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## INFORMATION NOTE

### Financial Study on the West Kowloon Cultural District

#### 1. Background

1.1 In October 1998, the Chief Executive of the Hong Kong Special Administrative Region announced in his Policy Address that the Government was planning for a new, state-of-the-art performance venue, the West Kowloon Cultural District (WKCD), on the West Kowloon Reclamation. In April 2001, the Government launched an open concept competition to invite conceptual proposals for the development of WKCD. The results were announced in February 2002, and the first prize was awarded to Foster and Partners (Foster Scheme). The preliminary construction cost of the Foster Scheme was estimated at HK\$24 billion, whilst the recurrent revenue was estimated at HK\$2.5 billion per annum.<sup>1</sup> However, the exact breakdown and determination of the cost and revenue figures have not been released by the Government.

1.2 In September 2002, the Government set up a Steering Committee<sup>2</sup> for the development of WKCD, chaired by the Chief Secretary for Administration, to plan and guide the implementation of the WKCD project. The Steering Committee came up with two decisions on taking forward the project:

- (a) to adopt in principle the concept plan of the Foster Scheme as the basis for the masterplan for the project; and
- (b) to commission a study of the Government's options for financial involvement in the project.

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<sup>1</sup> The Government of the Hong Kong Special Administrative Region. (2002) *West Kowloon Reclamation Concept Plan Competition Speech by Lord Rothschild, GBE, Chairman of the Jury, at a Press Conference held at 3.45 pm on 28 February 2002 at the Central Government Offices, Hong Kong, announcing the winning entries to the Competition*. Available from: <http://www.info.gov.hk/gia/general/200202/28/speech.htm> [Accessed December 2004]

<sup>2</sup> The Steering Committee is composed of the Chief Secretary for Administration (Chairman), Secretary for Housing, Planning and Lands (Deputy Chairman), Secretary for the Environment, Transport and Works, Secretary for Financial Services and the Treasury, Secretary for Home Affairs, Secretary for Justice or her representative, Permanent Secretary for Planning and Lands, Commissioner for Tourism, Director of Architectural Services, Director of Lands, Director of Leisure and Cultural Services, Director of Planning and Director of Territory Development.

1.3 According to a press release published by the Government on 2 October 2002, the study of options with regard to the Government's financial involvement in the project was co-ordinated by the Financial Services and the Treasury Bureau through an independent financial adviser and was expected to be completed in a few months. In March 2003, the Secretary for Housing, Planning and Lands explained that the potential financial implications of different planning options were under examination with the help of financial consultants, and the project would include significant commercial, retail and entertainment components, in addition to the core arts and cultural facilities. Up to the publication of this information note, no information is available as to whether the study has been completed and whether it will be open to the public.

1.4 Although the public are very concerned about the financial arrangement of WKCD, the determination of plot ratio and the calculation of land premium, no information has been provided by the Government on these issues. In the development brief of the Invitation for Proposals issued by the Housing, Planning and Lands Bureau, a section stipulating the development concepts as well as the components of the preliminary masterplan specified a plot ratio of 1.81 and a gross floor area of 726 285 sq m, with 213 950 sq m (29.4% of the total development area) designated for the core arts and cultural facilities for the development of WKCD. The development brief also stated that at least 20 hectares of open space should be provided for public use, 10% of which could be intermixed with compatible commercial uses. In any event, there has not been any indication on the related land premium except that the Invitation for Proposals stated that it would be agreed between the successful proponent and the Government before the execution of the Project Agreement. The development brief was developed by the Steering Committee.

1.5 Whereas there is a lack of official information on the financial arrangement of WKCD, the Hong Kong Arts Development Council<sup>3</sup> commissioned the Centre for Cultural Policy Research of the University of Hong Kong<sup>4</sup> to conduct a study on the said topic in early 2004 for public reference. The report, *An Academic Financial Study for the West Kowloon Cultural District*, was published on 10 May 2004 and has been submitted to relevant officials of the Government.

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<sup>3</sup> The Hong Kong Arts Development Council is a statutory body setting up for the development of the arts in Hong Kong and, inter alia, advises the Government on issues relating to the planning and development of the arts.

<sup>4</sup> The Centre for Cultural Policy Research of the University of Hong Kong conducts studies relating to culture and cultural policies in Hong Kong for the benefits and interests of the public.

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## 2. *An Academic Financial Study for the West Kowloon Cultural District*

2.1 *An Academic Financial Study for the West Kowloon Cultural District* provides the estimated land value of WKCD as well as the projected construction cost of the arts and cultural facilities. It also makes preliminary financial assessments based on the following parameters:

- (a) conditions set out in the Invitation for Proposals;
- (b) current situation of the construction industry;
- (c) current situation of the property market;
- (d) financial data of museums and performing venues managed by the Leisure and Cultural Services Department; and
- (e) financial data of other museums and performing venues in both Hong Kong and overseas.

2.2 The study estimates that the residual land value<sup>5</sup> of the commercial portion of WKCD is some HK\$24.6 billion, assuming a plot ratio of 1.8116, the gross floor area of the commercial portion being 67.79% of the total gross floor area<sup>6</sup> and the residential value being HK\$75,000 per sq m, and taking into account the development cost of the commercial portion as well as the expected profit made by developers<sup>7</sup>. Some of these assumptions are adopted from the Government's Invitation for Proposals. The report has suggested that this residual land value can be used to finance the cost of the following:

- (a) development of the core arts and cultural portion (HK\$7.6 billion);
- (b) development of the features of the Foster Scheme (HK\$5.6 billion); and
- (c) establishment of a Trust Fund (HK\$11.4 billion)<sup>8</sup> for the operation of the arts and cultural facilities.

