



Seminar on Office Development in Hong Kong

Revitalisation of Industrial Buildings

– An Update

12 March 2011

Presentation by Mrs Carrie Lam
Secretary for Development
Government of the Hong Kong Special Administrative Region



The need for change



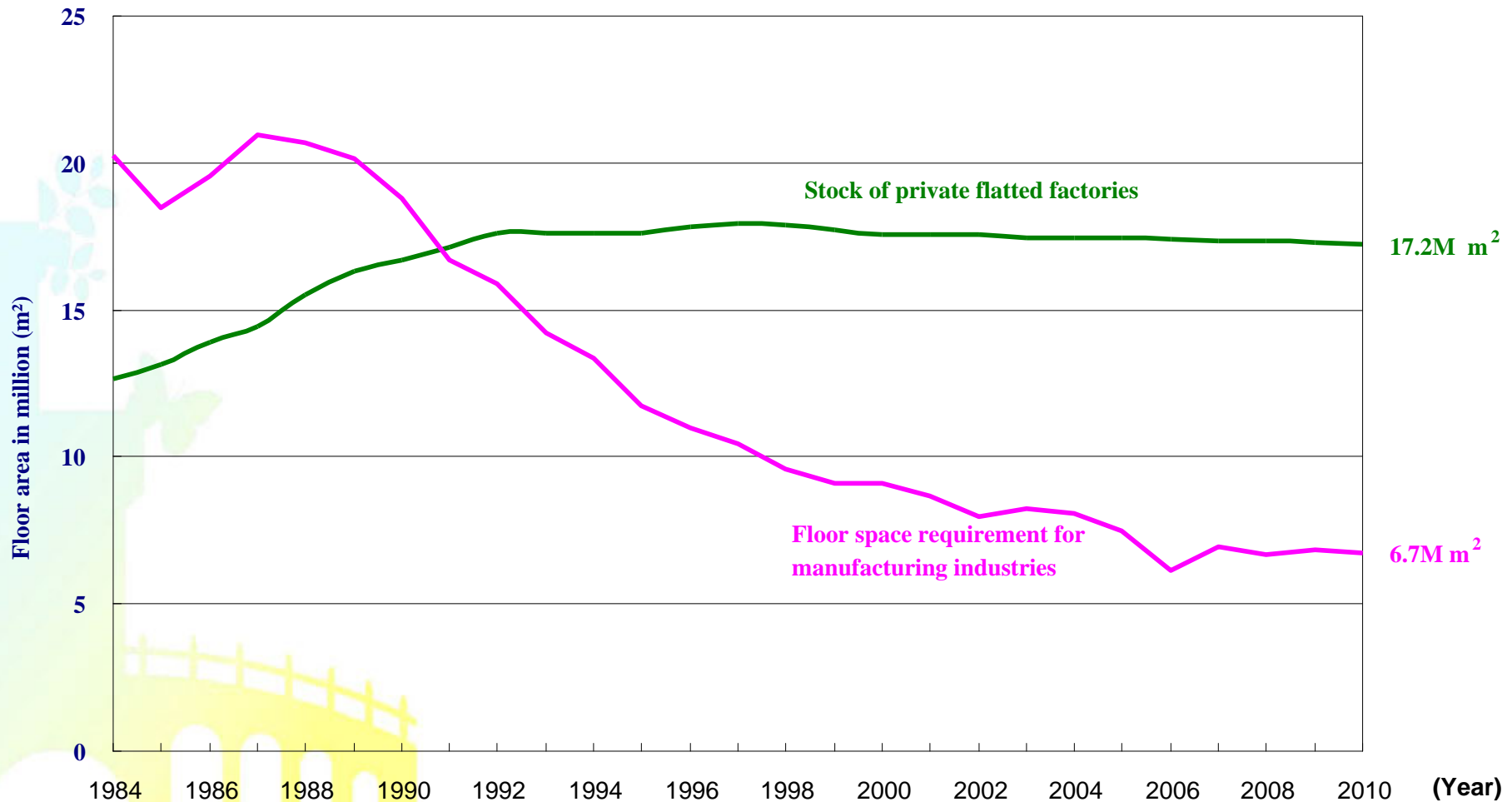
The Chief Executive
Mr Donald Tsang

“Now that the economy is restructuring, the Government has the responsibility to examine whether the existing use of resources can support the new economic structure ...

“(The new measures) can address the needs of economic development by enabling owners to revitalise and add value to their industrial buildings, thus providing new momentum for economic growth and creating jobs.”

(extracted from the Chief Executive’s 2009-10 Policy Address)

