Report on the Revitalization of Industrial Buildings

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Executive Summary

Titled “Optimizing the use of industrial buildings to meet Hong Kong’s changing economic and social needs” (hereafter referred as revitalization of industrial buildings, or simply revitalization policy), this policy was first introduced in 2009 by the former Chief Executive Donald Tsang. Originally intended to foster the growth of the six industries, the policy was to become more oriented towards simply commercial land supply, which, in light of Hong Kong’s economic development trend, is understandable. However, with more than four years of experience behind us now and less than two years until the policy expires, we are perhaps in no better position to examine the past and future of this policy.

Having examined the progress of the policy’s implementation, a number of points have been highlighted in this paper:

1) Wholesale conversion is by far the more common revitalization approach compared to redevelopment;
2) The number of executed cases has increased over the past four years at a growing rate;
3) A large proportion of converted buildings are re-adapted for commercial, retail or hotel uses; and
4) More than half of all conversion projects were sited in Kwun Tong, which coincide with the master plan of the Energizing Kowloon East initiative.

In addition to the above findings, further research was also conducted through various interviews and site visits to Fo Tan, Kwun Tong, and Chai Wan. Based on the observations made, a number of policy recommendations have been put forward:

1) To extend the policy until 2020 such that it remains effective during the Kowloon East and Kai Tak development period;
2) To reconsider how the government can play a more effective role in directing development in targeted industries through revitalization by drawing on past experience;
3) To rezone certain potential industrial sites for residential uses;
4) To further broaden the definition of industrial activities; and
5) To expand and reward green building practices to incentivize environmentally conscious conversion.
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Introduction

Land has always been a scarce and precious resource in Hong Kong. With the countryside occupying over 75% of the area, the question of how it can be best managed to sustain the city’s vibrant growth has been an enduring one that continues to exert great influence over the city’s development today. In this light, the policy to revitalize of old industrial buildings stands inseparable from the question about land supply at large; it is an innovative attempt aimed at improving the city's industrial land efficiency as manufacturing sector loses economic significance.

At the time of writing, the policy has been introduced for more than four years and is due to expire in less than two years. We are perhaps in no better position to examine the achievements and future direction of this policy. Through reviewing the history and implementation of this policy, this report aims to delineate the extent to which the policy succeeded in achieving its goals and to propose feasible recommendations that will hopefully better this policy.
Background

This section examines the context and conditions against which the policy was first formulated and put forth by retracing the long term economic development in Hong Kong as well as explicating the original text of the official Policy Address in 2009.

History of Hong Kong’s manufacturing sector

For a long period through mid-20th century Hong Kong’s manufacturing sector had played a crucial role in the city’s economy. Fueled by a large population boost coupled with low labor costs, Hong Kong’s industry boomed after World War II to bring about economic prosperity. Through the 1980s, the manufacturing sector made up about 20% of the gross domestic product (GDP) (see figure 1).

![Figure 1: Contribution of Manufacturing Sector as a Percentage of Hong Kong's GDP](image)

This golden age of “Made in Hong Kong” was not to last, though. When Deng Xiaoping, in 1978, announced the economic reform policy of China, Hong Kong’s industrialists took advantage of the relatively low labor costs in Mainland China and migrated northwards. Subsequently, Hong Kong’s manufacturing entered a period of decline (see figure 1). In 2012, manufacturing constituted merely 1.5% of the GDP. This decline in the manufacturing sector is also coupled with a drop in industrial space usage which set the stage for the revitalization policy.
The 2009–10 Policy Address

The policy to revitalize old industrial buildings was officially introduced in the 2009–10 Policy Address “Breaking New Ground Together” by the former Chief Executive Donald Tsang. Before we go into examining the actual content of the policy itself, however, it is important to first consider the policy address in a broader scope since the policy was proposed under a unique set of circumstances.

In 2009, Hong Kong was just recovering from the 2008 global financial crisis. In the first quarter of 2009, Hong Kong’s economy recorded a sharp year-on-year decline of 7.8%. The hard-hitting financial crisis was therefore clearly an important consideration in the Government’s mind as evidenced by the introduction of the Policy Address,

“Just before I delivered my Policy Address last year, the credit crisis in the United States had broken out and created the financial tsunami that swept the entire world. For the people of Hong Kong, this past year has been extraordinary.”

The remainder of the introduction centered around the urgent need to recover from the financial crisis and to stabilize the real estate property prices. Some important remarks that deserve special attention are the Government’s call to 1) stabilize financial market, 2) closely monitor the real estate market, and 3) uphold the principle of “Big Market Small Government” that the Government has abided by for a long time.

In the Policy Address, the revitalization policy came under the section where Tsang also introduced the six industries (see endnote 9 for a list of the six industries). Sub-titled “Optimizing Land Use”, he announced the policy as follows,

“No that the economy is restructuring, the Government has the responsibility to examine whether the existing use of resources can support the new economic structure, and to prevent the factors of production from being tied up by outdated policies and economic structure.”

