

# 立法會 *Legislative Council*

LC Paper No. CB(1)1347/20-21(05)

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## **Panel on Development**

**Meeting on 28 September 2021**

### **Updated background brief on revitalization of industrial buildings**

#### **Purpose**

This paper provides background information on revitalization of industrial buildings ("IBs")<sup>1</sup> and summarizes the major views and concerns expressed by Members on the subject.

#### **Background**

##### Measures implemented between 2010 and 2016 to revitalize industrial buildings

2. At present, there are about 1 500 IBs in Hong Kong and many occupied industrial premises are not optimally utilized as a result of economic restructuring. The Administration implemented a revitalization scheme for IBs between 2010 and 2016 to incentivize redevelopment or wholesale conversion of these IBs (hereinafter referred to as the "2010 IB Revitalization Scheme"). The measures under the 2010 IB Revitalization Scheme are given in **Appendix I**.

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<sup>1</sup> 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. Such IBs do not include special factories such as those located in industrial estates, storage premises in container terminals and flatted factories built by the Hong Kong Housing Authority, and those buildings on lots supporting specific industries such as cargo handling uses, ship building and repairing, oil storage and refining and production of associated chemical by-product, manufacture of polystyrene plastics, manufacture and storage of chlorine, hydrogen and textile chemicals.

3. As at end-September 2020, 14 redevelopment applications and 140 wholesale conversion applications under the 2010 IB Revitalization Scheme had been approved. These approved applications, upon completion of the redevelopment and conversion works, will provide a total gross floor area of about 2 529 000 square metres for non-industrial uses (e.g. hotel, offices and residential developments).

Measures implemented under the new round of revitalization of industrial buildings introduced in 2018

4. Having reviewed the effectiveness of the 2010 IB Revitalization Scheme, the Chief Executive announced in her 2018 Policy Address the reactivation of the Revitalization Scheme (hereinafter referred to as the "2018 IB Revitalization Scheme") to optimize the use of existing industrial stock and valuable land resources as well as to address more effectively the issues of fire safety and non-compliant uses.<sup>2</sup> The measures under the 2018 IB Revitalization Scheme are given in **Appendix I**.

5. Up to December 2020, within an interval of slightly more than two years after the introduction of the 2018 IB Revitalization Scheme, 50 redevelopment applications have been received by the Town Planning Board ("TPB"), of which 42 applications have been approved. Of the redevelopment applications approved by TPB so far, 22 cases require lease modifications. The Lands Department is also processing lease modifications of 10 cases involving redevelopment of pre-1987 IBs<sup>3</sup> but not requiring TPB's approval.

Pilot scheme for charging land premium at standard rates for redevelopment of industrial buildings

6. To further expedite the redevelopment of pre-1987 IBs, the Administration has launched the pilot scheme for charging land premium at standard rates in respect of lease modifications for

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<sup>2</sup> The Panel on Development was briefed on the 2018 IB Revitalization Scheme at its meeting on 19 December 2018.

<sup>3</sup> Pre-1987 IBs refer to those IBs which were wholly or partly constructed on or before 1 March 1987, or those constructed with their building plans first submitted to the Building Authority for approval on or before the same date.

redevelopment of eligible IBs ("the pilot scheme"). The pilot scheme runs for two years from 15 March 2021 to 14 March 2023.<sup>4</sup>

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

7. Matters relating to the revitalization of IBs were discussed at the meetings of the Panel on Development ("the DEV Panel") and the Subcommittee on Issues Relating to Policy on Industrial Buildings ("the Subcommittee").<sup>5</sup> The DEV Panel and the Subcommittee also passed a number of motions on the subject.<sup>6</sup> The major views and concerns expressed by members of the DEV Panel and the Subcommittee are summarized in the ensuing paragraphs.

#### Measures to incentivize redevelopment of industrial buildings

8. Regarding the measure on relaxing the maximum non-domestic permissible plot ratio ("PR") by up to 20% as a policy direction to incentivize IB redevelopment under the 2018 IB Revitalization Scheme, some members sought clarification on the details, including whether redeveloped IBs located in "Industrial" 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.

