

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Commercial Properties Committee

Criteria for Letting by Negotiation

PURPOSE

To seek Members' approval to revised criteria for letting of commercial premises by negotiation.

BACKGROUND

2. Open Tender has remained predominantly an effective method of letting commercial premises since the Letting Panel was formed in 1986 to deal with proposals for letting by direct negotiation. Statistics show that on average, about 80% of lettings is effected by open tender each year and the remaining 20% by direct negotiation. In the year 1997, 424 cases representing 78% of a total of 544 cases were approved through this letting approach.

3. Over the years, the basic criteria for entering into negotiation with prospective tenants were reviewed regularly to address changing market conditions. Members approved vide Paper No. CPC 51/90 the following criteria for letting of commercial premises by negotiation.

- (a) where the amount of space to be leased exceeds 250m² and (for non-factory premises) where the type of trade can attract more customers to the shopping centre, or can provide a desirable facility for residents; or
- (b) where the premises concerned have failed to attract suitable bidders in more than two open tender exercises; or
- (c) where an attraction is offered by the brand name under which the premises are to be operated, or by the tenant's ability to develop his business through substantial promotional activities, which will enhance the trading potential of the shopping centre; or

- (d) where a sitting tenant has demonstrated his capability for expansion of his business.

PERFORMANCE UNDER EXISTING CRITERIA

4. There were 120 premises let by negotiation in 1997. Of these, the number of cases approved under criteria (a), (c) and (d) was 4, 114 and 2 respectively. None was approved under criterion (b) as premises were either proved unattractive to potential tenants or were disposed before the third round of open rental tendering, which normally took three months to complete.

5. The Department currently maintains a mailing list comprising some 940 potential clients (individuals or companies). Since these retailers are mostly small traders who have not yet established any outlet in public housing estates, they are not qualified under the existing criteria for leasing of the Authority's commercial premises by negotiation.

6. Apart from letting by negotiation and rental tendering, the Department also accepts "Walk-in" applications for letting of unpopular premises. These comprise premises qualified for letting under criterion (b) and have remained vacant for two years or more. Letting of these premises is on a "first-come-first-serve" basis. Nonetheless, the result of the walk-in leasing is not very encouraging as only 26 premises were successfully let in 1997. This approach to letting is considered administratively not cost-effective but is worth maintaining since it still serves as a means to disposing vacant unpopular premises.

NEED FOR A REVIEW

7. The unfavourable economic condition brought about by the recent financial turmoil has further dampened the local retail market. Although the impact on the Authority's commercial premises is less prominent than retail premises in the private sector, aggressive marketing effort is necessary to further expedite letting of vacant premises. One suggestion is to simplify arrangements for letting by negotiation.

8. Although the existing criteria for letting by negotiation are working fairly smoothly and effectively, the Department considers there is room to relax the existing criteria with a view to meeting the demand for leasing by negotiation from potential tenants as mentioned in Paragraph 3 and to shortening the void period arising from the need to satisfy criterion (b) before the premises can be offered for letting by negotiation.

PROPOSAL

9. No change to the letting criteria (a), (c) and (d) is suggested as they are all operating fairly effectively. It is however recommended to revise criterion (b) from two open tender exercises to one.

10. The revised criterion (b) will permit more vacant premises to be made available for letting by negotiation and also permit letting by negotiation to commence immediately after an unsuccessful attempt on reletting premises by open tender. However, letting of the premises will be subject to the trade being acceptable and the prospective tenant's rental offer is not below market level as assessed by the Chief Estate Surveyor/Commercial properties.

RECOMMENDATION

11. It is recommended that Members approve the following amendment to letting criteria (b) -

“(b) where the vacant premises concerned have failed to attract suitable bidders in at least one open tender exercise”

DISCUSSION

12. At the Commercial Properties Committee meeting to be held on 26 March 1998, Members will be requested to approve the recommendation made in paragraph 11 above.

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