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Legislative Council
Panel on Planning, Lands and Works

Compensation Arrangements for Owners Affected by Land Resumption for Urban Renewal Authority Projects

Introduction

At the Legislative Council Panel on Planning, Lands and Works meeting held on 19 December 2000, Members requested the Administration to provide an information paper on:

(a) the past acquisition offers of the Land Development Corporation (LDC);

(b) an analysis of the estimated income and expenditure of the 20-year urban renewal programme using a 10 years' old, a 7 years' old and a 5 years' old replacement flat as the basis for the calculation of the Home Purchase Allowance (HPA);

(c) an analysis of the estimated development costs of the 20-year urban renewal programme using a 10 years' old, a 7 years' old and a 5 years' old replacement flat as the basis for the calculation of the HPA; and

(d) the estimated land costs of the 20-year urban renewal programme if the Government were to charge a land premium for resumption sites and rehousing sites based on full market value of the sites.

2. The information required by Members is set out in the following paragraphs.

Acquisition Policy of the LDC

3. Under section 15 of the Land Development Corporation Ordinance (Cap. 15), the LDC is required to take all reasonable steps to acquire properties by negotiations with the owners within a project area. The LDC may request the Secretary for Planning and Lands (SPL) to make a recommendation to the Chief Executive in Council to resume under the Lands Resumption Ordinance (Cap. 124) any properties the LDC has been unable to acquire. However, SPL shall not make such a recommendation unless he is satisfied that the LDC has taken all reasonable steps to otherwise acquire the properties, including negotiating for the purchase of the properties on terms that are fair and reasonable.

4. The acquisition policy of the LDC is determined by its Managing Board. The policy has evolved over the years to take account of changes in the Government's policy on ex gratia compensation and to deal with changing circumstances.

5. The major changes over the years in LDC's acquisition policy in respect of the HPA are summarized below:

(a) <u>Pre-November 1991</u>

The HPA was granted on an ex gratia basis in addition to the existing use value of the property to enable the owner to purchase a brand new replacement flat of a similar size in the locality. Full HPA was payable irrespective of whether the flat was owner-occupied or tenanted.

(b) <u>From November 1991 to June 1997</u>

The HPA was determined having regard to a newly built replacement flat of one to three years' old and of a similar size in the same locality as the acquired property. Full HPA was payable for both owner-occupied and tenanted properties.

(c) <u>June 1997</u>

In April 1997, the Government changed the basis for calculating the HPA to a replacement flat of 10 years' old. Having considered the special background of the Tsuen Wan and Kennedy Town projects, the LDC changed the HPA basis to a 5 years' old replacement flat. However, this was applicable to the Tsuen Wan and Kennedy Town projects only. Following the Government's revised policy, full HPA was paid to owner-occupiers only. Owners of tenanted flats only received 50% of the HPA for the first tenanted flat.

(d) Since January 1998

The LDC revised its acquisition policy in January 1998. The HPA has since been calculated on the basis of a 10 years' old replacement flat, which is similar to that of the Government.

Financial Analysis

6. For the 200 priority projects in the 20-year urban renewal programme and the 25 uncompleted LDC projects, the estimated income and expenditure using a 10 years' old, a 7 years' old and a 5 years' old replacement flat as the basis for the calculation of the HPA are as follows:

	Estimated Income and Expenditure *			
Building Age of Replacement Flat	Gross Development Value $ billion	Gross Development Cost $ billion	Profit/Loss $ billion	Return on Cost
10 years' old	254	245.6	8.4	3.4%
7 years' old	254	248.7	5.3	2.1%
5 years' old	254	251.1	2.9	1.2%

* At today's value

7. The estimated development costs for the 200 priority projects and the 25 uncompleted LDC projects are as follows:

Cost Item	Estimated Development Costs Building Age of Replacement Flat 10 years' old	 7 years' old	 5 years' old
	$billion	$billion	$billion
Acquisition/ Resumption Cost	84	86	87.5
Construction Cost*	72.3	72.3	72.3
Rehousing Cost	13	13	13
Interest Cost	76.3	77.4	78.3
Total Costs	245.6	248.7	251.1

* This item does not include the construction cost of Government/Institution/Community facilities. Such cost would be reimbursed by the Government to the Urban Renewal Authority.

8. The interest cost can be broken down as follows:

Cost Item	Estimated Interest Costs Building Age of Replacement Flat 10 years' old	 7 years' old	 5 years' old
	$billion	$billion	$billion
Interest on Acquisition/ Resumption Cost	51.5	52.6	53.5
Interest on Construction Cost	17.1	17.1	17.1
Interest on Rehousing Cost	7.7	7.7	7.7

Total Interest Costs	76.3	77.4	78.3

9. The estimated development value (sale value of the completed units) is as follows:

Estimated Development Value

Type of Units	Sale Value $billion	%
Domestic	228.2	89.8
Commercial	19.3	7.6
Car parking space	6.5	2.6
Total	254	100

Land Grants

10. It is intended that the Government would grant land to the Urban Renewal Authority for the implementation of its redevelopment projects at nominal premium. If full market value were to be paid for these sites, the estimated land costs would be $50 billion for the 20-year urban renewal programme.

Planning and Lands Bureau
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