

For discussion on
20 April 2011

Legislative Council Panel on Development

Revitalisation of Industrial Buildings – An Update and Mid-term Review

PURPOSE

This paper provides an update on the implementation of measures to encourage redevelopment and wholesale conversion of industrial buildings. We would also like to seek Members' early comments and inputs to a mid-term review to ascertain aspects of the existing measures that may require improvement and the direction of possible changes.

BACKGROUND

2. In his 2009-2010 Policy Address, the Chief Executive announced a package of measures to optimise the use of industrial buildings through encouraging redevelopment and wholesale conversion of vacant or under-utilised industrial buildings. The objective is to provide readily available land and premises left by Hong Kong's economic transformation to support our changing economic and social needs.

3. The key measures include –

- (a) Lower the application threshold for compulsory sale orders under the Land (Compulsory Sale for Redevelopment) Ordinance from 90% to 80% of ownership for industrial buildings. These industrial buildings should be at least 30 years old and located in non-industrial zones;
- (b) Allow tailor-made lease modifications at “pay for what you build” premium (i.e. assess premium based on the optimal use and proposed development intensity of the redevelopment) for redevelopment of industrial buildings located in non-industrial zones;

- (c) Allow owners who modify land lease for redevelopment of industrial buildings to opt for payment of 80% of the land premium by annual instalments over five years at a fixed rate of interest, if the premium for the lease modification exceeds \$20 million; and
 - (d) Allow owners to apply at a nil waiver fee for change of use of existing industrial buildings during lifetime of the building or the current lease period, whichever is earlier. These industrial buildings should be at least 15 years old and located in “Industrial”, “Commercial” or “Other Specified Uses (Business)” (“OU(B)”) zones.
4. The subsidiary legislation for designating a lower application threshold for compulsory sale of selected classes of lots for redevelopment, including industrial buildings located in non-industrial zones, has become effective since 1 April 2010. The other measures have also come into operation on the same date and will be applicable to all valid applications received during the three-year period between 1 April 2010 and 31 March 2013.

CONCERTED EFFORT TO FACILITATE IMPLEMENTATION

Dedicated Team

5. The new measures involve mainly land administration matters, and the Lands Department (LandsD) has set up a dedicated team in its headquarters to centrally process applications under the new measures. LandsD has issued a Practice Note for the reference of industrial building owners and professionals in the industry.

Supporting Measures

6. Recognising the constraints faced by existing industrial buildings, the relevant government departments have put in place additional measures to facilitate wholesale conversion of industrial buildings. For instance, the Planning Department has clarified with the Town Planning Board the definition of certain uses (e.g. mini-storage) to make it easier for them to continue to operate in wholly converted buildings. The Buildings Department (BD) has also issued Practice Notes, simplifying the requirements for operation of place of public entertainment in converted industrial buildings.

7. On the other hand, the Hong Kong Green Building Council has produced a Green Guide on wholesale conversion of industrial buildings (copy at **Annex**), advising building owners how they may adopt green building design and features during conversion to reduce waste and enhance energy efficiency. In this connection, BD has also revised its Practice Notes to encourage the use of green building and energy efficient design and features in converted industrial buildings.

Transport-related Measures

8. A common obstacle faced by many wholesale conversion applications is the provision of loading/unloading and car parking facilities in converted buildings according to today's standards. This is a challenge for many applicants because the requirement for car parking spaces in office and commercial buildings in the Hong Kong Planning Standards and Guidelines (HKPSG) is generally four times the requirement for that in industrial buildings¹. Furthermore, as industrial buildings applying for wholesale conversion are required to retain the existing building frame after the conversion, some building owners find it difficult to provide the required number of loading/unloading and car parking spaces due to constraints related to the specific sites and existing building structures.

9. In view of such constraints faced by existing industrial buildings, we have developed, in consultation with the Transport and Housing Bureau (THB) and the Transport Department (TD), guidelines on the provision of loading/unloading facilities and car parking spaces in converted industrial buildings. The guidelines are published on our dedicated web page for revitalisation of industrial buildings.

