

Revitalization of Industrial Buildings in Hong Kong

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Key Words: Land Administration, Land Policy

SUMMARY

The change of economic structure in the past 20 years in Hong Kong had caused the traditional manufacturing industry to wind down and triggered almost all major factories to relocate to mainland China. Shortly after, industrial buildings in Hong Kong became vacant or under-utilized, thus wasting valuable land resources.

In view of this, the Government tried to widen permissible uses in industrial buildings by rezoning suitable existing industrial land from “Industrial” (“I”) to “Other Specified Uses (Business)” (“OU(B)”) zones. Statistics shows that more than 500 hectares of industrial land had been re-zoned to OU(B) zone in order to facilitate landlords to utilize industrial land and buildings in a better way. Basically, redevelopment or conversion of existing industrial buildings will result in enhancement in land value. However, the pace of this redevelopment or building conversion is still lagging behind due to various reasons.

This Paper aims to show how Hong Kong Government’s Land Policy assists the change of land use and how the land value aspect is taken care of:

1. The challenge to reach agreement from all landlords for redeveloping the industrial buildings due to multiple ownership;
2. In view of the limitation under the Town Planning Ordinance and the Buildings Ordinance, change of use by conversion of existing building is restrained. Besides, payment of waiver fee will substantially increase the cost;
3. There is a potential risk involved when converting industrial buildings for commercial use as the buildings are mostly located in non-prime industrial areas.
4. Fund raising difficulty.
5. Unauthorized change of the use of industrial buildings for commercial activities is common as Government has difficulty to track unauthorized conversion of industrial buildings;.

On the other hand, potential fire hazard in industrial buildings is increased due to the mix of industrial and other commercial uses which causes danger to occupants and visitors. As a result, unless a full scale conversion of industrial building is in place, owners would hardly obtain the necessary permission and waiver even they wish to apply. In view of this situation, Government hopes to facilitate industrial buildings redevelopment or conversion through the introduction of industrial buildings revitalization policy.

In order to cope with Hong Kong's evolving economy, the new policy initiatives aims to encourage owners to provide more land and use-able floor space at a very competitive price for the identified economic areas including the cultural and creative industries and other suitable economic areas, by conversion of existing under utilized industrial buildings

To meet the requirements bounded by town planning and buildings restrictions, wholesale conversion of an entire industrial building for 'non-industrial' use has to be conducted (e.g. addition of lifts, stairs and fire safety equipments). The 'nil' waiver fee proposal under the new initiative provides a great incentive for revitalization of the whole industrial building. Fire risk of mix-use of industrial and other commercial activities are therefore eliminated. Nevertheless, the said building cannot be reverted to industrial use during the waiver validity period. Therefore, industrial buildings with multiple ownership have to be agreed and applied jointly by all owners of the buildings.

According to statistics, there are around 1,400 industrial buildings in Hong Kong. About 1,000 can meet the requirements for wholesale conversion. Though the final outcome depends on reaction of landlords and the property market, revitalization of old industrial buildings will help to create job opportunities and increase competitiveness, and is beneficial to Hong Kong in the long run. The public can also be benefitted by having more affordable usable floor space. Ultimately, the industrial areas can be revitalized as a whole when conversion or redevelopment takes place.



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Introduction

The change of economic structure in the past 20 years in Hong Kong had caused the traditional manufacturing industry to wind down and triggered almost all major factories to relocate to the mainland. Shortly after, industrial buildings in Hong Kong became vacant or under-utilized, thus wasting valuable land resources. As a result of Hong Kong's economic restructuring and relocation of traditional manufacturing activities to the Mainland, many private flatted industrial buildings are now vacant or under-utilized. This is a serious waste of our precious land resources. The Hong Kong Town Planning Board (TPB) has then adopted a two-pronged approach to promote optimum use of land resources: broadening the permissible uses in industrial buildings and rezoning surplus and suitable industrial land for non-industrial uses. As early as 2001, a new land use zoning – “Other Uses (Business)” zone (OU(B)), which allowed a mix of office, commercial and non-polluting industrial uses was introduced in traditional industrial areas. About 500 hectares of industrial land had been rezoned for non-industrial uses, including about 200 hectares to OU(B) use.

