

For discussion on
27 October 2009

Legislative Council Panel on Development

**Optimising the Use of Industrial Buildings to
Meet Hong Kong's Changing Economic and Social Needs**

PURPOSE

The Chief Executive announced in his 2009-10 Policy Address new measures to promote revitalisation of old industrial buildings through encouraging redevelopment and conversion of vacant or under-utilised industrial buildings. The objective is to provide readily available and suitable land and premises to meet Hong Kong's economic and social needs, including the development of higher value-added economic activities, such as the six economic areas identified by the Task Force on Economic Challenges.

2. Our proposed policy measures to revitalise industrial buildings are presented in the following documents:

- (a) Legislative Council Brief — “Optimising the Use of Industrial Buildings to Meet Hong Kong's Changing Economic and Social Needs” distributed to Legislative Council Members on 15 October 2009;
- (b) Fact Sheet on “Optimising the Use of Private Industrial Buildings to Meet Hong Kong's Changing Economic and Social Needs” (**Enclosure 1**); and
- (c) Summary of policy proposals to revitalise industrial buildings (**Enclosure 2**).

ADVICE SOUGHT

3. Members are invited to provide their views and comments on the proposed policy measures.

**Development Bureau
October 2009**

Optimising the Use of Private Industrial Buildings to Meet Hong Kong's Changing Economic and Social Needs



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Why changes are necessary



The total stock of private flatted factories was 17.4 million m² at end 2008. At a vacancy rate of 6.5%, the total vacant floor area exceeded 1.1 million m². Despite introduction of planning measures (e.g. broadening the permissible uses in industrial buildings and rezoning of 500 hectares of surplus and suitable industrial land for other uses) to facilitate better uses of industrial land and premises during the past two decades, redevelopment and conversion of existing industrial buildings for other uses has been slow. This is a waste of our scarce land resources.

Early availability of suitable land and premises at affordable prices is a key to promoting development of higher value-added economic activities, including those of the six economic areas. With the exception of a few uses (which require planning permissions from the Town Planning Board), the general uses under the six economic areas are uses “always permitted” in “Other Specified Uses” annotated “Business” (OU(B)) zones, in which most industrial buildings are now located.



Most of Hong Kong's industrial buildings are relatively young. They are built to vigilant building requirements. Many of them are located in urban areas with good and improving access and connectivity; some are harbourfront sites with good views. With generally large floor plates, high ceilings, strong floor loadings, wide corridors and large lifts, these buildings are versatile and are suitable for conversion to various alternative uses.



These initiatives should also meet social needs by providing more affordable premises for work and play such as gathering places of church groups, activity areas of NGOs and non-residential social welfare facilities.



Non-compliant uses in industrial buildings (i.e. violating planning intentions or lease conditions, or both) are widespread; mixed industrial and commercial uses in the same building are causes for fire safety concern. The extent of non-compliant uses would likely exacerbate in the coming years due to implementation of urban redevelopment and new railway projects, and we cannot rely on enforcement alone to resolve it.



Why government actions are required

Owners of industrial buildings may be reluctant to redevelop or convert their existing buildings for other uses due to the following constraints:

- Fragmented ownership in flatted factory buildings making it difficult to arrive at consensus among owners;
- The need to pay full market premium for redevelopment and waiver fees for conversion increases economic and time costs, and hence commercial risks;
- The commercial risks in being the first to redevelop or convert an industrial building for commercial uses in a former industrial area;
- Difficulties in raising funds for redevelopment.



What the Government is going to do



To address the above challenges, the Government will introduce a range of measures to facilitate redevelopment or wholesale conversion of the industrial buildings into alternative uses. These measures can address the needs of economic development by enabling owners to revitalise and add value to their industrial buildings, thus providing new momentum for economic growth and creating jobs. They are also in line with the principle of “big market, small government”, which lets the market respond to such needs.

Policy measures to encourage redevelopment in non-industrial zones

- (1) Lower the application threshold for compulsory sale orders under the Land (Compulsory Sale for Redevelopment) Ordinance from 90% to 80% for industrial buildings aged 30 years or above situated in non-industrial zones to tackle fragmented ownership in older industrial buildings. This will take the form of subsidiary legislation to be made by Chief Executive in Council and will be subject to negative vetting by LegCo.