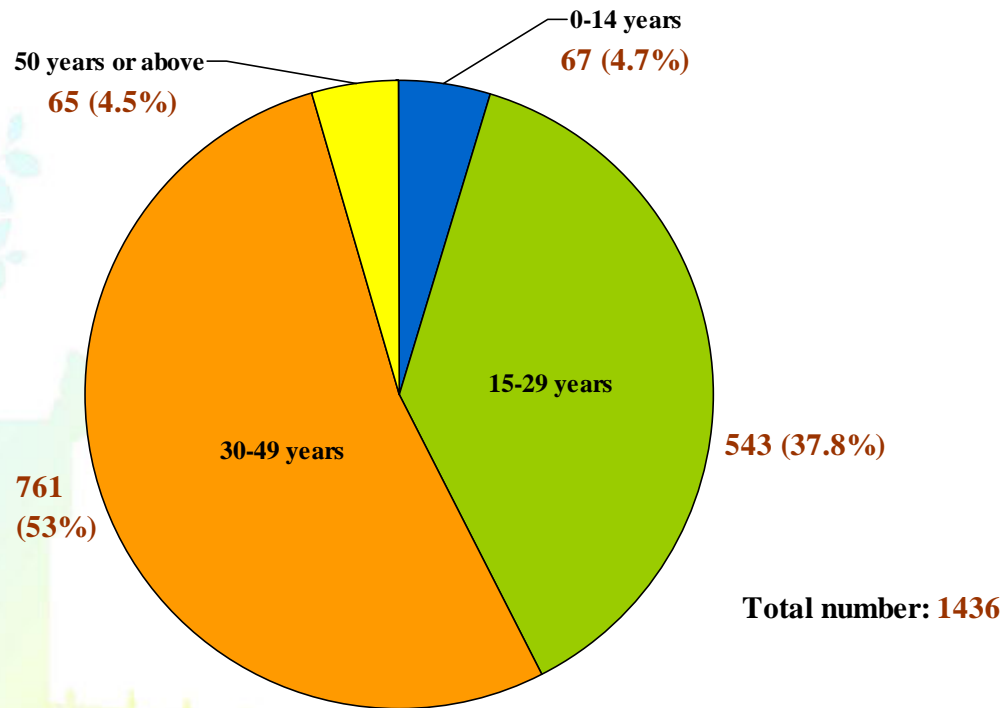
Mismatch due to economic restructuring



Source: Planning Department, Census and Statistics Department & Rating and Valuation Department

The existing stock of industrial buildings is relatively young in age

Age profile of private industrial buildings in Metro and New Town Areas



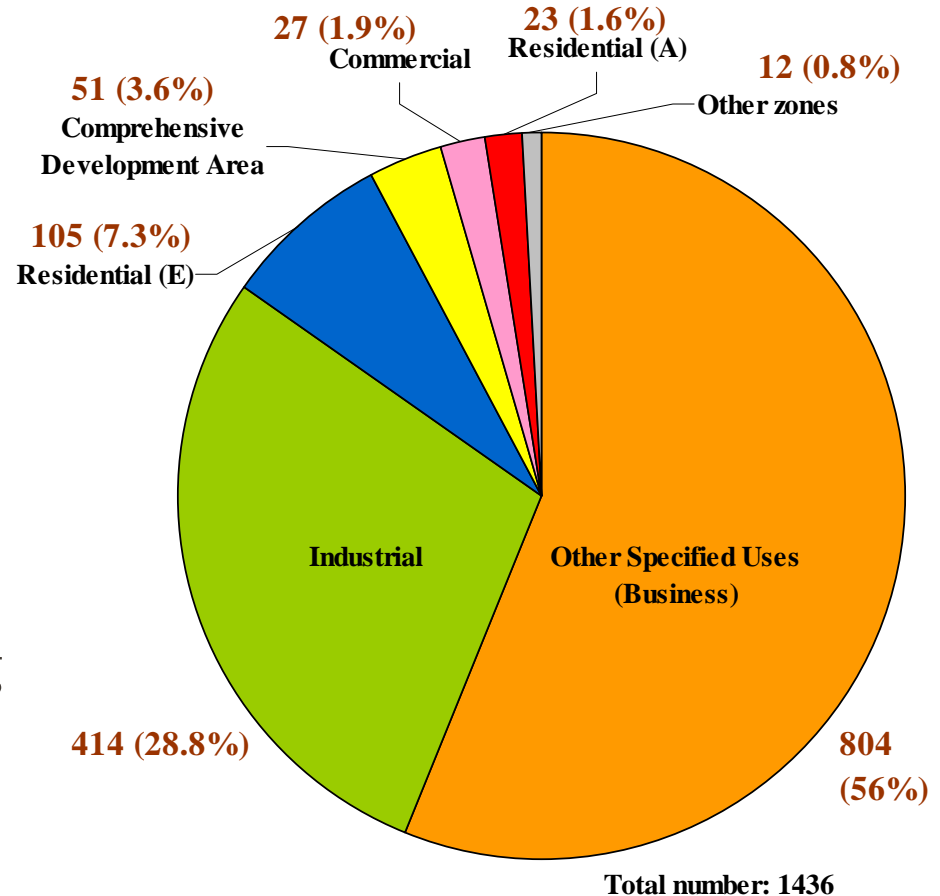
- More than 40% of our industrial buildings are less than 30 years old
- It would be a waste for all of them to be pulled down and redeveloped

- “Private Industrial buildings” include private flatted factories, private industrial/office and godown buildings. Specialised factories such as those located in Industrial Estates, storage premises in the container terminals and flatted factories built by the Housing Authority are not included
- Compiled with data provided by the Rating and Valuation Department and Buildings Department

Most existing industrial buildings are now located in non-industrial zones

- During the past decade, over 250 hectares of industrial land have been rezoned for non-industrial uses, mostly to OU(B)
- About 70% of the existing industrial buildings are now located in non-industrial zones
- In a recent review, Planning Department proposed to rezone another 60 hectares of “Industrial” and OU(B) sites for alternative uses, with half of them for residential use

