

Work of the Urban Renewal Authority in 2008/09
And Business Plan for 2009/10

I. INTRODUCTION

This paper is a report on the work of the Urban Renewal Authority (URA) for the year ended 31 March 2009 and its business plan for 2009/10.

II. BACKGROUND

2. In 2008/09, which was its seventh full year of operation, the URA continued to work within the parameters of its current mandate which is prescribed in current Urban Renewal Strategy (URS) issued by the Government in November 2001. The URA has utilized its holistic 4Rs strategy to implement its redevelopment, preservation, rehabilitation and revitalization programmes, all of which have made significant progress. The strategic partnership between the URA and Hong Kong Housing Society (HKHS) has continued to bear fruit. In addition to carrying on its current work, the URA has also provided support to the Development Bureau in the conduct of the two-year review by the Government of the current URS, which began in July 2008 and is now well under way.

III. WORK OF THE URA IN 2008/09

Redevelopment and Preservation Projects

1 April 2008 to 31 March 2009

3. During the past year, the URA has continued with its work on redevelopment and preservation projects. Two new preservation projects were launched in 2008/09; planning work continued on three commenced redevelopment projects for which acquisition offers had yet to be made; and property acquisition, clearance and re-housing continued for 15 of the redevelopment and preservation projects launched since URA's establishment in 2001/02. Resumption was approved for one of these projects during 2008/09 and clearance of that project site was

completed. In the projects under acquisition, clearance and re-housing during the year, over 80 households accepted re-housing in estates of the Hong Kong Housing Authority (HKHA) and HKHS. In addition, over 180 other households accepted cash compensation. Work on re-housing or compensating the remaining households affected by URA's projects is continuing.

4. URA awarded the joint venture development tenders for three projects i.e. MacPherson Stadium in Mong Kok, Pine Street/Anchor Street in Tai Kok Tsui and Baker Court in Hung Hom during the year.

May 2001 to 31 March 2009

Ongoing Projects Taken Over From LDC

5. On its establishment, the URA took over the implementation of 10 projects commenced by the former Land Development Corporation (LDC). Six projects were fully completed with all flats and commercial space sold or leased out in earlier years. During 2008/09, URA continued with the implementation of the remaining four projects. Three of these are at various stages of construction, while sales of flats in the fourth are now under way. Altogether, the 10 projects taken over from the LDC are expected to produce over 6,200 new flats, about 238,900m² of commercial space, about 1,100 hotel rooms, over 20,100m² of GIC facilities and almost 11,200m² of open space.

Projects Launched Directly by URA

6. The tentative timings of the completions of the development stages of the 30 still ongoing projects out of the 31 projects launched directly by URA from its establishment up until 31 March 2009, including the two preservation projects launched in 2008/09, varies between 2009 and 2021. Based on current plans, these 31 projects are expected to provide an estimated total of over 9,200 new domestic units and almost 235,900m² of commercial space upon completion. For the benefit of residents and local communities, these projects are also expected to provide almost 29,600m² of Government/ Institution/ Community (GIC) facilities, 126,200m² for other uses such as transport facilities, space for cultural and creative industries, offices and hotels and almost 24,900m² of open space.

Projects Launched in Cooperation with Hong Kong Housing Society

7. The URA and HKHS entered into a Memorandum of Understanding on Strategic Cooperation in December 2002. Under the MOU, the HS has to date commenced seven redevelopment projects announced but not commenced by the former LDC, and HKHS is bearing all of the costs of these projects and any profits or losses. Five of these projects are in Sham Shui Po and two are in Shau Kei Wan. Under the agreed arrangement, the HKHS is undertaking acquisition and clearance for the projects. The HKHS is also responsible for redevelopment of the sites after clearance. When developed, the projects are expected to provide about 1,700 new flats, over 12,800m² of commercial space, over 4,800m² of space for GIC use and 300m² of open space. In addition to these seven redevelopment projects, the HKHS and URA commenced implementation, in 2006, under the MOU of a preservation project in Wan Chai, affecting nine tenement blocks. It is now planned that upon completion of the acquisition of all property interests in it, the properties will be handed over to the Government for implementation according to the spirit and terms of the Government's Revitalising Historic Buildings Through Partnership Scheme. The URA and HKHS are looking ahead and exploring the scope for cooperation in bringing further urban renewal projects to fruition for the benefit of the community as a whole.

