Hong Kong Institute of Facility Management

Optimising the Use of Industrial Buildings

Mrs Carrie Lam
Secretary for Development
22 January 2010

Contribution of Manufacturing to GDP and Stock of Industrial Premises

- Stock of industrial premises
- Percentage contribution of manufacturing to GDP

Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Stock of industrial premises (m²)</th>
<th>Percentage contribution of manufacturing to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>9,000</td>
<td>5</td>
</tr>
<tr>
<td>1982</td>
<td>11,000</td>
<td>7</td>
</tr>
<tr>
<td>1984</td>
<td>13,000</td>
<td>9</td>
</tr>
<tr>
<td>1986</td>
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<td>11</td>
</tr>
<tr>
<td>1988</td>
<td>17,000</td>
<td>13</td>
</tr>
<tr>
<td>1990</td>
<td>19,000</td>
<td>15</td>
</tr>
<tr>
<td>1992</td>
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<tr>
<td>1994</td>
<td>23,000</td>
<td>17</td>
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<td>1996</td>
<td>25,000</td>
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<tr>
<td>1998</td>
<td>27,000</td>
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</tr>
<tr>
<td>2000</td>
<td>29,000</td>
<td>20</td>
</tr>
<tr>
<td>2002</td>
<td>31,000</td>
<td>21</td>
</tr>
<tr>
<td>2004</td>
<td>33,000</td>
<td>22</td>
</tr>
<tr>
<td>2006</td>
<td>35,000</td>
<td>23</td>
</tr>
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<td>2008</td>
<td>37,000</td>
<td>24</td>
</tr>
<tr>
<td>2010</td>
<td>39,000</td>
<td>25</td>
</tr>
</tbody>
</table>
Existing Industrial Buildings

Industrial buildings in Yau Tong & Kwun Tong
Chimneys often sterilise new development in the neighbourhood

Existing Industrial Buildings

Former industrial area in Kwun Tong
- located along harbourfront
- good existing infrastructure
- undergoing urban regeneration
Existing Industrial Buildings

The industrial buildings in Hong Kong are relatively young.

Age profile of private industrial buildings in Metro and New Town Areas

- 0-14 years: 139
- 15-29 years: 602
- 30-49 years: 45
- 50 years or above: 7
- Others: 674

Total number: 1467

Existing Industrial Buildings

- During the past two decades, about 500 hectares of industrial land have been rezoned for non-industrial uses.
- 70% of existing industrial buildings are now situated in non-industrial zones, mostly in “Other Specified Uses (Business)” zone.

Total number: 1467
**Existing Industrial Buildings**

All former industrial land in the whole of Kowloon has been rezoned for non-industrial uses, but 660 industrial buildings remain in these areas.

**Planning intention of various zones:**

- **“Industrial” zone**
  - General industrial uses; information technology and telecommunication industries, and office related to industrial use are always permitted
  - “Flat”, “House” or “Residential institutions” are not permitted uses

- **“Other Specified Uses” designated “Business” (“OU(B)”) zone**
  - General business uses - Information technology and telecommunications industries, non-polluting industrial uses, office and other commercial uses are always permitted in new “business” buildings
  - Less fire-hazard-prone office use not involving direct provision of customer services or goods to general public always permitted in existing industrial or industrial-office buildings
  - “Flat”, “House” or “Residential Institutions” are not permitted uses
## Uses Always Permitted in Buildings in OU(B) Zone

