

Rating and Valuation Department

Hong Kong Property Review 2017

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 2016 increased by 29% to 14 600 units. 63% of the completions were in the New Territories, 22% in Kowloon and 15% on Hong Kong Island. At district level, the top three suppliers Sai Kung, Islands and Yuen Long altogether accounted for 58% of the overall completions.

Take-up, at 11 880 units, was lower than the year's completions. Comparing with 2015, vacancy at 2016 year-end edged up marginally by 0.1% to 3.8% of the total stock, equivalent to 43 660 units. Among these vacant units, about 7 330 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 2017 and 2018 are 17 120 and 19 530 units respectively. In 2017, 60% of completions will come from the New Territories. District-wise, Yuen Long and Kowloon City will provide 26% and 22% of the new supply respectively. In 2018, the New Territories remains to be the major supplier providing 43% of the total supply. District-wise, Kowloon City will contribute 25% and Sham Shui Po will provide another 14%.

The residential property market consolidated in early 2016. Prices rebounded in the second quarter while rents picked up in the third quarter. Comparing with the third quarter, prices and rents went up by 6.1% and 1.6% respectively in the fourth quarter. Overall flat prices in the fourth quarter increased by 4.2% over the same quarter in 2015 whereas overall rents during the same period recorded a drop of 0.5%.

PRIVATE OFFICE

Office completions in 2016 were 153 000 m², 7% lower than 2015. Grade A completions were 142 000 m², of which about 35% came from Kwun Tong. Grade B completions of 11 000 m² were all came from Central and Western.

The overall take-up surged to 98 000 m² in the year. Only Grade A offices had positive take-up of 108 000 m² as Grade B and C offices had a negative take-up of 6 000 m² and 4 000 m² respectively. The year-end vacancy increased moderately to 8.2%, amounting to 946 000 m². The vacancy rate of Grade A offices rose to 8.0%, Grade B offices to 9.4% while that of Grade C offices declined to 7.0%. For sub-districts, the vacancy rates of Grade A offices in Central and Yau Ma Tei / Mong Kok however dropped.

More supply will come on stream in 2017, with 275 000 m², but then will drop substantially in 2018 to 112 000 m². In 2017, new Grade A completions will account for 250 000 m², mainly from Kwun Tong amounting to 54% of the anticipated supply. Grade A completions in 2018 will be 103 000 m², with Eastern alone contributing 71%. Grade B forecast completions are 23 000 m² in 2017 and 4 000 m² in 2018. There will be 2 000 m² and 5 000 m² of Grade C office completions in 2017 and 2018 respectively.

Office prices fell in the first three quarters of 2016 and rebounded in the fourth quarter. The upward trend of rents however extended from 2015 to 2016. Overall office prices dropped by 5.6% while Grade A, B and C office prices fell by 3.2%, 6.7% and 7.0% respectively between the fourth quarters of 2015 and 2016. During the corresponding period, overall office rentals rose by 1.7%, with Grade A, B and C offices recording an increase of 2.2%, 1.3% and 1.2% respectively.

PRIVATE COMMERCIAL

Completions in 2016 surged by 81% to 123 000 m², with the New Territories providing half of the completions. Take-up turned negative to 42 000 m² in the year and vacancy rate rose to 9.0% at 998 000 m².

Similar level of completions are expected in 2017, with 126 000 m² in total and Tsuen Wan alone will provide 23% of the anticipated supply. In 2018, the completions will go up to 166 000 m² of which Yau Tsim Mong alone will provide 30% of the total supply. Another 15% and 14% will come from Sai Kung and Sham Shui Po respectively.

Both private retail prices and rents remained softened in most of the time in 2016 but started heading up in the fourth quarter, and yet still recording a reduction of 3.9% and 1.9% respectively between the fourth quarters of 2015 and 2016.

PRIVATE FLATTED FACTORIES

Completions in 2016 plummeted to 5 000 m², all came from Wong Tai Sin. Take-up was again negative and surged to 189 000 m². Vacancy at the year-end climbed up to 5.8% at 978 000 m².

Completions in 2017 and 2018 will rise to 40 000 m² and 87 000 m² respectively.

The sale market of private flatted factories experienced some fluctuations in 2016 but prices started reversing upwards in the fourth quarter of 2016. Comparing the fourth quarters in 2015 and 2016, prices fell by 3.3% whereas rents rose by 3.5%.

PRIVATE INDUSTRIAL/OFFICE

There were no industrial/office completions in 2016. Take-up was a negative 12 000 m² and the vacancy rate increased to 8.9% at 52 000 m².

There is unlikely to be any new supply in 2017 and 2018.

