



CONSULTANCY STUDY ON RENTAL AND RELATED  
ISSUES ON KINDERGARTEN PREMISES

(EXECUTIVE SUMMARY)

MAY 2015

**CBRE**

## 1. Introduction

### 1.1 Objectives of the Study

- 1.1.1 The Committee on Free Kindergarten Education (the Committee) was set up in April 2013 to study various related issues and recommend specific proposals on how to practicably implement free kindergarten (KG) in Hong Kong. Among others, the issue of rentals of KG premises would need to be addressed.
- 1.1.2 This consultancy study aims to examine the various issues relating to KG rentals and premises, and to make proposals on how to tackle the problem of KG rental expenses in Hong Kong.
- 1.1.3 The objectives of the Consultancy Study are to –
- (a) examine and analyze the present situation of kindergarten (KG) premises (such as those owned by their school sponsoring bodies (SSBs), rented from the Government, the Hong Kong Housing Authority, the Hong Kong Housing Society, non-governmental organizations or private owners), their related rental expenses, and the existing rent reimbursement scheme in Hong Kong;
  - (b) gauge and analyze the views of major stakeholders on issues relating to KG rental expenses and rental subvention arrangements, through focus group/individual interviews with different KG-related stakeholders;
  - (c) conduct research on KG rental-related practices in other countries; and
  - (d) based on the information collected in (a) to (c) above, propose feasible options to tackle the KG rental and related problems in Hong Kong, which should include, among others, proposed rental subvention arrangements for KGs (e.g. a mechanism for deciding KGs' eligibility for the rental subsidy, factors to be considered, and the amounts of subsidy for different types of KGs in different premises/districts, etc.).

1.1.4 The proposals and findings of the Consultancy will be provided for further consideration of the Committee/its Sub-committees for making recommendations on free KG education.

## 1.2 Methodology

1.2.1 The tasks conducted by the Consulting Team to examine the present situation and propose feasible options to tackle the KG rental and related problems are summarised as follows –

- (a) conducted a questionnaire survey to about 870 local KGs (including kindergarten-cum-child care centres, i.e. KG-cum-CCCs) covering non-profit-making (“NPM”) KGs and private independent (PI) KGs to collect information regarding their rental expenses and related issues, such as:
  - Type of KG premises (e.g. estate or non-estate, shopping mall, podium of a residential estate, etc.)
  - Range of rental and other related expenses (e.g., management fees, rates and government rent, etc.) of existing premises
  - Lease terms and conditions (e.g. leasing periods, renewable rights, etc.)
  - Views on eligibility criteria for rental subsidy in future, including factors to be considered for determination of the level of rental subsidy
- (b) reviewed the existing Rent Reimbursement Scheme (RRS) including the eligibility criteria, types of KGs under the RRS, level of subsidy, etc.
- (c) conducted focus group discussion sessions/interviews with major stakeholders such as KG principals from over 50 KGs and representatives of SSBs to gauge views on the future rental subsidy scheme and possible strategies to tackle the KG rentals and related problems in the long run. The topics covered include:

- Rental levels of KG premises based on districts, estate and non-estate groups
- Eligibility criteria for rental subsidy and factors determining the level of subsidy
- Other considerations regarding rental subsidy arrangement
- Long-term solutions to KG rental issues

(d) made reference to KG rental-related practices in other countries.

## 2. Key Findings and Recommendations

### 2.1 Present Situation of KG Premises

- 2.1.1 In the 2013/14 school year, there were about 760 local NPM KGs (including KG-cum-CCCs) and amongst which about 52% (394 KGs) received rental reimbursement from the Government. Among these 394 KGs, over 90% were operated in public housing estates or government-owned premises, and less than 10% were housed in other rented properties.
- 2.1.2 About 48% of the local NPM KGs did not receive rental reimbursement from the Government, with about 26% paying nil or nominal rent, and about 22% paying market rent and situated mainly in commercial premises.
- 2.1.3 Based on the survey results, it was observed that there were significant differences in rentals for KG premises within a region or between different districts. There were also great differences in the rentals between estate and non-estate KGs in different districts.

### 2.2 The Future Rental Subsidy Scheme

- 2.2.1 As KG rental is a major expenditure item of KG operation, rental subsidy should be provided to KGs to alleviate their burden in respect of rental expenses in order that the expenses would not be transferred to parents.
- 2.2.2 Upon review of the existing RRS, it is considered that the existing RRS may not be fully applicable in future because of the following reasons:
- The number of KGs eligible for rental subsidy is expected to increase considerably in future. Only about 50% of NPM KGs are eligible for subsidy under the existing RRS, while the future rental subsidy scheme should cover all local NPM KGs.

