

**For discussion on
17 March 2008**

**Legislative Council Panel on Economic Development
(a) Proposed Hotel Development in Ocean Park
(b) Some Relevant Information on Hotel Market**

Purpose

This paper aims to –

- (a) update Members of, and seek their support for, the proposed hotel development in the Ocean Park (OP) (paragraphs 2 to 21); and
- (b) set out some relevant information on hotel market in response to Members' request conveyed vide the Clerk to Panel's letter of 25 February 2008 (paragraphs 22 to 24).

I. Proposed Hotel Development in OP

Background

2. The Ocean Park Corporation (OPC) is implementing its Redevelopment Plans, which will turn OP into a world-class “education-cum-entertainment” facility featuring about 70 attractions (in comparison with 35 attractions at present) by phases from 2007 to 2013. It last presented a progress update to the former Economic Services Panel on 18 July 2007.

3. As for the proposed hotel development, the OPC has adopted a prudent approach and allowed itself adequate time to conduct detailed studies on technical feasibility and business viability, in consultation with the Administration, before making any decisions. The proposed hotel development is an important supporting infrastructure to enhance OP's tourism appeal, diversify guests' experience, and lengthen their stay both in OP and Hong Kong.

4. The proposed hotel development is timely in responding to the

Chief Executive's call in his Policy Address 2007-08 for promoting MICE¹ tourism and supporting hotel development. The development also supports the Financial Secretary's vision, as stated in the 2008-09 Budget, to consolidate Hong Kong's status as an international convention, exhibition and tourism capital. Hotel development in OP will provide venues for conferences and business events, thereby opening a new market segment for the redeveloped OP.

5. In addition, with the implementation of the South Island Line (SIL) (East) project, the connectivity between OP and the rest of Hong Kong will be greatly improved, thus making OP an attractive site for hotel development.

Proposed Hotel Development in OP

Development Parameters

6. The OPC proposes to develop three hotels in OP, each with a distinctive theme, providing a total of 1,300 rooms. The proposed development parameters are summarized in the table below –

| | Ocean Hotel 3 - 4 stars | Fisherman's Wharf Hotel 4 stars | Spa Hotel 5 stars |
|-----------------|---|--|---|
| Location | New Entry Plaza | Tai Shue Wan | Summit above Tai Shue Wan |
| No. of Storeys | 17 | 14 | 7 |
| Number of Rooms | 660 | 460 | 180 |
| Facilities | <ul style="list-style-type: none"> • Cafeteria • Family Dining • Specialty Restaurant & Bar • Lounge bar • Facilities related to | <ul style="list-style-type: none"> • Main Dining Outlet • Chinese Restaurant • Bars & Lounges • Promenade, Retail, Entertainment | <ul style="list-style-type: none"> • Main Dining Outlet • Specialty Restaurant & Bar • Spa Outlet • Facilities related to |

¹ MICE is an acronym referring to Meetings, Incentives travels, Conventions and Exhibitions.

| | Ocean Hotel | Fisherman's Wharf Hotel | Spa Hotel |
|--|--------------------|--|------------------|
| | 3 - 4 stars | 4 stars | 5 stars |
| | Ocean Park | & Dining • Facilities related to Ocean Park | Ocean Park |

7. The location of the three proposed hotels is shown at **Annex A**. As the OPC plans to invite private developers to design, build and operate the hotels, potential developers will be invited to propose detailed designs consistent with the development parameters set out in paragraph 6 above. The OPC expects the three hotels to commence operation from 2011-12 onwards, so as to tie in with the phased completion of the Park's Redevelopment Plans.

Economic Implications

8. The OPC estimates that development of the three hotels can bring up to 36,800 additional visitations to OP in the first year of operation of the hotels.

9. As more than half of the additional visitations to the Park are expected to come from incremental tourists to Hong Kong as induced by the hotel packages and related promotions, there will be spillover benefits to the other segments of the tourist-related sectors, including the retail and restaurant business, in the Southern District and Hong Kong as a whole. Total quantifiable economic benefits generated by the project, including the first-round additional income to the OPC and the subsequent multiplier effects of additional tourist spending in Hong Kong, are around \$102 million in 2011, rising to \$260 million in 2030. The proposal will generate directly or indirectly around 320 jobs upon the opening of the hotels in 2011-12. During the construction period, new jobs in terms of around 3,180 man-years will be created in the building and construction sector, though this is one-off in nature.

