

The Changing Landscape of the Hong Kong Construction Industry

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Economic Performance of the Industry

The construction industry has long been an engine of growth in Hong Kong. It essentially serves as a regulator of an economy, and its significance and impact to the economy is well documented (see, for example, Ball, 1988). The latest statistics indicate that the construction industry in 2006 produced a total gross value of work of nearly \$90 billion (all money values in this paper are in HK\$ in nominal terms unless otherwise stated hereinafter) accounting for around 6 percent of total local GDP (C&SD, 2007a). It ranked third in terms of percentage contribution to total GDP from 1980 to 2004, after the largest services sector and the manufacturing sector. The gross value of investment in construction activities was 28 percent of total fixed capital formation in 2006. During the third quarter of 2006, the construction industry in Hong Kong employed more than 280,000 people, representing almost 8 percent of the total labour force (C&SD, 2007b).

The local construction market can be broadly classified into four sectors: (i) residential building; (ii) non-residential building construction; (iii) civil engineering; and (iv) repair and maintenance. Residential building construction output was about \$15.5 billion in 2006. Other buildings, including commercial, industrial and storage, and service buildings summed up to a gross value of \$13.9 billion. The value of work in the civil engineering sector was over \$12.3 billion, while the value of non-site

activities (including decoration, repair and maintenance, construction work at minor work locations, carpentry, electrical and mechanical fitting, plumbing and gas work, et cetera) was over \$48.3 billion. These four categories of construction work contributed approximately 17, 15, 14 and 54 percent respectively to the total construction output in 2006.

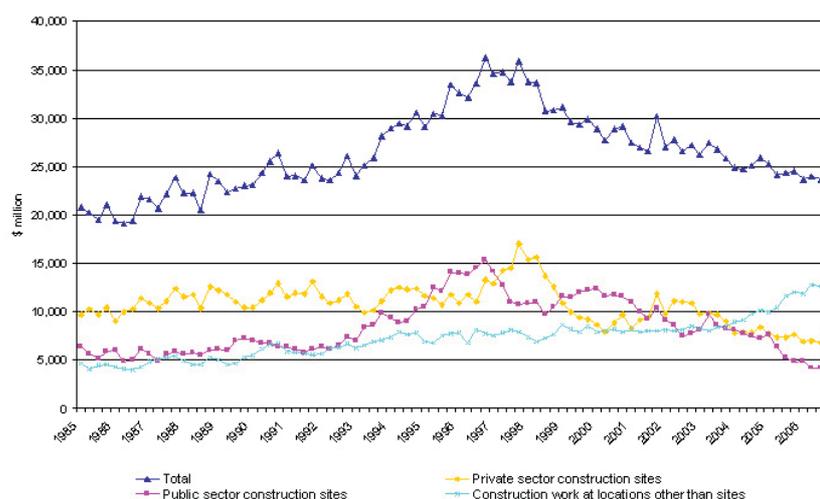
The construction industry does not only provide high value added to the local economy, but also stimulate demand with its high level of consumption. The building and civil engineering establishments consumed over \$30 billion

in materials and supplies, fuels, electricity and water, and maintenance services in 2005. The real estate development, leasing, brokerage and maintenance management establishments and architectural, surveying and project engineering establishments spent over \$10 billion and \$200 million on the same items respectively.

Changing Construction Demand

However, the total construction volume in Hong Kong has been declining since having reached its peak in 1997 primarily owing to the financial crisis (see Figure 1). After discounting price

Figure 1. Quarterly gross value of HK's construction work at constant (2000) market prices (1983Q1 – 2006Q4)



Source: Report on the Quarter Survey of Construction Output, C&SD, The HKSAR Government

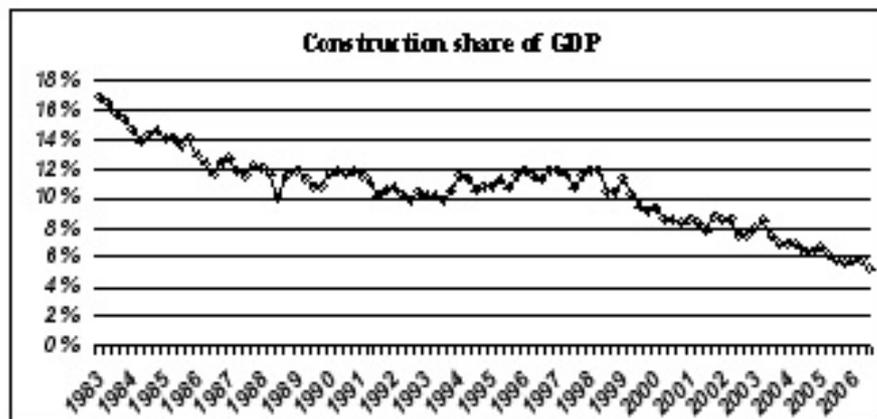
- Notes:
- Private sector includes projects commissioned by private developers. Projects under the Private Sector Participation Scheme are also included.
 - Public sector includes projects commissioned by the Government of the HKSAR, Mass Transit Railway Corporation, Kowloon-Canton Railway Corporation and Airport Authority. Projects under the Home Ownership Scheme commissioned by the Housing Authority are also included.
 - Construction works at location other than site include decoration, repair and maintenance, and construction work at minor work locations such as site investigation, demolition, structural alteration and addition work, and special trades such as carpentry, electrical and mechanical fitting, plumbing and gas work.

changes, the gross value of construction work in 2006 shrank to \$96 billion at constant (2000) prices, which was only 64.7 percent of the peak valued at \$139 billion. Although there was a GDP growth of 6.8 percent in Hong Kong in 2006, the construction industry did not benefit much from the general economic recovery. The construction sector was overtaken by the electricity, gas and water sector due to the decrease in the percentage contribution to the total GDP (as indicated in Figure 2) and was ranked fourth in terms of importance among all sectors since 2005, for the first time since 1980. The construction site works, both the public and private projects, followed a declining pattern in the last few years as the public housing

programme was scaled back and there were few large-scale infrastructure projects and private building

developments. These trends reveal that Hong Kong has entered into a mature economy, as suggested by Bon (1992).

