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Industrial Land Use Changes in Response to Economic Restructuring in Hong Kong

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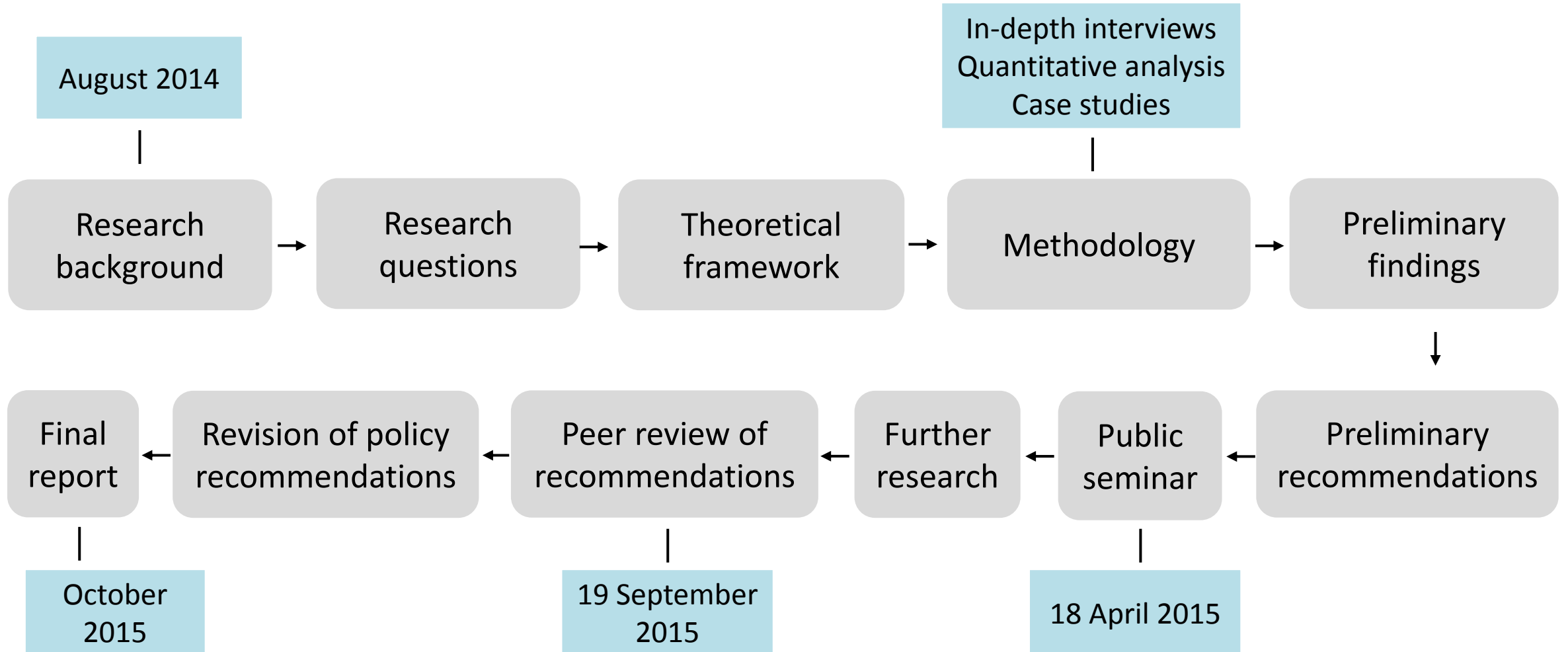
The Chinese University of Hong Kong

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Research questions

1. What has been happening in industrial premises in Hong Kong?
2. How did the problems faced by users of industrial buildings emerge and develop?
3. Why does industrial stock matter to Hong Kong?
4. What kind of policy measures should the government take to truly optimise the use of industrial premises?

Research design



Research design

Four sectors in industrial premises are investigated in this research:

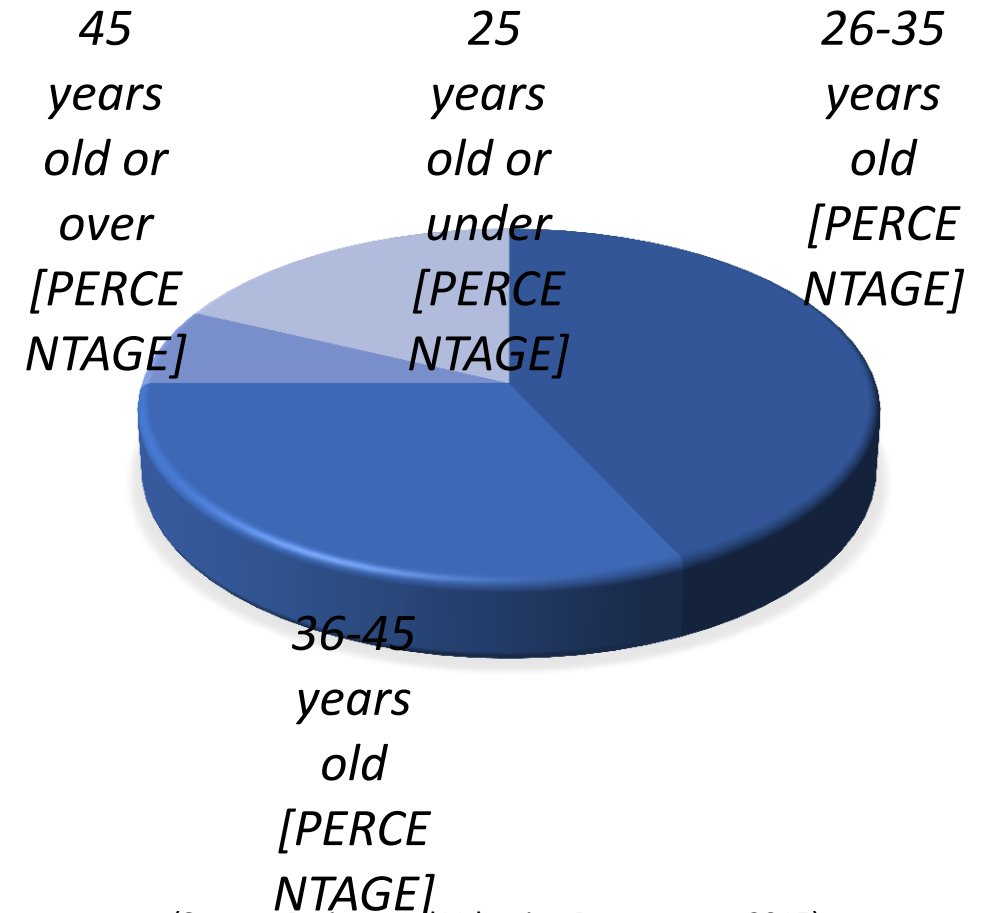
- Logistics
- Manufacturing
- Cultural and creative industry
- Start-ups

Number of industrial buildings in Hong Kong

	<i>Planning Department</i>	<i>Buildings Department</i>	<i>Rating and Valuation Department</i>	<i>Development Bureau</i>	<i>This study</i>
Flatted factory	YES	YES	YES	YES	YES
Private storage	YES	YES	YES	YES	YES
Industrial/office building	YES	SOME	YES	NO	YES
Industrial estates	NO	YES	YES	NO	YES
Housing Authority's factory estates	NO	NO	NO	NO	YES
Rural industries and special industrial uses	NO	YES	YES	NO	YES
Total number of industrial buildings	1,448 [2014]	1,851 [2014]	No information	1,435 (1,019+416) [2010]	1,894 (1,851+6+37)

