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Panel on Development

Meeting on 20 April 2011

Background brief on revitalization of industrial buildings

Purpose

This paper provides background information on the measures undertaken by the Administration to promote revitalization of old industrial buildings through encouraging redevelopment and conversion of vacant or under-utilized industrial buildings. It also gives a summary of the major views and concerns expressed by Members during previous discussions on the subject.

Background

2. Most of Hong Kong's industrial buildings are relatively young, built to vigilant building requirements, located in urban areas with good and improving access and connectivity, furnished with large floor plates, high ceilings, strong floor loadings, wide corridors and large lifts. However, as a result of Hong Kong's economic restructuring and relocation of traditional manufacturing activities to the Mainland, many private industrial buildings are vacant or under-utilized. The Administration considers that industrial buildings are versatile and suitable for conversion to various alternative uses.

3. The Chief Executive announced the policy measures to revitalize vacant and under-utilized industrial buildings in non-industrial zones in his 2009-2010 Policy Address. The objective of the new measures are to provide readily available and suitable land and premises to meet Hong Kong's economic and social needs, including the development of higher

value-added economic activities, such as the six economic areas¹. The new measures will substantially increase the supply of premises released from industrial buildings. A wide range of businesses would be able to benefit from the more competitive rents arising from the increased supply. The increased supply of such premises will also meet social needs by providing more affordable places for work and play such as gathering places of church groups, activity areas of non-government organizations and non-residential social welfare facilities.

4. The Administration further considers that the new measures to revitalize the use of industrial buildings will address the following issues --

Vacancy and under-utilization of industrial buildings

- (a) According to the information provided by the Administration, the total stock of private flatted factories was 17.3 million m² at end 2009. At a vacancy rate of 8%, the total vacant floor area was about 1.4 million m². Despite the introduction of planning measures, redevelopment and conversion of existing industrial buildings for other uses has been slow. Between 2005 and 2008, there were only 32 cases of lease modifications for change of use of industrial buildings. Policy measure to encourage redevelopment or conversion of under-utilized industrial buildings will optimize the use of land².

Non-compliant uses in industrial buildings and fire safety concerns

- (b) Non-compliant uses are widespread in industrial premises in "Other Specified Uses" annotated "Business" ("OU(B)") zones. There are two kinds of non-compliance, i.e. (i) not being a permitted use in the current planning zone and no planning permission has been granted; (ii) not complying with the lease conditions of the lot. For instance, the operation of cultural and creative industries in industrial buildings such as

¹ The six economic areas are: testing and certification, medical services, innovation and technology, cultural and creative industries, environmental industry and educational services.

² Source of information -- the official website of the Development Bureau (http://www.devb.gov.hk/industrialbuildings/eng/background/optimising_land_use/index.html) and Legislative Council Brief on "Optimizing the use of industrial building to meet Hong Kong's changing economic and social needs" (File ref.: DEVB(DOO)7-01) (issued on 15 October 2009)

production studios, arts galleries, etc. is a prevalent non-compliant use. Most of these cases are found among mixed industrial and commercial uses in the same industrial building and many have not obtained approval from the Town Planning Board. A major reason for rejection of planning applications of commercial uses in industrial building is fire safety concern. Industrial activities in general carry higher risks in terms of fire and other hazards (e.g. use and loading and unloading of dangerous goods), thus posing unacceptable risks to commercial occupants in the same building. The problems of non-compliant uses would likely exacerbate in the coming years due to the implementation of urban redevelopment and new railway projects. Early actions by the Administration are required to facilitate a smooth transformation of these premises to higher value-added uses.

New policy measures to optimizing the use of industrial buildings

5. The four new measures to encourage the revitalization of vacant and under-utilized industrial buildings in non-industrial zones introduced by the Administration in 2010 are as follows --

- (a) Lower the application threshold for compulsory sale orders under the Land (Compulsory Sale for Redevelopment) Ordinance (Cap. 545) from 90% to 80% for industrial buildings aged 30 years or above situated in non-industrial zones to tackle fragmented ownership in older industrial buildings;
- (b) Enable owners to pay additional premiums according to the actual development density after redevelopment based on a "pay for what you build" approach;
- (c) Allow owners who modify the lease for redevelopment to opt for payment of 80% of the land premium by annual instalments over five years at a fixed rate of interest (at 2% above the average best lending rate of the three note-issuing banks prevailing at the time), if the total premium exceeds \$20 million; and

- (d) Exempt owners who opt for the wholesale conversion³ of a building instead of redevelopment from paying the waiver fee for change of land use, provided that the following conditions are met and planning permission is obtained --
- (i) industrial building is aged 15 years or above and situated in "Industrial", "Commercial" or "OU(B)" zones;
 - (ii) the application is made jointly by all owners of the building;
 - (iii) there will be no increases in building height, building bulk or GFA after the conversion;
 - (iv) the building will not revert to industrial use during the waiver period; and
 - (v) full market premium will be payable when the buildings are redeveloped in future.