<table>
<thead>
<tr>
<th>Industrial or Industrial-Office Buildings</th>
<th>Other Buildings (including redeveloped or buildings undergone wholesale conversion)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Office Uses</strong></td>
<td><strong>Office Uses</strong></td>
</tr>
<tr>
<td>• Office (excluding those involving direct provision of customer services or goods)</td>
<td>• Office</td>
</tr>
<tr>
<td><strong>Commercial Uses</strong></td>
<td></td>
</tr>
<tr>
<td>• Eating Place (canteen only)</td>
<td>• Eating Place</td>
</tr>
<tr>
<td>• Shop and Services (motor-vehicle showroom on ground floor and service trades only)</td>
<td>• Shop and Services</td>
</tr>
<tr>
<td></td>
<td>• Exhibition or Convention Hall</td>
</tr>
<tr>
<td><strong>Recreation and Leisure Uses</strong></td>
<td></td>
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<tr>
<td>• Place of Entertainment</td>
<td></td>
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<tr>
<td>• Place of Recreation, Sports or Culture</td>
<td></td>
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<tr>
<td>• Private Club</td>
<td></td>
</tr>
<tr>
<td><strong>Educational and Religious Uses</strong></td>
<td></td>
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<tr>
<td>• Educational Institution</td>
<td></td>
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<tr>
<td>• Library</td>
<td></td>
</tr>
<tr>
<td>• School (excluding free-standing purpose-designed building and kindergarten)</td>
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<tr>
<td>• Training Centre</td>
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<tr>
<td>• Religious Institution</td>
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<tr>
<td><strong>Industrial Uses</strong></td>
<td></td>
</tr>
<tr>
<td>• Information Technology and Telecommunications Industries</td>
<td></td>
</tr>
<tr>
<td>• Non-polluting Industrial Use (excluding industrial undertakings involving use/storage of dangerous goods)</td>
<td></td>
</tr>
<tr>
<td>• Research, Design and Development Centre</td>
<td></td>
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<tr>
<td>• Warehouse (excluding dangerous goods godown)</td>
<td></td>
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<tr>
<td><strong>Industrial Uses</strong></td>
<td></td>
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<td>• Information Technology and Telecommunications Industries</td>
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<td></td>
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<td>• Research, Design and Development Centre</td>
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</tbody>
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## Existing Industrial Buildings

- Despite large scale rezoning for non-industrial uses, not many redevelopment or wholesale conversion of industrial buildings have taken place:
  - between 2005 and 2008, there were only 32 cases of lease modifications for change of use of industrial buildings (mostly for redevelopment)
Existing Industrial Buildings

Redevelopment of industrial buildings in Kwun Tong for other uses

Source: Information based on Monthly Digest issued by Buildings Department

Existing Industrial Buildings

Former industrial area in Kwun Tong (rezoned as OU(B))

Area already redeveloped into office buildings (bigger building mass)

Older existing industrial buildings (good potential for conversion to non-industrial uses)
Existing Industrial Buildings

- Official vacancy rate of industrial buildings was not particularly high – 6.5% at end 2008 (compared with 8.4% for office buildings and 4.9% for residential buildings).
- A survey in 2005 revealed that around 65% of industrial premises in OU(B) zones were still engaged in industrial and related uses – the other 35% were for non-industrial uses or vacant. Non-industrial uses could take up an even higher percentage at present.
- As at March 2009, Lands Department was managing 441 temporary waivers granted for change in use of industrial buildings, covering just slightly more than 1% of the existing stock of industrial buildings – against about 30% of industrial premises engaging in non-industrial uses.
- Conclusion: non-compliant uses in existing industrial buildings are widespread.

Non-compliant Uses in Industrial Buildings

- Two kinds of non-compliance -
  1. Not a permitted use in the current planning zone and no planning permission has been granted.
  2. Not complying with the lease conditions of the lot.
- A major reason for rejection of planning applications is the potential fire risks due to mixed industrial and commercial uses in the same building.
Existing Mixed Uses

An industrial building in an “Industrial” zone

• Mixed uses on the same floor – a show room locates near two factories, posing fire risks to visitors

• Roast meat factory: odour, slippery floor and fire risks – not an ideal neighbour for art studios

Non-industrial Uses Allowed in Industrial Buildings

• Fire Services Department generally accepts the following types of change to commercial use in industrial buildings:

  1. Partial change of use on ground floor

  “Shop and services” such as motor-vehicle showroom on the ground floor of an industrial building are allowed
### Non-industrial Uses Allowed in Industrial Buildings

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<tbody>
<tr>
<td>2.</td>
<td>Total change of use below a buffer floor</td>
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<td></td>
<td>Uses that may attract a lot of customers (e.g. retail banking, restaurant) are also allowed in floors below a purpose-designed buffer floor – difficult to provide after the building is completed</td>
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<tbody>
<tr>
<td>3.</td>
<td>Partial change to commercial use (without direct provision of customer services or goods) on any floor</td>
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<tr>
<td></td>
<td><strong>Wine making inside industrial buildings</strong></td>
</tr>
<tr>
<td></td>
<td>Production and storage of wine in an industrial building are allowed, but …</td>
</tr>
</tbody>
</table>
“Shop and services” that may attract a large number of customers would require planning permission – not easy to get in an industrial building due to fire safety concerns.