He further went on to say,

“The community widely supports the development of the six industries, and has clearly reflected to the Government that land resources are crucial to their development.”

Here the principal motivation behind the revitalization policy is most explicitly presented. Specifically, two key priorities are highlighted, namely, the need to 1) update regulations to ensure efficient use of limited resources, and, 2) provide of space for the development of the six industries. Understanding these motivating factors, in addition to the historical contexts, is crucial to comprehensively making sense of the policy itself.

At this point, it is worth digressing momentarily to justify the implicit assumption inherent in this claim that without a policy intervention, market failure would ensue. Underutilization does not by itself necessitate market failure. Instead, the reason is that for the buildings to be converted for new uses, especially for the six industries that Tsang pushed for, developers (or building owners) would need to invest a large sum of money without certainty that the new building will be able to offset the initial costs. These costs include construction and material costs as well as administrative costs linked to
changing the land lease, which are compelling financial deterrents that lead to market failure. The government intervention as such can be understood as an attempt to help overcome these barriers.

To achieve the goal of releasing the potential of the old industrial buildings, in other words, the more efficient use of space, the Government proposed a package of four policy measures, which became the basis of the revitalization policy. These measures were to last for a three-year period initially. The measures include:

1. Lower the threshold for compulsory sale for redevelopment for industrial buildings in non-industrial areas to facilitate the consolidation of ownership by owners;
2. Enable owners to pay additional premiums according to the actual development density after redevelopment based on a “pay for what you build” approach;
3. Allow owners who modify the lease for redevelopment to opt to pay additional premiums by installments over a period of five years at a fixed interest rate if the premiums payable exceed HK$20 million; and
4. Exempt owners who opt for the wholesale conversion of a building instead of redevelopment from paying the waiver fee for change of land use, provided that the requirement on age of property is met and planning permission is obtained.\textsuperscript{11}

In sum, we can see that the rationale behind the revitalization policy is two-fold. Firstly, and more importantly, it aims to enable more efficient utilization of scarce land for economic development in Hong Kong post financial crisis. Secondly, where possible, the revitalized buildings were hoped to play a role in promoting the six industries to diversify Hong Kong’s economy. This second motivation, however, was not to last for a long time after the six industries fell out of favor.\textsuperscript{12} For this reason, as will be elaborated later in greater details, the prioritization of the six industries soon was dropped from explicit discourse altogether.
Implementation

This section outlines the implementation of the policy including the processes involved. The primary attention here is devoted to revitalization by wholesale conversion, which is by-far the more prominent revitalization option to date.

Policy Implementation and Refinements

As mentioned, the policy was first announced in 2009, and took effect on April 1, 2010. Under its framework, two types of revitalization approaches can be identified, namely, wholesale conversion and redevelopment. Whole conversion refers to the process of converting an entire industrial building for a different purpose without demolishing the existing structure, while redevelopment is the complete replacement of the original building with a new development project.

Outlining some key differences can serve to better differentiate each approach. The first and most important distinction between the two in terms of building structure centers on preservation versus demolition. While wholesale conversion confines the revitalization to the existing structure, redevelopment enables developers to make structural changes that could not have been possible via conversion. In terms of financial incentives, practicing wholesale conversion avoids the premium of changing land lease, which, in the case of redevelopment, may cost up to HK$400 million.

The application process can be a rather long and complicated one, involving up to three different governmental departments (Lands Department for land lease, Town Planning Board for zoning regulations, and Buildings Department for building codes). The process can be broken down to two processes, planning and building. In the planning portion, granted that the building is eligible for application (it needs to be at least 15 years old) and that the proposed new use matches the zoning, the owner(s) are then responsible for first contacting Lands Department to apply for a waiver. For most industrial buildings, they fall under Industrial (I) or Other Uses (Business) (OU(B)), which permits a wide range of industrial and commercial activities.

Once the waiver is granted by Lands Department, the owner will have to appoint an Authorized Person to carry out structural survey, which completes the planning portion of the application. To complete building work, the owner, again appoints an Authorized Person to ensure new construction complies with the Buildings Ordinance, and submit plans to the Buildings Department. Upon consent from the Buildings Department, construction work may begin. Finally, when construction work is completed, the Buildings Authority will acknowledge it and completes the entire conversion process.

