

**Legislative Council Panel on Transport**  
**Subcommittee on matters related to railways**

**Canton Road Station (CAR)**

**- Recount of Issues**

**Background**

- (1) In mid 2003, the Kowloon-Canton Railway Corporation (KCRC) approached Wharf Estates Development Limited (Wharf) to discuss the possibility of constructing the CAR station inside Harbour City. KCRC specifically proposed to pay for the demolition, rebuilding to the original design specification and loss of earnings during construction period for two of our existing commercial towers of 600,000 plus s.f. to enable their building the station requirement in the basement of the site. KCRC enquired what might that cost be to them. Let's call this Proposition A. Though it was declared by Wharf not to be a practical option, Wharf nevertheless gave a rough indication of the associated cost of up to HK\$3 billion in answer to KCRC's proposal. There was no subsequent discussion on this option.
- (2) On June 3, 2004, during the Legislative Council Railways Subcommittee meeting, Wharf indicated if the CAR station were to be built underneath the existing Harbour City's basement, the estimated losses that Wharf might incur would be in the region of \$450 to \$600 million (because there is minimal need to demolish and rebuild and much less rental loss). Let's call it Proposition B. The meeting requested Wharf and KCRC to validate the constructability of the CAR station within Harbour City. Environmental, Transport and Works Bureau (ETWB) would facilitate such discussion.
- (3) After months of studies and discussions, KCRC and Wharf both agreed to drop Proposition B because the construction risk is considered too high to bear and decided to focus on the "Redevelopment Scheme", i.e. to build the

CAR station with Wharf redeveloping part of Harbour City. Let's call this Proposition C.

KCRC demanded two commitments from Wharf –

- (a) Wharf to commit a clear timeline to make available the site for the CAR station, to be backed up by a financial undertaking from Wharf that should the site is not made available by the agreed timeline, Wharf would reimburse KCRC the full estimated cost of \$600 million of the enabling work for the station. This Wharf has accepted.
  - (b) Wharf to share the cost of the station, estimated by KCRC to be in the tune of another \$600M. This Wharf has not accepted.
- (4) In a letter dated December 6, 2004, KCRC advised that since Wharf did not agree to KCRC's demand on station cost sharing and KCRC cannot accept Wharf's counter offer to compromise there would be no agreement on building the CAR station, and the public should be informed accordingly.

### **Important Principle**

It is KCRC's responsibility as a public infrastructure corporation to build its railway and station to meet transport need, and Wharf being a private landowner is to demolish and rebuild its own buildings to make available the site for KCRC to build their CAR station.

Upholding of this important principle is in line with public interest.

## **Redevelopment Issue**

- (1) Harbour City redevelopment plan was first approved in May 1999. However, even during the depressed economy of the last six years when rental revenue (i.e. opportunity cost) was relatively low, Wharf could not work out the financial feasibility for the redevelopment project, as it would involve substantial direct and opportunity costs in the range of \$5 billion to \$6 billion in demolishing and rebuilding of existing rental earning properties. While the plans needed to be periodically updated, no implementation “go ahead” was possible during these years nor envisaged in the future. Therefore, the assumption that Wharf is going to redevelop any way is incorrect.
  
- (2) The key fact is still that the proposed site for the CAR station currently is not vacant. By simply demolishing “just” the two existing buildings sitting on the subject site, it would jeopardize the integrity of the entire Harbour City complex (in design, circulation and building services). In the overall picture, the incorporation of the CAR station would have triggered the demolition and rebuilding of a total six buildings (instead of just two) of about 1.8 million s.f. The cost and risk that Wharf would have assumed, conservatively estimated at \$3,000 p.s.f., could be as high as \$5.4 billion. To preserve the integrity of Harbour City as a whole, Wharf would not consider just to take down only 2 buildings by themselves. Our Gateway II redevelopment had followed this very principle.
  
- (3) No matter how one assesses this, for Proposition C, Wharf would have to assume at least the same \$3B in cost as per Proposition A as presented to KCRC in mid-2003 and that needs to be covered.

As recognized by many, the incorporation of a CAR station within Harbour City would have a two-folded benefit. Firstly, the resulting added foot

traffic from having a KCRC station. Secondly, the benefit accrued from the dedication of the station and connecting areas as public use. These two benefits would provide the opportune ingredients to make the Harbour City redevelopment plan almost economically justifiable. With regard to dedication of space as public use, Wharf is counting on the outcome that concession area would be granted as per existing practice and precedence by the Buildings Department (BD). The MTR related concession area at Times Square is a useful reference. This however is still subject to Government approval.

Wharf has expressed to KCRC and ETWB the necessity for such concession area based on dedication of the station area, as described in our summary paper (dated October 7, 2004) and draft Letter of Intent (dated October 12, 2004) sent to KCRC and ETWB. Without this, there is little justification of proceeding with Proposition C.

Were there an in-principle agreement between KCRC and Wharf on the CAR station, Wharf would have to submit as soon as possible a revised set of general building plans incorporating CAR so that BD could determine the concession area issue expeditiously. Wharf would look towards KCRC and ETWB's policy support in endorsing such submission based on public transport interest.

### **Transport Necessity Issue**

KCRC maintained that the CAR station is not a transport necessity, as stated in their letter to Wharf dated November 25, 2004.

- (1) Without CAR, the distance between the proposed West Kowloon and East Tsim Sha Tsui stations will be 1.7 kilometer (1,700 metres), much longer than MTRC's average distance of 800 metres between urban stations. It

would also be longer than the average of 500 to 800 metres between urban mass transit stations in other metropolitans like Tokyo, London, Paris and New York. No explanation has been offered to the public why a world city like Hong Kong should not have comparable convenience for the mass transit services.

- (2) If KCRC had not assumed the CAR station is a transport necessity, why should it have -
  - (i) Included the CAR station in its own KSL submission to Government in 2001
  - (ii) Approached Wharf in mid-2003 enquiring the costs for allowing their building of the CAR station by demolishing and rebuilding two buildings in Harbour City per Proposition A
  - (iii) Agreed to discuss with Wharf on constructability of Proposition B since June 2004 with the knowledge of Wharf's estimated loss being \$450 to \$600 million
- (3) Shouldn't resource allocation and projected financial return study for the CAR station to first take into consideration the transport necessity of the station and not the other way around?
- (4) Chairmen and Vice Chairmen of 12 District Councils have signed a joint-letter to the Chief Executive and Legislative Council on November 18 highlighting the public desire and the mass transport necessity for the CAR station
- (5) The Yau Tsim Mong District Council has submitted on December 7, 2004 to the Chief Executive a petition for the CAR station signed by over 1,250 business establishments on Canton Road.

**Concluding Remarks**

- (1) The principle of a clear and transparent division of responsibilities between the public and private enterprises must be upheld.
  
- (2) Wharf has made multiple tangible concessions in trying to facilitate the building of CAR (please refer to Wharf's press statement released on December 6, 2004). Redevelopment is a very costly undertaking with tangible negative cash consequences in the onset of between \$3 billion to \$6 billion with considerable risk and disturbance to Harbour City. Furthermore, recent incidents also point to the possibility of increase risks of demolition of existing buildings. As a public company, Wharf should not deviate from prudent commercial principles.
  
- (3) Together with the community, Wharf is disappointed to see KCRC's decision not to build the CAR station, despite its obvious transport necessity.

Wharf Estates Development Limited

December 11, 2004