PRIVATE DOMESTIC

ALL UNITS COMPLETIONS, TAKE-UP AND VACANCY

	2012	2013	2014	2015	2016	2017	2018
	No. of units						
Completions	10 150	8 250	15 720	11 280	14 600	[17 120]	[19 530]
Take-up*	7 550	8 060	16 520	10 530	11 880		
Vacancy	48 000	46 570	43 260	42 040	43 660		
% ☆	4.3	4.1	3.8	3.7	3.8		

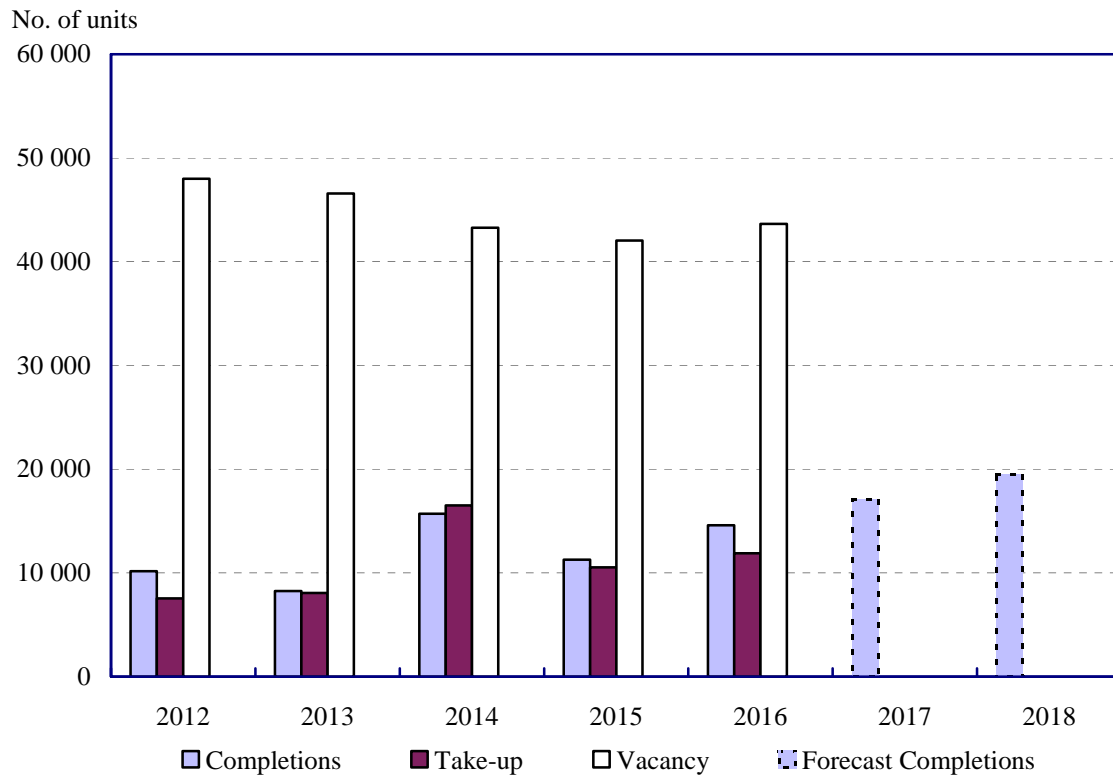
“Private domestic” excludes flats built under the Home Ownership, Private Sector Participation, Buy or Rent Option, Tenants Purchase, Urban Improvement, Flat-For-Sale and Sandwich Class Housing Schemes.

