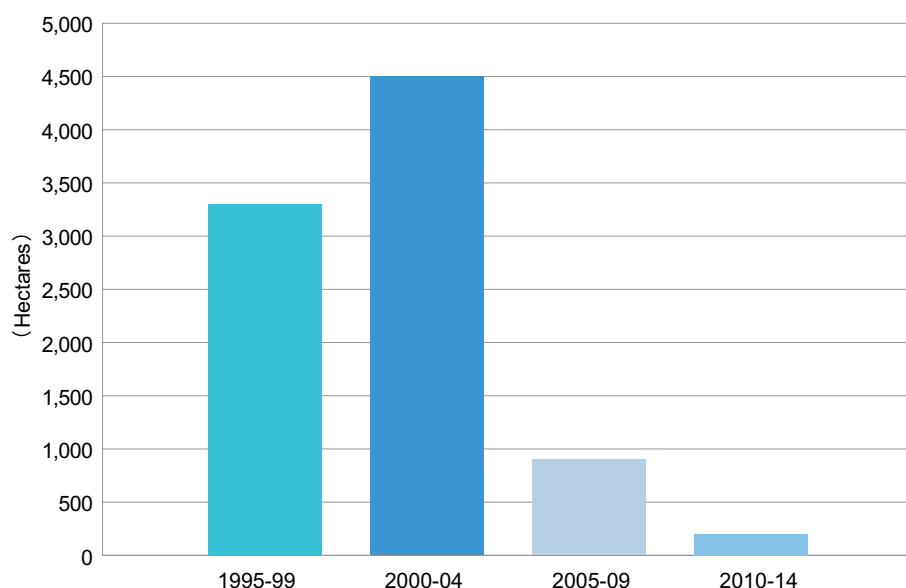


Executive Summary

I. Recognize the Facts: Shortage of Land and the Urgency for a Solution

The pace of land creation in Hong Kong has been significantly slower in the past decade. The total area of developed land in Hong Kong increased by 7,800 hectares from 1995 to 2004. The increment has dropped sharply to 1,100 hectares in the past decade.

Increase in developed land area



Note: Due to changes in methodology, developed land area only includes land for residential, commercial, industrial, government / institution, open space and transportation use.

Source: Census and Statistics Department.

Due to the lack of large-scale land development projects for long, the Government now has little land for development in the short term, as reflected by the analysis of private residential construction volumes, railway topside development projects outstanding and the unleased or unallocated government land. The Government has to resort to land use rezoning through town planning procedures. However, subject to the objection at the district level and Judicial Review (JR), it is doubtful that the Government can meet the 10-year housing supply target of 480,000 flats.

The limited housing supply in the recent years as a result of shortage in residential land has contributed to the rapidly rising home prices and rents. Meanwhile, commercial rents of Hong Kong have also been on the increase and significantly exceeding those of our major counterparts' in Asia as a result of insufficient commercial land supply. The office rents in the Central Business Districts (CBD) of Hong Kong have been the highest in Asia, commanding a premium of some 40% and 80% over Beijing and Singapore respectively.

