

HPLB(UR)70/40/04 Pt.9
CB1/PL/HG

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25 May 2005

Miss Becky Yu
Clerk to Panel on Housing
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central, Hong Kong

Dear Miss Yu,

Panel on Housing

Thank you for your letter of 12 May 2005. As requested, we set out below the existing compensation policy of the Urban Renewal Authority (URA) in respect of domestic tenants affected by its redevelopment projects.

URA Ordinance

We would like to recapitulate that during the resumption of the Second Reading debate of the URA Bill in June 2000, the former Secretary for Planning and Lands made the following undertaking in respect of URA's compensation for domestic tenants affected by its redevelopment projects –

“The amount of the cash allowance will not be less than the statutory compensation payable to tenants by owners or private developers under the Landlord and Tenant (Consolidation) Ordinance (LTO) in a redevelopment.”

In gist, the Administration's undertaking is that the URA's cash compensation to the affected domestic tenants will not be less than the statutory compensation required by the LTO in force.

Landlord and Tenant (Consolidation) (Amendment) Ordinance 2004

The Landlord and Tenant (Consolidation) (Amendment) Ordinance 2004 (LT(A)O 2004) took effect on 9 July 2004. It abolishes, amongst other things, the security of tenure and statutory compensation for domestic tenants of premises which are repossessed for redevelopment purpose.

During the deliberation leading up to the enactment of the LT(A)O 2004, some LegCo Members were concerned that the domestic tenants in the remaining ex-Land Development Corporation (LDC) projects had been waiting for redevelopment since the announcement of the projects by the former LDC in 1998 and that the URA's compensation for these tenants should be calculated on the basis of the formula previously in force before the enactment of the LT(A)O 2004. To address the Members' concern, the URA has undertaken to adopt administrative measures to provide re-housing or ex gratia allowance to eligible domestic tenants affected by the remaining ex-LDC projects. The amount of ex gratia compensation for these projects will be determined in accordance with the compensation formula set out in the LTO before amendment. An extract of the Hansard which concerns the URA's undertaking is at Annex I.

The URA's detailed compensation policy for domestic tenants affected by its redevelopment projects was reported to and thoroughly discussed at the LegCo Panel on Planning, Lands and Works on 23 November 2004 (please refer to LegCo Paper CB(1)263/04-05(02)). A summary of the URA's tenant compensation policy discussed at the above meeting is at Annex II. While the URA respects the legal right of the landlords to recover their properties, its compensation policy has been drawn up to ensure that owners will not be better off in evicting the tenants. Indeed, the URA has announced earlier the elimination of the difference in valuation between tenanted and vacant flats so as to prevent landlords from evicting tenants to take advantage of the difference and obtain a higher compensation. This initiative will cost the URA an additional amount of \$27 million on compensation for the remaining ex-LDC projects.

To further protect the interests of those domestic tenants residing in the remaining ex-LDC project areas who might be required to move out by their landlords upon the expiry of their tenancies and the transitional termination notices before the commencement of the projects, the URA has already conducted a survey in mid-May 2005 on

all domestic tenants of these projects (except the MacPherson Stadium project which does not involve any residents). The purpose of the survey was to collect information on eligible domestic tenants with the aim of providing them with appropriate compensation or re-housing, which is in line with the URA's undertaking given in the context of the enactment of the LT(A)O 2004.

Members can rest assured that the URA will provide eligible domestic tenants affected by its redevelopment projects with ex gratia compensation or rehousing as appropriate.

A soft copy of this letter together with the annexes has been sent to you by email.

Yours sincerely,

(Ms Ivy Law)
for Secretary for Housing, Planning and Lands

c.c. Urban Renewal Authority (Attn: Mr. Trevor Keen)

Internal

AD (Policy Support)
AD(Private Housing)
SEO(A)

HPLB(CR)(PL)1-150/03
HPLB(CR)(PL)31/46

Another concern of the Bills Committee is the compensation for tenants affected by redevelopment. Many Members have also raised this problem. The existing mechanism on the payment of statutory redevelopment compensation is founded on the security of tenure enjoyed by tenants under the law. Once the security of tenure is removed, statutory redevelopment compensation should also be removed accordingly. As a result, the *ex gratia* allowance for domestic tenants affected by the redevelopment projects of the Urban Renewal Authority (URA) has become another focal concern in the deliberations of the Bills Committee.

I wish to explain that the URA is an autonomous statutory body, and its Board will from time to time formulate policies on the payment of compensation. In regard to the 25 projects announced by the former Land Development Corporation (LDC) in 1998, the URA has already launched 17 of them. All eligible domestic tenants will be offered rehousing or statutory compensation under the Landlord and Tenant (Consolidation) Ordinance. As for the remaining eight projects, I am pleased to inform Members that the URA has consented to adopt administrative measures to offer rehousing or *ex gratia* allowance to the eligible domestic tenants affected by its redevelopment projects. And, the amount of the *ex gratia* allowance will also be determined in accordance with the compensation formula set out in the Landlord and Tenant (Consolidation) Ordinance before amendment. In addition, the URA has also agreed to retain the minimum payments currently payable under its policy, namely, \$70,000 for a one-person household and \$80,000 for a household of two or more persons.

