



Standing in front of the Incense Tree at Citywalk, the first such tree planted by the URA in 2017, Managing Director **Ir WAI Chi-sing** is pleased to see the resilient plant has weathered numerous challenges and thrives today.

MANAGING DIRECTOR'S STATEMENT



Urban renewal is a complex and difficult task. Our team must remain strong, resilient and determined amid adversity, while endeavouring to go beyond established practices in response to changes and challenges.



Moving Forward with Resilience

Since commencing my third three-year term as the URA's Managing Director last June, I have been delighted to work in close partnership with the Board and our highly capable team. Together, we have addressed the challenges of urban renewal while implementing more forward looking and sustainable strategies to improve the built environment of Hong Kong and enhance the quality of life for its residents.

In recent years, the URA has fully implemented a 'planning-led, district-based' urban renewal strategy by launching a number of large-scale urban renewal projects, which aimed at accelerating the pace of urban regeneration in older districts. At the same time, we have proactively encouraged building owners to undertake building rehabilitation and preventive maintenance works through administrative means, including strengthening our promotion initiatives, bolstering technical support, and increasing financial incentives.

With the completion of our District Study for Yau Ma Tei and Mong Kok (Yau Mong District Study or YMDS) and the Study on New Strategy on Building Rehabilitation (NSBR), we have set new direction and targets for urban renewal work in the years ahead.

In light of the changing external environment, the URA acknowledges the presence of numerous uncertainties that are beyond our control, posing challenges to effective risk management. Despite the COVID-19 pandemic having come to an end, global financial and economic markets continue to exhibit volatility, directly affecting the local property market. Moreover, with interest rates and construction costs on the rise, the revenue generated from our tendered redevelopment projects has fallen short of expectations, thereby bringing impacts on our financial reserves.

As the commenced projects gradually proceed to the property acquisition stage in the coming one to two years, a substantial amount of additional funds will be required to cover the expenses incurred. We anticipate there will be shortfall of cash in the upcoming years, influencing the scale and timing of future project planning.

In the face of these challenges, I will continue to provide pragmatic leadership to the team. At the same time, we will actively explore innovative and flexible solutions, mobilise resources, and garner support from diverse sectors to implement urban renewal work across five key areas: 'urban redevelopment', 'building rehabilitation', 'preservation', 'revitalisation' and 'retrofitting'. Internally, I will fortify the resilience of the team through a range of measures, including streamlining business processes, promoting digital transformation, enhancing talent development and fostering collaborations across relevant industries. By doing so, we aim to achieve our targets in various areas of work to make significant headway in the development of urban renewal.

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Five directions set to strengthen urban renewal efforts

Over the past year, the URA has made good progress in urban renewal through the following five areas:

- 1 Implementing comprehensive Master Urban Renewal Concept Plans (MRCPs)** to facilitate private market participation in redevelopment;
- 2 Implementing more complex and challenging projects** in response to market changes;
- 3 Strengthening the application of our Integrated Approach** to improve the overall environment of old districts while promoting the integration of old and new cityscapes;
- 4 Promoting preventive maintenance among property owners** to extend the lifespan of their buildings and reduce the pressure for redevelopment; and
- 5 Implementing sound financial planning** so that urban renewal resources are channelled towards the long-term goal of self-financing.

Implementing a comprehensive outline for urban renewal in old districts

The current Outline Zoning Plans (OZPs) for old districts were formulated in the early years to increase the supply of developable land on Hong Kong Island and in Kowloon to speed up the pace of urban development. After decades of development, the built environment, including roads and pedestrian networks, infrastructure, community facilities, and leisure and green space in most of these old districts has become obsolete and inadequate. To meet future needs, these OZPs need to be fully updated to enhance land use efficiency and redevelopment potential.