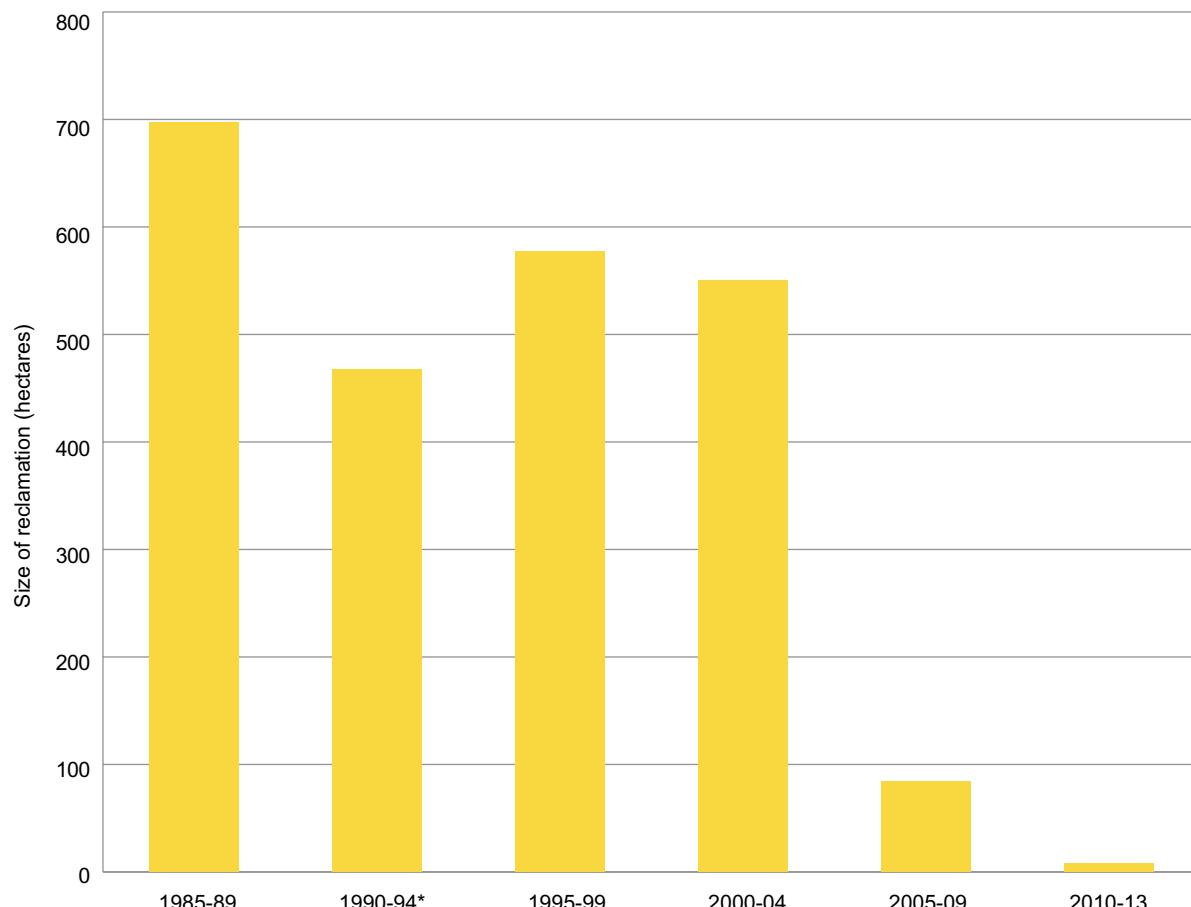
The vacancy rates of virtually all types of properties are at their record-lows since the Handover, underlining the shortage of all types of space in the city. The business owners and entrepreneurs have already exhausted the use of all available hardware in Hong Kong.

Hefty commercial rents have severely weakened Hong Kong's economic competitiveness. The cost for multinational enterprises to relocate business to Hong Kong has been the world's highest. It was 60% higher than that of Singapore and was 2.7 times that of Shanghai.

People's livelihood is also affected by land shortage. From 1997 to 2013, the number of public hospital beds has only increased by 4%. Worryingly, Hong Kong's population increased by 11% over the same period and the median age rose by 8 years. The demand for healthcare service should have intensified. With a rapidly ageing population, Hong Kong's healthcare system is set to be overburdened.

II. What Has Stalled Our Developments?

Reclamation in Hong Kong during 1985-2013



Note: (*) Excluding reclamation of 1,274 hectares at Chek Lap Kok and West Kowloon.
Sources: Legislative Council Research Division, Development Bureau.

1. An almost standstill in reclamation

Reclamation has been one of our main source of new land. Among the new developed land over the past two decades, it is estimated that over 40% of them were created through reclamation. Yet, reclamation has greatly slowed down or even come to a halt in the last decade.

2. Red tapes in approval procedures

(i) Comprehensive Development Area (CDA)

All proposed CDA developments must be submitted to the Town Planning Board (TPB) for approval to facilitate comprehensive development. Nevertheless, it is often difficult to integrate dispersed ownership in the CDA sites. Adding that such consideration is not fully based on any objective criteria, a number of CDA development projects have suffered significant delays. Presently, there are at least over 200 hectares of CDA sites pending approval, involving over 68 million sf of developable floor area.

