

Legislative Council Panel on Housing

Rent Policy on Non-domestic Premises of the Housing Authority

Purpose

When considering Paper No. CB(1) 1794/00-01(07) on 'Rent Policy on Markets and Commercial Premises of the Housing Authority' at the meeting of the Panel on Housing on 18 July 2001, Members requested supplementary information on Housing Authority's malls and markets in public housing estates which sustain vacancy rates exceeding 20%. Members have also expressed concern on reported rent increases in some shops during the first half of 2001. This paper provides an analysis of the factors contributing to high vacancy rates in the malls and markets of some public housing estates, sets out the arrangements in hand to minimise vacancy, and updates Members on the latest measures the Housing Authority has implemented to assist its commercial tenants to tide over the current economic hardship.

Malls and Markets Sustaining Vacancy Rates of at 20% or Above

2. As requested by Members, the Housing Department has conducted a detailed analysis into the 42 estates with commercial vacancies at 20% or above. The analysis shows that the main reasons for high vacancies are:

- (a) aging of estates leading to reduced population and declining household income;
- (b) outdated facilities; and
- (c) low occupancy of new estates.

Aging of Estates

3. The population in older estates normally declines with better-off tenants departing on purchase of a private sector flat or a Home Ownership Scheme flat. As a result of dwindling population and declining purchasing power of the lower-income families who stay put, the retail business in these estates is adversely affected. These shopping centres and malls have become less attractive to retailers and their vacancy rates are high.

Outdated Facilities

4. The facilities in the older estates also tend to be outdated and fall short of the general expectations of shoppers. While since 1973 purpose-built shopping mall has become the standard form of provision in most public housing estates, the commercial facilities in older estates tend to be dispersed and less focused. Despite the Housing Authority's active improvement programmes to upgrade older facilities, there is a limit as to what can be done in older estates.

Low Occupancy of New Estates

5. On the other hand, in new estates it is commonly the case that shopping facilities cannot be fully let until the intake of residents reaches a certain level to sustain viable retail business.

Measures to Reduce Vacancy Rates

6. The Housing Authority has implemented a number of strategies to reduce the vacancy rate having regard to the unique circumstances of different malls and markets and reasons for high vacancy. These measures include :

- (a) rental adjustment;
- (b) upgrading of facilities; and
- (c) change to alternative use.

Rental Adjustment

7. Commercial premises let at market rents are individually assessed to reflect the characteristics of the premises concerned and the business potential for the permitted trade. Careful attention is given in each case to ensure that factors adversely affecting rental value are fully taken into account. While rent reduction is effective in reducing vacancy for some estates, it may not be the most appropriate and effective solution to address high vacancy problems in other estates due to the factors set out in paragraphs 3 to 5 above.

Upgrading of Facilities

8. Better facilities will attract more business. The Authority is committed to the upgrading of older commercial facilities and has a well-established five-year rolling programme for such works with a budget of \$1,676M from 2001/02 to 2005/06. This budget is likely to increase with the recent commitment by the Housing Authority to installation of central air-conditioning to 31 existing markets and detailed study of 23 older markets with a view to early action.

Change to Alternative Use

9. If it is clear that commercial or other floor space is surplus to requirements for which it was designed, other uses will also be considered. An example is the letting of ex-kindergartens no longer needed in a mature estate for operation of Residential Care Homes for the Elderly.

10. The three strategies set out above are often adopted in combination to minimise vacancy rate. Detailed analyses of the 42 shopping centres and markets in public housing estates, together with specific actions in hand to reduce their vacancies, are set out in the Annex.

Reported Rent Increases in Some Shops

11. The Housing Authority undertook a major rent re-assessment exercise in 1998; for the 10 446 tenants who applied, rents were reduced overall by an average of 21.8%. Subsequent evidence from letting of premises in public housing estates indicated that a mild increase from 1998

levels would be justified, and a small percentage uplift was being sought for renewals in the first half of 2001.

Latest Rent Relief Measures

12. To help keep its commercial tenants in business in the light of the current economic circumstances, the Housing Authority will undertake a voluntary rent reassessment exercise. Commercial tenants on fixed term of one year or more at market rent can apply to have their rents reassessed for the remainder of their current tenancies. The rent re-assessment exercise will be conducted from 1 November 2001 to 31 January 2002 and is estimated to cover about 15 000 tenancies. No tenant will be asked to pay more as a result of the rent re-assessment exercise, but if the re-assessed rent is below the contractual rent, a reduction will be offered from 1 November 2001 to the end of the tenancy.

