

**Extracts from the draft minutes of the meeting
of the Housing Panel held on 18 July 2001**

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Action

V Rent policy on markets and commercial premises of the Housing Authority
(LC Paper No. CB(1) 1794/00-01(07))

21. The Assistant Director of Housing (Commercial Properties) (AD(CP)) briefed members on the policy of Housing Authority (HA) on the letting of markets and commercial premises, rent policy, mechanism to deal with request for rent reduction, vacancy rates, introduction of chain stores into HA's markets and shopping centres, as well as single-operator markets.

Rent policy

22. Dr LO Wing-lok said that he had received complaints from medical doctors about the high rentals charged by HA as a result of an over-estimation of the market value of clinic premises, which might have been worked out with reference to the high bids offered by medical syndicates in open tender. To facilitate a better understanding, he requested the Administration to provide the following -

- (a) the situations where medical syndicates succeeded in the tender process but had later withdrawn from operation on account of the high rental;
- (b) the situations where doctors had to cease their operation or move to smaller premises due to high rental; and
- (c) the vacancy rate of clinic premises.

23. AD(CP) said that the use of open tender for letting medical clinics was considered fairer and more reasonable as compared to the previous ballot system. In bidding for clinic premises, the medical doctor would be required to bid in his own name and bids in the name of a medical syndicate would not be accepted. The open tender results over the past year indicated that in many cases current rents were on the low side, and that doctors were willing to pay more when premises were offered in the open market. As such, the rents were adjusted upward upon the renewal of contracts. In the event that the doctor ceased operation, he would have to give up the tenancy as well. He also undertook to provide the information requested.

Admin.

Rent reduction

24. Mr Howard YOUNG noted that in the wake of the economic downturn, some landlords had taken the initiative to reduce rents in attempt to retain their tenants. He asked if HA would do the same. AD(CP) advised that following a review in 1998, rent reduction had been made on the basis of individual assessments and an average 25% reduction across the entire spectrum had been made. HA would consider undertaking such an exercise again if circumstances so warranted. By way of illustration, HA had recently agreed to waive the rent for poultry stalls in line with the policy announced by the Government.

25. Mr NG Leung-sing declared interest as a member of HA. He enquired if the Administration would consider subsidizing operators by reducing the rent of HA shopping centres so that the prices of services and products would be more competitive. PAS for H(2) said that businesses in HA shopping centres were expected to operate along commercial principles. The Administration would not subsidize commercial operations.

Vacancy rate

26. Mr LEE Cheuk-yan noted with concern the high vacancy rate of shops and markets of over 20% in some HA estates as set out in the Annex to the information paper. He enquired whether special consideration would be given to reducing the rent in these estates. While acknowledging that the high vacancy rate was a cause for concern, AD(CP) said that rent reduction might not necessarily be justified in every case. For example, the opening of competing facilities might result in space becoming surplus to retail requirements. The conversion of vacant space to other purposes such as office or welfare use might therefore be a better strategy. He emphasized that HD had explored the options available. The rents charged were considered reasonable in the light of market evidence. He agreed to the need for flexibility to ensure that premises were used for the best purposes.

Admin. 27. Mr Albert HO opined that vacancy rate of as much as 40% over an extended period was unacceptable. He requested the Administration to provide a paper setting out the estates with over 40% vacancy rate, the duration of vacancy, and the measures, which should include rent reduction, to reduce the vacancy rate. While agreeing to provide the said information, AD(CP) highlighted the pioneering role of HA in the development of new towns. He said that commercial facilities were initially provided within housing estates to meet the needs of the residents. As the new towns became fully occupied, private sector shopping centres were developed which being newer and larger would pose keen competition to HA shopping centres in the vicinity. While adjustments were made to promote viability, some of the space in older shopping centres were no longer viable for commercial uses and this had resulted in high vacancy rates. Rent reduction would not necessarily help reduce the vacancy rate in these shopping centres. The Chairman considered it useful for the Administration to include in the information paper to be provided the way in which it would deal with shopping centre space which was not commercially viable. Mr LEUNG Yiu-chung requested and members agreed that the paper should cover shopping centres with

vacancy rates of over 20% instead of 40%. It was hoped that the paper could be submitted to members before the start of the next LegCo session.

