Introduction

In January 2002, I took up the job as Managing Director of the Urban Renewal Authority (URA), the successor to the Land Development Corporation (LDC) vested with a new mandate for implementing urban renewal. Although I was looking forward to this new challenge, I realised there was a monumental task lying ahead of me.

Fortunately, the Authority could count on the Government which has demonstrated its strong support and unwavering commitment in setting up the URA. In so doing, a promise had been kept to the many thousands of Hong Kong people in dire need of help to improve their living environment.

The scale of our city's urban decay problem is enormous. Over 9,000 private buildings in the metropolitan area are more than 30 years old and many are in need of improvement. Public expectation had grown unabated for the Authority to deliver, and was voiced in the clamour for the URA to immediately announce its Corporate Plan and to start work on the 25 projects inherited from the LDC.

引言

市區重建局（市建局）承繼土地發展公司（土地發展公司）的工作，並肩負新的權 責，推行市區重建。本人於二零零二年一月就任市區重建局行政總監。一方面，我以興奮心情準備迎接這項新挑戰；另一方面，我亦知道當前的任務非常艱巨。

令人感到鼓舞的，是政府以堅定的決心成立市建局，對市建局的承擔和支持，實在毋容置疑。對急需改善居住環境的廣大市民來說，政府亦必會恪守承諾的。

香港的市區老化問題，其實非常嚴重。在市區內，逾九千幢私樓樓宇樓齡超過三十年，其中很多樓宇的情況極需改善。市民對市建局的期望極高，部份更要求本局立即公佈業務綱領的內容，並開展承繼自土 發的二十五個項目。

市建局成立初期，其財政狀況令人關注。與此同時，本港經濟仍未脫離亞洲金融風暴所帶來的影響，而物業市場則繼續下滑。
At its inception and for some time afterwards, the financial position of the URA was a cause for concern. The economy was still reeling from the effects of the Asian economic crisis and the property market had not ceased its downward spiral.

Back in August 2001, the URA had already undergone major restructuring whilst retaining the majority of the former LDC staff. Nonetheless, it was clear that we needed to continue to shape the organisation and its culture to meet its wider mandate which encompassed the 4Rs - redevelopment, rehabilitation, preservation and revitalisation.

The priorities for action were clear. The financial position had to be strengthened and costs brought under control. We needed to prepare progressive but realistic 5-Year Corporate and annual Business Plans. We also needed to launch projects as soon as possible to get on with the work of the URA. One thing was obvious, it would be difficult for the Authority to shoulder its enormous task alone. Closer relationships with our stakeholders must be fostered to build support for a practical and achievable renewal programme and where appropriate, strategic alliances with other associates should also be forged.
Financial and Cost Control

The URA's redevelopment formula is a capital-intensive one. The compensation package paid to owners of properties within the URA's project areas was recommended by Government on the basis of proposals from the Legislative Council and agreed by the URA Board. The compensation rate is intended to be based on the estimated value of a 7-year-old flat in the same area. Often owners receive an amount 3 to 3.5 times the current value of their properties. This compensation is paid early in the lifecycle of a project before any returns can be realised – with heavy interest payment and obvious consequences for cash-flow. It is a daunting task to manage this cost. Indeed, acquisition costs including compensation and re-housing costs came to around HK$21 billion which constitute over half of the total development cost in the 42 new redevelopment projects of our first 5-Year Corporate Plan projects.

Compounding the issue are the challenges posed to the URA’s financial position by the HK$2.16 billion in liabilities inherited from the LDC. To help addressing the financial problem, the Government has committed an initial capital injection of HK$2 billion to the URA this year and a further HK$8 billion over the next four years. In addition, Government will levy only a nominal premium for urban renewal sites and land used for URA re-housing purposes. We received this first tranche of the capital injection in July 2002 which has reduced our net liabilities to HK$0.8 billion. Once we receive the second tranche next year, the situation will be much improved.
To control costs, a series of measures have been taken during the financial period:

- Refinancing of the debt for the 5-year-old Tsuen Wan Town Centre project to save HK$123.5 million in interest costs – though revaluation of the site incurred a further provision of HK$230 million resulting in a total estimated loss of HK$4,954 million on this project.

- Consideration to use interest rate swaps and other measures to hedge against interest rate fluctuation risks on the URA’s outstanding bank loans.

- Relocation of URA headquarters to new premises achieving a HK$30 million or 70% saving in annual office rent.

- Adjustment of the staff terms and conditions in line with the market, in particular the introduction of a variable pay system, thus achieving both cost savings and productivity gains.

- The organisation restructuring which took place in August 2001 and the departure of some staff subsequently also had the effect of reducing costs by some 15%.

