LCQ3: Developing topside properties at railway stations

Following is a question by the Hon Mrs Regina Ip and a reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (July 14):

Question:

Under the "ownership" approach and the "Rail-plus-Property development" model, the MTR Corporation Limited (MTRCL) is responsible for the construction and operation of new railways, and it will be granted the development rights of the topside properties at the railway stations by the Government for subsidising the railway construction costs. It has been reported that MTRCL had reaped lucrative profits from property developments over the years. In this connection, will the Government inform this Council whether it will specify the permitted rate of return (RoR) of MTRCL with regard to property developments (with the relevant level to be determined by drawing reference from the permitted RoR of the two power companies, i.e. 8 per cent on their average net fixed assets), and require MTRCL to hand over the remaining property units to the Government for public housing use once the permitted RoR is reached; if so, of the details; if not, the reasons for that?

Reply:

President,

After consulting Financial Services and the Treasury Bureau, my consolidated reply to the question raised by the Hon Mrs Regina Ip is as follows:

Under the "ownership" approach, the MTR Corporation Limited (MTRCL) will be responsible for the financing, design, construction, operation and maintenance of the new railway, and ultimately owns the railway. Given the huge investment in a railway project, the income generated from transport operations and station commercial business often fails to balance the expenditure. As such, the Government provides funding support to bridge the funding gap for "financially infeasible" projects (i.e. the present value of all its revenues net of expenditures fall short of the expected return on capital). For most railway projects in the past, the Government has adopted the "Rail-plus-Property (R+P)" model to provide funding support so that the railway line could be operated sustainably. Projects that are unable to be funded by suitable properties (such as the West Island Line project) will be supported by non-recurrent capital grant.

According to the R+P model, when the Government executes the project agreement with the MTRCL, the Government grants property development rights based on the funding gap of the railway project, enabling the MTRCL to bridge the funding gap by the property development profits. Upon receipt of the Government's funding support, the MTRCL would bear all the commercial risks associated with the design, construction, operation and maintenance of the new railway. The Government has no obligation to provide any further funding support to the MTRCL even if the future revenue of the new railway project is lower than expected. The model also brings other operational benefits such as unleashing the development potential of land along the railway. Not only does it increase housing supply, it also allows the MTRCL to co-ordinate the enabling works of the property development and the railway works in order to facilitate the project delivery by smoothening the interfaces among the station, depot and property development project.

Introducing a mechanism of the permitted rate of return will fundamentally change MTRCL's business model. MTRCL is a major public transport service operator in Hong Kong; the Government has to study in detail the rationale for the introduction of the above mechanism, and consider relevant factors including the impact on the MTRCL's finance and operation, the impact on the overall public transport services, and the impact on the Government's financial income, etc. The Government has no relevant plan at this stage.

The R+P sites were generally used for the development of private housing in the past to maximise the value of the sites and meet the need of bridging the funding gap for railway projects. If part of the R+P site is used for the construction of Subsidised Sale Flats, it will reduce the feasibility of the development property for subsidising railway projects. The feasibility of the plan depends on whether there are sufficient sites along the proposed railway for public and private housing development while generating sufficient profit to bridge the funding gap.

We fully understand Hon Mrs Regina Ip's intention behind the question is that more public housing units have to be built to meet the housing demand of the grassroots in Hong Kong. My response is that the Government has been exploring the development potential for public housing of sites near the railways. For instance, the Government has drawn up the Outline Zoning Plan for the approximately 30-hectare Siu Ho Wan Depot site. This development project is expected to provide about 20 000 units in the medium-to-long term, with about half for public housing which are mainly Subsidised Sale Flats according to the current plan. In addition, during the planning of the Tung Chung East extension area, the Government reserved part of the land near Tung Chung East Station for public housing development, including about 10 000 public housing units that are being constructed under the public housing development projects for Tung Chung Areas 99 and 100.

Also, the Hung Shui Kiu/Ha Tsuen New Development Area is expected to supply 61 000 housing units in the medium-to-long term, including about 31 200 public housing units, some of which are proximate to the planned Hung Shui Kiu Station. Under the current shortage of the public housing supply, we will make our best endeavour to compress and speed up statutory procedures, site formation, infrastructural works and construction works to cope with the housing need of the grassroots. Hon Mrs Regina Ip, please rest assured that we will follow up to address your concerns appropriately.

Besides, there has already been the "Profitability-Linked Arrangement" in the current Fare Adjustment Mechanism to address the public concerns about the correlation between MTRCL's profitability and fare adjustment. The MTRCL will set aside an amount of fare concessions to be shared with passengers each year corresponding to the underlying business profit level in the previous year by reference to a predetermined tiered table. The underlying business profits include profits from all MTRCL businesses, i.e. profits from Hong Kong transport operations, Hong Kong station commercial business, Hong Kong property rental and management business, property developments, as well as profit from MTRCL's non-local ventures (profit arising from investment property revaluation is excluded).

Thank you, President.