To this end, the URA launched the YMDS in 2017 to explore new planning tools and implementation mechanisms. Since the completion of the YMDS in 2021, we have been working with the Government to refine the recommendations in the MRCPs of the YMDS into a comprehensive OZP, which will serve as the basis for taking forward urban renewal in the future. Implementing this plan, which involves extensive amendments to the OZPs for the two areas, needs to be finalised by the Government and the URA in a progressive manner.

Over the past year, we have worked with the Planning Department to gradually revise the OZPs for Yau Ma Tei and Mong Kok. In June this year, the Chief Executive in Council approved the relaxation of the statutory planning parameters of the Mong Kok OZP. This increases the maximum plot ratio of core business zones in the area, allows interchangeability of domestic and non-domestic plot ratios and changes the zoning of streets with special features for mixed-use development. In the same month, the Planning Department proposed similar amendments to the Yau Ma Tei OZP for public consultation, in accordance with the procedures of the Town Planning Board.

Regarding the five development nodes proposed in the MRCPs formulated by the study, a selected nodal development and a district-based project suitable for testing out the new planning tool of street consolidation, have been identified for incorporation into our five-year Corporate Plan from 2023/24 to 2027/28. These projects will be commenced in due course.

The key to speeding up the redevelopment of old districts lies in changing the growing dependence on the URA to take on urban renewal tasks. However, the current planning tools are better suited for new development areas than for supporting renewal in old urban districts. To tackle this limitation and facilitate urban renewal, we have been collaborating with various Government departments to implement the new planning tools recommended in the YMDS, including the transfer of plot ratio and site amalgamation under street consolidation areas to push forward urban renewal in old districts. These planning tools aim to enhance the efficiency of land use and unleash the development potential of land in a bid to incentivise more private market participation in urban redevelopment.



The URA has been working with the Government to amend the Outline Zoning Plans for Yau Ma Tei and Mong Kok to incentivise more private market participation in urban renewal.

The URA and the Government have formulated a set of implementation mechanisms for the transfer of plot ratio, which were submitted to the Town Planning Board (TPB) for review. In July this year, the TPB announced with immediate effect new planning guidelines on the transfer of plot ratio. In the meantime, the URA is working with the Development Bureau on the proposed sites and execution details for site amalgamation under street consolidation areas. When this mechanism is ready for implementation, the OZPs will be amended accordingly to provide further incentives for private market participation in the redevelopment of old districts.

Implementing more complex and difficult projects

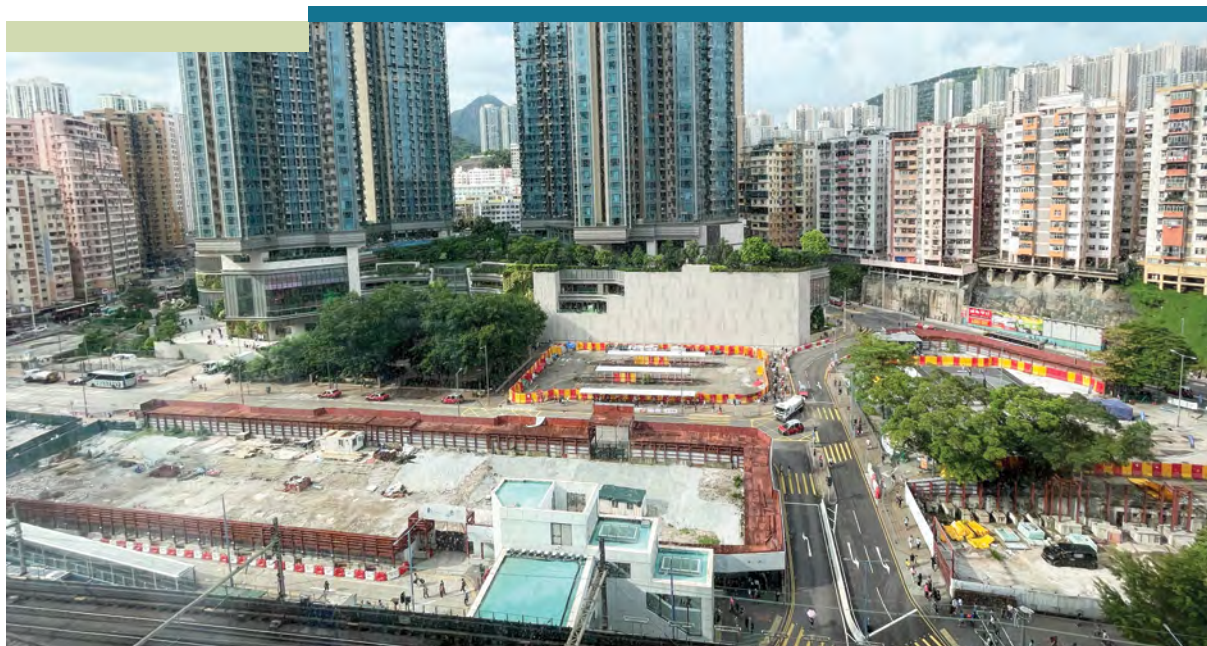
Ageing buildings remain a serious problem, with residential buildings that have long become dilapidated in many old districts. Some of them form large, high-density clusters, making redevelopment very difficult to implement. These projects lack redevelopment potential for private developers, and the owners are reluctant to carry out maintenance works as they wait for the opportunities of selling their properties for redevelopment, resulting in further deterioration of the buildings. The URA must therefore adopt a new planning mindset to address this problem.