(ii) Procedure of examination by the Government

The approval of all development projects in Hong Kong are under the purview of three Government departments: Planning Department, Lands Department and Buildings Department. Nevertheless, while parts of the approval areas of these three departments are overlapped, these departments may not share a common set of technical definitions of the items to be approved. Moreover, the approval process involves consulting other government departments. The communications and requests amongst departments constitute one of the causes of delays.

Furthermore, the calculation mechanism of land premium in lease modification and land exchange transactions is not sufficiently transparent, and may not be able to reflect the latest market situations and trends of specific parameters. This discourages the interested developers, and thereby slows down development. In fact, the number of lease modification and land exchange transactions have decreased significantly in the recent years.

III. More Macro Considerations about Land Development

Land development is far more than just finding sufficient land to accommodate new buildings because extra "room-making" is also required for the decanting of residents or facilities when redeveloping or moving old buildings. Hence, "natural vacancy" should always be taken into consideration when determining future land demand. Also, in order to provide sufficient facilities and employment opportunities around the residential area, the plot of land in question cannot be too small.

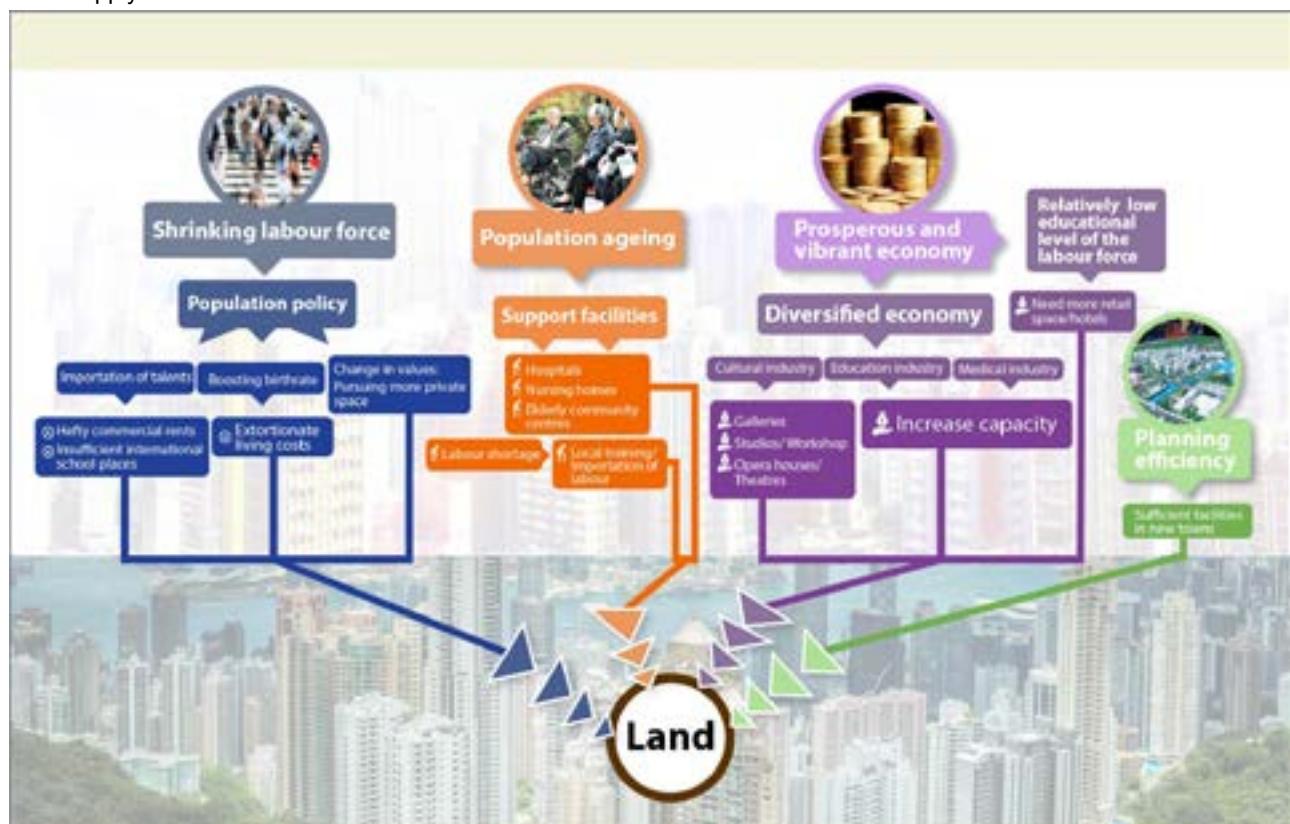
Even if Hong Kong's population does not grow in the future, if we hope to raise the average developed land area per person by 40%, we need an extra 5,800 hectares of land, which is equivalent to two Tai Po New Towns. Furthermore, in 30 years Hong Kong's population is projected to reach 8.22 million. Based on this projection, we will need more than 9,000 hectares of land, which exceeds three Sha Tin New Towns.

