

# Legislative Council Panel on Trade and Industry

## Business Park Consultancy Study

### Purpose

This paper reports on the outcome of the Business Park Consultancy Study.

### Background

2. In his 1997 Policy Address, the Chief Executive announced, inter alia, that the Government would commission a study to examine the need for setting up a business park in Hong Kong. The Government has engaged Roger Tym & Partners as its consultant to conduct the study.

3. The Study has been divided into two stages. Stage One of the Study was tasked to examine the need or otherwise for a business park in Hong Kong. If the Stage One Study established a clear need for a business park in Hong Kong and confirmed that the Government had a role to play in its provision, a Stage Two Study would be commissioned to examine the detailed aspects regarding the development and operation of a business park in Hong Kong.

4. The terms of reference of the Stage One Study are at **Annex A**. The study commenced in October 1998 and was completed in July 1999. A Steering Committee on the Business Park Consultancy comprising representatives from the private sector and relevant Government bureaux/departments oversaw the Study. The membership of the Steering Committee is at **Annex B**.

### Major Findings and Recommendations of the Stage One Study

5. A copy of the Executive Summary of the Stage One Study are at **Annex C**. The major findings and recommendations of the consultants are summarised below.

#### Definition of a business park in Hong Kong

6. The consultants recommend the following definition for a business park in Hong Kong –

"A Hong Kong Business Park shall comprise a centrally master planned and subsequently marketed and managed development providing a mix of accommodation built to a high architectural standard for service and high technology, 'clean' production and related activities in a flexible form of office, workshop and storage space. It will be located on a site which is

self-contained to minimise conflict between other uses and which is highly accessible by road and rail. It will provide a flexible planning and leasing regime which encourages development for a combination of service, production and ancillary uses, provides capacity for expansion, and offers high parking and loading/unloading standards in a high quality environment with a low site coverage."

### Market gap

7. The consultants consider that with the exception of the industrial estates which may meet some business park requirements with certain adaptation, all of the other existing industrial infrastructural products fall short of the requirements of a business park. Based on a survey of about 70 companies, both local and overseas, and drawing reference from the results of the Planning Department's 1991 Survey on Changing Industrial and Office Property Requirements which interviewed nearly 900 businesses, the consultants consider that a market gap for a business park exists in the following four sectors -

- (a) headquarter and regional headquarter functions of multi-national and larger local industrial, trading and conglomerate businesses;
- (b) higher technology and higher value added production, pre-production and post-production processes;
- (c) the distribution "logistics" sector; and
- (d) service products and specialist services such as media products and services.

### Financial and economic assessment of the viability of the Business Park

8. On the basis of a number of assumptions, the consultants have estimated that the Financial Internal Rate of Return (FIRR) on investment in a business park development would be 14.4%. The consultants consider that this FIRR is below what the private sector would normally expect (closer to 30% depending on market conditions). The consultants therefore conclude that a case of market failure in meeting the demand identified exists.

9. The consultants have also carried out an economic analysis taking into account the wider economic benefits, and have estimated a 14.2% Economic Internal Rate of Return. The consultants consider this a reasonable level of economic return to justify public sector investment.

### Major Recommendations

10. The following major recommendations are put forward by the consultants -

(a) Strategic recommendations

- A policy commitment by the Government to accommodate the changing needs of the business community with a much more flexible form of property product.
- Adaptation and adoption of the "OU (Other Specified Use)-Business Park" zoning as a basis for allocating sites of business parks, identification of suitable sites and drawing up of land grants.
- Identification and reservation of suitable sites for potential business park development through territorial and sub-regional development strategies.

(b) Short term recommendations

- Developing the first designated Business Park with a gross area of around 20 to 30 hectares.
- Examination of the potential of existing and planned industrial estates and extension of the role of the Hong Kong Industrial Estates Corporation (HKIEC) as a planner, developer and manager of business parks.
- Discussions with both local and overseas developers to examine the scope and their terms for participating in the development of business parks.