- Among others, KGs' eligibility for subsidy under the existing RRS is subject to the satisfaction of EDB regarding the proven demand of KG places in the district.
- Another eligibility criterion under the existing RRS is the rental cut-off rate, which is set at two times of the average rent per pupil per annum of the respective groups of KGs (i.e. estate KGs and non-estate KGs in Hong Kong, Kowloon and New Territories regions). Only KGs satisfying the rental cut-off rate criterion would be considered for rental subsidy.

2.2.3 If all local NPM KGs are to be eligible for receiving rental subsidy from the Government under the future rental subsidy scheme, the above two criteria adopted under the existing RRS may not be applicable.

2.2.4 In designing the new rental subsidy scheme, it is considered that reference should be made to the following guiding principles:

- For the Government, the new scheme should be fair and financially affordable and sustainable;
- For the KGs, the new scheme should encourage viable and sustainable development, thereby enabling sufficient and affordable choices of KGs for parents; and
- For KGs under the existing RRS, potential impacts should be minimised.

2.2.5 Specifically, the new scheme should also take into consideration the following issues:

- Eligibility criteria
- Rental subsidy ceiling
- Level of rental subsidy
- Other implementation considerations

## 2.2.6 Eligibility Criteria

- (a) Basically, the eligibility criteria for rental subsidy under the new scheme should tie in with those criteria for joining the future KG education policy.
- (b) Under the future KG education policy, more KGs should be able to benefit from rental subsidy in future. In this regard, it is recommended that the following two eligibility criteria, namely "proven demand of KG places in the districts" and "rental cut-off rate" under the existing RRS should be relaxed in the future rental subsidy scheme.

## 2.2.7 Rental Subsidy Ceiling

- Given that the rental charges among different KGs vary considerably, there should be a ceiling on the amount of rental subsidy to be provided for each eligible KG to enable better financial control for the Government and to ensure the proper use of public funds.
- As a reference, Singapore also provides rental subsidy for eligible KGs subject to a ceiling. For KGs operated by voluntary welfare organisations, they may receive rental subsidy up to 60% of the rental costs capped at a certain amount (per m<sup>2</sup>). For KGs operated by commercial pre-school operators, they may receive rental subsidy up to 30% of the rental costs capped at a certain amount<sup>1</sup>.
- In consideration of the local context, two options of the reference basis for setting the rental subsidy ceiling are proposed.

**(a) Option A: Using a grouping approach (i.e. different groups of KGs) to calculate an average unit rental as the rental subsidy ceiling for each group**

- (i) Option A will employ a methodology that would assess KG rental on a case-by-case basis, and calculate the average unit rental for each group

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<sup>1</sup> Singapore Portable Rental Subsidy Programme - [www.ecda.gov.sg/Pages/portable-rental-subsidy.aspx](http://www.ecda.gov.sg/Pages/portable-rental-subsidy.aspx)

(by region, district, estate KGs, etc.) to arrive at a standard unit rent (e.g., HKD per m<sup>2</sup>) which will be the rental subsidy ceiling.

(ii) This option is not preferable and not recommended for adoption for the following reasons:

- Rental subsidy ceiling level is market-driven, which would enable less financial control for the Government.
- The survey results showed that there were significant differences in rentals for KG premises within a region or between different districts. It would be difficult to achieve an optimal grouping of KGs to ensure fairness and equity for calculation of an average unit rental for each group (by region, district, etc.) to serve as the reference basis for setting the rental subsidy ceiling.
- There would be a potential of inflationary effect on KG rentals, as landlords will raise the KG rentals to the standard rate/ target rental level as calculated above.

**(b) Option B: Making reference to rents of comparable public housing estate KGs as the rental subsidy ceiling**

(i) Option B will employ a methodology that would assess KG rental on a case-by-case basis. The concessionary rents of comparable public housing estate KGs (roughly 50% of the open market rent) would serve as a reference. Rental subsidy is determined either by referencing the concessionary rents of comparable public housing estate KGs or the passing rent of the KG, whichever is the lower.



