

URBAN RENEWAL

IN

HONG KONG

Planning, Environment and Lands Branch

July 1995

Copyright

This document should not be reproduced without the express approval of the Hong Kong Government and that permission can be applied for by writing to the Director of Information Services (<http://www.info.gov.hk/isd/>)

CONTENT

INTRODUCTION

PROPOSALS

SITE ASSEMBLY

RELOCATION

VIABILITY

GOVERNMENT RESOURCES

CONCLUSION

INTRODUCTION

There is a need to establish fresh policies, programmes and institutional arrangements which will facilitate urban renewal and redevelopment and deal with the problems of imminent urban decay in the remainder of the decade and beyond.

2. Large parts of the urban area are already affected by the problems of urban decay - obsolete buildings, overcrowding, poor environmental conditions, under or over-utilisation of land - and are in need of urban renewal.

3. However, urban renewal is a resource-intensive and time-consuming process. It does not only involve the replacement or renovation of obsolete-buildings, but also the development of supporting infrastructure such as roads, utility supply and sewage treatment facilities. Because of the magnitude of the problem and Government's commitments under the Public Works programme in other areas, complete renewal of urban area must necessarily take a long time.

The Aims of Urban Renewal

4. Though urban renewal is difficult to define clearly, it normally involves relatively large-scale redevelopment of urban areas, rather than piecemeal rebuilding of individual buildings or the provision of specific facilities. Its objectives include:

- (a) improvements to the urban environment and infrastructure by the provision of more open space, community and other facilities;
- (b) improvements to urban layouts, road networks and other infrastructure;

- (c) the replacement or renovation of obsolete buildings;
- (d) better utilisation of land;
- (e) thinning out of development and population densities to reduce the strain on overburdened transport and other infrastructure;
- (f) making available land to meet various uses such as housing; and
- (g) redeveloping a particular area in order to act as a catalyst for the redevelopment of neighbouring areas by private developers, as enhanced property values make this more viable.

5. These objectives are not always compatible. For example, items (d) and (e) can be contradictory, although better utilisation of land does not always mean more dense development. The goals of urban renewal are long-term and continuing. A redevelopment project undertaken today may itself be in need of urban renewal in the future.

Problems in Urban Renewal

6. There are three basic problems in urban renewal:

(a) Site Assembly -

the process of assembling small lots and individual properties in multiple ownership into larger lots capable of comprehensive redevelopment;

(b) Relocation -

the need to relocate residents and businesses from properties which need to be redeveloped; and

(c) Viability -

the value of the redeveloped properties is not always sufficient to cover the costs of acquiring existing properties, relocation and development.

(Please see paragraph 8 below.)

7. The site assembly problem results from the fact that units in many multi-storey buildings are in separate ownership, so that anyone wishing to redevelop has to acquire many separate legal interests. Even if he succeeds in acquiring the majority of such interests but fails to acquire the last one, the whole scheme may fail. In such circumstances, large scale redevelopment becomes difficult and financially risky.

8. The problem of relocating tenants in rented accommodation in old buildings is in many ways one of the most difficult aspects of urban renewal. Owners may sell their properties to the developer at a price with which they are satisfied, often after difficult and protracted negotiations. Some will sell with vacant possession but many will not. Developers who acquire properties must therefore negotiate with the tenants to obtain vacant possession. While a minimum compensation is payable under the Landlord and Tenant (Consolidation) Ordinance (LTO) and most developers pay over the minimum to obtain a smooth clearance, tenants often find it difficult to find replacement accommodation at rents comparable to the ones they have been paying. As old buildings are redeveloped and rents rise, there is less low-cost accommodation available and low-income tenants may be forced out of the urban areas, causing hardship in some cases as people have to move away from family, community and employment. There is also increasing pressure for such people to be rehoused in same-district subsidised rental accommodation.