Details and Progress of Individual Projects

8. In sum, the URA has carried out or continued to implement a total of 45 redevelopment projects and four preservation projects from its establishment in 2001 up until 31 March 2009, providing over 17,000 new flats, almost 490,000m² of commercial space, almost 55,000 m² of GIC facilities and almost 37,000m² of open space.

9. The **Appendix** shows the details and current progress for -
- a) the 31 projects launched up to 31 March 2009 by the URA;
 - b) the eight projects launched up to 31 March 2009 by the HKHS; and
 - c) the 10 ongoing projects taken over from the LDC.

Property Acquisition Policies

10. Both the URA and HKHS adopt similar policies for acquisition of property interests to the Government's compensation policy on land resumption but add a certain amount of incentive for property owners. Domestic owner-occupiers are offered a home purchase allowance (HPA) equivalent to the difference between the open market valuation of the owner's premises and that of a notional seven-year-old replacement flat in the same general locality. The average acceptance rate of about 87% for projects, which have reached the resumption and clearance stages to date, is considered reasonable, given that the balance of 13% includes properties interests which cannot be acquired due to problems such as unclear legal titles or untraceable owners.

11. Nevertheless, the URA continues to look for and introduce enhancements where appropriate to ensure that its policies and procedures strike the right balance between being sufficiently responsive to the needs of people affected and sufficiently cost-effective to sustain a viable urban renewal programme. Thus, during 2008/09, the URA -

- (a) extended its expression of interest in purchasing arrangement, which provides a means for domestic owner-occupiers to return to live in the same locations, by purchasing residential units in the redeveloped properties built on them, to cover domestic owner-occupiers in further projects, including the Kwun Tong Town Centre project;
- (b) introduced a special local fresh food shop arrangement for the Peel Street/Graham Street project, for both temporary and permanent relocation of such shops within the project's three sites, to enable these shops which, together with the street market surrounding the project sites, contribute to the vibrancy and popular local character of this neighbourhood; and
- (c) introduced a special local flower and school shop arrangement for the Prince Edward Road West/Yuen Ngai Street preservation project, to recognize their contributions to the local character, history and collective memory of this neighbourhood.

Preservation

12. In Wan Chai, URA is implementing directly one preservation-cum-revitalization project at Mallory Street/ Burrows Street, while a similar project is being jointly undertaken with HKHS at Stone Nullah Lane/Hing Wan Street. Three redevelopment projects in Wan Chai also contain significant preservation elements, namely, preservation of five pre-war buildings in the completed redevelopment project at Johnston Road, preservation of the core elements of the Wan Chai Market building in the ongoing Tai Yuen Street project and preservation of three pre-war shophouses as part of the ongoing Lee Tung Street redevelopment project. In Central and Western District, URA currently operates the preserved Western Market and is undertaking three redevelopment projects involving the preservation of heritage at Peel Street/Graham Street, Staunton Street/Wing Lee Street and Yu Lok Lane/Centre Street. Elsewhere, in Nga Tsin Wai Village in Wong Tai Sin, URA is preserving the village gatehouse and stone plaque, the temple and a number of village houses within a themed conservation park.

13. In addition, in response to the Chief Executive's 2007-08 Policy Address, URA conducted a consultancy study on pre-war verandah-type shophouses. In March 2008, after taking into account the respective heritage values, practical issues and potentials for adaptive re-uses of different shophouses, URA announced a conservation strategy comprising a range of approaches for application to shophouses depending on their different levels of heritage value. Subsequently, in September 2008, URA commenced two preservation-cum-revitalization projects in Mong Kok covering two clusters of ten shophouses of high heritage value and potential for adaptive re-use at Shanghai Street / Argyle Street, and Prince Edward Road West / Yuen Ngai Street for the preservation of pre-war shophouses. The Development Scheme Plans for these two projects are currently being processed under the Town Planning Ordinance.

14. As well as operating the Western Market, URA has already completed preservation of five buildings in the projects already completed by URA. After adding to these six buildings, the 51 buildings now being preserved in the above named ongoing projects, URA will have preserved a total of no less than 57 buildings as well as various historic features, upon completion of the latter projects. Action plans for the potential preservation, under new pilot voluntary acquisition and voluntary restoration schemes, of up to a further eight of the list of shophouses, identified in URA's conservation strategy as having lower

but, nevertheless, significant heritage value, have also been drawn up. Subject to the outcomes of these two pilot schemes, preservation plans for further shophouses on URA's list may be drawn up.

