

**Valuation for Demand-led
Redevelopment Projects -
“Constants” and “Variables”**

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“Background”

Demand-led (DL) Model

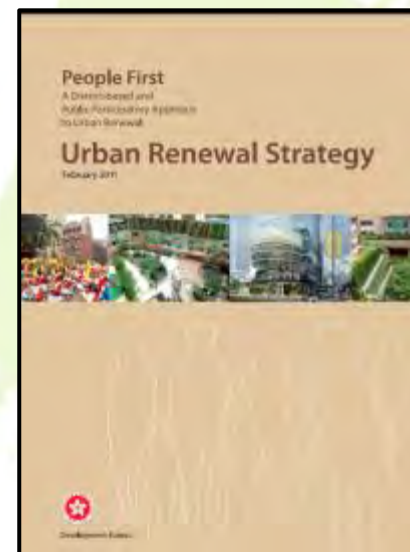
Before July 2011:

- *Redevelopment projects were implemented through “**Self-initiated Mode**”.*
- *Being criticized as “**Top-down**” approach not duly considering the free will of affected owners.*

DL Model (Cont'd)

Since July 2011:

- ***New Urban Renewal Strategy (2011) – “URA may respond to a joint approach from building owners to initiate redevelopment of their lot(s)/building(s)”.***
- ***DL Model launched as “Bottom-up” approach, in addition to original “Top-down” approach.***



DL Model (Cont'd)

- ***Actual implementation of selected DL Projects subject to two conditions:***
 - (1) Owners of not less than 80% undivided shares in each lot of project to accept URA's conditional offer within the 75-day offer period; &***
 - (2) Secretary for Development's authorization (clearance of appeal, if any) within one year from offer date.***

DL Projects Implemented

Round	Project	Address	District	No. of Interests
1 st (2012/13)	DL-1:SSP	229A-G Hai Tan Street	Sham Shui Po	>50
	DL-2:SSP	205-211A Hai Tan Street	Sham Shui Po	>70
	DL-3:YTM	13-31 Pine Street and 87 Oak Street	Tai Kok Tsui	>90
2 nd (2013/14)	DL-4:SSP	1-3B Kowloon Road / 1-5 Kiu Yam Street	Sham Shui Po	>70
	DL-5:SSP	270-286 Tung Chau Street / 1-5 Kweilin Street	Sham Shui Po	>170
	DL-6:YTM	8-10 Fuk Chak Street / 7-9 Li Tak Street	Tai Kok Tsui	>50
	DL-7:SSP	25-31 Wong Chuk Street (terminated)	Sham Shui Po	>50
3 rd (2014/15)	DL-8:KC	41-51 Kai Ming Street	To Kwa Wan	>40
	DL-9:KC	68A-70C To Kwa Wan Road (underway)	To Kwa Wan	>120

Public Response to DL Model

➤ *No. of Applications*

(Total No. of Applications: 110)

DL Model – General Responses

Positive Responses

- ***Welcome by property owners of dilapidated buildings.***
- ***Less confrontation.***

DL Model – General Responses (Cont'd)

Issues

- ***Sites of DL Applications almost have no prospect of joint sale to private developers because:-***
 - ❖ ***Little redevelopment potential; or***
 - ❖ ***URA's 7-year rule is *attractive*; or***
 - ❖ ***Other reasons***

DL Model – General Responses (Cont'd)

Issues

- DL Projects **financially not viable**, hence challenge on its sustainability.
- In term of financial viability, numerous “**Constants**” & “**Variables**” limit the revenue from DL Projects but aggravate the expenditure (i.e. acquisition costs).

“Constants”

(policy and development control which dictate URA’s acquisition cost and revenue from a Project)

Valuation Basis & Offer Price

- Domestic Interests

$$\begin{aligned} & \text{Market Value (MV)} \\ & + \\ & \text{Ex-gratia Allowance (EGA)} \\ & (\text{HPA} \text{ Note 1} / \text{SA} \text{ Note 2} + \text{ICA}) \end{aligned}$$

Note 1: For Owner-occupier (O/O)

HPA = MV of 7-year old Notional Replacement Flat – MV of affected old flat under acquisition

Note 2: For Non Owner-occupier (Non-O/O)

1st flat – 50% HPA

2nd flat – 25% HPA

HPA – Home Purchase Allowance

SA – Supplementary Allowance

ICA – Incidental Cost Allowance

Notional Replacement Flat

➤ *A notional flat :*

- (i) in a **comparable quality building**, situated in a **similar locality** in terms of characteristics and accessibility;*
- (ii) situated at the **middle floor** with **average orientation**, i.e. not facing south or west, and without sea view; and*
- (iii) around **7** years old.*

Notional Replacement Flat (Cont'd)



*Old Building
under Acquisition*

VS.



