

## **Synergy and Success Factors of Rail Merger**

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1. We consider that the current proposal to merge the Mass Transit Railway (MTR) and Kowloon-Canton Railway (KCR) systems can bring many positive effects to urban planning and development of Hong Kong. Our city is lack of developable space. Making railway the backbone of our mass transit system helps to achieve an efficient use of our scarce land resources, improve road congestion, reduce the need for road construction and decrease roadside pollution. This allows more land to be allocated for open space and pedestrian uses and achieves a sustainable urban spatial development pattern in the form of a compact city.

### **No Monopoly**

2. With a population of about 6.8 million and a limited land area of about 1,100 sq.km., Hong Kong does not need to have two separate railway companies. There have been worries that the proposed merger of the two railway companies may lead to an undesirable monopoly. This argument is unjustified. The key competitors of the existing two rail systems, which currently serve separate geographical catchment areas, are the public franchised buses. Provided that the public buses maintain their service quality and competitive fares and allowing the riders to choose, the rail merger cannot sustain a monopolistic position. In fact, the proposed rail merger can better achieve an economy of scale by running an expanded railway network. This has the benefits of enhancing operational efficiency, reducing overall costs and maintaining fare stability in the long run.
3. The proposed merger provides an opportunity to comprehensively review the future planning of land use and railway development in the territory. New planning options can be considered to improve the current deficiencies in railway interchange operated separately by two independent rail operators. The merger company can achieve better synergy and integration in rail and land use development through comprehensive planning and evaluation of all possible scenarios in order to minimize land use incompatibility and enhance the overall quality of our urban development.
4. Tsim Sha Tsui East is a case in point. In the early years, there was a proposal to connect it with an underground railway line. This line has not been implemented, and as a result, the prospect of the commercial office development in the area has been adversely affected. At the moment, the Hung Hom Station and the Tsim Sha Tsui East Station of the KCR line are located at the edge of this commercial district. The KCR riders are inconvenienced because they need to take a long walk between the stations and the commercial office buildings in the area. On the other hand, although the MTR Tsim Sha Tsui Station and the KCR Tsim Sha Tsui East Station are now connected by underground walkways, there is still a long walking distance between the two stations. These connecting facilities are remedial afterthoughts that reflect the problem of a lack of comprehensive planning and development by a single rail operator at the outset.

## **Synergy and Integration**

5. The proposed merger provides a window of opportunity for the rail operator to holistically restructure the MTR and KCR stations in Tsim Sha Tsui. For example, it may be possible to remove some turnstiles and make more circulation space within the stations. It may also be desirable to relocate some retail space from the existing cramped MTR station to the more spacious KCR station so as to reduce congestion and attract more riders. Furthermore, the rail merger company can formulate a more comprehensive planning and development option for the future Sha Tin-Central Rail Link. This will be better than the previous proposals, prepared separately by MTR and KCR operators in competing for the line, particularly in serving the overall development needs of southeast Kowloon area.
6. A good example of comprehensive planning and development by a single rail operator is the Tsing Yi Station. This station integrates the Airport Express station, the local railway station, housing, regional shopping mall and transport interchange under one roof. Pedestrians, shoppers and residents can move around these facilities easily through convenient weather-free connections. This is a showcase of an integrated rail-property development project which would not have been accomplished if the railways and the property development were planned and implemented by separate companies.

