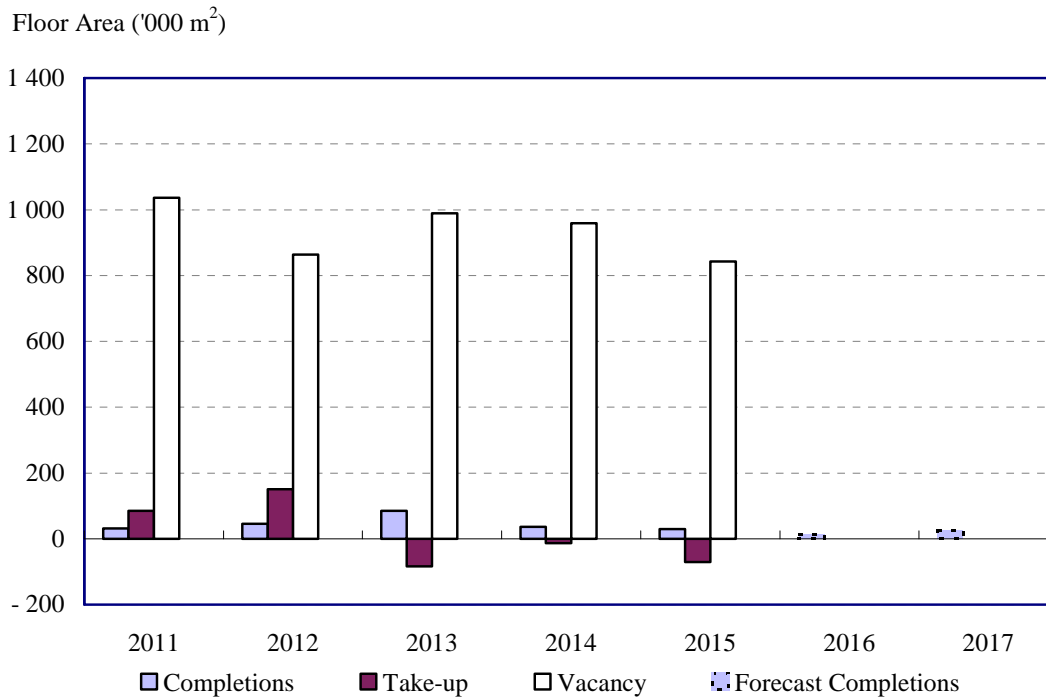
COMPLETIONS, TAKE-UP AND VACANCY

	2011	2012	2013	2014	2015	2016	2017
Completions ('000 m ²)	32	46	85	36	30	[13]	[26]
Take-up* ('000 m ²)	85	151	- 84	- 13	- 71		
Vacancy ('000 m ²)	1 036	864	989	959	843		
% ☆	6.0	5.0	5.8	5.6	5.0		

* Take-up figures represent the net increase in the occupied floor space in the year under review and 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 (with figures for wholesale conversion, if any, already reflected). A negative figure indicates a net decrease in occupied floor space.

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures



PRIVATE INDUSTRIAL/OFFICE

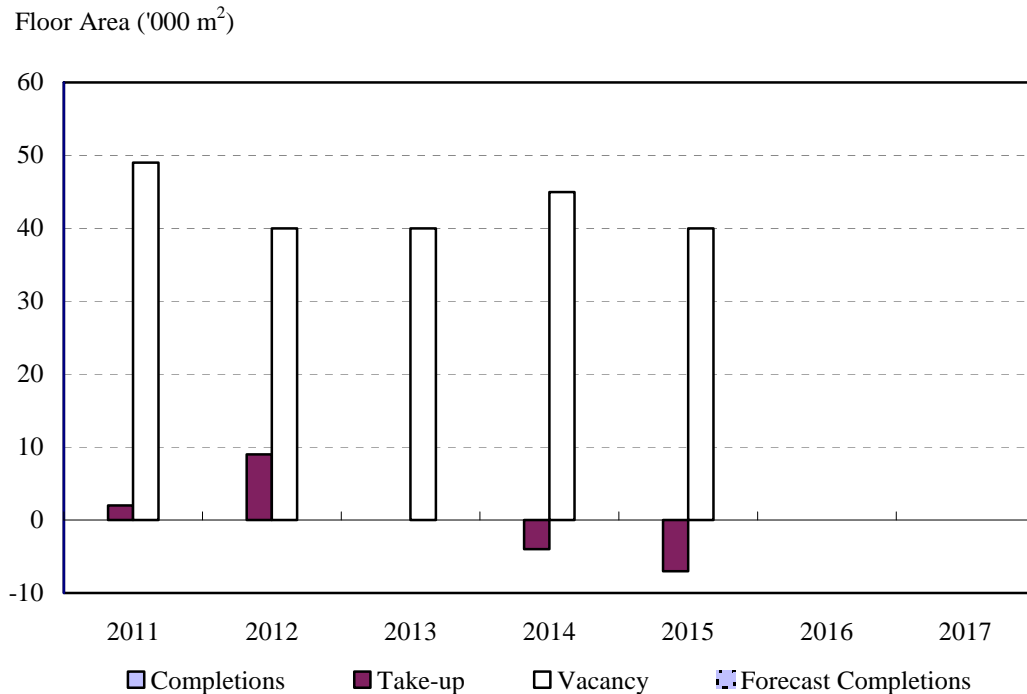
COMPLETIONS, TAKE-UP AND VACANCY

	2011	2012	2013	2014	2015	2016	2017
Completions ('000 m ²)	0	0	0	0	0	[0]	[0]
Take-up* ('000 m ²)	2	9	0	- 4	- 7		
Vacancy ('000 m ²)	49	40	40	45	40		
% ☆	8.2	6.7	6.8	7.5	6.8		

* Take-up figures represent the net increase in the occupied floor space in the year under review and 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 (with figures for wholesale conversion, if any, already reflected). A negative figure indicates a net decrease in occupied floor space.