In view of the above recommendations, the consultants propose to proceed with the Stage Two Study to examine the detailed development and operation of the Business Park.

### **Views of Steering Committee**

11. In considering the consultants' findings and recommendations, the Steering Committee has taken into account the following relevant developments.

(a) Proposed development of logistics centres on the Airport Island

The Airport Authority (AA) is planning to develop two logistics centres on the Airport Island: one in the Island's South Commercial District and another in the East Commercial District. The site in the South Commercial District

occupies an area of about 20,000 sq.m. and is envisaged to be developed into a high-quality, third party logistics centre equipped with all the advanced technology of a modern logistics centre. The site in the East Commercial District occupies an area of about 12,500 sq.m. and is envisaged to be developed as a high-quality purpose-built logistics/office building. AA has invited bids from interested parties for the development right of the two centres.

(b) The HKIEC's role

The HKIEC has recently expanded its ambit to admit service industries. In addition, it is conducting an overall review of its own role in the provision of land/buildings for use by manufacturing and service industries.

(c) Merger of the Science Park, HKIEC and HKITCC

The Final Report of the Chief Executive's Commission on Innovation and Technology recommends, inter alia, the merging of the Hong Kong Science Park, the HKIEC and the Hong Kong Industrial Technology Centre Corporation. The Government has accepted this recommendation and has started to take the necessary follow-up. The merger is aimed at streamlining the service delivery of the three bodies and at providing a more flexible institutional mechanism to meet the changing infrastructural needs of our industries.

(d) The Business Zone concept

The Planning Department has recently proposed to introduce a new zoning mechanism, namely a "Business Zone", to allow maximum flexibility in building usage and property type. The idea is to designate certain portions of existing industrial areas as a "Business Zone" which permits co-location of industrial and office uses in a building. The Planning Department has launched a consultation exercise on the "Business Zone" concept. Subject to the outcome of the exercise and the acceptance of the concept by the Town Planning Board, the "Business Zone" concept would allow more flexibility to permit clean and less hazard-prone industrial activities to be co-located with office and other commercial activities within the same building in response to market demands.

12. The Steering Committee agrees that there is a market demand for more flexible forms of industrial infrastructure. However, the Steering Committee considers that this demand is not necessarily equivalent to the demand for a specific and new property product (i.e. business park). It believes that the HKIEC, with its expanded ambit, may largely meet the demand for business park-type of activities.

Indeed, the industrial estates are now admitting activities falling within three of the four sectors identified by the consultants to have demand for a business park (i.e. higher technology and higher value added production; distribution logistics sector; and service products and specialist services such as the media sector). Although the industrial estates may have their own constraints in terms of image and the environment, these may be addressed with an appropriate strategy in allocating sites for the HKIEC's grantees to ensure better compatibility of activities within an estate and by better planning for its future industrial estate(s). Indeed, the overall review of the HKIEC should provide a suitable opportunity for the HKIEC to explore ways to strengthen the Corporation's capability in meeting the demand of the sectors identified by the consultants.

13. The Steering Committee considers that the demand for more flexible forms of industrial infrastructure may also be met by improving existing land infrastructure and modification of planning standards. The "Business Zone" concept being considered by the Planning Department is a case in point. The initiative of the AA in developing two logistics centres on the Airport Island will also meet part of the market demand identified by the consultants.

14. The Steering Committee has reservations on the methodology of the economic benefits analysis adopted by the consultants and is not convinced of the case for public sector investment in the development of a business park. It considers that, where necessary, modification of planning guidelines should be able to create a conducive environment for private sector investment in the development of a business park. The Steering Committee therefore concludes that a clear case for a business park has not been established.

15. Stage Two of the Study is supposed to examine the detailed requirements, such as the preferred form of development and institutional arrangement, for developing a business park, if the Stage One Study has established a clear need for a business park in Hong Kong. Since the Steering Committee has concluded that a strong case for a business park has not been established, it considers that there is no need to proceed with Stage Two of the Study.

