

**For discussion
on 28 September 2021**

**LEGISLATIVE COUNCIL
PANEL ON DEVELOPMENT**

Progress of Revitalisation of Industrial Buildings

PURPOSE

This paper briefs Members on the implementation progress of various measures promoting revitalisation of industrial buildings (“IBs”).

BACKGROUND

2. Currently, there are about 1 400 IBs¹ in Hong Kong. As a result of Hong Kong’s economic restructuring, some of these industrial premises may not be optimally utilised, or may be infiltrated by incompatible non-industrial uses. The Chief Executive announced in her 2018 Policy Address and 2020 Policy Address a basket of measures to incentivise the market to optimise the use of existing industrial land resources to meet the changing social and economic needs, and to address more effectively the issues of fire safety and non-compliant uses.

¹ 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. They do not include special factories such as those located in industrial estates, storage premises in container terminals, flatted factories built by the Housing Authority, and those buildings on lots supporting some specific industries.

SUMMARY OF THE MEASURES

3. The current scheme (the “2018 Revitalisation Scheme”) comprises the following six measures²:

Redevelopment

- (I) relaxing the maximum permissible non-domestic plot ratio (“PR”) by up to 20%³ to incentivise private owners to redevelop IBs constructed before 1987 (“pre-1987 IBs”) for industrial or commercial purposes on sites located outside “Residential” (“R”) zones in Main Urban Areas and New Towns⁴. This measure is valid for an initial period of three years, viz. individual applications must be made to the Town Planning Board (“TPB”) within three years starting from 10 October 2018, and the modified lease must be executed with full land premium charged under the prevailing mechanism within three years after the planning approval;

Wholesale Conversion

- (II) exempting waiver fees to incentivise private owners to convert entire blocks of IBs aged 15 years or above in “Commercial” (“C”), “Other Specified Uses” annotated “Business” (“OU(B)”) and “Industrial” zones, with the condition that no less than 10% of the converted floor space must be designated for specific uses prescribed by Government. The measure is also valid for an initial period of three years, viz. private owners may submit applications for a special waiver to Lands Department (“LandsD”) within three years starting from 2 April 2019. If the proposed use applied for requires planning

² We briefed the Panel on Development on the measures on 19 December 2018. Please refer to LC Paper CB(1)323/18-19(03).

³ Individual applications have to be approved by the Town Planning Board, and are subject to the maximum non-domestic PR allowed under the Building (Planning) Regulations.

⁴ The measure highlights sites located outside “R” zones because increase in PR upon redevelopment for “R” zones has already been announced in another context. Specifically, we promulgated in 2014 that, in several regions of metro area and the older areas of new towns, individual proponents for private residential developments may apply to the TPB for increasing the maximum domestic plot ratio by up to 20%, where sufficient planning merits are demonstrated (including adequate traffic and infrastructural capacity to accommodate the increased development intensity). This also applies to potential redevelopment of IBs into residential use at relevant locations.

permission from the TPB, it must be obtained before the waiver application is submitted to LandsD;

Facilitating Community-led Transitional Housing Proposals for Conversion of IBs

- (III) exercising flexibility in the application of planning and building design requirements, and charging a nil waiver fee, to facilitate provision of transitional housing units in IBs which have been or are to be wholesale-converted into non-industrial uses in “C”, “Comprehensive Development Area” (“CDA”), “OU(B)” and “R” zones;

Other Measures Permitting Non-industrial Uses in Existing IBs

- (IV) in respect of IBs which have not undergone wholesale conversion into non-industrial uses, relaxing the policy on waiver application to permit certain uses for the arts and cultural sectors, creative industries, and innovation and technology sectors at individual units of existing IBs without requiring owners to make waiver applications for deviating from the leases and pay waiver fees;
- (V) promulgating a broader definition for “godown” use under lease provisions, covering (among other permitted uses) “cargo handling and forwarding facility” and “recyclable collection centre” uses; and
- (VI) broadening the permissible use of buffer floors to cover “telecommunications exchange centres” and “computer/data processing centres” to facilitate partial conversion of lower floors of IBs below these buffer floors into non-industrial uses.