*Notional Replacement Flat
under 7-year Rule*

Notional Replacement Flat (Cont'd)

➤ Some Criticism

Valuation of 7-year notional flat is too generous to the affected owners; a case of over-valued?

➤ The fact

- ❖ *It is not whether 7-year notional flat is too generous, or over-valued.*
- ❖ *It is the adopted basis of valuation too generous from view point of prudent use of public money.*

EGA Top-up to MV (Domestic)

- Hypothetical Case

For Illustration Only

		Unit Price (\$p.s.f. (SA))
7-year-old notional replacement flat (Assumed)	:	\$10,000
MV of Old Flat under Acquisition (Assumed)	:	\$4,000
EGA for O/O (i.e. full HPA)	:	\$6,000 (i.e. 150% on top of MV of Old Flat)
EGA for Non-O/O (i.e. 50% HPA)	:	\$3,000 (i.e. 75% on top of MV of Old Flat)

Issues Relating to “Constants”

Acquisition Cost Side:

- *The 7-year rule has **no relevance to redevelopment value** of project sites; and*
- *HPA **inflated significantly the acquisition cost accrued to URA.***

Revenue Side:

- *Development control, statutory or non-statutory, **patently limit the redevelopment bulk**, hence the redevelopment value.*

“Variables”

(characteristics of each project, provision of social facilities, market factor, etc. which would affect the financial situation of each project)