Private Industrial Buildings in Metro and New Town Areas

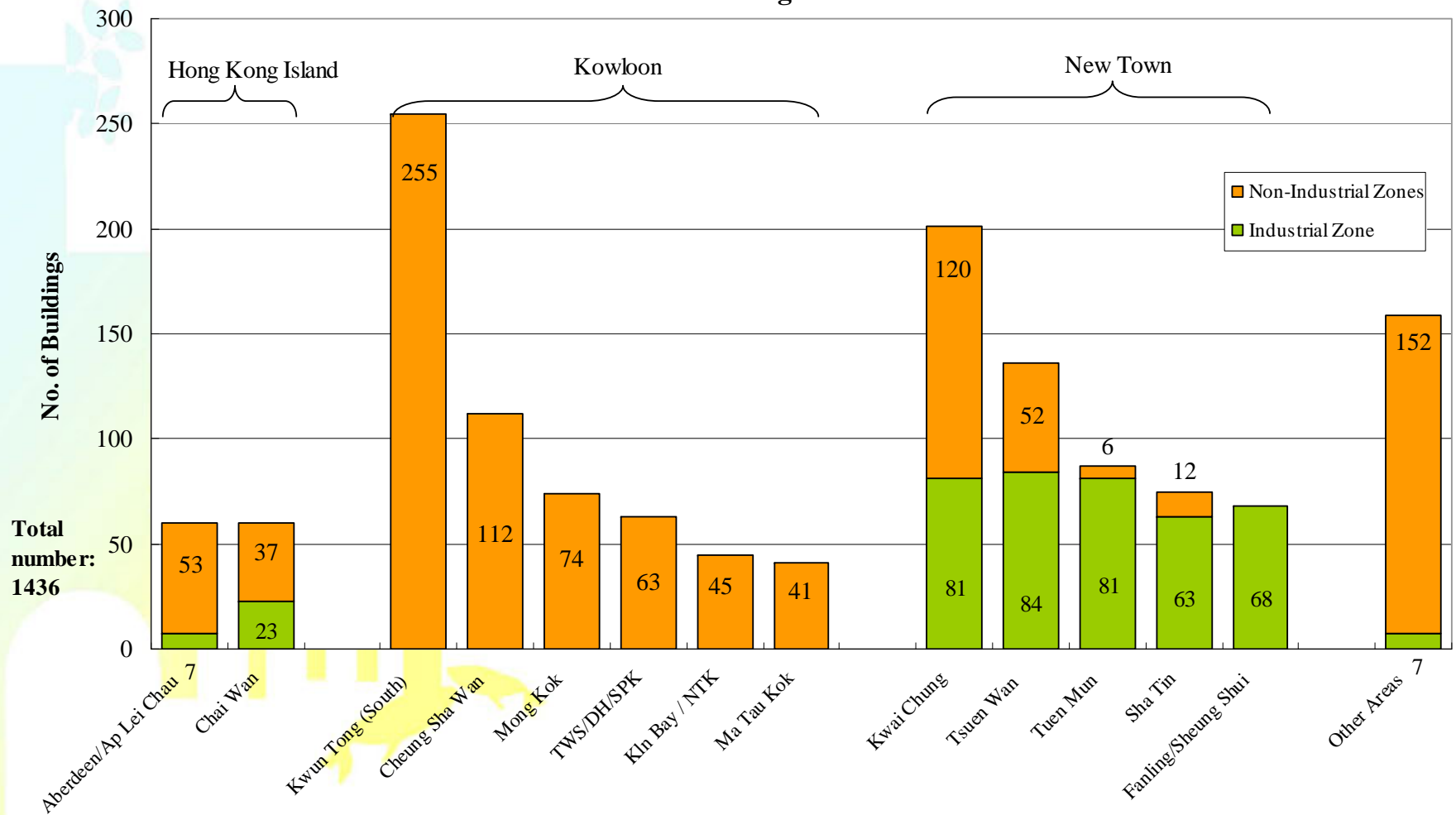


- Data from Rating and Valuation Department and Buildings Department

Former industrial zones in urban areas rezoned to create new opportunities

- All former industrial areas in urban Kowloon have been rezoned for non-industrial uses

Distribution of Private Industrial Buildings in Metro and New Town Areas



A lot more uses are allowed in new or wholly converted buildings in OU(B) zones

Industrial or industrial-office buildings	New or wholly converted buildings
Office Use <ul style="list-style-type: none">• Office (excluding those involving direct provision of customer services or goods)	Office Use <ul style="list-style-type: none">• Office
Commercial Uses <ul style="list-style-type: none">• Eating Place (canteen only)• Shop and Services (ground floor only)	Commercial Uses <ul style="list-style-type: none">• Eating Place• Shop and Services• Exhibition or Convention Hall
	Educational and Religious Uses <ul style="list-style-type: none">• Educational Institution/ Training Centre• School (excluding free-standing building and kindergarten)• Religious Institution
	Recreation and Leisure Uses <ul style="list-style-type: none">• Place of Entertainment• Place of Recreation, Sports or Culture• Private Club

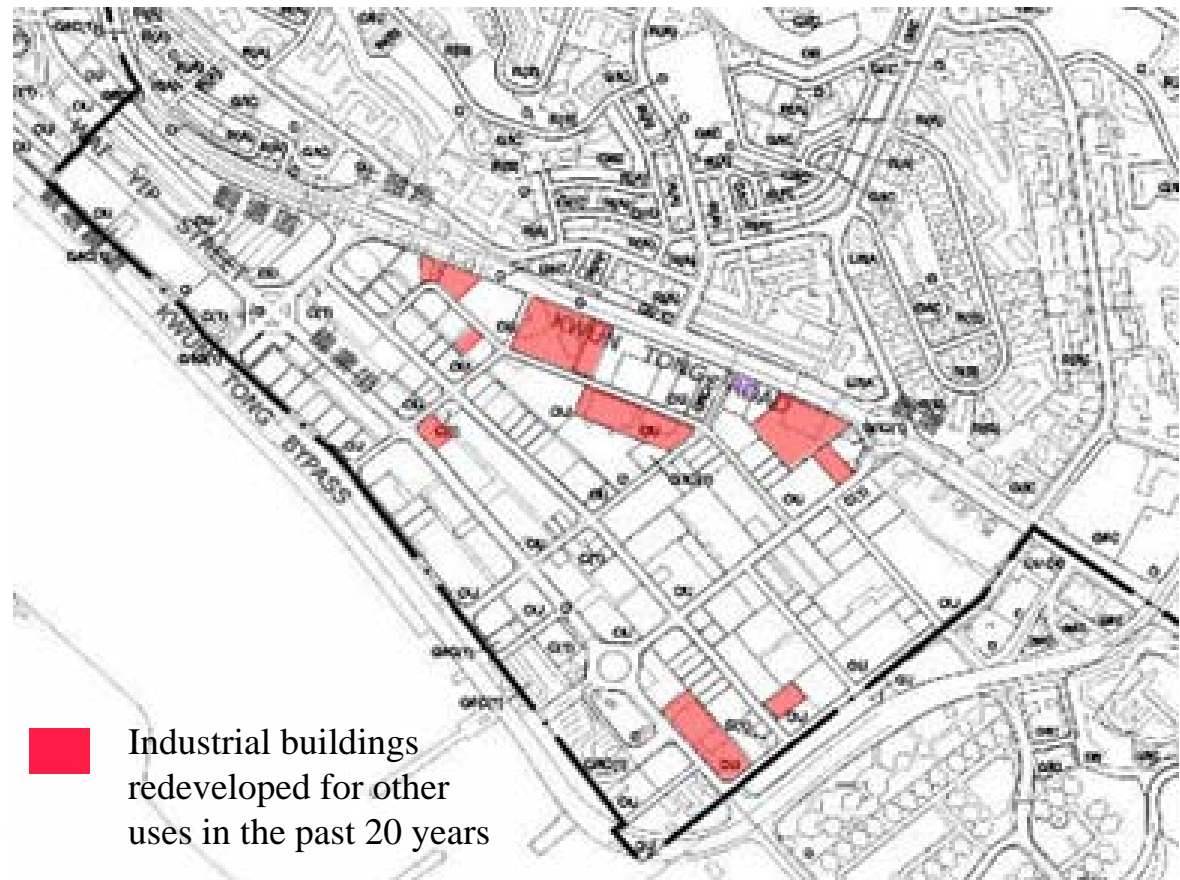
Transformation has been slow when left entirely to the market

