

**Urban Renewal Strategy (URS) Review  
Public Engagement Stage**

**Gist of Topical Discussion 3:  
Public vs Private Sector Participation in Redevelopment**

Date: 27<sup>th</sup> June, 2009 (Saturday)  
Time: 2:30 p.m. to 5:00 p.m.  
Venue: Room 1002 – 1003, The Hong Kong Federation of Youth  
Groups Building  
21 Pak Fuk Road, North Point  
Number of Participants: 56 (including 1 member of the Steering Committee, 10  
representatives from the Development Bureau and the Urban  
Renewal Authority present as observers <sup>Note 1</sup> and 6  
members of the Hong Kong Institute of Surveyors as  
discussion group facilitators)

**Gist of Public Presentations**

**Presentation 1**

Topic: The challenges of redeveloping privately owned multi-storey buildings  
Speaker: Mr. Laurie Lo Chi Hong, Principal Assistant Secretary for Development  
(Planning and Lands) 4

The speaker pointed out that Hong Kong, similar to other cities, required the joint engagement of the public and private sectors in order to achieve effective urban renewal. Hong Kong had experienced rapid urban decay. Every year, on average 500 buildings have reached their designed working life (50 years). Efforts from the public sector alone, such as the Urban Renewal Authority (URA), had been unable to fully address the issue of dilapidated old buildings.

In fact, many redevelopment projects in Hong Kong were carried out by private organisations. However, the projects had encountered many difficulties. Hong Kong, as with other big cities in the world, had many multi-storey buildings in multiple ownership. When the need for maintenance or redevelopment of a building arose, these plans often failed to be carried out because owners were unable to reach a unanimous agreement. The Land (Compulsory Sale for Redevelopment) Ordinance (hereinafter referred to as the

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<sup>1</sup>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.

LCSRO) was enacted by the Government in 1998. Under the LCSRO, the majority owners (owning 90% of the lot) may apply to the Lands Tribunal (the Tribunal) for compulsory auction of the entire lot for redevelopment. The applicant should prove to the Tribunal that redevelopment is justified on the grounds of age or state of repair of the existing buildings. The applicant should also have taken reasonable steps to acquire the remaining 10% ownership of the building. In the event that the Tribunal agreed to issue an order for compulsory sale, the entire lot would usually be sold by public auction to achieve the highest selling price. So far, the Tribunal has issued only 20 orders for compulsory sale.

The Development Bureau has proposed lowering the application threshold to 80% ownership for the following three categories of land lots: (1) the lot had only one unit yet to be acquired; (2) all buildings on the lot were aged 50 years or above; (3) the lot was located in a non-industrial zone with industrial building(s) aged 30 years or above. However, the speaker emphasised that redevelopment was not the only method of revitalising the old industrial area. The Bureau was studying other schemes to facilitate revitalisation of industrial buildings, such as conversion.

## **Presentation 2**

Topic: The Development intensity and the compulsory auction

Speaker: Mr. Roy Tam, Chairman of "Green Sense"

The speaker stated that he supported planned and reasonable redevelopment. He pointed out that the Lee Tung Street Redevelopment Project had made significant improvement in terms of energy saving and environmental protection when compared with the previous projects. Most previous redevelopment projects of the URA would make full use of the plot ratio and the height in the Outline Zoning Plan. Therefore, after redevelopment, buildings would definitely have a greater mass than the peripheral buildings.

The speaker cited some real examples and pointed out that the projects left over by the Land Development Corporation (LDC) in the past were not in line with current public aspirations on urban renewal. The Hanoi Road Project looked like “a giant wall in Tsim Sha Tsui”, blocking air ventilation and sunshine. Another example was Langham Place which imposed the greatest obstruction for air circulation in Mongkok, cutting off the air ventilation passage along Nelson Street. Moreover, the podium height of the buildings for the redevelopment projects of “7 Streets” in Tsuen Wan and Florient Rise had already exceeded the height of the original old buildings in the district.

He pointed out that each redevelopment would be followed by an increase in the plot ratio.

Urban renewal had not improved the living environment of the residents. Therefore, “Green Sense” was against redevelopment projects with neither rules nor limits, which could make no improvements.

However, in his opinion, the redevelopment projects of the URA had improved recently and it even out-performed private development. He suggested that redevelopment projects should not make full use of the plot ratio. The residual plot ratio might be transferred to the development of the rural areas or peripheral districts. In the long term, the URA should act as a facilitator, allow more residents to participate, and carry out consultation prior to the decision on redevelopment to understand the aspirations of the affected residents.

