



MANAGEMENT DISCUSSION

Revitalisation

Preservation

Redevelopment

Rehabilitation

Retrofitting

Urban renewal is a long-term and arduous task which also requires heavy resources commitment. Two decades on, Hong Kong is still in the first cycle of urban renewal with thousands of dilapidated buildings remain to be redeveloped.

Old urban districts in general, are densely populated with fully utilised plot ratios, and lack land resource for development. This has made redevelopment projects unviable, both from the planning and financial perspectives, resulting in a slow pace of urban regeneration.

To overcome the hurdle, it is important for us to constantly evolve to adopt innovative thinking in carrying out urban renewal work, and to make the best use of technologies and new planning tools to achieve seemingly impossible goals.

As we embarked upon a new level of urban renewal, we will continue to be bold and innovative in pursuit of our mission, and focus on taking up sizeable challenging redevelopment projects which have the potential of creating greater benefits to the community, as well as promoting building rehabilitation and preventive maintenance among property owners to improve living environment and prolong service life of buildings.

MANAGEMENT DISCUSSION AND ANALYSIS

Challenges

Challenging Macro-economic Environment

Geo-political issues in 2022 and the resultant surge in commodity prices have compounded the pandemic-induced pressure on the global economy. Some economists have warned of a protracted period of feeble growth and elevated inflations in coming years. Hong Kong as an open economy cannot be immune to these economic challenges worldwide. The US Federal Reserve has announced successive interest rate hikes in 2022 to contain the inflation risks. Given the Hong Kong-US dollar peg, the low-interest rate environment in Hong Kong has started to reverse in the second half of 2022, with observed dampening effect on the local property market. The financial position of the URA with its substantial acquired property holdings is sensitive to price fluctuations in the local property market.

Notwithstanding the adverse economic impact and market uncertainties caused by the COVID-19 pandemic particularly the fifth wave in Hong Kong, the financial health of the URA remained robust with strong asset and liquidity positions. In 2021/22, the URA completed the clearance of seven redevelopment projects. With the upfront payments from the awarded joint-venture tenders, the URA achieved an annual surplus of \$6.6 billion, making its accumulated surplus at \$43.8 billion as at 31 March 2022 (excluding the \$10 billion initial capital injection from the Government).

The growing accumulated surplus position has enabled the URA to undertake larger-scale challenging projects which can bring great benefits to society. They included two large-scale projects in the 21st Annual Business Plan (covering 2022/23) involving around 200 old buildings with about 1,500 domestic property interests.

Despite its prevailing cash reserve, the URA must build sufficient financial reserve for the very large acquisition expenses incurred in these projects. Based on our projection, the projects under planning will involve a financial commitment of about \$120 billion. Currently there is only about \$27 billion in our cash reserve. Even if we include the upfront payments to be received from the tendered projects in the next few years, there will still be a cash shortfall to cover the projected cost of \$120 billion. In this regard, to uphold the self-financing principle as stipulated in the Urban Renewal Strategy, the URA will make full use of all of its financial resources, including borrowing capacities.

Urban Decay Remains a Hard Nut to Crack

Regenerating our ageing built environment is a race against time. Despite the implementation of several major redevelopment projects and massive resources committed to the regeneration of the old districts, our urban renewal effort is still being outpaced by urban decay. With this in mind, a holistic and comprehensive study was conducted to look into the key issues that have been accelerating the pace of urban decay in old districts.

Our study found that building conditions would generally start getting poor when they reached 40 years of age, structural integrity and serviceability would be affected, undermining public safety and liveability. There are over 26,000 building blocks aged 30 years or above in the territory with around 20% (5,200 buildings) identified as in 'varied' or 'poor' condition. If no rehabilitation or maintenance works is being taken to these dilapidated buildings, more than 20,000 building blocks would be in 'varied' and 'poor' condition by 2030. It also revealed that the negligence of property owners to conduct maintenance works for their buildings has aggravated the problem of ageing buildings. Complicated by the fact that the plot ratios of the sites of these bulky and high-density aged buildings had generally been fully utilised, leaving only a few in the market that were considered to be favourable for private developers to pursue for redevelopment. The lack of development potential of the ageing buildings had become a stumbling block to private market participation resulting in increasing reliance on the URA to take up this daunting task, thereby slowing down the pace of urban renewal.