15. The URA is keen to pursue further preservation projects as part of its coordinated 4Rs approach. However, the costs of preservation are often high. In considering new preservation projects, the URA must keep in view the need to balance people's aspirations, its priorities in resource allocation and the potential, following their preservation, of buildings to achieve effective adaptive re-use in terms of their public access, long term maintenance and operating costs.

Rehabilitation

16. Initiatives to encourage better care of domestic premises in multiple ownership by the owners continue to be a major area of work for the URA. The purposes of building rehabilitation are to improve the environment and living conditions in residential buildings, and to extend the useful life of buildings. Since 2003, the URA has provided three forms of assistance.

Materials Incentive Scheme

17. URA has continued to operate a Materials Incentive Scheme, which was formerly known as the Extended Trial Scheme. This scheme targets buildings with Owners Corporations (OCs) with a view to encouraging owners to form OCs and promoting sustained maintenance and management after rehabilitation. URA invites OCs of domestic or composite buildings in multiple ownership and subject to statutory repair orders to participate in this Scheme.

18. The value of renovation materials, excluding technical advice, provided by URA does not exceed whichever is lower out of \$3,000 per domestic unit or 20% of the total cost of the rehabilitation works on the common areas of the building.

Building Rehabilitation Loan Scheme

19. The URA also continued to operate the interest-free Building Rehabilitation Loan Scheme to cover buildings which meet similar criteria to those for the Materials Incentive Scheme and are not subject to statutory orders, in order to encourage owners to undertake voluntary rehabilitation early. Loans are arranged through OCs but made to

individual domestic property owners for up to \$100,000 per domestic unit for a term of up to five years, depending on the amount. Generally speaking, the scope of works covered is:

- Repair or preventive maintenance works to common areas and external envelope;
- Repairs, maintenance or up-grading of building services; and
- Repair and maintenance works inside domestic units which are carried out in association with the works to the whole building.

Hardship Grants

20. In some cases, the presence of owners, such as elderly people on low incomes, who are unable to contribute to the overall rehabilitation costs, may discourage or prevent other owners from going ahead. The URA has therefore introduced a limited Hardship Grant Scheme to assist such owners. The Scheme covers the same class of buildings as the Materials Incentive Scheme and Loan Scheme. Hardship Grants may be up to \$10,000 per domestic unit or 100% of the share of cost of the works for the whole building attributable to that unit, whichever is lower.

Operation Building Bright

21. More recently, in February 2009, when the Government announced Operation Building Bright (OBB) which is a special operation proposed by Government as an initiative to create employment opportunities through the promotion of building rehabilitation, we responded positively and promptly to support this and agreed to contribute \$150 million to the OBB as well providing supporting resources to implement this within URA's Scheme Areas. URA and HKHS have been working together with Development Bureau and BD on the necessary implementation details. A Memorandum of Understanding with the Government was signed in May 2009 and this special operation started in June 2009.

22. Around \$425 million has been allowed in the CP for the five years from 2009/10 to 2013/14 for funding the building rehabilitation programme. This can potentially cover up to 1,000 buildings,

comprising about 66,000 domestic units, within the five-year period covered by the CP. Additional resources may be allocated for this use if required in future.

23. Various rehabilitation assistance schemes will help address problems of building dilapidation and improve living conditions and the built environment in these areas. So far assistance has been or is being given to owners of about 38,100 units in over 490 buildings. Expenditure incurred under all schemes up to May 2009 is around \$240 million.

24. As a further measure to encourage better care of buildings in private ownership, the URA has obtained support from 17 local banks to offer mortgages on enhanced terms in respect of older domestic flats in buildings, which have benefited from URA's rehabilitation programmes. This market-led mechanism for reflecting the enhanced value of properly maintained buildings has been widely welcomed by owners, the property industry and the community at large.

