

Executive Summary

1. Housing and Land Supply Situation

Our Hong Kong Foundation (OHKF) forecasts that in the next four years the annual average completion of new private housing units will be about 18,000 units. This represents an approximately 60%-increase compared to the corresponding figure of the preceding decade (2006-2015) of approximately 11,000 units. However, in terms of total residential Gross Floor Area (GFA) completed, the corresponding increase is estimated to be less than 30%. In other words, we are expecting private homes that are increasingly smaller in size.

Despite the expected increase of short-term housing supply in the private sector, medium- to long-term land supply situation still warrants great concerns, and public housing supply still trails significantly. Whilst the expected average completion of 18,000 private homes per year during 2016 to 2019 will satisfy the corresponding supply target stipulated in the “Long Term Housing Strategy” (LTHS) of 18,000 units per year, it is expected that only less than 100,000 public housing units (Public Rental Housing (PRH) and Home Ownership Scheme (HOS) units) will be completed over the period 2016 to 2020. This falls 30% short of the of the public housing supply target prescribed by the LTHS, which is 140,000 public housing units over the next five years.

Expected completion of residential units

Type of housing		Completion (units)	2 Years 2016 - 2017	5 Years 2016 - 2020	10 Years 2016 - 2025
Public housing	Public rental housing	Target [^]	40,000	100,000	200,000
		Expected	28,600	80,100	?
	Subsidised sales flats	Target [^]	16,000	40,000	80,000
		Expected	3,100	19,800	?
Total supply of public housing		Target [^]	56,000	140,000	280,000
		Expected	31,600	99,900	255,000
Private housing		Target [^]	36,000	90,000	180,000
		Expected	33,700	70,400*	?
All housing		Target [^]	92,000	230,000	460,000
		Expected	65,300	170,900	?

Notes :(*) Assume that the total housing target stipulated in the Long Term Housing Strategy is evenly distributed over the 10-year period.

(?) Question marks denote unavailable information.

(*) Figures are OHKF projections for the four years 2016 to 2019.

Sources: Transport and Housing Bureau, Rating and Valuation Department, and Our Hong Kong Foundation.

Investigating into the land supply situation in detail, we find that in 2015, the total GFA sold in government land sales originating from reclaimed land and new towns encompassed only 50% of the overall figure, down from 73% in 2012. On the contrary, land that needs to go through town planning processes of rezoning for development such as slopes, government sites (such as former staff quarters), work sites etc. surged from 8% of the total residential GFA in 2012 to 41% in 2015. This reflects that readily developable government land is dwindling, and therefore the government is increasingly relying on change of land use as a means of land supply, as a consequence of the lack of large-scale land development project over the past decade.

2. The Demand: Land is Much More than Housing

The vacancy rate of private residential property market in 2015 was estimated to be 3.7%, at its lowest level since 1990, or over the past two and half decades. This clearly indicates that a significant supply-demand imbalance still exists in the market.

In fact, data analysis over the past 30 years suggests that the underlying forces for household formation has been fairly strong recently. From 2011 to 2015, the combined average annual number of first marriages, live births (only refers to babies whose both parents are permanent Hong Kong residents), and divorces is even higher than the corresponding figure for the period 1986 to 1995. However, comparing the two periods in question, overall housing completions plummeted by some 60%.

The undersupply situation in the commercial sector remains. New supply of Grade A office in Hong Kong from 2016 to 2020 is forecast to be an average of 1.6 million square feet per annum (sf p.a.), which trails the corresponding 20-year average absorption volume of some 2 million sf p.a., implying that office space shortage is likely to continue. Rising rents and declining vacancy rates have been observed in almost all sub-markets in the Grade A office sector, indicating across-the-board robust demand.

Since the onset of the millennium, the total retail sales value of the city saw a 1.5x increase, but private retail space over the same 15 years only grew by 23%. Such gap between supply and demand was particularly pronounced during the past few years, with retail sales value growing by 73% against new supply of private commercial space of merely 3% for the period 2009 to 2015. This has translated into soaring retail rents, sending general inflation higher as well.

As for industrial properties, the vacancy rate for private flatted factories in Hong Kong has actually been on a continual decrease since 1996 and was estimated to be 5.0% at the end of 2015, the lowest level since 1988.