Pilot Scheme for Charging Land Premium at Standard Rates

4. To expedite the processing of lease modification applications in relation to IB redevelopment, the Chief Executive announced in her 2020 Policy Address the introduction of a pilot scheme for charging land premium at “standard rates” for IB redevelopment. The pilot scheme is effective for a period of two years from 15 March 2021 to 14 March 2023.

IMPLEMENTATION PROGRESS

(I) Redevelopment

(A) Relaxation of Plot Ratio under the 2018 Revitalisation Scheme

5. As at 31 August 2021, of the 58 applications⁵ received by the TPB, 52 were approved. The rest are being processed. The number of applications received and approved compares very favourably with that under the previous round of revitalisation scheme (in which 14 IB redevelopment projects were approved and taken forward during the six-year period from 2010 to 2016), reflecting encouraging market response to this measure of allowing PR increase upon redevelopment.

6. For the 52 applications approved by the TPB, the relevant IB sites are mostly located in Kwun Tong, Kwai Chung, Tsuen Wan, Cheung Sha Wan, and Kowloon Bay. Upon completion of construction works in the next few years, these private-sector projects are expected to supply a total floor area of over 1 million square metres. The mix of commercial and industrial floor area arising from these new buildings is around 1:1. A breakdown of the geographical locations of these redevelopments and the floor space contribution is set out at **Annex**.

7. Some of the redevelopment cases require lease modifications. Four applications for lease modification (including land exchange) have been approved and executed. 16 other applications are being processed by LandsD.

⁵ Excluding withdrawn cases, and duplicated cases involving the same sites.

(B) Pilot Scheme for charging premium at standard rates for redevelopment

8. After the pilot scheme was launched in March 2021, land owners may now opt for the premium for the eligible lease modifications to be charged at standard rates⁶. The premium to be charged at standard rates under the pilot scheme is not negotiable and the option is irreversible. In other words, LandsD will not consider any appeal against the offered premium pursuant to the pilot scheme. If an applicant opts for the premium to be charged at standard rates and LandsD accepts the option, the premium offer under the “binding basic terms offer” for straightforward cases will normally be issued to the applicant within five weeks from the date of receipt by LandsD of the acceptance of the provisional offer.

9. Since the launch of the pilot scheme, five applicants have opted for premium assessment by standard rates. Of these five cases, four have premia based on the standard rates accepted (with three executed) as of mid-September 2021.

(II) Wholesale Conversion

10. As at 31 August 2021, LandsD had received and was processing seven waiver applications (three of which having secured planning approval, and the other four not requiring planning approval), in relation to wholesale conversion of relevant IBs. Separately, the TPB had approved six planning applications for proposed non-industrial uses upon wholesale conversion.

11. The exemption of waiver fees under the current scheme (paragraph 3(II) above refers) comes with a condition for the owner to agree to designate no less than 10% of the floor space to implement some specified

⁶ As set out in our Legislative Council brief issued on 4 March 2021, the standard rates to be applicable to the lease modification will be based on those in one of the following five broad regions where the lot(s) is/are situated. These standard rates will be valid throughout the two-year period of the pilot scheme.

| Region | Use Before Lease Modification (Industrial/Godown) | Use After Lease Modification | |
|-----------------------|--|------------------------------|--------------------------|
| | | Commercial/Modern Industrial | Residential |
| Hong Kong Island | \$40,000/m ² | \$75,000/m ² | \$130,000/m ² |
| Kowloon East | \$40,000/m ² | \$65,000/m ² | \$100,000/m ² |
| Kowloon West | \$35,000/m ² | \$60,000/m ² | \$110,000/m ² |
| New Territories South | \$35,000/m ² | \$50,000/m ² | \$75,000/m ² |
| New Territories North | \$20,000/m ² | \$30,000/m ² | \$55,000/m ² |

uses required by Government. In this connection, in making a waiver application to LandsD, an owner may propose preliminary parameters about the specified uses of the designated portion (including the gross floor area (“GFA”), floor location, particulars of the conversion works). In determining the designated portion and the specified uses, the decision of Government shall be final. While rental concession for tenants of the designated portion is welcomed, the terms and conditions (including the rent payable) of the future tenancy remain to be a matter to be agreed between the owners and prospective tenants.