The most optimistic estimation expects that Hong Kong could release around 5,000 hectares of developable land from the known land supply projects in progress or under planning, including the 2,000 hectares of land from the proposed reclamation projects and the proposed development of New Territories North, both of which are still under very initial stages of planning and study. If the developments are not obstructed (e.g. timely funded by the Legislative Council, free from JR, etc), the tension of the short to medium-term demand-supply imbalance could still be eased. However, it remains a tough challenge to retain the growth rates of developed land area per capita during the 1990s.

This research reiterates that land transcends the area of housing. We should understand that almost all socio-economic problems are inter-related and they share a common predicament: insufficient land.

Resolving socio-economic issues covers much more than the aspect of only land supply. Nevertheless, land supply must be one of the key components of the solution. Take the policy of elderly care, it is because even if we have perfect policies and flawless monitoring as well as unlimited medical and institutional resources, our elders could hardly enjoy better quality of life against an absence of new hospitals, nursing homes, elderly community centers, etc.

Land supply and socio-economic issues



IV. Our Recommendations

1. A change of mindset: understanding the fact of shortage of land supply and reviewing the avenues of land supply in an objective, calm and pragmatic manner.

(i) Reclamation: Currently, the Government has identified six sites with potentials for reclamation. However, there is seemingly still some way to go if our medium- to long-term development needs are to be met. It is probably time for the society to discuss the need to include more reclamation sites on top of the six that are currently selected.

(ii) Land use rezoning: Land use rezoning may not be the most ideal option to increase land supply from the perspective of planning efficiency. However, we do have a shortage in land supply and it takes a fairly long time to solve the problem. If hefty accommodation costs are a common problem facing all Hong Kong citizens, it is not unreasonable to expect the solution to come from everyone too. Otherwise, as the number of elders aged 65 or above doubles, where are we going to find sufficient land to build the urgently needed hospitals, nursing homes, and community centers for the elderly?

(iii) Country Parks (CP): We entirely agree (1) that green area is of undoubtable importance for the city; and (2) we should not and cannot release an extensive share of CP for development. However, the "Country Parks Ordinance" which designated the current boundaries of CP was established 40 years ago. The Government could set up a platform to establish a set of scientific standards and criteria for reviewing the ecological value, service and use of all CP, and determine whether the boundary of CP should be altered based on such objective indicators. The platform should also regularly monitor and review such factors as the demand-supply balance of land, social and economic needs, to consider the need to develop the land originally designated as CP.

(iv) Brownfield: Given the acute problem of land shortage, any possible source of supply should be fully utilized. Nevertheless, the development of brownfields still requires resumption of land, technical studies on transportation and environment, and approval from TPB. It might be over optimistic to expect brownfield to become the major source of land supply.

(v) Other methods of change of land use: Any land resources that can be used more effectively should be considered, following a multi-pronged approach to increase land supply. In fact, the study on developing New Territories North covers the Fanling Golf Course and the Chief Executive's Fanling Lodge. In the meantime, the Development Bureau is reviewing the "New Territories small house policy". Nonetheless, all these land supply proposals take time. And even if we assume that the complex legal, constitutional and conceptual issues involved are resolved and all these land supply projects are materialized, most of these sites would likely be scattered across the territory and it would be difficult to achieve planning efficiency.

And as things stand, the total maximum amount of land that could be created by all the long-term land supply projects of the Government, including all reclamation proposals as well as the development of New Territories North, both of which are still under planning or feasibility study, is only 5,000 hectares. This is much less than the aforesaid 9,000 hectares long-term target. Unless other proposals could provide an additional 4,000 hectares of land, we should support any methods to increase land supply, including new town development, reclamation and developing country parks.

