

**For information
on 24 February 2000**

**Legislative Council
Panel on Planning, Lands and Works**

PURPOSE

This paper briefs Members on our proposal to purchase permanent office accommodation for the Beijing Office.

PROPOSAL

2. The Director, Beijing Office proposes to include a new project in Category A of the Public Works Programme for the purchase and fitting-out of office accommodation for the Beijing Office at an estimated cost of roughly about \$87 million.

PROJECT SCOPE AND NATURE

3. The project comprises the purchase of a stand-alone building and fitting-out of office accommodation for the Beijing Office.

JUSTIFICATION

4. As a general rule, it is more economical in the long term to meet the permanent need of a Government office in owned premises. Government offices housed in owned premises enjoy greater security of tenure and can plan accordingly. Those in leased accommodation may be forced to move out in the circumstances of a change in ownership, or when the rent becomes prohibitive. As an established practice, nine out of ten of the overseas Hong Kong Economic and Trade Offices are currently housed in owned premises.

5. We have identified a suitable site within the city centre in Beijing. The information we have gathered is that this is likely to be the only available undeveloped site within the second-ring road with an area suitable for the development of a stand-alone building for use by us as an office in the

foreseeable future. Other potential sites close to the city centre are much too big for our purpose, occupied by local buildings, or within the Embassy Districts. We do not consider these sites feasible because the cost of clearing and reprovisioning local residential buildings would be prohibitive and it would not be appropriate for the Beijing Office, which is not a diplomatic mission, to be located within the Embassy Districts. We prefer stand-alone premises to office in a multi-storey building because it would offer much better presentational advantages commensurate with the status of Hong Kong as a special administrative region of China. As a matter of fact, almost all the provincial/municipal representative offices in Beijing are housed in owned premises, with most of them in stand-alone buildings.

6. The site we have identified is part of a new redevelopment area comprising seven lots. It is the last lot within the redevelopment area which has not been built on. Planning approval for the overall redevelopment is that they should all be quadrangle houses. We have negotiated on a no-commitment basis with the landlord to purchase the lot under which the landlord undertakes to tailor the design of the quadrangle house to our specification and requirements.

7. The site occupies a gross area of 1895 m² and can be developed for up to 1400 m² for residential use. The landlord has obtained supplementary planning approval to develop the site up to a maximum of 2750 m² net for general office and ancillary accommodation. Whilst this exceeds the current schedule of accommodation of the Beijing Office, we consider it makes economic sense to have the site developed to the maximum permissible scale to cater for expansion in the medium to long term. We have until March 2000 to complete negotiation with the developer, failing which the developer would likely release the property for purchase by other prospective buyers. We expect the project to be completed in mid 2001.

8. The current lease for the Beijing Office will expire in September 2002. There is a break clause in the lease which would enable us to terminate it early by giving three months' notice to the landlord.

FINANCIAL IMPLICATIONS

9. Rough total cost of the project is estimated to be about \$87 million, made up as follows –

	RMB (million)	HK\$ (million)
	1HK\$= RMB 1.064 (as at 31 January 2000)	
(a) Purchase of a building	66	62
(b) Fitting out costs	21.3	20
(c) Furniture and Equipment	1.1	1
(d) Solicitors and other administration fees	2	1.9
(e) Contingency	2.2	2.1
Total	92.6	87

10. We estimate the additional annual recurrent expenditure will be about \$1.3 million.

11. The current property market in Beijing is briefly described at Annex. The purchase proposed will result in annual rental savings of about \$3.8 million.

BACKGROUND INFORMATION

12. The Beijing Office, established as provided under the Basic Law, serves as an important bridge for liaison and communication between the Hong Kong Special Administrative Region Government (HKSARG) and the Central People's Government (CPG) as well as other Mainland authorities. Its main responsibilities include providing information about HKSAR to the CPG; keeping the HKSARG informed of the latest developments in the Mainland; taking actions with the Mainland authorities on specific issues upon instructions

of the HKSARG; promoting HKSAR's image in the Mainland; handling immigration-related matters; and providing assistance to Hong Kong residents in distress in the Mainland.

13. On 27 March 1998, the Finance Committee approved the funding for the establishment of the Beijing Office. Members were advised then that the Beijing Office would initially be housed in leased premises and that the Administration intended to identify a suitable site in Beijing and construct a permanent building.

Beijing Office
February 2000

[Office-PWSC]

Property market conditions in Beijing

We propose to buy a stand-alone, quadrangle-style building in the Xicheng District of Beijing. The site, 1,895 m² in size, is within the city centre. Being centrally located, it is conveniently accessible to the western part of the city, where most government offices are located, as well as to the business district in the east.

2. Following the signing of the agreement between China and the United States over China's accession into the World Trade Organization in November 1999, there has been a shift in market sentiment in both the office and residential property markets in Beijing. The rental level and sale price of prime office premises have stopped their declining trend and become stabilized in the last quarter of 1999.

3. The asking prices for prime office premises in multi-storey building in the city centre currently range from HK\$14000 to \$25000 per m² of gross floor area. The selling price of the property we have identified is HK\$22700 per m². This price is considered reasonable having regard to its prestigious location, the scarcity of similar sites, and the advantages of having a premises designed to meet the specific requirements of the Beijing Office. The higher cost of stand-alone premises over that of property in multi-storey building reflects the exclusive use of the site.

Note : As at 31 January 2000, HK\$1=RMB 1.064