Redevelopment Potential of DL Projects

- ***Varies significantly according to :***
 - ❖ ***Existing building bulk; and***
 - ❖ ***Site characteristics and design constraints.***

Redevelopment Potential of DL Projects

- some examples

For Illustration Only

Location	:	At secondary streets in Sham Shui Po, Tai Kok Tsui & To Kwa Wan districts
Site Area	:	About 4,600 s.f. to 15,000 s.f. (Average at 7,300 s.f.)
Existing Plot Ratio	:	About 4.9 to 7.4 (Average at 6.3)
Plot Ratio Gain	:	About 2.4 or 38% (average) over existing bulk

Redevelopment Potential of DL Projects

- Existing Building Bulk & Plot Ratio Gain

For Illustration Only

Example	Site Area (sf) (Approx.)	Existing Plot Ratio (Approx.)	Max. Permissible Plot Ratio (Approx.)	PR Gain (%)
Sham Shui Po Project	7,500	6.8	8.8	2 (29%)
Tai Kok Tsui Project	7,000	5.6	8.6	3 (54%)

Redevelopment Potential of DL Projects

- Case of Existing Building Bulk & Site Constraint

➤ *DL-4:SSP (Kowloon Road / Kiu Yam Street)*



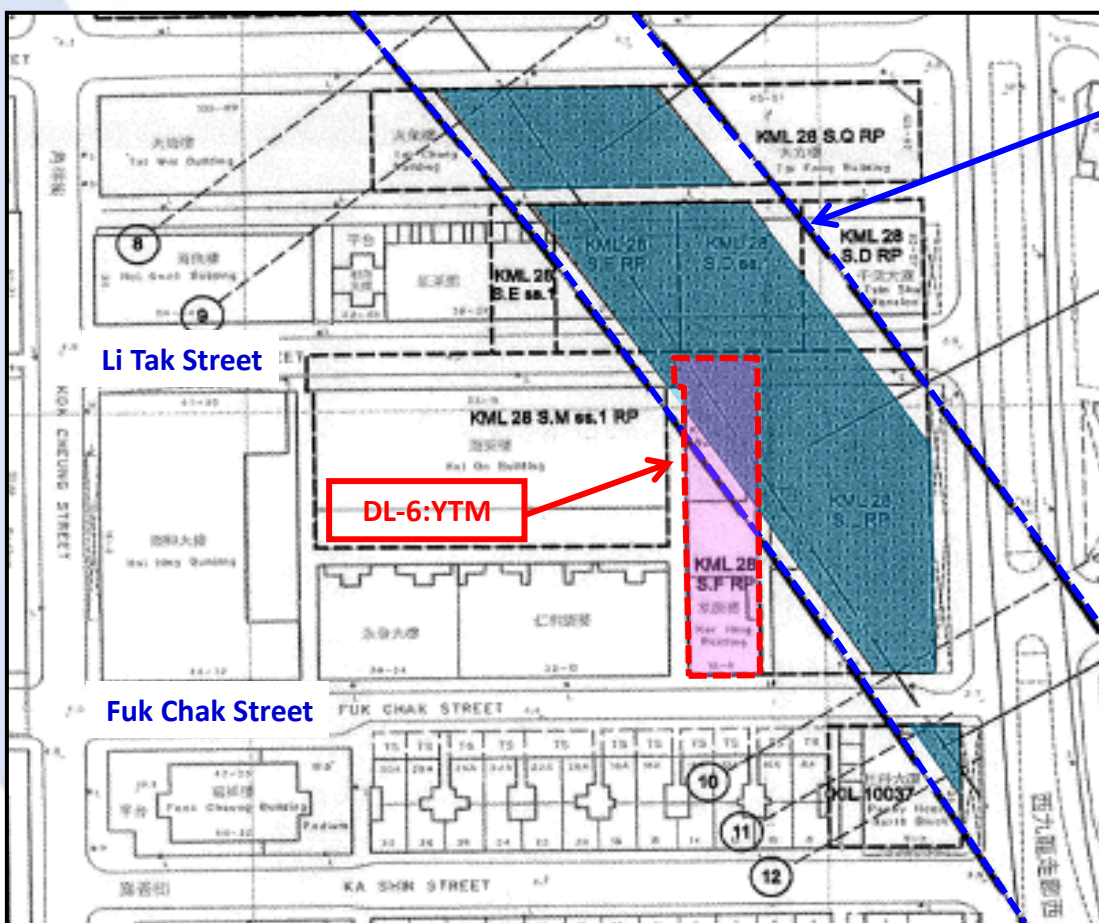
- *8-storey tenement built in 1959*
- *Site Area = 5,800 ft² (Approx.)*
- *Existing Plot Ratio = 7.03*
- *Max. Permitted Plot Ratio = 9*
- *Plot Ratio Gain = 1.97 (or 28%)*
- *Width of Kiu Yam Street & part of Kowloon Road < 15 m & building set back required upon redevelopment*

