

**File Ref: ETWB(T)CR 12/1016/99**

**Legislative Council Panel on Transport  
Subcommittee on matters relating to railways**

**KOWLOON SOUTHERN LINK**

**INTRODUCTION**

This paper briefs Members on the position regarding the provision of a rail station, as part of the proposed Kowloon Southern Link (KSL), at the location now being occupied by the Harbour City on Canton Road.

**BACKGROUND**

2. By way of recapitulation, the proposed KSL in the Railway Development Strategy 2000 (RDS 2000) that the Government promulgated in May 2000 aims to serve the strategic function of linking the West Rail to the East Rail. At present, passengers of the West Rail going to the Tsim Sha Tsui area by rail would have to change to the MTR at Nam Cheong or Mei Foo. When the KSL is commissioned, the West Rail can bring them all the way to the Tsim Sha Tsui area. Those going to the other parts of Kowloon, the eastern parts of the New Territories or across the boundary to Shenzhen or Guangzhou can also enjoy the convenience that the KSL will provide. Works for the KSL are targeted to commence in mid-2005 for completion in 2009.

3. The Tsim Sha Tsui area is already being served by two rail stations, i.e. the MTR Tsim Sha Tsui Station and the KCR's East Rail East Tsim Sha Tsui Station, and other non-rail based transport modes. The KSL scheme proposed in RDS 2000 has one station at Canton Road in-between the West Rail Nam Cheong Station and the East Rail East Tsim Sha Tsui Station. It will be located at the site now being occupied by the Canton Road Government Offices. That KSL station will bring further convenience to members of the public travelling to and from the Tsim Sha Tsui area. It will take them only about four minutes to walk from the station to the China-Hong Kong Ferry Terminal. As at

present, they can also choose to use the existing MTR Tsim Sha Tsui Station or the KCR East Tsim Sha Tsui Station from where they can reach the southern parts of Canton Road on foot in about five or 10 minutes respectively. To allow members of the public to walk in a more comfortable environment from its East Tsim Sha Tsui Station to the southern parts of Canton Road, the Kowloon-Canton Railway Corporation (KCRC) has also planned to build a new pedestrian subway to link the existing pedestrian subway system underneath the Kowloon Hotel to the pedestrian subway at Peking Road. The situation will be similar to that in the Times Square area where members of the public after alighting the MTR at the Causeway Bay Station use the subway system to go to the Russell Street Exit. Members of the public can, of course, also use the other various types of non-rail based transport available in going to the Tsim Sha Tsui area.

4. Over the past few months, the KCRC and Wharf Estates Development Limited (Wharf) had been discussing the provision of another station at Canton Road at the location now being occupied by the Harbour City, with the Environment, Transport and Works Bureau as the facilitator. As we briefed Members at the last meeting on 11 December 2004, the discussion focused more recently on the “Redevelopment Scheme” under which the station would be built as part of Wharf’s redevelopment of the Harbour City. For that scheme, the KCRC has estimated the total cost of constructing the station to be \$1.8 billion, broken down as follows -

<u>Works</u>	<u>\$ million</u>
(a) Enabling works including the increase of the bored tunnel diameter from 7.0m to 8.6m, provision of a platform and associated ventilation structure inside the tunnel and the provision of ventilation shaft	520
(b) Station works fitting-out, electrical & mechanical services and railway systems	500
(c) Station box and associated works	780
<b>Total estimated cost</b>	<b>1,800</b>

5. The KCRC's offer to Wharf was that the KCRC would be responsible for (a) and (b) and that Wharf would be responsible for (c). Wharf would initially pay the KCRC security money for (a). The KCRC would reimburse Wharf with the security money with interest up to an agreed date when Wharf would redevelop its site and carry out (c). If the Redevelopment Scheme were to go ahead, KCRC would bear \$1.02 billion (or 56% of the total estimated cost) and Wharf \$0.78 billion. After a series of discussions, Wharf informed the KCRC in early December 2004 that it would be agreeable to reimbursing the KCRC with the cost of (a) if it was unable to make available the site required for constructing the station by the date to be agreed subject to the Government's approval of its new general redevelopment building plans incorporating the station. As regards (c), Wharf informed the KCRC that the works should be the KCRC's responsibility. In other words, if a station were to be constructed under the Redevelopment Scheme, the KCRC would be responsible for the cost of all the works set out in the preceding paragraph.

Annex A 6. As stated in its progress report (see **Annex A**) submitted to the last meeting of the subcommittee on 11 December 2004, Wharf had also requested the Building Authority to grant Wharf a bonus plot ratio associated with the space that it would make available to the KCRC for the station concerned.