After about half a year after the policy took effect, the Development Bureau undertook a mid-term review to further refine the policy measures, taking into considerations feedback from developers and other parties. The following refinements were subsequently produced:

1. Affirm that, for the purpose of applying for wholesale conversion under the revitalization measures, placing GFA-exempted utility installations (e.g. machine room for lifts) on the main roof not exceeding 50% of the roof area of the floor below would not be regarded as increase in building height, while installation of claddings or curtain walls on the external walls would not be regarded as increase in building bulk;
2. Allow minor changes to the existing building frame, including variations to the internal and external structures, on the conditions that demolition of external structures should involve no
more than 10% of the total GFA of the existing building and that there is no net increase in the GFA after conversion;

3. Encourage new applicants for wholesale conversion to obtain certification by the BEAM Plus Assessment, but they would not be required to obtain a mandatory rating; and

4. Extend the application period for the revitalization measures for three years, i.e. extending the deadline for submission of applications from 31 March 2013 to 31 March 2016.\(^{20}\)

The above refinements were introduced in acknowledge of the need for greater flexibility in the building requirements. To convert an industrial building into a commercial building, for example, requires new lift systems, new fire safety measures, and so on. These new additions, bound on one hand by the strict Buildings Ordinance and the confines of the existing structure on the other, are often difficult to implement and can result in decreased usable floor area. These refinements, in turn, can help alleviate these concerns.

When Donald Tsang completed his term as Chief Executive, his successor, C.Y. Leung, announced a further set of refinements in the 2013 Policy Address. Regarding wholesale conversion, the following measures were introduced:

1. Subject to the current limit on demolition of the external building structure of up to 10% of the total gross floor area (GFA) of the existing industrial building, allow recovery of the amount of GFA loss in such demolition by building outside the existing building frame and within lot boundary, on the conditions that there will be no increase in total GFA after conversion and the relevant building and planning requirements (e.g. site coverage and building height restriction) are complied with;

2. For the placing of GFA-exempted roof-top utility installations not exceeding 50% of the roof area of the floor below, allow the building height restriction under land lease be waived in the special waiver, if needed; and

3. For the installation of claddings or curtain walls protruding beyond the lot boundary upon Government land, the Director of Lands may at her sole discretion approve lease modification, where appropriate, with the payment of premium being waived.\(^{21}\)

Advantages of Revitalizing Old Industrial Buildings

While the government is explicit about the policy's economic benefits – greater effectiveness and efficiency in land use – there remains a number of non-economic advantages that deserve to be highlighted.

Connection to Established Infrastructure

Most of the industrial zones today are well-connected to the existing infrastructure. From Fo Tan, to Chai Wan, these industrial zones enjoy a sound transportation system, sewage, electricity and water supply, etc. These advantages place these industrial zones in strategic locations for easy redevelopment. In a time when new town developments are increasingly met with social opposition, the potential of these industrial zones becomes all the more appealing and attractive.

A particular district deserves to be highlighted in terms of its infrastructural connections, that is, Kowloon East (Kwun Tong and Kai Tak). As we will see in the following sections, this district has gained the attention of many developers as well as the Government, who aims to transform it into a new central business district. The Energizing Kowloon East plan, which will further enhance the existing infrastructure, in turn, is a strong reinforcement of this unique advantage enjoyed by industrial
buildings. The Energizing Kowloon East initiative, introduced in 2012 two years after the revitalization policy, envisions to transform the existing Kowloon East (Kwun Tong and Kai Tak) into an alternative central business district in Hong Kong. Some of the proposed infrastructure that the government intends to put in place include a monorail, a heritage park, and waterfront recreation area.

**Reduction of Solid Waste**
The problem of waste management has become a prominent concern within the city. Hong Kong’s landfill as predicted now is expected to reach its maximum capacity in a few years’ time. With the plan to expand landfill tied up in a political backlog, the most immediate solution is to reduce waste. In this light, the benefits of the conserving a building for new uses become even more pronounced as it is an effective way to reduce construction waste.

**Heritage and Cultural Conservation**
A third crucial advantage that the revitalization policy enjoys is its tight link to urban conservation. Social memory is vital to the psychological and social well-being of a city, and this is made all the more relevant in light of some of the most prominent demonstrations that have taken place over the last decade concerning heritage conservation. Hong Kong citizens are becoming increasingly aware of the need to conserve the city’s history. The revitalizing of old industrial buildings through conversion is thus a highly effective step to preserve the city’s sense of history. The unique industrial legacy of Hong Kong, as the Energizing Kowloon East master plan already made explicit, is of special cultural value. In the face of ever increasing globalization and urbanization, the preservation and creation of unique city culture has been identified as an important strategy to maintain international competitiveness and city identity.
Current Situation

This section reviews the progress of the policy based on statistics and public records published by the Lands Department. All statistics relating to the revitalization cases, unless otherwise noted, are obtained from the Lands Department website.²⁸

Industrial Land Usage

In order to evaluate the revitalization policy, it is important that its subject – the industrial buildings – are first understood and studied. Two considerations are of special interests, namely, 1) the extent of use/vacancy in these buildings and 2) what they are used for today. In terms of vacancy rate, according to the Planning Department, as of 2009, there is about 23 million m² GFA with a vacancy rate of 8.0% in flatted factories.²⁹ However, more recently, it was cited that industrial vacancy has dropped to a low of only one percent, causing industrial tenants to face increasing difficulty in finding suitable location.³⁰ The sudden and significant increase in its prices may also point to the possibility of space shortage.

