

ARRANGEMENTS FOR DOMESTIC TENANTS AFFECTED BY URA REDEVELOPMENT PROJECTS

Introduction

This paper sets out the arrangements, which apply in respect of domestic tenants affected by redevelopment projects of the Urban Renewal Authority (URA).

Background

2. The Landlord and Tenant (Consolidation) (Amendment) Bill was gazetted in May 2003 as part of Government's measures to stabilize the property market. Apart from commenting on the proposals, the URA played no part in the initiation or drafting of the Bill.

3. The statutory purposes of the URA are set out in section 5 of the URA Ordinance (URAO). Section 5(b) stipulates one of these purposes as follows:

“improve the standard of housing and the built environment of Hong Kong and the layout of built-up areas by replacing old and dilapidated areas with new development which is properly planned and, where appropriate, provided with adequate transport and other infrastructure and community facilities;”

In pursuit of this objective, the URA undertakes redevelopment projects in the older urban areas of Hong Kong as part of its comprehensive urban renewal strategy. This comprehensive strategy comprises redevelopment, rehabilitation, revitalisation and preservation.

Current Practice

4. In implementing redevelopment projects, the URA offers a choice of rehousing (in rental units provided by the Hong Kong Housing Authority (HA) or the Hong Kong Housing Society (HS) or in blocks owned and managed by the URA itself) or cash payments to eligible domestic tenants, who are required to move as a result of redevelopment. The options are available no matter whether the property is acquired by the URA through private negotiation or resumed by Government under the Lands Resumption Ordinance.

5. In summary, the cash payments to tenants comprise two elements; namely statutory compensation under the Landlord and Tenant (Consolidation) Ordinance (LTO) and an ex-gratia element designed to encourage the tenants to voluntarily surrender the tenancy and to assist them in finding alternative accommodation. At present, the ex-gratia portion is set at 70% of the statutory payment under the LTO (subject to a maximum of \$200,000), i.e. LTO + 70% (up to \$200,000).

6. In addition, one-person (1P) and two-person (2P) households receive minimum payments of \$70,000 and \$80,000 respectively, i.e.

- (a) For 1P households - \$70,000 or LTO + 70% (up to \$200,000)
whichever is higher
- (b) For 2P households - \$80,000 or LTO + 70% (up to \$200,000)
whichever is higher

7. A number of examples, taken from actual cases, are set out in the Appendix. The average payment to domestic tenants, including both statutory and ex-gratia elements, in the first three URA projects (early launch projects) where clearance has been or is about to be completed to

date is \$515,000 per unit. The average market value of the tenanted properties concerned is \$530,000. The cash payments to tenants represent about 97% of the property value on a per flat basis (not per household). On the basis of the rateable value (RV) which is an indicator of the rental level of these properties, the average payment to tenants equates to about 140 months' rent. This figure is significantly higher for 1P and 2P households because of the minimum payments in paragraph 5.

8. Tenants who accept rehousing do not receive either the statutory compensation or the ex-gratia element. However, as in the case of resumption by Government, an ex-gratia removal allowance is paid to assist the tenants in relocating to the rehousing units. Currently, the rates of the removal allowance range from \$2,600 for a 1P household to \$7,520 for a household of six or more persons.

9. The current arrangements for ex-gratia payments to domestic tenants are broadly based on those adopted by the former Land Development Corporation (LDC) in 1997. The LDC policies were set close to the peak of the property market when average rents were considerably higher than today and private rental accommodation was less available. The LDC did not have access to public housing for domestic tenants affected by its projects and therefore faced a shortage of rehousing units. For URA projects, however, the HA and HS have agreed to act as rehousing agents so that a much larger supply of rehousing is available, even though flats may not be in the same district as the project. Also, the LDC was able, in most cases, to pass on the costs of payments to tenants to joint venture partners. This is not the case for the URA.

10. The URA's policies on rehousing and cash payments are designed to reflect the people-oriented approach to urban renewal and to fulfil our corporate purpose "to improve the standard of housing". Physical re-housing achieves this directly. Cash payments enable affected persons to find alternative housing in the private market.

11. In view of the sufficient rehousing supply, the URA is of the view that rehousing should be the primary means of assisting eligible domestic tenants. Nevertheless, it is envisaged that cash payments will continue as an alternative, whether or not the Landlord and Tenant (Consolidation) (Amendment) Bill 2003 is enacted, in order to assist tenants who are not eligible for rehousing or who, for legitimate reasons, may not wish to accept it. Indeed, as pointed out in paragraph 4, the URA already pays the same level of cash payments in resumption cases, where there is no statutory requirement to pay. The level of payments will be set by the URA Board from time to time to reflect prevailing circumstances and to strike a balance between the needs of those affected and the need to ensure good use of the URA's resources which include the capital injection from Government.

URA's Observations on the Current LTO Arrangements

12. The existing provisions for statutory compensation under the LTO present a number of problems from the URA's point of view. These relate to abuses which have occurred in URA projects implemented so far, including:

(a) Tenants with alternative accommodation

In the three early launch projects, up to one third of domestic tenants were found to have already moved out, in most cases to

public housing through the General Waiting List. However, these tenants had retained their tenancies in the project areas in order to claim compensation.

(b) Repeat clearerees

There have been cases of domestic tenants, who have received payments in one project, moving into premises within another project area in order to claim compensation again.

(c) “Extra” Tenants

There are cases of tenants moving into a project area after the project has been announced in order to claim compensation.

13. In cases such as these, the URA can and does decline to pay the full ex-gratia part of the package. However, because the LTO applies to all legal tenancies, it has no choice but to pay the statutory minimum. In fact, in order to persuade these tenants to move out voluntarily and to expedite urban renewal, the URA has to offer an incentive (currently 10%) over and above the minimum. These sums can be significant. For example, for a property with a RV of \$50,000, the LTO formula (7 x RV for the first \$30,000 and 5 x RV for the remaining \$20,000) plus 10% comes to \$341,000. Although many properties in URA projects have lower RVs, widespread abuse would lead to excessive payments and take up resources, which should be used to help genuine tenants.

Conclusion

14. The URA supports the removal of security of tenure and statutory compensation provisions for domestic tenants in the LTO. This

would allow the URA to set rehousing and ex-gratia policies to best meet the needs of people affected by redevelopment.

Urban Renewal Authority
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Sample Cases in a URA Project

Single Tenant Per Unit

Property	Market Value of the Property	Size (Saleable Area)	Rateable Value of the Property	Statutory Compensation	URA Ex-gratia Payment	Total Payment	Statutory Compensation as a percentage of Market Value of the Property	Total of Statutory & Ex-gratia Payments as a percentage of Market Value of the Property	Total of Statutory & Ex-gratia Payments as a Multiple of Monthly Rateable Value
Unit 1	\$152,800	13.47 m ²	\$14,400	\$100,800	\$70,560	\$171,360	66%	112%	143 months
Unit 2	\$491,620	52.02 m ²	\$45,000	\$285,000	\$199,500	\$484,500	58%	99%	129 months

Multiple Tenant Per Unit

Unit 3	\$491,620	52.02 m ²	\$45,000	\$257,550	\$180,285	\$437,835 (4 persons household)			
				\$ 38,430	\$80,570	\$119,000* (1 person household)			
			Total	\$295,980	\$260,855	\$556,835	60%	113%	148 months

Remarks: * Under the latest policy, the payment for this case would be \$70,000. Based on this revision, the total statutory and ex-gratia compensation vs. market value is 103% and the total amount payable would equate to 127 months of rateable value.