9. The Administration advised that IBs located in "Industrial" 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 gross floor area loss in meeting present-day building standards, thereby incentivizing IB redevelopment. In leveraging market forces to bring about redevelopment and renewal of industrial districts, the Administration would closely

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<sup>4</sup> Please refer to the relevant [Legislative Council Brief](#) for details of the pilot scheme.

<sup>5</sup> The Subcommittee was formed under the House Committee to study and follow up issues relating to policy on IBs. It commenced and completed its work in the 2019-2020 session, and reported to the House Committee on 10 July 2020.

<sup>6</sup> The wording of a motion passed by the DEV Panel at the meeting on 19 December 2018 is available in paragraph 25 of [LC Paper No. CB\(1\)1087/18-19](#). The wording of the three motions passed by the Subcommittee at the meeting on 6 June 2020 is available in Appendix IV to [LC Paper No. CB\(1\)852/19-20](#).

monitor responses to this measure and review its effectiveness in due course. However, the Administration had no plan to acquire privately-owned industrial properties for redevelopment.

#### Designation of certain floor area for prescribed uses upon wholesale conversion

10. Members noted that as a measure to facilitate wholesale conversion of IBs under the 2018 Revitalization Scheme, waiver fees would be exempted to incentivize conversion of IBs aged 15 years or above in certain zones, with the condition that 10% of the converted floor space should be designated for specific uses prescribed by the Government. In this connection, members enquired what such "specified uses" were and by what criteria the Administration would prescribe the specific use(s) for each application. Some members expressed concerns that the measure might be open to abuse if other uses were packaged as the prescribed uses.

11. The Administration explained that the specified uses might include those uses in relation to the arts and cultural sectors, creative industries, innovation and technology industries, social service facilities, or sports and recreational uses which would bring about wider community benefits. All applications for wholesale conversion of IBs would be considered on a case-by-case basis taking into account the locations of the IBs concerned and the relevant district needs. In liaison with relevant bureaux/departments, the Development Bureau would evaluate the owner's proposal about the intended specific uses and the preliminary parameters of the relevant designated floor space, etc. Details of the matters had been set out in the Lands Department's Lands Administration Office [Practice Note No. 6/2019](#) (English version only).

#### Wholesale conversion for transitional housing use

12. At the Subcommittee meeting on 21 January 2020, some members pointed out that there had not been any application for waiver for provision of transitional housing units in wholesale-converted IBs so far and enquired whether the Administration had looked into the possible causes of the poor response. Members also queried whether the funding ceiling of \$0.55 million per transitional housing unit under the Funding Scheme to Support Transitional Housing Projects by Non-government Organizations ("the Funding Scheme") could fully cover the cost of conversion and yield a reasonable profit for the owners, as well as whether IB owners would be able to earn more profit by developing their IB flats into mini-storages or subdivided units instead of transitional housing.

13. According to the Administration, the liaison between the Task Force on Transitional Housing ("the Task Force") under the Transport and Housing Bureau ("THB") and interested IB owners was on-going, and it was expected that the current facilitating measures, together with the Funding Scheme, would lead to some successful cases in the near future.<sup>7</sup> Moreover, the funding ceiling of the Funding Scheme was formulated with reference to the cost estimates of renovating transitional housing units. While the return of converting an IB flat into transitional housing might not be high, the Administration believed that IB owners who participated in the transitional housing projects would value the social benefits of the initiative more than the expected economic return.

14. In response to members' concerns about the safety issues relating to the use of IBs for residential purpose and the additional traffic burden brought to the industrial areas, the Administration indicated that the Task Force 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 Task Force would also provide assistance to participating non-government organizations if they encountered difficulties in pursuing transitional housing projects.