7. Therefore, in essence, Wharf's requirements were –

(a) the KCRC to bear the full cost of the station concerned, estimated at \$1.8 billion, and Wharf to be responsible for demolishing the buildings concerned and the redevelopment of the buildings; and

(b) the Building Authority to grant Wharf bonus plot ratio (amounting to about 600 000 sq. ft. – see paragraph 10 below) for the 280 000 sq. ft. of space that Wharf would make available to the KCRC for building and operating the station.

8. At the subcommittee's last meeting on 11 December, 2004, the following motion was passed -

“That this Subcommittee urges the Administration to defer the gazettal of the railway scheme for the Kowloon Southern Link (KSL) for not more than one month until 11 January 2005, and calls on the

Administration to immediately engage the Kowloon-Canton Railway Corporation and Wharf Estates Development Limited in pragmatic discussions to resolve the issues in relation to the provision of a Canton Road Station under the KSL project.”

9. In response to the motion, we convened further meetings with the KCRC and Wharf with the participation of the Secretary for the Environment, Transport and Works, the Chairman of the KCRC and the Chairman of Wharf personally. The KCRC maintained its offer as outlined in paragraph 5 above. Wharf also maintained its position as mentioned in paragraph 7 above.

10. Wharf also clarified its request for bonus plot ratio at the meetings. It confirmed that, other than the KCRC paying for the full costs of the station concerned, it would not agree to the Redevelopment Scheme unless the Building Authority accedes to its request for bonus gross floor area, worked out by Wharf to be 600 000 sq. ft., for the estimated 280 000 sq.ft. of space that Wharf would make available to the KCRC for building and operating the station concerned at a rent of \$1 per annum. Wharf’s position was set out in its letter

Annex B to local newspapers copied at **Annex B**.

11. Regarding its request for bonus plot ratio, the Authorized Person acting for Wharf made an enquiry submission to the Building Authority on 20 December 2004. As the provision of a station at the site concerned is not essential from the transport policy point of view, the question of bonus plot ratio does not arise. The Building Authority rejected its request for additional plot ratio on 4 January 2005.

## **WAY FORWARD**

12. As the two requirements of Wharf as set out in paragraph 7 above cannot be met, we would have to proceed with planning and implementing the KSL with just one station in-between the West Rail Nam Cheong Station and the East Rail East Tsim Sha Tsui Station, at the site on Canton Road now being occupied by the Canton Road Government Offices. We will gazette the proposed amendments to the KSL scheme for public consultation under the Railways Ordinance on 7 January 2005 to address the concerns in the objections put forward when we gazetted the KSL scheme in March 2004, accommodate

the design changes proposed by the KCRC and take into account changes to site constraints since March 2004. In the main, the proposed amendments aim at minimising the disturbance to the public that the works for the KSL may cause. Given the strategic importance of the KSL and in the interests on the community at large, we would try our best to follow our current plan to start the works for the KSL in the middle of this year for completion in 2009.

**Environment, Transport and Works Bureau**  
**January 2005**

**Legislative Council Panel on Transport**  
**Subcommittee on matters related to railways**

**Canton Road Station (CAR)**

**- Recount of Issues**

**Background**

- (1) In mid 2003, the Kowloon-Canton Railway Corporation (KCRC) approached Wharf Estates Development Limited (Wharf) to discuss the possibility of constructing the CAR station inside Harbour City. KCRC specifically proposed to pay for the demolition, rebuilding to the original design specification and loss of earnings during construction period for two of our existing commercial towers of 600,000 plus s.f. to enable their building the station requirement in the basement of the site. KCRC enquired what might that cost be to them. Let's call this Proposition A. Though it was declared by Wharf not to be a practical option, Wharf nevertheless gave a rough indication of the associated cost of up to HK\$3 billion in answer to KCRC's proposal. There was no subsequent discussion on this option.
  
- (2) On June 3, 2004, during the Legislative Council Railways Subcommittee meeting, Wharf indicated if the CAR station were to be built underneath the existing Harbour City's basement, the estimated losses that Wharf might incur would be in the region of \$450 to \$600 million (because there is minimal need to demolish and rebuild and much less rental loss). Let's call it Proposition B. The meeting requested Wharf and KCRC to validate the constructability of the CAR station within Harbour City. Environmental, Transport and Works Bureau (ETWB) would facilitate such discussion.
  
- (3) After months of studies and discussions, KCRC and Wharf both agreed to drop Proposition B because the construction risk is considered too high to bear and decided to focus on the "Redevelopment Scheme", i.e. to build the

CAR station with Wharf redeveloping part of Harbour City. Let's call this Proposition C.