The First 5-Year Corporate Plan and Annual Business Plan

One of the urgent tasks for the new URA was to prepare its 5-Year Corporate Plan and annual Business Plan (which in effect formed the first year of the 5-Year Corporate Plan). Both Plans are required by the URA Ordinance and must be approved by the Financial Secretary. The Corporate Plan comprises 52 projects, 10 of which were taken over from the former LDC and include the Tsuen Wan Town Centre project.
The Plans map out the URA’s work for the coming five years with the aim that in 13 years’ time, and subject to certain assumptions, the projects will broadly break even after full implementation. In total, 42 projects will be launched over the plan period, including the 25 ‘announced’ projects inherited from the LDC and others chosen from the 200 projects identified by Government in its Urban Renewal Strategy (URS) issued in November 2001. Many factors govern the selection and priority of the URA’s projects such as physical conditions and the need to redevelop, availability of housing accommodation for people affected, financial viability, a fair distribution in the districts and target areas and the merits of alternatives such as rehabilitation.

The 42 projects will cover an area of 13.5 hectares, with 6,200 property interests and 10,400 tenant households. Based on current estimates, they will provide around 18,000 flats with one million square meters domestic gross floor area, 13,400 square metres of public open space, 220,000 square metres of commercial floorspace and around 40,000 square metres of community facilities. Of course, these are necessarily ballpark figures and will require updating and adjustments upon more detailed individual project planning and implementation.
The Corporate Plan also includes the URA’s activities in pursuing its new initiatives for rehabilitation, preservation and revitalisation. The total capital costs before interest for the programme of 42 projects and these initiatives will be around HK$39 billion.

The Business Plan for 2002/03 contains eight projects, including the first three ‘early launch’ projects which were started in January 2002. In total these eight projects will cover an area of 2.2 hectares, and affect around 1,000 interests and 1,750 tenant households.

The ‘Early Launch’ Projects

The three ‘early launch’ projects, in Wan Chai, Tai Kok Tsui and Sham Shui Po are part of the 25 projects announced by the LDC in 1998. Taken together, these projects cover an area of 0.8 hectares, affecting over 400 interests and around 570 tenant households based on our surveys. Specially endorsed by the Financial Secretary ahead of giving his approval for the Corporate and Business Plans, the ‘early launch’ projects demonstrate the determination of the Government and the URA in speeding up the urban renewal process and in responding to the anxiety of residents.
The projects also serve a very practical purpose in testing the merits and efficiency of our new procedures. We can assess the need to control acquisition costs, the methods of applying the new compensation policy, and how the acquisition, resumption and development process might be expedited. Although not specifically required by Government on this occasion, we undertook social impact assessments both as a real exercise and a way to devise a pragmatic approach for future use.

The results of these projects are very encouraging so far. Between March and August 2002, more than 70% of owners have voluntarily accepted our purchase offers. This is by no means a small achievement, considering that in the LDC’s experience it usually took a much longer time to reach this percentage. These are still early days, however, and the knowledge gained will doubtless require adjustment and refinement of our policies and procedures, in particular the best way to join hands with the developers and other stakeholders to speed up the whole urban renewal programme under the umbrella of the 4Rs.
Strategic Partnership

The task of urban renewal is so enormous and the process so complex that it is obviously difficult for the URA to tackle it alone. We will need the support of our stakeholders and partners and we have made significant progress in this direction already. For example, we have signed Memoranda of Understanding with the Hong Kong Housing Authority and the Hong Kong Housing Society (HKHS) to provide re-housing for residents affected by our projects.

Both Housing Authority and Housing Society provide re-housing for tenants affected by URA projects.
The Government’s Report on the Review of the Institutional Framework for Public Housing (RIFPH) published in June 2002 has recommended that a strategic partnership be developed between the URA and the HKHS. This partnership would aim to achieve a synergy of operation and use of staff resources to facilitate the implementation of the urban renewal programme by carrying out projects through joint ventures, entrustment or agency arrangements.

Discussions at a senior level between the URA and HKHS are already well advanced and hopefully concrete plans for cooperation could be formulated in the near future in time for incorporation in our second 5-Year Corporate Plan.

Looking Ahead
In the foreseeable future, keeping a tight rein on the URA’s finances and ensuring steady progress of our various programmes will remain our top priority as the local economy and property market in particular are still weak. We will continue to pursue financial prudence in all our activities. Together with our stakeholders, we will explore better ways and means to generate revenue and develop new modes of operation, thereby speeding up the whole renewal programme.
Whilst we begin our pursuit of the 4Rs in earnest, it is important that we do not lose sight of present day realities and the need to see early results. We shall endeavour to deliver concrete results as soon as possible, well before the expiry of the current 5-Year Corporate Plan.

On top of the redevelopment work with which we have made a good start in our first year, we will also begin to focus on the other three Rs – rehabilitation, revitalisation and preservation. These activities would probably bring benefits to a wider range of people in a shorter period of time.

Whilst our priorities will move with the times, I am confident that the result of our efforts will be more widely felt in the years to come. I am grateful to the staff for their support and for taking on the various changes introduced since the establishment of the URA. To the Board, I am grateful for its wise counsel and dedication to the cause of urban renewal.

Billy LAM Chung-Iun
Managing Director
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