He also thought that the threshold for LCSRO should not be lowered for the time being, because it would give people the impression of forcing small property owners to move away. Moreover, the buildings have often been sold at the reserve price through LCSRO, with not much compensation for the small property owners.

### **Presentation 3**

Topic: Compulsory sale threshold

Speaker: Mr. Charles Chan Chiu Kwok, Savills Valuation and Professional Services Limited

The original intention of the LCSRO was to enable the minority owners to sell the properties jointly and share the redevelopment value and to let the developer demolish the properties to facilitate urban renewal, based on the principle of fairness and balance. For example, for a building with four flats, each might be sold separately at \$10 million, that is totalling \$40 million. However, if the minority owners are to sell their properties jointly, the value might reach \$80 million after demolition and reconstruction. In general, for a successful joint sale, the redevelopment value would have to be at least 1.5 times higher than the original value of the old building. The developer would take into account the time required for the assembly and acquisition of titles, as well as the age and conditions of the building. If the building were not old enough, even if the developer had acquired 90% of the undivided shares of the lot(s), he might not be able to resort to the LCSRO to acquire the remaining interests. Therefore, developers might not be interested in the acquisition.

Assuming that the redevelopment value of a site was \$100 million and ten owners would sell their flats jointly, each owner could get \$10 million. If only 90% of the owners agreed to sell the property, the developer would need to spend time and extra money in

order to acquire the remaining interests, resulting in a discount of at least 10%. Therefore, each owner could only get around \$9 million. However, in case of failure to acquire 90% of the property interests, the developer would be unable to resort to the LCSRO, resulting in a greater risk and longer development time, which meant the developer could pay even less for the acquisition. Therefore, it would bring greater advantages for the minority owners by lowering the application threshold for LCSRO.

The developer could not make use of the LCSRO to acquire the property interests of minority owners at cheap prices because the developer had to obtain 90% of the property ownership before he could make an application under the LCSRO. So as to secure the agreement of 90% of the property owners, the acquisition price must be higher than the market prices of the properties when sold on an individual basis.

#### **Presentation 4**

Topic: Opinions on government and private participation in the redevelopment

Speaker: Mr. Lam Kit

The speaker mentioned that small property owners held different opinions on issues such as the LCSRO, the desire to leave or stay behind, and redevelopment. The current mechanism was unable to take sufficient or equal care of the aspirations of different property owners. He suggested that small property owners should be entitled to opt to participate in redevelopment, add their property ownership to the redevelopment project, and stay behind to settle down or operate their business after redevelopment. They might also reserve a small portion of flats in the old building for rehabilitation and not reconstruction, allowing property owners who were unwilling to participate in the redevelopment to move in. In his opinion, “private participation” should not only be developers; the definition of “private” should be broadened.

#### **Presentation 5**

Topic: The case of Kelly Street in New York — community-driven model for urban regeneration was better than government and consortium-driven models

Speaker: Mr. Desmond Sham, Community Cultural Concern

The speaker has taken the case of Kelly Street in New York to probe into the issue of how the community-driven model for urban regeneration had been more effective and at a lower cost than the government and the consortium-driven approaches. Kelly Street was a successful example of revitalising the community through creativity by the community. It had prevented the community development from being damaged by the government policy. After World War II, the local government built many express highways, cut off

blocks and demolished buildings. Thousands of residents were forced to move out. In 1977, the government planned to demolish three of the vacant buildings on Kelly Street as the first step of demolishing other similar blocks. The community protested and set up a community organisation called “Banana Kelly”. They took the initiative to participate in all renovation works in lieu of demolition, in exchange for the ownership of their own flats after the rehabilitation. The organisation solicited for the leftover cement from the construction companies to renovate or build recreational venues and roads, and also trained drop-out youths in the district to do improvement works for the community.

The speaker compared the case of Kelly Street, where urban regeneration was carried out under a community-initiated and community-driven rehabilitation model, with many government-funded and developer-oriented rehabilitation schemes in the vicinity. In the former case, its design and construction works were on a “do-it-yourself” basis set into action jointly by the residents in the community. Its cost was low and it complied with the concept of sustainable development. As for the developer’s case, the design was expensive. The Kelly Street project had not only renovated buildings but also created opportunities for employment and training, which were benefits not found in the developer’s scheme. The Kelly Street works required neither rent subsidy nor tax subsidy because the residents had managed to work for the community in exchange for their property ownership, whereas the developer has requested subsidies from the government. The Kelly Street Project had taken merely a few years but the project by the developer had taken a very long time to complete.

