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**Subcommittee on Issues Relating to Policy on Industrial Buildings**

**Meeting on 21 January 2020**

**Background brief on revitalization of industrial buildings**

**Purpose**

This paper provides background information on revitalization of industrial buildings ("IBs") and summarizes the views and concerns expressed by Members on the subject at meetings of the Legislative Council ("LegCo"), the Panel on Development ("the Panel") and other committees/subcommittees since the 2012-2013 legislative session.

**Background**

2. According to the Administration, as a result of economic restructuring, many industrial premises are occupied but not optimally utilized. The Town Planning Board ("TPB") has over the years reviewed and broadened the scope of permissible uses in IBs,<sup>1</sup> and rezoned surplus and suitable industrial land to "Other Specified Uses" annotated "Business" ("OU(B)") zones (i.e. allowing a mix of office, commercial, and non-polluting industrial uses) or other zonings. The vacancy rate of IBs is not

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<sup>1</sup> Such IBs refer to flatted factory buildings, industrial-office buildings and other buildings built for industrial uses where the leases governing the lots on which the buildings stand specify industrial and/or godown uses, or are unrestricted in terms of uses permitted under lease. TPB has reviewed and amended the definition of "Industrial Use" under the planning regime from time to time in accordance with social and economic development needs. For example, training, design, research and development related to industrial process are now considered "Industrial Use". "Art Studio", "Office related to Industrial Use", "Design and Media Production", "Audio-visual Recording Studio", and "Information Technology and Telecommunications Industries" (all excluding those involving direct provision of customer services or goods) are now uses that are always permitted in "Industrial" zones.

high (6.3% at end 2018),<sup>2</sup> but this is partly due to infiltration of non-industrial uses which may not be compatible with the statutory planning regime and/or land lease conditions. In addition, many old IBs do not meet modern-day fire safety standards, and the fire safety risk in some IBs is further aggravated by the presence of mixed industrial and non-industrial uses.

### Revitalization measures for industrial buildings implemented between 2010 and 2016

3. To encourage IB owners to undertake wholesale conversion for, or redevelop, their IBs so as to provide more floor space for suitable uses to meet changing social and economic needs, the Administration introduced a set of time-limited revitalization measures for IBs (hereinafter referred to as "IB Revitalization Scheme") in April 2010 for a period of three years. In September 2011, the Administration completed a mid-term review on the IB Revitalization Scheme and extended the Scheme for three years until 31 March 2016. The key measures of the IB Revitalization Scheme are recapped in **Appendix I**.

4. According to the Administration,<sup>3</sup> by the close of the six-year period in March 2016, the Lands Department ("LandsD") received 171 applications (excluding those withdrawn and terminated by applicants) under the IB Revitalization Scheme, and as at April 2019, 133 applications were approved (with 110 of the approved applications executed). These approved applications, upon completion of the conversion or redevelopment works, will have a capacity to provide about 2 170 000 square metres ("sq m") of floor area for non-industrial uses, including about 200 000 sq m for hotel purposes, about 50 000 sq m involving residential purposes and about 1 920 000 sq m for commercial purposes, such as office, eating place, shop and services, information technology and telecommunications industries, educational institution, research, design and development centres, place of recreation, sports and culture, etc. The major geographical distribution of the approved applications under the IB Revitalization Scheme is as follows:

<i>Districts</i>	<i>Distribution of the approved / executed applications (about)</i>
Kowloon East	44.4%
Tsuen Wan and Kwai Tsing	18.0%

<sup>2</sup> Source: "[Hong Kong Property Review 2019](#)" of the Rating and Valuation Department

<sup>3</sup> Source: [LC Paper No. CB\(1\)900/18-19\(01\)](#)

<i>Districts</i>	<i>Distribution of the approved / executed applications (about)</i>
Kowloon West	7.5%
North	7.5%
Others	22.6%

### New measures to revitalize industrial buildings introduced in 2018

5. After reviewing the effectiveness of the IB Revitalization Scheme, the Chief Executive announced in her 2018 Policy Address that the Administration would reactivate the IB Revitalization Scheme (hereinafter referred to as "new IB Revitalization Scheme") to optimize utilization of the existing industrial stock and make better use of valuable land resources, while addressing more effectively the issues of fire safety and non-compliant uses. The new IB Revitalization Scheme included the following six key measures:

#### *Wholesale conversion:*

- (a) offering a three-year time-limited exemption of waiver fees for applications made to LandsD for wholesale conversion of existing IBs aged 15 years or above in "Commercial" ("C"), "OU(B)" and "Industrial" ("I") zones<sup>4</sup> for uses permitted under the relevant Outline Zoning Plans, with an additional condition that 10% of the converted floor space should be designated for specific uses prescribed by Government, such as those in relation to arts and cultural sectors, creative industries, innovation and technology industries, social service or community healthcare facilities, sports and recreational uses, etc.;

#### *Redevelopment:*

- (b) as a policy direction, but subject to approval of TPB on a case-by-case basis and the maximum non-domestic plot ratio ("PR") allowed under the Buildings (Planning) Regulations (Cap. 123F), allowing relaxation of the maximum permissible non-domestic PR by up to 20% to incentivize redevelopment of

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<sup>4</sup> According to the estimation of the Administration in December 2018, over 1 160 IBs in the territory under these three zonings may be eligible, of which around 330 are under single ownership.

IBs constructed before 1987<sup>5</sup> for sites located outside "Residential" ("R") zones in Main Urban Areas and New Towns<sup>6</sup>;

*Facilitate transitional housing in wholesale-converted IBs without industrial uses:*

- (c) facilitating proposals from the community for providing transitional housing in portions or entire blocks of IBs (without any age limit) located in "C", "Comprehensive Development Area", "OU(B)" and "R" zones which have already undergone or will pursue wholesale conversion into non-industrial uses, by exercising flexibility in the application of planning, land lease, and building design requirements, including charging a nil waiver fee for this specific use of transitional housing;

*Other measures permitting non-industrial uses in existing IBs:*

- (d) in respect of individual units in existing IBs, relaxing the waiver application policy on a time-limited basis, initially five years, to permit certain uses for the arts and cultural sectors, creative industries, and innovation and technology sectors<sup>7</sup> in an orderly manner (without the need for owners making separate waiver applications and paying waiver fees), provided that such uses are permitted under the planning regime in the first place;
- (e) broadening the permissible use of buffer floors, with due regard to public safety, to cover (among other permitted uses at present) "telecommunications exchange centres" and

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<sup>5</sup> In 1987, the Code of Practice for Minimum Fire Service Installations and Equipment was revised by the Fire Services Department to govern fire service installations and equipment of buildings built thereafter, including extending the requirement of installing automatic sprinkler systems to all IBs constructed after 1 March 1987 or with building plans first submitted for approval after that date.

<sup>6</sup> Main Urban Areas comprise Hong Kong Island, Kowloon and New Kowloon, Tsuen Wan, Kwai Chung, and Tsing Yi. New Towns comprise Sha Tin, Tai Po, Fanling/Sheung Shui, Tuen Mun, Yuen Long, Tin Shui Wai, Tseung Kwan O, and Tung Chung.

<sup>7</sup> The permitted uses included "Art Studio", "Office (Audio-visual Recording Studio)", "Office (Design and Media Production)", "Office" (used by "specified creative industries" only) and "Research, Design and Development Centre".

"computer/data processing centres", to facilitate partial conversion of lower floors of IBs into non-industrial uses; and

- (f) promulgating a broader definition for "godown" use under lease provisions, covering (among other permitted uses at present) "cargo handling and forwarding operation" and "recyclable collection centre" uses.

6. The implementation timetable and details of the measures under the new IB Revitalization Scheme are set out in **Appendix II**.

### **Major views and concerns expressed by Members**

7. The revitalization of IBs and related issues were discussed at meetings of the Panel and the Subcommittee to Follow Up Issues Related to Inadequate Housing and Relevant Housing Policies ("the Subcommittee") formed under the Panel on Housing. The major views and concerns of Members are summarized in the ensuing paragraphs.

#### Wholesale conversion for provision of transitional housing units

8. Panel members noted that, under the new IB revitalization Scheme, transitional housing units could be provided in portions or entire blocks of IBs that had already undergone or would pursue wholesale conversion into non-industrial uses. Some members considered that, to promote community-led not-for-profit transitional housing projects in wholesale-converted IBs, the Administration should subsidize the conversion cost as it would be unattractive for IB owners if they had to bear the relevant cost, or some IB owners would shift the conversion cost to future tenants. The Panel passed a motion at its meeting on 19 December 2018 urging the Government to study the feasibility of providing funding support from the Community Care Fund for the internal fitting-out of IBs for use as transitional housing units, and including tenancy terms to cap the rental levels at 25% of the total family income of the occupants.