## **Consultation**

16. The findings and recommendations of the study and the Steering Committee's views were discussed by the Services Promotion Strategy Group (SPSG) on 18 November 1999. Members of the SPSG were doubtful that there would be sufficient market interest and demand for a specific and new property product in the form of a business park. The Group considered that a clear case for setting up business parks had not been established.

## **Way Forward**

17. The Government has accepted the Steering Committee's views. Although a clear case for setting up a specific property product in the form of a business park has not been established, we agree that we should strive to provide more flexible forms of industrial land and infrastructural facilities. We will adopt appropriate measures to ensure that the demand for more flexible forms of industrial infrastructure will be met.

Trade and Industry Bureau  
February 2000

**Hong Kong Business Park Consultancy Study**  
**Terms of Reference for Stage One**

The selected consulting firm is required to -

- (a) examine the two Planning Department's studies, namely, the Business Park Development Study in 1991, and, the Study on the Provision of Industrial Premises and the Development of Planning Guidelines and Design Parameters for New Industrial Areas and Business Parks (PIPNI) in 1995, and analyse the findings in the light of the current situation and recent trend in the use of various types of land infrastructure in Hong Kong;
- (b) identify any deficiency in the various forms of existing or planned land infrastructure in Hong Kong and examine the implications of a business park on them. Particular attention should be paid to how the business park would complement the various forms of land infrastructure already available or being planned and their respective clientele including -
  - (i) Industrial Estates for industries which cannot operate in normal multi-storey factories and whose activities involve new or upgraded technology;
  - (ii) the Industrial Technology Centre for small-scale research and development (R&D) activities and provision of incubation services;
  - (iii) the Science Park which will cater for companies engaged in intensive R&D activities and technology transfer; and
  - (iv) other commercially available premises such as office, commercial, industrial and industrial/office buildings which provide accommodation for the bulk of economic activities in Hong Kong.
- (c) examine whether the deficiency identified in item (b) above may be addressed through modification of, for example, planning requirements, instead of having a new type of land development;
- (d) conduct a review/case studies of business park developments in other economies, in particular those in the Asia-Pacific region, and draw upon the experience of such developments in assessing the need for a business park in Hong Kong;

- (e) recommend a clear and unambiguous definition of the business park in the Hong Kong context;
- (f) carry out a market demand analysis with a view to assessing, inter alia, the types and number of potential tenants /users, the size and nature of property requirements, features which potential tenants/users consider should be available in the business park if they are to locate themselves there, the role to be played by the business park, etc. The market demand analysis should include surveys of major property developers and both local and international companies;
- (g) assess the likely economic benefits which may be brought to Hong Kong through the development of a business park;
- (h) carry out a Strengths, Weaknesses, Opportunities and Threats (SWOT) market analysis for a business park in Hong Kong;
- (i) examine the environmental benefits and dis-benefits which may be brought to Hong Kong through the development of a business park;
- (j) assess the viability of the business park under various scenarios of Government support, taking into account competition of other economies in the Asia-Pacific Region;
- (k) prepare, in the absence of an earmarked site for the business park, a rough estimate of the cost for developing and operating a business park as well as preliminary cost and benefit analysis; and
- (l) recommend (with justifications) on the need or otherwise to have a business park in Hong Kong and if so, the way forward.

Notwithstanding the findings and recommendations of the Stage One Study, the Government will have the full discretion to decide whether to proceed with the Stage Two Study. The Government reserves the rights to decide who should undertake the Stage Two Study (if required).



**Steering Committee on Business Park Consultancy**

**Membership**

Chairman : Secretary for Trade and Industry or representative

- Members : - Dr Philip Wu, Executive Director of Wing Lung Bank Ltd.
- Dr Sunny Kwong, Associate Professor, Department of Economics, Chinese University of Hong Kong
  - Representatives of
    - (a) Planning, Environment and Lands Bureau
    - (b) Government Economist
    - (c) Business & Services Promotion Unit
    - (d) Industry Department
    - (e) Planning Department
    - (f) Lands Department