The Problem - Under-utilization of industrial buildings

Despite the large scale rezoning and relaxation of uses by the TPB over the years, not too many owners of industrial buildings have responded by redeveloping or converting their industrial buildings for higher value-added uses. The owners of industrial buildings in non-industrial zones are reluctant or unable to carry out redevelopment, wholesale conversion or even temporary change of use for these buildings. The pace of this redevelopment or building conversion is still lagging behind due to the following reasons:

- (a) fragmented ownership in multi-storey industrial buildings makes it difficult for all owners to reach a decision to convert or redevelop the buildings;
- (b) the owners are deterred by the requirement to pay full market premium for lease modification for redevelopment to other uses, or full waiver fees in the event of conversion to other uses;
- (c) the building owners may be reluctant to be the “first mover” to convert or redevelop their buildings for non-industrial uses before similar uses emerge in the neighborhood;
- (d) the owners may find it difficult to raise finance for redevelopment.
- (e) unauthorized change of the use of industrial buildings for commercial activities is common as Government has difficulty to track unauthorized conversion of industrial buildings;

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| <p>Old Industrial Building in the urban area</p> | <p>High vacancy rate of industrial building, some units are changed to warehouse uses.</p> |

On the other hand, potential fire hazard in industrial buildings is increased due to the mix of industrial and other commercial uses which causes danger to occupants and visitors. As a result, unless a full scale conversion of industrial building is in place, owners would hardly obtain the necessary permission and waiver even they wish to apply. In view of this situation, Government hopes to facilitate industrial buildings redevelopment or conversion through the introduction of industrial buildings revitalization policy.

In view of this situation, a package of measures on land administrative policy is introduced to optimize the use of industrial buildings through redevelopment and wholesale conversion of vacant or under-utilized industrial buildings. The objective is to provide readily available land and premises left by Hong Kong's economic transformation to support our changing economic and social needs.

Valuation of Land Premium

The land tenure of all the private lots in Hong Kong is held under leasehold from the Government and the Government is the largest single landlord of the Hong Kong city. Each land lot is governed by a land lease which contains such covenants as development parameters, permitted use and type of development etc. The land value of each lot varies dependant on its development potential. Hence, any redevelopment or change of use of the industrial building requires modification of the existing land lease or otherwise obtain a waiver from the landlord – the Government. In this connection, additional land premium is payable by lot owners for the enhancement in land value arising from the change of use (both wholesale conversion and redevelopment). The basis of valuation of land premium would be the difference between the before and after land / property value after deducting the associated costs. The requirement to pay the land premium together with the above problem factors has caused reluctance and slow progress of the revitalization of industrial buildings.

Measures to Facilitate Redevelopment of Existing Industrial Buildings

A new land policy was introduced by the Government to cope with Hong Kong's evolving economy. This new policy initiative intends to facilitate owners to provide more developable land through redevelopment industrial lots or provision of more usable floor space through conversion of existing under utilized industrial buildings **at a competitive investment cost** for certain identified economic areas including the cultural and creative industries and other suitable economic areas.

To meet the requirements bounded by town planning and buildings restrictions, wholesale conversion of an entire industrial building for ‘non-industrial’ use has to be conducted since new building installations are involved (e.g. addition of lifts, stairs and fire safety equipments). A ‘nil’ waiver fee arrangement under this new initiative is introduced which provides a great incentive for revitalization of the whole industrial building. Fire risk of mix-use of industrial and other commercial activities are therefore eliminated. Nevertheless, the said building cannot be reverted to industrial use during the waiver validity period. Therefore, owners of industrial buildings with multiple ownership¹ have to be agreed with each other and applied jointly for a wholesale conversion.

According to statistics, there are around 1,400 industrial buildings in Hong Kong. About 1,000 can meet the requirements for wholesale conversion. Though the final outcome depends on reaction of landlords and the property market, revitalization of old industrial buildings will help to create job opportunities and increase competitiveness, and is beneficial to Hong Kong in the long run. The public can also be benefitted by having more affordable usable floor space. Ultimately, the industrial areas can be re-vitalized as a whole when conversion or redevelopment takes place.