Redevelopment Potential of DL Projects

- Case of Site Constraints

➤ Project DL-6:YTM (Fuk Chak Street / Li Tak Street)

- Above the Route of Guangzhou – Shenzhen – Hong Kong Express Rail Link (HK Section).



Guangzhou – Shenzhen – Hong Kong Express Rail Link (Hong Kong Section)

Width of Fuk Chak Street & Li Tak Street < 15 m; building set back required upon redevelopment

Redevelopment Potential of DL Projects

- Unit Acquisition Cost (Existing GFA vs. Max. Permissible GFA)

For Illustration Only

Example	Average Unit Acquisition Cost on (\$ psf)		Existing Plot Ratio (Approx.)	Maximum Permitted PR
	Existing GFA (Approx.)	Maximum Permissible GFA (Approx.)		
Sham Shui Po Project	\$8,000	\$6,300	6.8	8.8
Tai Kok Tsui Project	\$11,000	\$6,800	5.6	8.6

Provision of GIC & Public Open Space Facilities

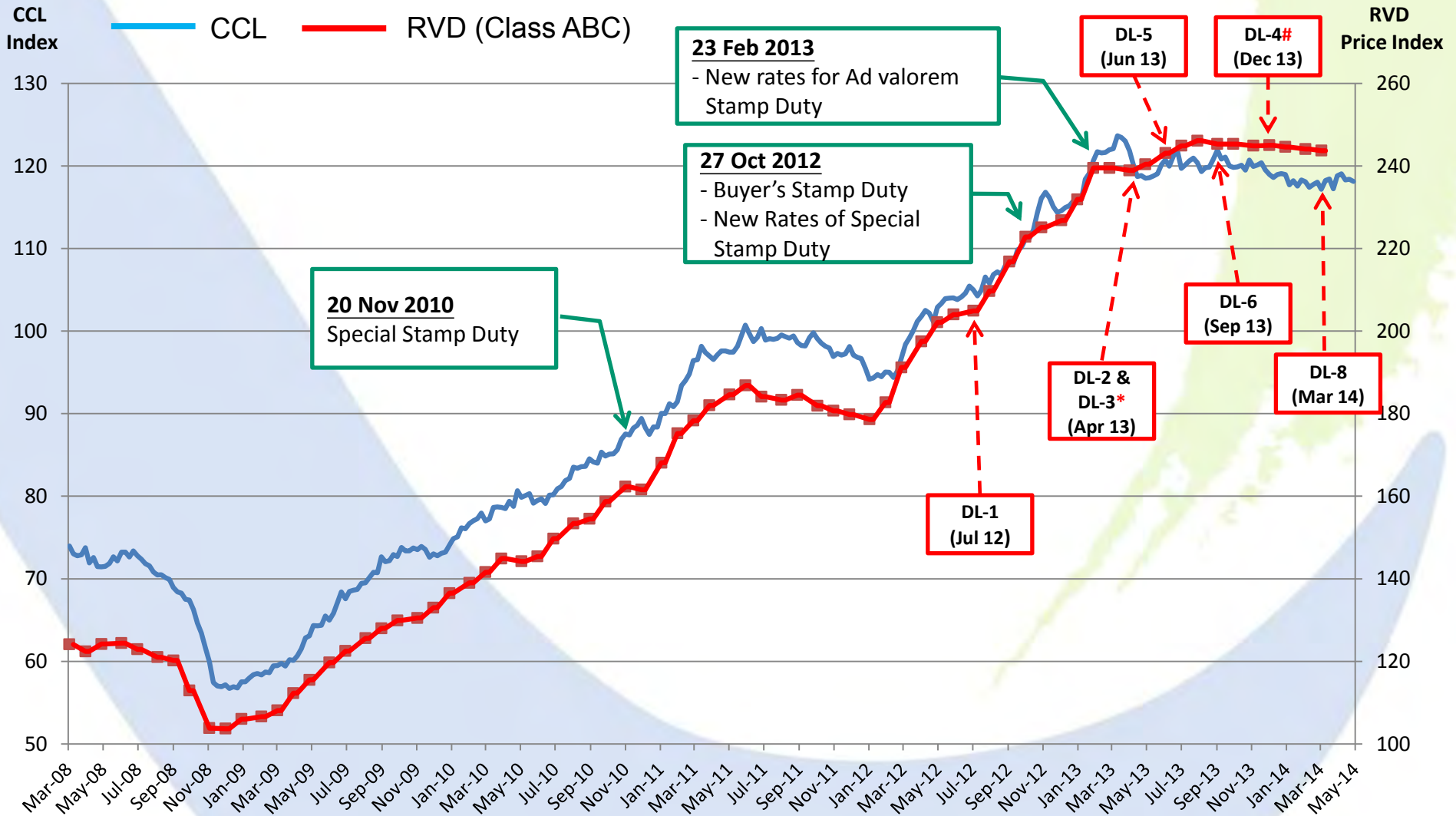
- *To serve **district needs** & achieve **planning gain**.*
- ***GIC facilities** are **GFA** accountable, may diminish the **site value** and **future sales proceeds**.*
- ***Public open space provisions** may limit the space at **street level** for **retail purpose** in **future development**.*

Future Market Movement

- *In past years, even if the unit acquisition cost > accommodation value on permissible GFA, URA projects may still make profit due to the **substantial market price upsurges** during years in 2000's.*
- *Would that still be the case in the **coming future**?*

Future Market Movement (Cont'd)