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

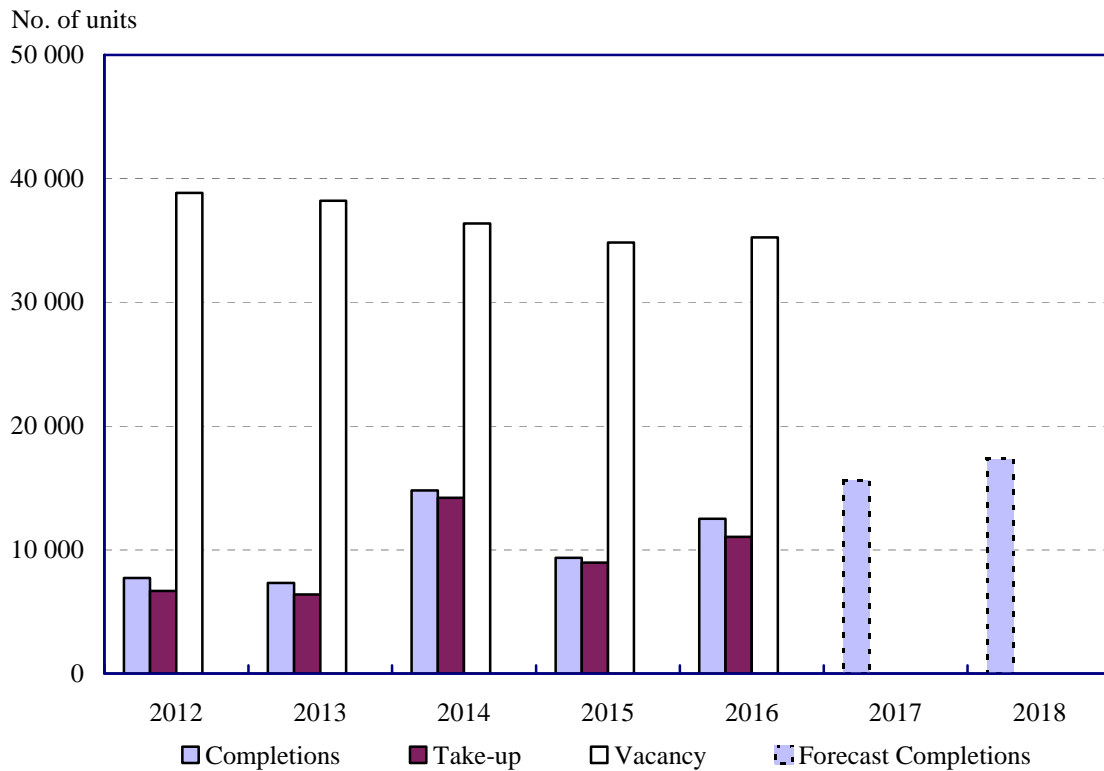
	2012	2013	2014	2015	2016	2017	2018
							No. of units
Completions	7 730	7 310	14 810	9 360	12 520	[15 620]	[17 360]
Take-up*	6 680	6 390	14 210	8 970	11 040		
Vacancy	38 860	38 210	36 370	34 830	35 240		
% ☆	3.8	3.7	3.5	3.3	3.3		

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

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

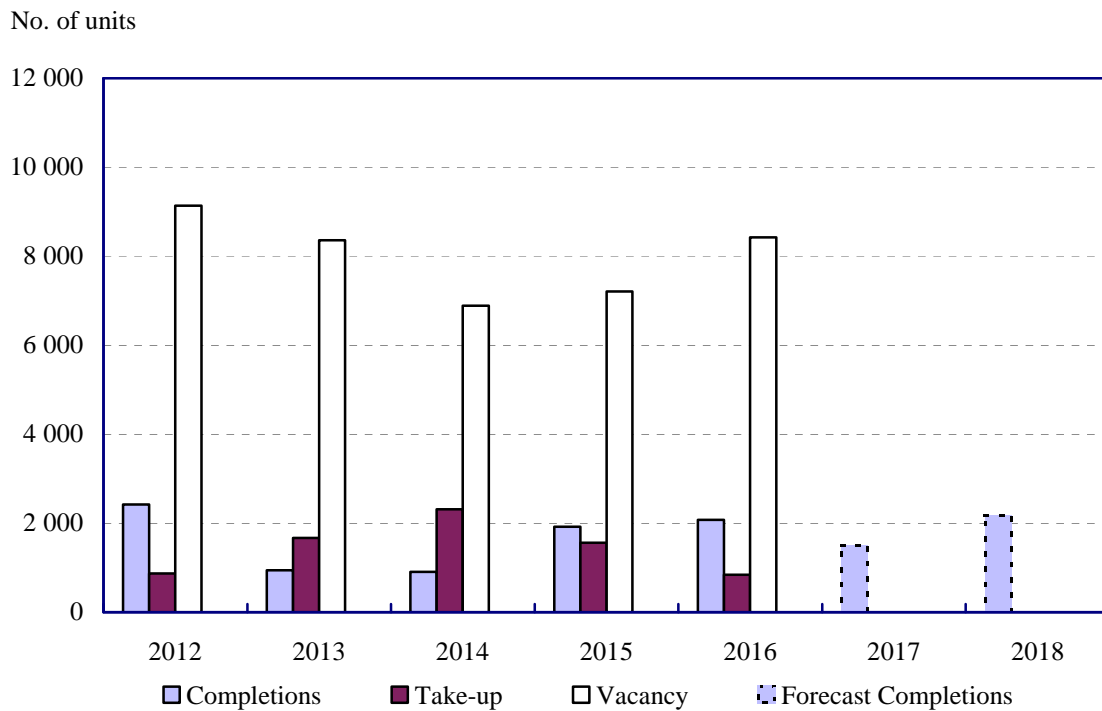
	No. of units						
	2012	2013	2014	2015	2016	2017	2018
Completions	2 420	940	910	1 920	2 080	[1 500]	[2 170]
Take-up*	870	1 670	2 310	1 560	840		
Vacancy	9 140	8 360	6 890	7 210	8 420		
% ☆	10.7	9.7	7.9	8.1	9.2		