10. The proposed hotels will provide resort-themed accommodation for certain important market segments of our travel industry, such as family tourists, spa lovers and other high-yield visitors. This will supplement the inventory of visitor accommodation to sustain Hong Kong's appeal as a preferred tourist destination in the region. At the district level,

the hotel projects could also be a catalyst for Aberdeen's revitalization and strengthening Aberdeen's appeal as one of Hong Kong's tourist attractions.

Environmental Implications

11. According to a preliminary environmental review by OPC's consultants, none of the proposed hotel sites is located within areas of ecological, conservation, cultural heritage importance.

12. Based on the tree survey conducted for 'the Waterfront' of the Redevelopment Plans in 2006 which has encompassed the Ocean Hotel site, there are no endangered, rare, protected and valued species identified by OPC's consultant within the surveyed boundary. Tree and landscape surveys and assessments will also be conducted for the Fisherman's Wharf and Spa Hotels in support of the relevant town planning applications. For all unavoidable tree felling, compensatory planting and landscaping proposal will be in place to compensate for the tree loss. Furthermore, additional landscape treatment will be introduced to ameliorate any visual impact caused by the hotel development.

13. According to the findings from OPC's consultant, significant adverse environmental impacts in respect of noise and waste are not expected during the construction stage of the project. All construction works will be in strict compliance with all relevant legislation. Furthermore, the OPC will take appropriate preventive and mitigation measures in order to minimize the impacts.

Traffic Impacts

14. OPC's consultants consider that the proposal will not induce significant traffic impact. Commissioning of the SIL (East), which will include the Ocean Park Station, before 2015 will further improve traffic in the area and enhance its connectivity.

15. Traffic Impact Assessments (TIA) were undertaken by OPC's consultant to identify potential traffic issues during construction and operation of hotels before the completion of the SIL (East). According to the consultant, existing public transport facilities and services are considered adequate to cater for the guests of the three hotels. Based on the TIA findings, it is believed that the implementation of the SIL (East) will help reduce the road traffic demand in the Southern District as a result of the shift in the transport modes of commuters from road-based mode to rail-based mode; and improve the traffic condition of Aberdeen Tunnel and

the surrounding area.

Engagement Efforts

16. On 28 February 2008, the Tourism Commission (TC) and the OPC updated members of the Southern District Council (SDC) on the Park's Redevelopment and the proposed hotel development. Members of the SDC were in general supportive but suggested that appropriate measures to address the potential adverse traffic impact arising from the hotel development, especially during the construction period and before the completion of SIL, should be in place.

17. On 29 February 2008, the TC and the OPC updated members of the Town Planning Board (TPB) on the Park's Redevelopment and the proposed hotel development. Members of the TPB generally supported the proposal and advised that it will further examine the traffic, landscape, environmental and other impacts of the hotel proposal at the next stage when the planning application is submitted to the TPB for approval as required under section 16 of the Town Planning Ordinance.

18. The OPC pledges to take into account the views from LegCo, SDC, TPB and the community in preparing the statutory planning application under the Town Planning Ordinance.

19. Subject to town planning approval, the OPC aims to initiate tender invitation for developing the three hotels before the end of this year. The OPC is preparing for the "expression of interest" exercise and tendering process in parallel. Construction is tentatively scheduled to commence by Q3/2009 for completion in phases by 2011-12 onwards.

20. The OPC will liaise closely with concerned parties, including the SDC, to ensure smooth progress of the development.

21. Representatives from the OPC will give a presentation at the meeting on 17 March 2008 on the proposed hotel development.

II. Some Relevant Information on Hotel Market

22. Since the economic recovery from SARS in 2003, visitors coming to Hong Kong have increased significantly. The number of hotel rooms has been increasing at a rate slower than that of visitor arrivals.

From 2002 to 2007, total visitor arrivals grew by 70%, and the number of overnight arrivals (i.e. those who constitute the demand for hotel accommodation) grew by 60%. However, the number of hotel rooms has only increased by about 33% in the same period. In addition, the average hotel occupancy rate in Hong Kong was 86% in 2007. It even reached 93% in November and December 2007. According to the travel trade, high occupancies beyond this level may imply that hotel capacity is approaching saturation and may induce a quicker rate of increase in average room rate. **Annex B** sets out some relevant information on the hotel market in Hong Kong.