➤ Domestic Property Market Trend – since March 2008

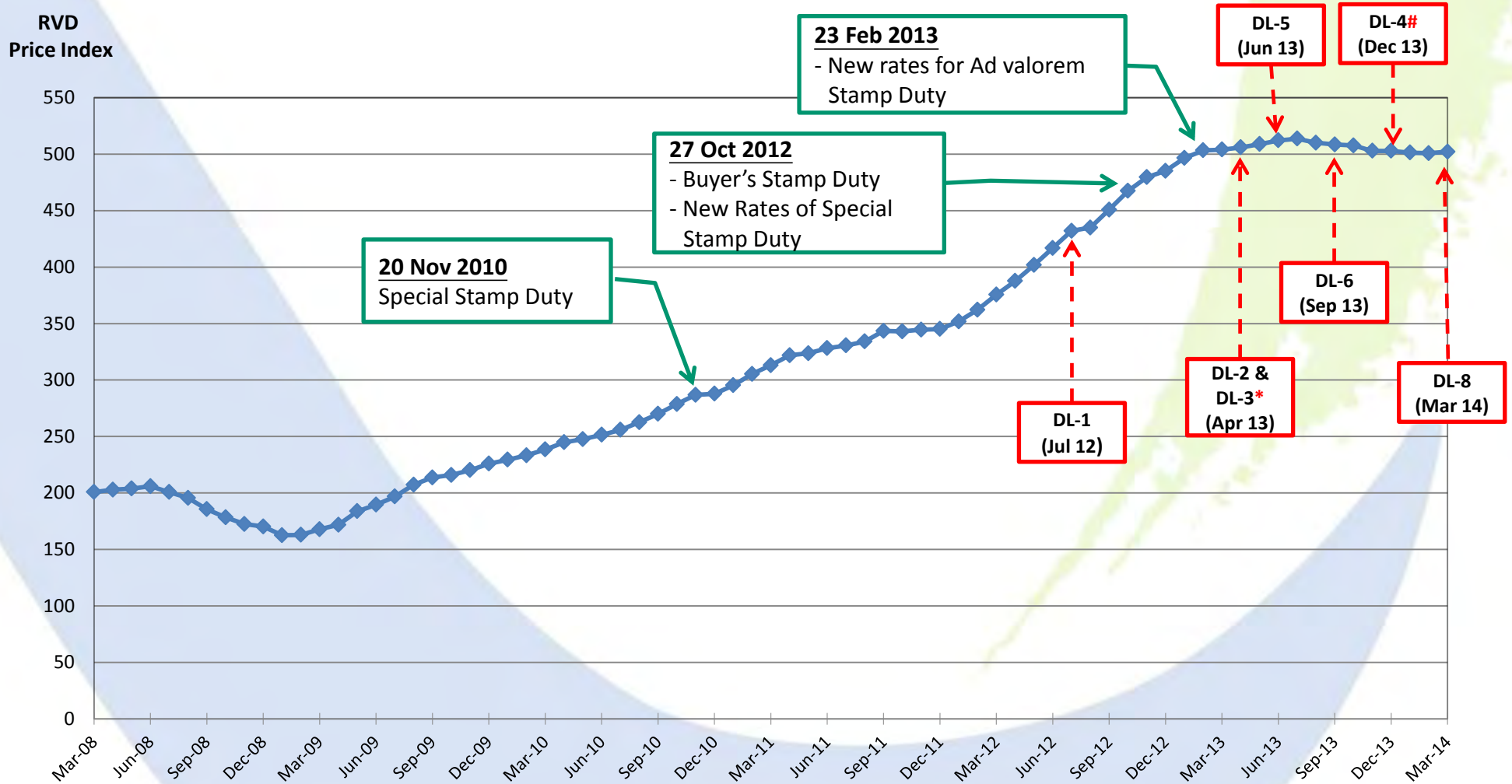


Remarks: * Offers were issued in Oct 12 but price adjustment was conducted in Apr 13
 # Offers were issued in Jun 13 but price adjustment was conducted in Dec 13

Source: Rating & Valuation Department &
 Centaline Property Agency Limited

Future Market Movement (Cont'd)

➤ Retail Property Market Trend – since March 2008



Remarks: * Offers were issued in Oct 12 but price adjustment was conducted in Apr 13
 # Offers were issued in Jun 13 but price adjustment was conducted in Dec 13

Source: Rating & Valuation Department

Issues Relating to “Variables”

- *Plot ratio gain is so limited that there would have **no business case for redevelopment** based on the 7-year rule.*
- *Increasing requirements for provision of **GIC** and **Public Open Space facilities** further diminish the revenue of project sites.*
- *Any substantial market downturn will **exacerbate the financial sustainability** of URA.*



Way Forward

Social Issues

- Urban Decay

Year Built (Building Age)	No. of Private Domestic Flats	% of Total
Pre 1960 (More than 54 yrs)	33,700	3%
1960 to 1969 (45 to 54 yrs)	149,500	13%
Post 1970 (Less than 45 yrs)	940,400	84%
Total	1,123,600	100%