Revitalization

25. In 2008/09, the URA started various new revitalisation studies and programmes which will widen and enhance the community benefits of redevelopment, rehabilitation and preservation, as well as continuing the design and construction of ongoing revitalisation projects. In order to carry out this revitalisation programme in a way that meets the local community's aspirations, URA has sought and been given the support of the community through the District Councils to which URA is grateful. URA also works in close co-operation and coordination with key Government Departments such as Highways Department, Transport Department and the Leisure and Cultural Services Department.

26. During the year, street revitalization works in the vicinities of URA's redevelopment and rehabilitation activities continued in Tsuen Wan, Tai Kok Tsui and Sham Shui Po. In Mong Kok, schematic designs are also being prepared for the upgrading of Nelson Street between our Macpherson Stadium and Sai Yee Street projects, as well as for adjoining areas in Mong Kok.

27. URA is continuing to work closely with the Development Bureau, the Wan Chai District Council and the Old Wan Chai Revitalisation Special Committee in preparing a district-based approach to the development and revitalisation of Wan Chai. To revitalize and

enhance the existing open-air bazaars on Cross Street / Tai Yuen Street, and Gresson Street, URA has installed pilot electricity supplies to the hawkers' stalls and is now preparing to install awnings for these stalls, initially on a trial basis, in order to gauge the reactions of stakeholders prior to deciding whether to proceed further. In addition a heritage trail study has been carried out, which has resulted in proposals to install special lightings and signage at significant heritage features on one trail. A Public Private Sector Participation Scheme inviting revitalization proposals from the community was also promulgated during the year. The submissions received in response to it have been submitted to the Special Committee and Wan Chai District Council for consideration.

28. Meanwhile, in Sheung Wan which is home to several URA projects, improvement works at Tung Street were substantially completed in late 2008 to link the earlier revitalisation of Sheung Wan Fong to the recently enhanced Hollywood Road. In addition, the URA has started preparation of a fresh area improvement plan with emphases on both strengthening linkages and designing and laying out a new heritage trail to highlight the many historical features of this district.

Community Relations

29. The Authority is fully aware of the importance and benefits of effective community relations and reaches out to the communities in the Authority's action areas as an integral part of our people-oriented community engagement strategy. Intensive efforts continued to be made throughout the year to engage all relevant stakeholders with a view to ensuring that the sentiments and concerns of stakeholders in individual projects are taken into consideration during the planning and acquisition stages of such projects. The Authority reaches out to all residents groups, concern groups, local consultative bodies, educational institutions, professional bodies, politicians, and the mass media to cultivate and foster better mutual understanding with all stakeholders, to address their legitimate concerns as far as practicable and to enlist both local and general public support.

30. To facilitate this process, URA has established six District Advisory Committees (DAC) in our major action areas, namely, Sham Shui Po, Wanchai, Central and Western, Yau Tsim Mong, Kwun Tong and Kowloon City. Membership of these DACs includes legislators, district councillors, government representatives, academics, social workers, landlords, tenants and trade representatives as well as professionals, so that URA may be suitably and directly advised on all

relevant aspects and concerns when planning our renewal projects. During the year 2008/09, a total of 18 DAC meetings were held, not including numerous informal discussion sessions with individual members. In addition, the Authority attended no less than 30 full District Council and sub-committee meetings to ensure that all relevant Councils were kept fully informed of the progress of our projects in their Districts and that, where practicable, their suggestions were incorporated into our project plans.

31. 2008 marked the 20th year of focused and systematic urban regeneration in Hong Kong. To tie in with the two year Urban Renewal Strategy (URS) Review being conducted by the Government's Development Bureau, a series of programmes under the theme "Towards Urban Renewal Version 3.0" were organised by URA. These initiatives, which included roadshows, seminars, advertorials and a brochure, provided a useful platform which enabled the community as a whole to review the past, understand the present and discuss the way forward for urban renewal.

32. The URA's Board Chairman, Managing Director and other representatives of the Authority also participated in various community engagement activities including workshops, goodwill visits and meetings with residents.

33. The URA appreciates that some owners and tenants, especially the elderly, might face difficulties in vacating their premises and setting up new homes elsewhere. Front-line staff are trained to provide personal care and assistance to every family genuinely in need of help. Practical assistance includes providing a special 30% down payment instead of the standard market practice of 10% based on the needs of individual families, helping to arrange a bridging bank loan, gathering market information on home-buying and mortgage, helping out with house moving and providing temporary storage for household items. In addition, the URA and the HKHS have appointed, through open tender, six district-based social service teams (SST) to provide affected residents, who need special help, with counselling and advice services on various issues. The SSTs have provided assistance to about 490 cases in 2008/09 and a total of about 1,770 cases since 2002/03.