Meanwhile, rehabilitation, as one of the two URA's core businesses, is a cornerstone to tackle the problem of urban decay. To tackle the problem of a lack of building rehabilitation awareness among owners, we embarked on the Study on New Strategy on Building Rehabilitation (NSBR) to understand the views of owners of old buildings and the difficulties they encountered in building maintenance, so as to explore measures that could better motivate them to carry out rehabilitation work on their own. Results of the study showed that owners of old buildings usually faced three main challenges that hindered their willingness to organise repair and maintenance works on their own, and we have pressed on with our rehabilitation efforts to assist building owners to overcome these hurdles through proactive and targeted measures.

Striking Balance between Urban Renewal and Additional Government Initiatives

A number of Government initiatives have been entrusted to the URA in recent years, including the active provision of Starter Homes (SH) in our redevelopment projects, and assisting NGOs to develop transitional housing and redevelop community facilities on their sites. Inevitably, implementing these initiatives for the Government would compromise the deployment of resources for urban renewal work. In the face of our resources constraints, it is therefore important for the URA to strike a balance between the sustainable development of our core businesses in urban renewal and delivering Government initiatives. Continuous support from the Government, in the form of both policy and resources, would be required so as to enable the URA to optimise its resources to achieve both objectives.

Opportunities

Expediting the Pace of Urban Renewal Work Through Implementing New Strategic Studies and Data Analysis

In view of the challenges faced by the accelerating pace of urban decay, this necessitates us to formulate and implement a more holistic and forward looking approach to urban regeneration, and to expedite urban renewal work through the implementation of new strategic studies and data analysis.

In the Yau Mong District Study (YMDS), potential projects are being formulated based on the Master Urban Renewal Concept Plan and the use of new planning tools. Drawing on the conceptual proposals in the YMDS, the URA supported Planning Department in initiating a batch of amendments to the relevant Outline Zoning Plan within Mong Kok district to implement the proposed recommendations and new planning tools of the YMDS. These amendments included relaxing the plot ratio for the commercial spine along Nathan Road and allowing the interchangeability of domestic and non-domestic plot ratio to increase the flexibility to cater for market changes.

The greenlight given to these amendments bodes well for the application of new planning tools in other old districts in Hong Kong. In addition, Planning Department is expected to announce details of other planning tools, including the proposed locations and implementation mechanisms for the street consolidation areas, by the end of this year.

Looking forward, we will take the lead in adopting new planning tools in our projects which we see as appropriate, so that we can share the experience with private market as a reference. Meanwhile, we will work with the Government to expedite the formulation of implementation mechanisms for the new planning tools, in order to provide the private developers with clear guidelines and specifications to follow. Ultimately, we hope to unleash redevelopment potential to maximise the use of urban land resources in old districts, and to motivate more private market participation, thereby speeding up the pace of urban renewal work.

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With a wider application of new planning tools in the URA projects, we will in parallel expand the development of the Urban Renewal Information System (URIS) to include more advanced functions. They include automatic exploration of sites in old districts that are suitable for applying the transfer of plot ratio, moving data applications from 2D to 3D, and creating 'digital twins' in the virtual world for building clusters in old districts. All these initiatives will enable us to accelerate the formulation of different development options and assess their impact on the neighbourhood, thereby expediting the planning and execution of arduous redevelopment urban renewal projects.

Government Facilitation to Expedite Renewal Process

The Government has made positive moves to propose streamlining of development-related processes and procedures that are conducive to speeding up urban renewal.

In this regard, the URA has submitted a proposal to the Development Bureau in early 2022 proposing to streamline mechanisms and processes involved under different procedures in development based on URA's past experiences in redevelopment projects, with a view to compressing project delivery cycles for the URA as well as the private sector. The proposals were well received by the Government and being taken forward progressively.

