

**Urban Renewal Strategy (URS) Review
Public Engagement Stage
Gist of Topical Discussion 5:
Owner Participation in Redevelopment**

Date: 1st August, 2009 (Saturday)
Time: 2:30p.m. - 5:00p.m.
Venue: Room 201, Duke of Windsor Social Service Building,
No. 15 Hennessy Road, Wan Chai, Hong Kong
No. of attendees: 83 (including 2 members of the Steering Committee, 11
representatives from the Development Bureau and
Urban Renewal Authority (URA) as observers^{Note 1}, and
7 members of the Hong Kong Institute of Surveyors as
discussion group facilitators)

Gist of Public Presentations

Presentation 1

Topic: Owner Participation in Redevelopment
Speaker: Mr. David C Lee, Member of the Steering Committee on Urban
Renewal Strategy Review

The speaker pointed out that there were certain risks in the Owner Participation Scheme as the scheme was the equivalent to investing the owners' compensation in the property redevelopment project. The investment considerations included risk and return, liquidity, the investment period, security, the state of the property market, certainty and the potential for capital appreciation etc.

The characteristics of an Urban Renewal Authority (URA) redevelopment project were: (1) it was not a pure private sector business initiative since the project involved social responsibility and would be affected by public opinion; (2) There were many variables, such as plot ratio, uses and the length of the development period. The risk and return were therefore highly uncertain. Market fluctuations might also increase the uncertainty. Coupled with low liquidity and difficulties in valuation, it was not easy to find buyer(s). Since

Note 1 The observers are the representatives of the Development Bureau and the Urban Renewal Authority. They are present to listen to the opinions and clarify or supplement certain facts and information. Their comments would not be regarded as valid opinions.

there was usually no detailed development proposal at the preliminary stage of a project, the total cost and the overall investment sums were not certain. Other problems included whether inputs from the owners should include the Home Purchase Allowance and whether the re-grant land premium of the project should be waived. These were factors that needed to be considered as public funds would be involved. Controversy might arise as to whether social resources had been used to subsidise private investment.

Presentation 2

Topic: A Bottom-up 'Dumbbell Proposal'

Speaker: Mrs. Kam Fok Lai-ching, H15 Concern Group

In 2004, the residents in Lee Tung Street proposed to participate in the Lee Tung Street Redevelopment Project as owners, including 'flat-for-flat' and 'shop-for-shop' exchanges so that they could move to Ship Street. The proposal was rejected by the URA. With the help of some architects, surveyors and planners, the residents put forward the 'Dumbbell Proposal'. They sought to remain living in the same area through rehabilitation and redevelopment. The owners would temporarily move away and then return to the same locality after rehabilitation and redevelopment. Unfortunately, the URA rejected this proposal. The speaker pointed out that only people from the outside of the original community were able to afford the new flats from the redevelopment. It would be a waste of the local residents' effort over the years to establish the community while they would not be able to enjoy the fruits after its enhancement. The speaker urged the URA to provide sufficient options for the owners.

Presentation 3

Topic: Is Owner Participation Being Marginalised?

Speaker: Councillor Cheng Lai-king, Central and Western District Council

The speaker cited the example of Grand Millennium Plaza in Sheung Wan. Between 1988 and 1989, the owners tried to prevent the Land Development Corporation (LDC) from purchasing their properties by offering LDC HK\$7 million dollars. However, in the end, the owners were still obliged to accept the land acquisition. The owners were unable to secure 'flat-for-flat' or 'shop-for-shop' exchanges. There was also the example of the Queen Street redevelopment project. The LDC constructed Ko Nga Court on High Street to

rehouse the owners of Queen Street. However, due to its remote location and inconvenient transport links, only one owner bought a new flat there.

The speaker noted how the majority of redevelopment projects were located in the most desirable areas, and such redevelopments usually drove out and marginalised the owners and residents who had moved in earlier and built the area from scratch. She hoped for amendments to the regulations to ensure the owners' right of participation.

Presentation 4

Topic: 'Flat for flat, shop for shop': Most Practical and People-oriented
Speaker: Ms. Wong Yat-man, Alliance of Owners' Corporations in Kwun
Tong Town Centre Redevelopment Project

The speaker noted how residents had always been very desperate for 'flat for flat' and 'shop for shop' exchanges as well as owner participation. She found it difficult to understand why the URA had so far been unable to implement these policies. She remarked that as a result of the URA's repeated corner cutting, purchase prices in Kwun Tong district were of equivalent value to 40-year-old flats in the same district. She questioned why the URA had declared a loss in a high quality area like Kwun Tong, where re-grant land premium had already been exempted. She said that home owners in Kwun Tong were willing to participate in the redevelopment because of the low risk and high returns.