9. The Administration advised that to facilitate provision of transitional housing units under the new IB Revitalization Scheme, the Building Authority might exercise powers under the Buildings Ordinance (Cap. 123) to exempt transitional housing units from certain domestic building requirements in relation to site coverage, PR, open space, service lane, natural ventilation and lighting, etc. The flexibility in applying those building design requirements would have reduced, in effect and to a certain extent, the conversion cost involved in the provision of transitional housing

units. Meanwhile, the Transport and Housing Bureau ("THB") would chair a task force, i.e. the Task Force on Transitional Housing ("the Task Force"), to provide one-stop, co-ordinated support to assist non-government organizations in pursuing not-for-profit transitional housing projects. The Task Force would consider the rental levels and examine whether policy support should be given to certain transitional housing projects in wholesale-converted IBs initiated by community organizations.

10. Panel members also raised concerns about the safety issues relating to the use of IBs for residential purpose and the additional traffic burden brought to the industrial areas. Subcommittee members also asked how the Administration would deal with proposals for the provision of transitional housing in converted IBs where the housing units lacked natural lighting and ventilation.

11. The Administration indicated that the Task Force led by THB would look into the merits of each proposal and take into account all relevant factors, such as the safety concerns and the potential impact on surrounding environment. The Administration also explained that transitional housing projects supported by the Task Force might be considered for exemption from the requirements for natural lighting and ventilation if there were satisfactory mitigating measures in place such as artificial lighting and mechanical ventilation facilities.

12. Panel members and the Subcommittee held the view that IB owners might not find it commercially attractive if they could only receive approval for converting such buildings into transitional housing that could be used for five years only. They asked whether the Administration would relax certain criteria, allow renewal of the transitional housing projects in IBs after the five-year period, or provide subsidies to the owners subject to conditions. The Administration indicated that it would keep in view the market response to the transitional housing projects.

#### Use of industrial buildings by arts and cultural industries

13. Under the new IB Revitalization Scheme, 10% of the converted total Gross Floor Area ("GFA") of an IB would be designated for specific uses prescribed by Government, such as those in relation to arts and cultural sectors and creative industries. Some Panel members asked whether the Administration would consider further increasing the proportion of the converted total GFA to be designated for specific uses, with a view to accommodating more art practitioners, and whether the Administration would put in place a monitoring mechanism to ensure that

10% of the converted total GFA of the IB concerned was designated for specific uses prescribed by the Government.

14. The Administration advised that the Government was striking a careful balance between supplying designated floor space for some non-industrial users who might be affected by the wholesale conversion works and incentivizing owners to pursue such conversion for their premises. If the new condition would be too onerous, there would be the chance of LandsD receiving fewer applications. The Development Bureau would chair an inter-departmental committee, comprising representatives from relevant bureaux and departments, to assess the "designated uses" proposed by applicants for the wholesale conversion of their IBs. For each approved application for wholesale conversion going forward, LandsD would incorporate in the Waiver Letter relevant conditions to ensure that the 10% GFA would be designated for specific uses prescribed and decided by the Government. In the case of a breach of the conditions (including the designated GFA not being used for the specified uses, or being left idle for a prolonged duration), the Government might demand the owner to execute a long lease to underlet the designated GFA to the Government, upon such terms and conditions (including the payment of a nominal annual rent at \$1, if demanded) as might be required or specified by the Government, so that the Government might put the vacant premises into gainful uses.

15. Some Panel members suggested providing economic incentives to encourage IB owners to convert premises on the lowest three floors below the "buffer floor" of IBs into government uses or arts and cultural uses.

16. The Administration advised that, unlike wholesale conversion, partial conversion of a buffer floor and the lower three floors of an industrial building *en bloc* did not preclude the presence of riskier (in terms of fire safety) industrial activities above the buffer floor. To enhance the business case for such partial conversion, the Government would broaden the permissible uses of buffer floors to cover the "telecommunications exchange centres" and "computer/data processing centres" uses. The Administration would observe the market response in reviewing the effectiveness of the new measures in due course.