- (2) Allow tailor-made lease modifications at “pay for what you build” premium (i.e. assess premium based on the optimal use and proposed GFA of the redevelopment) to realise planning gains through redevelopment in non-industrial zone.
- (3) Allow owners who modify the lease for redevelopment to opt for payment of 80% of the land premium by annual instalments over five years at a fixed rate of interest (at 2% above the average best lending rate of the three note-issuing banks prevailing at the time), if the total premium exceeds \$20 million.

Policy measures (2) and (3) will be valid for three years from 1 April 2010. Industrial buildings in all non-industrial zones are eligible but the new uses should comply with the planning intent of the sites. Redevelopment should be completed within five years.



Policy measures to encourage wholesale conversion

Owners may apply at a nil waiver fee for change of use of existing industrial building for the lifetime of the building or the current lease period, whichever is earlier. The following eligibility criteria will be applicable –

- (a) industrial buildings aged 15 years or above and situated in “Industrial”, “Commercial” or “OU(B)” zones;
- (b) joint application by all owners of the building;
- (c) there should not be any increases in building height, building bulk or GFA after the conversion;
- (d) the building cannot revert to industrial use during the waiver period;
- (e) full market premium is payable when the buildings are redeveloped in future.



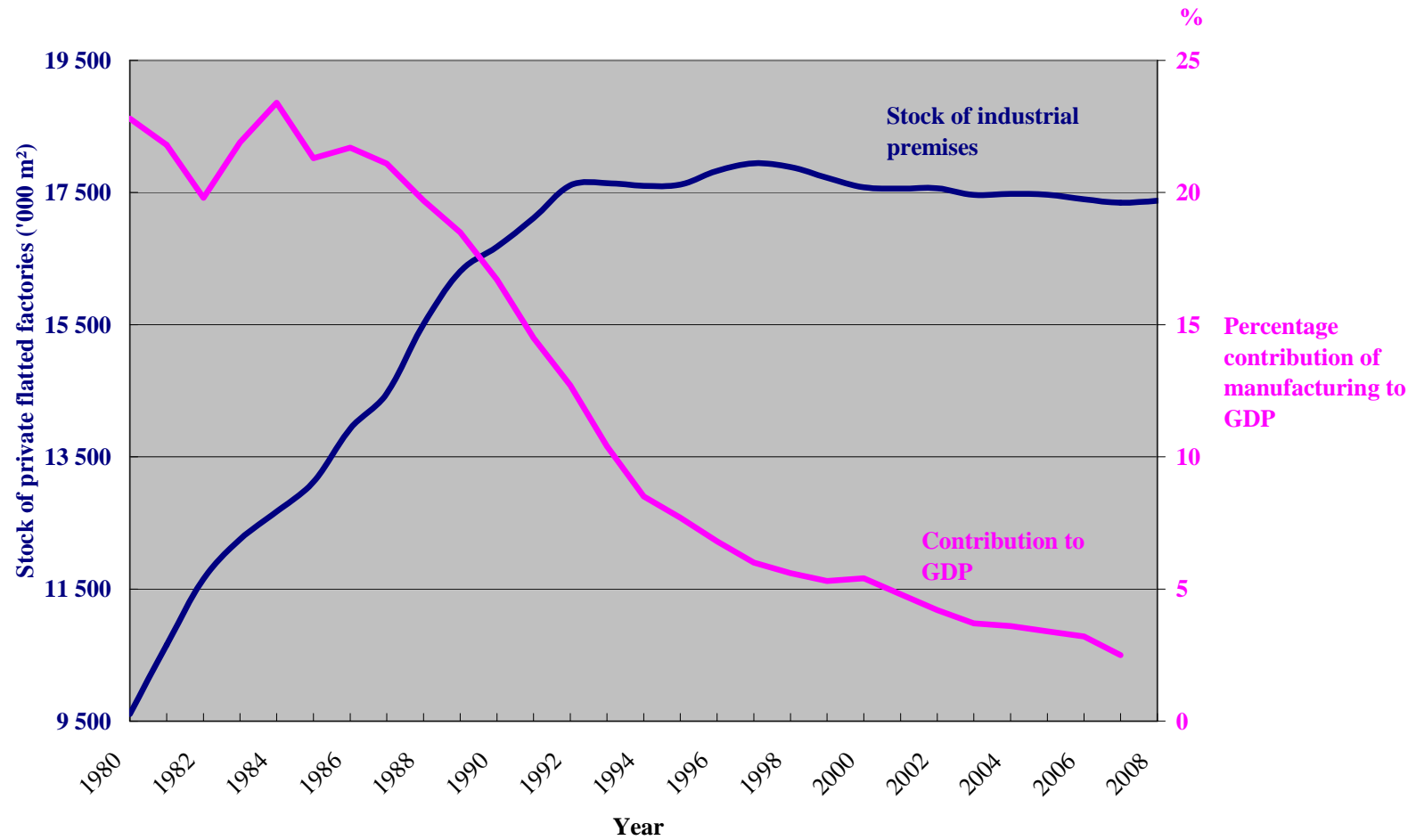
This special measure is valid for three years from 1 April 2010. The new uses should comply with the planning intent of the relevant zones. Conversion works have to be completed within three years after issue of the waivers.