9. The viability problem increases as fewer low-rise areas remain to be redeveloped and attention focuses on medium-rise properties. The costs of acquiring such properties and relocating residents are higher, while the development gains from redevelopment are less. There are large areas where urban renewal is needed now but where the development potential is insufficient to cover the cost (much less generate a profit) because of the need to reduce development densities. Change to a more valuable land use (e.g. from residential to commercial) and upgrading of the quality of accommodation may help to make projects more viable in some cases. However, such changes, if applied widely, mean the replacement of large numbers of affordable urban area flats with commercial property or more expensive

flats.

Urban Renewal Agents

10. There are a number of bodies which currently act as urban renewal agents or have done so in the past -

(a) private developers have been undertaking the great majority of urban redevelopment projects. Obviously, such projects are conducted for profit and therefore tend to result in higher development densities rather than thinning out. Also, private projects tend to be relatively smaller in scale, often focusing on single buildings with few improvements to layout and infrastructure. Nevertheless, the contribution of the private sector should not be underestimated. It is estimated that over half of the new private flats constructed in recent years have come from private redevelopment projects;

(b) the Land Development Corporation (LDC) was established in 1988 as the first dedicated urban renewal agency. The LDC was given only limited Government funding (a \$100 million loan facility to cover initial running costs) but was specifically given access to Government's resumption powers through the LDC Ordinance, provided it has taken all reasonable steps to acquire the properties affected by its projects by other means, including negotiating to purchase on terms that are fair and reasonable. This access to resumption powers is fundamental to the LDC's operations and is what enables it to attract private resources into urban renewal schemes; and

(c) the Housing Society has undertaken urban improvement schemes. These have been relatively small-scale focusing on the provision of additional and improved housing in urban areas rather than comprehensive urban renewal. Nevertheless, they are an important contribution to urban renewal generally.

PROPOSALS

11. To achieve the objectives set out in paragraph 3 and to tackle the problems identified, proposals described in paragraphs 11 to 30 below are made. All proposals relating to LDC projects will apply only to new projects begun after the adoption of new arrangements. On-going projects will continue under existing arrangements.

SITE ASSEMBLY

Enhanced Up-front Offers

12. In LDC schemes, one means to facilitate site assembly is to enhance initial offers for acquisition above the market value. The LDC has already begun doing this with some encouraging results. We recommend that this practice should continue.

Resumption

13. While enhanced offers help, they are not a complete solution because of title problems and the often inflated expectations of owners, who tend to view the value of their property in terms of its redevelopment potential rather than what it could be sold for in its existing condition. The only way to ensure site assembly is to resume properties which cannot be acquired.

14. Although resumption is resource intensive, time-consuming and controversial, it is, however, unavoidable if faster urban renewal is to be achieved. It is proposed that resumption for LDC schemes should continue.

The LDC as a Facilitator of Private Sector Schemes

15. Most of the LDC's projects to date have been joint ventures with private developers. Questions have been raised on whether the LDC should continue to function in the same way in future, particularly as its stronger financial position now would enable it to act more on its own in future projects.

16. However, it would be wrong to totally preclude cooperation of the LDC with the private sector, whose financial

and other resources could assist greatly in urban renewal. It is therefore proposed that the LDC should both undertake projects on its own, and act more as a facilitator of private sector redevelopment schemes and less as a proponent of such schemes. Where a developer has a scheme which offers significant planning gains but is unable to acquire all of the properties needed to implement it, he should be able to approach the LDC with a view to taking the project forward as a joint venture. The developer would be required to fund the LDC's efforts to acquire the remaining properties by negotiation and its normal relocation package. The LDC would benefit from the developer's capital and other resources, and from the sharing of financial risk by the developer. Government would exercise control over schemes taken forward in this way by setting criteria for acceptance by the LDC and relying on the Government members of the LDC Board to ensure that they are applied. All the controls on resumption in the LDC Ordinance would continue to apply.

Owners' Participation

17. Owners' participation has long been proposed as a way to achieve site assembly for redevelopment. The theory is that owners group together to redevelop, each contributing the value of his property and reaping a proportional share of profits. Owners' participation offers a number of advantages:

- (a) it may reduce the need to acquire properties up-front and therefore the need for resumption;
- (b) it allows the owners to share in the profits from redevelopment, thus helping to overcome resistance to projects; and
- (c) it helps to spread the financial risk of redevelopment.