That said, while these changes in the market correspond chronologically to the revitalization policy, whether or not these challenges directly resulted from the policy is not clear. Certainly, there can be a case made for it: as industrial buildings are being sought after by large private developers prices and demand are both driven up. However, it may also be true that there are simply more and more tenants interested in renting or buying industrial flats for commercial uses and other purposes. If the latter is indeed the case, which is plausible given the evidence in the preceding paragraph, the government may be in a good position to consider whether regulation over how these lands are used needs to be more strictly enforced or more alternative and affordable spaces need to be offered.

With regards to uses, industrial tenants are clearly no longer the predominant occupants in industrial buildings today (as argued in the Background section). Instead, many other tenants, taking advantage of the comparatively low rent in industrial buildings, have moved into these buildings.³¹ According to one report, it was found that warehouse, office, and ancillary office are the top three most common uses in industrial buildings today.³² Manufacturing and workshops came fourth and fifth with 13% and 6% only, respectively. As we will see later, this existing distribution is matched by the uses that the buildings are converted to, which doubly confirms the purpose and effectiveness of the policy.

Nonetheless, commercial tenants are by no means the only group that has taken advantage of underused industrial buildings. Artists and creative workers mark another prominent presence in certain industrial zones, such as Chai Wai and Fo Tan.³³ Additionally, industrial lofts for residential uses are also gaining increasing popularity among certain groups in the city.³⁴ These uses reflect the diversity of activities taking place in industrial buildings today as well as the potential breaching of zoning regulation that are occurring.
I. Distribution of Applications by Status

As of the end of June 2014, the Government has received a total of 126 applications for revitalization. There are 109 applications for wholesale conversion, of which 81 cases have been approved; 17 applications are for redevelopment, of which 15 have been approved. The proportion of applications for conversion versus redevelopment is approximately 0.87 to 0.13. Overall, the rate of application approval is about 76%. Of the approved applications, 55 conversion project (50%) and 7 redevelopment (41%) have been executed. The rate of withdrawal is about 27%.

II. Executed Conversions from 2010 – 14

In terms of the number of executed wholesale conversion cases per year, it has experienced a steady increase over the past four years. In the first 12-month period, only 6 projects were executed. However, the policy quickly attracted greater popularity in the following years; over the next three years, we see the number increasing to 12 in 2011, 17 in 2012, and 21 in 2013.
Such a trend is important to note for various reasons. On one hand, it evinces the increasing acceptance of the policy and proves its effectiveness to appeal to the private sector. On the other, it provides a basis for us to think about the future direction this policy should take, shedding light on questions such as extending the policy beyond 2016. The need to think ahead of the deadline becomes even urgent in the following sections, especially in the context of the Energizing Kowloon East initiative.

III. Executed Conversions by Use
It is crucial to look beyond the simple numbers and investigate the uses to which revitalized buildings have been put to. Among the 55 executed wholesale conversions, there is a rather homogenous distribution of the uses that they have been converted for, that is, for the service economy. Office is the most common use for revitalized industrial buildings, followed by multi-purpose uses and retail and services. Uses such as education and information technology (two of the six industries proposed by Tsang, see Background section) both have a frequency value of one only.
IV. Executed Conversions By Area

Figure 4: Number of Executed Conversions by Use (2010–2014)

Figure 5: Number of Executed Conversions by Area (2010–2014)
While there are many industrial districts in Hong Kong, the extent to which each has been revitalized varies significantly in reality. Of all regions, Kwun Tong has received disproportionately more projects with a total of 29 conversions. This amounts to more than half of all projects executed, which is in no small part an indication that there is a strong interest in the private sector to redevelop Kwun Tong at large. In a phone interview with the Energizing Kowloon East Office, this trend, in conjunction to the Kai Tak redevelopment project, is cited as the main driving force for the Energizing Kowloon East initiative in the first place. Following Kwun Tong, Kwai Chung comes second with a substantial total of 8 projects, many of which are hotel projects. A prominent local developer, Sun Hung Kai Properties, recently undertook a high-profile project to development a mall for local stores and small-to-medium sized tenants.

V. Spatial Distribution of Projects in Kwun Tong

As noted in the preceding analysis, Kwun Tong has undergone significant revitalization. Since the idea of revitalization is tied inseparable from broader concerns with space, the distribution of all Kwun Tong-based projects are also spatially illustrated as follows:

Here we see that all projects are exclusively conducted in the area between Kwun Tong Road and the Kwun Tong Bypass. This area falls precisely within the Energizing Kowloon East conceptual master plan, which affirms the claimed correlation between the two Government policies.
Review and Evaluation

This section reviews and evaluates the extent to which this policy has succeeded in achieving its stated goals by discussing both the positive achievements of the revitalization policy as well as the challenges faced so as to establish a basis of policy recommendations.