What other facilitation or assistance will be provided by Government

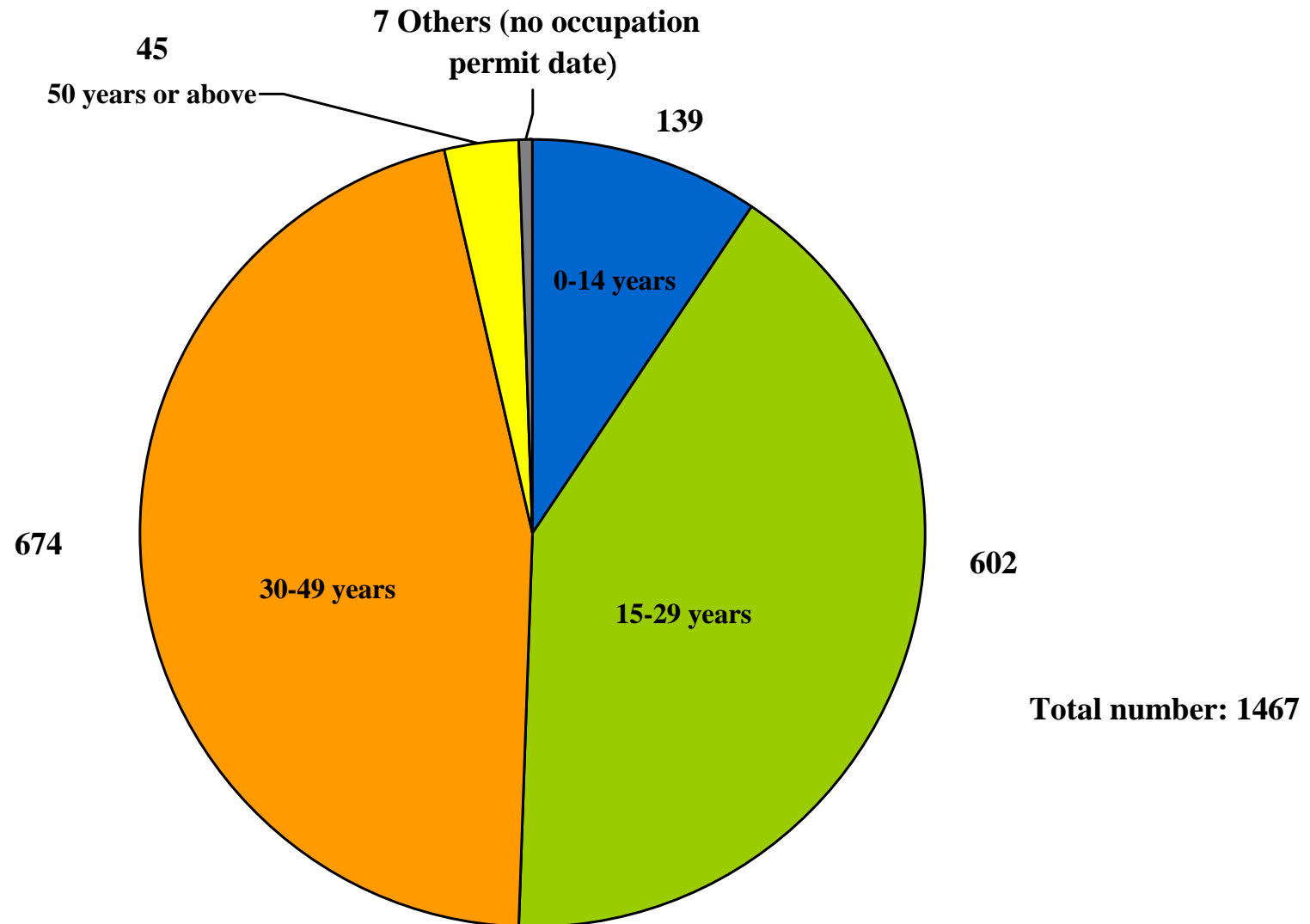
The Lands Department will set up a dedicated team to process applications for redevelopment or wholesale conversion of industrial buildings. Projects which fulfill the criteria for one-stop service to be rendered by the Development Opportunities Office may also approach the Office for assistance.