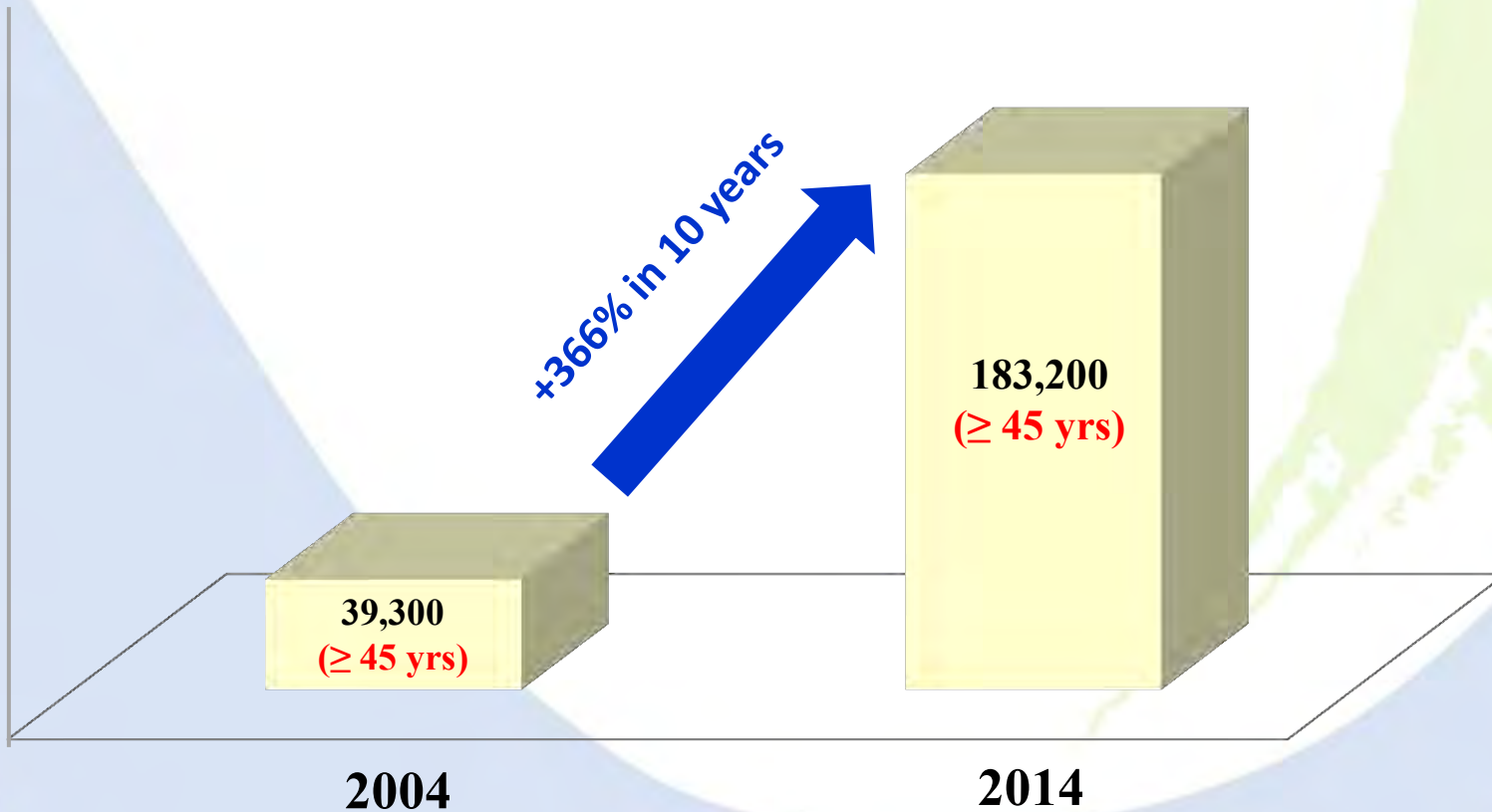
Source:

“**Hong Kong Property Review 2014**” published by the **Rating and Valuation Department**; excludes all flats of “Public Housing”, “HOS Housing” and “Village Houses” etc.

Social Issues

- Urban Decay

- Pace of Increase in Private Domestic Flats of Building Age ≥ 45 years



Source:

“Hong Kong Property Review 2004” and “Hong Kong Property Review 2014” published by the Rating and Valuation Department; excludes all flats of “Public Housing”, “HOS Housing” and “Village Houses” etc.

Social Issues

- Urban Decay

- *Pace of urban decay faster than urban renewal.*
- *How to maintain increased number of dilapidated buildings?*
- *Who would be financially capable of redeveloping them?*
- *How to improve the speed of redevelopment?*
- *Should public money be further injected to sustain the DL Model under current acquisition policy?*

Social Issues

- Fairness in Use of Public Money

- *Is it justifiable for **applying public money** to include large top-up of MV to **benefit a small group of owners** from the standpoint of social fairness?*
- *How about the age group of 1980's and 1990's who are **not eligible for public housing assistance** and receive "no" help from the Government?*
- *Is there **other way** to better utilize the public money in a fair, faster and long-term sustainable manner?*

Possible Options

- *To rationalize the acquisition policy for DL Model for long-term financial sustainability of DL Model.*

How to Rationalize?



➤ *Explore Alternative Offer Basis*

*(1) Suggestions to **change the 7-year rule to 10-year or 15-year.***

❖ A misconception which could restore the financial balance of DL Projects.

How to Rationalize?

Example: Sales Price of **6-year-old** vs. **16-year-old** Building in Sham Shui Po

Property	Hey Home (喜居) 161 Yee Kuk Street		Fulham Court (順發居) 140-146 Castle Peak Rd
Developer	China Overseas	Vs.	漢國置業
Age (OP)	Approx. 6 yrs (2008)		Approx. 16 yrs (1998)
Photos of Development			
No. of Transactions *	5		4
Size Range (sf SA) (average)	322 - 367 (332)		312 - 485 (355)
Average Unit Rate (\$psf SA)	\$10,602		\$9,622
Price Difference: 10% (for 10 years)			

* Only those relevant transactions (without special characteristics) from July 2013 to current date are adopted.

How to Rationalize?