Presentation 5

Topic: Problems Faced by Property Owners: the Case of Kwun Tong
District
Speaker: Mr. Yuen Yan-fai, Resident Group Concerning the
Redevelopment of Old Districts (Kwun Tong)

The speaker pointed out that as required by the Legislative Council, projects left behind by the LDC must be carried out in accordance with commercial principles. The URA had however gone against these commercial principles by cutting back compensation with the excuse that it would be posting a loss, arbitrarily defining the Home Purchase Allowance and making compulsory purchases. The affected local residents had contacted relevant authorities on many occasions, including Mr. Stephen Fisher, who had previously participated

in establishing the URA, and Mrs. Carrie Lam Cheng Yuet-ngor, Chief Secretary of the Development Bureau. While the former did not respond, the latter, via subordinates, simply asked the residents to contact the URA. The speaker did not believe that the redevelopment project was a loss making one.

Presentation 6

Topic: Characteristics of Redevelopment Projects

Speaker: Mr. Wong Wai-kuen, the Urban Renewal Authority

The speaker explained the risks faced by owners participating in redevelopment. These included: changes to the project's parameters, the length of the investment period and fluctuations in the property market and land valuation.

Regarding changes to project parameters, the speaker pointed out that many variables existed in the URA's urban renewal schemes. These included the plot ratio, building orientation, height and the uses permitted by the scheme. Taking the example of project H19 at Staunton Street, letters of offers to purchase were sent to owners in March 2008 and then in 2009 the proposed plot ratio was changed from the original 8 to 4.5 thereby lowering the potential development floor space by over 90,000 square feet. The building height and uses were also changed which directly affected the project's related profit or loss. If owners participated in the scheme, it was questionable whether they would be able to bear this risk.

Another variable was the project development period. Purchase and relocation could be very time consuming. For example, the Hong Kong Housing Society's project K22 in Sham Shui Po had taken five years to relocate all residents since issuing the purchase offers. Furthermore, the whole rebuilding process could be very time consuming. For example, project K11 at Hanoi Road in Tsim Sha Tsui had taken 11 years. The acquisition offer was made in 1998 and not until 2009 was the project completed and put on sale. In this period, the property market had experienced significant fluctuations, increasing the risk of owner participation. Other problems that needed to be resolved included whether or not the government should provide re-grant land premium exemption, offer subsidies and land-value appraisal disputes.

Presentation 7

Topic: Owner Participation is not Compulsory Sale

Speaker: Mr. Desmond Sham, Community Cultural Concern

The speaker said that according to a paper submitted by the Development Bureau to the Legislative Council, Hong Kong's private redevelopment projects had attained the highest ratio of owners' consent amongst Asian cities. The speaker opined that this proposition was flawed. In many other regions, for private redevelopment projects which commenced after obtaining a sufficient percentage of owners' approval, owner participation was allowed through planning procedures and public hearings. Moreover, local resettlement was arranged for the affected households. In Hong Kong, however, there was no planning and public consultation in the redevelopment process. Owners neither had the right to participate nor the option to choose a compensation scheme other than cash compensation. In Hong Kong, most of the compulsory auction cases were such that the purchasers / developers forced small owners to sell their property ownership. The only exception was Lai Sing Court.

Owner participation could be carried out via a 'flat-for-flat' exchange arrangement. Information should be made public. There should be a negotiation process and legislation should be in place to protect the tenants and stipulate the redevelopment arrangements. He cited the examples of the Property Rights Exchange System in Japan and the Urban Renewal Model in Taipei. In the Taipei model, the Taipei government acted as the intermediary, assessor and arbitrator. Land was seldom compulsorily resumed. Cooperation between property owners and developers was encouraged and incentives were provided. Generally, the projects were smaller in size. Public facilities were provided. The owners of property rights could choose to stay / leave or withdraw via the transfer of property ownership. The Urban Renewal Model was well planned. A 'Business Plan Proposal' stated all the details and procedures. The rights of the tenants were protected by laws and tenancies were not affected by the transfer of property ownership.

The speaker answered questions about the feasibility of owner participation, including whether there should be any partnering organisations, Hong Kong having a different land grant system and high building density when compared with other cities and any excessive risk involved etc. He opined that the owners ought to be given the option to participate.

Gist of Group Discussion Reports

1. The concept of owner participation in redevelopment

Many participants agreed with the participation right of owners in redevelopments. Some considered that owners' property rights should include development rights but others doubted the legal basis of the statement. On the other hand, some pointed out that the betterment of land value was a public good, so it was unfair to have all profits solely given to the owners. Part of the betterment could however be used as the incentives for owner participation. Some expressed that what owners needed was the living environment as well as the property. Some participants also believed that priority should be first given to the owners to participate in redevelopment, then to private developers and lastly to the URA if both parties failed to participate.

