

(Translated Version)

**For Discussion on
29 May 2015**

LanDAC PC SC Paper No. 03/2015

**Lantau Development Advisory Committee
Planning and Conservation Subcommittee**

**A Consolidated Economic Development Strategy for Lantau
and Preliminary Market Positioning Study for Commercial Land Uses
in Major Developments of Lantau – Initial Economic Development Concepts**

1. Purpose

- 1.1 This paper aims at briefing Members on the latest progress of “A Consolidated Economic Development Strategy for Lantau and Preliminary Market Positioning Study for Commercial Land Uses in Major Developments of Lantau” and the Initial Economic Development Concepts of Lantau prepared by the consultant.

2. Progress of the Study

- 2.1 The Study commenced in February 2015. At the meeting of the Planning and Conservation Subcommittee on 18 March, the Consulting Team reported on the present economic condition and advantages of Lantau, as well as the development and trend of the region in the vicinity. It also gave a brief account of an initial analysis of the importance of Lantau to the Pearl River Delta region and the local economic development.¹ The Consulting Team also listened to the comments of Members.
- 2.2 To pave way for formulating the consolidated economic development strategy of Lantau, the Consulting Team has prepared the economic development principles, directions and concepts for Lantau.

¹ The document can be downloaded from the website of the Lantau Development Advisory Committee:
[http://www.devb.gov.hk/filemanager/en/content_923/PC_SC_Paper_01_2015_\(Eng\).pdf](http://www.devb.gov.hk/filemanager/en/content_923/PC_SC_Paper_01_2015_(Eng).pdf)

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3. Economic Development Concepts

- 3.1 After conducting a SWOT analysis of Lantau, the Consulting Team put forward three initial economic development concepts – “A Thriving Community”; “A New Platform for the Pillars” and “A Bridge to Tomorrow”. Details are at **Annex 1** for Members’ reference and discussion.

4. The Next Step Forward

- 4.1 After listening to the comments of Members and other stakeholders on the initial economic development concepts, the Consulting Team will prepare a consolidated economic development strategy for Lantau on the basis of the estimated commercial land demand of Lantau. The Consulting Team will then determine the preliminary market positioning of the major commercial developments on the basis of their characteristics and advantages so as to avoid unhealthy competition, to generate synergy and to maximize the benefit. The Consulting Team will consult the Lantau Development Advisory Committee (LanDAC) and its relevant subcommittees and report to them the study results in due course.
- 4.2 The study results will serve as references in conducting detailed feasibility studies for the major development sites in Lantau, as well as an important basis for the LanDAC in formulating the overall planning, conservation, economic and social development strategy.

Annex

- Annex 1: A Consolidated Economic Development Strategy for Lantau and Preliminary Market Positioning Study for Commercial Land Uses in Major Developments of Lantau – Initial Economic Development Concepts

**Planning Department
May 2015**



Consolidated Economic Development Strategy for Lantau and
Preliminary Market Positioning Study for Commercial Land
Uses in Major Developments of Lantau
– Initial Economic Development Concepts

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Document Control

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1 Introduction

1.1 Background

ICF Consulting Services Hong Kong Limited (ICF) has been commissioned by the Planning Department (PlanD or the Client) to undertake the “*Provision of Services for a Consolidated Economic Development Strategy for Lantau and Preliminary Market Positioning Study for Commercial Land Uses in Major Developments of Lantau*” (the Study). The Study commenced in February 2015 and is expected to be completed in six months.

As reported in the Planning and Conservation Subcommittee (PC SC) Paper No. 01/ 2015 of the Lantau Development Advisory Committee (LanDAC), the Consulting Team has preliminarily analyzed the locational advantages, limitations and opportunities of Lantau and also make reference in regional developments and trends. The Consulting Team also took into consideration the comments raised by PCSC members as well as the potentials and constraints of Lantau to map out a preliminary economic development concepts.

1.2 Objective of the Paper

The objective of this Paper is to brief the members on the preliminary consolidated economic development strategy, including economic development principles and direction as well as three initial economic development concepts for Lantau.

2 Preliminary Consolidated Economic Development Strategy for Lantau

2.1 Introduction

This Section introduces the preliminary consolidated economic development strategy which comprises the development principles and direction and three initial economic development concepts.

