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Panel on Housing

Divestment of Housing Authority's Retail and Car-parking Facilities

Background brief

Purpose

This paper gives the background information on the divestment of retail and car-parking (RC) facilities of the Housing Authority (HA) and summarizes the discussion of the Panel on Housing on the issue.

Background

2. HA currently holds approximately one million square meters of retail facilities and some 100 000 car-parking spaces, amounting to some 11% and 16% of the market respectively. Divestment of HA's RC facilities was first mooted in 2000, with the objective of enabling HA to focus its resources on its core function as the provider of public housing in Hong Kong. This objective was in line with the direction provided in the Report on the Review of the Institutional Framework for Public Housing published in June 2002, where it recommends that HA should progressively divest its non-core assets, i.e. the commercial portfolio (RC facilities).

3. In July 2002 HA appointed a consultant to assess the feasibility of the divestment, recommend the divestment strategy and formulate an implementation proposal. Based on the findings of the consultancy study, the Administration put forward a divestment proposal to the Chief Executive in Council for consideration on 15 July 2003. The Chief Executive in Council ordered that the HA's agreement be sought to divest its RC facilities and that the net proceeds from the divestment should entirely go to HA. On 24 July 2003 HA agreed in principle to divest its RC facilities.

Reasons for the divestment

4. The reasons for the divestment, according to the Administration, are two-fold. First, it would enable HA to focus its resources on its core functions as a provider of subsidized public housing. Second, with the cessation of production and sale of Home Ownership Scheme flats indefinitely, HA lacks a recurrent source of income. HA's cash balance is forecast to decrease from \$22 billion at the beginning of 2003/04 to minus \$5.5 billion by the end of 2005/06. Proceeds from the divestment will help to meet HA's funding requirements in the short term.

Details of the divestment

5. HA has agreed to adopt the following broad strategy to take forward the divestment:

- (a) A Real Estate Investment Trust (REIT)¹ structure will be established;
- (b) A new company to manage the REIT will be set up. This company will be beneficially owned by unit-holders of the REIT and held in trust by the REIT's trustees;
- (c) Initially, the HA will assign the cash flow of the RC facilities to the new company and sign a sale and purchase agreement with it in respect of the RC facilities. On this basis the new company will make an initial public offering (IPO) on the Stock Exchange of Hong Kong, which, tentatively, is set in 2004/05;
- (d) At a later stage when preparation of relevant land leases are completed, the HA will transfer the legal title of the RC facilities to the new company; and
- (e) The new company will pay to the HA for the sale of the RC facilities by two installments: a major proportion of the sale amount will be paid immediately after the IPO and the balance will be paid upon the completion of transfer of legal titles.

¹ According to the Securities and Futures Commission (SFC) of Hong Kong, a REIT is "a collective investment scheme constituted as a trust that invests primarily in real estate with the aim to provide returns to holders derived from the rental income of the real estate. Funds obtained by a REIT from the sale of units in the REIT are used in accordance with the constitutive documents to maintain, manage and acquire real estate within its portfolio."

6. HA has also decided that other than a small proportion of the RC facilities which may be unsuitable for divestment because of their poor location, small scale, old age or obsolescent condition, all the RC facilities will be divested in one go.

7. HA has set up a Supervisory Group to monitor and steer the divestment. After going through tendering processes, HA appointed Goldman Sachs (Asia) LLC, The Hong Kong and Shanghai Banking Corporation Ltd and UBS Investment Bank as Joint Global Coordinators; JP Morgan Securities (Asia Pacific) Ltd as Financial Adviser; and PricewaterhouseCopers as Auditor and Reporting Accountant for the divestment project

Impact on staff of the Housing Department

8. The divestment would affect some 650 civil servants, ranging from professionals to front-line officers, currently managing or maintaining the RC facilities. For those who wish to leave the civil service, the Administration proposes to introduce a voluntary exit scheme (VES). The VES will cover only the 646 departmental grade posts being identified to be surplus to requirement arising from the divestment. Any civil servants working in the Housing Department who are in the same ranks as these 646 posts will be eligible to apply, provided that they have more than five years' active service prior to normal retirement and are not subject to disciplinary proceedings. The proposed benefits under the VES include, inter alia, immediate payment of pension benefits irrespective of whether or not the officer concerned has attained the normal retirement age, but subject to completion of the stipulated minimum qualifying length of service.

9. The Administration expects that some of the existing staff may be required to support the new company during the initial stage through secondment or service contracts. Staff may also be recruited by the new company given their operational knowledge and experience.

