

LCQ14: Development of data centres

Following is a question by the Hon Frankie Yick and a reply by the Acting Secretary for Innovation and Technology, Dr David Chung, in the Legislative Council today (April 21):

Question:

In 2012, the Hong Kong Science and Technology Parks Corporation (HKSTPC), which is wholly owned by the Government, introduced concessionary measures to facilitate the development of data centres. Such measures include the granting of dedicated sites in the Industrial Estates (IEs) under the HKSTPC at premiums below the market value for setting up data centres. Some members of the industry have pointed out that as the development of data centre services has become increasingly matured in recent years, this concessionary measure should be cancelled. In this connection, will the Government inform this Council:

(1) whether it knows the number of data centres in Hong Kong and the annual growth rate of such number, in each of the past five years; of (i) the number of sites granted by the Lands Department (LandsD) for constructing data centres and the average land premiums per square foot, as well as (ii) the number of temporary waivers granted by the LandsD for converting industrial buildings into data centres and the total amount of waiver fees exempted, in the past five years;

(2) whether it has assessed if the concessionary measure of granting dedicated sites in IEs has resulted in an unfair competition in the data centre industry; if it has assessed, of the details and whether it can provide this Council with the assessment report; how the Government ensures the healthy and sustainable development of the industry;

(3) of the considerations and criteria based on which the HKSTPC vets and approves applications for dedicated sites for data centres, and whether details of each approved application will be made public in order to enhance transparency; if so, of the details; if not, the reasons for that;

(4) as the current IE policy has stipulated that most enterprises set up in IEs are only allowed to lease the specialised multi-storey industrial buildings built by the HKSTPC and only under exceptional circumstances will sites be granted to single users to build their own factories, what the relevant exceptional circumstances are;

(5) as it has been reported that some grantees, instead of using the dedicated sites for operating their own data centres, have leased the premises concerned to various data centre operators to earn rents at the market value, whether the HKSTPC has devised new measures to eradicate such an act of profiteering by misusing public resources; and

(6) given that early last year, the Government commenced a review on data

centre development in Hong Kong and the relevant concessionary measures, of the progress and preliminary conclusion of the review; when the review outcome will be published?

Reply:

President,

In consultation with the Lands Department (LandsD), our reply to the various parts of the question is as follows:

(1) The setting up or operation of data centre in Hong Kong does not require application to or registration with the Government. We do not have the actual number of data centres in Hong Kong. According to relevant market research, the gross floor area of data centres in Hong Kong has increased from about 465 000 square metres in 2015 to about 743 000 square metres in 2019, representing an average annual growth rate of around 10 per cent.

Over the past five years, the Government has approved a site in Tseung Kwan O designated for high-tier data centre use for \$5.456 billion through open tender. The tender result has been published on the LandsD's website.

With regard to the conversion of existing industrial buildings for data centre use, according to prevailing concessionary measures, the Government will waive the standard waiver fees currently chargeable to applications for conversion of existing industrial buildings to information technology and telecommunications industries use (which include data centres). Over the past five years, the LandsD has issued a total of 22 waivers under this category.

Under general circumstances, the amount of waiver fee payable for the approved applications will depend on the floor area, location, and the proposed use of the premises in question. As the waiver fees for the above uses were already exempted by the Government in accordance with the said initiatives, the Government has not assessed the waiver fees for the above applications.

(2) to (5) The Hong Kong Science and Technology Parks Corporation (HKSTPC) manages and operates the three Industrial Estates (IEs) in Tai Po, Yuen Long and Tseung Kwan O. The pre-2015 arrangement was to grant IE sites to those interested and eligible enterprises to build their industrial production facilities. The relevant arrangement was applicable to all industries, including the site granted by the HKSTPC in 2012 for the development of a data centre. The HKSTPC does not have preferential measures specifically for data centres.

In 2015, the HKSTPC revised its IE policy under which the HKSTPC would, in general, provide specialised multi-storey and highly-efficient industrial buildings for leasing to multiple users, with a view to encouraging manufacturers to set up their production bases in Hong Kong and attracting high value-added technology industries and manufacturing processes suitable for Hong Kong. However, the HKSTPC will still consider granting sites to single users under exceptional circumstances such as the industry's need for

purpose-built factory, the industry's significant contribution to Hong Kong's economic development, etc. However, open tendering would be adopted for invitation of tenders in general.

All along, grantees for admission to the IEs have been selected by the HKSTPC under a rigorous and objective assessment mechanism. Enterprises (including data centres) admitted to the IEs are required to go through HKSTPC's assessment. The prevailing assessment criteria cover the societal and economic benefits brought to Hong Kong by the proposed projects, investment in factory, whether it can create quality jobs, level of product technology, whether or not advanced processes have been introduced, research and development element, sustainability, etc. All applicants are required to submit the relevant investment details, business models and estimated schedule of development to facilitate the assessment of their applications. The above assessment criteria are applicable to different industries including data centres. As the assessment involves commercially sensitive information, the HKSTPC would not announce details of each of the approved applications.

Upon the grant of sites, all grantees in the IEs are required to sign with the HKSTPC a lease agreement that stipulates the rights and responsibilities of both parties including, for instance, only operations approved by the HKSTPC can be carried out at the premises, the required investment in the facilities or machinery of the factories, alienation restriction, prohibition against subletting, terms of surrender and the HKSTPC's rights of factory inspection.

In view of the unique operation model of data centres, the HKSTPC has requested those grantees to provide a proforma service agreement specifying the service level and scope that they provide for their clients, access arrangements to the data centres for security and clients, etc. The proforma service agreement is subject to the approval of the HKSTPC to ensure that no subletting of the premises to data centre clients is involved. The HKSTPC has all along undertaken vigorous lease enforcement actions and conducts regular site inspections of the premises. If a grantee is found to be in breach of the terms and conditions of the lease agreement, the HKSTPC will take appropriate actions.

In sum, the HKSTPC will review its IE development strategy from time to time in the light of technological advancement and market conditions.

(6) Data centre is an essential information and communications technology (ICT) infrastructure that supports the continuous growth of Hong Kong's digital economy. The Government has been committed to promoting data centre development in Hong Kong by implementing various facilitation measures, including the provision of land, encouraging conversion of industrial buildings and use of industry lots, as well as providing one-stop support services. In early 2020, the Government engaged a consultant to conduct a review on data centre development in Hong Kong, including the concessionary measures implemented by the Government and feedback from the industry. The initial findings of the review were submitted to the Legislative Council Panel on Information Technology and Broadcasting in May 2020, and the review

was completed in early 2021. The findings of the review show that the demand for data centre facilities and services in Hong Kong will continue to be driven by global and local technology advancement. The market demand for data centres in Hong Kong is very positive. A considerable number of local and non-local ICT enterprises, including international technology giants, Internet, cloud service and data centre providers will continue to expand their presence in Hong Kong. Industry players generally consider that the concessionary measures are effective in facilitating data centre development, particularly high-tier data centres. They also support the continuous implementation of the concessionary measures by the Government to facilitate data centre development.

The summary of the review report will be uploaded onto the thematic portal (www.datacentre.gov.hk) after consolidation for reference by the industry and the public.