#### Reviewing the definition and coverage of "industrial" and "godown" uses in land leases

17. Some Panel members called on the Administration to consider including mini-storages and modern logistics under the definition and coverage of "industrial" and "godown" uses in land leases, with a view to promoting the development of modern logistics facilities. The

Administration advised that it would consider whether and the extent to which the coverage of "industrial" and "godown" uses should be expanded, bearing in mind previous cases of breach of land lease conditions.

### Measures for incentivizing redevelopment of industrial buildings

18. Regarding the measure on relaxing the maximum non-domestic permissible PR by up to 20% as a policy direction to incentivize IB redevelopment under the new IB Revitalization Scheme, some Panel members sought clarification on the details, including whether redeveloped IBs located in "I" zone were restricted for industrial uses, as well as whether the Administration would consider acquiring privately owned industrial properties in order to speed up redevelopment of old IBs.

19. The Administration advised that IBs located in "I" zone could be redeveloped into new premises for conventional "industrial/godown uses" and/or "modern industrial uses". Further, the proposed relaxation of the maximum non-domestic permissible PR by up to 20% could in effect allow owners to recover any GFA loss in meeting present-day building standards, thereby incentivizing industrial building redevelopment. In leveraging market forces to bring about redevelopment and renewal of industrial districts, the Administration would closely monitor responses to this measure and review its effectiveness in due course. The Administration had no plan to acquire privately-owned industrial properties for redevelopment.

### **Council motions and questions**

20. At the Council meeting of 5 December 2018, Members passed a motion on "Studying the enactment of an ordinance on regulating subdivided unit", urging the Administration to implement various measures including establishing a dedicated fund for transitional housing to be used for, among others, supporting the conversion of IBs into subdivided units as transitional housing. At the Council meeting of 20 February 2019, Members passed a motion on "Increasing transitional housing supply", urging the Administration to adopt various measures including introducing policies for encouraging private property owners to convert their residential properties or whole blocks of IBs into transitional housing.

21. Six questions related to revitalization of IBs were raised by Members at the Council meetings of 12 December 2012, 19 February and 22 October 2014, 10 June 2015, 9 November 2016 and 4 December 2019. The hyperlinks are in the **Appendix III**.



**Relevant papers**

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

Council Business Division 1  
Legislative Council Secretariat  
16 January 2020

**Revitalization measures for industrial buildings implemented  
between 2010 and 2016**

Redevelopment

- (a) Lowering the application threshold for compulsory sale orders under the Land (Compulsory Sale for Redevelopment) Ordinance (Cap. 545) from 90% to 80% of ownership for IBs aged 30 years or above situated in non-industrial zones;
- (b) allowing tailor-made lease modifications at "pay for what you build" premium (i.e. assessed premium based on the optimal use and proposed development intensity of the redevelopment);
- (c) allowing owners who modified the lease for redevelopment to opt for payment of 80% of the land premium by annual instalments over five years at a fixed interest rate, if the premium exceeded \$20 million; and

Wholesale conversion

- (d) allowing owners to apply at a nil waiver fee for change of use of existing IBs, which should be aged 15 years or above and situated in "Industrial", "Commercial" or "Other Specified Uses (Business)" zones, for the lifetime of the building or the current lease period, whichever was earlier.

(Source: [\*LC Paper No. CB\(1\)1529/12-13\(01\)\*](#) submitted to the Subcommittee on the Long Term Housing Strategy formed in the Fifth Legislative Council under the Panel on Housing)