Conclusion

13. Overall, the level of vacancy in Housing Authority commercial space is very much below that in the private sector. This is due to moderate rent policies, a focus on daily necessities, and flexibility in management policies to adjust to local circumstances. The current level of vacancy at over 5% is historically high and primarily results from a worldwide economic slowdown which has affected consumer demand for goods and therefore demand for retail and commercial premises. The Housing Authority will continue to seek ways to ensure its commercial facilities remain as competitive as possible through flexibility in assessment and in management.

Housing Department
October 2001

**Housing Authority Commercial Premises in Estates with Twenty Percent or Higher Vacancy
(Position as at 30 June 2001)**

| Estate | Age (Yrs) | Large Commercial Premises (Over 250m ²) | | | | Shops | | | | Market Stalls | | | | Reasons for Vacancy (Key I) | Actions in Hand (Key II) |
|--------------------|--------------|---|--------------------------------------|--------------------------------|-----------------------------------|----------------------------------|--------------------------------------|--------------------------------|-----------------------------------|----------------------------------|--------------------------------------|--------------------------------|-----------------------------------|--------------------------------|-----------------------------|
| | | Total Stock (m ²) | Vacant | | | Total Stock (m ²) | Vacant | | | Total Stock (m ²) | Vacant | | | | |
| | | | Up to 12 Months (m ²) | 1-3 Years (m ²) | Over 3 Years (m ²) | | Up to 12 Months (m ²) | 1-3 Years (m ²) | Over 3 Years (m ²) | | Up to 12 Months (m ²) | 1-3 Years (m ²) | Over 3 Years (m ²) | | |
| 1. Kwai Chung | 37 | | | | | | | | | 181 | 56 | | | (d), (h) | (3) |
| 2. Wong Chuk Hang | 33 | 1,276 | 1,276 | | | 2,995 | 72 | 72 | 120 | 565 | 23 | 13 | 94 | (b) | (1) |
| 3. Ping Shek | 31 | | | | | | | | | 206 | 4 | 9 | 37 | (e) | (1), (2) |
| 4. Kwai Shing West | 26 | 2,350 | 1,179 | | | 2,443 | 29 | 60 | 262 | 700 | 76 | 170 | 99 | (a), (f) | (2) |
| 5. Lai King | 26 | | | | | | | | | 398 | 89 | 92 | | (a) | (1), (2) |
| 6. Oi Man | 26 | | | | | | | | | 553 | 26 | 22 | 63 | (a), (b), (d) | (1) |
| 7. Hing Wah (2) | 25 | 1,375 | 367 | | | 2,284 | 132 | 173 | 120 | 410 | 106 | 70 | 220 | (a), (f) | (1), (2) |
| 8. Cheung Ching | 24 | | | | | | | | | 336 | 42 | 30 | 18 | (a), (e) | (1), (2) |
| 9. Lai Yiu | 24 | | | | | | | | | 473 | 21 | 82 | 61 | (a), (f) | (1), (2) |
| 10. Tai Hing | 24 | | | | | | | | | 824 | 60 | 70 | 50 | (a), (e) | (2) |
| 11. Wah Fu (2) | 23 | | | | | | | | | 396 | 12 | 35 | 237 | (a), (e) | (1), (2), (5) |
| 12. Cheung Shan | 22 | 2,154 | | 1,398 | | 1,421 | 120 | 60 | 366 | 300 | 18 | 18 | 60 | (a), (e), (f), (g) | (2), (5) |
| 13. Wan Tsui | 22 | | | | | | | | | 553 | 121 | 44 | 47 | (e) | (1), (3), (4) |
| 14. On Ting | 21 | | | | | | | | | 625 | 27 | 81 | 60 | (a) | (1), (2), (3) |
| 15. Sam Shing | 21 | | | | | | | | | 265 | 7 | 22 | 30 | (d), (f), (g) | (1) |
| 16. Shek Wai Kok | 21 | | | | | | | | | 449 | 44 | 17 | 48 | (a), (e) | (1), (3) |
| 17. Lai Kok | 20 | | | | | | | | | 579 | 6 | 58 | 130 | (a), (e) | (1), (2) |
| 18. Mei Lam | 20 | | | | | | | | | 472 | | 65 | 42 | (a) | (1), (2) |
| 19. Sun Tin Wai | 20 | 1,663 | | | 1,109 | 2,639 | 337 | 531 | 421 | 631 | 12 | 46 | 118 | (a), (f) | (2), (3) |
| 20. Choi Yuen | 19 | | | | | | | | | 742 | 66 | 98 | 284 | (a), (e) | (1), (2), (3) |
| 21. Hing Man | 19 | | | | | | | | | 238 | 47 | 47 | 66 | (a), (f) | (1), (2) |
| 22. Tung Tau (2) | 19 | | | | | | | | | 603 | 38 | 108 | 146 | (a), (e) | (1), (2) |
| 23. Chak On | 18 | 314 | | | | 888 | | 136 | 159 | 308 | 15 | 8 | 98 | (a), (e), (f) | (1), (2) |
| 24. Sun Chui | 18 | | | | | | | | | 525 | 12 | 12 | 151 | (e) | (2), (3) |
| 25. Wong Tai Sin | 18 | | | | | | | | | 851 | 47 | 84 | 86 | (e) | (1), (2) |
| 26. Cheung Wah | 17 | | | | | | | | | 408 | 7 | 114 | 7 | (e) | (1), (2), (3) |
| 27. Siu Hong Court | 17 | | | | | | | | | 398 | 62 | 28 | 19 | (a), (d) | (1), (2), (3) |
| 28. Fu Shin | 15 | | | | | | | | | 907 | 29 | 109 | 62 | (d) | (1), (2), (3) |