4. Total change of use for the entire building (wholesale conversion)

The entire industrial building has been renovated, but the owner still has to satisfy the land lease conditions.
Challenges in Revitalising Existing Industrial Buildings

- Multiple ownership in flatted industrial buildings – difficult to reach consensus among owners
- Full market premium payable for lease modification for redevelopment and full waiver fees for conversion based on enhanced value. Owners may also encounter difficulties in raising funds for redevelopment
- “First-mover” disadvantages in redeveloping or converting existing industrial buildings

Policy Initiatives to Encourage Redevelopment

- Allow industrial buildings aged 30 years or above situated in non-industrial zones to apply for compulsory sale of the lot for redevelopment, if the applicants own not less than 80% of the lot
- Adopt a “pay for what you build” approach in assessing land premium for the lease modification based on the proposed GFA of the redevelopment (assessment will be based on the optimal use of the site)
- Provide an option for owners who modify the lease for redevelopments to opt for payment of 80% of the land premium by instalments (up to 5 years) at a fixed rate of interest (at 2% p.a. above the best lending rates of the three note-issuing banks prevailing at the time), if the total premium exceeds $20 million
Merits of Redevelopment

- Certain planning gains, e.g. setback of building lines, new open spaces, can be realised only upon redevelopment
- Redevelopment can also help upgrade the general environment of former industrial areas by removing sources of environment concerns e.g. chimneys
- New development meets today’s safety standards and special requirements of the new uses

Redevelopment in Kwun Tong

Redevelopment provides opportunities for realisation of planning gains, e.g. building setbacks, provision of open space
Policy Initiative to Encourage Wholesale Conversion

- No waiver fee will be charged for the lifetime of the existing buildings or until the end of the existing lease, whichever is earlier

1. this is applicable to wholesale conversion of industrial buildings aged 15 years or above, situated in “Industrial”, “Commercial” or “OU(B)” zones, which means all owners/single owner apply for change in use

2. the new uses must be always permitted in the respective zones or approved by Town Planning Board

3. the original building frame is retained after the conversion - no increases in building height, building bulk or GFA, and no additional floors. Addition of architectural features that are GFA non-accountable, GFA disregarded, or within the permitted total GFA (e.g. partial floors) is acceptable

4. safety requirements and special needs of the new uses of the building should be met by upgrading of building services and alteration of the interior

5. planning, design and alteration should comply with today’s building requirements
### Merits of Wholesale Conversion

- Industrial buildings usually have high ceiling height, high floor-loading, flexible floor layouts, thus have good potential for conversion to serve other uses.

- Compared with redevelopment, conversion will generate less construction wastes, can start and complete within a shorter time, and costs less.

- Many industrial buildings are in former industrial areas with good public infrastructure, transport links and convenient location.

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**An OU(B) zone in Hung Hom near proposed railway extension**
Merits of Wholesale Conversion

- Industrial buildings located near planned urban redevelopment projects have good potential to change to non-industrial uses to meet the changing social and economic needs in the neighbourhood.

Merits of Wholesale Conversion

- An old industrial area in Aberdeen has been rezoned for OU(B) use and is close to a proposed station of the South Island Line.
Wholesale Conversion (Overseas)

OXO Tower in London

The building was originally constructed as a power station for the Post Office. It was subsequently acquired by a manufacturer and converted into a cold storage.

Art Gallery in OXO Tower

The building has been converted for restaurant, shops, art gallery and exhibition uses.
Wholesale Conversion (Overseas)

Big Peg in Birmingham

- Originally named the Hockley Centre, the building was an eight-storey factory completed in 1971
- Today it is a thriving hub for jewellers, designers, media, arts and other creative businesses

Wholesale Conversion (Mainland)

798 Art Zone in Beijing

- Formerly 718 Joint Factory, a Beijing North China wireless joint equipment factory
- 718 Joint Factory was rendered obsolete in early 1990s
- Now an artist community with galleries, artists’ private studios and cultural companies
Wholesale Conversion (Hong Kong)

A former factory building in Ap Lei Chau

- Planning approval obtained for wholesale conversion to commercial uses in 2003
- Lease modification executed in April 2007 to allow commercial use
- Building plans approved in February 2008

“Shop and Services” are allowed in the converted building
Wholesale Conversion (Hong Kong)

Jockey Club Creative Arts Centre in Shek Kei Mei (JCCAC)

- Opened on 26 Sept 2008, the JCCAC is converted from a decommissioned flattened factory building
- Over 150 artists and art groups are working inside

Wholesale Conversion (Hong Kong)

JCCAC

Painting and pottery workshops being organised in art studios in the building
Applicability of the New Measures