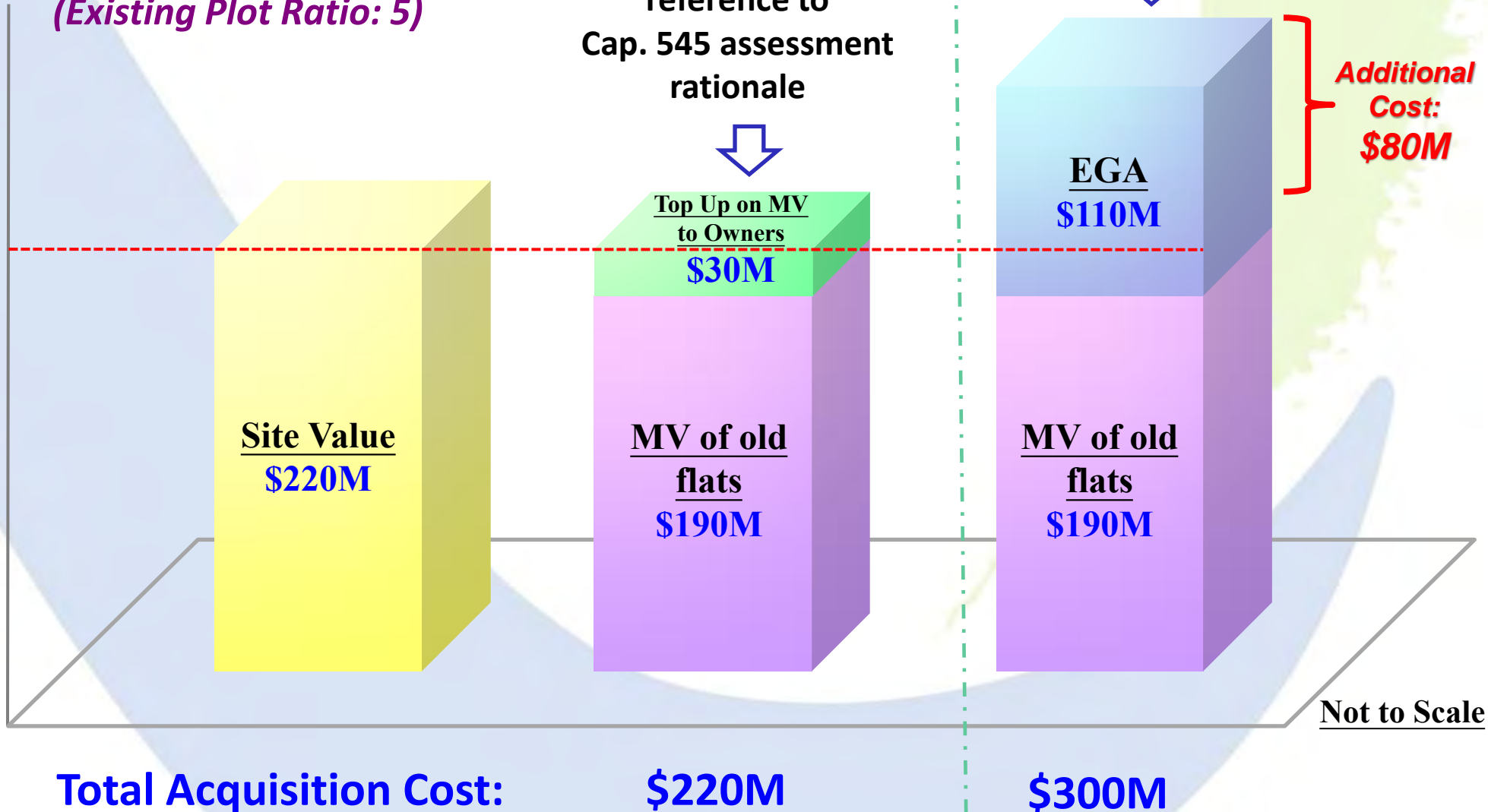
➤ *Explore Alternative Offer Basis (Cont'd)*

*(2) Acquisition offer **linked to site value** of the project itself.*

❖ *Reference to the assessment basis under Land (Compulsory Sale for Redevelopment) Ordinance (**Cap. 545**).*

How to Rationalize?

➤ Hypothetical Case (Existing Plot Ratio: 5)



How to Rationalize?

➤ *Explore Alternative Offer Basis (Cont'd)*

(3) Recognition of owners' rights to future development profit (if any) of their site.

❖ *Owners able to share the future profit from land sale / sales proceeds in lieu of EGA based on HPA of their co-owned site.*

Observation

The background features a large, light blue curved shape on the left side, resembling a stylized 'C' or a partial arc. On the right side, there is a vertical, textured green brushstroke that tapers towards the bottom, overlapping the blue shape.

