

## ASSISTING IN THE TRANSFORMATION OF FACTORY BUILDINGS

**MRS SELINA CHOW** (in Cantonese): President, over the years, the Hong Kong economy has been restructured from manufacturing-oriented towards domination by service industries. As a result, factories have been continuously relocated to the north, leaving behind many vacant units in factory buildings. In the course of time, small owners have rented these units to small business operators for unconventional industrial use, so to speak, thus giving rise to the problems today.

Last year, a group of owners of Yip Fat Industrial Building in Kwun Tong approached me for assistance. They were facing the problem of a high vacancy rate in the building and so, they had no other choice but to subdivide their units into a number of smaller units measuring some 300 sq ft to 400 sq ft and rent them out to small retailers at \$5,000 to \$6,000 monthly. Many of the tenants were on-street hawkers who were only too happy to operate under a roof. But recently, they have received an ultimatum from the Lands Department, saying that this type of shops operating on the upper floors of a building are not covered by the original industrial use in the land lease and are therefore breaching the law, and that they must obtain the waiver for changing the use of land and building before the end of April, or else they would have to terminate their operation. This has plunged those small operators into great distress. In fact, some owners told me that they had tried to apply for this waiver but two years had lapsed and yet, nothing had been heard and no progress had been made. So, the authorities' reply was just a stock answer. There is certainly no way out, so why should they be making such a fuss? I have made arrangements for the persons concerned to hold meetings with the home affairs, planning, lands, and fire services departments, so as to try to identify a solution but no result has been achieved so far.

(THE PRESIDENT'S DEPUTY, MS MIRIAM LAU, took the Chair)

This case has aroused my concern about vacant factory buildings. I found that the problems of Yip Fat Industrial Building are not unique, but a miniature of the general problem in the territory. It is indeed necessary for the Government to address it seriously. According to a survey conducted by The Hong Kong Polytechnic University last year, in Hong Kong, vacant factory buildings in private ownership measured as much as 15 million sq ft. While it does not sound like a huge area, the industry told us that the area would multiply if we also factor in those units that have been declared as warehouse but are actually left vacant. The stricken areas include Kwun Tong, San Po Kong, Kwai Chung and Tuen Mun.

Hong Kong is a place where land is scarce and expensive and yet, there is such a huge number of vacant units, and this is indeed a serious wastage of social resources. It would be impractical to demolish such a large number of factory buildings for redevelopment and besides, in many of these buildings the units have been subdivided for sale and their ownership is thus scattered among many small owners and so, it will be quite difficult to gather them together. Given the difficulties involved in their redevelopment, it is necessary to help them transform and explore new uses. If the Government does not thoroughly improve the existing policy, this situation where nine out of 10 units are vacant

would only persist, or become the stumbling block to the natural transformation of factory buildings which would in turn stifle the viability and creativity of the market.

In fact, there are several major problems now. Owners who wish to change the use of their units in factory buildings are required to apply for a waiver for changing the use of land and buildings and such applications will be processed and approved by the Lands Department (LandsD), Planning Department (PD), Buildings Department and Fire Services Department (FSD). However, different departments have their own considerations and particularly, there are also problems in respect of fire and building safety. Added to this is that the departments are not subordinate to each other. Even if an application is approved, it still takes a rather long time and the handling fees are also very expensive. But the problem is that a great majority of the applications will not be approved and so, basically the problem would still exist even if the application is approved.

Worse still, different departments have adopted different standards for processing and approving applications, thus causing confusion to the applicants. For example, although the PD has relaxed the restrictions on industrial use, the LandsD still follows the old rules and rigidly enforces the conditions of lease in all circumstances. In the event of inconsistency, a very high waiver fee will be charged. To change the use of the premise, an ordinary factory unit measuring a few hundred sq m may have to pay an annual regrant premium of some \$200,000 anytime and what is more, the payment must be made in lump sum. The Federation of Hong Kong Industries wrote to the Housing, Planning and Lands Bureau in 2003 requesting that owners be allowed to pay the waiver fee in instalments, since rates and government rent can be paid quarterly. But more than three years have lapsed since 2003. Nothing has been changed at all; nor do we envisage any changes to take place in future. It is stipulated that 30% of the floor area of a factory premise should be used for non-production processes but production, by its definition today, does not necessarily mean smoke-emitting production by machinery. As we all know, technological advances have enabled us to draw up plans with the use of computers and produce smokeless products but the LandsD has neglected this, as even telecommunications, jewellery design and finishing are not allowed in factory buildings. Members may have heard earlier that a company in San Po Kong was fined \$600,000 for this reason. What we are talking about here are mostly small and medium enterprises or even enterprises of tiny scale.