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Contribution of Manufacturing to Hong Kong's GDP and Stock of Industrial Premises (1980-2008)



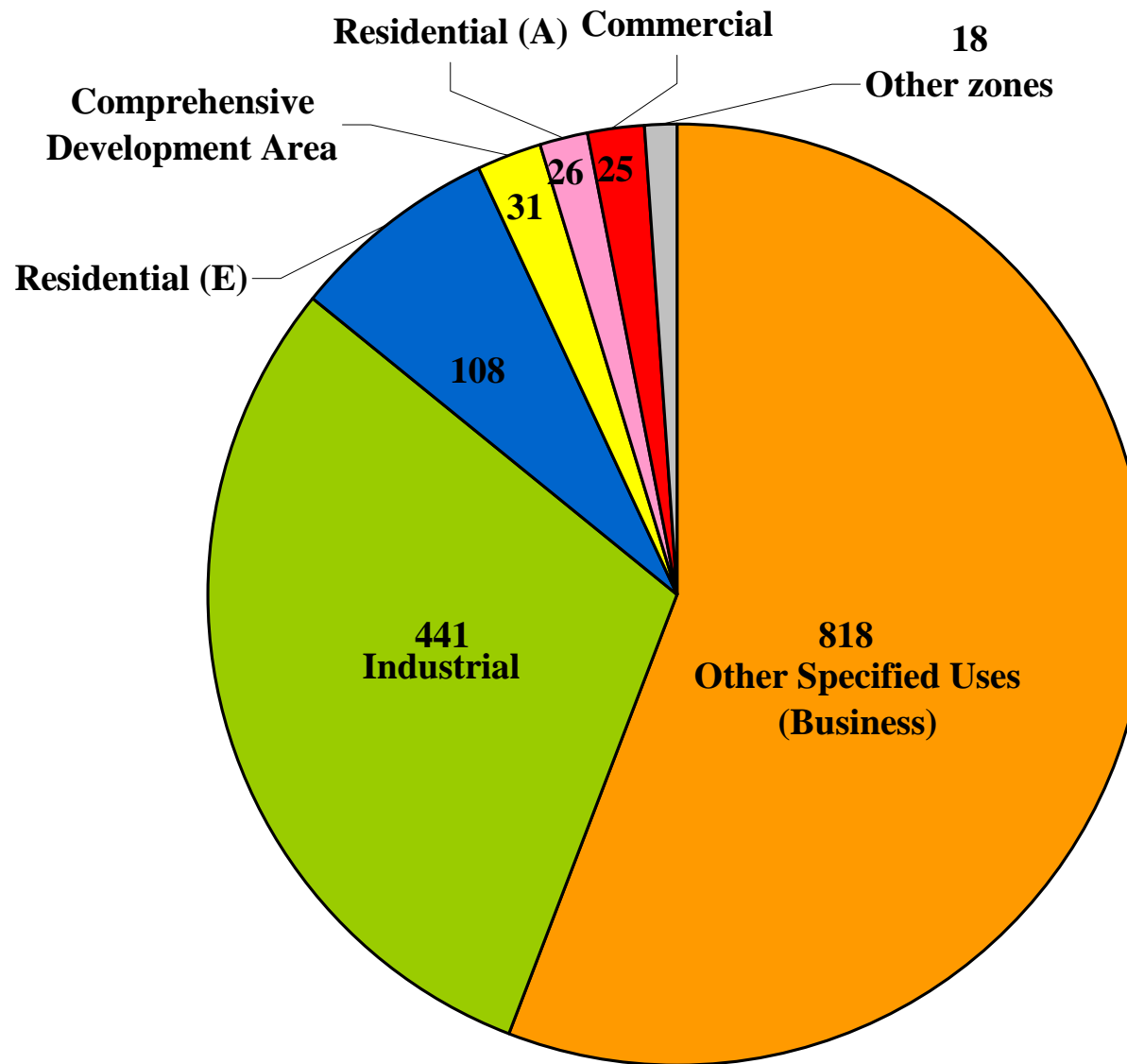
Age profile of private industrial buildings in Metro and New Town Areas