As for the definition of private participation, the speaker thought that the top priority for consideration should be placed on the benefits of the neighbours and residents in the district because they had the best understanding of the needs of the district. Therefore, the government should only act as a coordinator, provide sufficient information and professional assistance, coordinate with various government departments and delegate the power to the community, so as to achieve a “win-win” situation.

During the public presentation, a participant cited the case of the Sins family running “溢利油莊” at Haven Street, Causeway Bay. In his opinion, the LCSRO was too stringent for small property owners. He said that Soundwill Holdings who specialised in acquiring buildings offered \$15 million for acquiring the shop of “溢利油莊” but this acquisition proposal was rejected because the market price of that shop at that moment was \$20 million. Coupled with the fact that “溢利油莊” had been operating for more than half a century in Causeway Bay, it would not be able to continue to operate if it moved out of that district. Soundwill Holdings then resorted to the LCSRO and applied to the Tribunal for LCSRO with the proposal of acquisition at the reserve price of \$8 million. Finally,

both parties solved the dispute through legal action, however, the proceedings were complicated. “溢利油莊” had to submit a series of professional reports at the expense of \$5 million but it lost the case in the end and only \$3 million was left. “溢利油莊” had no alternative but to rent a shop of half the size opposite to the original site to continue its business and the turnover decreased drastically. However, there were also participants who stressed that the estimated market price of \$20 million was not accepted by the court according to the judgment.

He added that 18 out of the 20 cases of public auction so far had been concluded at the reserve price because those who participated in the auctions were big developers and it was unlikely for the small developers to compete against the big developers. He reiterated that there were too many loopholes in the current legal mechanism. He requested the authority concerned to amend the relevant laws and postpone tentatively the submission to the Legislative Council Panel on Development the proposal of lowering the threshold to 80% on behalf of the H15 Concern Group. Mr. Laurie Lo of the Development Bureau pointed out that the auction reserve price would take into account the redevelopment value of the lot and had to be approved by the Tribunal. It had reflected the development potential of the land. According to information on hand, the approved reserve prices ranged from 1.8 to 2.2 times of the existing use values on average. Since the selling price was determined at public auction, it should not be criticised as unfair merely because it was the same as the reserve price. Furthermore, in these cases where the majority owners wished to sell their shares of the property, but a small portion of existing owners objected to it, the owners would have no alternative but to apply under the LCSRO to resolve the discrepancy through legal actions. The most important factor for consideration by the Tribunal would be whether redevelopment was justified on the grounds of age or the state of repair of the existing buildings on the lot. Past judgments suggested that if a large amount of maintenance cost was required to repair that building, but the enhancement value of the maintenance works was lower than the maintenance costs, the Tribunal would consider approving compulsory sale of the lot for redevelopment.

### **Gist of Group Discussion Report**

The discussions were carried out in six groups. The discussion results were as follows:

#### 1. The Balance of public and private sector participation in urban regeneration

Some participants pointed out that the ideal model of urban development and community regeneration was: the government, the community and the general public should coordinate with each other and uphold the principle of fairness and balance. The

government should respect public opinions and allow residents to have the opportunity to participate. There were opinions that the government and the community should play the role on “an equal footing”. There were also some participants who thought that the government should be responsible for investing resources in the community and let the community decide whether to proceed with rehabilitation or redevelopment. The property developers could assist in carrying out urban regeneration and launching redevelopment projects.

Many participants agreed to have parallel participation of public and private sector in redevelopment. However, some participants doubted that it was difficult to have fair participation because benefits of the developers and the affected parties were different.

Some participants had the special concern whether implementation of the urban renewal should adopt a “bottom-up” or “top-down” approach. They believed that, from the earliest Government organisation – the URA’s predecessor (that is, the “Land Development Corporation”) to the URA at present, the property owners had long been in the passive position. However, under the current LCSRO it was, in fact, capable of developing a “bottom-up” model for urban renewal.