10. In short, so long as a converted industrial building could meet the lower end of HKPSG standard on provision of loading/unloading facilities for the proposed new uses, the Transport Authority would be prepared to exercise discretion to accept a lower provision of car parking spaces, if the subject building has genuine difficulties in meeting the prescribed standards of provision. In considering whether to exercise its discretion, the Transport Authority would consider –

¹ Under the HKPSG, the requirement for car parking spaces in office and commercial buildings is higher than that for industrial buildings. The requirements are -

- Industrial buildings – one car parking space per 600-1 200m² Gross Floor Area (GFA); and
- Commercial buildings – one car parking space per 150-300m² GFA.

Owing to constraints imposed by specific sites and existing building structures, it would be difficult for many existing industrial buildings to provide car parking spaces according to the HKPSG requirements through wholesale conversion.

- (a) public transport access to the subject building to be converted;
- (b) availability of surplus car parking spaces in the neighbourhood;
and
- (c) illegal parking problems in the neighbourhood.

11. As it turns out, these transport-related measures to facilitate wholesale conversion of industrial buildings are significant and effective: none of the wholesale conversion cases approved so far could meet the prescribed HKPSG standard for car parking spaces but the Transport Authority has exercised discretion to accept the proposed loading/unloading and car parking arrangements for these applications.

One-stop Consultation and Coordination Services

12. The Development Opportunities Office (DOO) would provide one-stop consultation and coordination services to more innovative conversion projects that would bring broader social and economic merits. For example, DOO has facilitated the proposed wholesale conversion of an industrial building in Yau Tong into an exposition cum hotel complex². The project also involves setback of the existing building structure along the waterfront at Yau Tong Bay to provide space for construction of a promenade for public enjoyment.

RESULTS SO FAR

13. By the end of March 2011, LandsD had received 47 applications under the new initiatives, including 37 applications for wholesale conversion and 10 applications for redevelopment. Among them, 20 applications have been approved, including 13 wholesale conversion and seven redevelopment cases.

Wholesale Conversion

14. Of the 37 applications for wholesale conversion, LandsD has approved 13 applications³ and is processing another 20. Most of the approved conversion cases are located in Kwun Tong and Kowloon Bay.

² This wholesale conversion project is, however, not eligible for a nil waiver fee under our package of measures, as the existing industrial building is located in a "Comprehensive Development Area" ("CDA") zone, instead of in one of the three designated planning zones, i.e. "Industrial", "Commercial" or "OU(B)".

³ Of the 13 approved applications, six have already executed the special waiver documents, four require further processing, and three are withdrawn by the applicants after approval is granted due to other considerations of the applicants.

The proposed new uses for the converted buildings include office, eating place, retail and service trade, and hotel.

15. So far, three applications for wholesale conversion have been rejected and the reasons for their rejection are –

- (a) the subject building falls outside the three designated planning zones (i.e. “Industrial”, “Commercial” and “OU(B)”) for the measure to encourage wholesale conversion;
- (b) the applications involve changes to the existing building frame and increases in building height or building bulk.

16. One application was withdrawn by the applicant before completion of processing by LandsD due to land title problems in the application lot. **Table 1** shows the geographical distribution and status of the applications for wholesale conversion.

	Applications received	Applications approved
Hong Kong	2	0
Kowloon	24	11
New Territories	11	2
Total	37	13

17. Majority of the building owners applying for wholesale conversion come from an industrial background, mainly in manufacturing of garments, electronics and household items. This is consistent with our analysis that many industrial buildings are still in the hands of former industrialists. As a result of the economic restructuring, which saw the relocation of most traditional manufacturing activities outside Hong Kong, many of these industrial premises are no longer required to support their manufacturing operations.

Redevelopment

18. Of the ten applications for redevelopment, seven have been approved and LandsD is processing the remaining three. The approved redevelopment cases are located mainly in Yau Tong, Cheung Sha Wan and Kwun Tong, and the proposed new uses after redevelopment include residential, commercial and hotel. **Table 2** shows the geographical distribution and status of the applications for redevelopment.