Note : Include private flatted factories, private industrial/office and godown buildings. Specialised factories such as those located in Industrial Estates, storage premises in the container terminals and flatted factories built by the Housing Authority are not included.

Source : Rating and Valuation Department and Buildings Department.

Private Industrial Buildings in Metro and New Town Areas by Zoning

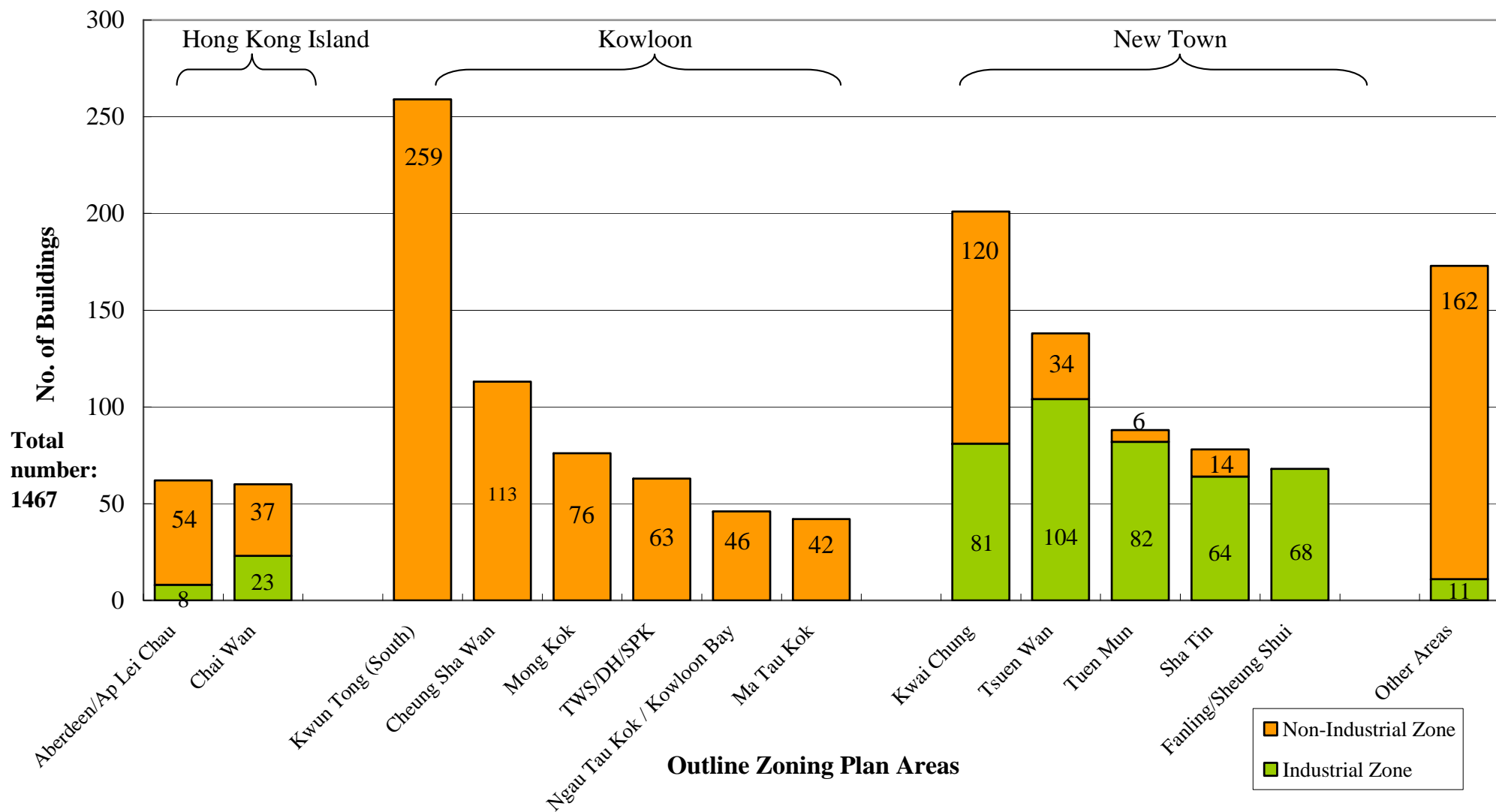


Total number: 1467

Note : Include private flatted factories, private industrial/office and godown buildings. Specialised factories such as those located in Industrial Estates, storage premises in the container terminals and flatted factories built by the Housing Authority are not included.

Source : Rating and Valuation Department and Buildings Department.

