

The Government of the Hong Kong Special Administrative Region

政府總部
環境運輸及工務局
香港花園道美利大廈



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Mr Andy Lau,
Clerk to Transport Panel,
Legislative Council Secretariat,
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Hong Kong.

30 September 2006

Dear *Andy,*

Bills Committee on Rail Merger Bill
Follow-up to meeting on 20 September 2006

Thank you for your letter of 22 September 2006.

On the issue of the pricing of the property package, we would once again wish to reiterate that it is fair and reasonable. Our intention is to sell the property package to MTRCL on market terms. A professional property valuation consultant appointed by Government, who has adopted a methodology for property valuation commonly accepted in the market, has confirmed that the pricing of the property package is fair and reasonable.

It is important to note that what MTRCL pays for are only the expected share of surplus proceeds to the post-merger Corporation (MergeCo) for the "development rights" of the development sites (similar to an "entry fee"), which is to be differentiated from paying for the land premium and for the "properties" (i.e. the total value of the completed development). Hence, after payment for such development rights, MergeCo will still need to arrange for the payment of land premium, construction costs and other development costs to complete the

development of the properties in the development sites.

To assure Members that the development rights under the property package are appropriately priced, we have compared in a professional approach the assumed market sale prices of the residential portion of the five sites which have yet to be tendered with prices of comparable completed residential properties in the vicinity of the five sites (as of the date of valuation). As the table at Annex A indicates, the market sale prices assumed in Government's valuation compare favorably with the market prices of the completed properties.

We note that the Hong Kong Institute of Surveyors, the only professional body representing the surveying profession in Hong Kong, has written to LegCo to express support for the valuation methodology and valuation results for the property package. In particular, the Institute has taken the view that the terms of the property package are fair and reasonable.

A number of surveyors have been quoted in the press questioning whether the development rights were appropriately priced. Since some of the information required for a professionally conducted valuation is commercially sensitive and not available in the public domain, we believe such remarks were only based on the broad estimations by the individual surveyors. Although we do not know the exact assumptions and data adopted in such estimations, we suspect some of these surveyors may have misunderstood the basis on which the development rights have been valued. For instance, a surveyor was quoted by the Hong Kong Economic Journal on 27 July 2006 as suggesting that the "property development profits" would be about \$8 billion. This assessment has apparently ignored the fact that the profits arising from the development are to be shared between MergeCo and the developer under the joint venture arrangement and is therefore not realistic.

Regarding the relationship between property development and railway fares, MTRCL's response is set out in **Annex B** attached. An attendance list for the coming meeting is at **Annex C**.

Yours sincerely,



(Miss Ida LEE)

for Secretary for the Environment,
Transport and Works

**Residential Market Comparables for
Development Sites which are not yet Tendered**

Date of Valuation : 1 March 2006

Development Site (1)	Market Sale Price on “Saleable Floor Area” basis assumed in valuation⁽ⁱ⁾ \$ per square foot (2)	Range of Transacted Sale Price of Comparable Completed Properties on “Saleable Floor Area” basis for Transactions in Jan to Feb 2006⁽ⁱⁱ⁾ (Age of Properties) \$ per square foot (3)
Che Kung Temple Station	About \$7,106	<ul style="list-style-type: none">• Royal Ascot (10 years) - \$5,324 to \$6,969• Pristine Villa (11 years) - \$5,291 to 5,549
Tai Wai Station	About \$7,447	
West Kowloon Station (Sites C and D), Kowloon Southern Link	About \$11,506	<ul style="list-style-type: none">• Sorrento (3 years) - \$7,869 to \$9,772• The Victoria Tower (4 years) - \$8,058 to \$10,787• The Arch (0.5 years) - \$10,353 to \$14,742

Tin Shui Wai Light Rail Transit Terminus	About \$4,059	<ul style="list-style-type: none"> • Yoho Town (2 years) - \$3,650 to \$4,278
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Note (i) For comparison with transacted sale prices of comparable completed properties in Column (3) which are analysed on Saleable Floor Area basis, we have converted the market sale price assumed in valuation in Column (2) to Saleable Floor Area basis. The sale price quoted earlier on Lease Gross Floor Area basis is converted to Saleable Floor Area basis by adopting a generally accepted conversion factor of 1/0.85 (i.e. 1.1765). Comparison of property prices on Saleable Floor Area basis is a commonly accepted practice in the professional surveying industry.

Note (ii) Range of sale price in Column (3) represents all units transacted in January and February 2006 in the comparable completed developments with the exclusion of the highest and the lowest unit price transactions to avoid out of range distortion.

Source of information : Land Registry data

Rail & Property Model and Relationship to Fares

The following is MTRCL's comment on the subject as requested by the Bills Committee.

MTRCL's primary objective is to build, maintain and operate a sustainable, high quality and affordable rail service across an extensive rail network in Hong Kong. By nature this is highly capital intensive, not only during the initial construction phase of the rail infrastructures, but also throughout the life of the operation. To ensure long-term sustainability for provision of safe and quality passenger service and also to meet the demands of a listed company, MTRCL needs to earn a commercial return.

For a new railway project that will benefit the public but will not be financially viable, there is a funding gap to be bridged. The grant of property development rights is a way for bridging the funding gap of new railway projects. Members will recall that at the time of MTRCL's privatization, it was acknowledged that MTRCL would require an appropriate commercial rate of return, which would ordinarily be between 1% and 3% above Weighted Average Cost of Capital (WACC) of MTRCL, on its investment in any new railway project. MTRCL would not be able to make a commercial return if it were solely reliant on fares alone to recover its capital expenditure and operational costs, unless such fares are significantly higher than current fares. This is a challenge not only faced by MTRCL but by all rail operators around the world; rail infrastructure construction and operation is simply too expensive for fares alone to bear.