	Applications received	Applications approved
Hong Kong	1	1
Kowloon	8	5
New Territories	1	1
Total	10	7

Preliminary Assessment

19. Although a total of 47 applications may appear modest against the total stock of private flatted factory buildings in Hong Kong, we are indeed much encouraged by the response to the policy initiatives given the current constraints –

- (a) we are aware from the outset that split ownership is the major hurdle to both redevelopment and wholesale conversion. The first batch of candidates for the revitalisation measures naturally consists of industrial buildings in single ownership;
- (b) most of the industrial buildings are still being occupied, albeit for storage or other less optimal uses. It will take time for the owners to sort out the tenancies before they may proceed to redevelopment or conversion, especially with the requirement that once approved, the actual redevelopment/conversion works have to be completed within a specified period; and
- (c) despite some early redevelopment projects, the industrial areas are still predominantly industrial in nature and some owners may adopt a wait-and-see attitude. They may be worried about whether a critical mass for office or commercial uses is ready. To address this concern, we have decided to initiate two commercial/business sites in Kwun Tong and Kowloon Bay for sale in 2011-12 with a view to expediting the transformation.

Furthermore, it is relevant to note that the approved conversion applications would have released industrial GFA of 82 000m² for non-industrial uses⁴. The increasing number of planning applications for alternative uses of industrial buildings situated in “Industrial” and “OU(B)” zones (as discussed below) indicates that more revitalisation projects are in the pipeline. Anecdotal evidence suggests similar feedback.

⁴ This total figure has included the GFA of ten approved applications for wholesale conversion, but excluded the GFA of three approved but subsequently withdrawn applications.

Planning Applications

20. Many potential uses in wholly converted industrial buildings are “always permitted” uses in the relevant planning zones and do not require planning permissions. But certain potential uses would still require planning permissions from the Town Planning Board (TPB), such as ‘office’ and ‘shop and services’ uses in “Industrial” zone and ‘hotel’ use in “OU(B)” zone.

21. Since announcement of the new measures in October 2009, TPB has received 16 planning applications for wholesale conversion of existing industrial buildings, which is a big increase compared with only three similar applications in the five years before the announcement. This suggests that many industrial building owners are considering changing the use of their existing buildings through wholesale conversion. This will speed up regeneration of older industrial areas in Hong Kong and inject new economic activities into these areas.

MID-TERM REVIEW

22. We have undertaken to conduct a mid-term review of the new package of measures. The objective is to identify policy or implementation issues that need to be addressed to encourage and facilitate better use of the existing stock of industrial buildings to support Hong Kong’s changing social and economic needs. We have already started the mid-term review and aim to complete it in the latter half of this year.

23. We have been meeting various stakeholders, including industrial building owners, professional bodies and practitioners involved in actual wholesale conversion projects, to collect their views and feedback on possible improvements to the current package of measures. Many of the preliminary views we have received focus on wholesale conversion. Below are some examples -

- (a) *Whether the present requirement to retain the existing building frame after conversion is too restrictive*

The original intention is to set wholesale conversion apart from redevelopment. Retaining the existing building frame would also minimise the possible intrusion of the proposed conversion works on the neighbourhood.

There are, however, suggestions that more innovative wholesale conversion schemes may often involve changes to the existing internal or external building frame, for instance, setting back the building at street level or demolishing some existing structure to enhance the outlook of the converted building and create more suitable space commensurate with its new uses; demolishing part of the existing external structure to connect to elevated walkways nearby to improve pedestrian access; removing certain existing external structure to meet building regulations in respect of natural lighting and ventilation, etc.

The above changes are not allowed under the present scheme because they would violate the current requirement of retaining the existing building frame. We need to consider whether such a requirement is necessary or it might inadvertently impose unnecessarily stringent restrictions on potential applicants.

