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Panel on Commerce and Industry

Meeting on 21 November 2017

Updated background brief on the development of InnoCell

Purpose

This paper provides updated background information on the development of InnoCell. It also summarizes the views and concerns expressed by members on the subject during the discussion at the meeting of the Panel on Commerce and Industry ("the Panel") on 18 July 2017.

Background

2. In his 2017 Policy Address delivered in January 2017, the former Chief Executive announced that to foster the development of the innovation and technology ("I&T") ecosystem, the Government would support the construction by the Hong Kong Science and Technology Parks Corporation ("HKSTPC")¹ of an InnoCell adjacent to the Hong Kong Science Park ("HKSP").² InnoCell will provide residential units with flexible design and ancillary facilities for leasing to the tenants and incubatees of HKSP for their principals, employees or visiting researchers from the Mainland or overseas.

¹ Hong Kong Science and Technology Parks Corporation ("HKSTPC") is a statutory body established in 2001 with a public mission to facilitate the establishment and the nurturing of a world-class technology community dedicated to applied research and development ("R&D") in Hong Kong, and to strengthen Hong Kong's position as a regional technology hub by promoting innovation, technology development and commercialization of five technology clusters, namely electronics, information technology and telecommunications, precision engineering, biotechnology, and green technology. The Government is the sole shareholder of HKSTPC which is governed by a Board of Directors appointed by the Government. HKSTPC operates and manages the Hong Kong Science Park, three Industrial Estates and the InnoCentre at Kowloon Tong.

² To meet the strong demand for space for R&D activities, the Administration proposed to develop Stage 1 of the Science Park Expansion Programme ("SPX1"), which involves the construction of two respectively 14-storey and 15-storey building blocks. The estimated development cost is \$4,428 million and the Finance Committee approved the funding proposal in May 2016. SPX1 is expected to complete by 2020.

3. InnoCell will be located on a piece of "Government, Institutions or Community" land of 0.28 hectare at the corner of Chong San Road and Science Park Road in Pak Shek Kok, next to the southeast entrance of HKSP. The proposed development was approved with conditions³ by the Town Planning Board on 5 May 2017. The Executive Council has agreed to grant the site to HKSTPC by private treaty at nominal premium.

Proposed development plan

4. According to the information provided by the Administration, the estimated development cost of InnoCell is \$800 million at money-of-the-day prices (or \$677.9 million at September 2016 price level), which is equivalent to \$44,938 per square metre ("sq m") of construction floor area. The Administration suggested providing financial support to the project in the form of government equity injection of \$560 million (i.e. 70% of the estimated development cost) to HKSTPC and government guarantee for a commercial loan of \$240 million (i.e. 30% of the estimated development cost) and the interest arising therefrom.

5. As explained by the Administration, the proposed building consists of an 18-storey tower. The proposed scheme will yield a total maximum Gross Floor Area ("GFA") of about 15 300 sq m (equivalent to a plot ratio of 5.4) and will provide about 500 cubicles. Common facilities (such as leisure rooms for reading/computer and video games, gymnasium, laundry mart) and common rooms etc. will be provided. All these common facilities are for shared use by tenants, and these will take up about 8% to 10% of the total maximum GFA of the proposed building.

Target tenants and proposed rental

6. The target tenants of InnoCell will mainly be three groups of I&T talents in HKSP, namely principals of tenants/incubatees; overseas or Mainland employees of existing tenants/incubatees; and overseas or Mainland visiting scientists/researchers in cooperation with the HKSTPC or its tenant

³ The planning permission is subject to the following approval conditions –

- (a) the design and provision of open space of not less than 1 000 square metre on the ground floor of the proposed development for public use, as proposed by the applicant, to the satisfaction of the Director of Planning ("D of Plan") or of the Town Planning Board ("TPB");
- (b) the submission of a revised traffic impact assessment and implementation of the recommendations identified therein to the satisfaction of the Commissioner for Transport or of TPB;
- (c) the submission and implementation of a tree preservation and landscape proposal to the satisfaction of D of Plan or of TPB; and
- (d) the provision of fire service installations and water supplies for firefighting to the satisfaction of the Director of Fire Services or of TPB.

companies/ incubatees.

7. Taking into account the market rent and HKSTPC's operational expenses, the Administration has advised that the expected monthly rental of InnoCell in year 2020 (the projected completion date of the development) will be in the range of \$8,000 to \$10,000 for a furnished unit of about 18 sq m in size. In principle, the rental will be set at about 60% of the market rent of unfurnished property of similar quality in the nearby area. The Administration considers the proposed rent reasonable and competitive for premises with dual functions both as working space and short to medium-term accommodation.

Views and concerns expressed by members at the meeting on 18 July 2017

8. The Panel was briefed on the plan to develop InnoCell and proposed financial arrangements of the project at the meeting on 18 July 2017. The major views and concerns expressed by members are summarized in the ensuing paragraphs.