To determine whether a policy is successful can be a complicated matter. To simply write-off a policy because of its shortcomings and label it as a failure would be defeatist; yet, simply because there has been more developers participating in the policy does not mean that it can be sufficiently categorized as a successful policy. The determination of success is a process that always carries with it, explicitly or implicitly, substantial normative content. For the purpose for this report, two principles are primed as the criteria for evaluation:

1. The ability to promote economic and social development in Hong Kong, and
2. The extent to which private sectors participated in the policy

Observed Achievement

Within this framework there are three observations to be made. Firstly, we can see that an increasing number of revitalization projects have taken place since 2010, and the number has increased at an increasing rate. This trend suggests that the policy has been effectively designed to address the problem of underutilization. With over a 1,000 industrial buildings eligible for revitalization, it is reasonable to believe that many more buildings and owners may still benefit from the policy up to 2016 (and beyond).39 (This, however, should not be mistaken as a suggestion that all eligible buildings should or need to be revitalized; it simply emphasizes the point that there may probably be buildings that will continue to benefit from this policy even after the current 2016 deadline.)

Secondly, by surveying the distribution of uses the revitalized buildings have been put to, the link of this policy to meeting Hong Kong's development needs becomes more obvious to us. Most of the buildings have been revitalized into spaces for offices, retail, and hotels, all of which are uses vital to Hong Kong's service-based economy. These sectors are crucial contributors to Hong Kong's economic growth, comprising up to 93% of Hong Kong's GDP in 2012.40 As such, the ability of this policy to optimize the scarce resource that is our land for activities that most benefit Hong Kong's economy deserves to be recognized.

The third trend that deserves our attention is its close connection to the Energizing Kowloon East initiative. To a certain extent, it can even be said that the Energizing Kowloon East initiative made possible only after the revitalization policy was in place.41 Without the initial interest in Kwun Tong which generated wider development in the area, it seems unimaginable that Kwun Tong would have been targeted as a redevelopment area. Successes in revitalization, therefore, paved way for the initiative and, in turn, benefits from it as more attention is devoted to the Kwun Tong area after the initiative has been launched.

These achievements collectively point to the success of putting into place a mechanism that effectively incentivizes the private sector to help the government achieve developmental goals.42 Nonetheless, a successful mechanism does not entail the absence of potential shortcomings and challenges. While we should commend the government for devising a feasible and working policy, we must also critically evaluate it to enhance the policy.
Challenges

I. Multiple Ownership
The multiple ownership problem remains the most decisive factor in successfully revitalizing an industrial buildings. Currently, for a developer to be eligible to revitalize an industrial building, it must gain full ownership of the building. This is usually made possible by compulsory sales when the developer has acquired 90% of the ownership. In order to facilitate revitalization when policy was introduced, the government lowered the threshold from 90% to 80%. However, to acquire 80% ownership remains difficult at many instances.

That said, this situation does not necessarily demand a solution (especially not through lowering the compulsory sales threshold). Politically, such an action from the government may signal favoritism towards to the developers and violates the principle of property rights that the city is founded upon. Economically, it adds pressure into the market as developers feel that they are in a better position to acquire industrial buildings more aggressively. In either scenario, this issue may cause more troubles that the benefit gained by lowering the threshold.

II. Illegal Users
Another difficulty in revitalization is the challenge of what to do with existing illegal users. Many buildings have a surprisingly high occupation rate, which given the trend of decreasing industrial activities, seems paradoxical. This, however, can be explained by an obvious reason, that many users in industrial buildings are illegally using the space by breaching zoning and lease regulations. Some examples include residential units, and artists' studios or music recording room.

These illegal users pose two challenges to successful revitalizations. For residential users, their relocation is a tricky issue to resolve. It has been reported that unit owners today subdivide their spaces and rent them out to low-income residents who are unable to find affordable housing. To enforce eviction upon these residents, in turn, becomes highly contestable as their forced eviction may result in homelessness. Yet it is equally difficult, should they be evicted, to address the problem of how and where they should be housed.

On the other hand, for the artist community, while the problem becomes less politically sensitive, it nonetheless raises a paradox for the policy itself. Given that the original intention was to foster the six industries in Hong Kong, the evacuation of these artists from their studios in turn seems to contradict its purpose. That said, since this is no longer the stated goal of the policy, this paradox has been resolved to a certain extent. However, the question of where the city’s creative industry, and in fact, its less economically competitive industries, should be housed remains unanswered.

III. Rising Prices
Over the past decade of so, the prices of industrial space has risen significantly. While the policy itself is by no means the only cause of surging industrial land prices, we can see a positive correlation between the introduction of the policy and the rise in industrial rent. As developers become more aware of the redevelopment potential, and the profits that follow, they are likely to take a more proactive approach to buying up industrial spaces, which drives the costs up. The possibility of speculation is also not to be overlooked as property markets in Hong Kong are prone to speculation. This is a problem for two reasons. Firstly, it crowds out many industrial tenants who are looking for office spaces for immediate use. Secondly, it introduces uncertainty in a developer’s decision to begin a revitalization project as the fluctuation in industrial land prices may lead to inaccurate cost estimation. Both of these factors may hinder revitalization.
IV. Limitations posed by the Buildings Ordinance

The prescriptive nature of the Buildings Ordinance has been cited an one critical difficulty to overcome in revitalizing an old industrial building. Its long list of requirements makes conversion of the industrial buildings unnecessarily complicated, and incurs substantial amount of additional work and costs on the developers’ side. These are some of the technical obstacles posed by the Buildings Ordinance.