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures



Appendix A

MONTHLY PRICE INDICES FOR DOMESTIC PREMISES

(1999 = 100)

Year	Month	Small / Medium	Large	Overall
1997	Oct (Peak)	172.3	183.4	172.9
2014	Jan	244.7	246.6	244.7
	Feb	244.3	244.5	244.3
	Mar	243.7	244.2	243.7
	Apr	245.0	245.8	245.0
	May	247.4	247.1	247.4
	Jun	250.3	250.3	250.3
	Jul	256.6	251.5	256.4
	Aug	261.5	254.5	261.2
	Sep	266.7	257.6	266.3
	Oct	270.9	260.2	270.5
	Nov	274.7	261.3	274.1
	Dec	278.9	263.6	278.3
2015	Jan	285.3	267.0	284.6
	Feb	292.3	271.1	291.5
	Mar	292.3	271.6	291.5
	Apr	298.4	274.1	297.4
	May	299.9	275.3	298.8
	Jun	302.3	278.3	301.3
	Jul	305.3	279.0	304.1
	Aug	306.6	279.7	305.3
	Sep	307.3	281.2	306.1
	Oct	303.9	271.0	302.3
	Nov*	294.8	267.6	293.4
	Dec*	286.3	261.7	285.1

* Provisional - liable to change as further data becomes available for analysis.

Technical Notes :

- (i) Small / Medium units are those with saleable area less than 100 m². Large units are those with saleable area 100 m² or above.
- (ii) The indices are based on an analysis of prices paid for completed properties sold in the secondary market. Date of sale is the date on which an Agreement for Sale and Purchase is signed. Provisional agreement is generally reached 2-3 weeks earlier.

PRICE INDICES

(1999 = 100)

Private Domestic Properties	2014	2015			
	4Q	1Q	2Q	3Q	4Q*
Small / Medium Units (Saleable Area less than 100 m ²)	274.8	290.0	300.2	306.4	295.0
Large Units (Saleable Area 100 m ² or above)	261.7	269.9	275.9	280.0	266.8
Overall	274.3	289.2	299.2	305.2	293.6

Non-Domestic Properties	2014	2015			
	4Q	1Q	2Q	3Q*	4Q*
Offices : Grade A	375.9	382.5	395.2	413.0	413.5
Grade B	459.0	466.7	478.4	497.0	497.3
Grade C	449.5	456.2	471.8	484.8	483.1
Overall	428.7	433.8	445.2	459.6	456.7
Retail Premises :	541.3	551.7	559.3	570.9	554.7
Flatted Factories :	683.5	699.2	722.9	742.1	731.1

* Provisional - liable to change as further data becomes available for analysis.

Technical Notes :

The indices are based on an analysis of prices paid for completed properties sold in the secondary market. Premises of all ages and in all locations are included. Where appropriate, the date of agreement is taken as the date of sale.

RENTAL INDICES

(1999 = 100)

Private Domestic Properties	2014	2015			
	4Q	1Q	2Q	3Q	4Q*
Small / Medium Units (Saleable Area less than 100 m ²)	167.8	171.1	175.8	179.6	176.4
Large Units (Saleable Area 100 m ² or above)	144.6	146.8	148.6	150.9	149.3
Overall	165.3	168.5	172.8	176.6	173.5

Non-Domestic Properties	2014	2015			
	4Q	1Q	2Q	3Q*	4Q*
Offices : Grade A	222.6	224.9	230.2	233.8	234.9
Grade B	216.0	220.1	225.4	229.2	229.6
Grade C	201.7	204.9	210.9	214.5	213.9
Overall	217.7	220.8	226.0	229.6	230.3
Retail Premises :	176.4	180.2	182.4	184.8	180.8
Flatted Factories :	165.8	169.2	173.2	177.3	176.6

* Provisional - liable to change as further data becomes available for analysis.

Technical Notes :

The indices are based on an analysis of rentals paid for completed properties. Premises of all ages and in all locations are included. Where appropriate, the commencement date of a tenancy agreement is adopted as the effective date. However, rents are normally agreed earlier (2-4 weeks earlier for fresh lettings and 1-3 months for lease renewals). Rent-free periods are taken into account if known.

PRICE AND RENTAL MOVEMENTS IN 2015

(based on Appendices B & C)

Private Property Category (Territory-wide)	% Change*	
	<u>4Q 2015*</u> <u>4Q 2014</u>	
	Price	Rental
Domestic Premises :		
Small / Medium Units (Saleable Area less than 100 m ²)	7.4	5.1
Large Units (Saleable Area 100 m ² or above)	1.9	3.3
Overall	7.0	5.0
Offices :		
Grade A	10.0	5.5
Grade B	8.3	6.3
Grade C	7.5	6.0
Overall	6.5	5.8
Retail Premises :	2.5	2.5
Flatted Factories :	7.0	6.5

* Provisional - liable to change as further data becomes available for analysis.