IV. FUTURE PLANS

34. A number of events have shaped the URA's eighth annual Business Plan (BP) for 2009/10 and five-year CP for 2009/10 – 2013/14.

35. In July 2008, the Secretary for Development announced the start of the current two-year review of the URS promulgated in 2001 and that URA would need to proactively support and help to finance and staff this review.

36. Starting in the second half of 2008, the global financial crisis began to affect Hong Kong's economy, including its financial and property markets. This affected and is still affecting all sectors, including URA.

37. In September 2008, URA commenced two projects under DSPs to preserve two clusters of ten Cantonese verandah-style pre-war shophouses.

38. In December 2008, URA issued acquisition offers to all owners of the 1,657 domestic and non-domestic property interests in the Kwun Tong Town Centre project.

39. In February 2009, the Financial Secretary announced the \$1 billion Operation Building Bright initiative to provide further assistance to rehabilitate buildings and create jobs and URA volunteered to participate and contribute \$150 million towards this.

40. In March 2009 the Financial Secretary approved the URA's eighth CP for 2009 to 2014 and its BP for 2009/10.

April 2009 to March 2010

41. The eighth CP, which is built upon the progress made under its predecessors, and has taken account of events occurring in 2008/09, consists of 58 redevelopment projects, including the four still on-going projects out of the ten taken over from the LDC, the 35 redevelopment projects and four preservation-cum-revitalization projects commenced up until 31 March 2009 by URA and still under way, including those undertaken in association with the HKHS, and 15 new redevelopment and preservation projects. In 2009/10, priority continues to be given to taking forward the implementation of the 25 projects announced by the former LDC and commenced by the URA, of which one has been fully

completed with all flats sold to date. In addition, URA will commence such new redevelopment projects as are justified on planning and other grounds.

42. On 1 April 2009, the URA improved the Materials Incentive Scheme by both refining the eligibility criteria in order to assist more old buildings to join this Scheme and enhancing the subsidies available to eligible buildings which do join it.

43. On 4 May 2009, URA called for tenders for the Lee Tung Street/McGregor Street in Wan Chai. The URA may invite further expressions of interest and call for further tenders for other projects as the year progresses.

44. On 11 May 2009, URA announced its new policy on environmentally sustainable development, while on 22 May URA organized a well attended seminar on this subject, with expert speakers from the UK, France, the USA and Hong Kong, including both the Secretary for Development and the Secretary for the Environment.

45. On 26 May 2009, the Financial Secretary announced a package of new measures to support the economy, including an additional allocation of \$1 billion to the funds available for the Operation Building Bright building rehabilitation and job creation programme to which URA has already contributed \$150 million. URA will continue to work closely with the Development Bureau, Buildings Department and Hong Kong Housing Society to implement this programme.

46. On 29 May 2009, URA commenced a new redevelopment project at San Shan Road/Pau Chung Street in Ma Tau Kok.

47. URA's 2009/10 work programme also includes the important role of continuing to support proactively the Development Bureau in the latter's conduct of the review of the URS. In this regard, the URA has, on behalf of the Development Bureau, already -

- a) commissioned and managed a consultant team to conduct an urban renewal policy study on six Asian cities and, in relation to this study, helped arrange two study trips to Tokyo and Shanghai for members of the Government's URS Review Steering Committee, URA's URS Review Committee and URA's District Advisory Committees;

- b) commissioned and managed another consultant team to carry out a great variety of public engagement activities, including innovations such as setting up an idea shop and sponsoring a commercial radio programme with a view to reaching out to the general public; and
- c) started a tracking study, as a supplement to the social impact assessment for two of our projects.