Figure 2. Contribution of Hong Kong's construction activity to GDP



Source: C&SD, The HKSAR Government

Table 1 further summarises the output by nature of construction activities at constant (2000) prices from 1995 to 2006. Comparing the data of 1997 (i.e. the peak) and 2006 (i.e. the latest available data set), we have the following observations in terms of the gross value of construction work:

Total construction market:	Dropped by 30.9 percent
Total residential:	Dropped by 53.1 percent
Total non-residential building:	Dropped by 52.0 percent
Total civil engineering work:	Dropped by 69.5 percent
Total repair and maintenance	Increased by 59.3 percent

Table 1. Gross value of construction work at current market prices performed by main contractors analysed by nature of construction activity (1995 – 2006) at constant (2000) market prices

(Unit: HK\$ million at constant (2000) market prices)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Residential (A)	27,816	32,802	38,525	45,559	49,656	45,703	38,957	36,895	31,722	23,509	20,089	18,086
Non-residential (B)	24,688	27,302	33,454	31,161	17,844	15,395	15,199	17,216	20,597	20,555	19,990	16,066
Civil Engineering (C)	47,735	50,014	38,871	23,216	18,348	21,427	25,068	21,760	20,764	18,595	14,118	11,858
Total Construction Investment (A+B+C)	100,239	110,118	110,850	99,936	85,848	82,525	79,224	75,871	73,083	62,659	54,197	46,010
Repair and Maintenance (D)	29,012	30,524	31,382	29,086	33,301	32,166	32,161	32,806	33,192	38,017	44,077	49,980
Total Construction Market (A+B+C+D)	123,388	134,673	138,975	128,930	120,067	114,691	111,385	108,676	106,273	100,615	98,275	95,990

Source: Report on the Quarter Survey of Construction Output, C&SD, The HKSAR Government

Future Strategic Directions for the Industry

The effects on various construction stakeholders raised from the substantial decline of new orders have emerged in recent years. For instance, some have already adjusted their operational tactics, such as downsizing their organisation, increasing the proportion of outsourcing, migrating to maintenance and repair or addition and alteration works, etc., in order to survive in such a hostile economic and business environment. A number of construction companies sought for opportunities by diversifying business portfolios, integrating both horizontally and vertically their business units like building services, property management, real estate investment, project management, and maintenance. Thanks to the rapid economic growth and liberalisation of markets in Mainland China and Macau, some construction stakeholders have been able to grasp the opportunity and capitalise on their expertise to our motherland, sister regional special administrative regions, as well as India and other overseas markets in the Middle East.

There is also a shift of focus from capital investment to repair and maintenance works. According to the sectoral breakdown statistics, the non-construction site works, representing the repair and maintenance sector, have been on an upward trend since 1980s. The sector climbed dramatically since 2004 reaching \$48.3 billion in nominal terms in 2006, contributed over 53.6% of the total construction market in 2006, i.e. up by 72.3% in real terms over 1995. This reflects the increasing number of ageing buildings and changing demand in the construction industry. According to the Buildings Department of the HKSAR Government, there are currently more than 13,000 private buildings which are over 30 years old, and the

figure will increase to 22,000 in a decade. Subsequent to the implementation of the mandatory building inspection scheme introduced by the Buildings Department, together with building maintenance schemes and redevelopment projects launched by the Hong Kong Housing Society and the Urban Renewal Authority as well as higher requirements for quality of life, construction activities in the repair and maintenance sector will remain at a high level and thereby provide multitudinous opportunities to the industry in the next few years.

However, the nature and challenges are different from major capital work. Repair and maintenance works are usually more labour intensive. Labours of multi-skilled operative nature are also required to work in occupied buildings. These specialisations cause the repair and maintenance a market of its own in the construction industry, and this sector is consequently dominated by small-scale (sub-)contractors (Wong and Wong, 2006). For government's term maintenance contracts which require relatively higher technological and managerial skills not to mention about the capital, the market has been mainly dominated by the large local construction companies.

It is usual for the construction industry in Hong Kong to take eight to ten years to recover from a cyclical trough. Following this pattern, the next upturn in construction demand is soon approaching. Besides, there are a number of deficiencies within the construction supply chain which call for a radical rethink of a better framework to improve its efficiency and an identification of a more sustainable source of work. Construction stakeholders should be preparing for the next challenge. Instead of looking for opportunity to recoup their losses over

the last few years, they should ensure that the industry could sustain the next shock wave through a better planning and control regime as well as the introduction of good practices. Hence, there is an apparent need to formulate effective strategic directions for the industry to achieve a sustainable development.

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