18. However, in practice the idea also has a number of disadvantages:

- (a) it is difficult to persuade large numbers of individual owners to agree on redevelopment or the share of profits to which they should be entitled;
- (b) as well as sharing in the potential profits from redevelopment, owners must also accept a proportionate share of the financial risk. For smaller owners, this can be significant;
- (c) individual participating owners generally become minority shareholders in the redevelopment company and therefore have little effective say over how the project is carried out; and
- (d) unless a large number of owners, or a smaller number who control a significant part of the properties needed, participate, the advantages listed at paragraph 16 are not achieved.

19. The LDC has tried this option but without success, although this may have been related to the terms on which participation was offered. Nevertheless, the LDC will be encouraged to continue to give serious consideration to the feasibility of participation by owners in its future schemes as an option to acquisition by purchase or resumption.

20. Owners' participation would best be made to work in the Hong Kong context by involving larger owners and using the LDC as a facilitator.. In cases where several large owners already own a proportion of the properties required, consideration will be given to inviting these owners to form a joint venture company with the LDC in the lead. The LDC will assist in acquiring the remaining properties needed and with relocation. We will also not rule out the possibility of offering displaced owners of domestic properties a replacement flat in either a separate rehousing block or in the project itself after redevelopment as an alternative resumption, purchase or participation.

RELOCATION

21. Relocation must include both domestic and commercial premises. Commercial tenants face similar problems to domestic tenants in that low-cost accommodation is becoming scarcer and they may not always be able to afford to move to newly developed commercial space. Even owner-operators of commercial premises are not necessarily enabled to relocate by the purchase price or compensation they receive because similar property is no longer available. it is proposed that options should be provided in each urban renewal case to enable owners and tenants to choose between physical relocation by the developer, cash compensation to allow them to buy or rent elsewhere, or to wind up their businesses altogether.

Domestic Tenants

Rehousing

22. There is a growing need for tenants affected by redevelopment to be rehoused in subsidised accommodation. This is impossible to be achieved in all cases. To do so would involve a massive expansion of the public housing programme. Cash offers in lieu of rehousing should continue to be offered by the LDC and private developers. Nevertheless, some expansion of subsidised rehousing for those displaced by urban renewal is essential if redevelopment projects are to gain public acceptance. Two ways are proposed to achieve this.

Rehousing by the Housing Society

23. In the past, the HS has undertaken its own urban improvement schemes and provided its own rehousing. In future, the HS can take on the role of providing rehousing also for people affected by LDC projects and take on the role of long term management of the rehousing units. To enable this proposal to work, additional sites would need to be granted to the HS for the provision of rehousing flats for LDC projects on the usual terms for HS grants. The LDC would be required to pay the land premium as well as construction cost. Tenants affected by LDC projects would be allowed the flexibility, wherever possible, of moving to a different HS estate if they have particular reasons or preferences for a different location. While this will not always be possible, It should partly meet the demand for rehousing close to the tenants' original home.

Rehousing by the LDC

24. The extent of cooperation between the LDC and HS along the lines set out in paragraph 23 would depend on the HS's resources and its commitments to its own programmes. It would be a precondition that the HS's other commitments including the Sandwich Class Housing Scheme should not be affected. If the HS is unable to meet the full demand from LDC projects, then the LDC will have to continue to provide rehousing as it does currently. In that event, it is proposed that land for this purpose should be granted to the LDC on the same terms as the HS, provided that the rehousing flats built on such sites are used only for people affected by projects undertaken solely by the LDC.

Cash Compensation

25. Domestic tenants affected by private redevelopment are protected under the LTO, and receive compensation currently set at 1.7 times the rateable value of the premises. This is the statutory minimum and does not preclude higher amounts being agreed between parties to obtain vacant possession. An increase in the statutory compensation would entail the risk that higher compensation might actually undermine the viability of some projects. Also, some developers might be tempted to resort to illegal means to obtain vacant possession rather than pay the higher rates. Nevertheless, in practice developers do often pay amounts well in excess of the LTO minimum and it is therefore proposed that the levels of statutory compensation for smaller units under the LTO should be enhanced, subject to an overall compensation cap.