Distribution of Private Industrial Buildings by Outline Zoning Plan Areas

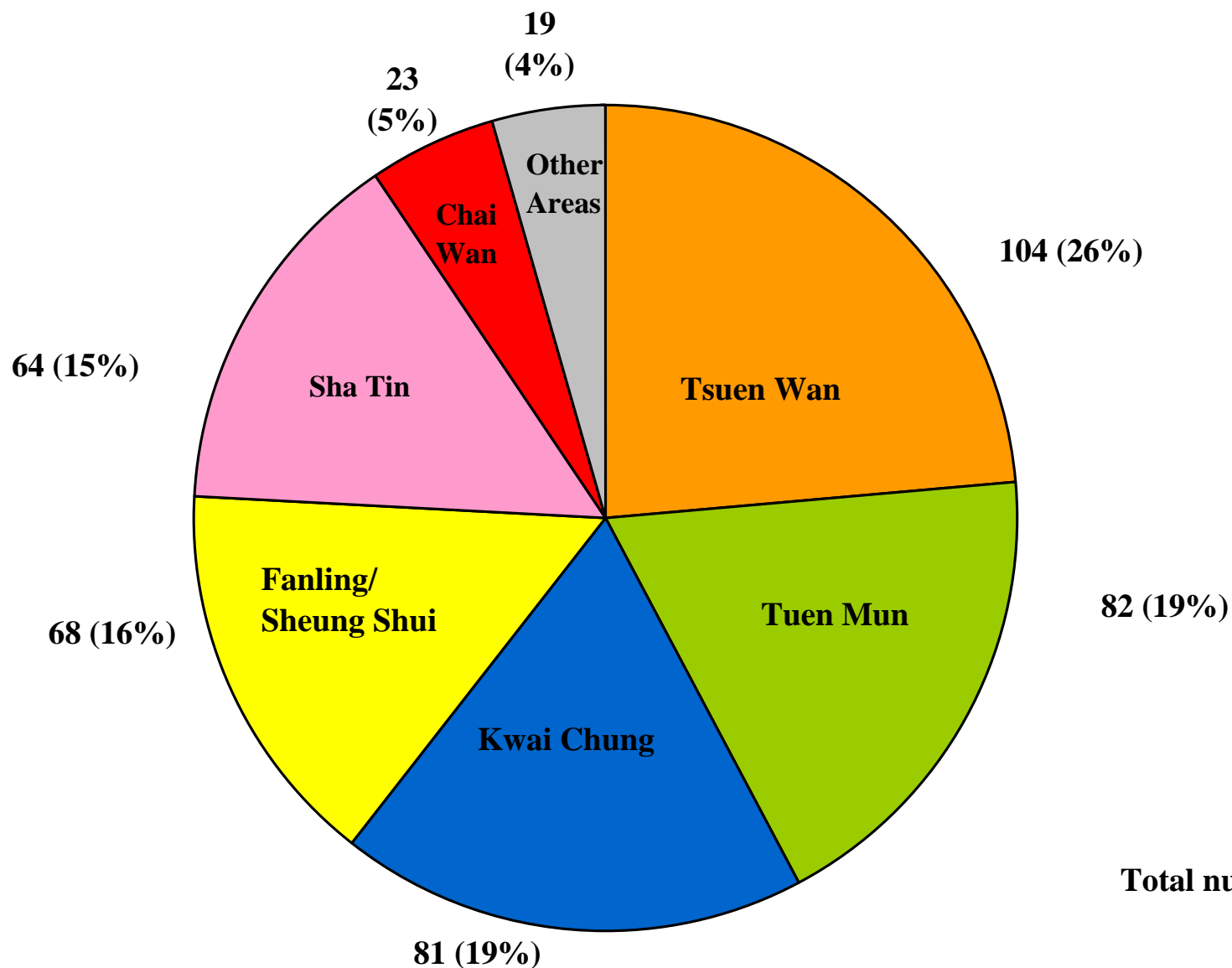


Notes:

- Include private flatted factories, private industrial/office and godown buildings. Specialised factories such as those located in Industrial Estates, storage premises in the container