Over the past year, the URA has identified opportunities for urban renewal by applying new planning tools and district-based planning approaches, so as to remove barriers that hinder the implementation of complex and challenging redevelopment projects. We have also introduced a flexible planning framework for redevelopment projects to adapt to the evolving market and social environment. This framework provides developers with the flexibility to allocate floor area for different business uses within approved development parameters, which enhances the projects' attractiveness and flexibility of execution.

The implementation of the Ming Lun Street/Ma Tau Kok Road Development Scheme (KC-018), commonly known as the 'Five Streets', and the To Kwa Wan Road/Ma Tau Kok Road Development Scheme (KC-019) in last October is a typical example of such innovative planning. The plot ratio of the 'Five Streets' buildings cluster, comprising approximately 100 buildings, was fully utilised and there was no available land in the area for consolidated development, all of which made redevelopment very difficult to implement. Nevertheless, by integrating and replanning the 'Five Streets' buildings cluster and adjoining the nearby industrial buildings, as well as including some lower-traffic streets in the surrounding area, we were able to expand the overall area of land available for development. This planning approach has lifted the constraints associated with the single-site redevelopment of an old building cluster. Additionally, the projects will create an improved waterfront promenade and piazza through integrated planning and design, which will facilitate transport and pedestrian connectivity to the new Kai Tak Development Area.

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As for the Kwun Tong Town Centre Project, following the withdrawal of the tender for joint development of Development Areas 4 and 5 owing to unsatisfactory tender prices, we responded immediately by changing the land use from 'Commercial Use' to 'Other Specified Uses (Mixed Development)' and adding residential development elements to adapt to the evolving market. For the first time in Hong Kong, we have made reference to the concept of 'vertical city' development, whereby the building height is raised to create capacity while retaining the 'floating planning parameters' mechanism, which provides successful tenderers with greater flexibility in allocating development floor space for different uses such as residential, office, hotel and retail. This will enhance the development range of the project and hence its potential for redevelopment. If it proves feasible, we will explore applying this flexible planning concept to other redevelopment projects.



Following the decision to withdraw the tender for the development of Development Areas 4 & 5 of Kwun Tong Town Centre Project, the URA immediately responded by introducing a 'vertical city' concept with a mixed-use development mode having both commercial and residential development elements.

Blending old and new cityscapes by further applying the Integrated Approach

During the long process of urban renewal in old districts, the built environment may become inconsistent as it transitions from old to new. To this end, the URA last year implemented the Integrated Approach, which takes the preservation of district characteristics as well as the return of business operators after project completion to the planning level. In addition, by combining district-based rehabilitation and district revitalisation, the whole built environment of such districts can be enhanced, with the blending of old and new cityscapes upon redevelopment.