Meanwhile, in response to the calls to lower the compulsory sale application threshold to expedite redevelopment of aged buildings, the Government has been exploring further legislative amendments to the Land (Compulsory Sale for Redevelopment) Ordinance to achieve the objective. It is anticipated that lowering the 80% threshold for certain categories of buildings would help to increase private market participation in urban renewal work.

Enhancing the 'Integrated Approach' of Urban Renewal

The planning studies we have undertaken covered areas where they are characterised by a mix of redeveloped projects with individual single-block buildings constructed by private sector in recent years, and aged buildings in the locality, coupled with a lack of coordination in the overall planning and design for the built environment of the area.

In view of this, the challenge for future urban regeneration lies in integrating the old and new elements at planning level, and at the same time, increasing community facilities and retaining the local characteristics. We will take forward the redevelopment projects in Kowloon City as a test bed for adopting an integrated approach. By way of redevelopment, rehabilitation and the revitalisation works carried out in our projects, the overall built environment and public facilities of the area will be enhanced as a whole, as well as blending the old and new cityscapes upon redevelopment.

The adoption of this integrated approach to our urban renewal work will inevitably involve considerable expenses as it not only incur costs for the acquisition of property titles, but also the construction of new government facilities, in addition to the work on building rehabilitation, district preservation and revitalisation. Riding on the redevelopment project in Kowloon City, we shall carefully study the cost implications on our financial reserves and the work accordingly, so as to ensure sufficient resources will be available for the implementation of the integrated approach in our future redevelopment projects.

New Strategies to Promulgate a Culture of Preventive Maintenance

To tackle the problem of a lack of building rehabilitation awareness among others and to achieve the long-term objective of self-initiated maintenance amongst building owners, a step-by-step approach is crucial.

Our foremost priority is to motivate the building owners to carry out repair and maintenance works proactively to upkeep both structural integrity and serviceability of the building as a whole as well as internal units. Promotional efforts have also been stepped up to instill in owners and the industry the concept of preventive maintenance to maintain the building in good condition.

To achieve this, we studied local and overseas practices and compiled template of maintenance manual and plan to be adopted in the URA's self-developed projects. This aims to test the practicability of the template and to promote a wider application to the buildings across the city. We have also applied the design of a maintainability checklist in our self-developed projects, and will extend such practice to our joint-venture projects, before promoting to private buildings.

In addition, we finalised the proposed clauses for implementing preventive maintenance and facilitating owners' regular contribution to the special fund for future maintenance, which will be incorporated in the Deed of Mutual Covenant (DMC).

We will test the preventive maintenance measures in the second phase of eResidence to be launched next year. Guidelines and regulations will be added to the DMC requiring owners to draw up a regular maintenance plan for the building and set money aside as reserves for future execution of the maintenance plan.

Based on our experience and insights in promoting building rehabilitation, we will work with the property management industry to develop a standard manual of building maintenance for new development projects. Such manual will help owners of these private buildings to draw up regular maintenance plans by the time when they move into the new property. With these strengthened promotional efforts in place, we look forward to boosting confidence among building owners in carrying out preventive maintenance.

Twenty Years and Beyond

20 years marks a significant milestone for the URA. As we ventured beyond the 20th anniversary, the URA commits to press ahead with urban renewal works and progressively increase the number of redevelopment projects in its Corporate Plan. In the next five years, we have included 10 new redevelopment projects covering 137,000 square metres of land, and are expected to yield over 13,400 new residential units.

In view of more land will be required for undertaking these urban renewal work, the URA has to focus its resources on taking up more large-scale challenging redevelopment projects which have the potential of creating greater benefits to the community, but less appeal to private market participation. A sound financial plan must thereby be in place to ensure sufficient resources are adequate to meet the substantial acquisition costs incurred in these projects. To achieve this, we will make cash reserves flexible by completing the initial planning and design of new projects as early as possible, as well as arranging loan facilities in advance in the event of any possible shortfall of funds and when available resources have been exhausted. We will also improve project returns by incorporating the under-utilised streets in the vicinity of the project areas into our master development plans, and advance restructuring and replanning of land uses with the application of new planning tools, so as to achieve the optimum utilisation of the residual plot ratios for redevelopment.

