

Legislative Council
Panel on Development

Planning and Land Measures
To Facilitate the Development of Hotels

INTRODUCTION

This note informs members of the planning and land measures to facilitate the development of more hotels in Hong Kong to achieve essential economic and social objectives.

MEASURES ON HOTELS

2. The measures to facilitate hotel development are set out below –

- (a) on a pilot basis, sites have been included in the 2008-09 Application List (AL) to be disposed of specifically for hotel development. The Conditions of Sale of the respective site will provide that the whole site or part of the permissible development on the site, as the case may be, will be restricted to hotel purposes with the amount of GFA for hotel stipulated (hereinafter referred to as “hotel only” sites) (paragraphs 7 and 8);
- (b) as a consequence of paragraph 2 (a) above, the reserve prices for triggering and auctioning such “hotel only” sites from the 2008-09 AL should be set on the basis of LandsD’s assessed premium for hotel purposes only as stipulated in the Conditions of Sale (for the whole site or part of the permissible development restricted to hotel purposes as the case may be) (paragraph 9);
- (c) For consistency, it follows that for the same period as the pilot in paragraph 2 (a) above (i.e. during the validity of the 2008-09 AL) -

- (i) applications for lease modifications / land exchanges for “hotel only” development should be allowed. The modified lease conditions or the Conditions of Exchange of the respective site will provide that the whole site or part of the permissible development, as the case may be, will be restricted to hotel purposes with the amount of GFA for hotel stipulated; and
 - (ii) for land premium chargeable for lease modification or land exchange cases under paragraph 2 (c) (i) above, the assessment should likewise be on the basis of the use for hotel purposes only as stipulated in the modified leases or Conditions of Exchange, but the premium payable will reflect the reduction of the “before” value from the above assessment (paragraph 10); and
- (d) we will closely monitor the situation and market response during the year. Nearer the expiry of the validity period of the 2008-09 AL, we will decide whether -
- (i) sites in the 2009-10 AL will continue to be designated as such; and
 - (ii) those arrangements applicable to sites subject to lease modification / land exchange will continue to apply (paragraph 11).

HOTEL DEVELOPMENT

The case for more hotels

3. 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 A sets out some relevant information on the hotel market in Hong Kong.

4. 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.

5. Hotels are a high value-added segment of the inbound tourism industry. The direct value added generated by inbound tourism industry in 2006 amounted to \$35 billion, equivalent to 2.5% of GDP. The corresponding figures for the hotel industry, inclusive of direct value added generated from spending by local residents in hotels, were \$15 billion and 1.1% of GDP.

6. Hotels are important infrastructures supporting tourism, conventions, exhibitions and other activities that can enhance international business contacts and networking. Increase in hotel supply will help to maintain the room rates at a competitive level, thereby inducing more visitors to come to Hong Kong and stay longer. Moreover, hotel development would act as a catalyst for more economic activities and employment in other sectors. Such supporting industries upstream and downstream include retail, food and beverage, logistics, transport, travel agency and other business services. Increase in hotels will provide job opportunities for unskilled workers. The job opportunities provided by the hotel sector are much needed to resolve unemployment as Hong Kong is transformed into a more knowledge-based economy.

Proposals

7. There have been calls from the tourism sector and from some in the real estate sector that the Government should include more sites for hotel development on the AL and lower the premium. At present, hotel is one of the uses permitted under some town planning zones (such as “Commercial”) and there are other uses permitted under

those zones. We have not included any “hotel only” sites in the AL so far. To give a boost for hotel development of Hong Kong, we consider it justified to introduce some special measures that may create the desired impact. However, in so doing, we are of the view that we should not deviate from the established arrangement to dispose of land of general interest mainly through the AL (while land for special purposes through open tender). The AL system has worked well since its operation resumed in January 2004. The system is market driven and it enables the market to determine the quantity and timing of land to be put up for sale. The operation of the AL system is well-known to the business community and the property trade.