In regard to Members' request that the URA should accord priority to the urban renewal projects left over by the former LDC, the URA has replied that these projects have been incorporated into its latest, that is, its third, approved five-year Corporate Plan. The Chief Executive has in fact pointed out in his policy address this year that the urban renewal process includes redevelopment, rehabilitation, revitalization and preservation, announcing that the Government will consider the idea of accelerating urban renewal and fostering extensive discussions among all social sectors. We will thus conduct a full-scale review of our urban renewal policy, covering the strategy concerned, and we will also reconsider the relative weighting and pace of different urban renewal projects.

With respect to Members' suggestion on the provision of *ex gratia* allowance and rehousing arrangements for the domestic tenants affected by the

outstanding LDC projects, as I have pointed out, the URA is an autonomous statutory body, and its Board is empowered to set and adjust the relevant policies. We believe that the URA will adhere to the people-oriented principle and take account of the circumstances of individual projects in determining the provision of *ex gratia* allowance and rehousing. In the process, we will exert our utmost to request the URA to consider people's demands as much as possible.

As for the Committee stage amendments proposed by several Members, the Government is firmly opposed to them.

Mr Albert HO suggests that all tenancies in respect of properties each with a rateable value of \$60,000, that is, a monthly rental of about \$5,000, should continue to be subject to security of tenure provisions. This amendment will effectively exclude roughly half of the landlords and tenants in the domestic rental market from the ambit of the Bill. It will therefore utterly defeat the Government's original intent of restoring the free operation of the rental market as a whole. More importantly, the proposal is extremely unfair to landlords whose properties are below a certain level in monthly rentals, because they will continue to be restricted by security of tenure provisions and thus cannot choose to repossess their properties upon tenancy expiry.

Mr Howard YOUNG proposes to alter the transitional arrangement proposed by us, requiring the serving of transitional termination notices by landlords on tenants no less than three years before tenancy expiry in cases of rental properties each with a rateable value of \$36,000 or a monthly rental of \$3,000. Mr YOUNG hopes to ensure that the tenants concerned can continue to enjoy security of tenure for at least three more years after the removal of security of tenure. We are of the view that this proposal is similarly unfair to landlords of properties of low rateable value. And, the three-year notice period is also too long. We therefore do not support this amendment.

I now wish to talk about the expressions used in a letter referred to by Mr James TIEN. I have listened to Mr James TIEN's remarks earlier, and in retrospect, I agree that the expression "a bad law" used in the letter is unfriendly and rude. But I hope Members can remember that the proposed amendment of Mr James TIEN as mentioned in our letter is not the same as that put forward by Mr Howard YOUNG today. The two proposals are different. Unlike the amendment put forward today, which proposes to extend the notice period, the proposed amendment of Mr James TIEN as mentioned in my letter seeks to defer

**URA's Compensation Policy for Domestic Tenants
Affected by its Redevelopment Projects**

Ex-Land Development Corporation Projects

- Domestic tenants who have been living in the ex-Land Development Corporation (LDC) project area before the commencement of the Landlord and Tenant (Consolidation) (Amendment) Ordinance 2004 (LT(A)O 2004) and are still living in the same premises at the time of site clearance will be eligible for compensation calculated according to the “7/5/3/1” formula plus an incentive of 70% (subject to a maximum of \$200,000) as incentive for early acceptance of URA's offer to vacate the premises. Eligible tenant may also opt for re-housing.

- Domestic tenants who lived in the ex-LDC project area before the commencement of the LT(A)O 2004 but have been required by the landlords to move out upon the expiry of their tenancies and the transitional termination notices will be eligible for compensation calculated according to the “7/5/3/1” formula. Eligible tenants may also opt for re-housing.

- Domestic tenants who move in the ex-LDC project area after the commencement of the LT(A)O 2004 and are still residing in the area at the time of site clearance will be eligible for compensation of 3 times the rateable value (RV) of the premises plus 0.5 times the RV as incentive for early acceptance of URA's offer to vacate the premises. Eligible tenants may also opt for re-housing.

- Minimum payment of \$70,000 for a one-person household and \$80,000 for a two-person or larger household will apply.

Non ex-LDC Projects*

- The URA will provide ex-gratia compensation to eligible domestic tenants residing in the project area at the time of clearance –
 - 3 times the RV plus 0.5 times the RV as incentive for early acceptance of the URA’s offer to vacate the premises.
 - Minimum payment of \$70,000 for a one-person household and \$80,000 for a two-person or larger household will apply.
- Eligible tenants may opt for re-housing.

* *To ensure the effectiveness of its policy and to guard against possible abuse of the ex-gratia cash payment policy, the URA Board may adjust the policies to reflect prevailing circumstances and the requirements of individual projects.*