

LEGISLATIVE COUNCIL BRIEF

Financial Support for the Urban Renewal Authority

INTRODUCTION

At the meeting of the Executive Council on 7 May 2002, the Council ADVISED and the Chief Executive ORDERED that –

- (a) all urban renewal sites for new projects set out in the Corporate Plans (CPs) and Business Plans (BPs) of the Urban Renewal Authority (URA), approved by the Financial Secretary (FS) from time to time, may in principle be granted to the URA at nominal premium subject to satisfying FS of the need therefor;
- (b) sites for meeting rehousing requirements for the URA as identified in the approved CPs and BPs may in principle be made available at nominal premium subject to satisfying FS of the need therefor; and
- (c) in future, the Director of Lands exercise the power delegated from the Chief Executive (CE) to lease or grant land, and to modify land grants which are in compliance with (a) and (b) above.

BACKGROUND AND ARGUMENT

(A) General Background

2. Hong Kong faces an urban decay problem. At present, there are about 9 300 private buildings in the Metro Area[#] which are 30 years' old

[#] The Metro Area covers Hong Kong Island, Kowloon, Tsuen Wan and Kwai Tsing.

and above. In ten years' time, this number will increase by about 50% to some 14 000 buildings.

3. In his 1999 Policy Address, CE mapped out his vision to develop Hong Kong into a world-class city with a quality and safe living environment. Urban renewal formed an integral part of this long term vision. In this context, CE announced that the URA would be established to take forward a 20-year urban renewal programme. CE also indicated that the financing arrangements to be put in place for the implementation of urban renewal projects would include the waiver of land premium for urban renewal sites and Government funding support where necessary. As part of our people-oriented approach to urban renewal, the Government also pledged that the residents affected by urban renewal projects would be properly rehoused.

4. The Urban Renewal Authority Ordinance (URAO) (Cap. 563) was enacted in July 2000. The URA was established in May 2001 to undertake an urban renewal programme comprising 200 projects identified in the Urban Renewal Strategy prepared by the Secretary for Planning and Lands under section 20 of the URAO (the URS projects) and 25 projects prepared by the former Land Development Corporation (LDC) which have not yet commenced. These 225 projects are regarded as "new" projects for the URA as they have not yet commenced. Under section 5 of the URAO, urban renewal includes the redevelopment of dilapidated buildings, the rehabilitation of older buildings and the preservation of buildings of historical, cultural or architectural interest. The main policy objective is to improve the environment of the older urban areas, and the living conditions of the residents therein.

5. Under sections 21(1) and 22(1) of the URAO, at least three months before the end of each financial year, the URA is required to submit to FS for approval a draft CP setting out its proposed programme of projects for the next five years and a draft BP setting out the projects to be implemented in the next year. In order to kick-start the urban renewal programme as early as possible to meet the community's expectation, FS gave approval to the URA in January 2002, in accordance with section 22(4) of the URAO, for the implementation of three projects prepared by the LDC which have not yet commenced as "early launch" projects prior to the submission of its first draft CP and BP. Subsequently, in accordance with sections 21(2) and 22(2) of the URAO, the URA submitted its draft CP and draft BP covering the periods 1 April 2002 to 31 March 2007 and 1 April 2002 to 31 March 2003 respectively to FS for approval on 18 March 2002. The two draft plans were approved by FS on 28 March 2002.

6. The approved CP comprises 42 new projects which will affect over 6 200 property interests and about 10 400 tenant households. They cover a total project area of around 13.5 hectares, with up to 18 000 flats to be built. In addition, about 13 400 m² of public open space and about 39 200 m² of floor space for use as Government/Institution/Community facilities will be provided. The implementation of these projects will improve the living conditions of the residents. It will also bring about improvement to the environment and much needed community facilities in the built-up urban areas to the overall benefit of the community.

7. The 42 new projects include the 25 projects prepared by the LDC which have not yet commenced and 17 URS projects. The gross development value of the 42 new projects is about \$53.2 billion. The total development cost before interest and overheads (including land assembly

cost and construction cost) is about \$37.9 billion. In addition, a sum of \$0.4 billion is earmarked for work in the areas of rehabilitation, revitalisation and heritage preservation.