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 OFFICE

ALL GRADES COMPLETIONS, TAKE-UP AND VACANCY

	2012	2013	2014	2015	2016	2017	2018
Completions ('000 m ²)	136	123	104	165	153	[275]	[112]
Take-up* ('000 m ²)	182	- 17	153	27	98		
Vacancy ('000 m ²)	652	764	693	899	946		
% ☆	6.0	7.0	6.3	8.0	8.2		

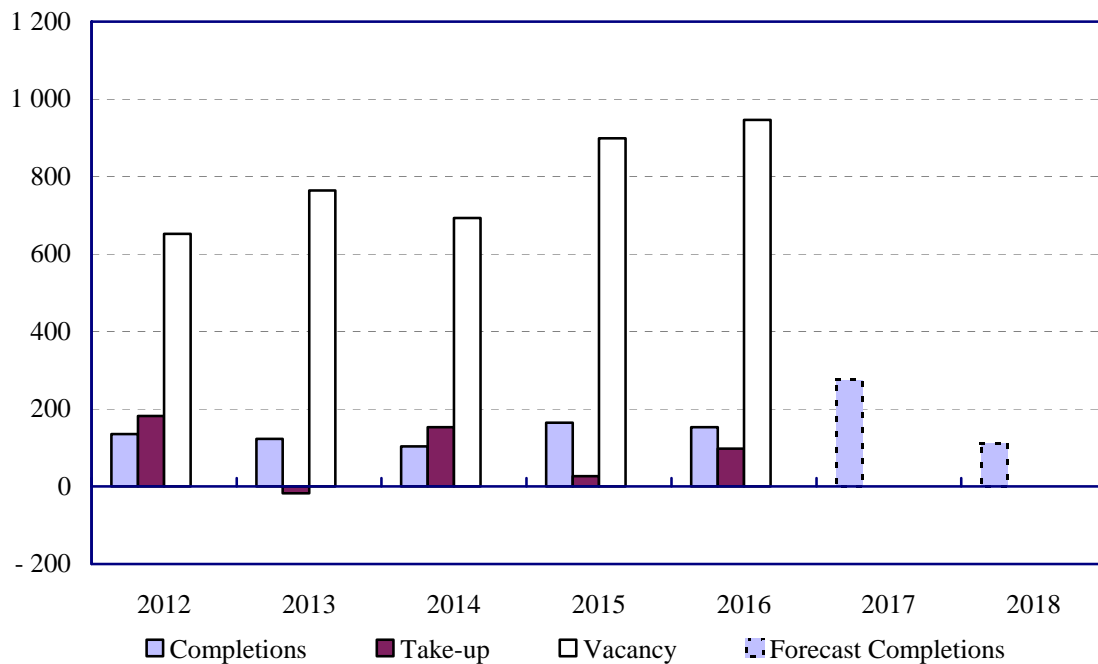
* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale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

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.

Floor Area ('000 m²)



PRIVATE OFFICE

GRADE A COMPLETIONS, TAKE-UP AND VACANCY

	2012	2013	2014	2015	2016	2017	2018
Completions ('000 m ²)	104	97	86	124	142	[250]	[103]
Take-up* ('000 m ²)	134	12	116	15	108		
Vacancy ('000 m ²)	418	502	455	558	592		
% ☆	6.1	7.2	6.4	7.8	8.0		

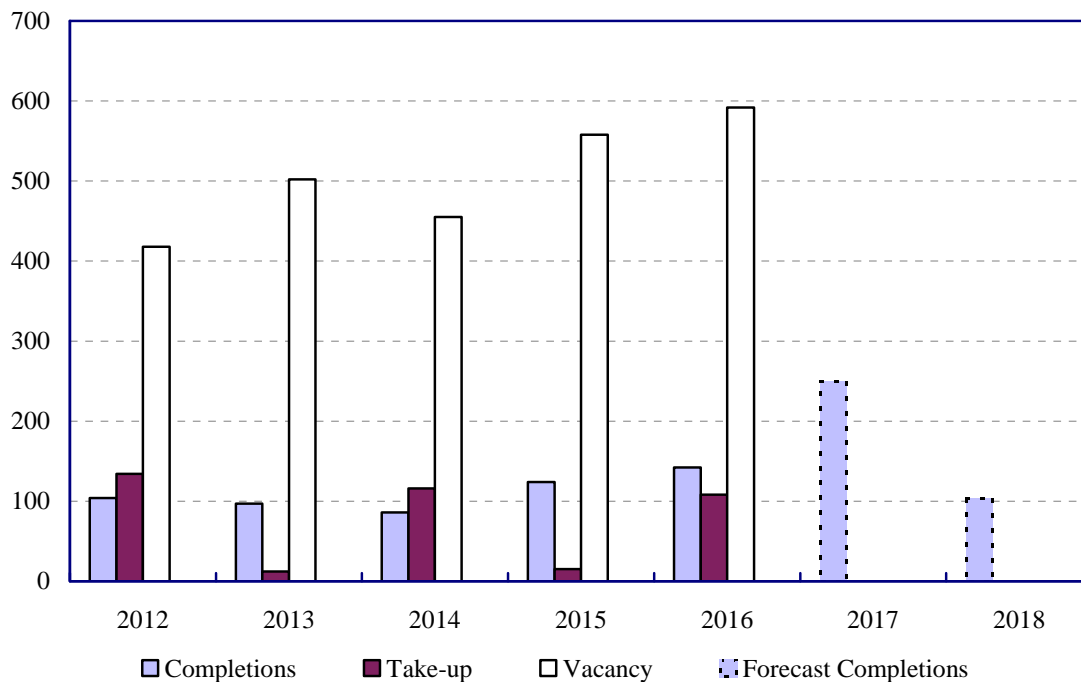
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☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures

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Floor Area ('000 m²)



PRIVATE OFFICE

GRADE B COMPLETIONS, TAKE-UP AND VACANCY

	2012	2013	2014	2015	2016	2017	2018
Completions ('000 m ²)	32	25	14	41	11	[23]	[4]
Take-up* ('000 m ²)	40	- 15	37	24	- 6		
Vacancy ('000 m ²)	153	170	146	234	250		
% ☆	6.1	6.8	5.8	8.9	9.4		

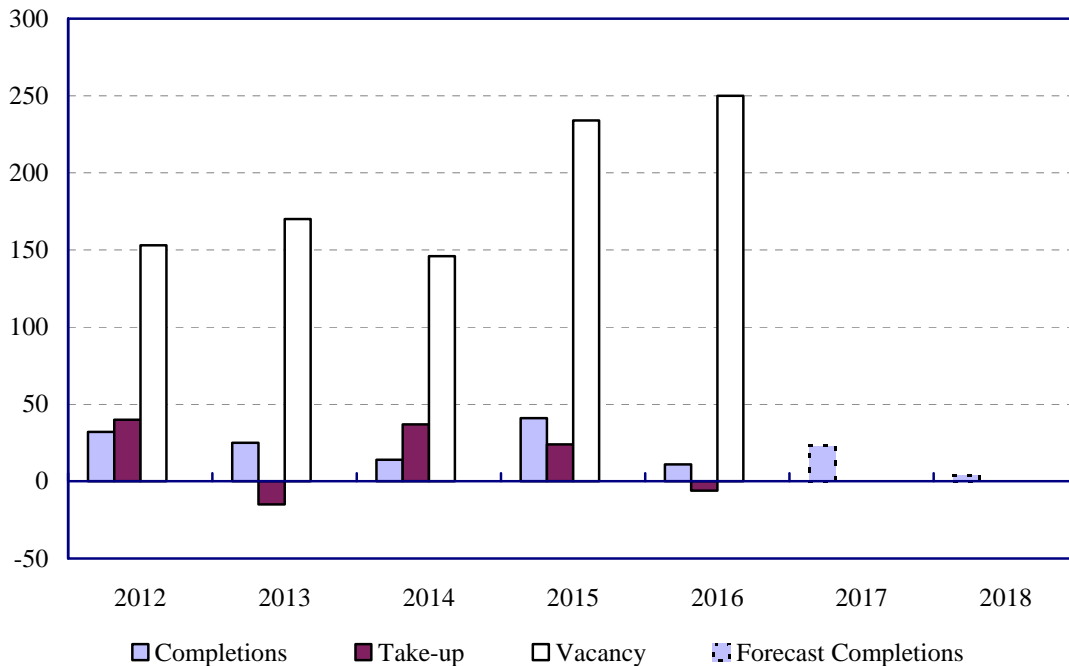
* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale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

Floor Area ('000 m²)



PRIVATE OFFICE

GRADE C COMPLETIONS, TAKE-UP AND VACANCY

	2012	2013	2014	2015	2016	2017	2018
Completions ('000 m ²)	0	1	4	0	0	[2]	[5]
Take-up* ('000 m ²)	8	- 14	0	- 12	- 4		
Vacancy ('000 m ²)	81	92	92	107	104		
% ☆	5.4	6.1	6.2	7.2	7.0		