Some participants stressed that the small property owners must have the right to choose on the aspects of ownership renewal and acquisition. The current mode of acquisition was that the developer would buy up the property ownership on a one-off basis most of the time. However, in view of the emotion towards the community and the property, many small property owners were unwilling to move out. Therefore, developers should discuss with the small property owners over the issue of property ownership and provide more choices, for example, “flat-for-flat” and “shop-for-shop” exchange. It was also necessary to remind the small property owners of the risks of the relevant decision so as to let them decide with sufficient information.

In conclusion, most of the participants agreed that public engagement was indispensable in urban redevelopment. Some participants believed that the Government, the District Councils and the Legislative Council might play a gate-keeping role. There were also groups pointing out that it was alright as long as the objectives of the URS Review could be achieved regardless of the party which carried out the redevelopment.

## 2. The principle of “big market, small government”

Many participants agreed with the principle of “big market, small government”. Because of the ever-increasing number of old buildings, the Government alone was incapable of

handling an addition of 500 old buildings every year. Hong Kong required market forces to promote urban renewal. Otherwise, more responsibilities and financial risks would be placed on the tax payers. In comparison to the era of the Land Development Corporation in the past, there were now more means to promote rehabilitation or renewal of buildings, for example, the "Building Maintenance Incentive Scheme" under the Hong Kong Housing Society (HKHS), otherwise the public sector must have sufficient grounds for land acquisition from the private sector. In respect of the law, the LCSRO also provided developers with a channel to solve the dispute over property ownership.

Some groups pointed out that even with the implementation of the principle of "small government", the Government still had certain responsibilities. Owning abundant power and resources, the Government should delegate resources to the community to encourage with the implementation of redevelopment and regeneration. The "market" included everyone and therefore, everyone in the community should be entitled to share the economic achievements and the resources in society, particularly land resources. Many participants suggested that the government should provide incentives such as financing or favourable tax and development incentives to promote cooperation between the small property owners and developers in developing and promoting urban renewal together. There were also participants who suggested the Government make reference to the community renewal projects overseas (for instance, Kelly Street in New York) to create and enhance the economic value of old districts.

In addition, there were also participants who pointed out that most of the time, developers made full use of the plot ratio in redevelopment. Currently only few draft Town Planning Briefs had restrictions on height or plot ratio. Moreover, the restriction on plot ratio was more lenient for older buildings in general. Therefore, the Government should complete the amendments of the restrictions on height and development density of the draft Outline Zoning Plan as soon as possible before addressing the issues of urban renewal.

### 3. The role of URA in urban redevelopment

Many participants thought that rather than demolishing buildings as soon as possible, URA should play the role of a facilitator to assist small property owners in carrying out cooperative development with developers, to enhance public participation and be a "gatekeeper" to protect the small property owners or the affected elderly. However, URA should step in during the process of land resumption or when it was necessary to implement compulsory sale due to the poor conditions of the building.

Some groups believed that the redevelopment planning should not be led by URA, and



developers and small property owners shall be coordinated to achieve the win-win status. Some participants cited Prosperous Garden in Yau Ma Tei as an example. In that year, HKHS promoted redevelopment through successful coordination between property owners and developers by means of “flat-for-flat” and “shop-for-shop” exchange arrangement. Some participants had visited the shops, tenants and property owners in that district, and were informed that residents could opt to move to a flat of HKHS or other public housing estates in the first place, or find alternative temporary accommodation while carrying out demolition. Upon completion of Prosperous Garden, every original owner of each old flat could opt to buy back two new flats of Prosperous Garden and tenants could also opt to move back to Prosperous Garden or buy the property ownership there. Some participants expressed their appreciation for the government to carry out development in stages, arrange “flat-for-flat” and “shop-for-shop” exchange and local rehousing 20 years ago. However, they also questioned why it was difficult to see similar examples nowadays.<sup>2</sup>

In addition, some participants queried the URA for not making use of the LCSRO. There were also participants who thought that URA had better credibility than agents which could be the facilitators to make use of LCSRO to accelerate redevelopment. There were also groups proposing to the URA to arrange social service team to understand the situation of the affected residents and help them solve the financial and even emotional problems.