6. Private industrial buildings covered by the new measures include flatted factories, industrial-office buildings and godown buildings, but specialized factories such as those located in industrial estates, flatted factories built by the Housing Authority and storage premises in container terminals are excluded.

7. The subsidiary legislation for the measure at paragraph 5(a) came into operation on 1 April 2010. The measures in paragraph 5(b), (c) and (d) are effective for three years starting from 1 April 2010. The approved projects for redevelopment have to be completed within five years, and those for wholesale conversion within three years.

8. The Lands Department has set up a dedicated team to process applications for redevelopment or wholesale conversion of industrial buildings and issued Practice Note No. 1/2010 on 19 March 2010 regarding such applications for reference of potential applicants and professionals in the industry. For projects which fulfill the criteria for one-stop service to be rendered by the Development Opportunities Office⁴, concerned parties may approach the Office for assistance.

³ Wholesale conversion refers to the change of use of an existing industrial building for the life time of the building or the current lease period, whichever is earlier.

⁴ The Development Opportunities Office was set up in July 2009 to provide a platform for relevant bureaux and departments to jointly assess the merits of

Views and concerns expressed by Members

9. The measures to encourage revitalization of industrial buildings were discussed at the meeting of the Panel on Development on 27 October 2009, and at the debate on the 2009-2010 Policy Address in the Council meeting of 28 October 2009. While Members generally expressed support for the new measures which would bring benefits to the overall economy and employment as well as improvements to the environment of industrial areas, some Members expressed the following views and concerns --

Prevention of possible abuse

- (a) The Administration should put in place a stringent, effective and efficient mechanism to monitor the implementation to prevent abuse of the new measures and exploitation of grey areas. For example, some property developers might illegally establish facilities such as private clubs and independent private bathhouses in industrial buildings or engage in the open sales of these units as residential flats.
- (b) The Administration should prohibit the sale of redeveloped or converted industrial buildings within a specific period of time in order to guard against profiteering.

Impact on rents and the property market

- (c) As wholesale conversion of industrial buildings was costly, the rents for converted buildings might rise substantially. In the end, only tenants with greater financial potentials, such as the retailing, catering and banking sectors, could make use of these buildings.
- (d) The converted buildings should be designated for use by the six industries only. There were also views that other industries, such as the wine industry and the exhibition industry, should not be ignored under the new policy to revitalize old industrial buildings.

individual land development proposals and provide one-stop consultation and co-ordination services to meritorious projects.

- (e) The potential release of some 1,000 old industrial buildings might have an impact on the property market.
- (f) There should be measures to guard against the conversion of industrial buildings into hotels, serviced apartments and residential flats, as such conversion would affect the residential property market, the commercial market and the hotel trade.

Improvements to and conversion of industrial areas

- (g) The Administration should enhance its forward planning to improve the industrial areas and undertake relevant improvement works such as widening pedestrian ways and vehicular accesses and providing more car parks.
- (h) To reduce crowdedness within industrial areas, adequate incentives should be provided to owners not to develop their sites to the maximum allowable plot ratio.
- (i) In revitalizing old industrial areas, district-specific features should be reserved as far as possible.

10. Members have raised questions relating to measures to facilitate the redevelopment of industrial buildings at the Council meetings of 20 January and 19 May 2010. These questions included issues such as manpower support for the dedicated team at the Lands Department for processing applications, the procedures for processing the applications, publicity of the Practice Note on the conversion of industrial buildings, assistance available to building owners where there was no consent on the conversion of old industrial buildings, and measures to attract industrial building owners to lease more converted units to artists in the cultural and creative industries.

11. During the debate on the 2010-2011 Policy Address at the Council meeting of 27 October 2010, Hon WONG Ting-kwong expressed concern about the lack of follow-up measures by the Administration in taking forward the policy initiative to revitalize industrial buildings. Pointing out the small number of applications received and approved on redevelopment/conversion of industrial buildings, Mr WONG expressed concern about problems encountered by owners, such as difficulty to obtain consent of all owners of an old industrial building to the proposed conversion especially when a number of owners might have left Hong

Kong; constraints in converting units into industrial-cum-office use as no increases in building height and total floor area after conversion were allowed. It was also difficult to provide more parking spaces in the converted buildings due to the restrictions. The Administration was urged to consider lowering the threshold for triggering the conversion of industrial buildings, and relaxing the requirement for parking spaces.