Urban renewal has always been full of opportunities and challenges. As we embark on this long but rewarding journey of urban renewal, the URA will go from strength to strength, forging ahead to sustain our urban renewal mission and turn Hong Kong into a smart and liveable city for our and future generations.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

(I) Review of 2021/22 Results

(a) Revenue

The revenue for the year ended 31 March 2022 was \$22,653 million, which comprised upfront payments from four tenders involving 7 redevelopment projects, share of surplus from joint development projects and proceeds from flat sale. The amount was higher than the revenue of \$3,439 million in 2020/21 by \$19,214 million.

The total upfront payments in 2021/22 of \$20,900 million were significantly higher than that in 2020/21 of \$913 million. There were four project tenders during the year, namely (a) Bailey Street / Wing Kwong Street, (b) Hung Fook Street / Ngan Hon Street, (c) Hung Fook Street / Kai Ming Street / Wing Kwong Street involving four redevelopment projects, and (d) Oak Street / Ivy Street, with a total site area of 18,044 m². Comparatively, there was only one project tendered in 2020/21, namely Tonkin Street / Fuk Wing Street with site area of 1,268 m².

The share of surplus from joint development projects of \$1,362 million in 2021/22 (2020/21: \$426 million) was revenue from projects where the sales proceeds exceeded the thresholds stipulated in the development agreements.

The revenue from sale of properties of \$391 million in 2021/22 largely related to the residential units at eResidence sold at discounted prices under the Starter Homes Scheme.

(b) Other Income

Of the \$253 million (2020/21: \$265 million) in other income for 2021/22, \$84 million (2020/21: \$195 million) were interest income from bank deposits and fixed income investments, with an overall yield of 0.66% p.a. (2020/21: 1.62% p.a.). The lower yield reflected the low interest rate environment in 2021/22.

Other income also included rental income of \$141 million (2020/21: \$66 million) from certain properties retained by the URA. The increase in rental income in 2021/22 was primarily attributable to the opening of Yue Man Square (YM²) in Kwun Tong Development Area and Central Market.

(c) Administrative Expenses

Administrative expenses for 2021/22 of \$623 million (2020/21: \$593 million) mainly covered staff costs, outsourcing service charges, accommodation costs and office expenses. Cost control measures were implemented whenever possible to minimise administrative expenses.

(d) Provision for Impairment on Properties and Committed Projects

Based on the accounting policy detailed in Notes 2(h) and 2(n) to the financial statements, provision for impairment on properties and committed projects of \$672 million was made in 2021/22 as a result of (a) the changes in the development plan and estimated cost of certain projects, and (b) downturn in the retail property market.

(e) Surplus for the Year

For the year 2021/22, the URA recorded a net surplus of \$6,568 million, showing an increase of \$6,418 million as compared to \$150 million for 2020/21. The major contributing factors to the increase were (a) more projects tendered and awarded and (b) greater share of surplus from joint development projects.

(II) Financial Position at 31 March 2022

(a) Properties under Development

Properties under development before provision for impairment was \$22,501 million as at 31 March 2022 (31 March 2021: \$33,287 million). This sum represented the acquisition and development costs of 10 projects under various states of implementation, out of which Kowloon City Projects, Kwun Tong Town Centre Project and the Civil Servants' Co-operative Building Society (CBS) project at Shing Tak Street accounted for 78% of the total value.

The aforesaid value was off-set against the cumulative provision for impairment totalling \$654 million (31 March 2021: \$724 million), resulting in a net value of \$21,847 million (31 March 2021: \$32,563 million). The decrease in the net value was mainly due to the removal of the development costs of the projects tendered out in 2021/22 as mentioned in paragraph I (a) above, after offsetting the costs incurred for property acquisitions for the CBS Project and the remaining Kowloon City Projects.