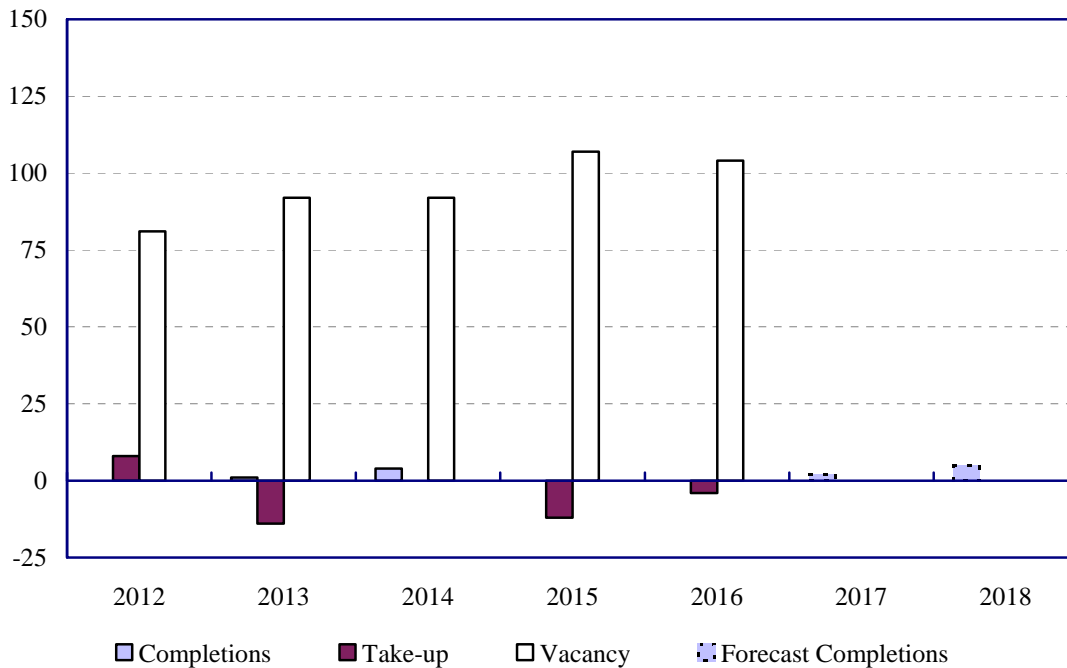
* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale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

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Floor Area ('000 m²)



PRIVATE COMMERCIAL

COMPLETIONS, TAKE-UP AND VACANCY

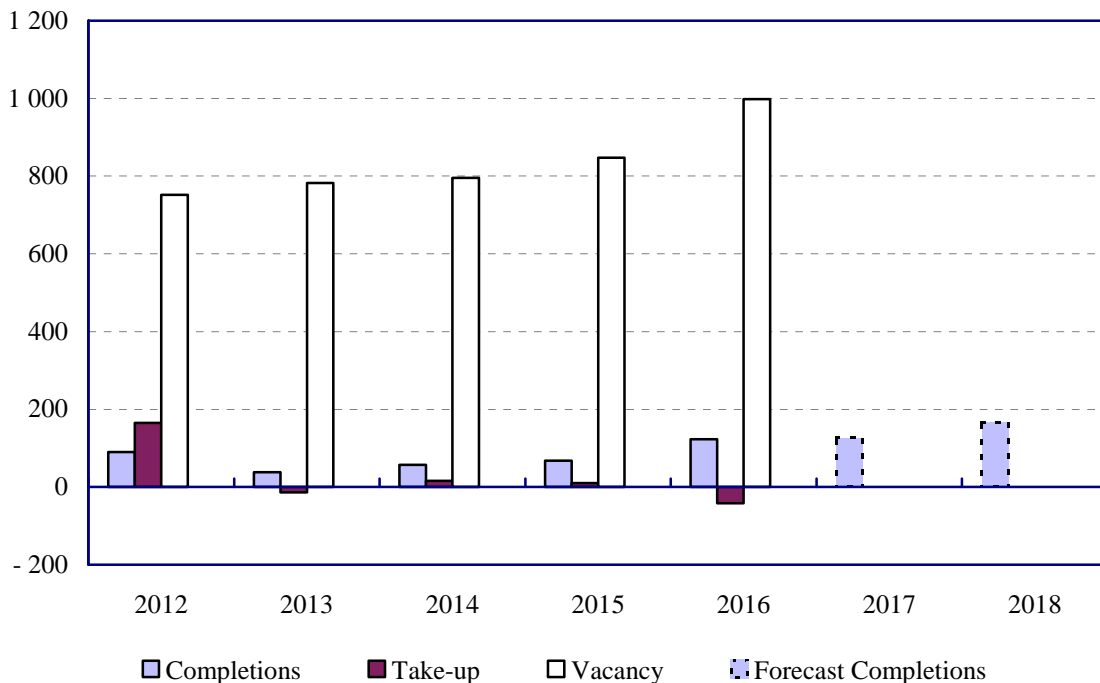
	2012	2013	2014	2015	2016	2017	2018
Completions ('000 m ²)	90	38	57	68	123	[126]	[166]
Take-up* ('000 m ²)	165	- 14	16	10	- 42		
Vacancy ('000 m ²)	752	782	795	847	998		
% ☆	6.9	7.2	7.3	7.7	9.0		

* 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.