2.2 Vision and Strategic Positioning for Lantau

The socio-economic context of Hong Kong has changed drastically since the promulgation of the Revised Concept Plan for Lantau (the Concept Plan) in 2007. In response to these changes including the growing local population and number of visitors to Hong Kong, increasing demand for land for various purposes as well as greater diversification of economic activities, the LanDAC revisited the Concept Plan in January 2014 and confirmed that the new planning vision of Lantau should be **“to promote the strategic growth and sustainable development of Lantau by balancing the needs for development and conservation.”**¹

As for strategic positioning, Lantau should be heading to the following directions:

- A confluence of transport infrastructures connecting Hong Kong to Mainland China and the world;
- An one-stop professional services hub providing comprehensive and high value-added services covering finance, legal, healthcare and education etc.;
- To leverage on the emerging opportunities brought by the proposed “East Lantau Metropolis”, i.e. more land would be supplied to accommodate the increasing population and create job opportunities; and
- Strengthen Hong Kong’s tourist assets by developing new and diversified recreation, entertainment and commercial uses.

2.3 SWOT Analysis for Lantau

The Consulting Team has provided an account of the current status of the economy of Lantau and the nearby region and various strengths of Lantau in the PCSC Paper No. 01/2015. Since then, the Consulting Team has also identified and analysed constraints for economic development facing Lantau. The following table summarises the strengths, weaknesses, opportunities and threats pertaining to Lantau.

¹ LanDAC PC SC Paper No. 05/2014

Table 2.1 An Economic Development SWOT for Lantau

Strengths	Weaknesses
<ul style="list-style-type: none"> ■ Various strategic infrastructures (including the existing ones, and the ones under construction and planning), among which HKIA is the world’s busiest airports by cargo traffic. It is also popular among passengers ■ Major tourist attractions ■ Unique and rich natural, heritage and cultural tourism assets ■ AsiaWorld-Expo in Lantau being a major meeting, convention/ exhibition and events venue in HK ■ Uniquely themed hotels and outlet mall with reputation ■ A vibrant and diverse community with rural and urban elements 	<ul style="list-style-type: none"> ■ Distant location from urban core with weak local agglomeration effects; one-way commuting patterns creating peak hour-bottle-necks ■ Poor intra-island connectivity, particularly between north-south Lantau ■ Challenging terrain; land supply mainly through reclamation ■ Aviation-related height restrictions ■ Noise and air quality issues limit the choice of land uses ■ Existing infrastructure capacity inadequate to cope with large scale development ■ Mismatch between population profile/ local labour skills and job opportunities
Opportunities	Threats
<ul style="list-style-type: none"> ■ New infrastructure development, further enhancing connectivity with the PRD and NT West ■ National policies of Guangdong Free Trade Zones and “One Belt One Road” will lead to closer economic cooperation and create new business opportunities between HK, Mainland China and the world ■ Airport expansion and growth in passenger and cargo handling capacity ■ Bridgehead Economy ■ Proposed North Commercial District (NCD), Disneyland Ph. II and potential AWE expansion offer scope for synergistic development ■ Possible regional office node for Lantau, NT West and Mainland firms wanting a HK base ■ Demand for modern logistics facilities ■ Significant expected local population growth provides pool of future labour supply ■ Increase in visitors and need for hotel rooms 	<ul style="list-style-type: none"> ■ Competition with other destinations / developments in HK and Lantau ■ Competition with destinations / developments across the boundary ■ Mismatch between population profile/labour skills and jobs opportunities remains ■ Failure to create ‘destinations’ will exacerbate existing transport bottleneck problems; visitors arriving via the Hong Kong-Zhuhai-Macao Bridge (HZMB) will bypass Lantau and head straight for downtown

2.4 Economic Development Principles

Based on the SWOT analysis above, the Consulting Team proposes the following three broad economic development principles:

1. Destination Development

Lantau is relatively remote from the urban core. Apart from visiting the major tourist attractions such as Tai O, the Hong Kong Disneyland, Po Lin Monastery/ Giant Buddha and Ngong Ping 360², Lantau does not offer much pull factors to visitors and local residents to come to Lantau for shopping or leisure. The choices for hotel, retail, and dining and entertainment provision in Lantau are also limited compared to the urban area³. Visitors coming into Hong Kong via HKIA would normally bypass Lantau and head straight for downtown as the result. The Consulting Team considers that making Lantau a true 'destination' is of vital importance to the island's long term development. Lantau should strive to become an attractive place worthy to attract local residents and visitors to visit and stay on the island for longer. This way, business opportunities could be created.