Impact on commercial tenants

10. Stakeholders, such as commercial tenants and service providers, are concerned about the impact of the divestment. Their main concerns include rent increase, security of tenancy and continuity of letting/contracting policies, payment of stamp duty, and changes in trade mix and policies on name change and fire insurance, etc. According to the Administration, a number of briefings have been arranged to gauge their views on issues of mutual concern.

Members' concern

11. Before the formal announcement of the divestment plan in July 2003, Members of this Council have been monitoring the issue. At the policy briefing for the Panel on Housing in January 2003, a member requested the Administration to consult the relevant parties before finalizing the divestment plan. A question was also raised at the Council meeting on 2 April 2003 seeking information on the progress of the divestment.

12. After the HA had agreed in principle to divest its RC facilities, the Administration briefed the Panel on Housing on the details of the divestment on 3 November 2003 and 1 December 2003. The Panel was given an update of the divestment plan on 3 May 2004. Some members expressed reservation about the divestment. The concerns of members are on the following major aspects:

- (a) The rental income from the RC facilities is a major source of recurrent cash flow to the HA and without which, the HA would incur deficit in the long run;
- (b) If HA does not retain any share in the new company, it would not have any role to play in its management to ensure continuity of tenancy policy;
- (c) The new company should have a proper corporate structure to ensure that it would not be controlled by a few persons and the terms of its board of directors would not be extended indefinitely;
- (d) There would be less security of tenancy of the RC facilities after divestment and this would affect businesses which have made great investment;
- (e) After divestment, the RC facilities would be operated fully on a commercial basis. The new company would be more ready to increase rents and the burden of which would eventually be passed onto consumers in terms of higher prices for goods and services;
- (f) There is a possibility of monopoly or oligarchy of the RC facilities by a limited number of big corporations which have sufficient financial strength to buy up all the shares of the new company; and
- (g) The job security of staff, in particular contract staff in the Housing Department would inevitably be affected. Redeployment of surplus staff alone may not resolve the problem.

13. A chronology of relevant events and the relevant papers with their hyperlinks are in **Appendices I and II** respectively.

Council Business Division 1
Legislative Council Secretariat
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Divestment of Housing Authority's Retail and Car-parking Facilities

Chronology of events

Date	Event
15 July 2003	The Chief Executive in Council approved the divestment plan
24 July 2003	HA approved the divestment plan
31 October 2003	HA announced appointment of Global-Coordinator and advisers to assist in the divestment plan
3 November 2003	Meeting of the Panel on Housing to discuss divestment of HA's RC facilities
1 December 2003	Meeting of the Panel on Housing to discuss divestment of HA's RC facilities
9 December 2003	HA's Supervisory Group on Divestment met with commercial tenants
December 2003	The Administration met with staff unions and staff of the Commercial Properties Sub-division to exchange views
21 April 2004	HA appointed Chief Executive Officer and Chief Financial Officer of the Management Company
21 April 2004	The Administration announced the voluntary exit scheme for Housing Department staff affected by the divestment plan
3 May 2004	Meeting of the Panel on Housing to discuss the progress of divestment of HA's RC facilities

Divestment of the Housing Authority's Retail and Car-parking Facilities

List of references

Council/Committee	Date of meeting	Paper
Housing Panel	14 January 2003	LC Paper No. CB(1)941/02-03 http://www.legco.gov.hk/yr02-03/english/panels/hg/minutes/hg030114.pdf
Council Meeting	2 April 2003	Hansard http://www.legco.gov.hk/yr02-03/english/counmtg/hansard/cm0402ti-translate-e.pdf
Housing Panel	3 November 2003	File Ref: HD(CR)/(CS) Div/DV/3 http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg1103cb1-hplb-e.pdf LC Paper No. CB(1)190/03-04(04) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg1103cb1-190-4e.pdf LC Paper No. CB(1)190/03-04(05) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg1103cb1-190-5e.pdf LC Paper No. CB(1)438/03-04(03) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg1201cb1-438-3e.pdf LC Paper No. CB(1)439/03-04 http://www.legco.gov.hk/yr03-04/english/panels/hg/minutes/hg031103.pdf

Council/Committee	Date of meeting	Paper
Housing Panel	1 December 2003	LC Paper No. CB(1)438/03-04(03) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg1201cb1-438-3e.pdf LC Paper No. CB(1)668/03-04 http://www.legco.gov.hk/yr03-04/english/panels/hg/minutes/hg031201.pdf
Housing Panel	3 May 2004	LC Paper No. CB(1)1638/03-04(03) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg0503cb1-1638-3e.pdf LC Paper No. CB(1)2030/03-04 http://www.legco.gov.hk/yr03-04/english/panels/hg/minutes/hg040503.pdf
Establishment Committee	16 June 2004	EC(2004-05)9 http://www.legco.gov.hk/yr03-04/english/fc/esc/papers/e04-09e.pdf