8. In line with our policy intention that the urban renewal programme should be self-financing in the long run, the URA expects the 42 new projects to be financially viable as a whole, subject to a number of assumptions. These assumptions include the waiver of land premium for the URA's urban renewal and rehousing sites, and a Government capital injection of \$10 billion.

9. In addition to the Government's financial support, the URA would have to borrow from the market to finance its projects. At the peak of the development period of its first CP, this borrowing will amount to some \$10 billion. The URA estimates that it will achieve a break even situation with a cash balance of \$10 billion and no liabilities in 2014/15, the end of the development period of the CP projects.

(B) Financial Arrangements for the URA

10. The URA is not in excellent financial health. Under section 37(3) of the URAO, the URA has taken over all the assets and liabilities of the LDC. Mainly due to the losses from one on-going project taken over from the LDC, the URA has not started in a strong financial position. To take forward the urban renewal programme, the URA will need to raise finances through joint venture partnership with private developers and bank borrowings. It also requires financial support from the Government, as follows.

I. Waiver of Land Premium for Urban Renewal Sites

11. The LDC was required to operate according to prudent commercial principles. It ran its projects in much the same way as a private developer would. The framework of land grant conditions governing LDC projects was tailored accordingly and the LDC was required to pay full market value premium for its development sites. As regards the ten on-going LDC projects to be continued and completed by the URA under section 36 of the URAO, the previous arrangements should stay. Most of these projects are joint ventures with private developers, and, with one exception, are all profitable or involve no loss for the LDC/URA.

12. With regard to new projects, the URA has to undertake projects in areas where urgent redevelopment is required in view of the state of dilapidation of the buildings, and where the living conditions of the residents are poor. A considerable number of these projects have limited redevelopment potential. The land assembly cost could sometimes exceed the value of the site after redevelopment. Many of the projects are also of little interest to private developers on their own due to land assembly difficulties.

13. To tie in with the legal requirement that the URA should submit to FS for approval each year a draft CP and a draft BP setting out the projects to be commenced over the next five-year period and in the next financial year respectively, the urban renewal sites for new projects set out in the URA's CPs and BPs to be approved by FS from time to time may in principle be granted to the URA at nominal premium, subject to satisfying FS in the process that this is justified. The value of any land premium foregone will be reflected in the capital of the URA. This demonstrates

the Government's commitment and contribution to urban renewal.

II. Waiver of Land Premium for Rehousing Sites

14. The proper rehousing of tenants affected by URA projects forms an integral part of our strategy to improve the living conditions of residents in older urban areas. To facilitate urban renewal, both the Housing Authority (HA) and the Hong Kong Housing Society (HKHS) have agreed to be rehousing agents for the URA. They have agreed to, among other things, set aside a number of public rental housing units from their stock to the URA for rehousing affected tenants. The proposed number is up to 1 000 units each year to be provided by the HA and the HKHS respectively. The Government will provide the HA and the HKHS with land to meet any shortfall in public housing units that may result.

15. Separately, the URA or its agent may need to build dedicated rehousing blocks in areas with a concentration of urban renewal projects. For the purpose, rehousing land is required.

16. To underline the Government's support of the urban renewal programme, land required to meet the URA's rehousing needs as identified in the approved CPs and BPs may in principle be made available at nominal premium, subject to satisfying FS that this is justified.

III. Granting of Urban Renewal and Rehousing Sites

17. In order not to burden the Executive Council with the decision of individual land grants for URA purposes, and in line with the arrangements for other land grants falling within established policy frameworks (e.g. the granting of land for school construction), in future, the Director of Lands will exercise the power delegated from CE to lease or grant land, and to

modify land grants in respect of land to be granted or made available to the URA or its rehousing agents under paragraphs 13 and 16 above.

IV. Capital Injection

18. To address the immediate financial needs of the URA and to offer the necessary funding support to the urban renewal programme, we plan to seek funding approval from the Finance Committee of the Legislative Council before the summer recess to commit \$10 billion for injection into the URA by phases in the coming years.

BASIC LAW IMPLICATIONS

19. The Department of Justice advises that the proposals do not conflict with those provisions of the Basic Law carrying no human rights implications.

HUMAN RIGHTS IMPLICATIONS

20. The Department of Justice advises that the proposals are consistent with the human rights provisions of the Basic Law.