(b) Total Liquidity

As at 31 March 2022, the URA's total liquidity, including cash, bank deposits and debt securities investments, was \$26,943 million (31 March 2021: \$9,618 million).

The URA placed the surplus cash on deposits with a number of financial institutions, and also invested in fixed income products of the required credit rating in accordance with the investment guidelines as approved by the Financial Secretary with capital preservation as the priority.

The liquidity position, off-set by the borrowings of \$1,098 million (31 March 2021: \$1,097 million) mentioned in paragraph II (c) below, resulted in the net liquidity position including the securities holdings as at 31 March 2022 of \$25,845 million (31 March 2021: \$8,521 million).

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(c) Debt Securities Issued

The URA is rated AA+ by Standard & Poor's Rating Services. As at 31 March 2022, the outstanding debt securities issued by the URA under the Medium Term Note (MTN) Programme was \$1,098 million.

(d) Net Asset Value

The URA's net asset value as at 31 March 2022 was \$53,810 million (31 March 2021: \$47,242 million), representing the Government's capital injection of \$10,000 million (31 March 2021: \$10,000 million) and an accumulated surplus of \$43,810 million (31 March 2021: \$37,242 million).

The financial summary of the past ten years is described on page 117 of this Annual Report.

(III) Capital Injection and Tax Exemption

Following approval by the Finance Committee of the Legislative Council on 21 June 2002, the Government injected \$10,000 million of equity capital into the URA in five tranches of \$2,000 million each over a five-year period from 2002/03 to 2006/07. The Government continues to exempt the URA from taxation.

(IV) Waiver of Land Premia by the Government

The Government waives the land premia for redevelopment sites granted to the URA. A total of 48 land grants have been waived in respect of all the tendered projects with aggregate land premia totalling \$20,805 million up to 31 March 2022.

Without this waiver, the URA's accumulated surplus as at 31 March 2022 would have been lowered by \$20,805 million to \$23,005 million; and its net asset value as at 31 March 2022 would have been decreased to \$33,005 million.

(V) Financial Resources, Liquidity and Commitments

As at 31 March 2022, the URA's net liquidity position totaled \$25,845 million. At the same date, the URA's outstanding commitments to the commenced projects, together with the construction cost on projects based on the valuation carried out by the URA's in-house professionals, were estimated at \$6,276 million.

In addition to the MTN Programme mentioned in paragraph II (c) above, the URA also maintained uncommitted bank credit facilities in Hong Kong. The external funding and credit facilities ensured the URA would have sufficient financial resources to carry out its urban renewal programme as planned.

Individual projects, with various development potentials, are tendered out at different times during property market cycles. Subject to the market conditions prevailing at the time of tender submission, the upfront payments may be higher or lower than the URA's acquisition costs. As at 31 March 2022, the total costs of properties under development, excluding provision for impairment, was \$22,501 million. The value of properties under development is exposed to the risk of property price fluctuation. Should the projected future value of the properties under development is lower than its actual/estimated acquisition and clearance costs, impairment loss will be recognised in the URA's books.

It is estimated that a total cash outlay of about \$84,000 million, excluding operational overheads, will be required in the coming five years to meet both of the URA's currently outstanding commitments and its forthcoming cash outlay for the implementation of the projects. This amount covers the URA's works in redevelopment, rehabilitation, preservation, revitalisation and retrofitting. In addition to current liquidity, the projected cash outlay will be met by future upfront payments from project tenders, share of surplus sales proceeds from joint development projects and proceeds from sale of properties in the corresponding period. A financing strategy study to explore different financing options was completed. Should funding is required for URA's urban renewal works, financing will be sought via bank loans and/or bond issuance as appropriate.

Operating in a prolonged pandemic environment, the URA will continue to manage its businesses in an agile manner and monitor its financial position closely, with an aim to accomplishing its urban renewal missions while maintaining long-term sustainability.