#### Relaxation of waiver application policy for five permitted non-industrial uses in existing industrial buildings

15. Members noted that the Administration was relaxing the waiver application policy, initially for five years starting from 1 February 2019, to permit five uses<sup>8</sup> in individual units within existing IBs. The prerequisite was that such uses were permitted under the land use zoning of the site on the relevant Outline Zoning Plan as "Column 1" (i.e. always permitted) uses. In addition, for the sake of public safety, the relaxation would not cover any premises that involved direct provision of services or goods. Some members considered that the definitions of the five permitted uses were unclear and requested the Administration to clarify the meaning of

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<sup>7</sup> In December 2020, the Assessment Committee for the Funding Scheme agreed to subsidize the first project of converting an IB in Kwun Tong into transitional housing. With a total funding of \$61.5 million, the project is expected to provide about 116 units and the intake of residents will commence in the first quarter of 2022. (Source: [My blog of the THB website](#) (Chinese version only))

<sup>8</sup> These five uses are: (a) "Art Studio"; (b) "Office (Audio-visual Recording Studio)"; (c) "Office (Design and Media Production)"; (d) "Office" (used by "specified creative industries" only); and (e) "Research, Design and Development Centre".

these uses to the public, including whether certain uses, such as band practice or film studios, were covered under these five uses. Members also enquired whether the Administration would further extend the permission to cover other low-risk non-industrial uses in IBs, such as party rooms, which might be difficult to locate elsewhere.

16. The Administration advised that the definitions of the five uses were described in detail on the websites of the Lands Department and the Development Bureau. It had also briefed the trade proactively about their relevance to the relaxation policy. Specifically, while most existing IBs had been restricted to industrial uses, venues for practice or rehearsal for art performance and film studios might fall within the scope of the relaxed waiver application policy (subject to relevant prerequisites being satisfied) for "Art Studio" and "Office (Audio-visual Recording Studio)", so long as they did not involve direct provision of services or goods. However, band performance which would attract outside visitors (hence creating potential safety concerns) was not covered by the permission.

#### Conversion of lower floors of industrial buildings into non-industrial uses

17. Some 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.

18. The Administration explained that, unlike wholesale conversion, partial conversion of a buffer floor and the lower three floors of an IB 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 Administration would broaden the permissible uses of buffer floors to cover "telecommunications exchange centres" and "computer/data processing centres". It would observe the market response in reviewing the effectiveness of the new measures in due course.

#### Charging land premium at standard rates for redevelopment of industrial buildings

19. Expressing concern that the implementation of the pilot scheme would push up the rent levels of IBs and create more hardship for small businesses renting IB units, some members had enquired about the implementation details of the pilot scheme.

20. The Administration advised that under the pilot scheme, "standard rates" would be used to assess the land premium payable for lease modification applications for IB redevelopment, instead of the conventional approach of assessing before value (i.e. value of the existing lease before modification) and after value (i.e. value of the new lease after modification) on a case-by-case basis. Moreover, as the revitalization of IBs would increase the overall supply of floor space for non-industrial uses including commercial and office uses, the introduction of the pilot scheme was not expected to stimulate the rent for small businesses operating in IBs.

### **Council questions and motions**

21. At the Council meetings between November 2016 and July 2020, Members raised a number of questions relating to the revitalization of IBs. Moreover, under the motions passed at the Council meetings of 21 March 2018, 5 December 2018 and 20 February 2019, Members urged the Administration to, among others, revitalize old industrial districts, establish a dedicated fund for transitional housing to be used for supporting the conversion of IBs into subdivided units as transitional housing and introduce policies for encouraging private property owners to convert their whole blocks of IBs into transitional housing. The hyperlinks to the above motions and relevant questions raised at the Council meetings as well as the Administration's replies are provided in **Appendix II**.

### **Latest development**

22. At the DEV Panel meeting to be held on 28 September 2021, the Administration will brief members on the progress of revitalization of IBs.