- Official vacancy rate of industrial buildings is not particularly high – 8% in end 2009 (compared with 10.3% for office and 8.7% for commercial buildings)
- A 2009 survey revealed that only 39% of industrial premises in OU(B) zone and 65% in “Industrial” zone were still engaged in industrial uses
- But as at March 2009, Lands Department was managing only 441 temporary waivers granted for change in use of industrial buildings, covering just slightly more than 1% of the existing stock of industrial premises

Transformation has been slow when left entirely to the market *(cont'd)*

- Between 2005 and 2008, there were only 32 cases of lease modifications for change of use of industrial sites

*Redevelopment in the
Kwun Tong
industrial area*



Source : Buildings Department

Challenges in redeveloping or converting existing industrial buildings

- Fragmented ownership in private flatted industrial buildings
- Premium for lease modification (for redevelopment) or waiver fees (for conversion) are assessed at full market value
- “First-mover” disadvantages in changing to non-industrial uses in a still largely industrial neighbourhood

Merits of redevelopment



A redevelopment project in Kwun Tong

- Redevelopment provides opportunities for realisation of planning gains, e.g. building set-back, provision of open space



New measures to encourage redevelopment

- Allow majority owners (with at least 80% ownership) of an industrial building to apply for compulsory sale of the lot for redevelopment, if the building is at least 30 years old and is situated in a non-industrial zone
- Adopt a “pay for what you build” approach in assessing land premium for lease modification based on the proposed GFA rather than the maximum permissible GFA
- Eligible for “hotel use” only arrangement for premium assessment (an initiative introduced on a pilot basis in 2008 and now made permanent as announced in Financial Secretary’s 2011-12 Budget Speech)
- Allow building owner to opt for payment of 80% of the land premium by instalments (up to 5 years) at a fixed interest rate, if the total premium exceeds \$20 million

Merits of wholesale conversion *(cont'd)*



- A former factory building converted to commercial use providing premises for retail and service trade
- More environmentally friendly

New measures to encourage wholesale conversion

- Nil waiver fee for change of use of existing industrial building for its lifetime or until expiry of the lease, whichever is earlier
 - applicable to industrial buildings at least 15 years old and located in “OU(B)”, “Industrial”, or “Commercial” zones
 - the new uses must comply with the planning intention in the respective zones
 - no increases in gross floor area (GFA), building height, or building bulk after the conversion

Implementation

- The lower application threshold for compulsory sale of industrial buildings for redevelopment has come into effect since 1 April 2010
- The “hotel use” only arrangement effective since 2008
- Building owners may apply for the “pay for what you build” and “pay premium by instalments” arrangements in respect of lease modification for redevelopment under the 3-year scheme from 1 April 2010 to 31 March 2013
- Building owners may apply for special waivers at nil waiver fee for change of use of wholly converted industrial buildings for the lifetime of the building or until expiry of the leases. Valid applications must be submitted before 31 March 2013

Concerted efforts to facilitate implementation

- Lands Department has set up a dedicated team in its headquarters to centrally process applications for redevelopment or wholesale conversion under the new measures. It now takes on average three months to approve a wholesale conversion or redevelopment application
- Relevant government bureaux and departments have introduced supporting initiatives to facilitate wholesale conversion of industrial buildings, e.g. adoption of green building design, establishment of Places of Public Entertainment, operations of mini-warehouse, and provision of loading/unloading facilities and car parking spaces in converted buildings

Concerted efforts to facilitate implementation *(cont'd)*

- Transport related measures: the transport authority is prepared to accept a lower than standard provision of car parking spaces if there are real site constraints, so long as the converted building could meet the loading/unloading requirement
- Green building: the Hong Kong Green Building Council has produced a “Green Guide” on conversion of industrial buildings, advising building owners how they may adopt green building design and features in reducing waste and conserving energy so as to attain BEAM Plus rating
- One-stop consultation and coordination services: the Development Opportunities Office facilitates more creative conversion projects that would bring broader social and economic merits, e.g. wholesale conversion of Wing Shan Industrial Building in Yau Tong into an exposition cum hotel complex. The project also involves setting back the existing building to provide a waterfront promenade for public enjoyment

Opportunities for office use

- The “pay for what you build” approach provides good opportunities for companies to redevelop existing industrial buildings into their own headquarters
 - design and build to meet their specific requirements e.g. larger floor plates, lower building height, lower plot ratio
 - pay a lower premium according to the proposed development intensity if they do not need to build to the maximum permissible plot ratio
- Existing industrial buildings after going through wholesale conversion provide suitable office premises
 - many are in convenient urban locations and may be charging more affordable rental