terminals and flatted factories built by the Housing Authority are not included.
- TWS/DH/SPK: Tsz Wan Shan/ Diamond Hill/ San Po Kong

Source: Rating and Valuation Department and Buildings Department.

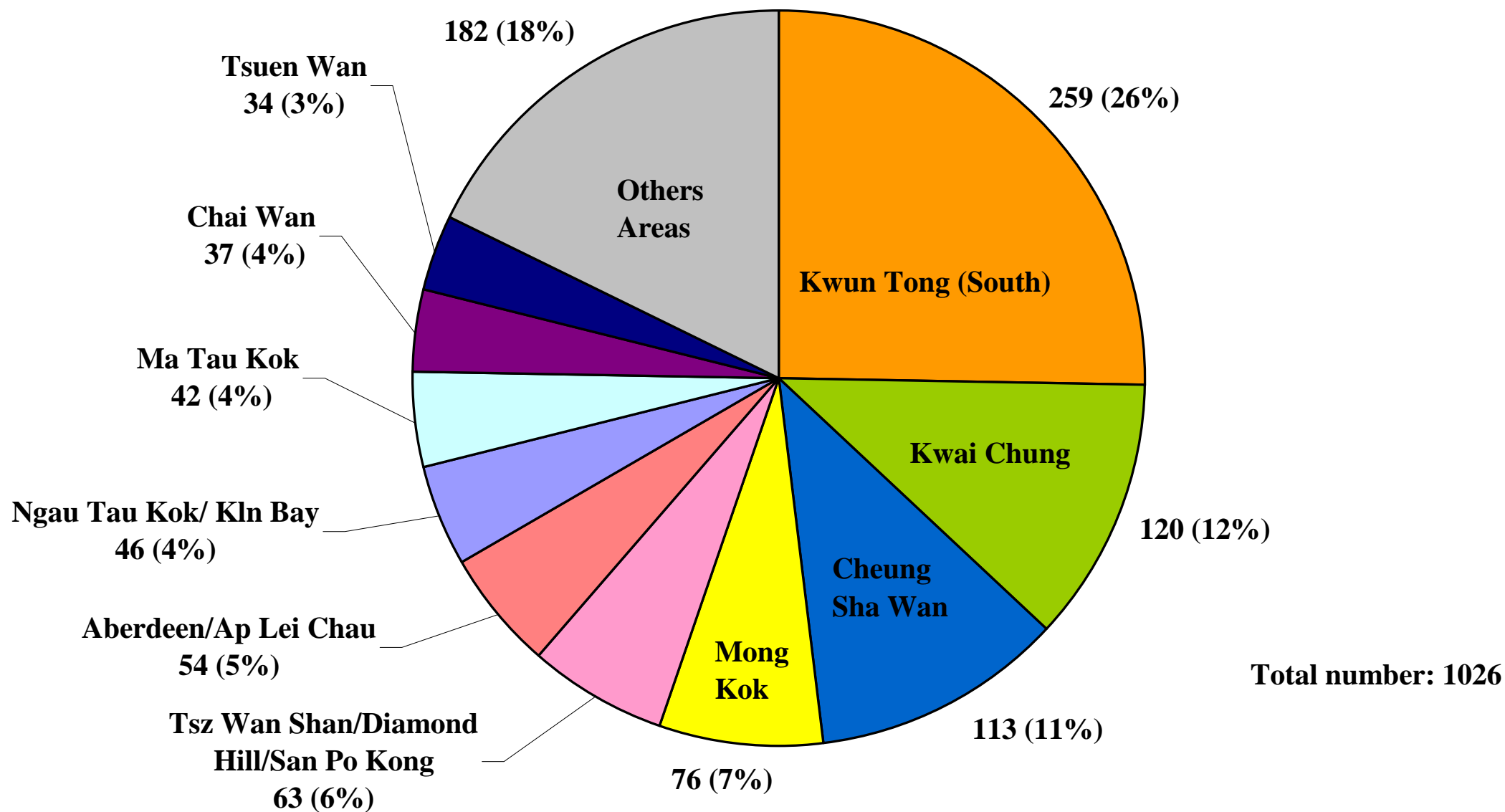
Distribution of Private Industrial Buildings in Industrial Zone