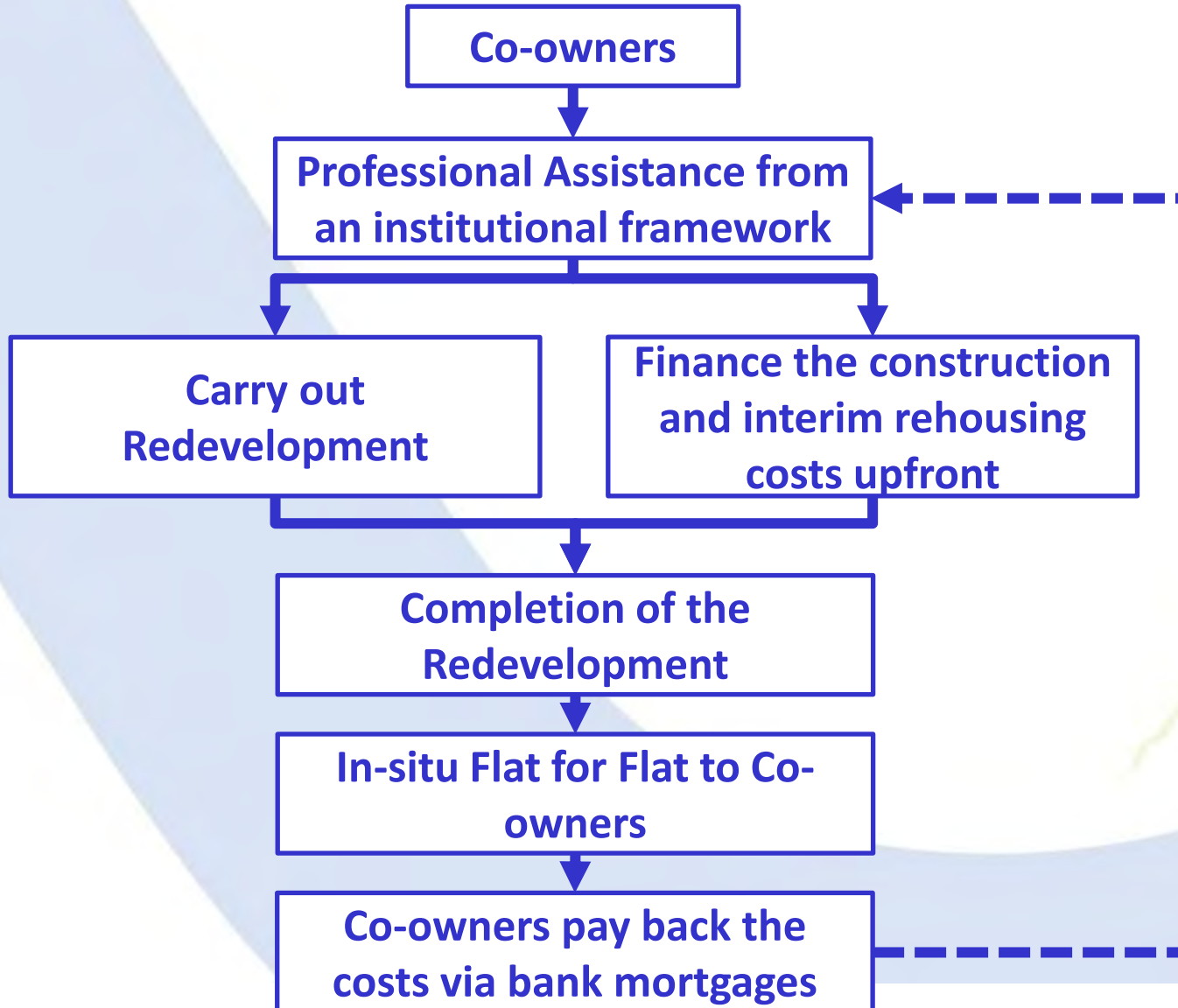
Observation

- ***Current Demand-led Model***
 - ❖ ***Drive URA into financial imbalance***
 - ❖ ***Not sustainable in long run unless with huge injection of public money for other competing uses.***

- ***High time to think about whether DL Model could be implemented via a new acquisition policy supported with different valuation bases closer to the norm of private-sector acquisition.***

Food for thoughts

- “Real Joint Redevelopment” Model



Pros:

- ❖ No property acquisition & hence no confrontation
- ❖ Keep property ownership
- ❖ Retain local network
- ❖ Possess a decent flat in-situ for habitation
- ❖ Utilize public financial resources in a revolving manner for more dilapidated buildings



Thank You