2. Establishing a long-term land reserve to support future social, economic and livelihood needs

Different from other economic activities, the property market could not adjust its output easily upon a sudden change in demand. It is likely too late for the Government to respond after witnessing soaring property prices. Therefore, Hong Kong should establish a land reserve and set up a mechanism of releasing the reserved land to the market. An "unused" land reserve is still better than a slow and ineffective response.

3. Reforming the CDA system to release the development potential of land as soon as possible

In order to ensure an efficient use of precious land resources, the CDA system should be comprehensively reviewed and reformed, as a possible way to provide developable land in the short-term.

(i) **CDAs in the Future:** We recommend that, except for sites involving Urban Renewal Authority's renewal projects, the TPB should not designate other lands as CDA to reduce restrictions on development. If the Planning Department believes a certain area should be comprehensively developed, it could specify the planning parameters in detail. If a proposed development project fulfils these requirements, separate application to the TPB would not be needed. Besides, in order to fully reflect the land value, CDA should not be added to future Land Sale Programme and tenders.

(ii) **Existing CDAs:** TPB can set up a time limit (such as two years) for the development proposal applicant to collect a certain share of ownership, based on the size of a specific CDA, distribution of ownership, etc. If the time limit expires and the applicant still cannot collect a specific share of ownership, the TPB should consider breaking down the CDA into small zones or allow the CDA to be developed in phases. For sites that have been designated as CDA for a long time, the TPB should re-designate them into other uses using the abovementioned system. Besides, the Government should bear the responsibility of the comprehensive planning in the New Territories NDAs and re-designate the area's CDA into specific uses with necessary planning parameters and restrictions.

To include planning parameters into the notes of Outline Zoning Plan is procedurally equivalent to rezoning of land use in that relevant town planning procedures and seeking professional comments from relevant government departments are still required, which may render a smaller Gross Floor Area (GFA) of the development project. However, this at least provides a set of objective procedures to be followed and is less uncertain, enabling a higher chance of completion (albeit at a smaller scale). It is apparently superior to some cases of CDA which has been idle for more than two decades.

4. Government to demolish obstacles and facilitate vetting process

(i) Adding a time limit on the approval process: In order to speed up the vetting process, the Lands Department should introduce a statutory time limit for vetting development plans. Upon the expiration of the time limit, the development plan will be automatically regarded as approved, which is in line with the Buildings Department's practice. This principle should also be applied when the Lands Department seeks comments from other departments, i.e. nil return is assumed by the end of the time limit.

(ii) Clearly defining the requirements for the approval process for the government and business sector to comply with: The Government should discuss with the industry to set up simple and clear requirements for major plans involved in the vetting process. The Government and the industry should strictly follow these requirements.

(iii) Increasing transparency of calculation mechanism of land premium : The Government should reinforce the communication with the business sector to increase the transparency of the premium calculation, allowing the various calculation parameters (e.g. expected future construction costs, estimated marketing costs, etc.) to better reflect the latest situation and trend of the market.

(iv) Streamlining the vetting procedure: The Government should make a better separation between the Lands Department's function of vetting on plans and other administrative functions (such as managing complaints at the district level) and build a focused and professional vetting team to facilitate the vetting process. In the long run, the Government may consider setting up a one-stop structure to tackle applications for different development procedures. This clearly defines the leading vetting department and facilitate the coordination between departments, avoiding repeated vetting. As an example, the Government set up the Energising Kowloon East Office in mid-2012, which is led by the Development Bureau. The office provides one-stop supports with a view to facilitating the area's transformation into another premier CBD of Hong Kong.

V. Concluding Remark: Revelations from the "Rose Garden Project"

The "Hong Kong Airport Core Programme", more commonly known as the "Rose Garden Project", was proposed in the Policy Address of the then Governor David Wilson in 1989. The public must have made some momentous but difficult decisions during the planning and implementation process. Eventually, in face of the prevailing social, economic and livelihood issues, the community as a whole agreed that "Rose Garden Project" was necessary for the long-term benefits of Hong Kong.

26 years ago, we decided to work together for a better future. 26 years later, to provide better social facilities and living environment for all of Hong Kong, appropriate medical services and long-term care for the elderly, and the much needed economic vitality for the development of our young people, we are presented with another set of momentous but difficult options today. What is your choice?