The funding through property rights has enabled MTRCL to meet the high capital costs of the rail infrastructures whilst keeping fares affordable. The prevailing fare structure has always been used as the basis for the calculation of funding gap requirement and correspondingly the amount of property rights granted to MTRCL as the Government's method to providing funding. In other words, for railway projects where property rights were granted, the initial fares of the new railways concerned have already taken into account the expected property profits. Therefore the current fare levels of MTRCL have already taken into account profits from property development. If there is no property development, fares would need to be significantly higher than current fares to enable long-term viability of the railways. There are many benefits accrued to this time-tested rail and property model, such as better integration between stations and communities; the key benefit is that it ensures new railways to be constructed with their fares set at affordable level.

MTR fares are locally and internationally competitive

Rail transport fares are already at a very competitive level before any fare reductions proposed upon implementation of the merger:

- Locally, rail is facing heavy competition from other modes of transport, particularly the buses. Whilst rail provides faster, more reliable and environmentally friendly service, railway fares have to be competitive and indeed they are, which is why rail is gaining market share.
- MTRCL has been continuously perceived to provide the best customer service amongst all public transport operations in Hong Kong. In the latest half-year survey conducted in June 2006 by third party research agency, MTRCL was rated the best value for money among all local public transport.
- Compared to leading metropolitans worldwide, MTR rail fares are very low for short-distance journeys (lowest Single Journey Fare - HK\$4 for Hong Kong, HK\$ 40 for London, HK\$15.5 for New York, HK\$13 for Paris, HK\$11 for Tokyo, HK\$4.3 for Singapore), and are low on average. Purchasing Power Parity (PPP)-adjusted fares per passenger-journey for MTR are at the medium-low level (lower than London, Shanghai and Taipei), although many international cities' railways receive direct subsidies from the Government whilst MTRCL does not.

Facilities for the disabled

MTRCL has had a policy for person with disabilities since 1991 that focus on the provision of disabled facilities. A retrofit programme has been implemented to improve existing station facilities and provide a better travelling environment for people with disabilities. The programme is based upon priority established based on need and usage. Over HK\$400 million has been spent in retrofitting new station facilities. A further \$100 million is being committed for the next 5 years. Some of the key facilities already put in place under the retrofit programme are summarised in **Appendix 1**.

Key Provisions for the Disabled under the New Works Design Standards

1. Unassisted access throughout the station for mobility impaired passengers by means of ramps at entrances and the access by means of a lift from the street to the concourse area and a second lift within the paid area between the concourse and the platform.



2. Lifts are provided with tactile/ braille signs, intercoms, illuminated visual indicators and audible signals/ announcement for floor stops.



3. A “Tactile Path” which provides a cane and foot detectable route from a designated drop-off point or points at street level to an entrance or entrances, through the concourse to the platform and onto the train. The tactile Path is made more visually discernible by means of a required level of luminance contrast.



4. All escalators, stairs, ramps and lifts are provided with tactile warning strips at top and bottom to assist those who do not need to rely upon the Tactile Path.



5. Audible signals at the escalator landing leading out of the platform.

6. Obstructions, projections and barriers are provided with warning patterns or cane detection rails where these might present a hazard to the partially sighted.



7. Stairs and ramps are provided with continuous handrails, which have hi-visibility ends and are co-ordinated with tactile warning strips.

8. Floor finishes are tested with high performance of slip resistance.

9. Enhanced communication by means of induction loops and communication cards for hearing-impaired passengers.



10. Clear, logical, legible and internationally recognisable signage with braille enhancement at key passenger facilities.

11. Individual help provisions at our Customer Service Centre where our staff can provide direct assistance. The Tactile Path leads to this point and generally a wide ticket gate is located here, which is suitable for use by wheelchair users.



12. “Helpline” intercom panels with induction loop are provided at strategic locations that are equipped for use by all passengers.



13. Adequate spatial provision throughout the station public areas for wheelchair maneuvering.

14. Spaces adequate for wheelchair parking are provided in each train.



15. All grab-rails and hand-holds in trains are in contrasting colour.



16. Signage, passenger information displays, flashing route maps and audible announcements are provided on train services.



Key Facilities already completed under the Retrofit Programme in Stations built before early 90s

1. Unassisted access through the station by either ramp, lifts, or stairlift have been achieved in 25 stations



2. Passenger lift between concourse and platform has been installed in 35 stations.

3. Stairlifts installed in Tin Hau Station and Shek Kip Mei Station.



4. Permanent ceramic tactile guide paths and warning strips provided in all stations.



5. Wide gates have been installed in all stations.



6. Audible device for exit gates along the designated routes which read out fare

deducted and remaining value on Octopus cards installed in all stations.

7. Passenger information display systems at entrances, concourses and platforms have been installed in all stations.



8. Induction loops installed at all Customer Service Centres.



9. Braille plate on add value machines installed for all stations.



10. Tactile station layout map installed in 6 stations and will progressively be provided at all stations.



11. Wheelchair space provided in each car of the trains.



12. Flashing system map/dynamic route map installed on all trains.



13. Info panels installed on all trains.



14. Inter-car barriers between train carriages are provided.



15. Platform portable wheelchair ramp introduced to all stations.

