

HONG KONG HOUSING AUTHORITY

Memorandum for the Commercial Properties Committee

Mid-year Performance Review Commercial Business Plan 2000/2001

PURPOSE

This paper presents the Commercial Business 2000/01 mid-year review.

BACKGROUND

2. To facilitate coherent and effective policies and programmes to meet Housing Authority strategic objectives, business plans are prepared for endorsement by relevant business committees. The 2000/01 Business Plan for the Commercial Business was approved by Members in October 1999 (Paper No. CPC 63/99). This mid-year review gives Members an update on progress.

OVERALL PERFORMANCE

3. A number of economic indicators showed strong upward movement in the first half of the year and while retail activity remains weak, demand for HA retail space in new estates has been encouraging. The very large amount of space imminently due for completion will provide a challenge in current market conditions but so far vacancies have been kept below 5%. The various rent concession schemes offered by the HA have assisted in retaining tenants and minimising voids, and modest increases in rent can be expected from current levels.

KEY INITIATIVES

4. A total of 17 initiatives are covered in the 2000/01 Business Plan. Action has been initiated on all 17. The overall implementation position as at the end of September 2000 is as below -

Initiatives under Implementation				
Action Completed	On Schedule	On-going	Under Review	Behind Schedule
2 (12%)	7 (41%)	4 (23%)	2 (12%)	2 (12%)

5. A detailed report on the progress of individual initiatives is at **Annex A**. As to the two initiatives behind schedule, for initiative (8) the proposed review of guidelines for rent arrears has been incorporated into a larger study into enforcement of tenancy conditions generally which is expected to be complete by the end of the financial year. Initiative (17) on the future delivery of retail and carparking services is subject to a major consultancy. The consultant's recommendations are expected to be ready for presentation to CPC early in 2001.

KEY PERFORMANCE INDICATORS

New Development and Improvement Project Viability

6. An updated 5-year development programme for commercial facilities is at **Annex B**. Retail facilities in Ma Hang Estate (Murray House) and Shek Yam Estate were completed during the first half of the year, adding 8,582m² retail space to existing stock. Construction works for a further 81,059m² in 14 estates scheduled for completion in the second half of the year are in progress. One pre-commencement viability study has been undertaken indicating an IRR of 10% and a 14-year payback period.

7. Action has been initiated for five improvement projects, in line with target. Post-completion viability studies were conducted for 10 projects. With the exception of the improvement project in Wah Fu (I) Estate, for which the result of the viability testing revealed an Internal Rate of Return of 7.8%, all projects are generating a return above the 8% threshold. Details are at **Annex C**.

Vacancy

8. Retail vacancy was 4.63% as at the end of September 2000, limited improvement over that at 31 March 2000 (4.99%), reflecting slow market absorption in current market conditions. However, HA vacancy rates continue to be significantly lower than that for the private sector, where latest figures available indicate a 9.2% vacancy. Although the large supply of new premises coming on stream makes the target of 4.5% vacancy set in the Business Plan a challenging one, the Department is seeking opportunities to minimize voids by improved responsiveness to local market conditions and intensive marketing, including the increased use of private estate property agents in letting of new stock.

Rent Arrears

9. Rent arrears recorded for the month ending September 2000 was \$10.86M, or 2.63% of income receivable. The amount of arrears is within the target of 3% set in the Business Plan.

Out-sourcing of Carparks and Shopping Centre Management

10. Over the first half of the year, the Department has awarded management contracts for 12 shopping centres. Out-sourcing of management for the remaining 21 shopping centres is scheduled for completion before the end of the financial year.

11. On the contracting-out of carparking spaces, the Department has awarded management contracts for 11,227 carparking spaces during the six-month period ending 30 September 2000. The Department has not only met the target to out-source 3,250 carparking spaces but has also taken action for phased transfer of carparking management in HOS courts currently under the management of PMAs to specialist carpark operators (Paper No. CPC 1/2000).

Promotional Activities

12. The 86,000 hours of promotion activities held in the first half of the year fell below the target of 120,000 hours for the period, partly because of the fall in demand for promotional and exhibition venues as a direct result of delayed completion and opening of shopping centres.

FINANCIAL PERFORMANCE

----- 13. The operating account for commercial properties for the six-month period up to the end of September 20000 is at **Annex D**. Against the approved budget for the period, income was close to budget and operating expenditure was about 5% lower, largely due to lower than budgeted expenditure to date on maintenance.

Financial Outlook

----- 14. A revised budget has been prepared (**Annex E**) to reflect the latest projected growth forecasts, incorporating the major bases and assumptions recently approved by Members (Paper No. CPC 44/2000). The revised projected surplus is \$1,769.2M.

INFORMATION

15. This paper is for Members' information but if members wish can be discussed at the meeting to be held on 9 November 2000.

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