

POSSIBLE OPTIONS IN THE DISPOSAL OF KINGSFORD TERRACE PRIVATE SECTOR PARTICIPATION SCHEME FLATS

In the light of the opinions expressed by the community over the disposal of the Hunghom Peninsula Private Sector Participation Scheme (PSPS) flats and taking into account the changing property market situation, the Administration is currently reviewing possible options in disposing of the Kingsford Terrace PSPS project. We have come up with some preliminary options as described in this paper. It should be stressed that these options are not final. Members are welcomed to offer their comments and suggestions at the joint panel meeting on 8 March 2004. The Administration will take into account members' views before formally approaching the developer to deal with the Kingsford Terrace PSPS project.

The Negotiation Route

2. We wish to re-iterate that the **overriding policy considerations as well as the legal constraints applicable to the Hunghom Peninsula project equally apply to the Kingsford Terrace project.** Similar to the Hunghom PSPS project, the developer of the Kingsford Terrace project holds legal title to the land lot, owns the residential units, car parking spaces and the commercial facilities it built as required by the Conditions of Sale. It would be logical to apply the same approach to handle the Kingsford Terrace project. Thus, the first option is to dispose of the Kingsford Terrace PSPS flats by negotiation with the developer to allow it to sell the flats in the open market subject to payment of a lease modification premium. Agreeing with the developer on the lease modification would not only avoid the HA having to face an obligation to purchase the 2,010 flats under the development at about \$1,441 million, ~~the Government would also collect a premium payment.~~ In addition, it would make available a chance to avert any alleged claims for losses from the developer as a result of alleged HA's failure to nominate purchasers upon issue of the Consent to Sell in the manner originally envisaged. This negotiation route is prima facie the most viable and practicable option.

Other Options

3. We have examined a number of other options to cater for the scenario in which an agreement on modification is not achieved. It should be noted that these options require upfront cash outlay from the HA to purchase the 2,010 flats. Moreover, it is likely that the HA would have to purchase the car parking spaces and the shops on top of the flats in order to remove any subsequent possibility of claims by the developer as a result of any alleged loss in revenue from, for example, the delay by the HA in disposing of the flats until 2006/2007 in line with the Government's housing policy. Besides, additional costs for holding onto the development before subsequent disposal of these flats by the HA would incur.

Option 1: HA to purchase the entire development and sell it to Government for use as departmental quarters

- The HA would have to negotiate with the developer on the purchase of the non-domestic portion.
- This could pose a problem for the Government in the midst of its present fiscal situation.

Option 2: HA to purchase the entire development and sell it to Government for future resale to the open market through tender/auction

- This option is similar to Option 1 in that it allows the Government to open a wider range of future uses since the Government is not constrained by the Housing Ordinance.
- The HA would have to negotiate with the developer on the purchase of the non-domestic portion.
- This option would be cost neutral to the HA or the Government.
- Such tender/auction would be exposed to the then prevailing market condition.

Option 3: HA to purchase the entire development and create a new type of HA's public rental project (PRH) for the well-off tenants

- While a large number of the flats in the Kingsford Terrace are of three-bedroom, they are not suitable for conversion into normal PRH.

- A possible option is to create a new type of rental project for letting the flats to the well-off tenants instead of prospective tenants on the waiting list.
- The HA would have to negotiate with the developer on the purchase of the non-domestic portion.
- Setting a comparatively higher rental than the normal PRH level appears reasonable since the provisions of the flats are better.
- However, the creation of a new class of public rental housing would impact on the existing domestic rent mechanism. The policy and legal implications of this option have to be carefully examined.

Option 4: HA to purchase the entire development for disposal as HOS flats after 2006

- The HA would have to negotiate with the developer on the purchase of the non-domestic portion.
- This option would alleviate the financial burden of the HA in the long run, but it will have to face an extra holding cost for leaving the property vacant over a prolonged period of time.
- The resale would be exposed to the then prevailing market condition.

Conclusion

4. We would like to stress again that the above list of options is not exhaustive and the options described above merely represent our current thinking. The Administration welcomes comments and suggestions from members of the Legislative Council on the approach to be adopted for the disposal of the Kingsford Terrace PSPS project. Members' views will be taken into consideration before we formally approach the concerned developer to resolve the matter.