The URA has adopted this Integrated Approach for a pilot urban renewal project in the Lung Shing area of Kowloon City. In May last year, we launched the Nga Tsin Wai Road/Carpenter Road Development Scheme (KC-017) to achieve synergy with the adjoining Kai Tak Road/Sa Po Road Development Scheme (KC-015). This integrated project is designed to achieve more effective planning and restructuring of old districts, with the objectives of enhancing residents' quality of life and increasing street vibrancy while enlivening the community by providing support in both hardware and software terms to preserve and uphold the distinctive local characteristics.

After launching the project in May last year, we set up a dedicated team to visit shops and restaurants with local characteristics in the area, including those selling fresh and dried food, as well as offering Chiu Chow and Thai cuisine. While illustrating the design and layout of the project, we consulted the business operators on the relevant issues and addressed their needs by improving the project's planning and implementation, including the provision of suitable transitional arrangements and relocation options.



The URA teams up with Thai volunteers to visit the Thai shop operators affected by redevelopment projects in Kowloon City to understand their needs and concerns.

Meanwhile, the URA launched the District-based Rehabilitation Pilot Scheme in the Lung Shing area. Our team took into account the condition of the buildings and the owners' needs in the area to introduce various measures to facilitate building maintenance, improve the local streetscape and revitalise the community facilities. This will ensure that the exterior appearance of the buildings complements the local environment and highlights the traditional characteristics of the area.

In terms of building rehabilitation, we have formulated rehabilitation programmes for the owners of old buildings along Nam Kok Road and Tak Ku Ling Road to encourage them to carry out proper repair and maintenance of the common areas of the building and the interior of their flats. We have also provided them with an 'incentive interest' to set up financial fund for regular repairs and maintenance. Combining building rehabilitation with district revitalisation, we will improve the appearance of these buildings by introducing 'place-making' initiatives to incorporate the historical and cultural characteristics of the area into the design. The Tak Ku Ling Road Rest Garden will be revitalised and combined with the leisure space of nearby redevelopment projects to form a Gateway Square with open view. This will not only revitalise the old Lung Shing area but also promote the integration of this old district with the new Kai Tak Development Area.

We are also applying the Integrated Approach to other urban renewal projects. For example, the Queen's Road West/Kwai Heung Street Development Project (C&W-007) was launched last December to create synergy with the adjoining Sung Hing Lane/Kwai Heung Street Development Project (C&W-005). The project will enhance the connectivity of the children's playground in Sung Hing Lane and the pedestrian environment in the surrounding area while improving the overall cityscape. We will also explore measures to provide financial and technical assistance to the owners of buildings in the vicinity of these two projects to improve the conditions of the buildings through rehabilitation works. In this way, we will create a cityscape that blends the old and the new upon regeneration.

From corrective to preventive maintenance

The Government has implemented a number of building rehabilitation subsidy schemes in the past, covering areas such as building inspection, repair works of common areas, fire safety improvement, lift modernisation, building drainage system repair and self-use residential properties, providing total subsidies of over HK\$19 billion. The URA's administrative and operating expenses to implement these five programmes are estimated to be over HK\$2 billion. Combining Government funding and the URA's operating expenses, the total public resources earmarked are therefore approximately HK\$21 billion.

Properties are the assets of their owners, so it is their responsibility to maintain the buildings in good condition. In the long run, subsidising private property owners to carry out building maintenance with public resources is considered to be a huge burden to society.

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As such, over the past year, the URA has not only implemented measures for the maintenance of old buildings but has also stepped up its efforts in encouraging owners of new buildings to voluntarily undertake regular maintenance and repair works and build up the necessary funds for future maintenance use, thus achieving the goal of promoting 'self-initiated maintenance' and 'preventive maintenance' among private property owners.

