

Managing Director's Statement



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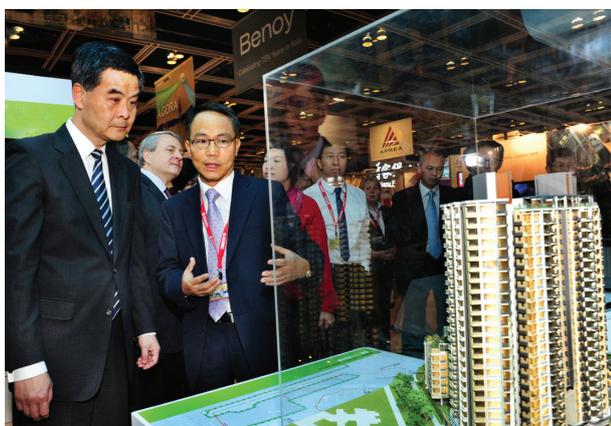
Mr Quinn LAW Yee-kwan, JP

As the outgoing Managing Director, it is only fitting that my last official statement should articulate some of my thoughts on urban renewal which were formed during my past seven years of service at the URA, including five years at the helm of its Management team.

It is no exaggeration to say that urban renewal is a microcosm of Hong Kong itself - many issues and changes that affect our city can also be found in the urban renewal process. This is not surprising as our projects directly affect the livelihoods of many people, specifically those living in old and dilapidated areas. On a daily basis, my colleagues come into contact with those we are committed to help, and we come to know first-hand the anxieties, concerns, and aspirations of these stakeholders. We are very privileged to have our finger on their collective pulse, and are positioned at a vantage point in witnessing social movements that invariably begin as project-specific or issue-oriented but which may eventually gain territory-wide attention. A good example is the community engagement process which has now become a widely-accepted mode of public participation in Hong Kong. The URA was amongst the first public body to fully embrace this new process, and its crucial part in facilitating our Kwun Tong Town Centre redevelopment project (the largest and most complex project ever undertaken by the URA), and the review led by the Development Bureau of the Urban Renewal Strategy which expanded the URA's mandate on the back of extensive public support cannot be stressed enough.

Urban renewal is an ongoing process as well as a race against time, and URA's modus operandi and various schemes must continue to evolve in order to cope with changing circumstances. In Hong Kong, there are presently more than 4,000 buildings primed for redevelopment and its sheer scale points to an obvious fact that the URA cannot tackle them on its own. The private sector has always been a major contributor to urban renewal, and will continue to be in the time to come. That there is an enduring misconception of the URA as a "public developer" of sorts which only pursues financially viable projects cannot be further from the truth. The URA never strives to compete with the private sector. Neither is profit maximization our organisation's credo. An analogy that perhaps best illustrates the role of the URA is the "Invisible Hand of the Market" metaphor that was made famous by the renowned economist, Adam Smith. It is the central tenet of his theory that the market is inherently perfect, and its invisible hand (through interactions between buyers and sellers) will ultimately channel all ambitions toward socially desirable ends. The idea of a perfect market is of course appealing but in the field of urban renewal, this theory is often put to the test where there are clearly certain projects that the private sector is not prepared to or cannot handle for a variety of reasons. There is a vacuum that needs to be filled, and the social element involved warrants the intervention of the URA, be it by way of being an implementer or facilitator. With the Authority taking the lead, the private sector is not precluded from participating in our projects and indeed

they are encouraged to participate by way of submission of bids to become our joint venture partners through the open tender process. The leveraging of private sector resources allows us to implement as many projects as we are currently undertaking which would otherwise be impossible if we were to implement projects on our own, exposing us to such risks associated with lengthy development periods, high holding costs and the vagaries of the property market.



Mr Quinn Law explains the “flat-for-flat” scheme to the Chief Executive of HKSAR Government in an exhibition.

Partnership with the private sector also enables the Authority to act as a catalyst and ensure better community-focused planning as we can actively influence the design of a development by, for example, requiring environmentally sustainable features and other public facilities that can benefit the community. The URA can also set a good example for other new developments like our “Modest Design Concept” adopted in the Kai Tak Development which eschews luxurious trappings that have become par for the course for new developments. Instead, practicality and durability are emphasised. The unique role that URA plays in our joint venture partnerships, and the holistic approach that we take to shape the urban renewal process ensure that accompanying planning gains and people-centred measures can be implemented - which would not happen if URA were merely a site assembly agent for the Government.