8. We have put 10 “hotel only” sites in the 2008-09 AL (see **Annex B**). For a “hotel only” site, its Conditions of Sale will provide that the whole site (or part of the permissible development on the site) will be used for hotel with the amount of GFA for hotel stipulated. Ancillary uses such as shopping areas may also be allowed if considered appropriate. These sites, big and small, are located across Hong Kong Island, Kowloon and the New Territories. The list consists of a good mix of “hotel only” sites which can be developed into various types of hotels including resort hotels and business hotels etc. Most of these sites are either permitted under the current zoning or have already been granted planning permission for development into hotels. For a few sites requiring planning permission for hotel development, we will secure such planning permission where appropriate before site disposal.

9. As a consequence of the Conditions of Sale having restricted the use to hotels and stipulated the amount of GFA for hotels, we will assess the open market values for the “hotel only” sites in the 2008-09 AL for hotel use and such other uses as restricted under the Conditions of Sale, and set the reserve prices of such sites on the basis of such assessment. The following prevailing arrangement will continue to apply to “hotel only” sites –

- (a) a site will be triggered for auction when the price offered by the applicant reaches or exceeds 80% of the open market value of the site assessed at the time of triggering; and
- (b) the site will be sold at auction to the highest bidder, provided that the highest bidding price reaches or exceeds 100% of the reserve price assessed on the day of auction.

10. On parity grounds and in line with the policy objective, it follows that similar arrangements should apply to cases subject to lease modifications / land exchanges, for the same period as the pilot on “hotel only” sites (i.e. during the validity of the 2008-09 AL). Applications for lease modifications / land exchanges for “hotel only” development should be allowed. The modified leases or Conditions of Exchange of the respective site will provide that the site or part of the permissible development on the site will be restricted to hotel purposes with the amount of GFA for hotel stipulated. As a consequence, the premium chargeable on lease modifications/land exchanges for “hotel only” development should be assessed accordingly, i.e. assessing the full market value of the site for hotel purposes as specified in the modified leases or Conditions of Exchange and deducting the “before” value in arriving at the premium payable. These special arrangements will be offered to all outstanding lease modification applications under processing, and all new cases that are submitted within the coming year, until the completion of the assessment process.

11. The Government announced the 10 “hotel only” sites in the 2008-09 AL on 29 February 2008. We will closely monitor the situation and market response during the year. Nearer the expiry of the validity period of the 2008-09 AL, we will decide whether sites in the 2009-10 AL will continue to be designated as such, and those arrangements applicable to sites subject to lease modification / land exchange will continue to apply. Meanwhile, we will continue our efforts in looking for sites suitable for development into hotels and adopt a user-friendly approach to help the trade take forward hotel development proposals.

Development Bureau
March 2008

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. Table (b) does not include the information of a few hotels which have not voluntarily reported occupancy rates and room rates to Hong Kong Tourism Board.

³ Figures in brackets refer to the number of rooms.

Annex B**List of “hotel only” sites in 2008-09 Application List**

Lot No.	Location	User	Site Area (ha) (about)	Estimated Earliest Site Available Date
NKIL 6311	Junction of Sheung Yuet Road, Wang Tai Road and Wang Yuen Street, Kowloon Bay	Hotel	0.2579	Aug-08
NKIL 6314	Junction of Kai Cheung Road and Wang Kwong Road, Kowloon Bay	Hotel	0.6600	Aug-08
NKIL 6269	Junction of Wai Yip Street, Shun Yip Street and Hoi Bun Road, Kwun Tong	Hotel	0.7083	Aug-08
TSWTL 26	Area 108A, Tin Shui Wai	Hotel	0.6500	Aug-08
Lot 1950 in DD 221	Sai Kung Town, Area 4	Hotel	1.7940	Sep-08
TWTL 393	Yeung Uk Road, Tsuen Wan	Hotel	1.4160	Dec-08
IL 8920	Ex-Government Supplies Depot, Oil Street, North Point	Hotel / Residential / Commercial	1.1700	Mar-09
IL 9020	Western part of Ex-North Point Estate, North Point	Hotel	0.6000	Mar-09

IL 8970	373 Queen's Road East, Hong Kong	Hotel	0.0700	Mar-09
KIL 11205	Junction of Hung Luen Road and Wa Shun Street, Hung Hom Bay Reclamation, Kowloon	Hotel	1.6000	Mar-09

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