In July this year, we established a Building Rehabilitation Resource Centre at the eResidence Shopping Mall in Hung Hom to provide the public with comprehensive information on building rehabilitation and to address owners' general lack of knowledge and capability in organising building maintenance work. Multimedia channels installed in the Centre, including online video consultation and application services, also help owners apply for various building rehabilitation subsidy schemes on the spot.



The Building Rehabilitation Resource Centre located at eResidence Shopping Mall in Hung Hom provides visitors with comprehensive building rehabilitation information through innovative multimedia installations.

Moreover, we have continued to enhance our 'Smart Tender' Building Rehabilitation Facilitating Services and Open E-tendering Platform, including providing standardised tender documents and contracts to help owners' corporations co-ordinate the tender process, recruit works consultants and select contractors. The content of the Building Rehabilitation Platform, a one-stop information website, has been improved to include reference documents on the Regular Repair and Maintenance Programme and more transparent information on project costs. This helps improve owners' capability to choose fair-priced contractors and promotes self-initiated building rehabilitation in the long run.

We have also introduced various preventive maintenance initiatives to eResidence Tower Three in Hung Hom as a pilot project. The Deed of Mutual Covenant of the project will include additional clauses requiring owners to formulate regular inspection and maintenance plans, as well as to set up a suitable financial contribution scheme to fund major rehabilitation works. In this way, we aim to bring in a new mode of preventive maintenance among first-time flat buyers of eResidence Tower Three, and to promote it to the URA joint venture projects in the near future.

Sound financial planning to respond to financial challenges

Urban renewal is a complex task that involves enormous resources. The URA must ensure financial stability and in particular, sufficient liquidity to support its ongoing operations. In the coming years, the volume of property acquisition initiated by the URA will reach its peak. Following our earlier acquisition of the property interests of the Kim Shin Lane project in Sham Shui Po district, there are currently five large-scale redevelopment projects undergoing planning procedures, which property acquisition will begin upon approval by the Government. It is estimated that these six projects, together with other new projects due to be launched in the next few years, as well as the development cost of the Tai Hang Sai Estate Redevelopment, will require total expenses of approximately HK\$96 billion.

On the income side, we expect to tender 10 development projects in the next few years. Given external factors such as fluctuations in the global financial markets and rising interest rates and construction costs, the upfront payments from these tenders are estimated to be significantly lower than expected, contributing only about HK\$47 billion to the URA. Although the URA currently has a cash reserve of approximately HK\$23.6 billion, this is not enough to cover the total upcoming expenses of HK\$96 billion.

In the face of these financial challenges, we are developing appropriate measures to secure sufficient financial resources to meet the huge acquisition costs arising from urban renewal projects. We have taken the following steps:

- 1 At the end of 2022, the URA proposed to the Financial Secretary to increase its borrowing limit to HK\$25 billion, from the current ceiling of HK\$6 billion, which was subsequently approved. We have now established an initial framework, whereby we will prepare and make arrangements for borrowing capacity in advance when funding shortfall is anticipated, including co-ordinating with credit rating agencies, conducting roadshows, and determining the appropriate financing model, timetable and capacity to meet our business needs.
- 2 The timing of new project launches will be aligned with the tendering of other projects for which property acquisition has already been completed so that the upfront payments received from the tendered projects can replenish the cash for the property acquisition of the new projects. For sizeable redevelopment projects that involve higher expenses for acquisition, the URA will explore the feasibility of commencing the projects and acquiring related properties in batches to relieve the financial pressure at a particular point of time.
- 3 As for the pursuit of land resources, the URA will align with the planning blueprints for old districts and incorporate under-utilised Government land into its redevelopment areas. This approach aims to increase the amount of developable land and enhance development capacity. Additionally, the URA will fully utilise new planning tools, such as plot ratio transfer and street consolidation, in its projects. The concept of 'vertical city' development will also be adopted in the Kwun Tong pilot project. All of these planning initiatives will optimise the use of land resources and improve the feasibility of new urban renewal projects.