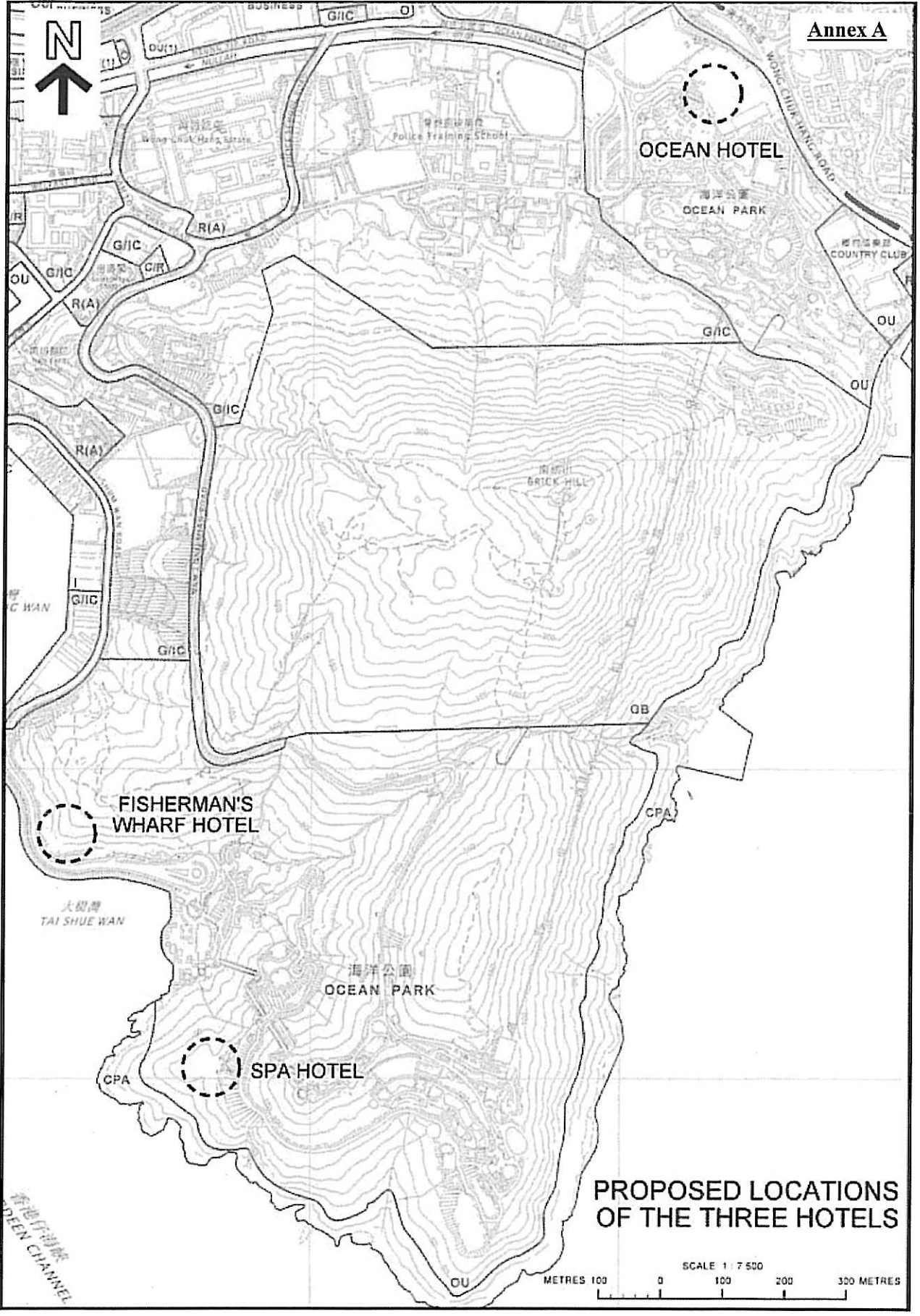
23. The travel trade also points out that we do not compare well with neighbouring tourist destinations as Beijing, Singapore and Macao in terms of the supply and rates of hotel accommodation. Hotel supply in these destinations is increasing in a faster pace to meet the demand of their visitors, especially those from the burgeoning MICE business. The trade estimates that a visitor may spend 40% less in securing a comparable room in Macao or Beijing than in Hong Kong, and 20% less in Singapore. There are concerns that we are running the risks of driving our potential visitors away from Hong Kong or shortening their length of stay here. We believe that the initiatives announced in the 2008-09 Budget would help facilitate hotel development and meet the growing demand from our visitors.