KCRC demanded two commitments from Wharf –

- (a) Wharf to commit a clear timeline to make available the site for the CAR station, to be backed up by a financial undertaking from Wharf that should the site is not made available by the agreed timeline, Wharf would reimburse KCRC the full estimated cost of \$600 million of the enabling work for the station. This Wharf has accepted.
  - (b) Wharf to share the cost of the station, estimated by KCRC to be in the tune of another \$600M. This Wharf has not accepted.
- (4) In a letter dated December 6, 2004, KCRC advised that since Wharf did not agree to KCRC's demand on station cost sharing and KCRC cannot accept Wharf's counter offer to compromise there would be no agreement on building the CAR station, and the public should be informed accordingly.

### **Important Principle**

It is KCRC's responsibility as a public infrastructure corporation to build its railway and station to meet transport need, and Wharf being a private landowner is to demolish and rebuild its own buildings to make available the site for KCRC to build their CAR station.

Upholding of this important principle is in line with public interest.

## **Redevelopment Issue**

- (1) Harbour City redevelopment plan was first approved in May 1999. However, even during the depressed economy of the last six years when rental revenue (i.e. opportunity cost) was relatively low, Wharf could not work out the financial feasibility for the redevelopment project, as it would involve substantial direct and opportunity costs in the range of \$5 billion to \$6 billion in demolishing and rebuilding of existing rental earning properties. While the plans needed to be periodically updated, no implementation “go ahead” was possible during these years nor envisaged in the future. Therefore, the assumption that Wharf is going to redevelop any way is incorrect.
  
- (2) The key fact is still that the proposed site for the CAR station currently is not vacant. By simply demolishing “just” the two existing buildings sitting on the subject site, it would jeopardize the integrity of the entire Harbour City complex (in design, circulation and building services). In the overall picture, the incorporation of the CAR station would have triggered the demolition and rebuilding of a total six buildings (instead of just two) of about 1.8 million s.f. The cost and risk that Wharf would have assumed, conservatively estimated at \$3,000 p.s.f., could be as high as \$5.4 billion. To preserve the integrity of Harbour City as a whole, Wharf would not consider just to take down only 2 buildings by themselves. Our Gateway II redevelopment had followed this very principle.
  
- (3) No matter how one assesses this, for Proposition C, Wharf would have to assume at least the same \$3B in cost as per Proposition A as presented to KCRC in mid-2003 and that needs to be covered.

As recognized by many, the incorporation of a CAR station within Harbour City would have a two-folded benefit. Firstly, the resulting added foot



traffic from having a KCRC station. Secondly, the benefit accrued from the dedication of the station and connecting areas as public use. These two benefits would provide the opportune ingredients to make the Harbour City redevelopment plan almost economically justifiable. With regard to dedication of space as public use, Wharf is counting on the outcome that concession area would be granted as per existing practice and precedence by the Buildings Department (BD). The MTR related concession area at Times Square is a useful reference. This however is still subject to Government approval.

Wharf has expressed to KCRC and ETWB the necessity for such concession area based on dedication of the station area, as described in our summary paper (dated October 7, 2004) and draft Letter of Intent (dated October 12, 2004) sent to KCRC and ETWB. Without this, there is little justification of proceeding with Proposition C.

Were there an in-principle agreement between KCRC and Wharf on the CAR station, Wharf would have to submit as soon as possible a revised set of general building plans incorporating CAR so that BD could determine the concession area issue expeditiously. Wharf would look towards KCRC and ETWB's policy support in endorsing such submission based on public transport interest.

### **Transport Necessity Issue**

KCRC maintained that the CAR station is not a transport necessity, as stated in their letter to Wharf dated November 25, 2004.

- (1) Without CAR, the distance between the proposed West Kowloon and East Tsim Sha Tsui stations will be 1.7 kilometer (1,700 metres), much longer than MTRC's average distance of 800 metres between urban stations. It

would also be longer than the average of 500 to 800 metres between urban mass transit stations in other metropolitans like Tokyo, London, Paris and New York. No explanation has been offered to the public why a world city like Hong Kong should not have comparable convenience for the mass transit services.