- (b) *Whether applicants should be allowed to make up for the loss in GFA during conversion by addition to other parts of the building, including outside the existing building envelope*

We require that there should not be any increases in GFA, building height or building bulk after wholesale conversion. But applicants for wholesale conversion might sometimes have to give up originally GFA-accountable areas during conversion to meet mandatory requirements of statutory authorities (e.g. converting ground floor space to accommodate additional loading/unloading bays or fire safety equipment); at some other times, realisation of planning gains (e.g. building setback at street level) may also result in GFA loss. Under the present arrangements, the applicant may recover the GFA lost by additions within the building envelope only, so long as it would not result in a net increase in GFA after conversion. But it is not always technically feasible to do so within the building envelope.

There are suggestions that the Government should allow applicants to recover such GFA loss by addition to other parts of the building, whether within or outside the existing building envelope, subject to no net increase in GFA after conversion. We need to consider whether this is necessary to encourage more wholesale conversion projects and, if so, whether additional controls on the additions are required, e.g. setting a maximum limit on such additions. For the avoidance of doubt, all proposed additions must observe the relevant statutory

restrictions applicable to the subject building, e.g. maximum height restrictions stipulated in the relevant Outline Zoning Plan, structural safety and other requirements under building regulations, etc.

- (c) *Whether further flexibility on provision of loading/unloading and car parking facilities in converted industrial buildings is required to facilitate more wholesale conversion projects*

Industrial buildings are generally required to provide more loading/unloading bays than its commercial counterparts, so this should not be a major challenge for industrial buildings seeking to be converted for commercial uses. Nevertheless, feedback from the industry suggests that this is not always the case due to changes in the HKSPG requirements over time, especially with regard to the physical dimensions of the loading/unloading bays, and manoeuvring of goods vehicles in and out of the buildings.

Despite the flexibility provided in the guidelines on provision of loading/unloading bays and car parking spaces in converted buildings, some building owners still consider it a major challenge to their wholesale conversion schemes. They are concerned that the exercise of discretion would involve subjective judgements and could not provide the necessary certainties to potential applicants. We need to consider whether the present arrangements have struck the delicate balance between facilitating revitalisation of industrial buildings and ensuring smooth and efficient traffic conditions in these former and present industrial areas.

- (d) *Whether additional incentives should be provided to encourage adoption of green building design and features during wholesale conversion*

As a wholly converted building may be used for several more decades, there are suggestions that Government should encourage adoption of green building design and features during the conversion process. The advocates argue that whilst wholesale conversion, by itself, is a more sustainable and environmentally friendly option than redevelopment, additional incentives may be required to encourage building owners to incorporate green building design and features in the converted buildings, as the additional construction costs involved may not necessarily be reflected in the value of the converted buildings.

ADVICE SOUGHT

24. Members are invited to –
- (a) note the progress in implementation of the new measures since April 2010; and
 - (b) provide views and comments on the implementation of the measures and the areas and direction of the mid-term review, particularly on the possible areas for review highlighted in paragraph 23.

**Development Opportunities Office
Development Bureau
April 2011**

HKGBC Green Guide : Revitalising Industrial Buildings



The Chief Executive announced new measures in his 2009-10 Policy Address to promote the revitalisation of industrial buildings. Whilst meeting economic and social needs by providing readily available land and premises, this also presents the opportunity to enhance the quality of our environment. As such, all three pillars of sustainable development can be addressed – social, economic, environmental – while helping owners to maximise the value of their buildings.

The conversion of vacant or under-utilised industrial buildings is in itself a sustainable way to reduce waste and conserve natural resources. However, building owners can benefit further from a range of other “green design features”, especially in the priority areas of **energy conservation, greening, waste reduction, and water use**.

The **BEAM Plus** green building label, Hong Kong’s comprehensive and voluntary environmental assessment scheme, helps owners to understand and capture these opportunities.