Table 1 to Table 3 show the relationship between the estimated residual land value and the projected cost of developing and operating WKCD.

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<sup>5</sup> Residual land value means the net value of the land of a piece of real property after the deduction of all development costs of the property as well as the profit made by the developer.

<sup>6</sup> Housing, Planning and Lands Bureau. (2003) *Invitation for Proposals – Development of West Kowloon Cultural District, Hong Kong*.

<sup>7</sup> The profit made by developers is assumed to be 20% of the development cost.

<sup>8</sup> According to *An Academic Financial Study for the West Kowloon Cultural District*, the HK\$11.4 billion Trust Fund could be sufficient to acquire art exhibits of values compatible to those of the Hong Kong Art Museum. It could also be sufficient to cover a franchise fee for exhibiting art works by rotations, if the proposed Modern Art Museum in WKCD were run in co-operation with a royalty museum. The remaining portion of the Trust Fund could be used for generating income to cover potential operating deficits of the core arts and cultural portion of WKCD.

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**Table 1 – Estimated residual land valuation of the commercial portion of the West Kowloon Cultural District project**

	Area		Estimated current market value (HK\$ per sq m)	Value upon completion (HK\$ million)
	%	sq m		
Area of the WKCD site	100	400 900		
Total gross floor area (plot ratio = 1.8116)		726 285		
<b>Area and estimated value of the commercial portion (including other arts and cultural facilities)</b>	<b>67.79</b>	<b>492 335</b>		<b>36,441</b>
<i>Retail/restaurant/entertainment</i> <sup>(1)</sup>	22	159 783	70,000	11,185
<i>Residential</i> <sup>(1)</sup>	40	290 514	75,000	21,789
<i>Retail: arts and culture related</i> <sup>(1)</sup>	1.96	14 253	35,000	499
<i>Other arts and cultural facilities (2 500-seat concert hall)</i> <sup>(2)</sup>	3.83	27 785		
<i>Commercial open spaces</i>		20 000	17,500	350
<i>Car parks (700 retail car parks and 1 090 residential car parks)</i>		1 790 units	HK\$450,000 each	805
<i>Estimated interest earned (from residential sales)</i>				1,813
(less the estimated development cost of the commercial portion) <sup>(3)</sup>				(11,207)
Estimated residual land value before deducting the development cost of 70% of the area zoned GIC <sup>(4)</sup>				25,234
(less 70% of the estimated development cost of the area zoned GIC) <sup>(3)</sup>				(628)
<b>Estimated residual land value after deducting the development cost of 70% of the area zoned GIC</b>				<b>24,606</b>

Remarks: (1) Size of the area is based on the assumption made by the Centre for Cultural Policy Research of the University of Hong Kong.

(2) The construction of other arts and cultural facilities is desired by the arts community.

(3) The total estimated development cost of the commercial portion is HK\$11.8 billion (as shown in Table 3), equivalent to HK\$11.2 billion (commercial portion) plus HK\$0.6 billion (area zoned GIC).

(4) GIC represents government, institutions and community.

Source: Wong, K.C. & Hui, Desmond C.K. (2004) *An Academic Financial Study for the West Kowloon Cultural District*. Centre for Cultural Policy Research, the University of Hong Kong.

**Table 2 – Relationship between the estimated residual land value and the proposed financing of the cost of the West Kowloon Cultural District project**

		HK\$ million	
<b>a</b>	<b>Estimated residual land value</b>		<b>24,606</b>
b	Estimated development cost of the core arts and cultural portion (including 30% of the development cost of the area zoned GIC)	7,652	
c	Estimated development cost of the features of the Foster Scheme	5,578	
d	Sub-total (b + c)		13,230
e	Estimated value of the Trust Fund for financing the operation of the arts and cultural portion (a – d)		11,376

Source: Wong, K.C. & Hui, Desmond C.K. (2004) *An Academic Financial Study for the West Kowloon Cultural District*. Centre for Cultural Policy Research, the University of Hong Kong.

**Table 3 – Summary of the estimated development cost of the West Kowloon Cultural District project (HK\$ million)**

Item		Commercial portion (including 70% GIC)	Arts & cultural portion (including 30% GIC)	Features of the Foster Scheme	Total
a	Construction costs	6,473	3,761	3,000	13,234
b	Consultants' fees	971	564	570	2,105
c	Furniture and equipment	-	565	-	565
d	Legal and marketing	10	8	-	18
e	Contingencies	745	488	357	1,590
f	Sub-total (a+b+c+d+e)	8,199	5,386	3,926	17,512
g	20% developer's profit	1,640	1,077	785	3,502
h	Interest costs	1,996	1,188	866	4,050
	<b>Total (f+g+h)</b>	<b>11,835</b>	<b>7,652</b>	<b>5,578</b>	<b>25,065</b>

Source: Wong, K.C. & Hui, Desmond C.K. (2004) *An Academic Financial Study for the West Kowloon Cultural District*. Centre for Cultural Policy Research, the University of Hong Kong.

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15 December 2004  
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