Results so far

As at end February 2011-

- 12 applications approved for wholesale conversion, involving about 77,000m² converted GFA
- 5 applications approved for redevelopment, involving about 78,000m² new GFA
- Among them, 7 approved wholesale conversion and 2 redevelopment projects are for commercial uses (including offices), producing a total GFA of 88,000m²

Location and uses of the approved cases

- The approved wholesale conversion cases are mostly located in Kwun Tong and Kowloon Bay. The proposed new uses include: office, eating place, retail and service trade
- The approved redevelopment cases are in Yau Tong, Kwun Tong, Wong Chuk Hang and To Kwa Wan. The proposed new uses include: residential, commercial and hotel

More are under planning

- Since announcement of the new revitalisation measures in October 2009, the Town Planning Board has received 16 planning applications for wholesale conversion of existing industrial buildings (5 in OU(B) zone; 9 in Industrial zone and 2 in other zone), representing a big increase from only 3 similar applications in the 5-year period before the announcement
- This suggests that many owners are considering changing the use of their existing industrial buildings through wholesale conversion, which will help speed up regeneration of the older industrial areas and bring new economic activities to these areas

Mid-term review

- Development Bureau has already commenced a mid-term review on the package of revitalisation measures, which will be completed in the second half of this year
- The aim is to identify policy or implementation issues that need to be addressed to encourage and facilitate better use of the existing stock of industrial buildings to support Hong Kong's changing social and economic needs
- Examples of possible areas of review include –
 - whether the present requirement of keeping the existing building frame unchanged is too restrictive
 - making up for the GFA lost during conversion by addition to other parts of the building
 - incentive for green building design and features

Increasing Office Supply

“Transport infrastructure will facilitate office decentralisation...”

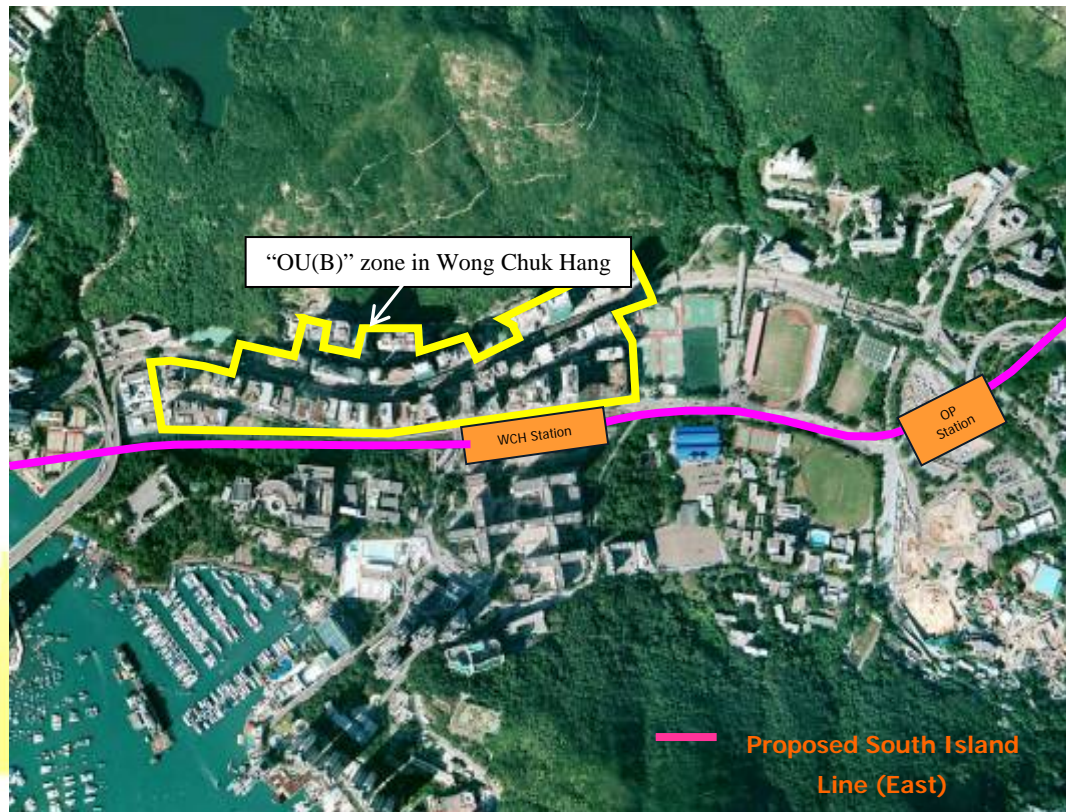
(extracted from the Financial Secretary’s 2011-12 Budget Speech)