26. Cash compensation should remain an option in LDC projects. Some affected tenants do not need rehousing and are prepared to accept cash compensation for the disruption involved in having to move and to seek other rental accommodation.

Commercial Tenants/Owner-Operators

27. In private redevelopments, developers negotiate compensation for commercial tenants/owner-operators on commercial terms. The existing ex-gratia allowances for business loss and relocation on resumption for LDC and HS projects have proved insufficient to achieve smooth clearance of buildings for redevelopment. Tenants/owner-operators operating small businesses argue that they cannot afford to relocate and that they are often forced out of business by redevelopment. Some businesses in old buildings are marginal and dependent on cheap accommodation. It would not make sense to try to keep non-viable businesses in being by means of a Government subsidy.

28. What is required is a mechanism to provide options for commercial tenants/owner-operators. Possibilities could include -

(a) ex-gratia allowances, in addition to the statutory compensation under the Crown Land Resumption Ordinance, to permit -

- i) relocation to other rental premises; or
- ii) winding up of the business, or

(b) interest-free loans to assist in starting a new business of a comparable size to the existing one by covering part of (up to a certain percentage or amount to be determined) the capital investment required.

29. A similar but less generous compensation package might be extended to informal businesses which occupy space in or near old buildings illegally. While such operators have no legal right to compensation, they have to be cleared for redevelopment and may be deprived of their livelihood. If not compensated, they may be forced out of business and undergo considerable hardship. Details and the resource implications of each of the proposals mentioned above will need to be carefully worked out.

30. We will also encourage the LDC to offer shop-for-shop relocation in new premises constructed in its projects or in commercial areas within rehousing blocks on a decanting basis similar to that to be adopted for domestic housing. Whether this will be possible is dependent on the availability of suitable accommodation. LDC will be encouraged to provide more shops to cater for this need where feasible.

VIABILITY

31. Although the viability problem is increasing as higher-density buildings age and become ripe for redevelopment, there are still opportunities for redevelopment on a commercial basis by the LDC (even taking into account the enhanced offers and allowances outlined above) or by private developers. However, there are projects which it will be difficult to make viable and some means is required to deal with such cases. It is proposed that a "linked site" approach in LDC projects should be tried out, whereby a redevelopment site which is not viable on its own for various reasons, including the need to provide more and better community facilities, is linked with another site which is viable. The LDC will be required to develop both sites using profits from one to subsidise the other. Part of the development on the viable site may be required to be used for decanting of residents and commercial operators from the non-viable site with the remainder being used to generate a surplus to support the other site. It is intended to offer this option to the LDC for the moment.

GOVERNMENT RESOURCES

32. Although the proposals set out above aim to use the LDC and the HS to facilitate urban renewal, Government still has a significant role to play, particularly through Public Works Programme: As mentioned in paragraph 3 above, the process of urban renewal will need to be supported by the provision of infrastructure such as community and public transport facilities. The ability of Government to devote the necessary resources to the Public Works Programme will therefore to some extent dictate the pace and extent of urban renewal.

CONCLUSION

33. There are no panacea solutions to the problems of urban renewal. The proposals set out in this paper are aimed at facilitating and accelerating urban renewal into the next century in order to improve the urban environment, enhance planning and the provision of infrastructure, thin out development densities where necessary while making better use of underdeveloped land and to improve both the quantity and standard of housing. They are designed to make the best use of both Government and private sector resources and to be sufficiently flexible to provide a range of mechanisms for application to different projects with differing needs and circumstances. They address directly the problems identified in paragraph 6. Above all, the proposals are designed to be as fair as possible and to balance the interests of the community as a whole with those of people directly affected by urban renewal projects.

34. Comments from members of the public and interested organizations are welcome. These should be sent to the Planning, Environment and Lands Branch, 20/F, Murray Building, Garden Road, Central before 15 October 1995.

Planning, Environment & Lands Branch July 1995.