## **Integrated Rail-Property Development Model**

7. There have also been worries that the proposed merger would not work because the KCR operator is more transport-oriented and the MTR operator focuses more on property development. This argument is unwarranted. In fact, both companies are public transport operators and they equally have to rely on property development to support their operations. They look different only because their management strategies, operational constraints and business models are not exactly the same.
8. Take the West Rail as an example. This railway line faces a problem of insufficient ridership primarily because property development at and along its stations has been lagging behind. This has imposed a major adverse effect on the financial performance of the KCR operator. As the company is fully government-owned, the financial burden will ultimately be levied on the taxpayers.
9. The MTR's 'integrated rail-property development model' is comparatively a better business model. It is more than a simple combination of railway and property; this is just the outcome of the model. It is *not* simply the same as the use of property to subsidize railway operations.
10. An integrated rail-property development model represents a unique approach in rationalizing and maximizing the synergistic relationship between railway and urban land uses. Urban railways can significantly improve the accessibility as well as the land values around the stations. By means of developing the appropriate land uses at and above the railway stations, the rail operator can capture these values to finance railway construction, improve ridership of the railway and its operational viability, enhance convenience and efficiency, and generate enormous benefits to the society and economy.

## **Critical Success Factors**

11. The proposed rail merger allows the MTR operator to have the rights to develop the landed property of the KCR operator. This will enable implementation of the integrated rail-property development model over a larger catchment area and an expanded railway network. The success of this model requires four critical components:
12. First, it needs the government policy support. It is entirely desirable, for planning, safety and technical reasons, to have property development above railway stations and depots and on land adjacent to the railway, as an integral part of the railway development. To realize the best synergy between railway and property development, it is essential for the government to grant exclusive property development rights above railway stations to the rail operator and to make mass transit railway a backbone infrastructure in its public transport policy. Making the rail company the project coordinator enables a clear definition of responsibilities to achieve a proper management of the interface between property development and the railway. There is also a need for supportive urban planning and transport policy in the control of excessive urban sprawl and growth of private vehicles.
13. Second, it is about the management process. This refers to the commitment of the rail operator in pursuing effective business planning, management and control mechanisms that seek to maximize the synergy between railway and property from the stages of project inception to completion. For example, to ensure the best quality of its integrated rail-property development projects, the MTR operator always offers the development packages through public tenders in soliciting the most appropriate private development partners. Successful private developers are required to implement the awarded development packages in accordance with the specifications of the development agreements of the rail operator and pay all the development costs and the land premiums. The MTR operator will supervise and monitor the implementation of the whole project and enforce all the technical control standards and requirements for a proper interfacing between its railway premises and the property development projects.
14. Third, it refers to the organizational framework, corporate incentives and constraints. A successful integrated rail-property development model requires a well-experienced and efficiently managed company that is committed to providing world class railway services and developing top-quality property development projects for the purpose of enhancing the quality of life in Hong Kong. For example, the MTR operator is competing with the bus operators and is disciplined by the financial market to operate under prudent commercial principles. Therefore, the company has a strong incentive to make sure that the planning and implementation of its integrated rail-property development projects have to meet the market needs.
15. Finally, it is about the development project itself. The success of the model requires development of high-quality real estate projects that comprise suitable development density, land use diversity and attractive layout design and integrate well with the railway facilities at the appropriate locations and at the right timing. As a publicly listed company, the MTR operator has a strong market incentive to ensure the best use of its landed assets granted by the government primarily because its performance will

have a direct bearing on its credit ratings, costs of borrowing and ultimately its financial results. As the construction periods are long and the projects are risky, the company has to closely monitor the market sentiments to enhance the practicability and marketability of the development projects so that they generate the best results for the company as well as the society.

### **Conclusion**

16. There is synergy between rail transport and property development. However, it is also possible that real estate interest and transport consideration may not complement each other. To resolve these conflicts and maximize their synergy, it is important to address the contradictions between ‘people moving’ and ‘people staying’. The MTR integrated rail-property development model has demonstrated many good examples in satisfactorily resolving such potential conflicts. The proposed rail merger would enable this model to be implemented in a much wider context.
17. The Hong Kong integrated rail-property development model is a rather unique model which has achieved high regard internationally. Many cities in the world have shown a keen interest in adopting this model. However, they very often replicate only the physical form of the development projects rather than the other essential components of the model including policy support, organizational framework and management process. We submit that the continued success of the proposed rail merger would require the legislators and the government to put in place the same set of institutional arrangements conducive to the implementation of the integrated rail-property development model.

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