*The Financial Secretary
Mr John C Tsang*

Increasing Office Supply *(cont'd)*

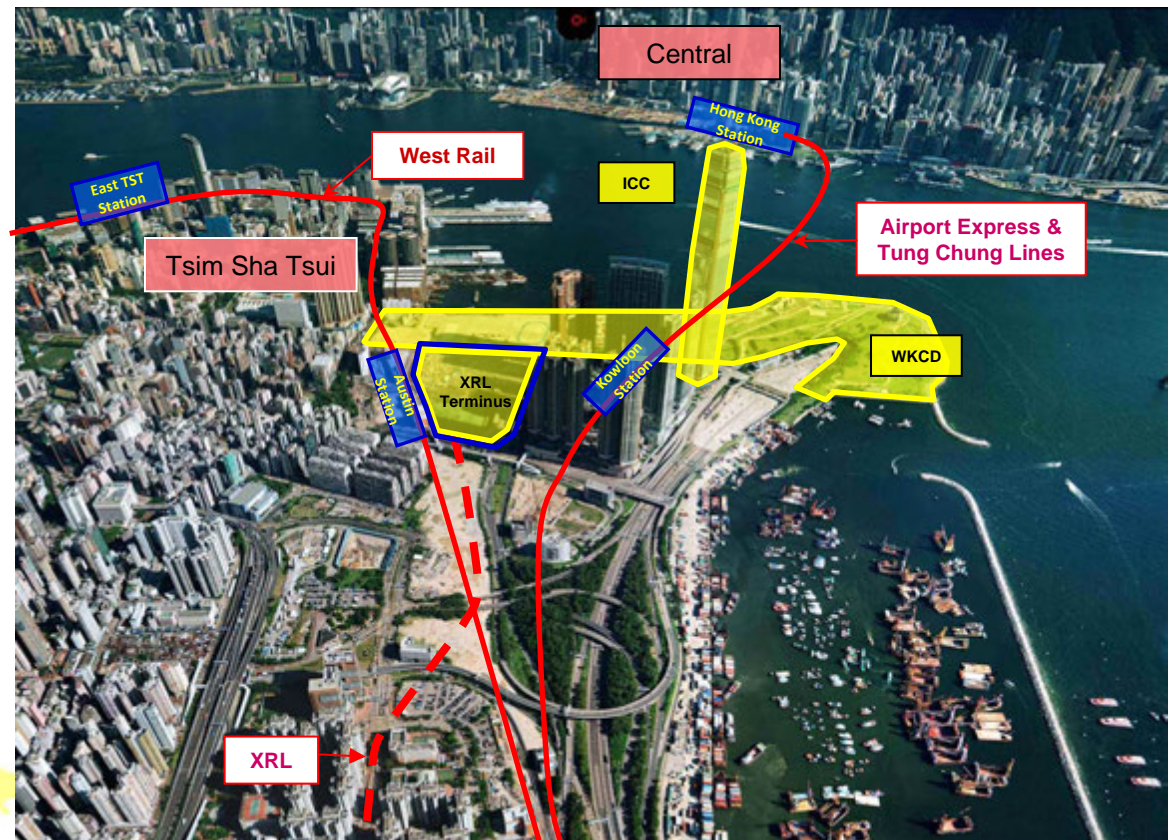
- An OU(B) zone in Aberdeen is located next to a proposed station of the South Island Line



Increasing Office Supply *(cont'd)*

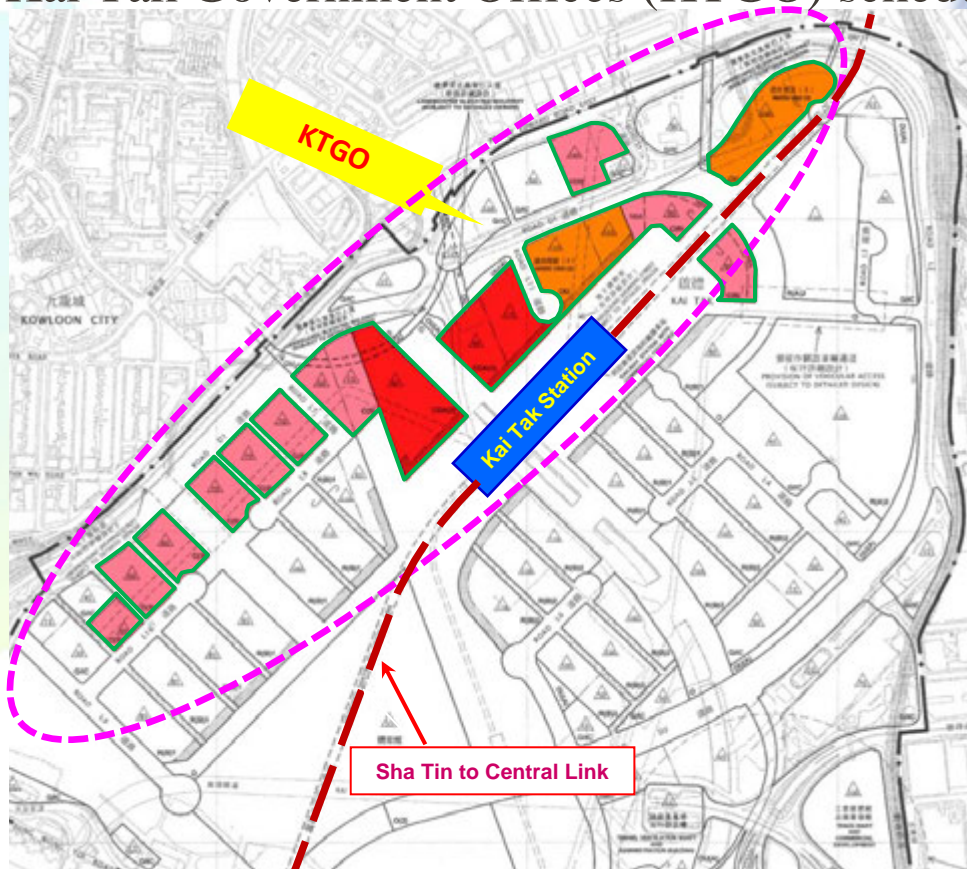
- The office cluster in West Kowloon will provide about 600,000m² of quality office floor space

Office cluster at West Kowloon will be served by the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL), Airport Express & Tung Chung Lines, and West Rail Line



Kai Tak office node

- A belt of commercial developments (14.4 ha) is planned at the northern part of the Kai Tak City Centre, allowing a maximum non-domestic GFA of 700,000 m² to accommodate business developments
- Take advantage of the planned Sha Tin to Central Link
- Kai Tak Government Offices (KTGO) scheduled for completion in 2015 as catalyst



Office development in Kennedy Town

- Completion of MTR West Island Line in 2014 provides opportunity for certain office development in Kennedy Town