The social need for space is equally, if not more acute. Statistics released by the Hospital Authority (HA) revealed that the average in-patient bed occupancy rates of all hospitals under HA during 10 days ended 17th February, from 2014 to 2016 were 105%, 101% and 110% respectively.

3. Practical Issues and Challenges in Land Supply

There is an emerging discourse in the community that land supply does not necessarily have to rely on reclamations or development of new towns. The said discourse argues that there is still a large amount of land resources that has not been efficiently used in Hong Kong. Therefore, the formulation of land supply strategy by the government should prioritise optimising inefficiency in the existing land resources.

An example of the inefficient use of land resources is brownfield sites. "Brownfield sites" refer to abandoned agricultural or rural land in the New Territories that are converted into various other uses such as open storage, container yards, warehouses, and industrial recycling yards etc., which are often incompatible with the surrounding environment.

OHKF believes that brownfield sites are only one of the many land supply avenues and are not enough to satisfy all land demand. The vast majority of our brownfield sites are privately owned, and are with different operations. To develop brownfield sites, the process must involve such issues as land resumption, relocation, resettlement, and compensation. We have surveyed numerous public housing projects to be completed in the years 2015/16 to 2018/19 and established that whenever such issues are involved in these development projects, they all require an exceedingly long lead-time. Indeed, the several New Development Area (NDA) projects being pursued by the government cover a sizable area of brownfield sites.

In the United Kingdom (UK) where the "Brownfield First" principle is adopted, not only does the definition of brownfield differs from Hong Kong, most of their brownfield sites are vacant. It is estimated that while the UK would need up to 3.3 million new homes from 2015 to 2030 (15 years), total housing capacity of brownfield sites is only 1 million. In other words, if only brownfield sites are used for housing purpose, the country would see, on top of the shortage that it is already faced with, an additional shortfall of 2.3 million homes in the next 15 years. Another study has also estimated that the new homes to be built on brownfield sites in London (instead of the UK) would cost an average HK\$10,000 psf (adjusted as 2015 HK\$), which is more or less the market price of private residential property in Hong Kong.

Taking into account that Hong Kong has not seen any large-scale land development projects for an extended period of time, land supply policy must follow a multi-pronged approach instead of prioritising brownfield sites, or any particular avenue of land supply over others.

4. Land Reserve

While the decision to halt the supply of land and housing during the recession and property market slump of the late 1990s and early 2000s was justifiable given the circumstances; with hindsight, it makes one wonder that if the government were to start on the statutory planning requirements and works-related feasibility studies a decade ago, would the housing problem today be less severe. Indeed, a number of large-scale

NDA projects that were promulgated nearly 20 years ago but were shelved, were re-tabled again in the past few years.

For example, the tadpole-shaped NDAs of Kwu Tong North and Fanling North encompass virtually the same plots of land are present in both the old study in 1999 and the new study in 2014. The areas of Ping Che / Ta Kwu Ling to the north-east and Hung Shui Kiu to the south-west that were advocated in the older plans likewise correspond to the same areas of study in the newer plans re-tabled more than 15 years later.

Additionally, the quantity of planned housing units and population intake parallels each other nearly number by number, with the exception of the Kai Tak NDA.

Comparison of pre-2000 / early 2000s and post-2010 development plans

Strategic Growth Areas	Planned Flats Production/ Population*	
	Pre-2000 / early 2000 plans	Post-2010 plans
Tung Chung-Tai Ho	Flats: 95,000 Population: 274,000	Flats: 49,400 [Ⓐ] Potential Population: 148,000
Kwu Tong North/ Fanling North	Population: 180,000	Flats: 60,000 Potential Population: 180,000
Hung Shui Kiu	Population: 160,000	Flats: 60,100 Potential Population: 180,300
Kai Tak	Population: 215,600	Flats: 41,100 Potential Population: 123,000

Notes : (Ⓐ) The potential population is calculated under the assumption that the average number of persons in a household dwelling is three.
 (Ⓑ) Private and public flats built in the Tung Chung area by the end of 2015 totalled approximately 30,000 units.
 Sources: Planning Department, Civil Engineering and Development Department, and Legislative Council.