Note : Include private flatted factories, private industrial/office and godown buildings. Specialised factories such as those located in Industrial Estates, storage premises in the container terminals and flatted factories built by the Housing Authority are not included.

Source : Rating and Valuation Department and Buildings Department.

Distribution of Private Industrial Buildings in Non-Industrial Zones



Note: Include private flatted factories, private industrial/office and godown buildings. Specialised factories such as those located in Industrial Estates, storage premises in the container terminals and flatted factories built by the Housing Authority are not included.

Source: Rating and Valuation Department and Buildings Department.

Summary of Policy Proposals to Revitalise Industrial Buildings

Policy initiatives	Building age limit	Planning zone	Other conditions
<i>Redevelopment of industrial buildings</i>			
May apply under the Land (Compulsory Sale for Redevelopment) Ordinance for compulsory sale of the lot	30 years or above	<ul style="list-style-type: none"> Non-industrial zones (e.g. “Other Specified Uses (Business)” (OU(B)), “Residential”, “Commercial”, “Comprehensive Development Area” (CDA)) Eligible buildings: about 580 	<ul style="list-style-type: none"> A subsidiary legislation subject to LegCo’s negative vetting Applicants should own at least 80% of the undivided shares of the lot The lot must be redeveloped (not for wholesale conversion)
“Pay for what you build” in respect of premium for lease modification	Nil	<ul style="list-style-type: none"> Non-industrial zones (e.g. “OU(B)”, “Residential”, “Commercial”, “CDA”) Proposed use must be always permitted in the respective zones or planning permission is obtained Eligible buildings: about 1 000 	<ul style="list-style-type: none"> Premium assessed on the basis of optimal use and the proposed development intensity (i.e. GFA) Redevelopment to be completed within 5 years Applications must be submitted within 3 years from 1 April 2010

Pay 80% of the premium for lease modification by instalments	Nil	<ul style="list-style-type: none"> • Non-industrial zones (e.g. “OU(B)”, “Residential”, “Commercial”, “CDA”) • Proposed use must be always permitted in the respective zones or planning permission is obtained 	<ul style="list-style-type: none"> • The premium should exceed \$20M • Annual instalments over 5 years at a fixed interest rate of 2% p.a. above the best lending rate • Applications must be submitted within 3 years from 1 April 2010
<i>Wholesale Conversion of industrial buildings</i>			
Nil waiver fees	15 years or above	<ul style="list-style-type: none"> • “Industrial”, “Commercial” and “OU (B)” zones • Proposed use must be always permitted in the respective zones or planning permission is obtained • Eligible buildings: about 1 150 	<ul style="list-style-type: none"> • Joint application by all owners • For change in use for the lifetime of the building or the current lease period, whichever is earlier • No increase in building bulk, height or GFA in the building after conversion • Undertake not to revert to original industrial uses permitted on the lease during the waiver period • Complete conversion works within 3 years • Applications must be submitted within 3 years from 1 April 2010