<table>
<thead>
<tr>
<th>Redevelopment measures</th>
<th>Wholesale conversion measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of building</td>
<td>Industrial</td>
</tr>
<tr>
<td>Age of building</td>
<td>≥30 years for application of compulsory sale for redevelopment; no age requirement for other measures</td>
</tr>
<tr>
<td>Zoning of land</td>
<td>Any zoning other than “Industrial” (e.g. “OU(B)”, “Commercial”, “CDA”, “Residential”, etc.)</td>
</tr>
<tr>
<td>Prior planning approval upon application</td>
<td>No, unless for rezoning, “CDA” and “R(E)” zones, or Column 2 uses</td>
</tr>
<tr>
<td>Prior LandsD approval</td>
<td>Yes, lease modification</td>
</tr>
<tr>
<td>Premium/waiver fee</td>
<td>Yes, full market premium assessed on “pay for what you build” basis and option to pay by instalments</td>
</tr>
</tbody>
</table>

Possible Uses Supporting The Six Economic Areas

- Most land uses related to the six economic areas are always permitted in converted buildings in OU(B) and Commercial zones, for example:
  - Testing and certification (OU(B) zone) – Laboratory, inspection and testing centre
  - Medical services (OU(B) or Commercial zones) – Clinical laboratory and medical consulting room
  - Innovation and technology (OU(B) zone) – Research, design and development centre related to industrial, information technology and telecommunication uses
  - Workshop of high technology products
Possible Uses Supporting The Six Economic Areas

- **Cultural and creative industries** (OU(B) or Commercial zones) –
  - Office/ creative workshops and rehearsal room for performance
  - Exhibition or convention hall, art gallery/ retail shop and showroom
  - School (non-free-standing purpose-designed building)
  - Audio-visual recording studio
  - IT and telecommunications industries
  - Research, design and development centre
  - Non-polluting industrial use

- **Environmental industry** (OU(B) or Commercial zones) –
  - Recyclable collection centre
  - Office/ retail shop and showroom
  - Non-polluting industrial uses (in OU(B) zone)

- **Education services** (OU(B) or Commercial zones) -
  - Educational institution

Potential Uses Supporting The Four Economic Pillars

- **Financial Services**
  - Office
  - Shops and services
  - IT and telecommunications
  - Training centre

- **Trading and Logistics**
  - Office
  - Exhibition or convention hall
  - Training centre

- **Producer and Professional Services**
  - Office
  - Shop and services
  - Training centre

- **Tourism**
  - Hotel (subject to planning approval upon application)
  - Eating place
  - Shopping outlets
  - Exhibition or convention hall
  - Place of entertainment
  - Place of recreation, sports or culture
Implementation Schedule

- Lower application threshold for compulsory sale of industrial buildings for redevelopment will be implemented through subsidiary legislation under the LCSRO (first quarter 2010)

- The “pay for what you build” and “pay premium by instalments” arrangements in respect of lease modification for redevelopment will be implemented through a three-year scheme starting 1 April 2010

- Nil waiver fee for wholesale conversion of industrial buildings for the lifetime of the buildings or expiry of the leases will be implemented through a three-year scheme starting 1 April 2010

- Current holders of temporary waivers with fees payable annually or periodically may also apply for the new waivers, if they meet the eligibility criteria for wholesale conversion

Implementation Schedule

- Lands Department will set up a dedicated team to process applications for redevelopment or wholesale conversion under the 3-year scheme

- Projects which meet the eligibility criteria for one-stop service by the Development Opportunities Office may also approach the DOO for assistance
Challenges in Wholesale Conversion

- Time and efforts to develop consensus among owners in industrial buildings with multiple ownership

- Creative solutions required to facilitate wholesale conversion, e.g. swapping of tenants between industrial buildings to resolve incompatible uses

- Decanting arrangements for existing tenants during conversion works

How Facility Management Surveyors May Contribute to Wholesale Conversion

- Assess the existing condition of industrial building and advise clients on the opportunity for converting the buildings for other uses of an enhanced value

- Help gather consent of individual owners for wholesale conversion in the case of fragmented ownership

- Assist clients in applying for wholesale conversion under the new policy initiatives
How Facility Management Surveyors May Contribute to Wholesale Conversion

- Advise clients on the new facility management requirements for the converted buildings

- With professional knowledge and information about the market, facility management surveyors are well-equipped to explore possible decanting arrangements for existing tenants to facilitate conversion

- Assist clients on sales and letting of converted premises

Thank you