

**For discussion
on 5 October 2001**

LegCo Panel on Food Safety and Environmental Hygiene

**ALIGNMENT OF MARKET RENTAL ADJUSTMENT MECHANISM
AND OTHER RELATED MATTERS**

Purpose

This paper informs Members of the outcome of the Administration's consultation with the District Councils (DCs), trade associations and the Market Management Consultative Committees (MMCCs) on its proposals to align the market rental adjustment mechanism and other related matters, and sets out the proposed way forward.

Background

2. At the meeting of the LegCo Panel on Food Safety and Environmental Hygiene held on 28 May 2001, Members discussed the paper on "Alignment of market rental adjustment mechanisms and other related matters" (LC Paper No. CB(2) 1642/00-01(03)) . The Government also announced that market rental would be frozen until 31 December 2001.

3. Members generally felt that the proposed formula for alignment of market rental adjustment would result in rental increase to tenants and did not

support it. Members felt that the Administration should consider extending the rental freeze.

4. The Administration undertook to report back to the Panel after consulting the DCs, trade associations and market stall tenants through the MMCCs.

Present Position

5. The Administration has now completed the initial round of consultations. A summary of the views of the DCs, trade associations and the MMCCs is set out below.

District Councils

6. Of the 18 DCs, six (Southern, Islands, Kwun Tong, Kowloon City, Kwai Tsing and North) generally accepted the proposed mechanism to align the rental adjustment formulae for former Provisional Urban Council markets and Provisional Regional Council markets with a view to attaining the open market rental (OMR) in the long run. Some members on these DCs nevertheless registered their concern that the Government should not introduce any rental adjustment at a time of economic downturn. The other 12 DCs expressed reservations on or objected to the proposed alignment mechanism. Members on these DCs associated the adjustment mechanism with rental increase and objected to the proposal. Their major objections are summarised below-

- (a) It is not an opportune time to contemplate market rental adjustment.
- (b) The Government should first improve the conditions of its markets before considering any rental adjustment.
- (c) The Government should review if it is appropriate to use the OMR as the assessment basis for determining rental adjustment.

Trade Associations

7. Five trade associations, namely, the Federation of Hong Kong Kowloon New Territories Hawker Associations, the Hong Kong and Kowloon Poultry Dealers and Workers Association, the Hong Kong and Kowloon Fresh Fish Trade General Association, the Hong Kong Poultry Wholesalers and Retailers Association and the Kowloon Fresh Meat Retailer's Association Limited were consulted. The first three associations expressed reservation on the use of the OMR as the basis for assessment. They considered that the OMR as a rate would be on par with the prevailing rental for supermarkets and commented that the use of the OMR as the basis for rental assessment was unsuitable because Government markets are inferior in conditions as compared to supermarkets.

Market Management Consultative Committees

8. Of the 77 MMCCs consulted, only six supported the proposed adjustment formula. The majority of the MMCCs objected to the proposed alignment mechanism and did not support the use of the OMR as the basis for assessment. Some MMCCs provided comments on the other related proposals. Those who commented on the proposed method of recovering

recurrent air-conditioning charges mainly objected to it. While the proposal to replace the quarterly rental payment by monthly payment was supported, the MMCCs wanted to maintain the existing practice of paying one-month rental deposit instead of the proposed two months.

The Administration's View

9. We note that the general sentiment was not supportive of introducing the new alignment mechanism and the possible consequential rental adjustment, especially at this juncture of economic downturn. While noting their views, we believe that many who criticised the inappropriateness of using the OMR as the assessment basis may not fully understand how the Rating and Valuation Department's OMR for market stalls was calculated. They might have misinterpreted the OMR as the prevailing rental for a similar sized private shop in the same locality. To clarify, the OMR is simply a reference used in rental assessment and is based on various factors, such as the latest bid price for a similar stall in the same market, the different rating factors attributed to the unique features of the stall (such as its proximity to escalators), customer flow, etc.

10. We wish to clarify again that the Administration did not put forward the proposed rental adjustment mechanism for the purpose of increasing market rental. We put forward the proposal to align the different rental adjustment formulae adopted by the two former municipal councils as part of our follow-up actions on the undertakings we made to re-organise the municipal services. There is also a practical need for the alignment because the existing formulae are quite different and unduly complicated. It would be unreasonable and possibly unfair to stallholders to have two separate

systems running side by side in markets which are under the sole management of FEHD. In formulating the new adjustment mechanism, we aim at establishing a consistent and reasonable mechanism to determine the level of rent, while minimising any possible impact on tenants.

Way Forward

11. We believe the mechanism we put forward strikes a balance between establishing a fair level of rental based on restoring OMR in the long term, and minimising the impact of any possible rental increase on market stall tenants. The new mechanism is simpler, fairer and easier to administer than the existing ones. Nevertheless, in the light of the views expressed during the consultation period, the Administration would examine those views in detail before considering implementation of the mechanism.

Advice Sought

12. Members are invited to give their views on our proposed way forward on the market rental adjustment mechanism and other related practices as set out in paragraph 11 above.

Food and Environmental Hygiene Department
September 2001