V. FINANCIAL MATTERS

48. The Authority's net assets value as at 31 March 2009 was \$9.9 billion. This comprised a capital injection totalling \$10 billion from the Government and an accumulated deficit from operations of \$0.1 billion. In 2008/09, URA recorded a net operating deficit of \$4.5 billion. The operating surplus/(deficit) of the URA since its formation in May 2001 are summarized as follow –

	<u>\$'000</u>
Deficit on formation on 1 May 2001	(2,160,610)
2001/02 (11 months)	(558,329)
2002/03	(226,570)
2003/04	(80,443)
2004/05	3,002,087
2005/06	1,576,611
2006/07	758,711
2007/08	2,077,601
2008/09	(4,524,265)

Total Accumulated Deficit as at 31 March 2009	(135,207)
	=====

49. The operating deficit for 2008/09 was mainly due to the loss provision made for the Kwun Tong Town Centre project. As at 31 March 2009, the URA's cash and bank balances together with the fair value of the funds managed by the investment manager totalled \$7.7 billion and the URA's accruals and estimated outstanding commitments in respect of projects under acquisition and resumption stood at \$17.0 billion. URA had no borrowings in the 2008/09 financial year.

50. Any surpluses earned on projects by URA are retained and then applied to finance further urban renewal projects and its 4Rs efforts to improve the quality of the housing and built environments in dilapidated urban areas.

51. Detailed financial information relating to our position as at 31 March 2009 will be given in our Annual Report and Audited Accounts for 2008/09 which is planned to be tabled in the Legislative Council in October 2009. The status of all of URA's 49 projects launched up until 31 March 2009 are given in the attached **Appendix** from which Members will note that although six out of the 10 commenced projects inherited from the LDC have now been completed with all residential and commercial accommodation having sold, leased or distributed, only one of the projects commenced by URA or its strategic partner the HKHS, has yet reached that stage.

52. Although the seven completed projects as a whole have generated a surplus of about \$1.5 billion for the URA itself, excluding any surpluses or deficits already accounted for by the LDC in respect of these projects, it remains a fact that the URA is heavily exposed to risks arising from property market fluctuations when implementing its urban renewal programme in the coming years, with respect to both the properties it has acquired and the costs of future acquisitions. We estimate that a total expenditure of about \$20.2 billion, excluding operational overheads, will be required by the URA to meet the costs of all projects contained in its 2009 to 2014 Corporate Plan. This expenditure covers the full range of URA's 4Rs work in redevelopment, preservation, rehabilitation and revitalisation.

53. Among the redevelopment projects is the Kwun Tong Town Centre project, which is the largest project ever undertaken by the URA. It requires an exceedingly large outlay for the acquisition of all of the almost 1,657 property interests in it, following issue of acquisition offers for all of these properties on 29 December 2008. Moreover, it will be some years before such cost can be recouped through the awards of joint venture development contracts for this project.

54. In addition, URA has recently launched an extensive new programme of preservation of pre-war shophouses, as well as stepping up the scales of its building rehabilitation and street and open space revitalisation work

55. Therefore, URA envisages, in its approved Corporate Plan that URA will have to seek external financing, by means such as bank loans and bond issues, starting in 2009/10, in order to implement its 4Rs Plans over the next five years. In preparation for this, the URA sought and, in December 2008, was pleased to be assigned a long-term corporate credit rating of AA+ by Standard & Poor's Ratings Services.

56. To ensure that its urban renewal programme is sustainable in the long term, the URA will continue to maintain a very prudent financial position and exercise due care and diligence in handling its finances.

VI. CONCLUSION

57. The work of the URA continued to make substantial progress in 2008/09. Highlights were obtaining approvals for the Development Scheme Plans and Master Layout Plans for the Kwun Tong Town Centre project, issuing acquisition offers to all owners in that project and achieving a very high rate of acceptance, especially by domestic owner-occupiers; commencing two projects to preserve 20 pre-war shophouses in Mong Kok; joining hands with Development Bureau, Buildings Department, and HKHS to implement Operation Building Bright to rehabilitate buildings and create jobs; implementing the first measures to revitalize Wan Chai using a district based approach under the guidance of the Old Wan Chan Revitalization Initiative Special Committee; supporting the review by the Development Bureau of the current Urban Renewal Strategy; and obtaining a rating of AA+ from Standard and Poor's Ratings Services.

58. Overall, the URA is continuing to strive to implement its vision of creating a quality and vibrant urban living environment in Hong Kong to provide better homes in this world class city by delivering an affordable, financially self-sustaining, integrated, environmentally sustainable and well balanced urban renewal programme that meets the needs and expectations of the community in difficult economic and market conditions.

Urban Renewal Authority
June 2009