FINANCIAL AND STAFFING IMPLICATIONS

21. The total land premium foregone* for the 42 new project sites included in the first approved CP of the URA is estimated to be \$9.2 billion. Most of this value would obviously not be realised if the URA were not to redevelop these project areas. Private developers are unlikely to be interested in these redevelopments on their own due to land assembly difficulties. As regards future projects, it is not possible at this stage to

* Under current land policy, in respect of land exchanges, the premium payable for the grant of a site is based on its full market value with due credit given in the assessment to the full market value of the land already owned/acquired.

estimate the total land premium foregone. The assessment will have to be done when details of these future projects are available and will be dependent on the number of projects eligible for waiver of premium.

ECONOMIC IMPLICATIONS

22. The proposed measures will facilitate the implementation of the urban renewal programme, thus conferring distinct social and environmental benefits on the local community. The capitalised value of the total premium foregone by granting land for URA projects and for the URA's rehousing purpose at nominal premium and the initial capital injection to the URA would signify the Government's substantial financial support for the urban renewal drive. Physically, obsolete and incompatible land uses will be rationalised and there will be better local transport networks and district facilities. Economically, the more integrated sites with better district planning will add to the value of the redeveloped property, although there may not always be a significant increase of net redevelopment potential in terms of usable floor area.

23. The redevelopment projects, when carried out in collaboration with private sector developers, will bring about considerable business opportunities for the real estate development sector. Yet in arranging for the collaboration, it is important to ensure transparency, fair play, market practice and competition, in the interest of upholding accountability to the public and attaining the best outcome for each individual project. The redevelopment process itself will also present considerable business and employment opportunities to the building and construction industry, its related trades, and the associated professions. The project expenditure to be put in place will add to overall demand in the economy thus contributing to the Gross Domestic Product. The new premises when completed will

constitute better housing stock complemented with better community facilities.

ENVIRONMENTAL IMPLICATIONS

24. Intensive construction works during the redevelopment period will have noise, construction traffic and dust impacts on nearby residents. These impacts will need to be minimised through the adoption of suitable mitigation measures during the demolition and construction stages and the use of environmentally-friendly design features in future developments. The relevant environmental factors will also be taken into account in the planning and design of urban renewal projects. Furthermore, the cumulative demand on sewerage capacity generated by these projects has been examined to ensure that the design capacity of the existing and committed sewage projects would not be exceeded.

25. As regards sites to be allocated for the URA's rehousing purposes, environmental studies will be conducted and appropriate design measures will be incorporated to mitigate the potential environmental impacts.

26. Overall, the implementation of urban renewal projects should be able to improve the quality of the living environment through the provision of public open space in the built-up urban areas. This would be to the overall benefit of the community.

SUSTAINABILITY IMPLICATIONS

27. The proposed urban renewal programme helps meet the aspirations of the local community for a better living environment insofar as the environment and infrastructure could cope. In particular, the

programme helps revitalise our city facet through removing obsolete and incompatible land uses in old urban areas, enabling integrated planning of housing, transport and community facilities for these areas, preserving historical buildings and providing more open space. It would also create investment in the property development sector and increase job opportunities. However, it might cause some transitory social disruption to some local residents. To mitigate any such impact, under the Urban Renewal Strategy, we have required the URA to conduct social impact assessments, engage social service teams to render help to the residents and provide proper rehousing and ex gratia compensation to help residents re-establish themselves in an improved living environment.

PUBLIC CONSULTATION

28. We conducted a public consultation exercise in August and September 2001 on the draft Urban Renewal Strategy which contained policy guidelines for the implementation of the urban renewal programme. The draft Strategy set out for public views, among other things, possible financial arrangements that the Government would consider to enhance the viability of the urban renewal programme. These included the waiver of land premium for redevelopment and rehousing sites and Government funding support for the URA.

PUBLICITY

29. A press release will be issued to announce the Government's decision on the waiver of land premium for urban renewal and rehousing sites, and the Government's intention to seek the approval of the Finance Committee of the Legislative Council to inject funds into the URA.

ENQUIRIES

30. For enquiries, please contact Ms. Olivia Nip, Principal Assistant Secretary (Urban Renewal) at 2848 2656.

Planning and Lands Bureau
8 May 2002