Therefore, the government should make a determined effort to establish and sustain a land reserve for the purposes of planning for the provision of land, housing, and strategic development initiatives beyond the usual planning time horizon. The land reserve would help alleviate the problem of long lead-time and ensure that future forecast of medium to long-term land demands are met.

5. Lantau Development

Hong Kong has not witnessed the completion of any large-scale land development project for well over a decade. Looking ahead, the next large-scale land development project with an immense strategic value to be completed in the city would be the development of the Lantau Island, which is presented with its next development opportunity to become the intersection point between Hong Kong, Macau, and the Pearl River Delta (PRD) upon the completion of the few inter-city transportation infrastructures. Regarding the Lantau Development, we put forth five recommendations:

1. ***Prioritising transportation in urban development:*** That the Tung Chung New Town has been constantly falling short of its original planned capacity is also partly due to the chronic shortage of supporting community facilities. Without notable improvements in transportation in Lantau, the existing problems of long commute time and high transportation costs, will be further exacerbated by the increased population intake of the Lantau Development. Worse still, the town may become a bottleneck after the completion of HKZMB. To avoid the city's past planning mistakes in developing new towns, transportation must be prioritised in the Lantau Development blueprint.

Local stakeholders of Tung Chung and the Airport almost unanimously reflect that the existing network of public buses and roads fail to connect the two said locations effectively and efficiently. Indeed, whilst the distance between Tung Chung city centre and the Hong Kong International Airport (HKIA) is 4 km, similar to that between Central and Causeway Bay, the travelling time between the former is 30 minutes, which is three times that of the latter (10 minutes).

In the short-term, we recommend an increase in the frequency of the current bus routes connecting the Tung Chung residential areas and the airport island. We believe a 10-minute interval between buses would help to provide a more reliable and predictable transportation services to the Tung Chung residents working on the airport island, such that the advantages of the proximity between the two locations could be fully realised.

2. ***Balancing the different aspirations in different regions:*** Varying development strategies for different regions of the Lantau Island should be devised. In view of the large differences between northern and southern Lantau Island, we suggest adopting the principle of "development in the north, conservation in the south".
3. ***Maximising the "clustering effect":*** Lantau should be established as a world-class "showcase" under the planning concept of an "Aerotropolis" centres around HKIA, connecting the North Commercial District (NCD), AsiaWorld-Expo (AWE), Hong Kong Boundary Crossing Facilities (HKBCF) Island, Tung Chung and Siu Ho Wan. The complete industry chain within the "Aerotropolis" will transform Lantau into a world-class tertiary industry hub in the Pearl River Delta, providing such services as transportation, trade, logistics, tourism, healthcare, retail and education to visitors and businesses.

In particular, the first phase of NCD development can provide 2 million sf of commercial space, which can support a large-scale commercial complex that provides a myriad of services to tourists visiting or transiting through Hong Kong. With enough transportation support, such as a new railway station, sufficient car-parking lots and park-and-ride/-fly facilities, tourists can plan their entire itinerary on the Lantau or even the airport island, thereby relieving the pressure on the transportation system between the Lantau and the city. The NCD development was proposed in the 2014 Policy Address by the Chief Executive. We suggest the government to work closely with the Airport

Authority (AA) to accelerate the said project.

OHKF also supports the Lantau Development Advisory Committee's (LanDAC) proposal of reclaiming surrounding waters of Kau Yi Chau and the typhoon shelter of Hei Ling Chau for the construction of the "East Lantau Metropolis" (ELM) while connecting Lantau to the Hong Kong Island by roads and railways. ELM will be an important source of developable land and a long-term strategic growth area after 2030. We suggest that the government should adopt advanced reclamation techniques to minimise its ecological impact and reduce the degree of ground settlement of ELM.

Proposed transportation network on Lantau North



Source: Our Hong Kong Foundation.

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4. **Setting great store by ecological conservation:** The Lantau Island measures 147 sq. km, 70% of which is Country Park. The Country Parks Ordinance protects the designated areas with stringent constraints on development. Yet, protection does not mean zero construction. Indeed, Section 4(c) of the Ordinance also states that the government should "encourage their (the Country Park's) use and development for the purposes of recreation and tourism" and "provide facilities and services for the public enjoyment of country parks and special areas". Hence, we recommend the government to enhance the accessibility to the country parks on the Lantau Island through road improvement.
5. **Establishing a dedicated office:** The government should establish an office led by top government officials to coordinate issues surrounding the Lantau Development, to prevent duplicated efforts and conflicting departmental policies, and ensure the consistency and continuity of

the whole development plan.

