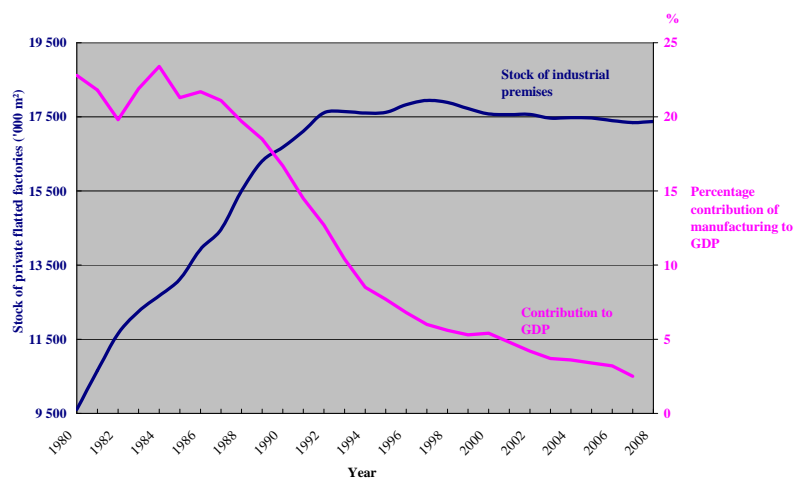


Hong Kong Institute of Facility Management Optimising the Use of Industrial Buildings

Mrs Carrie Lam
Secretary for Development
22 January 2010

1

Contribution of Manufacturing to GDP and Stock of Industrial Premises



2

Existing Industrial Buildings

Industrial buildings in Yau Tong & Kwun Tong

Chimneys often sterilise new development
in the neighbourhood



3

Existing Industrial Buildings

Former industrial area in Kwun Tong

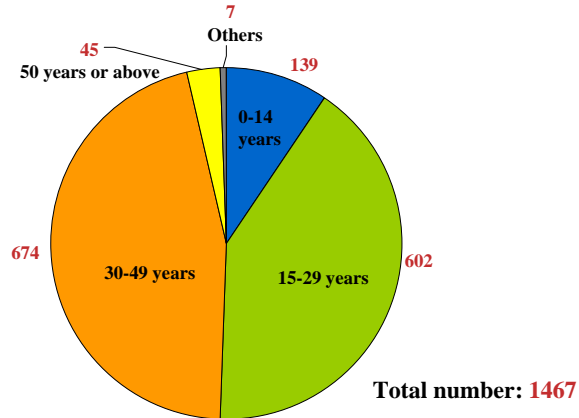
- located along harbourfront
- good existing infrastructure
- undergoing urban regeneration



4

Existing Industrial Buildings

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

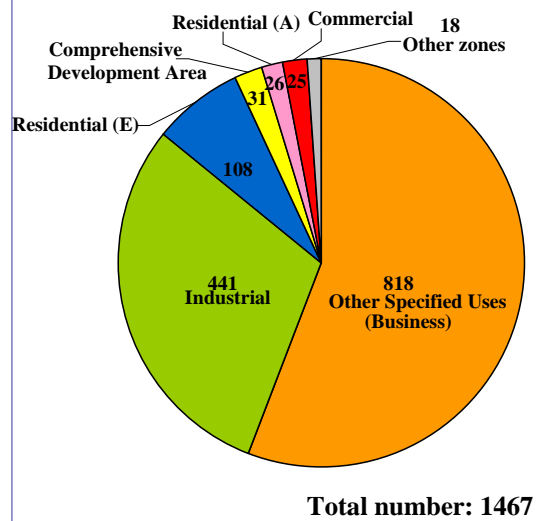


- The industrial buildings in Hong Kong are relatively young

5

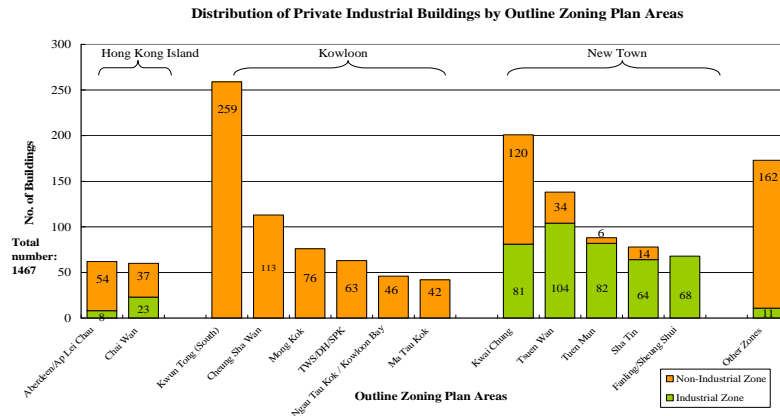
Existing Industrial Buildings

- 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



6

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

7

Existing Industrial Buildings

- 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

8

Uses Always Permitted in Buildings in OU(B) Zone

Industrial or Industrial-Office Buildings	Other Buildings (including redeveloped or buildings undergone wholesale conversion)
Office Uses <ul style="list-style-type: none"> Office (excluding those involving direct provision of customer services or goods) 	Office Uses <ul style="list-style-type: none"> Office
Commercial Uses <ul style="list-style-type: none"> Eating Place (canteen only) Shop and Services (motor-vehicle showroom on ground floor and service trades only) 	Commercial Uses <ul style="list-style-type: none"> Eating Place Shop and Services Exhibition or Convention Hall
	Recreation and Leisure Uses <ul style="list-style-type: none"> Place of Entertainment Place of Recreation, Sports or Culture Private Club
	Educational and Religious Uses <ul style="list-style-type: none"> Educational Institution Library School (excluding free-standing purpose-designed building and kindergarten) Training Centre Religious Institution
Industrial Uses <ul style="list-style-type: none"> Information Technology and Telecommunications Industries Non-polluting Industrial Use (excluding industrial undertakings involving use/storage of dangerous goods) Research, Design and Development Centre Warehouse (excluding dangerous goods godown) 	Industrial Uses <ul style="list-style-type: none"> Information Technology and Telecommunications Industries Non-polluting Industrial Use (excluding industrial undertakings involving use/storage of dangerous goods) Research, Design and Development Centre