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[] Forecast figures

Floor Area ('000 m²)



PRIVATE FLATTED FACTORIES

COMPLETIONS, TAKE-UP AND VACANCY

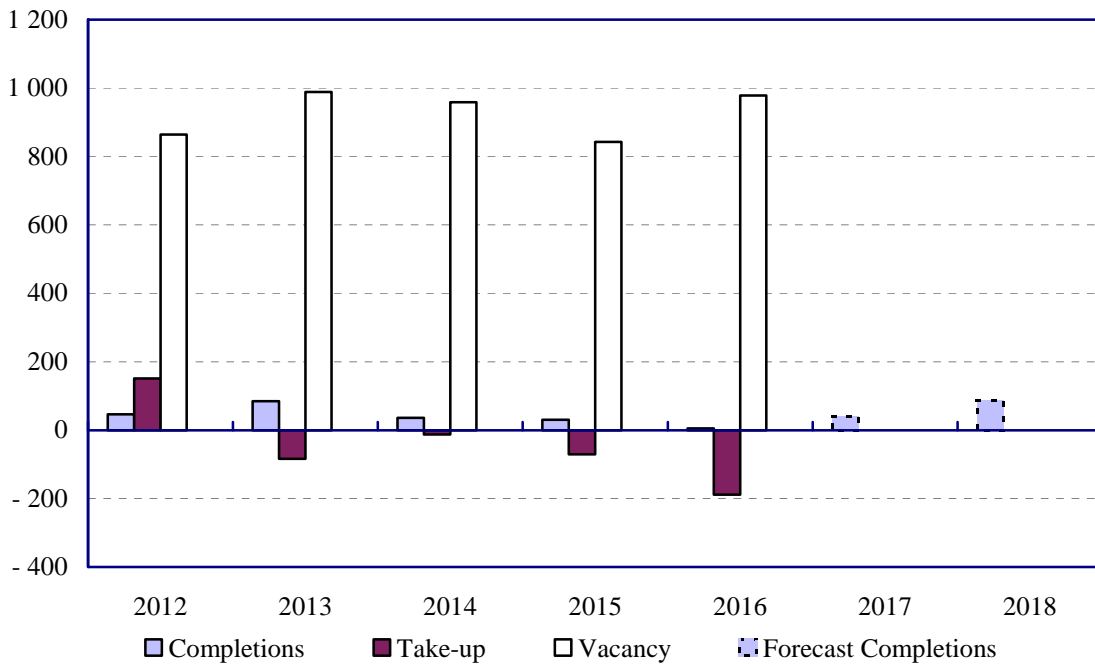
	2012	2013	2014	2015	2016	2017	2018
Completions ('000 m ²)	46	85	36	30	5	[40]	[87]
Take-up* ('000 m ²)	151	- 84	- 13	- 71	- 189		
Vacancy ('000 m ²)	864	989	959	843	978		
% ☆	5.0	5.8	5.6	5.0	5.8		

* 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

Floor Area ('000 m²)