Despite its efforts to pool financial resources from various sectors, the URA largely relies on upfront payments received from tendering its projects for joint development with private developers as its main source of income. This source is highly susceptible to property market fluctuations, the overall economic environment and interest rates, posing unavoidable risks to the financial stability of the URA. On the other hand, the URA faces a heavy financial burden from its redevelopment projects as they involve hefty acquisition costs due to its acquisition policy on owner-occupied domestic properties, calculated based on the value of a notional seven-year-old-replacement flat situated in the same locality. In fact, this operating model has been consuming social resources to help owners replace their old properties with new ones. The society needs to contemplate whether this is a reasonable utilisation of public resources and a sustainable model for urban renewal.

Building a strong and resilient team

Urban renewal is a complex and difficult task. Our team must remain strong, resilient and determined amid adversity while endeavouring to go beyond established practices in response to changes and challenges.

Over the past year, we have comprehensively reviewed the progress of our redevelopment projects at every stage and injected new ideas. We have succeeded in shortening the redevelopment cycle by compressing the processes involved, including planning, acquisition, tenant relocation, site formation, tendering and construction. With the full support from the Government, we have implemented a number of new measures to streamline these processes and remove obsolete procedures, thereby speeding up the progress of our redevelopment projects. These measures include co-ordinating with the TPB in adopting a new process to address public views and shorten the time required for review. Regarding acquisition process, the Lands Department has piloted the 'Advanced Land Grant' mechanism, allowing the URA to apply for land leases for its projects even only a small number of residents and business operators remain to be relocated. This facilitates early tendering and the commencement of construction.

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In addition to optimising the business processes, the URA is committed to promoting organisation-wide digital transformation to improve the efficiency of its urban renewal work. Through the enhanced application of Building Information Modelling (BIM), we have piloted the use of digitised three-dimensional building plans for our Tai Hang Sai Estate Starter Homes project. By speeding up the processing and verification of designs, floor area data and various building components (including structure, piping, and electrical and mechanical equipment), we can submit project proposals and building plans to Government departments in advance for approval.

Over the past few years, we have made good use of our self-developed Urban Renewal Information System (URIS) to enhance internal processing and analysis of spatial data while improving the efficiency of planning, relocation, and financial and technical studies to speed up the formulation of our urban renewal plans.

With the application of the URIS having now reached a mature stage, our team last year developed an application based on the concept of '15-minute city', which can perform immediate spatial analysis of public and recreational facilities. For instance, it can assess the community facilities and public recreational spaces that residents of different age groups can reach within a 15-minute walking distance. This application helps the team understand the distance and intensity of related facilities in an old district to explore ways to enhance the existing facilities to fulfil the needs of the residents through land restructuring and replanning.

Our team also introduced the technology to building rehabilitation initiatives last year. By integrating and analysing data on the age and management status of the existing buildings in urban areas, as well as the initial assessment results of the condition of common areas and the progress of building rehabilitation works, we can forecast the need and cost of rehabilitating these buildings in the coming decades. This information will be incorporated at the project planning level in order to develop a more comprehensive and forward looking urban renewal plan.

In line with the digitisation of our business, we have increased our investment in talent development and encouraged staff to acquire new knowledge and skills to empower them in their roles. In particular, we have strengthened training on innovative technologies such as Artificial Intelligence (AI), geographic data analysis, green building technology, BIM and Modular Integrated Construction so that our staff can obtain new knowledge in these areas and apply it to urban renewal work. Staff members are also encouraged to participate in overseas seminars and exhibitions to further broaden their horizons.

We have also piloted the integration of AI into staff training. For example, to prepare for the application and eligibility review process of our Starter Homes project, which involves complex criteria and implementation details, we applied AI to consolidate the relevant information and provide supplementary training to front-line staff. We also use AI to analyse data and images, and to perform voice-to-text conversion so that our team can speed up the processing of acquisition compensation, building rehabilitation subsidies applications and general enquiries handling, thereby enhancing our overall work efficiency.