Total stock

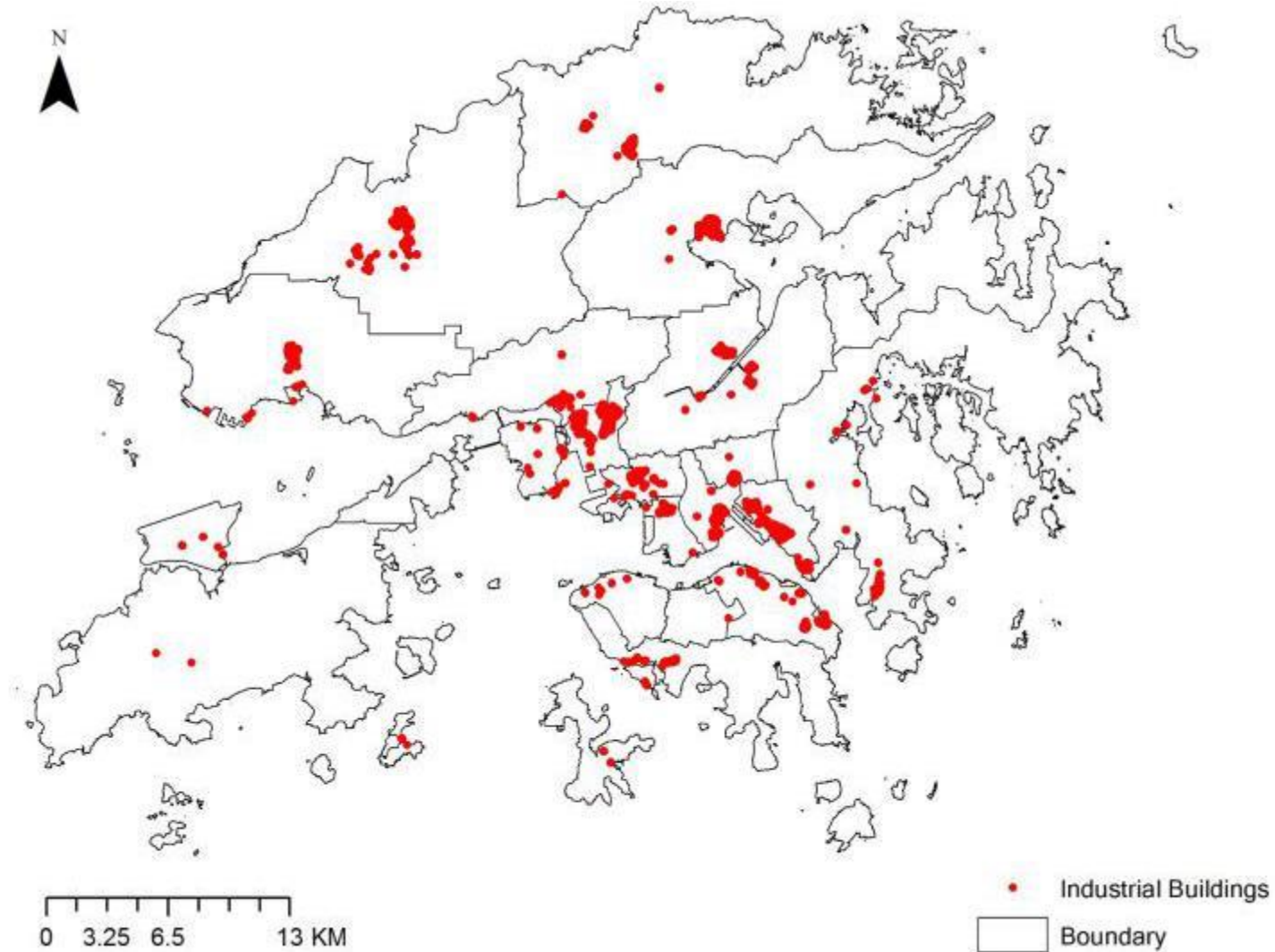
- Total stock of industrial premises* (21.3M m²) is about double of office stock (10.8M m²)
- Flatted factory stock: 17.1M m²
- Warehouse stock: 3.6M m²
- I/O building stock: 0.6M m²
- Majority of industrial buildings are old buildings



(Source: Ratings and Valuation Department, 2015)