### **Relevant papers**

23. A list of relevant papers on the Legislative Council website is in **Appendix II**.

## Appendix I

## Measures under the 2010 and 2018 Industrial Building Revitalization Schemes

2010 Industrial Building Revitalization Scheme	2018 Industrial Building Revitalization Scheme
<u>Redevelopment</u>	
<ul style="list-style-type: none"> <li>- Land premium assessed based on the optimal use and proposed development density (i.e. pay for what you build) <sup>1</sup></li> <li>- allowing owners to opt for payment of 80% of lease modification premium by annual instalments up to five years at a fixed rate of interest, if the premium exceeded \$20 million</li> <li>- no restrictions on building age</li> <li>- non-industrial zones</li> </ul>	<ul style="list-style-type: none"> <li>- No land premium related measure under the package announced for the 2018 Industrial Building ("IB") Revitalization Scheme</li> </ul>
—	<ul style="list-style-type: none"> <li>- Subject to approval of the Town Planning Board ("TPB") on a case-by-case basis and the maximum non-domestic plot ratio ("PR") allowed under the Building (Planning) Regulations (Cap. 123F), allowing relaxation of maximum permissible PR by 20% to incentivize redevelopment of pre-1987 IBs for sites located in non-residential zones <sup>2</sup> (i.e. in "Commercial" ("C"), "Other Specified Uses" annotated "Business" ("OU(B)") and "Industrial" ("I") zones) of the Main Urban Areas and New Towns. The approved cases are required to have their lease modification (if any) executed within three years from the date of TPB's approval of the planning application.</li> </ul>

<sup>1</sup> This is a relaxation over the established practice where the Lands Department will designate the user restriction and development parameters in the modified lease with reference to the uses and parameters permitted under the Outline Zoning Plan.

<sup>2</sup> For IBs located in "Residential" ("R") zones, a similar measure for 20% increase in domestic PR has been implemented since 2014.



2010 Industrial Building Revitalization Scheme	2018 Industrial Building Revitalization Scheme
<u>Wholesale conversion</u>	
<ul style="list-style-type: none"> <li>- Nil waiver fee</li> <li>- for IBs aged 15 years or above</li> <li>- in non-residential zones, namely: "OU(B)", "C" or "I" zones</li> </ul>	<ul style="list-style-type: none"> <li>- Nil waiver fee</li> <li>- for IBs aged 15 years or above</li> <li>- in non-residential zones, namely: "OU(B)", "C" or "I" zones</li> <li>- in return, 10% of the converted floor space to be designated by owners for specific uses prescribed by the Government after conversion</li> </ul>
—	<p>Transitional housing</p> <ul style="list-style-type: none"> <li>- Facilitating proposals from the community for providing transitional housing in portions or entire blocks of IBs (without any age limit) located in non-industrial zones, namely: "C", "Comprehensive Development Area", "OU(B)" and "R" zones, after 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</li> </ul>
<u>Permitting non-industrial uses in existing buildings without wholesale conversion</u>	
—	<ul style="list-style-type: none"> <li>- In respect of individual units at existing IBs, relaxing the waiver application policy to permit uses for the arts and cultural sectors, creative industries, and innovation and technology sectors in an orderly manner so long as such uses are permitted under the planning regime in the first place</li> </ul>

2010 Industrial Building Revitalization Scheme	2018 Industrial Building Revitalization Scheme
	<ul style="list-style-type: none"><li>- broadening the permissible uses of buffer floors, with due regard to public safety, to cover (among other permitted uses at present) "telecommunications exchange centres" and "computer/data processing centres", to facilitate conversion of lower floors of some IBs into non-industrial uses</li><li>- promulgating a broader definition for "godown" uses under the land lease, covering "cargo handling and forwarding operation" and "recyclable collection centre" uses</li></ul>

Source: Annex B to [the Legislative Council Brief on Standard Rates for Charging Land Premium on Lease Modifications for Redevelopment of Industrial Buildings](#) issued on 4 March 2021

## Appendix II

### Revitalization of industrial buildings

#### List of relevant papers

Committee	Date of meeting	Paper
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> ]  Minutes of policy briefing-cum-meeting [ <a href="#">LC Paper No. CB(1)455/18-19</a> ]
	19 December 2018	Administration's paper on "Measures to Revitalize Industrial Buildings" [ <a href="#">LC Paper No. CB(1)323/18-19(03)</a> ]  Administration's follow-up paper [ <a href="#">LC Paper No. CB(1)900/18-19(01)</a> ]  Administration's response to a motion passed at the meeting [ <a href="#">LC Paper No. CB(1)450/18-19(01)</a> ]  Minutes of meeting [ <a href="#">LC Paper No. CB(1)1087/18-19</a> ]
Subcommittee on Issues Relating to Policy on Industrial Buildings	21 January 2020	Administration's paper on "Implementation of Measures under the New Round of Revitalization of Industrial Buildings" [ <a href="#">LC Paper No. CB(1)337/19-20(01)</a> ]  Administration's follow-up paper [ <a href="#">LC Paper No. CB(1)541/19-20(02)</a> ]  Minutes of meeting [ <a href="#">LC Paper No. CB(1)539/19-20</a> ]