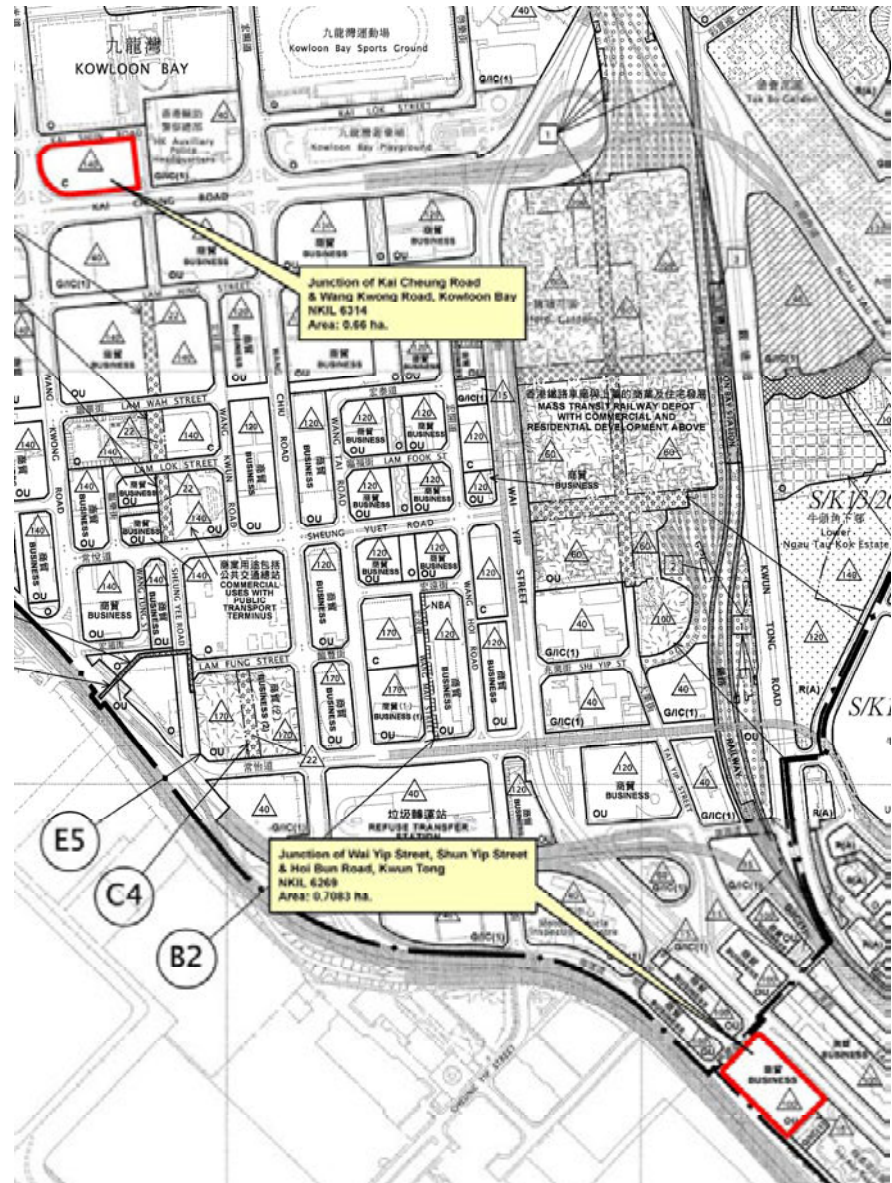


2011-12 Land Sale Programme

- Commercial / OU(B) sites capable of producing 600,000m² GFA
- 6 of these sites will be initiated by Government for sale by auction or tender