2. Sustainable Development

Financial Sustainability: Industries / business agglomerate to benefit from synergy effects. If the scale of planned commercial development fails to generate sufficient synergy effects to induce such agglomeration, the attractiveness of commercial land would be weakened. To the Government, this would mean failure to capture the full potential land premium. From an investment angle, the property fails to generate income for investors / owners. Therefore, commercial uses in Lantau should be attractive to visitors, tenants, users and investors, with non-revenue generating but economically important uses to be cross-subsidized by revenue-making uses whenever possible in order to ensure financial sustainability. The benefits are twofold - on one hand, a large number of local employment opportunities could be created to minimize the need to work in other districts, and on the other hand, diversification of economic activities of Hong Kong could be further enhanced.

Sustainable Community: The skill sets of the local workforce and the local employment opportunities should be better matched to minimize the need for commuting and to lower the local unemployment rate. In order to create a vibrant and harmonious community, the local population should consist of different age groups, skill sets and income levels. A diversified community is also beneficial to the development of local economy.

Environmental Sustainability: As stated in the updated Overall Planning Vision for Lantau, economic development should not compromise conservation. In fact, such a balance is key to turning Lantau into an ideal place for living, working and leisure.

² According to the Statistical Review of Hong Kong Tourism 2013 published by the Hong Kong Tourism Board, 21% of overnight visitors interviewed visited the Hong Kong Disneyland, 7% visited Po Lin Monastery/Giant Buddha, and 6% used Ngong Ping 360.

³ According to the same publication by HKTB, in 2013, the average length of stay for all visitors to Hong Kong was 3.4 nights, which is relatively short. Given the short period of stay, easy transportation and density of attractions are key considerations for selecting accommodation. Despite Lantau's proximity to the HKIA, supply of hotel selection (currently eight hotels on Airport Island, Tung Chung, Tai O, Mui Wo and Sunny Bay with a total of about 3,700 rooms) is limited compared to urban area. By means of comparison, in 2013, there were 112 hotels of various price range providing a total of over 20,000 rooms. The choices of retail, dining and entertainment are also much limited in Lantau (for example, retail facilities in Tung Chung are mainly outlet or for satisfying community needs). As a result, many visitors would stay in urban area for more choices, and will only visit the major attractions in Lantau.

3. Holistic Approach

A holistic approach is needed to integrate all planned and on-going development projects on Lantau to avoid competition and create synergy.

2.5 Initial Economic Development Direction

The Consulting Team has conducted a full-rounded assessment on Lantau and accordingly, developed the following initial economic development direction:

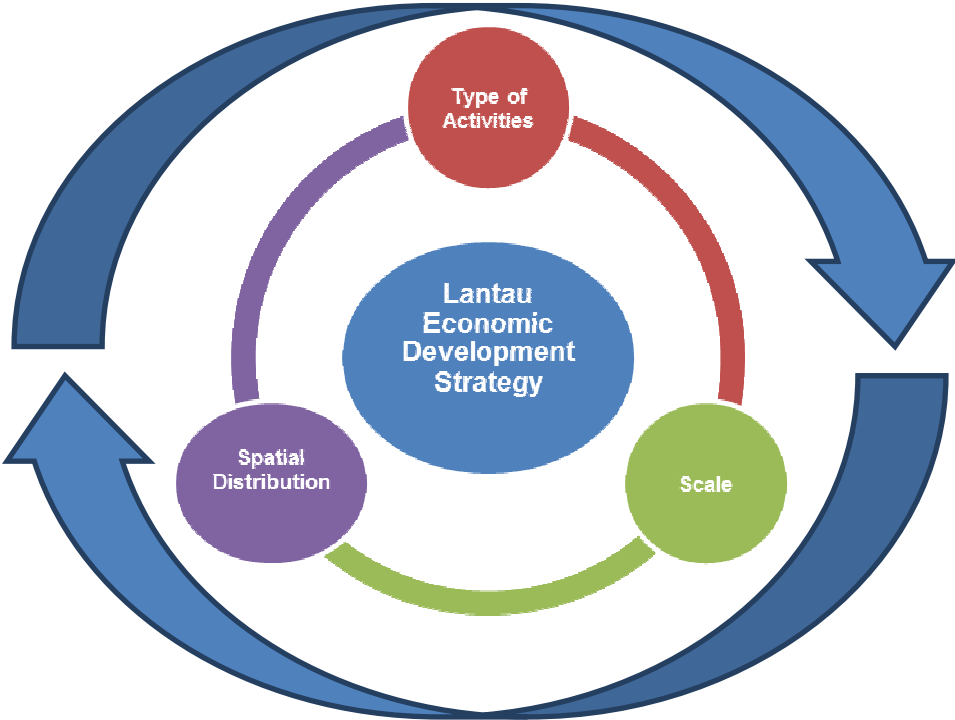
“To capitalize on the anticipated economic growth and tourist growth in the PRD Region and the increase in flows of international and regional visitors and goods in Lantau by building on existing strengths of Lantau, specifically its strategic infrastructure and tourism assets, and capturing the opportunities arising from airport expansion and new transport infrastructure, and the synergy and potential competition with destinations/uses in Hong Kong and the Region faced by Lantau.”