| Estate | Age (Yrs) | Large Commercial Premises (Over 250m ²) | | | | Shops | | | | Market Stalls | | | | Reasons for Vacancy (Key I) | Actions in Hand (Key II) |
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| 29. Siu Hei Court | 15 | | | | | | | | | 279 | 23 | | 64 | (e) | (2) |
| 30. Tsing Yi | 15 | | | | | | | | | 467 | 58 | 106 | 8 | (e) | (1), (2) |
| 31. Lei Tung | 13 | | | | | | | | | 1,066 | 36 | 84 | 224 | (a), (f) | (1), (2), (3) |
| 32. Cheung Fat | 12 | 11,305 | 2,520 | | | 1,113 | 734 | | 33 | | | | | (d), (e) | (1), (3), (4) |
| 33. Tsui Lam | 12 | | | | | | | | | 800 | 54 | 74 | 37 | (d), (e), (f) | (1), (2), (3) |
| 34. Cheung Hang | 11 | | | | | | | | | 659 | 7 | 57 | 157 | (d), (e) | (1), (6) |
| 35. Wan Tau Tong | 10 | | | | | | | | | 593 | | 45 | 103 | (e) | (3) |
| 36. On Yam | 7 | | | | | | | | | 546 | 33 | 25 | 88 | (e), (f) | (2) |
| 37. Yiu Tung | 7 | | | | | | | | | 487 | 44 | 13 | 79 | (e), (f) | (1), (2), (3) |
| 38. Kwai Fong | 6 | | | | | | | | | 738 | 23 | 53 | 134 | (e) | (1), (2) |
| 39. Kwai Shing East | 2 | 2,447 | | 1,495 | | 3,552 | 395 | 1,000 | | | | | | (d), (e), (f) | (5) |
| 40. Shek Lei (2) | 2 | 2,773 | | 251 | | 4,981 | | 2,060 | | | | | | (b), (c), (e) | (5) |
| 41. Fu Tai | 1 | 3,097 | 274 | | | 2,142 | 813 | | | | | | | (c), (f) | |
| 42. Po Tin | 1 | | | | | | | | | 670 | | 670 | | (c) | |

Key I : Reasons for Vacancy

- (a) Aging and decreasing population/antiquated facilities
- (b) Affected by Comprehensive Redevelopment Programme
- (c) Estate population not yet reached full intake
- (d) Outflow of patrons to competitors providing free shuttle bus service
- (e) Keen competition from nearby FEHD market/competing facilities
- (f) Remote location
- (g) Oversupply of commercial space
- (h) Temporary market under letting

Key II : Actions in Hand

- (1) Rent level reduced in some cases
- (2) Feasibility study on market to be undertaken
- (3) Improvement works completed, in progress or under planning
- (4) Central air-conditioning system to market installed, in progress or under planning
- (5) Conversion to alternative uses, e.g. welfare, under study or implemented
- (6) Redevelopment under consideration