12. According to the Administration's paper on revitalization of industrial buildings provided to the Panel on Development in May 2010, relevant government departments have taken into account the constraints of existing industrial buildings and worked out additional measures to facilitate wholesale conversion of industrial buildings. For instance, the Buildings Department has relaxed the relevant requirements to make it easier to set up places of public entertainment for accommodating not more than 500 persons in a converted industrial building; the Planning Department has sought the Town Planning Board's endorsement to clarify the planning definition of some uses, including mini-storages, to allow continued operation of mini-storages in converted industrial buildings without the need to apply for planning permission. As regards provision for car parks in converted buildings, the Transport Department has agreed to consider accepting lower-than-standard car parking space provisions in wholesale conversion cases where the buildings have genuine difficulties in meeting the prescribed standard.

Recent developments

13. The Financial Secretary ("FS") announced in his 2010-2011 Budget that the Administration, where appropriate, would consider making use of old industrial buildings in the relocation of government offices and facilities. The Administration will consider relocating government offices currently accommodated in commercial office premises into industrial buildings upon expiry of their tenancies. In the 2011-2012 Budget, FS announced that the Administration is considering purchasing an industrial building for conversion into an office building for the relocation of the Water Services Department.

14. The Administration will update the Panel on Development on the mid-term review of revitalization of industry buildings at the coming meeting on 20 April 2011.

Relevant papers

15. A list of relevant papers with their hyperlinks is in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
15 April 2011

Revitalization of industrial buildings

List of relevant papers

Council/Committee	Date of meeting	Paper
Panel on Development	27 October 2009	<p>Legislative Council Brief – "Optimizing the use of industrial building to meet Hong Kong's changing economic and social needs" (File ref.: DEVB(DOO)7-01) (issued on 15 October 2009) http://www.legco.gov.hk/yr09-10/english/panels/dev/papers/dev1027-devbdoo701-e.pdf</p> <p>Administration's paper on "Optimizing the use of industrial building to meet Hong Kong's changing economic and social needs" (LC Paper No. CB(1)94/09-10(05)) http://www.legco.gov.hk/yr09-10/english/panels/dev/papers/dev1027cb1-94-5-e.pdf</p> <p>Administration's paper on "Optimising the use of industrial buildings to meet Hong Kong's changing economic and social needs" (Supplementary paper) (LC Paper No. CB(1) 178/09-10(01)) http://www.legco.gov.hk/yr09-10/english/panels/dev/papers/dev1027cb1-178-1-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)911/09-10) http://www.legco.gov.hk/yr09-10/english/panels/dev/minutes/dev20091027.pdf</p>

Council/Committee	Date of meeting	Paper
Council meeting	28 to 30 October 2009	Debate on the 2009-2010 Policy Address Hansard (Pages 468 - 1149) http://www.legco.gov.hk/yr09-10/english/counmtg/hansard/cm1028-translate-e.pdf http://www.legco.gov.hk/yr09-10/english/counmtg/hansard/cm1029-translate-e.pdf http://www.legco.gov.hk/yr09-10/english/counmtg/hansard/cm1030-translate-e.pdf
Council meeting	20 January 2010	Question No. 3 on "Redevelopment of industrial buildings" Hansard (Pages 4301 - 4312) http://www.legco.gov.hk/yr09-10/english/counmtg/hansard/cm0120-translate-e.pdf
Panel on Development	27 April 2010	Minutes of meeting (LC Paper No. CB(1)2248/09-10) http://www.legco.gov.hk/yr09-10/english/panels/dev/minutes/dev20100427.pdf The Administration's response to follow-up action – "Optimising the Use of Private Industrial Buildings"(LC Paper No. CB(1)1957/09-10(01) http://www.legco.gov.hk/yr09-10/english/panels/dev/papers/dev0427cb1-1957-1-e.pdf
Council meeting	19 May 2010	Question No. 9 on "Revitalization of industrial buildings" Hansard (Pages 8465 - 8470) http://www.legco.gov.hk/yr09-10/english/counmtg/hansard/cm0519-translate-e.pdf
Council meeting	27 October 2010	Debate on the 2010-2011 Policy Address Hansard (Pages 853 - 854) http://www.legco.gov.hk/yr10-11/english/counmtg/hansard/cm1027-translate-e.pdf