Specifically, the three elements of economic development strategy are (Figure 2.1):

- **Type of Activities:** Economic activities refer to those that would generate employment and consumption, such as tourism, MICE, retail and logistics etc. In the context of this Study, economic activities would also include those with potential to be located in Lantau given the increasingly integrated Hong Kong – PRD economy and the creation of “one-hour living circle”;
- **Scale:** To achieve synergy and sustainability, economic activities should attain certain scale of development (i.e. in terms of land requirements and agglomeration of related industries). The Consulting Team will consider the expected population intake, visitors coming into Hong Kong via Lantau, possible land supply and future accessibility to determine the most appropriate scale of different economic activities.
- **Spatial Distribution:** It is crucial to take account of both the locational requirements of possible economic activities (e.g. the need to be close to airport / ports) and the various geographical and environmental constraints facing Lantau (e.g. incompatibility with residential uses, airport height restrictions, noise and air quality etc). Most importantly, the Consulting Team will consider whether, at the territorial level, Lantau has an edge for developing certain industries over other parts of Hong Kong.

Figure 2.1 Elements of Lantau’s Economic Development Strategy

New Initiatives of Regional Economic Development



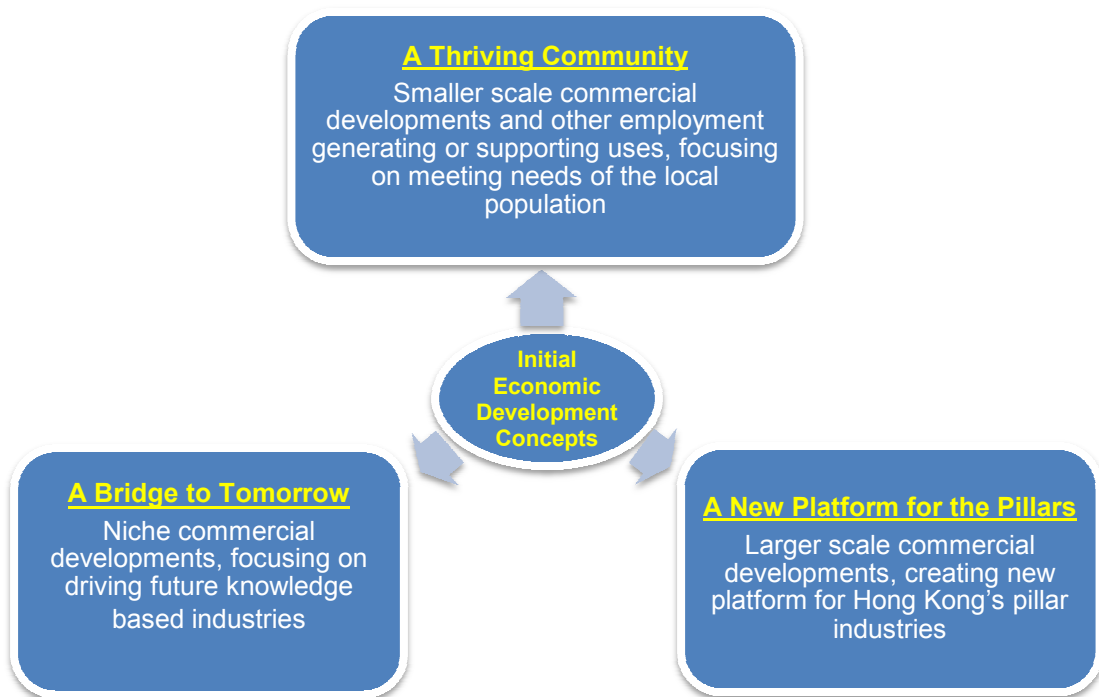
Hong Kong’s Economic Development Strategy

3 Initial Economic Development Concepts

3.1 Introduction

The Consulting Team has developed the following initial economic development concepts based on analysis described in previous Sections.