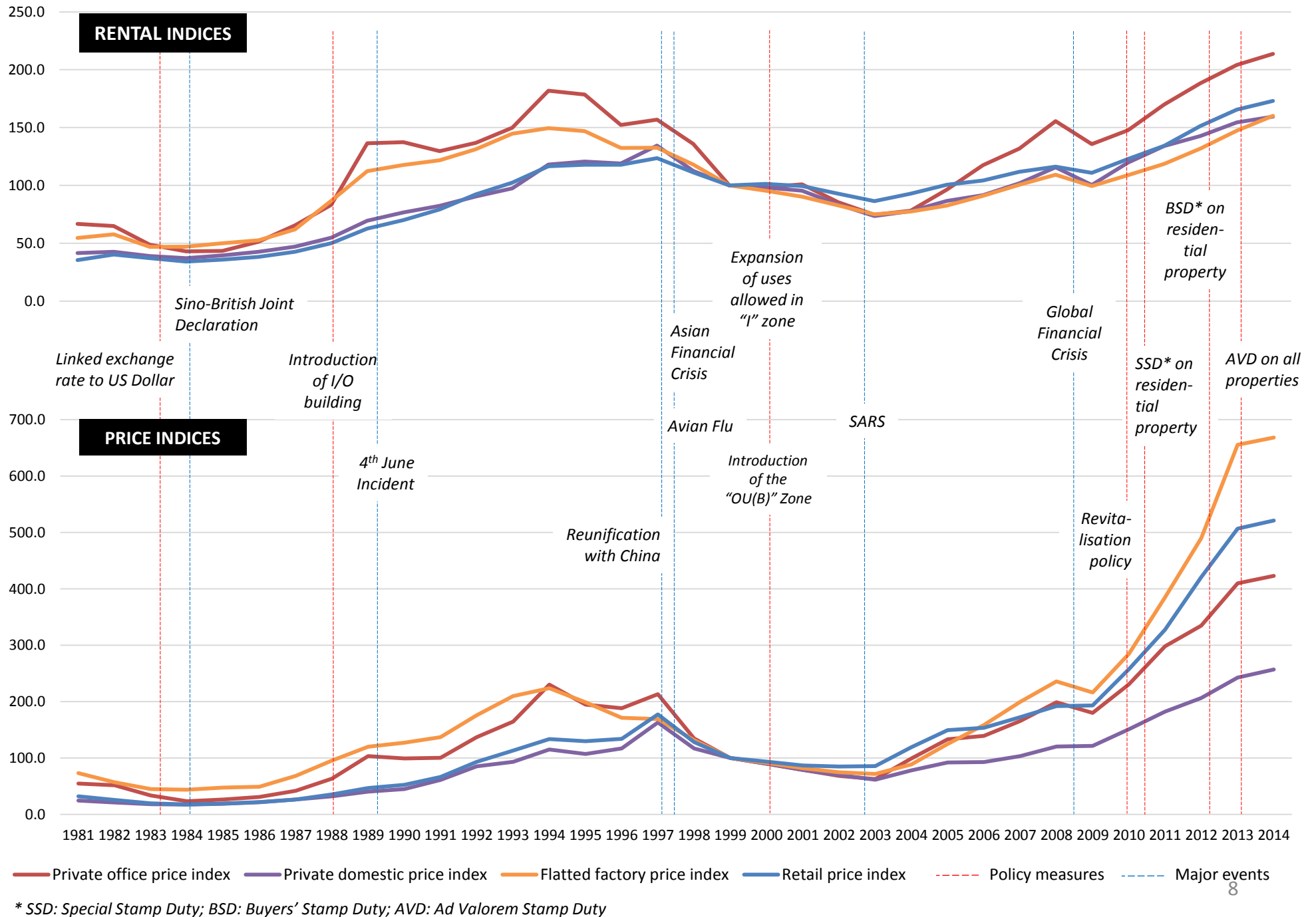
*According to the Ratings and Valuation Department, all figures here refer to the Internal Floor Area (IFA)

Distribution



(Map based on Buildings Department's List of Industrial buildings in Hong Kong)

Rental and price indices



(Source: Rating and Valuation Dept., Property Reviews, various years)

Industrial stock (million m ²)	<i>Total stock (GFA)</i>	<i>Manufacturing use</i>	<i>Logistics use</i>	<i>Non- industrial uses</i>
"I" zone	9.93	0.83	5.37	3.73
"OU(B)" zone	15.16	1.04	5.04	9.08
"R(A)" zone	0.28	0.04	0.12	0.12
"R(E)" zone	1.59	0.21	0.67	0.71
"CDA" zone	0.89	0.06	0.44	0.39
TOTAL	27.85	2.18	11.64	14.03

Source:
Planning
Department

- Slightly over half of all industrial stock is used for non-industrial purposes
- Existing industrial stock in "I" zone is not sufficient to accommodate current space used by the manufacturing and logistics

Fire safety concerns

- Lack of the automatic sprinkler systems in pre-1973 industrial buildings
- Industrial buildings in Hong Kong also accommodate all 4,165 licensed dangerous good storage
- Potential fire safety hazards with mixed industrial and non-conforming uses



Source: Internet



Government policies to facilitate wider uses and regenerate industrial buildings



Planning initiatives

1. Introduction of new zoning

“Industrial/Office ” (I-O) buildings in 1989

2. Flexibility in uses permitted:

Expansion of user schedule of the “I” zone in 2001

3. Rezoning to Business use

Introduction of “Other Specified Uses (Business)” [OU(B)]zone on statutory plans in 2001 which allows buildings to be used for both industrial and office/commercial purposes

Financial initiatives

- Policy on optimising the use of industrial buildings up to 31 March 2013 in 2010
- Mid-term review of policy in 2012 and policy extended to 31 March 2016
- Measures include no waiver fees for wholesale conversion of industrial buildings, payment of premium by installments for redevelopment, etc.



Area-based initiative : Kowloon East

- Vision: Transforming Kowloon East as another premier CBD – a place where people would like to work, to do business, to walk, to stay, and to play
- **CBD²** – **C**onnectivity, **B**randing, **D**esign and **D**iversity



Source: Energizing Kowloon East Office



Why does industrial stock
still matter in Hong Kong?