9

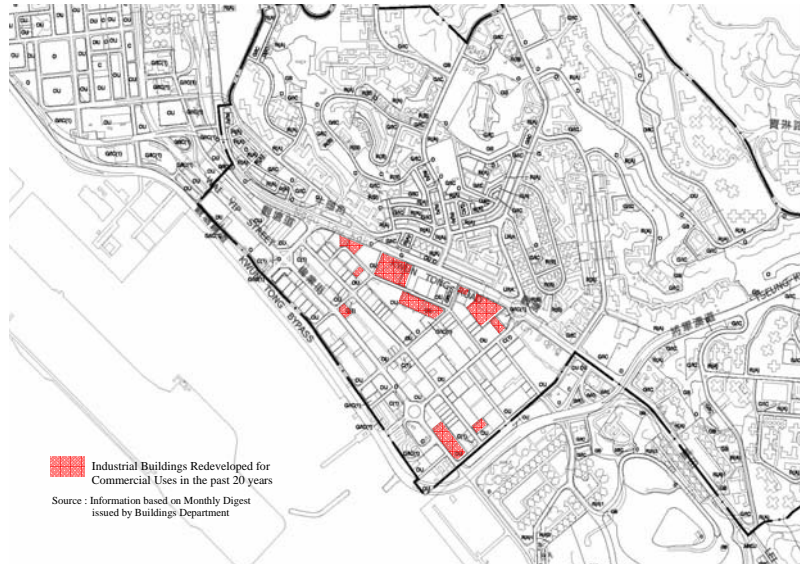
Existing Industrial Buildings

- 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)

10

Existing Industrial Buildings

Redevelopment of industrial buildings in Kwun Tong for other uses



11

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)



12

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**

13

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

14

Existing Mixed Uses



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



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

15

Non-industrial Uses Allowed in Industrial Buildings

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

I. 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



16

Non-industrial Uses Allowed in Industrial Buildings

2. Total change of use below a buffer floor



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



17

Non-industrial Uses Allowed in Industrial Buildings

3. Partial change to commercial use (without direct provision of customer services or goods) on any floor



Wine making inside industrial buildings



Production and storage of wine in an industrial building are allowed, but ...

18

Non-industrial Uses Allowed in Industrial Buildings



“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



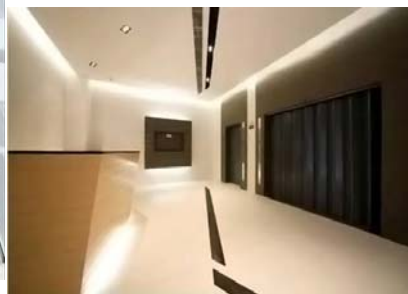
19

Non-industrial Uses Allowed in Industrial Buildings

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



20

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

21

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

22

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

23

Merits of Redevelopment



Redevelopment in Kwun Tong



Redevelopment provides opportunities for realisation of planning gains, e.g. building setbacks, provision of open space

24

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

25

Policy Initiative to Encourage Wholesale Conversion

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

26

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

27

Merits of Wholesale Conversion

- An OU(B) zone in Hung Hom near proposed railway extension



Merits of Wholesale Conversion



Existing industrial buildings near the Kwun Tong Town Centre
Redevelopment site

- 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.

29

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

30

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.



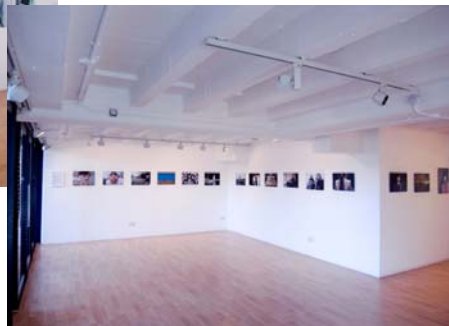
31

Wholesale Conversion (Overseas)

Art Gallery in OXO Tower



The building has been converted for restaurant, shops, art gallery and exhibition uses.



32

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



33

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



34

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



35

Wholesale Conversion (Hong Kong)



“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 flatted 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

	Redevelopment measures	Wholesale conversion measures
Type of building	Industrial	Industrial
Age of building	≥ 30 years for application of compulsory sale for redevelopment; no age requirement for other measures	≥ 15 years
Zoning of land	Any zoning other than "Industrial" (e.g. "OU(B)", "Commercial", "CDA", "Residential", etc.)	"Industrial", "Commercial" and "OU(B)"
Prior planning approval upon application	No, unless for rezoning, "CDA" and "R(E)" zones, or Column 2 uses	No, unless for rezoning or Column 2 uses
Prior LandsD approval	Yes, lease modification	Yes, waiver for lifetime of the building or until expiry of lease, whichever is earlier
Premium/waiver fee	Yes, full market premium assessed on "pay for what you build" basis and option to pay by instalments	No

39

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

40

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

41

Potential Uses Supporting The Four Economic Pillars

- **Financial Services**
 - Office
 - Shops and services
 - IT and telecommunications
 - Training centre
- **Producer and Professional Services**
 - Office
 - Shop and services
 - Training centre
- **Trading and Logistics**
 - Office
 - Exhibition or convention hall
 - 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

42

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

43

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

44

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

45

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

46



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

47



Thank you

48