The Lantau Development means much more than just another source of developable land supply. It embodies the last - and the next - bold, essential and visionary land development project of Hong Kong that would be critical for our long-term social and economic development.

6. Speeding Up Land Development

Increasing development density

In view of the chronic shortage of space, to maximise the supply of different types of properties, we suggest further relaxation of development density should be considered in future NDAs or new town development projects, e.g. Kai Tak and Tseung Kwan O.

According to a recent research published by the Faculty of Construction and Environment of the Hong Kong Polytechnic University, the expected additional impacts on such factors as day-light duration, air circulation, skyline and atmospheric temperature are only minimal even if the average domestic plot ratio of the sites in Kai Tak NDA were raised to 6.7. Such a proposed change, however, would potentially increase domestic and non-domestic GFA by some additional 1.6 million sf and 1.2 million sf respectively.

It should be reminded that in the 2001 development plan for the Kai Tak NDA, the original population intake exceeded 210,000. This is in stark contrast with the latest corresponding figure of 123,000. As a rough reference, even if the development density is further increased by 20%, the population intake would still be below 150,000, or 30% less than that in the 2001 development plan.

Similar situation exists in other areas. Take Tsuen Kwan O South as another example. In 2005 when the property market was much less heated and the issue of over-supply was constantly lingering in the community, the government has responded by significantly lowering the plot ratios in Tsuen Kwan O South from 6.5 to the range between 2 and 5. This represented a reduction in population intake from 131,000 to 98,000, or roughly 10,000 residential units.

Optimising underused government sites

Our brief research on Government, Institution / Community (GIC) sites in the Kowloon urban areas shows there are certain GIC sites in these regions that are either underused or poorly managed with undesirable conditions. Such sites include cooked food hawker bazaars, refuse collection points, car parks and work sites and could be found in areas like Tsuen Wan, Cheung Sha Wan and Yau Ma Tei.

To fully realise their development potential, especially when they are located in the urban areas, one possible way is to redevelop these sites into composite buildings to accommodate the original use (e.g. the cooked food facilities) with other public uses atop (e.g. non-permanent

residence like youth hostels). Langham Place is one such precedence, at which the indoor cooked food centre is situated at the podium level in a tall development.

We suggest the government to further review such sites in the urban area and consider short-term solutions like the ones described above. We hope that these land resources could provide at least a temporary relief for the inadequately housed. Alternatively, these land resources can at least be considered to support a denser development of other public facilities, such as community centres.

Streamlining Approval Processes

We are glad to see that the Development Bureau has communicated with the industry to discuss a set of improvements to the current approval mechanism. Some of the discussed proposals are similar to what we have raised in our first Research Report, for example a set of clearly pre-defined parameters ("Core Points") to be included in the approval of the "Design, Deposition and Height" submission and a standardised format of "Master Layout Plan" in accordance with the Practice Note. We hope that the government could actively strive to follow-up with these proposals.

We also reiterate our concern with the existing mechanism of land premium determination. This is especially the case when the "Pilot Scheme for Arbitration on Land Premium" which was introduced back in 2014 has only completed the arbitration for one such case to date, involving a small amount of \$39.3 million. We suggest the government to comprehensively review the said mechanism such that it can reflect the impact on development costs in response to latest changes in market situations and / or regulatory environment.

During the six fiscal years 2010/11 to 2016/17, the recurrent expenditure in the area of Planning and Lands rose by 43.3%, whereas aggregate recurrent government expenditure actually expanded by 55.7% over the same period. We urge the government to review its budgetary principles and allocate sufficient resources in accordance with the increasing needs of the policy area.

7. Conclusion

Land supply is a policy issue that unavoidably touches every family of the society. It also understandably causes great controversies among the community. However, mere debates and arguments do little to improve the current circumstance of space shortage, nor do these ameliorate any hardship of those suffering such as families living in sub-divided units and elders awaiting nursing homes. We hope that our research could provide the necessary information and new perspectives through which the issues of land supply could be viewed, that may however be absent or insufficiently discussed in the arena of public discussion.