Logistics

- One of the four pillar industries in Hong Kong
- Supporting and driven by tourism and retailing and to a lesser extent e-commerce
- Hong Kong as a free port still has competitive advantage regionally
- Providing low-skilled employment opportunities
- New business models have been developed within the logistics industry, e.g. mini-storage, “go-go-van” style logistics services
- Good potential in value-adding services

Manufacturing Industries

- Manufacturing industries' GDP contribution underestimated and can possibly be more than double of the current 1.4%
- Creating low-skilled employment opportunities
- In advanced economies, manufacturing is a critical driver of innovation, productivity and competitiveness
- Some signs of re-industrialisation in HK partly due to the changing business environment in the PRD
- Good business potential in the “Made in Hong Kong” brand

Cultural and Creative Industry

- CCI is a new driving force for economic growth
- Compared to other world cities such as London and New York, Hong Kong is left far behind in its art development
- Other Asian cities have made impressive achievements in CCI in recent years
- Nurturing local artists and art development is a key route to diversify employment
- Art also serves as an essential element to create better quality of life and more attractive places

Start-ups

- Technology-intensive, innovation-driven start-up companies are more popular than ever worldwide and may become a new engine of economic growth
- For Hong Kong to remain competitive regionally and internationally, it is crucial to foster local innovation and productivity
- Hong Kong's world class infrastructure, proximity to the China market, availability of capital needed for investment and talent, and protection of intellectual property right are all conducive to start-ups

A modern, green upholstered chair with a white LED light outline, set against a wooden background. The chair is illuminated from within, creating a glowing effect. The background is a wall with a vertical wood grain pattern. A semi-transparent white banner is overlaid across the middle of the image, containing the text "To accommodate these important users...".

To accommodate these important users...

Why industrial buildings?

- Affordability, flexibility and accessibility have made industrial buildings ideal work spaces for various sectors

Five conclusions

Conclusion 1

Existing industrial premises still matter to Hong Kong economically and socially

- GDP contribution of transport and storage - 5.7%
- GDP contributions of manufacturing industries – 1.4% and possibly double of this amount
- Operational needs of logistics and manufacturing industries which provide low skilled jobs
- Also attractive to other sectors which depend on affordable, flexible and accessible premises
- Case studies on use of industrial premises indicate the social significance of such premises

Conclusion 2

Importance of providing land for future demand of the logistics and manufacturing industries

- Both sectors encompass a wide range of activities that create value and benefits for the wider community
- Modern industries offer service-oriented jobs and contribute to a more diversified and resilient economy
- Appeal of “Made in Hong Kong” brand
- Spin-off from environmental policy to phase out pre-Euro IV commercial vehicles
- Mould and die industries and other industries returning to Hong Kong
- Technology-driven industries should be included in any re-industrialisation plan

Conclusion 3

Hong Kong's innovation and creativity sectors need more affordable space

- A primary source of competitive advantage in a digitally-led creative economy
- Hong Kong not performing well in innovation – World Economic Forum's competitiveness index
- CCI is an economic sector but also imbues city with character and uniqueness and its people a sense of identity and belonging
- CCI requires space for production, rehearsal and storage in addition to performance and exhibition spaces
- Crucial for Hong Kong to evolve into a creative economy

Conclusion 4

Two unresolved issues of industrial premises – non-conforming uses and fire safety

- Planning control has been relaxed in response to de-industrialisation
- Uses not in compliant with the lease conditions are required to pay a short-term waiver for temporary change of use
- Fire risk with co-existence of industrial and non-industrial uses if the latter attracts a lot of outsiders
- Priority for inspection given to buildings without sprinkler system and buildings with dangerous goods storage
- No compromise on fire safety

Conclusion 5

The shortage of development land is the bottleneck of current and future development

- There is not enough space, virtually for all types of uses in Hong Kong
- Industrial buildings are often conjured up as surplus stock and a source of brownfield land supply
- It is necessary to maintain a steady supply of land for different uses so that lower value added uses in industrial premises will not be driven out by higher value uses due to shortage of office, hotel or retail spaces



Twelve policy recommendations

Twelve Policy Recommendations and Measures related to the following areas are proposed:

- To refine the revitalisation policy of old industrial buildings
- To optimise the efficient operation of the industrial estates
- To facilitate the operation of co-working spaces
- To launch new initiatives on industrial site planning and reservation

Thank you



http://www.cpu.gov.hk/en/public_policy_research/pdf/2013_A8_012_14B_Final_Report_Mr_Leung.pdf

Unless stated otherwise, all photos are taken by the research team

Views and comments are welcome. Contact email: jcflung@netvigator.com