28. Ms Audrey EU referred to a case received by Mrs Selina CHOW, Mr LEUNG Yiu-chung and herself as Duty Roster Members (DRMs) regarding the letting of HA commercial premises. She said that the complainant was a games centre operator who intended to bid for a former theatre premises. He was however prevented from doing so because he was told that the premises was intended for the use as a department store. After the premises was left vacant for a year, the complainant found out that it was let out partly to a department store and partly to a games centre. At the case conference, it was revealed that the premises was let to a chain store by negotiation and was sublet to a games centre. To better understand the situation, DRMs had requested for information on the letting criteria of HA but the request was turned down by HD on grounds that the said information was confidential. Ms EU said that the matter had since been referred to the Panel and she hoped that it could follow up on the subject.

Impact of superstores on wet markets

29. While welcoming the provision of superstores in new housing estates, Mr IP Kwok-him expressed concern that the letting of premises in older estates to superstores would pose a serious threat to the survival of existing wet markets. He enquired whether consideration could be given to reducing the rent of wet market stalls which were facing a much keener competition from superstores. AD(CP) clarified that HA had no intention to introduce major superstores in existing estates. He added that supermarkets had all along been allowed to sell pre-packaged fresh foods. The recent trend was for supermarket operators to provide service-style fresh food to meet the needs of consumers. To alleviate the impact of superstores on wet markets, HA had agreed to the change only in stores over 800 square metres in size and had imposed a limit of 20% on the leased area in the supermarkets to be used for service-type sale of fresh foods. At present, there were 25 supermarkets meeting the size criteria and only eight of them had applied for service-style sale of fresh foods. In very few had the new style been operating for any length of time, and the impact on wet markets was not yet evident; it was not however expected to be substantial. Moreover, HA was looking at ways to improve the competitiveness of existing facilities such as retrofitting of air-conditioning and increasing the size of market stalls. It was also prepared to examine the impact and adjust the rent as appropriate upon the expiry of existing leases. Mr Andrew CHENG did not agree that the impact of superstores on wet markets was minimal. He suggested that market stall operators should be invited to give views in this respect.

Impact of chain stores on existing tenants

30. Mr LEUNG Yiu-chung remarked that the introduction of letting by negotiation in 1986 to secure major stores as anchor tenants had not improved the competitiveness of HA shopping centres but had given rise to unfair competition. He considered that the better way to enhance competitiveness would be for HA to reduce the rent of its premises so that operators could sell their goods at lower prices, thereby boosting their

business. AD(CP) said that before 1986, there were few anchor tenants because many major chain stores were reluctant to participate in open tender, and customer surveys showed that the poor representation of big names was a major factor impeding business growth. To achieve a reasonable balance and a good tenant mix to meet the demand of consumers, HA had endorsed the introduction of letting by negotiation to supplement tendering. In the year 2000, around 24% of HA premises were let out by negotiation. While chain stores were now better represented in HA shopping centres which had consequently been more competitive, chains still comprised only a minor percentage of the overall tenant mix, the primary constituent of which was small independent retailers.

31. Mr James TO remained concerned about the impact of chain stores and superstores on existing operators. AD(CP) said that HA was conscious of the need for healthy trading, and that care would be taken not to introduce major competitors suddenly. He stressed that although HA had a facilitating role, it could not guarantee the business of existing tenants. He also emphasized the need for flexibility in the trade mix for the benefit of the residents.

Single-operator markets

32. Mr Andrew CHENG pointed out that while the rent for single-operator markets had been reduced, some of the market operators failed to reduce the rent of their licensees accordingly and some even sought to increase the rent. He considered it necessary for HA to closely monitor the situation to ensure that a fair rent adjustment would be given to the licensees by the market operators. AD(CP) said that it was not appropriate for HA to interfere with the day-to-day operation of single-operator markets which were introduced with a view to bringing the benefits of private sector flexibility, responsiveness to customer demands and innovative management to HA markets. Surveys had shown that customers preferred the services of single-operator markets. The operators concerned were responsible for the management and maintenance of the markets which included licensing of stalls and upgrading of facilities such as air conditioners. There was no direct connection between the rent charged by HA and the licence fees payable to operators by licensees. The operators were required to reach agreement with licensees on rental matters such as amount of rents and renewal of licences in the same way as landlords and tenants in the private sector. HA would however monitor the performance of the operator, including his ability to resolve disputes with licensees without undue disruption to service, and take such performance into account when considering renewal of tenancy or letting of new markets.

33. In concluding, the Chairman considered it necessary to follow up on the rent policy of markets and commercial premises. Consideration would be given to inviting views from market stall operators on the policy after receipt of the information papers from the Administration.

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