PRIVATE INDUSTRIAL/OFFICE

COMPLETIONS, TAKE-UP AND VACANCY

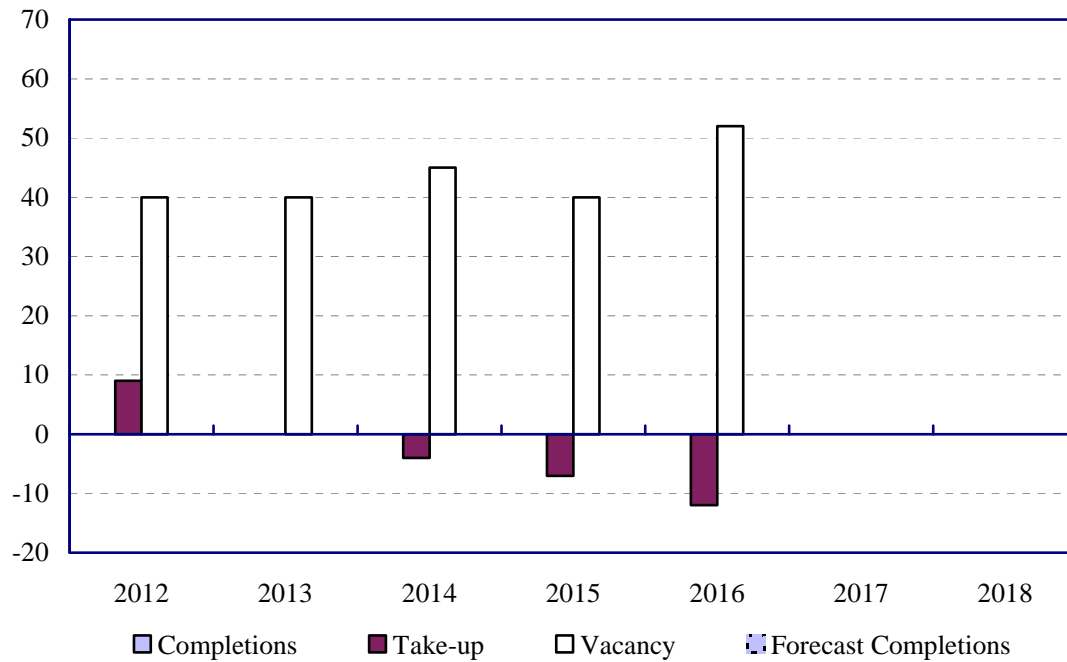
	2012	2013	2014	2015	2016	2017	2018
Completions ('000 m ²)	0	0	0	0	0	[0]	[0]
Take-up* ('000 m ²)	9	0	- 4	- 7	- 12		
Vacancy ('000 m ²)	40	40	45	40	52		
% ☆	6.7	6.8	7.5	6.8	8.9		

* 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

Floor Area ('000 m²)



MONTHLY PRICE INDICES FOR DOMESTIC PREMISES

(1999 = 100)

Year	Month	Small / Medium	Large	Overall
1997	Oct (Peak)	172.3	183.4	172.9
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	294.7	268.4	293.4
	Dec	286.2	262.2	285.0
2016	Jan	280.1	260.3	279.0
	Feb	274.5	259.5	273.7
	Mar	272.1	258.0	271.4
	Apr	274.0	259.4	273.3
	May	276.5	262.3	275.8
	Jun	277.1	263.1	276.4
	Jul	282.5	265.0	281.7
	Aug	288.5	265.9	287.4
	Sep	297.2	273.8	296.2
	Oct	305.5	278.2	304.3
	Nov*	307.9	280.4	306.6
	Dec*	308.4	279.5	307.1

* 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.

Appendix B

PRICE INDICES

(1999 = 100)

Private Domestic Properties	2015	2016			
	4Q	1Q	2Q	3Q	4Q*
Small / Medium Units (Saleable Area less than 100 m ²)	294.9	275.6	275.9	289.4	307.3
Large Units (Saleable Area 100 m ² or above)	267.2	259.3	261.6	268.2	279.4
Overall	293.6	274.7	275.2	288.4	306.0

Non-Domestic Properties	2015	2016			
	4Q	1Q	2Q	3Q*	4Q*
Offices : Grade A	413.6	404.4	398.5	395.6	400.4
Grade B	498.8	(476.7)	445.8	438.2	465.6
Grade C	483.3	457.7	429.8	435.6	449.5
Overall	457.0	437.1	418.3	417.8	431.2
Retail Premises :	554.7	533.5	525.7	512.8	533.2
Flatted Factories :	731.2	687.0	692.6	681.6	707.2

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

() Indicates fewer than 20 transactions.

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	2015	2016			
	4Q	1Q	2Q	3Q	4Q*
Small / Medium Units (Saleable Area less than 100 m ²)	176.3	167.6	167.1	172.5	175.4
Large Units (Saleable Area 100 m ² or above)	149.1	146.0	143.3	144.7	145.1
Overall	173.5	165.4	164.8	169.8	172.6

Non-Domestic Properties	2015	2016			
	4Q	1Q	2Q	3Q*	4Q*
Offices :					
Grade A	234.8	235.6	237.7	238.9	239.9
Grade B	229.6	230.5	230.1	230.8	232.5
Grade C	213.5	212.8	212.2	213.8	216.1
Overall	230.2	230.7	231.7	232.8	234.2
Retail Premises :	182.5	179.3	178.1	177.5	179.1
Flatted Factories :	177.7	178.4	181.0	181.9	184.0

* 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 2016

(based on Appendices B & C)

Private Property Category (Territory-wide)	% Change*	
	<u>4Q 2016*</u> <u>4Q 2015</u>	
	Price	Rental
Domestic Premises :		
Small / Medium Units (Saleable Area less than 100 m ²)	4.2	-0.5
Large Units (Saleable Area 100 m ² or above)	4.6	-2.7
Overall	4.2	-0.5
Offices :		
Grade A	-3.2	2.2
Grade B	-6.7	1.3
Grade C	-7.0	1.2
Overall	-5.6	1.7
Retail Premises :	-3.9	-1.9
Flatted Factories :	-3.3	3.5

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