- (2) If KCRC had not assumed the CAR station is a transport necessity, why should it have -
  - (i) Included the CAR station in its own KSL submission to Government in 2001
  - (ii) Approached Wharf in mid-2003 enquiring the costs for allowing their building of the CAR station by demolishing and rebuilding two buildings in Harbour City per Proposition A
  - (iii) Agreed to discuss with Wharf on constructability of Proposition B since June 2004 with the knowledge of Wharf's estimated loss being \$450 to \$600 million
- (3) Shouldn't resource allocation and projected financial return study for the CAR station to first take into consideration the transport necessity of the station and not the other way around?
- (4) Chairmen and Vice Chairmen of 12 District Councils have signed a joint-letter to the Chief Executive and Legislative Council on November 18 highlighting the public desire and the mass transport necessity for the CAR station
- (5) The Yau Tsim Mong District Council has submitted on December 7, 2004 to the Chief Executive a petition for the CAR station signed by over 1,250 business establishments on Canton Road.

**Concluding Remarks**

- (1) The principle of a clear and transparent division of responsibilities between the public and private enterprises must be upheld.
  
- (2) Wharf has made multiple tangible concessions in trying to facilitate the building of CAR (please refer to Wharf's press statement released on December 6, 2004). Redevelopment is a very costly undertaking with tangible negative cash consequences in the onset of between \$3 billion to \$6 billion with considerable risk and disturbance to Harbour City. Furthermore, recent incidents also point to the possibility of increase risks of demolition of existing buildings. As a public company, Wharf should not deviate from prudent commercial principles.
  
- (3) Together with the community, Wharf is disappointed to see KCRC's decision not to build the CAR station, despite its obvious transport necessity.

Wharf Estates Development Limited

December 11, 2004

I refer to the article by Mrs. Grace Lam of KCRC of December 17, 2004 regarding the proposed Canton Road Station.

Annex B

Whether the Canton Road Station is a public transport necessity is something the Government, KCRC and the public will have to determine. It is no secret that investment in mass public transport cannot be justified on pure commercial grounds but weighs heavily on community's need. Without Government's funding support and land injection, and if based simply on commercial considerations, many believe that most rail lines and stations could not have been built.

As the proposal involves both public and private interests, Harbour City emphasized that no agreement should risk any possible criticism of "channeling of special favour". Otherwise Harbour City would elect not to engage in this proposal.

(1) Hence we have been maintaining an important principle, that KCRC as a public corporation should be responsible for rail and station development, and that Harbour City as a commercial enterprise should be responsible for demolishing and redevelopment of its own premises.

(2) A second principle is that as a listed company, Wharf should consider public interests but cannot deviate from prudent commercial principles.

(i) The requisition of the Canton Road Station at "zero" land cost to KCRC already begs the question as to whether such could be seen as public expenditures are being subsidized by private enterprise.

Meanwhile, in order to preserve the comprehensive integrity of Harbour City as one integrated complex, Wharf would have to demolish six rental-earning blocks of about 1.8 million square feet if the station were to be built. This would be a major construction project that would last for 10 years, causing substantial business disruption and with an estimated cost reaching \$6 billion (\$3 billion each in construction and rental loss). Harbour City relies solely on rental income. Future incremental rental incomes from after the redevelopment are needed to justify the \$6 billion new investment. This project would be 100% funded by bank loans and where loan and interest repayment depend on rental cash.

(ii) It is economically not feasible to demolish one square foot of existing property and to rebuild the same square foot. Harbour City has not embarked on redevelopment of these buildings since plans were approved in mid 1999.

In accordance to past practice, by the dedication of the station and related areas as public use the property owner can apply for concessionary plot ratio

in return (i.e. 5 times for ground floor, 2 times for upper and below ground level premises). This application would be a normal request by any developer under similar circumstances. The Building Authority has sole discretion to approve or disapprove. When the redevelopment proposition was first discussed, Wharf wrote to Government and KCRC that this was a pre-condition. Should this application by Harbour City (the estimated additional area would be approximately 600,000 square feet, about 2 times the dedicated station and related area) be rejected, the redevelopment plan would become economically not feasible.

(iii) Daily foot traffic visiting Harbour City has reached 200,000. In the calculation of potential incremental rental income, Wharf has assumed a total daily passenger throughput of 141,000, not the net increase passenger count of 17,000 per day adopted by KCRC.

(3) A third principle is that any agreement between KCRC and Harbour City must be highly transparent. Wharf has tried our best to balance the interests of the public and shareholders. There is now a substantial proposal for building a Canton Road Station. Government and KCRC should present the case clearly to the public and the Legislative Council for their consideration to avoid any post decision recrimination or criticism.

(4) Market conditions in Hong Kong have been changing during the past months. Demolition of old buildings has become a much concerned subject to the Government and the community. Commercial rental (i.e. opportunity cost to redevelopment) is escalating markedly. Interest rate is on an upward trend. All these changes are adding to the cost and risk of redevelopment and would prolong the already not so satisfactory investment payback period. As such, the Harbour City option may not be available indefinitely.

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