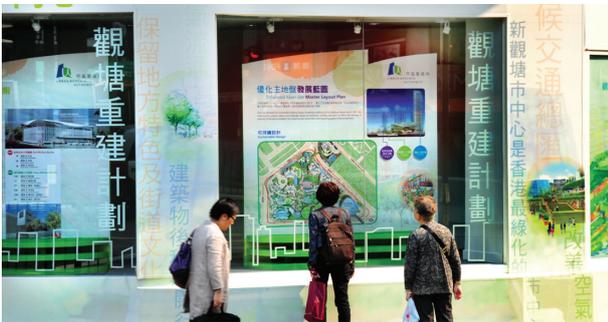
Challenges faced by the URA are many and the issue of compensation has always been a politically sensitive one. The Home Purchase Allowance policy based on

the notional value of a seven-year old replacement flat has been well-received by affected domestic owner-occupiers, and is generally accepted by the public as a fair basis for calculating compensation. However, in most of our recent projects in old urban areas, there has been a notable change in the ownership makeup where the number of domestic owner-occupiers has substantially decreased with investors taking their places. This remarkable shift contributed to the increase in the number of objections received during the publication period of each project and/or appeals lodged during the statutory appeal period. Objections invariably centre on the lower level of compensation to which owner-investors are entitled, albeit already significantly above market value. Objections also come from owners of commercial/industrial premises whose compensations are calculated using different bases and who tend to decry the differentiation between domestic and non-domestic/industrial compensation policies as unfair and out of sync with the rising property market in recent years. While such challenges are in fact not new, and there are indeed very good reasons in support of our current policies, resistance posed by these owners have significant implications on the implementation timetable of each project.

The cost of property acquisition has been and will remain the URA's singularly biggest cash outflow item, and with more redevelopment projects coming on stream, and invariably of the type that had been built to their development limits, it is inevitable that such costs will continue to rise and prudent financial management will be even more crucial than before. Being a responsible public body utilizing public funds, and given that the sustainability of urban renewal is paramount, apart from leveraging on our joint venture partnerships, the URA should also maintain a comfortable level of financial gearing to ensure sufficient resources are available to enable us to carry out and expand, where appropriate, our work.

From time to time, there have been calls for the URA to undertake bigger projects comparable to our five-hectare Kwun Tong Town Centre project. Without the Government's important support and its robust

financial position, the URA could not have commenced this project which is planned for completion in 13 years and which involves phased development and the resolution of many complex logistic issues. From a holistic planning perspective, mega developments do provide greater latitude in providing quality open space, more diverse land use mix and community facilities, as well as transport infrastructure. However, one has to recognise that the changes they bring about to a neighbourhood are also more substantial. Disruption to the social fabric, and loss of vibrancy in the district concerned for extended periods are real concerns. So too is the pressure being put on local private and public housing supply during the redevelopment period with large number of affected owners and tenants clamouring for replacement accommodation. Taking on too many mega urban renewal projects frequently or more than one such project in a district has to be carefully considered.



A Yue Man Square Display Gallery has been set up for the Kwun Tong Town Centre Redevelopment project.

Normal concrete buildings have a design life of around 50 years. Without proper property management and continuing maintenance, the deterioration rate of buildings will get worse with each passing year of neglect. Even though it cannot reverse the deterioration process entirely, rehabilitation is an effective way of deferring redevelopment, and indeed owners have a responsibility to keep their buildings in good repair. I am very pleased to see that with higher level of property prices in recent years, the mindset of many owners has changed and they are now more aware of the need for building care. The Government's mandatory building and window inspection schemes launched late last year have added an extra impetus to rehabilitation efforts.

The URA is proud to be able to lend a helping hand to responsible owners through our various rehabilitation and assistance schemes.

Urban renewal is an evolving process, and innovative "out-of-the-box" solutions are continuously needed to tackle changing needs and public aspirations. Over the years, the URA has proved itself responsive and adaptable and has, in line with the Urban Renewal Strategy, come up with a number of practical schemes that are well-received by the public. The Demand-led Redevelopment Project (Pilot Scheme) is a very good example, and this bottom-up, community-driven initiative has the real potential to significantly change the urban renewal landscape in Hong Kong by expediting the whole redevelopment process. That said, such projects tend to be relatively small in scale and therefore there is an enduring need to maintain a good balance of URA-initiated and demand-led projects.

In closing, I would like to register my sincere thanks to the wise counsel and unwavering support of the Chairman, Mr. Barry Cheung, and the Board of the URA. My deep appreciation is also due to the Management team and all our staff whose professionalism and dedication to serving the community have enabled the Authority to make great strides in the past years.

I am also indebted to the former Chairman, Mr. Edward Cheng and my predecessor, Mr. Billy Lam for their visionary leadership during their tenures, and the solid foundation that they had laid, standing us in good stead in our transition to the new era of urban renewal in Hong Kong.

Last but not least, I would also like to wish my successor, Ms. Iris Tam the very best. I am confident that under her leadership, the URA is set to scale greater heights.

Quinn LAW Yee-kwan
Managing Director

28 February 2013