

LCQ2: Operating environment of tenants of commercial premises in public housing estates

Following is a question by the Hon Lau Kwok-fan and a reply by the Acting Secretary for Housing, Mr Victor Tai, in the Legislative Council today (May 29):

Question:

There are views that with Hong Kong's overall competitiveness impacted by high rents, coupled with the recovery of the economy falling short of expectation, closures of shops and surrenders of shop tenancies are appearing in various districts, and shop tenants in New Territories North are the first to bear the brunt under the trend of going north for spending. In this connection, will the Government inform this Council:

(1) of the letting rates of various shopping centres in housing estates under the Government in the past five years, and the proportion of tenants who had their rent reduced upon tenancy renewal after rent assessment; whether the Government will examine the operation and vacancy situations of its facilities such as shopping centres and markets in housing estates, and study launching relief measures including rent waiver for tenants, so as to enable tenants to have the ability to continue their operations and to avoid a wave of tenancy surrenders and shop closures;

(2) as there are views that the design and supporting facilities of shopping centres in new housing estates under the Government are unfavourable to the operation of shop tenants, e.g. insufficient parking spaces and a lack of mobile phone reception, whether the Government will introduce corresponding improvement measures, such as the provision of additional directional signs and improving the telecommunications network, and step up publicity and promotion for shop tenants with a view to attracting patronage; if so, of the details; if not, the reasons for that; and

(3) given that the Housing Department currently only assesses the renewal rent for its shop premises upon expiry of the existing tenancy, whether the authorities will change the current practice, including introducing a mid-term review and a mechanism for tenants to make representations in order to handle special circumstances, thereby conducting rent assessment in a timely manner and ensuring the competitiveness of the rents; if so, of the details; if not, the reasons for that?

Reply:

President,

The reply to the question raised by the Hon Lau Kwok-fan is as follows:

(1) The commercial facilities of the Hong Kong Housing Authority (HA) mainly provide daily necessities and services to local residents. The business of tenants in some housing estates/shopping centres may be affected by seasonal fluctuations and changes in residents' consumption patterns (e.g. going north for spending and online shopping), which have posed challenges to the business operations of tenants, even bring out a wrong impression that the number of vacant shops is increasing rapidly. By end of April 2024, the overall vacancy rate for the HA's retail facilities was 3.92 per cent. Although the vacancy rate is at a relatively high level in recent years, by comparing with the vacancy rate of about 6.6 per cent in the private sector, the leasing situation of the HA's retail facilities is still satisfactory, enabling the provision of diversified shopping choices and services to residents. The letting rates of the shopping centres in the housing estates under HA in the past five years are set out in Annex.

Nowadays, online shopping and web-based food delivery service have become popular since the epidemic and going north for spending has also become trendy among Hong Kong people. To cope with the changes in the consumption patterns of the general public, the HA will adopt flexible leasing strategies and proactively liaise with potential and "residents' need focused" tenants for the leasing of vacant shop premises. The HA will also review the trade mix of our shopping centres and conduct feasibility studies on the conversion of vacant premises for the operation of other suitable trades. For markets with a relatively high vacancy rate, the HA will consider re-configuring the stalls, changing the use of stalls or downsizing the scale, so as to improve the letting rate and provide residents with appropriate and diversified choices of goods and services. Moreover, with the changes in the consumption patterns of the general public, the business mode of some shops like supermarkets and restaurants has also changed, leading to a reduction in the shop areas required. In case shops such as supermarkets want to align with market trend and reduce the leased area to lower the rental pressure, the HA will actively consider their requests so that they may continue their operation and serve the residents. In arranging leasing of vacant shop premises, the HA will allow suitable premises to be let as short-term sales venue, pop-up stores and promotion venues. This will not only generate rental income for premises under lease but will also provide diversified choices of goods to residents and boost patronage.

Under the current economic environment, while the HA understand the difficulties faced by tenants, the HA also need to consider fairness of the tender system. In general, commercial premises under the HA are rented out through Open Rental Tender, bidders would offer their bids based on their business strategy. It would be unfair to other bidders if the successful bidder requests rent concession due to unexpected business situation after tenancy commencement, or even seeking rent concession after successful bidding at high rent. Otherwise, the effectiveness and fairness of the tender system will be undermined. Therefore, the HA remain cautious in handling the request for rent concession from commercial tenants. The HA will keep a close eye on the economic situation and the relevant measures of the Government,

and will provide appropriate assistance to tenants when necessary. However, rent reduction is not the solution to tide over the challenge of the overall environment and changes in consumer habits on local retail shops. Shop tenants have to be proactive and versatile in order to become more competitive. They may, for instance, introduce new products and raise service standards to attract customers and boost revenue. For shops in housing estates, they should leverage on the advantage of a relatively solid customer base and attract customers by staying alert to their needs.

(2) The HA will review its retail facilities from time to time and will enhance existing retail facilities, including refining the trade mix and shop layout of shopping centres, increasing the number of parking spaces where practicable, providing additional signage and improving shopping facilities, with a view to optimising the business potential and shopping environment of retail facilities. To attract patronage, the HA will also set up suitable promotional spots in locations such as the prominent places at entrances and the shop fronts of shopping centres and assist shop tenants in distributing or placing promotional materials to enhance publicity and disseminate promotional information. On publicity and promotion, promotional activities will be arranged during major festivals and special occasions such as summer holidays, Mid-Autumn Festival, Christmas and Lunar New Year. For example, "Dream On Stage" competition for young people was held in estate shopping centres, which provided a platform for young people to show their talents, at the same time enhanced patronage and attract more visitors. Also, to complement the concept of "Housing Well-Being", the HA will launch an innovative programme, which will provide shop premises to young people or non-governmental organisation to start their new business in different regions, and better utilise those vacant shops. In line with the newly launched theme of "Well-being" design guidelines, the HA will arrange a series of activities with the concept of happiness in estates, including improvement works will be carried out in estates in order to enhance residents' sense of well-being and sense of belonging to the community. It is expected to boost footfall and bring energetic atmosphere to shopping centres.

(3) The tenancy term of commercial properties under the HA are often for a period of three years. As tenderers submit their rental bids based on their own strategy, once the bid has been accepted, the successful bidder is required to, throughout the tenancy period, pay monthly rent according to the tendered rents offered by them. It would be unfair to other bidders and would undermine the fairness of the tender system if the successful bidder requests rent concession because of change in business strategy or other reasons. According to the Tenancy Agreement, the rent will remain unchanged during the tenancy period, while the HA will re-assess the shop rent in a flexible and pragmatic manner based on the prevailing market value upon tenancy renewal. The latest market condition and rental information of comparable lettings in the HA will be taken into consideration, while relevant factors that would affect rental value (such as the location, trade designation, size, pedestrian flow of the premises and the property market condition) will also be given due regard in the rental adjustment process. The HA will actively negotiate with commercial tenants on tenancy renewal matters so as to reach a

consensus on the renewal as soon as possible and ensure that the daily needs of the residents will not be affected.

Thank you President.