Figure 3.1 Three Initial Economic Development Concepts



3.2 A Thriving Community

3.2.1 The Current Situation

Lantau provides about 90,000 employment opportunities, among which 65,000 are airport-related opportunities⁴. Tung Chung, Hong Kong Disneyland Resort Area, Discovery Bay and Mui Wo are other employment centres on Lantau. The 2011 Census also reveals that Lantau has a total population of 110,000, of which Tung Chung New Town has about 80,000 (about 40,000 are working population) – the latter represents almost 75% of Lantau’s population. Although the airport provides substantial employment opportunities, not more than 10% (3,600 persons, excluding home-makers) of Tung Chung’s labour force is working in the North Lantau New Town (including the Airport Island). The majority of the labour force has to commute to other districts for work. Likewise, the majority of airport-related employment opportunities are filled up by staff living elsewhere in Hong Kong. This situation implies a mismatch between skill sets of Tung Chung population and the local jobs available at the airport.

⁴ LanDAC ESD SC Paper No. 01/2015
http://www.devb.gov.hk/filemanager/en/content_924/ESD_SC_Paper_No_01_2015_%28Eng%29.pdf

The current situation creates many problems for Lantau. First, there is significant strain on peak hour transport networks. In addition, there is a mismatch between population profile/local labour skills and job opportunities due to the lack of variety in job in Lantau, and the lower skilled, whose wages may fail short to compensate the cost of commuting. This may also explain the reason for higher unemployment rate of Tung Chung (5.4%) as compared to Hong Kong as a whole (3.4%). According to the *Planning and Engineering Study on the Remaining Development in Tung Chung*, Tung Chung New Town will be home to 260,000 residents upon when further housing development is completed. If job opportunities and proper amenities cannot be integrated into future planning, the current problem of skill sets / job mismatch is likely to exacerbate.

As Lantau does not have an abundant selection of retail, dining and entertainment provision, staff of HKIA may not spend time in Lantau or Tung Chung. Tung Chung residents also have limited leisure choices too.

3.2.2 The Consulting Team's Proposal

The possible future economic development direction for Lantau is to turn Lantau into a thriving community such that it can be a suitable place for living, working and leisure for people of all social classes, occupations and ages. This proposal is intended to serve the needs of the existing and future population of Lantau, creating job opportunities for the low-skilled as well as necessary employment supports programmes (such as vocational training, youth training programmes and start-up programmes) to promote local employment and to support start-ups (e.g. co-working space). It is envisaged that the current skill sets / job mismatch could be somewhat alleviated in the longer term through these initiatives. Additionally, the Consulting Team also proposes to include appropriate housing types to attract airport employees / higher-skilled labour moving into Lantau.