Conversion of Industrial Building for other uses

On the basis of the above ‘nil waiver fee’ policy initiative, the Government encourage the conversion of the entire existing industrial buildings (i.e. wholesale conversion) in “Industrial”, “Commercial” and “Other Specified Uses” annotated “Business” (“OU(B)”) zones. The change of use of these industrial buildings is for the lifetime of the existing buildings or until expiry or determination of the current lease, whichever is earlier. There is however restrictions for only industrial buildings meeting the following criteria will be considered –

- (i) the age of the industrial buildings should be not less than 15 years, counting from the issue date of the occupation permit at the time of application;
- (ii) the proposed uses of the buildings to be covered by the waiver should be uses always permitted in the respective planning zones or uses approved by the Town Planning Board (TPB);
- (iii) the application for waiver should be submitted by the owner of the building or, if

¹ Some country may use the term ‘strata title’

- (iv) it is in multiple ownership, jointly submitted by all existing owners of the building; the owners must retain the original building frame after the conversion, and there should not be any increases in building height; building bulk; or vertical extension, horizontal extension or additional floor within the original building envelope which is accountable for gross floor areas (GFA) and there should not be any increase in GFA in excess of the GFA specified in the lease or the statutory town plan, if there is such a limit;
- (v) the planning, design and alteration of the converted building should comply with the current provisions of the Buildings Ordinance(BO); and
- (vi) the proposed conversion works, if any, should be completed within three years after the waiver for change in uses of the building is given.

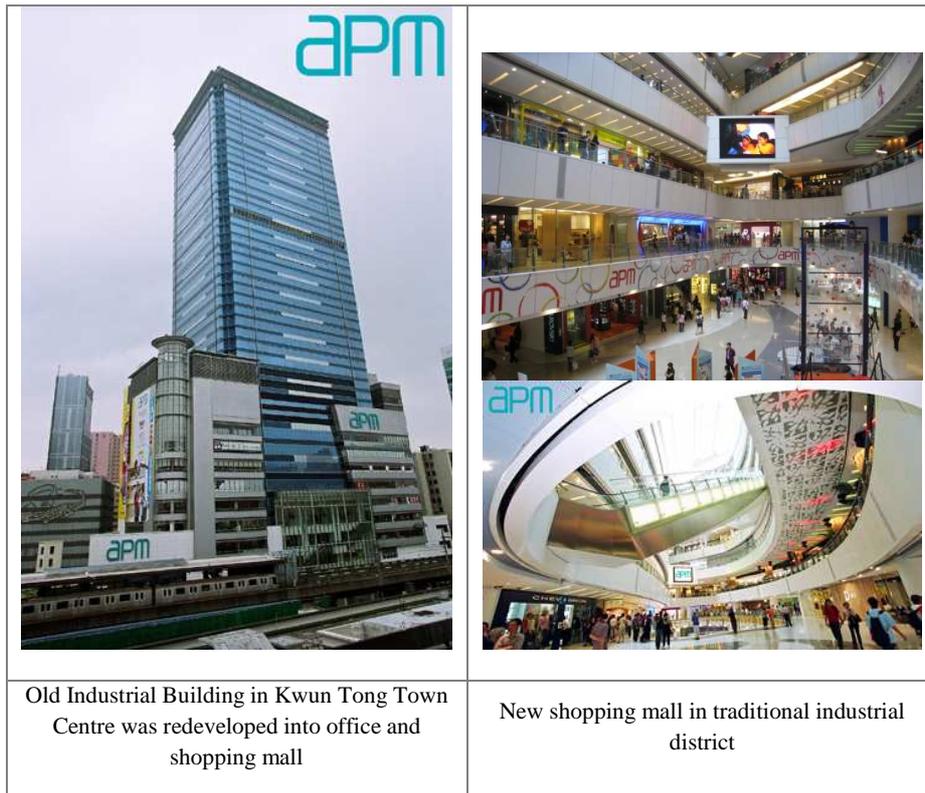
All of the above proposed measures are applicable to cases submitted between 1 April 2010 and 31 March 2016 and all outstanding applications under processing if the eligible applicants opt for such options.