One such instance was brought up during one interview conducted by the author. Roger Nissim, a surveyor and consultant by profession, cites his personal experience working on a revitalization project with a developer where the architects and the developers devised a plan to create an atrium in the middle of an industrial building to increase natural lighting. The removed floor area was to be compensated by addition construction on the top of the building to neutralize the change in floor area. However, this innovative proposal was eventually turned out due to non-compliance with the Buildings Ordinance.
Policy Recommendations

This section proposed a number of policy recommendations based on the findings and arguments presented in thus far. Urban management demands constant consideration. While we acknowledge that Hong Kong government remains committed to the principle of “big market small government”, we must not overplay the influence of this rule. Hong Kong’s economy has been criticized for its over-reliance on the service sector, which, as some has argued, may prove harmful to the city’s economic stability in the long run. Thus, the question of how underutilized industrial space should be re-appropriated for today’s social and economic needs should always be asked and reviewed.

I. Extending Policy Timeline and Regular Reviews

In the beginning of this paper, it was already highlighted how this policy was conceived as part of an integrated process to increase land supply in the city to foster economic development. Economic development is no short-term goal, and it cannot be achieved without a long-term vision. Today, the policy is due to expire in less than 2 years, yet the future of the policy, whether it will be extended, revised, or dropped, remains unclear. If the Government is genuinely committed in achieving the goals of the policy, it must first begin with a clear plan.

Such a plan is crucial for many reasons. The land market in Hong Kong is a sensitive one that in recent history has caused drastic fluctuations in the economy. A critical intersection of Hong Kong’s economy, the real estate market requires extensive monitoring from both private and public sectors. Granted the extent of its success over the past four years, it seems that, looking forward, the policy still has much potential in facilitating Hong Kong’s economic growth. This is especially relevant to the Government’s vision to transform Kowloon East into a new central business district. While the Kai Tak redevelopment project itself supplies ample amount of land for future development, the existing Kwun Tong district...
seems to have already reached its development capacity. For this reason, the policy’s presence in the years to come may prove vital to the Kowloon East initiative.

More concretely speaking, 2020, can serve as a realistic target. The Kowloon East project is estimated to be completed around 2022. Given that construction projects are currently given 3 years to be completed after a successful application, 2020 would serve as a reasonable target, enabling both industrial buildings and the public infrastructure to be finished at roughly the same time. Along the timeline, to ensure that the policy is able to respond to the market forces more accurately, regular reviews would be imperative as well. Some issues particularly worth our attention include the policy’s impact on industrial land prices and the possibility of further relaxing certain building regulations to allow greater flexibility in building adaptation and design.

II. Reconsidering Purpose-driven Revitalization

Another question that ought to be brought back to light was the initial intention to utilize these industrial buildings as a means to diversify Hong Kong’s economy after the 2008 financial crisis. Originally, the policy was conceived as a means to fostering Hong Kong’s six industries; yet, soon enough, it became autonomously administrated and detached from the broader discourse of economic diversification, a development accompanied with the gradual lose of interest in the six industries for various reasons ranging from the inherent limitations of the six industries to a lack of leadership.

On a broader scale, in the past, the Government has made repeated institutional attempts at economic diversification. Some notable examples in addition to the six industries have included Cyberport, Science Park, and the Chinese Medicine Hub. However, these attempts, too, have been regarded as unsuccessful. Given such a history of governmental intervention, it is perhaps altogether fitting and appropriate that questions about the viability of economic diversification through planned initiatives are raised.

Here, the example of Jockey Club Creative and Arts Centre may be a valuable one to learn from. The vacant Shek Kip Mei flatted factory was successfully converted, with joint effort from the Jockey Club, and Baptist University, into a creative space that has attracted both artists and visitors alike. The uniqueness of this project, compared to previous attempts, lies in its extensive collaboration with these other non-governmental partners. Though the success of JCCAC are by no means be directly and solely attributed to this alone, it is nonetheless an interesting case of reference that seems to have inspired later revitalization projects such as the PMQ, and the Arts Development Council collaboration with private developer Hip Sing Hong. Drawing on these lessons, the Government can potentially play a different and more effective role in promoting development in specific fields through revitalization.