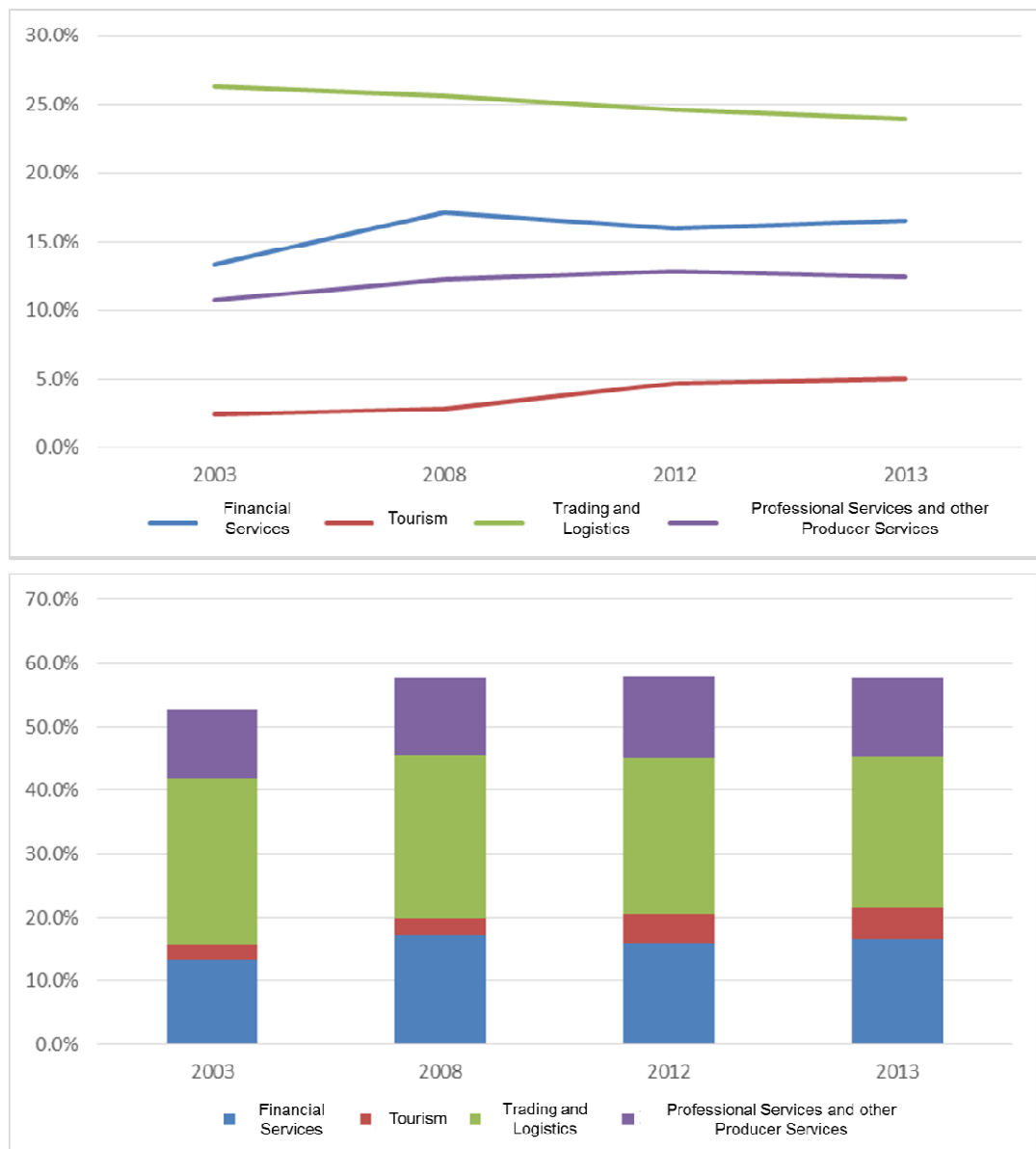
Lantau's relatively remote location and current weak local industry agglomeration cannot be simply overcome by increasing floorspace supply. The Consulting Team proposes that on top of providing land for commercial development, there is a need to introduce catalysts and employment anchors to generate job opportunities, particularly those with lower entry requirements such as professional backup support services, logistics, retail, tourism and MICE. Through comprehensive, appropriate mixed-use planning, the objective of a vibrant community for living, working and leisure can be achieved.

3.3 New Platform for Pillars

3.3.1 Current Situation

The four pillar industries (i.e. Financial Services, Tourism, Trading and Logistics, and Professional Services and other Producer Services) have long supported the growth of Hong Kong's economy. From 2009 to 2013, in total these industries accounted for 58% of the local GDP (see Figure 3.2) and employed 47% of the working population of Hong Kong.

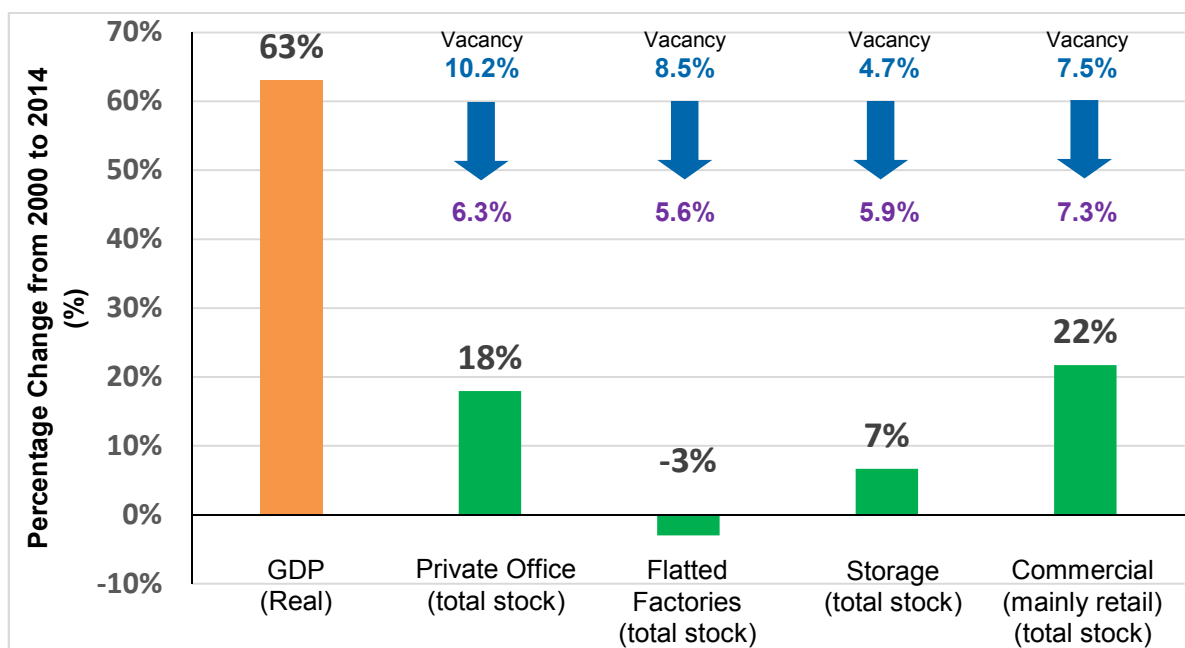
Figure 3.2 Four Pillars' Contribution to GDP (%)⁵