2. Technical problems of owner participation in redevelopment

Some participants expressed that it was difficult to reach a consensus on acquisition due to multiple ownerships, different owner opinions, the various modes of participation and the many factors involved. However, there were participants who stated that multiple-ownership was only an issue of technicalities and procedures, which should not hinder owner participation in redevelopment. Moreover, if it was profitable, intermediaries or developers would be capable of dealing with the problems. Technical problems could be thoroughly understood and solved via household surveys. There were also participants who suggested that these technical problems should be solved in a way similar to how small house rights in the New Territories were handled.

No consensus was reached regarding whether the URA should be allowed to keep government subsidies (e.g. granting the land at nominal premium) to pay for other loss-making urban renewal projects, or whether the owners participating in redevelopment should be allowed to divide all the profits. The participants however agreed that the most important issue was to have room for discussion.

3. The risks of owner participation in redevelopment

Some participants thought that once the source of the risks was identified, the specific risks could be avoided or reduced. For example, some suggested that it was necessary to confirm the development parameters and timetable.

Some pointed out that because of the unfair compensation policy, owner-occupied flats and vacant units were subject to different compensation basis, which prolonged the acquisition time and increased the risks.

Some participants indicated that it was most important to have choices available. Owners should be provided with sufficient information. Under the principle of free participation, owners would be allowed to make their own decisions to accept the risks of investing in the redevelopment project or receiving compensation. There were also participants who mentioned that the higher the risks, the bigger the profits. He indicated that the owners of Kai Tak Mansion had by themselves recently invited bidders in the market to purchase their units at prices ranging from \$8,000 to \$10,000 per square foot. If owners were willing to sell their properties to buyers or developers, prices would be in the range of \$6,000 to \$7,000 per square foot while the average compensation amount from the URA was merely around \$5,000 plus per square foot. The compensation for properties under company names or owners of rented and vacant properties was even less than \$5,000 per square foot.

Some participants suspected the URA was misleading them by mentioning only the risks but not the profits. In fact, owners could opt to make long-term investments. It was not a must for them to sell their properties during the downturn of the property market. Therefore, the risks could be controlled. All the previous projects of the URA obtained high profits which demonstrated that the risks were not high.

4. Mode of owner participation in redevelopment

Some participants agreed that if a certain proportion of owners hoped to participate in a redevelopment project by virtue of their property ownership,

then they should be permitted to do so. However, some participants opined that this proportion of owners should not be too high. Some participants proposed that owner participation could be achieved in the form of the issue of entitlements for the owners' property ownership, which could be freely bought and sold on the market and similar to the trading of shares, which enable owners to cash in on their properties at anytime. There was another suggestion of letting owners invite developers in the market to bid and purchase their properties directly.

Some participants pointed out that with the lack of choices, there was little room for owners to participate in the redevelopment. Instead, owners should be allowed to participate in the redevelopment at different levels and in different forms. It was proposed that apart from cash compensation there should also be an arrangement for "flat-for-flat" and "shop-for-shop" exchanges in the same or other districts. It would be fairer to the affected owners and residents and would also improve the residents' living environment while retaining the community network. The method of "flat-for-flat" and "shop-for-shop" exchange arrangement had been implemented in Guangzhou successfully. There was no reason as to why Hong Kong could not do the same.

Some suggested the URA to carry out a pilot plan for owner participation in certain redevelopment projects as soon as possible.

5. Other opinions

- The urban renewal concept of the URA should be "people-centred" and must be caring and innovative.
- The participation of the URA in urban redevelopment and renewal should be minimised or confined to merely providing professional assistance, such as financing and technical support.
- A mechanism should be set up to monitor the URA effectively. The URA should increase its transparency. It should neither implement false consultation nor take no action by means of endless consultation.
- Some participants pointed out that five years ago, the original owners at Lee Tung Street raised a specific proposal for the redevelopment project which comprehensively took care of the needs of all stakeholders involved (including the owners, the tenants, those

intending to stay and those intending to leave), and queried why the URA was unable to do so at that time.

- The compensation for redevelopment should be applied to everyone equally. The amount to be received by the owners of the rented and vacant properties should be the same as that for the owners of the owner-occupied properties. Some owners said that originally they did not have to worry about their standard of living as they owned rental properties. However the redevelopment had given them nothing to rely on in their old age and separated them from their former neighbours.
- Some participants pointed out that the URA's contention that it suffered losses was not a fact and they considered that the amount of compensation should be increased.
- It should be noted that in Sham Shui Po, some aged owners had long sought to have reasonable compensation and the redevelopment implemented as soon as possible.

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August 2009

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