(Above) Celebrating the winning of Building Surveyors Award 2023 with the URA team.

(Below) One of the winning self-developed applications under the Urban Renewal Information System (URIS) received recognition for its capability to analyse and visualise data such as building age and management status of buildings on a dashboard, which is conducive to formulating strategies for promoting building rehabilitation.

Exploring sustainable plans for urban renewal

It has been 22 years since the establishment of the URA and its related property acquisition policy for domestic owners affected by URA projects by adopting Government's land resumption policy of a 'seven-year-old flat' as the basis for calculating the Home Purchase Allowance payable to domestic owners.

In view of the fact that the ageing-building problem has become more pressing and market environment more volatile, we believe that this is an opportune time to encourage a thorough discussion about viable options to foster the sustainable development of urban renewal. As the existing compensation mechanism has been in place for years, we fully recognise that any adjustments or amendments to current policies or mechanisms should only be made after thorough consultations. Besides, the issues of acquisition and compensation should not be the only focus when urban renewal resources are reviewed.

To address the problem of insufficient resources for urban renewal in old districts as soon as possible, I plan to launch studies on increasing financial resources, land resources and building development capacity to identify sustainable options for promoting urban renewal in the remainder of my term.

Sources of financial resources of the URA are stipulated in the Urban Renewal Authority Ordinance. The Government has supported the URA through various channels in the past, including a capital injection of HK\$10 billion and exemption from payment of land premiums (including those for rebuilding sites and resettlement sites). In recent years, the Government has also allowed the URA to consolidate land of Government sites and community facilities for planning of redevelopment projects, thereby enhancing the overall development potential which in turn serves as another form of financial support provided to the URA in undertaking urban renewal. As empowered by the Ordinance, we will utilise the accumulated surplus, which is currently HK\$40 billion, to implement urban renewal works.

In the coming years, we will require additional funding to commence several large-scale redevelopment projects. In response to the Government's approval to increase the borrowing limit of the URA, our team will study how to make flexible use of the various financial resources available to replenish our cash flow, while optimising the Project Reserve and financial planning to make timely adjustments in response to market changes to reduce financial risks.

In terms of land resources, with the Government's acceleration of the construction of the Kau Yi Chau Artificial Islands, a substantial new supply of land will become available in the next decade. We will explore how to enhance the urban renewal mechanism in old districts by taking into account the new land supply in new development areas to enhance the sustainability of urban renewal.

Based on our 'planning-led' approach, we will also increase development capacity by adopting the concept of 'vertical city' development to formulate urban renewal plans and enhance the viability of our projects. We will conduct district studies and apply new planning tools recommended in the YMDS to other old districts so as to increase the land development potential and planning benefits of these areas.

Over the years, the URA team has demonstrated unwavering commitment despite the shifting external environment. We have accomplished numerous urban renewal targets, explored innovations and made breakthroughs in various business areas. I extend my heartfelt appreciation to my dedicated team for their hard work, as well as to our Chairman and Board members for their leadership and guidance in outlining new directions and roadmap for the three cycles of urban renewal.

In the remainder of my term, I will work with my team to lay a solid foundation for the first cycle of urban renewal. This endeavour entails bolstering our capability in town planning and maximising the utilisation of land and financial resources to overcome the constraints, which impeded our urban renewal efforts in older districts, due to limited land availability. Meanwhile, we will continue to encourage building owners to fulfil their responsibility for upkeeping their buildings by undertaking proper maintenance for both the interiors and exteriors, so as to prolong the life of their buildings and move beyond reliance on redevelopment as the only approach to urban renewal. Through these concerted efforts, we will create a more sustainable and vibrant urban environment, nurturing the sustainable development of urban renewal for the betterment of present and future generations.

Ir WAI Chi-sing, GBS, JP, FHKEng

Managing Director

31 July 2023