To the four pillar industries, a lack of developable land (at the right location with the right price) continues to be one of the hurdles for the growth of these industries. To illustrate, Figure 3.3 shows that the vacancy for different types of commercial properties has dropped significantly, suggesting that the significant demand for commercial properties of various kinds in Hong Kong.

⁵ C&SD Table 030 : Gross Domestic Product (GDP), implicit price deflator of GDP and per capita GDP

Figure 3.3 Vacancy and Total Stock of Different Types of Commercial and Industrial Properties⁶



3.3.2 The Consulting Team’s Proposal

On the premise of the existing economic development, the Consulting Team suggests turning Lantau into a major new economic hub to support the development of Hong Kong’s pillar industries, providing substantial employment opportunities for Lantau and nearby areas.

The pillar industries are in lack of adequate and appropriate land. Lantau and the proposed East Lantau Metropolis (ELM) as well as Sunny Bay and Siu Ho Wan reclamation have potential to provide scalable land for economic uses, therefore providing a new platform for the pillar industries.

According to the 2011 Census, Tuen Mun and Yuen Long had a combined working population of 560,000. However, only one out of every four of them worked in the same district. The majority were required to work in other districts. Upon completion of Tuen Mun-Chek Lap Kok Link Road, the distances from Tuen Mun and Yuen Long to Lantau would be significantly reduced. If significant employment opportunities could be provided, Lantau may be a more appealing place to work to the residents of Tuen Mun and Yuen Long. Additionally, the proposed East Lantau Metropolis could become an employment node for residents of West Kowloon and Hong Kong Island, and inject new labour force to fuel Lantau’s development. The scale of development under this concept will be much larger than the concept of “A Thriving Community.”

⁶ R&VD Data (2015)

Figure 3.4 Links to Lantau from West New Territories, West Kowloon and Hong Kong Island



The Consulting Team also suggests including office development in Lantau under this concept for professional or semi-professional backup support services. Based on market data obtained by the Consulting Team, in 2008 only 12% of office floorspace were taken up by mainland companies, but in 2015, 20% of top 25 Grade A office floorspace are taken up by mainland companies. Hence, the proposed office space in Lantau could be leased to mainland companies wishing to be based in Hong Kong and leverage on its rule of law, financial and professional services and abundant investment opportunities, and provide corporate supporting services. Lantau could also leverage on the HKIA's status as world's busiest cargo airport, develop modern logistics to facilitate international and regional transport of goods rise up the value of Hong Kong's logistics chain (from efficient processing of volume to a nerve centre for high value supply chain management).

With the Hong Kong-Zhuhai-Macau Bridge, transportation between Hong Kong and Western PRD cities will be much easier. To support the tourism industry, Lantau could enhance its tourism offering, including MICE and business tourism-related provision such as expansion of convention and exhibition space (according the Commerce and Economic Development Bureau, based on the current demand for Convention and Exhibition (C&E) spaces, it is projected that an additional 132,000 sqm of C&E spaces will be required in 2028 in order to satisfy demand during peak seasons) and mid-priced hotel development. Taking advantage of cross-boundary transport infrastructure (particularly the HZMB), Lantau could partner with Macau/ Zhuhai and other PRD cities to develop regional tourism. Last but not least, Lantau could enrich the tourism offerings by making use of existing and new tourist attractions and natural and cultural heritage resources.