III. Rezoning

One of the crucial factor that motivated the revitalization policy in the first place was to free up under-utilized and inefficiently-used land in Hong Kong to accommodate the city’s changing economy. In other words, it is about a creative, responsive and flexible use of the precious land that we have. To achieve this goal, we must constantly engage in critical consideration of our present needs. In today’s case, there seems to be no more pressing issue that the need for increasing supply of residential flats, which, in turns, raises the question of whether these industrial buildings should be converted for such use.
Not an unprecedented proposal, this suggestion has encountered considerable opposition in the past. Reasons ranging from zoning restrictions, strict Buildings Ordinance stipulations, and incompatible neighboring uses in industrial zones have been raised to counter such a proposal. Indeed all these arguments would be valid if we are to treat all industrial land homogeneously. But this is clearly not the reality. The reality remains that Hong Kong's industrial zones neighbor residential areas, and with imagination, it is not inconceivable that such a proposal can materialize. To discredit such a proposal without thorough consideration is to deny the full potential of the city's land.

One possible way to redevelop industrial buildings for residential use is to identify particular sites where residences can be integrated. This is based on the premise that not all industrial zones are the same, and that some are more suitable than others to be designated for residential use. For example, at the periphery of Chai Wan's industrial zone, already we can find a large-scale residential estate complex. This suggests that industrial buildings that border the periphery has a high potential to be re-zoned for residential use. By treating industrial land as highly differentiated land with unique characteristics, it is possible to tailor the zoning plan for these industrial zones such that they can be more effectively utilized though redevelopment.

![Figure 8: Potential Areas to be Rezoned for Residential Use in Chai Wan (June 2014, 1: 10,000)](image)

The act of rezoning alone, however, does not guarantee to address the problem of housing supply shortage. Currently, there is a high-demand for public housing, with a large proportion of such demands from the younger generations who are yet to be able to afford living in private housing. If the rezoning measure should address this situation, the government should also be selective in allowing what type of housing to be built. In order to meet the current housing need, low-cost affordable homes ought to be prioritized.

IV. Re-defining Industrial Activities

In addressing the issue of incompatible uses that can be found in industrial buildings today, one possible solution, besides re-zoning, is to expand the definition of industrial activities. As mentioned in
the preceding section, one common issue with existing industrial buildings is that many users are breaching the lease or zoning regulation by appropriating the space for other purposes such as artist studio, video production rooms, etc.

As Hong Kong’s industrial sector evolves, it is perhaps an opportune time now to reconsider what ought to be included as “industrial”. Indeed, the Town Planning Board itself has also revised its definitions various times over the past years. Today, the definition of "Industrial Use" as promulgated by the Town Planning Board is as follows:

“The use of any place, premises or structure for the manufacture, alteration, cleansing, repairing, ornamenting, finishing, adaptation for sale, breaking up, or demolishing or transformation of goods and materials; for the storage, loading, unloading or handling of goods and cargo; or for the training, research, design and development, quality control and packaging in relation to the above processes.”

In the Legislative Council brief from 12 October, 2011, it was already proposed that by broadening the definition of industrial activities, cultural and creative industrial uses of the land can be included into the definition so that purposes such as art galleries, studio workshops, and independent exhibitions would become compatible. However, the proposal was countered by safety concerns. These concerns, however, are not incompatible with the proposal to expand the definition of industrial use, and may be resolved through managerial means such as better crowd control.

To be sure, the existing definition is already quite open-minded in its approach and captures many of the additional activities that wish to be permitted within industrial zones. However, it still leaves out a range of activities that do not necessarily handle tangible goods or materials, such as music recording, video production, etc; broadening the definition to be inclusive of production that is intangible can be one effective approach to legitimize these activities currently found in industrial buildings.

V. Expanding Incentives to Build Sustainably

To recycle a building for new purposes is in itself a highly sustainable practice that, in light of growing concerns for the environment, ought to be fully recognized and rewarded. Yet, while the Government currently encourages developers to undertake the BEAM Plus assessment and certify their projects, the considerations of calculable costs and benefits remains paramount to the interests of a developer. While the tangible benefits of green building environments have been highlighted, developers usually remain deterred by the additional costs and planning work involved.

One possible option is to reduce property tax for environmentally revitalized buildings on an annual basis. This can incentivize and reward both the developers and users over a longer-term and ensure that the Government’s income is not greatly affected in the immediate term. Alternatively, instead of financial rewards, the Government may consider relaxing certain requirements in Buildings Ordinance and other regulations for buildings that have met the BEAM Plus assessment. In the process of revitalizing a building, substantial costs are often incurred simply to comply with the Buildings Ordinance. By relaxing certain regulations where safety will not be compromised, developers may find sustainable construction to their greater benefits.
Looking Forward

Having laid out a number of policy recommendations regarding the revitalization policy, this section reviews the policy in its broader context to extrapolate two concluding remarks concerning Hong Kong’s buildings regulation and the future of its industrial development. These remarks are drawn from a number of observations during the research process and aim to spark conversations about the long term direction Hong Kong should take with regards to its building codes and the possibility of a more diverse economy.