(ii) This option is preferable and recommended to be the choice of reference basis for setting the rental subsidy ceiling under the future rental subsidy scheme for the following reasons:

- Rentals of public housing estate KGs are relatively less market-driven as compared to the rentals of KG premises in commercial premises, which will enable the Government to have better financial control.
- It does not require calculating an average unit rental of KGs for a group of KGs. Without a standard rate/ target rental level, the risks of increasing rentals by landlords can be mitigated.
- Public housing estate KGs are considered a suitable reference, as they would be the major source of government-owned KG premises in future

(iii) The concessionary rents of comparable public housing estate KGs are typically lower than the rents of non-estate KGs, and the non-estate KGs will likely need to charge school fees from parents to pay the extra rental expenses exceeding the subsidy ceiling.

#### 2.2.8 Level of Rental Subsidy

- It is recommended that the level of rental subsidy under the future rental subsidy scheme should still be determined by the KG's fill-up rate, as under the existing RRS to ensure the prudent use of public funds. Under the existing RRS, a KG having a fill-up rate of 50% or above will receive full rent reimbursement whereas a KG having a fill-up rate below 50% will receive 50% rent reimbursement. If the eligibility criterion on "proven demand of places in the district" is removed under the future rental subsidy scheme, there may be possible over-provision of KG places in some districts while the KGs can still receive rental subsidy. In this regard, it is recommended that with reference to the actual enrolment situation of KGs, consideration may be

given to introducing more tiers of rental subsidy according to the KGs' fill-up rates to mitigate the risks of having some KGs which would still receive a high amount of rental subsidy from the Government despite their very low fill-up rates.

- On the floor space of KGs, there are guidelines on the basic requirements as stated in the Operation Manual for Pre-primary Institutions. It is recommended that reference might be made to those guidelines, with appropriate adjustment where necessary, when processing KG rental subsidy under the future scheme.

## 2.2.9 Other Implementation Considerations

### (a) For the KGs under the RRS:

- The majority of the KGs under the existing RRS are estate KGs. The new subsidy scheme should not bring about significant impact on these KGs.
- The non-estate KGs under the RRS may face greater impact as they may receive less amount of rental subsidy under the future subsidy scheme.
- Transitional arrangements are recommended to be applied to those non-estate KGs under the RRS so that they would not receive less subsidy than under the existing RRS during the transitional period. A transitional period of two leasing terms, which is generally around four to six years, is recommended. Such a transitional period would allow time for these non-estate KGs to resolve their rental issues, such as rent reduction, and/or relocation to other premises of lower rent.
- Similar to the existing RRS, a monitoring mechanism should be in place to assess whether KGs under the new rental subsidy scheme will continue to be eligible for rental subsidy. In this regard, for some KG-cum-CCCs under the existing RRS (which were former aided centres under the Social Welfare Department), consideration is recommended to be given to them to continue to be eligible for rental subsidy following the

existing practices.

(b) For the non-RRS KGs:

- There will not be any implication for the KGs paying nil or nominal rent under the future rental subsidy scheme.
- For the non-RRS KGs paying market rent, they should welcome the new rental subsidy scheme because they would receive at least some rental subsidies (though may not be in full amount) under the new scheme, which would be better than the present situation. However, it is likely that these KGs may need to charge school fees from parents to pay the extra rental expenses exceeding the subsidy ceiling.

## 2.3 Long-term Strategies

2.3.1 Apart from providing rental subsidy to eligible KGs, some long-term strategies to tackle the KG rental issues through increasing the supply of quality KG premises should be considered.

2.3.2 To increase Government-owned KG premises, it is recommended that:

- (a) Measures to increase the provision of KG premises in public housing estates should be explored with relevant Government Bureaux or Departments to increase the supply of Government-owned KG premises, e.g. –
- setting aside designated sites for KG use in newly-developed districts or new towns
  - making available KG sites for relocation of some existing KGs (whose premises require improvement) in the aged districts or areas

(b) For private housing estates, the feasibility of acquiring some Government-owned premises for KG use might also be explored with the relevant Government Bureaux and Departments.

2.3.3 To tackle the rental issue, the Government may further study the feasibility of providing support (e.g. loan schemes) to encourage SSBs or KG operators to own their school premises. Nevertheless, there are complicated issues to be considered, such as financial risks on SSB/operators, legal and financial issues relating to sale or disposition of the premises upon cessation of KGs' operation etc.

2.3.4 It is also recommended that the possibility of co-location of KGs and primary schools, either in existing primary school premises or in new schools may be explored. It may be a feasible strategy particularly for KGs and primary schools under the same SSBs.

2.3.5 As a medium-term measure to render support to KGs without adequate facilities, it is recommended that the feasibility of setting up regional resource centres for use by KGs should also be explored. KGs, especially those small scale ones, would be able to benefit from such centres.

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