12. Development Bureau is now working with LandsD to liaise with the relevant applicants about the uses of the designated portion at the future wholesale-converted buildings. In these cases, we hope to include at the designated portion certain uses that would benefit the arts and cultural sectors, creative industries, innovation and technology industries, social services sector, etc. For instance, in our processing the first few more mature waiver applications, we are actively discussing with the relevant applicants the potential of designating certain portion of the wholesale-converted spaces for studio use by artists or art organisations. The reaction of the applicants is quite positive. LandsD will announce the details of these applications once the waiver letters are executed.

(III) Community-led Transitional Housing Proposals at Wholesale-converted IBs

13. The Task Force on Transitional Housing (“Task Force”) under Transport and Housing Bureau (“THB”) is actively and collaborating with non-government organisations on various initiatives to increase the supply of transitional housing. As far as IBs are concerned, we introduced the following measures:

- (i) Buildings Department (“BD”) promulgated the Guidelines on Applications for Special Modification or Exemption for Transitional Housing Initiatives in Domestic Buildings in October 2018. BD now adopts a pragmatic approach to consider granting transitional housing projects certain exemptions from requirements on site coverage, PR, open space within the site, and service lane for domestic buildings under the Buildings Ordinance;
- (ii) As announced by the TPB in November 2018, transitional housing projects co-ordinated by the Task Force in permanent

buildings, including wholesale-converted IBs in the “C”, “CDA”, “OU(B)” and “R” zones in the urban and new town areas, can be regarded as for temporary use, which is always permitted under the Outline Zoning Plan (“OZP”) if the projects are for a period of five years or less; and

- (iii) LandsD will exempt the waiver fee for a transitional housing use in proposals supported by the Task Force at wholesale-converted IBs.

14. So far, LandsD has received one application for a waiver for provision of transitional housing units at a wholesale-converted IB in Kwun Tong. The Task Force is liaising with the relevant owner and a non-government organisation, with a view to reaching an agreement on a viable operation arrangement to implement the project⁷.

(IV) Relaxing the Waiver Application Policy to Permit Uses for Arts and Cultural Sectors, Creative Industries, and Innovation and Technology Sectors

15. To address the demand for safe, lawful and affordable space of the relevant sectors with policy support, Government now permits, under a pilot arrangement during a period of five years from 1 February 2019 to 31 January 2024, the following non-industrial users to operate at individual units of existing IBs without requiring relevant owners to apply for a waiver to depart from the relevant land lease and pay a waiver fee -

- (i) “Art Studio”;
- (ii) “Office (Audio-visual Recording Studio)”;
- (iii) “Office (Design and Media Production)”;
- (iv) “Office” (used by “specified creative industries” only); and
- (v) “Research, Design and Development Centre”.

16. This relaxation measure effectively means that while the above permitted uses are not in line with the user restrictions for “industrial and/or godown purposes” under lease, LandsD will not take any enforcement action against the breach of user restrictions concerned so long as the prescribed pre-requisites are met. The pre-requisites are that such uses must also be permitted under the land use zoning of the site on the relevant OZP as

⁷ Please see LC Paper No CB(1)1103/20-21(01) issued by THB in July 2021 to give an update on the progress with various initiatives to supply transitional housing in the territory.

“Column 1” (i.e. always-permitted) uses, and that, for the sake of public safety, the permission does not cover any uses or activities involving direct provision of services or goods⁸.

17. Without prejudice to public safety, this measure enables IB units to be used for industrial and some non-industrial uses in a controlled and pragmatic manner, thus achieving our objective of optimising the use of IBs (especially those under multiple ownership and unlikely ready for redevelopment or wholesale conversion immediately). As a ball-park indication, our initial estimate is that a total GFA of about 500 000 square metres in different IBs in the territory may be covered by this permission.