Committee	Date of meeting	Paper
	19 May 2020	<p>Administration's paper on "Enforcement Actions against Non-industrial Uses in Industrial Buildings by the Buildings Department" [<a href="#">LC Paper No. CB(1)541/19-20(03)</a>]</p> <p>Administration's paper on "Lease Enforcement Actions on Non-conforming Uses of Industrial Buildings" [<a href="#">LC Paper No. CB(1)541/19-20(04)</a>]</p> <p>Administration's paper on "Fire Safety of and Enforcement Actions in Industrial Buildings" [<a href="#">LC Paper No. CB(1)541/19-20(05)</a>]</p> <p>Administration's follow-up paper [<a href="#">LC Paper No. CB(1)722/19-20(02)</a>]</p> <p>Minutes of meeting [<a href="#">LC Paper No. CB(1)895/19-20</a>]</p>
	6 June 2020	<p>Administration's paper on "Operating Space for the Arts and Cultural Sectors, Creative Industries, and Innovation and Technology Sectors in Industrial Buildings" [<a href="#">LC Paper No. CB(1)702/19-20(01)</a>]</p> <p>Administration's follow-up paper [<a href="#">LC Paper No. CB(1)894/19-20(02)</a>]</p> <p>Administration's response to motions passed at the meeting [<a href="#">LC Paper Nos. CB(1)894/19-20(03)</a>, <a href="#">CB(1)894/19-20(04)</a> and <a href="#">CB(1)894/19-20(05)</a>]</p> <p>Minutes of meeting [<a href="#">LC Paper No. CB(1)921/19-20</a>]</p>

Committee	Date of meeting	Paper
Panel on Development	1 December 2020	Administration's paper on "Initiatives of Development Bureau in the Chief Executive's 2020 Policy Address and Policy Address Supplement" [ <a href="#">LC Paper No. CB(1)275/20-21(01)</a> ]  Minutes of policy briefing [ <a href="#">LC Paper No. CB(1)973/20-21</a> ]

Hyperlinks to relevant motions passed at the Council meetings/Council questions and the Administration's replies:

Date	Motion passed at the Council meeting/Council question
9 November 2016	Question No. 3 on " <a href="#">Using Industrial Building Units for Arts, Cultural, Recreational and Sports Purposes</a> "  Question No. 13 on " <a href="#">Enforcement Actions against Breaches of Land Lease Conditions in Industrial Buildings</a> "
26 April 2017	Question No. 9 on " <a href="#">Assisting Various Industries in Operating in Industrial Buildings</a> "
10 May 2017	Question No. 8 on " <a href="#">Art Studios in Industrial Buildings</a> "
21 June 2017	Question No. 1 on " <a href="#">Using Industrial Building Units for Cultural, Arts and Sports Purposes</a> "
21 March 2018	Motion on " <a href="#">Establishing a Comprehensive 'Re-industrialization' Policy Regime</a> "  <a href="#">Progress report</a>
28 November 2018 and 5 December 2018	Motion on " <a href="#">Studying the Enactment of an Ordinance on Regulating Subdivided Units</a> "  <a href="#">Progress report</a>

Date	Motion passed at the Council meeting/Council question
20 February 2019	Motion on " <a href="#">Increasing Transitional Housing Supply</a> "  <a href="#">Progress report</a>
4 December 2019	Question No. 2 on " <a href="#">Provision of Transitional Housing</a> "
15 January 2020	Question No. 15 on " <a href="#">Revitalization Scheme for Industrial Buildings</a> "
15 July 2020	Question No. 7 on " <a href="#">Reactivation of the Scheme for Revitalization of Industrial Buildings</a> "