**Implementation timetable and details of the new measures to revitalize industrial buildings introduced in 2018**

<u>Revitalization measure</u>	<u>Timetable</u> <sup>1</sup>
(a) Wholesale conversion	Applications should be submitted to the Lands Department ("LandsD") on or before 31 March 2022. Conversion works should be completed within three years after execution of land document. Details are specified in LandsD Lands Administration Office ("LAO") Practice Note No. 6/2019.
(b) Redevelopment	Applications should be submitted to the Town Planning Board on or before 9 October 2021. If approved, the land document should be executed within three years after planning approval. Redevelopment should be completed within five years after execution of land document. Details are specified in LandsD LAO Practice Note No. 2/2019.
(c) Transitional housing in converted industrial buildings	No application deadline. Details are specified in LandsD LAO Practice Note No. 7/2019.
(d) Relaxation of waiver application policy	Put into force from 1 February 2019 to 31 January 2024. The Government would review the policy and the need for extension towards the end of the five-year period. Details are specified in the Development Bureau's announcement on 1 February 2019. <sup>2</sup>
(e) Broadening the permissible uses of buffer floors	No applicable deadline. Details are specified in LandsD LAO Practice Note No. 3/2019.
(f) Broader definition for "Godown" use under lease provisions	Details are specified in LandsD LAO Practice Note No. 1/2019.

(Source: Reply Serial No. [DEVB\(PL\)149](#) to a question raised by a member in examining the Estimates of Expenditure 2019-20)

<sup>1</sup> The relevant LAO Practice Notes listed in this table are available at LandsD's website: <https://www.landsd.gov.hk/en/legco/lpn.htm>

<sup>2</sup> The Development Bureau made an announcement on "[Relaxation of Waiver Application for Existing Industrial Buildings](#)" on 1 February 2019.

## Revitalization of industrial buildings

## List of relevant papers

Council/ Committee	Date of meeting	Paper
Council	12 December 2012	<a href="#">Hansard</a> — oral question (No. 3) on "Changing Use of Sites and Premises of Industrial Buildings to Increase Housing Supply" (pp. 3527-3540)
Subcommittee on the Long Term Housing Strategy	16 July 2013	Administration's paper on "Revitalization of industrial buildings" [ <a href="#">LC Paper No. CB(1)1529/12-13(01)</a> ]  Minutes of meeting [ <a href="#">LC Paper No. CB(1)191/13-14</a> ]
Council	19 February 2014	<a href="#">Hansard</a> — oral question (No. 2) on "Impact of Industrial Building Revitalization Measures on Cultural and Arts Workers " (pp. 7106-7116)
Council	22 October 2014	<a href="#">Hansard</a> — written question (No. 19) on "Revitalization of Industrial Buildings" (pp. 689-695)
Council	10 June 2015	<a href="#">Hansard</a> — written question (No. 14) on "Assistance Provided for Occupants of Sub-divisions of Flat Units in Industrial Buildings" (pp.12808-12812)
Council	9 November 2016	<a href="#">Hansard</a> — written question (No. 13) on "Enforcement actions against breaches of land lease conditions in industrial buildings" (pp. 303-309)

Council/ Committee	Date of meeting	Paper
Panel on Development	24 October 2017	Administration's paper on "Initiatives of Development Bureau in the Chief Executive's 2017 Policy Address and Policy Agenda" [ <a href="#">LC Paper No. CB(1)57/17-18(01)</a> ]
Panel on Development	23 October 2018	Administration's paper on "Initiatives of Development Bureau in the Chief Executive's 2018 Policy Address and Policy Agenda" [ <a href="#">LC Paper No. CB(1)15/18-19(01)</a> ]
Panel on Development	19 December 2018	<p>Administration's paper on "Measures to revitalize industrial buildings" [<a href="#">LC Paper No. CB(1)323/18-19(03)</a>]</p> <p>Minutes of meeting [<a href="#">LC Paper No. CB(1)1087/18-19</a>]</p> <p>Administration's response to a motion passed at the meeting [<a href="#">LC Paper No. CB(1)450/18-19(01)</a>]</p> <p>Administration's follow-up paper [<a href="#">LC Paper No. CB(1)900/18-19(01)</a>]</p>
Subcommittee to Follow Up Issues Related to Inadequate Housing and Relevant Housing Policies	22 January 2019	<p>Administration's paper on "Measures alleviating the housing difficulties of inadequately housed households" [<a href="#">LC Paper No. CB(1)485/18-19(02)</a>]</p> <p>Minutes of meeting [<a href="#">LC Paper No. CB(1)706/18-19</a>]</p> <p>Administration's follow-up paper [<a href="#">LC Paper No. CB(1)588/18-19(02)</a>]</p>

<b>Council/ Committee</b>	<b>Date of meeting</b>	<b>Paper</b>
Council	4 December 2019	<a href="#">Administration's written response</a> to an oral question on "Provision of transitional housing"