

Chairman's Statement

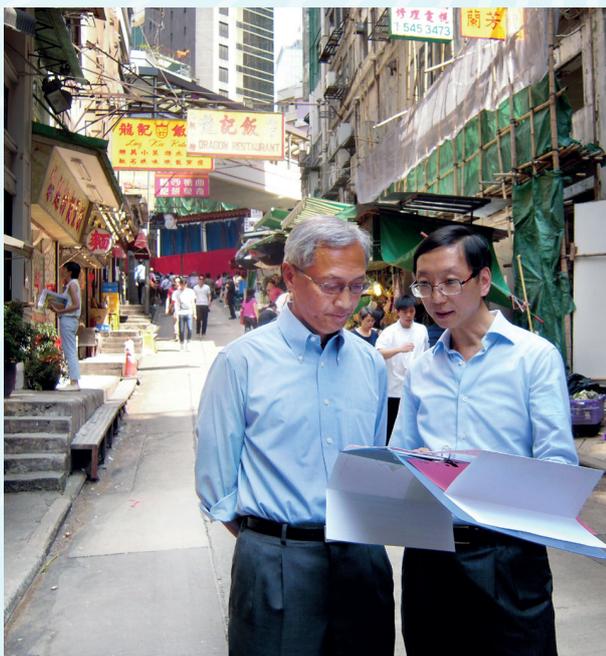


Mr Victor SO Hing-woh, JP



“The challenges facing us must be viewed in the context of the Urban Renewal Strategy which requires us to ensure its financial self-sufficiency over the long haul.”

When I took up the Chairmanship of the Urban Renewal Authority in June last year, we were already facing several worrying new challenges. For one thing, construction cost was escalating. For another, the property market, after enjoying an unprecedented boom over the past decade, seems to have reached its peak. More ominously, interest rates were threatening to resume its upward trend. Except for the fact that interest rates are thankfully remaining at a low level, the other aforementioned adverse scenarios have materialised, making our task in tackling urban decay much more daunting and challenging than ever before. Doubts are being voiced as to whether the Authority could still be able to operate “within a framework that is fair, sustainable and yet effective”, as mentioned in the Authority’s Annual Report for 2012/2013. The challenges facing us must be viewed in the context of the Urban Renewal Strategy which requires us to ensure its financial self-sufficiency over the long haul.



Mr Victor So is briefed on the project progress.

On the operation side, while there is a good consensus within our society that urban renewal should proceed at a faster pace and cover larger areas, there is almost always resistance, and in some cases, very strong resistance, in one form or another, against our work. As a result of such militant resistance, several of our major projects such as ones at Hai Tan Street/Kweilin Street/Pei Ho Street in Sham Shui Po and the Kwun Tong Town Centre, unfortunately suffered delays. These two projects were begun as far back as 2006 and 2007 respectively, but have been unduly delayed due to clearance problems, leaving us with a huge backlog, even as we aim at commencing more renewal projects on a year by year basis.

Under the new Urban Renewal Strategy promulgated in 2011, the Authority took on demand-led projects on a pilot scheme basis, in which we invited owners of old and dilapidated blocks to collectively come forward so that the Authority could assemble the property interests and accelerate the pace of redevelopment. This scheme has resulted in the submission of 110 applications, only 25 of which have met the pre-determined criteria, with only nine projects commenced. Our experience has shown that among the applications received, many sites have existing plot ratios already very close to, and sometimes even exceeding, the maximum permitted domestic plot ratio of 7.5 times in Kowloon. On top of the high acquisition cost for domestic owner-occupiers, at approximately two times the market value for the old domestic units under the compensation policy approved in 2001 by the Finance Committee of Legislative Council, and the extremely high compensations to shop owners and operators, the Authority faces criticism



Mr Victor So and Mr Paul Chan, Secretary for Development at the ceremony of Quality Building Award 2014. URA's Larch Street / Fir Street project wins the Grand Award.

from the public that the demand-led projects for the smaller sites in particular have only resulted in the redevelopment of pencil blocks, with limited planning gains to the neighbourhood.

In April 2014 the Authority set up an Ad-hoc Committee to review these and other related issues and to come up with directions on how to handle demand-led vis-a-vis our self-initiated projects for the benefit of our community. More importantly, due to the volatile market environment, we observe that developers are becoming more and more conservative in bidding either for government sites or for our joint-venture projects. We are also witnessing something very new to Hong Kong in that the unit construction cost is at a higher level than the average land cost per permissible square foot of floor area.

On our balance sheet for 2013/14, we have on hand a stock of properties valued at over \$20 billion acquired for redevelopment but not yet tendered. The auditor has certified that for the first time in five years, the 2013/14

financial report is showing a deficit of \$2.3 billion. At the present moment, the Authority's finances are still on a secure footing. We must, however, tread carefully in running our operations in a way that is consistent with mandated long-term financial soundness. One way to approach the urgent issues could be to fast-track the clearance of the heavy backlog of projects.

On a longer term basis, we may need to rethink how redevelopment and rehabilitation, the two core businesses of the URA, should proceed. I have heard suggestions from stakeholders that stronger owners' participation should be considered. Some have even suggested that rehabilitation should perhaps play an even bigger role in urban renewal. Community views and suggestions will be taken seriously by our Ad-hoc Committee.

I am very grateful to our Board Members who have put in so much time and effort over the past years, not only in dealing with routine business at the Board or Committee levels, but in actively participating in our brainstorming sessions in the first half of 2014. Last but not least, for the organisation to function more effectively, we rely heavily on the hard work and total commitment of our staff to tackling the highly complicated and thorny tasks of acquisition, relocation and other aspects that are part and parcel of our operation. To them all, we owe a vote of heartfelt thanks.

Victor SO Hing-woh
Chairman

31 July 2014