Adopting green features in revitalised industrial buildings provides benefits not just to you as the owner, but to your tenants and the broader community. These benefits include:

- reducing your costs – for ongoing energy and water charges during the life of the building, and waste disposal charges during its demolition and construction phase
- attracting the growing generation of environmentally conscious tenants – by providing a healthier, more efficient and productive workplace, and helping them to promote their own green credentials
- strengthening your reputation as a responsible corporate citizen – by demonstrating your commitment to green building, innovation and conservation
- contributing to better air quality, waste reduction and a smaller carbon footprint for Hong Kong, whilst creating a cooler and greener urban landscape

These reasons and more make the investments in green building worthwhile over time, by ensuring a “future-proof”, viable and higher value asset for the longer term.

HKGBC Green Guide: Revitalising Industrial Buildings

BEAM Plus

Developed with widespread industry engagement, **BEAM Plus** is Hong Kong's home-grown rating system to enhance building environmental sustainability. **BEAM Plus** defines over 100 criteria that promote sustainable sites and healthy indoor environments whilst reducing energy, water and resources consumption and carbon footprint.

Certification of buildings is voluntary and undertaken on behalf of HKGBC by the non-profit BEAM Society. Credits are awarded where the **BEAM Plus** best practice criteria are achieved, with a rating of **Platinum, Gold, Silver** or **Bronze** issued according to the building's overall level of performance.

Clients use their **BEAM Plus** building ratings to demonstrate their adoption of best practice local and international standards for green building. HKGBC also oversees the training and accreditation of **BEAM Professionals** who use their green building and assessment knowledge to support clients in optimising their building's performance.

Industrial buildings are eligible for certification during their design, construction, conversion and renovation using **BEAM Plus for New Buildings**. For more information and to register your project for certification, please contact the Secretariat at:

T: 2784 3900
E: info@hkgbc.org.hk hk-beam@bec.org.hk
W: www.hkgbc.org.hk www.hk-beam.org.hk

Examples of the **BEAM Plus** best practices are highlighted here. Download the **BEAM Plus New Buildings** standard for free for further details.



Energy Use (Eu)

- compliance with the *Building Energy Codes* (BEC) as the minimum target
- use of *energy efficient building services systems and equipment* better than the requirements of the BEC
- *separate energy metering* for cooling systems and electricity use (including common/ public areas)
- 0.5% or more of base building energy use from *renewable energy sources*, where appropriate

Benefits

- reduce your ongoing energy costs for the operational life of your building by 10 to 15% or more
- contribute to a reduced carbon footprint and better air quality in Hong Kong
- attract the growing generation of environmentally conscious tenants and occupiers

Site Aspects (SA)

- appropriate *planting and greenery* targeted at 20% or more of the site area (e.g. green roof and vertical greening)
- shading to outside areas to *enhance the local microclimate*, trees planting at pedestrian levels where possible
- *convenient pedestrian access* to public transport
- adopt an *Environmental Management Plan* during construction to minimize air, water and noise pollution

Benefits

- provide a healthier and more productive working environment for your customers
- help create a cooler, greener and more interesting urban environment for Hong Kong
- strengthen your reputation as a responsible corporate citizen in your neighbourhood

Materials Aspects (MA)

- target collection of 30% or more of *construction and demolition waste* for recycling
- avoid timber during temporary works, and ozone damaging refrigerants in cooling systems
- use *recycled building materials* (e.g. pavers) and materials from local or regional sources
- provide *recycling collection facilities* for use by the occupants of the revitalised building

Benefits

- bring down your waste disposal charges during the demolition and construction phase
- stimulate demand for green materials and recycling in Hong Kong, and help bring down their future costs
- help your tenants demonstrate their own green credentials through waste reduction and recycling

Water Use (WU)

- install *water economy devices* to reduce water use by 10% or more
- provide *leak detection devices* to prevent fresh water wastage
- install water efficient appliances that are at least 20% more efficient than the norm
- where possible, adopt *grey water recycling* (e.g. rainwater) equivalent to 5% of fresh water use

Benefits

- reduce your operating costs – both water supply and sewage disposal – for the operational life of your building
- help Hong Kong conserve its valuable water resources and reduce future costs to society
- demonstrate your commitment to green building, innovation and conservation