#### 4. Should the threshold for compulsory auction of property ownership be relaxed?

The participants in the discussion had considerable discrepancies regarding the relaxation of the threshold for the Compulsory Auction. Some participants thought that the aspiration of those 80%-90% owners of the building who wished for redevelopment should be respected, and the current difficulties in acquisition should be solved (in case of ambiguous ownership) so as to allow their flats to have the chance of being redeveloped and to improve their living environment. There were opinions that large developers owning the entire building could carry out redevelopment at any time while it would be unfair to the small property owners incapable of having their wish come true because of the exceedingly high threshold of the LCSRO. There were also opinions that as the price of acquisition was higher than the current building price in general and the scope of redevelopment by the private sector was smaller in general, small property owners should be in the condition to purchase another unit in the original area.

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<sup>2</sup> Tam Siu Ying of the URA indicated that the statements of participants in the meeting were not fully the same as her understanding. The authority would try to invite the representative of HKHS to present the case of Prosperous Garden in the next topical discussion.

On the other hand, some groups expressed that they accepted the LCSRO and agreed to its contribution but were of the opinion that the “90% threshold” was sufficient enough and disagreed to the relaxation of the threshold to 80%. They were worried that in case adequate supporting measures were lacking, it would promote many sudden applications for the LCSRO, resulting in a proliferation of construction sites in Hong Kong.

There were also participants pointing out loopholes in the current LCSRO and the authority concerned should first amend the terms for density and height restrictions and increase open space, before discussing the relaxation of the LCSRO threshold. The group also proposed to the Government prior to the application for the LCSRO that it may request the property developers to comply with certain steps, such as providing options for owners to participate in property ownership or have “flat-for-flat” exchange, in place of from property acquisition. The LCSRO should only be implemented when developers and small property owners were unable to reach a consensus.

There were also participants who thought that it was unlikely to determine its effectiveness as there were too few cases since the enactment of the LCSRO in 1998. As a result, there were concerns about early relaxation and thus further observation was suggested. There were also participants who were worried that the compulsory sale of buildings would cause serious consequences and citizens may not fulfill their responsibility in maintaining their properties. There were other opinions pointing out that, in Japan or Taiwan, redevelopment may be launched immediately upon consent granted by a certain percentage of property owners; however, the remaining property owners may choose to participate or not to participate by accepting cash and not by auctioning the property.<sup>3</sup>

##### 5. Issues regarding rehabilitation or redevelopment of old buildings

Some participants believed that the authority concerned should send out a clear message to the society that it was the responsibility of property owners to maintain and repair their buildings regularly. When the age of the building had come to the end of its physical or economic life, the Government should step in to remind property owners to pay attention to the conditions of their buildings and urge them to carry out building inspection.

There were opinions that under many circumstances, the physical life of a building was often longer than its economic life. In Hong Kong, many buildings were constructed in the

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<sup>3</sup> Tam Siu Ying of the URA pointed out that in Taipei, the proportion of consent was 2/3 in general. As on the issue of whether the selling price of the building or the land use right conversion scheme was fair should be decided by a committee similar to the Lands Tribunal in Hong Kong. Such committee consisted of personnel from the academic sector and the government

1950s and 1960s. Although the Government had made improvements in the enforcement of the law regarding the dilapidated, unauthorised and dangerous buildings when compared to the past, it was still necessary to have more comprehensive subsidy system to help the citizens maintain their buildings.

Some participants pointed out that the major problem in many old districts at present was the lack of resources for building rehabilitation by small property owners or the elderly. The Government might play an active role in this aspect, such as providing subsidies, loans or favourable mortgages. In addition, there were opinions that the banks had set a lot of restrictions on the mortgages for buildings aged 30 years or above. The Government might consider providing “secondary mortgages” for these buildings, or allowing the elderly to sell their property ownership to the Government, or permitting the bank to offer the mortgage to resume the property after the elderly owner had passed away.

#### 6. Others

Some participants pointed out that the current problem of urban renewal was that the Government spent excessive time on planning and studying without thorough review of the situation of the implementation of urban redevelopment and regeneration in Hong Kong over the years. In particular, two groups had mentioned that the 4Rs should be prioritised. It appeared that redevelopment was presently placed on top priority, which involved the largest scope and sum of money. They were of the opinion that priority should be placed on rehabilitation and revitalisation, followed by community-building. Redevelopment would be implemented only when the dilapidated conditions of a certain district or building had deteriorated to the extent of beyond remedy. As redevelopment would affect the neighbours and the environment in the vicinity, the Government should do more preliminary work before proceeding with the redevelopment.

Some participants were of the opinion that the Development Bureau should study the successful cases of European and American cities with rich experiences in the urban redevelopment, but not the experiences in the Asian region.

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