Further Measures to encourage Redevelopment

Besides redevelopment of existing industrial building, Government also encourage the wholesale conversion of industrial building into modern use. To facilitate redevelopment of industrial buildings situated in non-industrial zones through –

- (i) allowing the majority owners of industrial buildings aged 30 years or above situated in non-industrial zones to apply under the Land (Compulsory Sale for Redevelopment) Ordinance (LCSRO) for a **compulsory order** to sell the whole lot for redevelopment, if the majority owners own not less than 80% of the undivided shares of the lot;
- (ii) approving, at the sole discretion of the Director of Lands Department applications for **tailor-made lease modification** (including land exchange) of industrial lots located in non-industrial zones so that the land premium payable will be assessed according to the optimal use and proposed intensity of the redevelopment (i.e. pay for what you build), instead of the maximum development intensity permitted under the relevant statutory town plan or the BO, if there is no such limit under the statutory town plan; and

- (iii) allowing applicants for lease modification in (ii) above to opt for payment of 80% of the **premium by annual instalments** for up to five years at a fixed rate of interest of 2% per annum above the average best lending rate of the three note-issuing banks prevailing at the time when the binding basic terms offer for the proposed lease modification is issued (or at the time of a revised offer following premium appeal), each instalment payable in arrear.



Mid-term Review on Revitalization of Industrial Buildings

The Government has carried out a mid-term review on the package of revitalization measures between late 2010 and September 2011, during which various stakeholders were engaged to collect their views and comments on possible improvements to the measures. While most stakeholders were supportive of the revitalization measures, they suggested some possible areas of refinement that might encourage more and better quality wholesale conversion projects.

The Government has carefully considered all views and comments received and have decided to introduce the following refinements to the measures –

- (i) affirm that, for the purpose of fulfilling the eligibility criteria for application under the re-vitalization measures, the placing of GFA-exempted utility installations (e.g. machine room for lifts) on the main roof level of a wholly converted industrial building will not be regarded as increase in building height and that addition of claddings or installation of curtain walls on the exterior of a wholly converted industrial building will not be regarded as increase in building bulk;
- (ii) allow minor changes to the existing building frame including variations to the internal and external building structures within the existing building envelope, on the conditions that demolition of external structures should involve no more than 10% of the total GFA of the existing building and that there is no net increase in the total GFA after conversion;
- (iii) encourage all new applicants for wholesale conversion under the revitalization measures to obtain certification by the Building Environmental Assessment Method Plus Assessment (but applicants will not be required to obtain a mandatory rating); and
- (iv) extend the application period of the revitalization measures for a further three years, i.e. extending the deadline for submission of applications from 31 March 2013 to 31 March 2016.

As part of the review, it was also proposed to allow recovery of GFA loss due to wholesale conversion works by allowing the construction of new GFA-accountable floor space outside the existing building envelope (subject to no net increase in total GFA). However, such a proposal is not supported because Government needs to maintain a clear distinction between wholesale conversion and redevelopment, but this proposal could be tantamount to allowing redevelopment indirectly without charging land premium. It is considered that the nil waiver fee arrangement (under the revitalization measures, the owner does not have to pay the waiver fee for the change of use for the wholesale conversion of the industrial building for the lifetime of the building or the current lease period, whichever is earlier) already provides a substantial incentive to eligible wholesale conversion cases and any further incentive to allow the owner to recover GFA loss due to conversion works cannot be readily justified.

The Result

The above revitalization measures formally came into effect on 1 April 2010 and the progress of implementation has been encouraging. By the end of January 2012, Lands Department of Hong Kong Government had received 68 applications. 18 numbers were completed. Most of these were applications for wholesale conversion. These approved applications will provide converted or new premises with a total GFA of over 400 000 m².

***** **End** *****

BIOGRAPHICAL NOTES

Mr. Edward AU MHKIS MRICS MCIREAA is a senior surveyor with extensive experience in land administration, planning and development of property in Hong Kong. He is currently a General Council Member of the Hong Kong Institute of Surveyors, Vice Chairman of the Royal Institution of Chartered Surveyor, Hong Kong and Chairman of the Planning and Development Professional Group Committee, RICS HK.

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