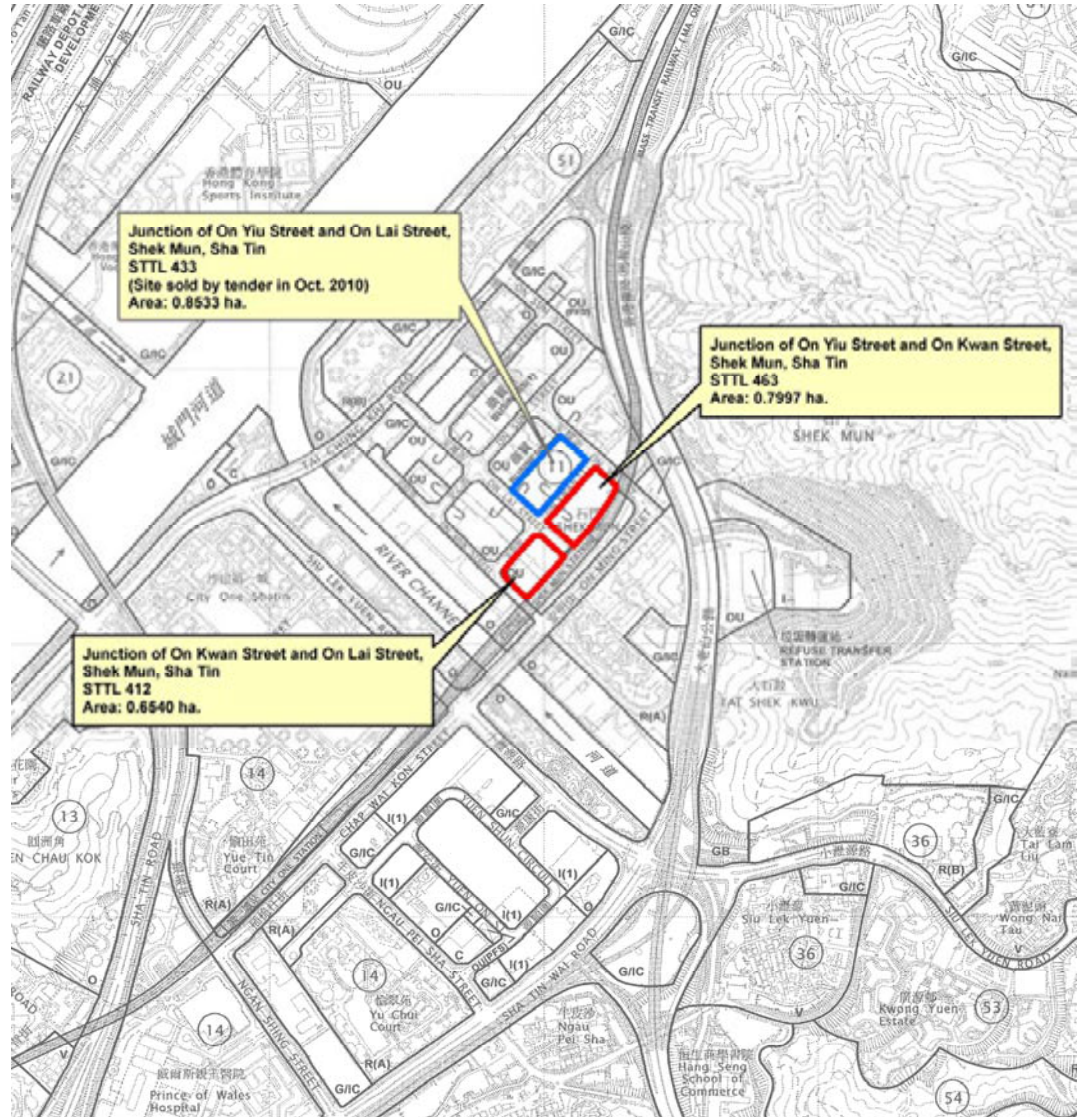
Kwun Tong and Kowloon Bay Sites

- Kwun Tong and Kowloon Bay sites may help speed up transformation in these former industrial areas



Shatin Shek Mun Sites

- Shatin Shek Mun sites will provide cluster effect

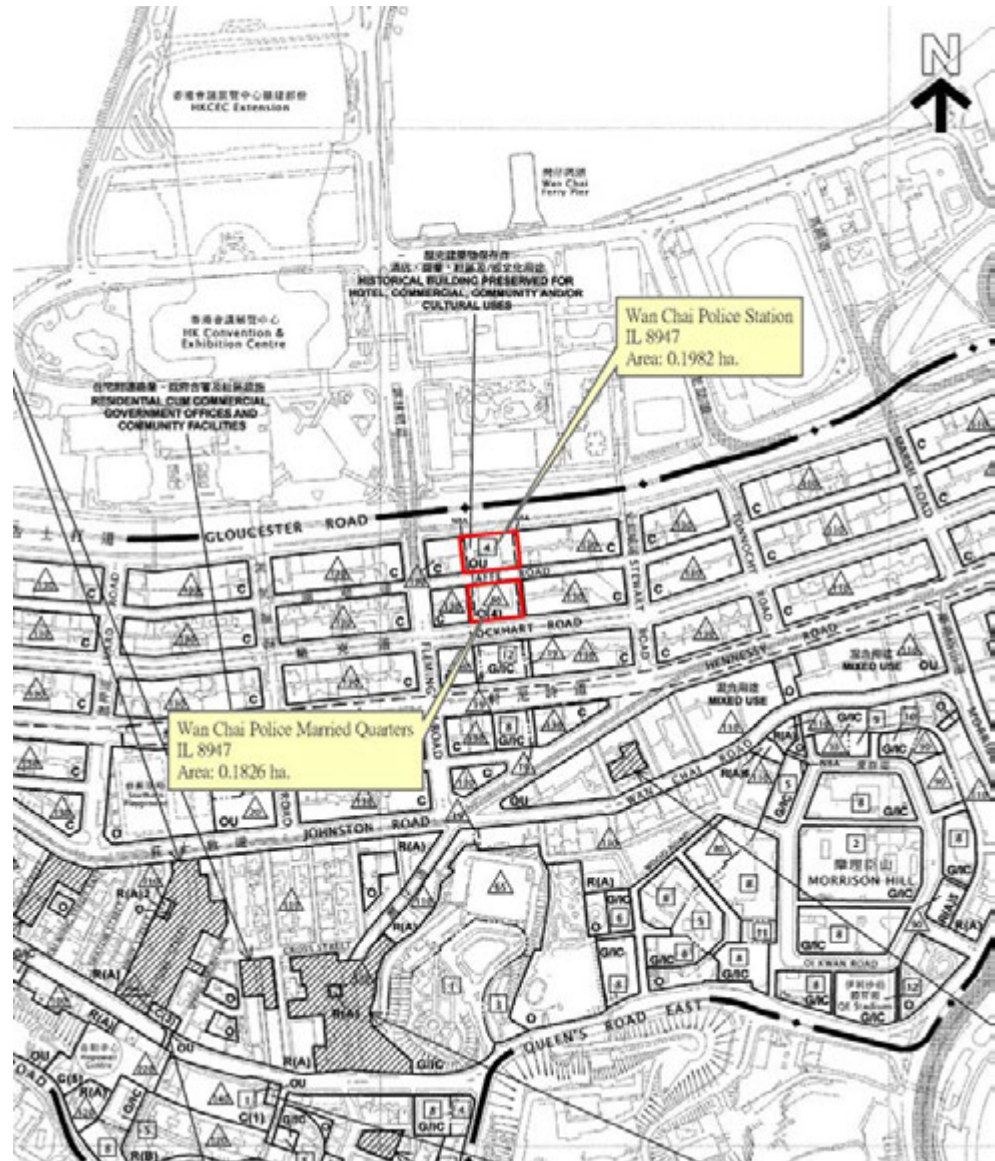


- Tin Shui Wai site will inject economic activities into the area and help create jobs



Wan Chai Police Station cum Police Married Quarters Site

- Wan Chai Police Station cum Police Married Quarters site represents a conservation cum development opportunity





“To enhance our competitiveness, we must maintain a steady and adequate supply of Grade A offices, and strive to develop new high-grade office clusters through land use planning, urban design, area improvement and the provision of better transport networks.”

(extracted from the Financial Secretary’s 2011-12 Budget Speech)