3.4 A Bridge to Tomorrow

3.4.1 Current Situation

“Innovation”, meaning the process of translating new ideas into marketable products, processes and services, is increasingly recognised around the world as fundamental to economic growth. Although Hong Kong is not currently recognised as a global leader in this regard (see Table below), policy recognition of the importance of innovation is changing and the government has shown determination to give impetus to the development of this industry.

Table 3.1 Innovation-specific Indicator and Competitiveness of Hong Kong

Innovation-specific Indicators (2013/2014)	Hong Kong Ranking (out of 148)
Capacity for innovation	29
Quality of specific research institutions	31
Company spending on R&D	25
University-Industry collaboration in R&D	21
Government procurement of advanced tech products	19
Availability of scientists and engineers	32
HK/ Comparator Jurisdictions (2012)	Gross Domestic Expenditure on Research and Development as % of GDP
South Korea	4.4
Israel	4.2
Finland	3.4
Taiwan	3.1
United States	2.8
Belgium	2.2
Singapore	2.0
Mainland China	2.0
Hong Kong	0.7

Guangdong’s output of high technology products increased from 17.2% in 2000 to nearly 35% in 2011, and its expenditure on Research & Development (R&D) has doubled to nearly 2% of the province’s GDP during the same period. Compared to Guangdong, Hong Kong still needs to catch up, as it does with many global competitors as show above.

Although the recent growth of start-ups in Hong Kong has been startling, its ecosystem still needs a catalyst. Lantau could be a potential location to promote innovation-based economy.

3.4.2 The Proposal

Potentially, Lantau could build on its strength and become a gateway platform to showcase Hong Kong and the world of its innovation potential. Priority should be given to knowledge-based industries to set up their offices there.

Lantau could be turned into a ‘Smart Island’ and a ‘test bed’ where local firms could pilot their products of urban system, technology or concept. Successfully tested products could be applied to other areas. Currently, the Innovation and Technology Commission and the Hong Kong Science & Technology Parks Corporation already have programs to allow firms to test their products in a real life setting. However, if product testing can be taken to Lantau where the businesses could conduct testing in larger scale, it would be beneficial to the business

and could turn Lantau into a Smart Island. Although Kowloon East is also testing out smart city initiatives, it is believed that Lantau has much greater potential as Kowloon East is already highly developed.

The Consulting Team also consider possible to create an innovation and technology hub near the airport. The proposal makes reference to international best practice for locating satellite science parks near airports. Since the Hong Kong Science Park and Cyberport are far away from Lantau and Northwest New Territories without direct transportation connections, Lantau is not able to capture the business opportunities created by these institutions. Moreover, there is a great business potential of developing B2B co-working space and incubation programme. Given the recently announced partnership agreement between the Airport Authority Hong Kong and the Hong Kong Science & Technology Park Corporation to look into using technology to enhance airport services, nearby land could be set aside for developing incubation and / or co-working spaces dedicated to airport / logistics related technology.

At last, to facilitate the development of Lantau, introduction of high technology manufacturing activities should also be considered, such as promoting high value-added prototyping, testing and manufacturing activities as the major economic activity in Lantau. Rising labour costs in the PRD are starting to tip the cost/ quality trade-off back in Hong Kong's favour to the point where opportunities may exist to reintroduce highly automated manufacturing industries back into Hong Kong, particularly in sectors where the value of Hong Kong's trustworthy brand could be a significant business advantage (i.e. food, medical devices). In biotechnology, Hong Kong could provide the high quality testing environment, where some product then more easily enter the Mainland China market. At the same time, Hong Kong Productivity Council has proposed to use the branding of Hong Kong to attract those industries already departed (high-value added industries in particular) to move back to Hong Kong. However, due to the lack of suitable land, there is no significant movements yet. Should Lantau provides land to develop these industries, Hong Kong might have a new thrust in its economy.



4 Conclusion and Next Steps

This Paper has summarised the initial economic development concepts and directions. After reviewing comments from the Committee Members and other stakeholders, the Consulting Team will refine its Lantau economic development strategy, and accordingly, and elaborate on the concepts with greater detail. In the meantime, the Consulting Team is projecting the territorial commercial land requirement for different business uses, including offices, hotels, retail and MICE to serve as reference in the preparation of Consolidated Economic Development Strategy for Lantau and preliminary market positioning and development parameters of the Major Developments.