(V) Promulgating a Broader Definition for “Godown” Use under Lease Provisions

18. LandsD promulgated a practice note in January 2019 to set out a broader interpretation of “godown” use under lease to cover “cargo handling and forwarding facility” and “recyclable collection centre” uses⁹. The two uses in godown premises will generally be accepted under lease by LandsD, without requiring an owner to make a waiver application. This provides certainty to enable relevant operations of the logistical and recycling sectors to take place at godown premises.

(VI) Broadening the Permissible Uses of Buffer Floors

19. A buffer floor may be required at an existing IB in order to completely separate non-industrial uses in the lower floors from industrial uses in the upper floors. If individual owners are considering partial conversion of the lower floors below a buffer floor at an existing IB into non-industrial uses, they may benefit from a wider range of permitted uses of the

⁸ Taking “Arts Studio” as an example, the intention is to cover premises used by artists themselves as their own working space. Arts exhibition space or arts education centres attracting outside visitors (hence potential safety concerns) are not covered by the permission.

⁹ “Cargo handling and forwarding facility” means any premises or structure which provides facilities for the processing of inbound, transshipment and outbound cargo and/or freight forwarding facilities including the necessary logistics support such as packaging, labelling and final assembly of goods for distribution. “Recyclable collection centre” means any premises where community-based recycling activities involving collection, storage, sorting, packing and baling of recyclable materials for recycling purposes are carried out.

buffer floor¹⁰ which may now be used as “telecommunications exchange centres” and “computer/data processing centres” (apart from other permitted uses such as car park, electrical and mechanical plant room, empty floor as means of escape). So far, no such waiver application had been received by LandsD as at 31 August 2021, possibly because the market is more attracted to the other revitalisation measures leading to redevelopment and wholesale conversion of IBs.

ADVICE SOUGHT

20. Members are invited to note the progress set out in this paper. We will continue to monitor the implementation of the various measures and facilitate smooth implementation. We are also considering the way forward for the time-limited measures in paragraphs 3(I) and 3(II) above in light of the experience so far.

**Development Bureau
September 2021**

¹⁰ If there is a buffer floor at an IB which completely separates the lower floors from the upper portion with industrial uses, an owner may convert the premises at the lowest three floors into other non-industrial uses, including shops and services, restaurants, or arts and cultural facilities, subject to payment of waiver fees and compliance with planning and other relevant requirements.

Redevelopment of Industrial Buildings
Relaxation of maximum non-domestic plot ratio by up to 20%
(Position as at 31 August 2021)

A. Summary of applications received by the Town Planning Board

| | No. of cases |
|------------------------------|---|
| Applications received* | 58 |
| Applications approved | 52 supplying ~ 1 084 000 m ² of GFA [<i>industrial GFA ~ 554 000 m²;</i> <i>commercial GFA ~ 530 000 m²</i>] |
| Applications being processed | 6 |

*excluded withdrawn cases, and duplicated cases involving the same sites

B. Breakdown of approved cases by districts

| District | No. of approved cases |
|-------------------------------|------------------------------|
| <i>Hong Kong</i> | |
| Chai Wan | 2 |
| Shau Kei Wan | 1 |
| <i>Sub-total</i> | 3 |
| <i>Kowloon</i> | |
| Kwun Tong | 14 |
| Kwai Chung | 9 |
| Tsuen Wan | 7 |
| Cheung Sha Wan | 6 |
| Kowloon Bay | 3 |
| Mong Kok / Tai Kok Tsui | 3 |
| San Po Kong | 3 |
| Hung Hom | 1 |
| Kai Tak | 1 |
| <i>Sub-total</i> | 47 |
| <i>New Territories</i> | |
| Tuen Mun | 1 |
| Yuen Long | 1 |
| <i>Sub-total</i> | 2 |
| Total | 52 |