24. Members may wish to note that the subject on planning and land measures to facilitate the development of hotels will be separately discussed at the meeting of the LegCo Panel on Development scheduled for 25 March. Members will be invited to join the discussion of this item.

Advice sought

25. Members are invited –
- (a) to note and support the proposed hotel development in OP; and
 - (b) to note the relevant information on hotel market.

**Tourism Commission, Commerce and Economic Development Bureau
Ocean Park Corporation (for Part I only)
March 2008**



PROPOSED LOCATIONS OF THE THREE HOTELS

SCALE 1 : 7 500

METRES 100 0 100 200 300 METRES

Hotel Market in Hong Kong

(a) Number of new hotel projects¹ in Hong Kong

| Year | No. of New Hotels | No. of Hotel (cumulative) | No. of New Hotel Rooms | Cumulative Room Supply | %Increase |
|----------------|-------------------|---------------------------|------------------------|------------------------|-----------------------|
| 2006 | Base Total | 126 | Base Total | 47,128 | - |
| 2007 | 14 | 140 | 4,453 | 51,581 | 9.4% |
| 2008 | 23 | 163 | 5,876 | 57,457 | 11.4% |
| 2009 | 10 | 173 | 2,947 | 60,404 | 5.1% |
| 2010 | 11 | 184 | 2,538 | 62,942 | 4.2% |
| 2011 | 5 | 189 | 741 | 63,683 | 1.2% |
| (Total) | 63 | 189 | 16,555 | 63,683 | Not applicable |

Source : Hong Kong Tourism Board "Hotel Information Survey", Office of Licensing Authority, Home Affairs Department, and Building Authority

(b) Hotel Occupancy Rates and Average Achieved Room Rates by Category (2002 – 2007)

| | Average Occupancy Rates | | | Average Achieved Room Rates (HK\$) | | | No. of Hotels and Rooms | | |
|------|-------------------------|-------------|--------|------------------------------------|-------------|--------|----------------------------|----------------|----------------|
| | High-tariff | High-tariff | Medium | High-tariff | High-tariff | Medium | High-tariff | High-tariff | Medium |
| | A ² | B | Tariff | A | B | Tariff | A | B | Tariff |
| 2002 | 80% | 86% | 85% | 1,245 | 526 | 367 | 17 (9,365) ³ | 30 (15,329) | 40 (10,756) |
| 2003 | 67% | 72% | 70% | 1,171 | 517 | 334 | 17 (9473) | 30 (15786) | 42 (11465) |
| 2004 | 84% | 89% | 89% | 1,356 | 638 | 414 | 17 (9473) | 33 (16073) | 42 (11038) |
| 2005 | 84% | 86% | 87% | 1,611 | 732 | 460 | 21 (10808) | 39 (18616) | 49 (11475) |
| 2006 | 85% | 88% | 87% | 1,906 | 831 | 537 | 21 (10809) | 41 (18474) | 53 (14435) |
| 2007 | 84% | 88% | 86% | 2,141 | 934 | 570 | 21 (10689) | 43 (19217) | 59 (15010) |

Source : Hong Kong Tourism Board "Hotel Room Occupancy Survey"

¹ All actual figures are obtained from the Office of the Licensing Authority, Home Affairs Department. Estimated figures are based on hotel projects approved by the Building Authority known as at 31 Dec 2007. The construction works of these approved projects may or may not have started and the completion dates and number of rooms are provisional only. Potential supply arising from the proposed Ocean Park's hotel projects and projects at the 10 hotel sites just released in the Application List for 2008-09 is not included in the above list

² Based on Hong Kong Tourism Board Hotel Classification System which grades hotels according to room rates, staff to room ratio, location, facilities, business mix of hotels.

³ Figures in brackets refer to the number of rooms.