Proposed financial arrangements and construction costs

9. Members suggested that the Administration should consider arranging the project to be fully financed through a commercial loan of \$800 million to be backed by government guarantee, thereby obviating the need for government equity injection of 70% of the development cost of the project. The Administration responded that due to the \$4.428 billion expansion programme of HKSP, HKSTPC had already shouldered loans of about \$1.107 billion, which should be taken into account when determining the repayment ability of HKSTPC.

10. Noting that the construction cost per square foot for building InnoCell was about \$4,500, members enquired about the reasons for such high construction cost. Members also asked whether the projected rental income of about \$60 million per year would be able to cover the management and operating costs and the net interest payment of \$7 million per year up to 2033-2034. The Administration advised that the construction cost included the cost of building common rooms to provide spaces for communication and collaboration as well as common facilities. HKSTPC had consulted relevant Government departments on the proposed building design and projected construction cost and their comments had been taken into consideration in the final estimate.

Demand for accommodation of innovation and technology talents

11. Noting that InnoCell was expected to provide only 500 cubicles in 2020 while the projected number of employees working in HKSP would be around 17 200, members enquired about the proportion of overseas and Mainland employees who would benefit from the InnoCell accommodation.

12. The Administration advised that due to the size of the site and the height restriction, 500 would be the maximum number of cubicles to be provided at InnoCell. Moreover, demand studies undertaken by HKSTPC indicated that around 570 to 600 cubicles at InnoCell would be required by HKSP tenants/incubatees.

Tenancy and rental arrangements

13. Members enquired about the admission and allocation criteria of InnoCell. The Administration advised that an assessment panel would be formed by HKSTPC to assess the admission applications, and detailed admission criteria would be announced by the assessment panel in due course.

14. Members considered the 48-month duration of the tenancy agreements too long and queried whether the arrangement was consistent with the original intent of InnoCell of facilitating overseas and Mainland I&T talents to have a short term "on-campus" living accommodation while settling down in Hong Kong. Members expressed concern about the utilization of InnoCell as some of these tenants might likely be out of town for certain periods of time during the long tenancy period, and that HKSTPC might have neglected the needs and interests of local employees.

15. The Administration advised that the period of tenancy would be subject to review annually or biennially and on a case-by-case basis depending on the progress of the relevant research and development work or other factors of the tenant concerned. Moreover, HKSTPC was aware of the needs of local employees, and had been liaising with major public transport operators including the Mass Transit Railway Corporation Limited on the possibility of increasing the frequency of trains to facilitate easy commutation for employees working at HKSP.

16. Noting that the monthly rental of InnoCell would be set at about 60% of the market rent of unfurnished property similar quality in the nearby area, members enquired how the rental level of InnoCell compared with the working dormitories or talent apartments of overseas science parks.

17. The Administration advised that given Hong Kong's high property prices, a direct comparison of InnoCell's rental levels with overseas counterparts might not be appropriate. The Administration considered that setting InnoCell's rental level at 60% of the market rent would be effective in attracting and retaining overseas and Mainland talents.

Supplementary information to be provided by the Administration for further discussion

18. While members in general had no objection to the proposed development of InnoCell, the Panel agreed that before deciding on whether to support the proposed financial arrangements for submission to the Finance Committee ("FC") for approval, the Administration should provide the supplementary information on the issues listed below for further discussion by the Panel at a future meeting in the 2017-2018 session –

- (a) an analysis of the pros and cons of the Administration's proposed financial arrangements of financing 70% of the development cost in the form of government equity, while the remaining 30% with a commercial loan to HKSTPC to be guaranteed by the Government, vis-à-vis a member's proposal of financing 100% of the development cost with commercial loan to HKSTPC to be guaranteed by the Government;
- (b) an assessment of the accommodation demand of InnoCell by overseas and Mainland I&T talents;
- (c) details of the projected management and operating costs of the InnoCell, and whether such costs could be met with the rental income generated from InnoCell; whether there was a surplus after deducting the management and operating costs from the rental income, and whether such surplus would form part of the cash flow of the project;
- (d) details of the projected direct and indirect economic benefits to be brought about by InnoCell project during and after the construction period; and
- (e) justifications of the allocation and admission criteria and lengths of tenancy agreements for different groups of target tenants of InnoCell.

Latest position

19. In view of the views and concerns expressed by members at the meeting on 18 July 2017, the Administration will brief the Panel afresh on the enhanced financing arrangements of the development of InnoCell and seek the Panel's support for the relevant financial proposal which will be submitted to FC for consideration.

Relevant papers

20. A list of relevant papers is in **Appendix**.

Council Business Division 1
Legislative Council Secretariat
15 November 2017

List of relevant papers

Date of meeting	Meeting	Papers
18/7/2017	Panel on Commerce and Industry	<p>Administration's paper on "Development of the InnoCell adjacent to Hong Kong Science Park" (LC Paper No. CB(1)1293/16-17(03))</p> <p>Background brief on the development of InnoCell prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1293/16-17(04))</p> <p>Minutes of meeting (LC Paper No. CB(1)1454/16-17)</p>