It ought to be made explicit that these remarks are not intended as concrete policy goals for immediate implementation. Rather, these notes touch upon issues that extend far beyond the intended scope of this paper. Yet, these issues nonetheless emerged during the research process conducted for this paper, and the author thought it imperative to bring them into discussion. These issues, closely though not directly linked to the revitalization of industrial buildings, are founded upon the same consideration that prompted the policy – that is, how Hong Kong’s changing development needs are to be considered and met.

From Industrial Buildings to the Buildings Ordinance

One intriguing discovery made during the research process concerns Hong Kong’s Building Ordinance. In an interview, it was cited that Hong Kong’s Buildings Ordinance has remained unchanged since 1960s. Prescriptive with a long list of stipulations, it was described as “nightmarish.” With regards to retrofitting industrial buildings, the stringent requirements were found to become a major obstacle in failing to adapt to new uses. Such a limiting Ordinance, on the urban scale, has been criticized for contributing to an increasingly homogenous cityscape with little room for creativity.

While the Ordinance has proven to function feasibly as the city continues to develop, its usability does not necessitate optimal effectiveness. For Hong Kong to continue to be the world city that it wishes to be, its building regulations should be flexibly managed to allow organic growth. Just as a jungle has a great diversity of trees so a city should be diverse in its built environment. From Amsterdam to New York, cities are constantly evolving to adapt to new contexts. For Hong Kong not to be left behind in this era of cities, the regulations of buildings demand our reconsideration. In lieu of a prescription-based mode of system, a performance-oriented code might prove more effective and flexible to adapt to the changing needs of our society.

From Industrial Buildings to the Future Role of Industrial Manufacturing

During the research process, it also became obvious to the author that the question at hand is not simply a question about buildings alone. At the root of the policy’s origin was an awareness of the preciousness and scarcity of developable land in Hong Kong. For this reason, at the most fundamental level, the question about industrial buildings ought to converge with that about Hong Kong’s land supply, and how this crucial factor of production will influence the future economic development of Hong Kong. With regards to the industrial buildings, we witnessed its rise to prominence during mid-20th century, and its decline with the northward migration of local industrialists to Mainland China. As wages and rents in the Mainland continue to rise, Hong Kong arrives once again at a new junction where fundamental questions about the role of the industrial sector must be raised – for instance, whether manufacturers ought to be attracted back to the city, perhaps to set up high-end manufacturing, or if Hong Kong’s economic makeup is in need of diversification. The allocation of land is a direct influence in this regard; relevant land and industrial policies in the future will without a doubt influence Hong Kong’s economic outlook. The question is, for the better or worse?
Endnotes


3 Ibid.

4 Ibid.


7 Ibid.

8 Ibid.

9 These six industries include medical services, environmental industries, testing and certification services, education services, innovation and technology, and cultural and creative industries. The six industries were recommended by the Task Force on Economic Challenges. See http://www.policyaddress.gov.hk/10-11/eng/pdf/six_industries.pdf for more information.

10 See endnote 2.

11 Ibid.


16 The focus here is devoted to wholesale conversion because, as statistics cited in the following section reveal, it is by far more common than redevelopment. The number of redevelopment projects is comparatively unsubstantial and thus omitted.


Ibid.


See endnote 22.


The Lands Department releases all wholesale conversion cases online and can be accessed via http://www.devb.gov.hk/industrialbuildings/eng/implementation_progress/index.html. All statistics used for analysis in this report were retrieved on 16 June 2014; new cases released since are not included in the following analysis.

See endnote 2.


See endnote 17.


In Fotan, an arts fair known as Fotanian Open Studios is organized annually where the public are invited to participate in creative workshops. The event’s official website can be found at http://www.fotanian.org/. A similar event in Chai Wai has also been reported by mainstream media. See http://www.scmp.com/magazines/48hrs/article/1505832/tour-beauty-galleries-and-installations-auctions for the news article.

35 See endnote 13.

36 Because the policy took effect on 1 April, 2010, each year is measured as a 12-month period from 1 April to 31 March of the following year for fair comparison. The applications from 1 April, 2014 onwards are not included in this graph.


40 See endnote 5.

41 See endnote 37.

42 In-person interview with Mr. Roger Nissim on 15 July 2014. Nissim has previously worked with private developers on revitalization projects as well as other real estate projects and is now an adjunct professor of real estate at the University of Hong Kong.


44 Ibid. See endnote 39.

45 See endnote 39.

46 See endnote 33 and 34.


50 See endnote 30.

51 See endnote 42.

52 Ibid.

54 See endnote 37.

55 Copyright to Energizing Kowloon East Office. Image taken from the Office’s “Conceptual Master Plan 3.0”.

56 See endnote 37.

57 See endnote 12.


59 In-person interview with Mr. Evan Fowler on 11 July 2014. Fowler has been an owner and user of an industrial unit in Fo Tan since 2006.


64 See endnote 61.


66 See endnote 42.

67 Ibid.

68 Ibid.