Although a great majority of factory buildings have now been turned into offices or warehouse which involves a lower level of fire risks, the Fire Services Ordinance has still maintained the standards set previously to target storage of dangerous materials or mechanical production. For example, the application for change of use will be allowed only for a certain area on each floor and so, when tenant A has submitted an application, tenant B's application will not be approved. Certainly, if the FSD said "No" for safety reasons, no one would dare challenge its decision, but I do not understand why the FSD cannot issue short-term certificates of waiver to the tenants in the light of their actual circumstances, in order not to cause delays to the application procedures?

The Department also stipulates that the transformation of a factory building requires the consent of at least 90% of the owners. We all know that it is entirely impossible for old factory buildings to meet this requirement given decades of multiple-ownership. In order not to waste our valuable social resources indefinitely, the Liberal Party urges the Government to take timely and appropriate actions and expeditiously review the obsolete regulations to tie in with the economic development of Hong Kong and make effective use of these resources.

I have the following proposals. First, to review afresh the definitions of "factory" and "industrial use". Under Chapter 59 of the Laws of Hong Kong, "factory" means any premises in which articles are manufactured, repaired, finished, and so on, and where 20 or more persons are employed in manual labour. The Ordinance was last amended in 1983 (which is over two decades ago) before the economic restructuring of Hong Kong and so, it is obviously out of sync with the reality. At present, while most local factory owners still maintain in Hong Kong their support processes, including administration, design, and research and development, many factories have in recent years relocated even these processes to the Mainland, in order to cut down on costs. It is indeed necessary for the Government to review afresh and amend the definition of factory in the existing Ordinance to allow the full operation of logistics or high value-added processes in factory buildings without requiring them to apply for change of use, thereby encouraging factory owners to maintain these processes in Hong Kong and hence preventing the loss of jobs. With regard to the term "industrial use", the Town Planning Board expanded its definition in 2003 to cover training, research, design and development, quality control and packaging which are related to the production processes. The PD also introduced the concept of Business Zone and relaxed the requirements

relating to the industrial use of land. As many new industries with high value-addedness have emerged in Hong Kong in recent years, such as multimedia production, software development, digital editing and biotechnology, I think further relaxation of industrial use may be necessary in order to cover similar creative industries and support the development of local high value-added industries.

There is one point which I believe Members would very much wish to see and that is, enhancing the co-ordination among relevant departments to provide one-stop services. As I said earlier, given the cumbersome formalities and respective needs of the departments, communication problems may arise, thus creating difficulties in their application for transformation. In this connection, I propose that the authorities should provide one-stop services, so as to streamline the procedures and shorten the time required, and also introduce unified processing and approving standards for compliance by all departments. Particularly, co-ordination between the PD and the LandsD should be enhanced as far as possible and the payment of regrant premium should be allowed to be made in instalments, so that the applicants can have greater financial flexibility.

Some friends in the business sector have asked me whether this motion is requesting the Government to provide funding or subsidies to owners. I must make it clear that I am not asking the Government to provide preferential treatment or subsidies to the owners concerned because it is most important to ensure a level playing field for all. I think even the owners are not asking the Government to do that. Rather, they are asking the Government to provide some viable channels for them and carry out work in a most efficient manner. Only this is the mindset and attitude expected of a Government who always chants the slogan of "friendly to business, and creating an environment conducive to business operation".

Moreover, in respect of planning, I also hope to see the development of more theme zones. As we all know, the Government has in recent years vigorously encouraged the public to start businesses or engage in creative industries. The vacant units in factory buildings in traditional industrial areas precisely provide comparatively less expensive spaces for business starters with a small capital to test the waters. This can also provide a way out for the vacant units, thus killing two birds with one stone. If we can follow the examples of the Golden Shopping Centre in Sham Shui Po and the computer centre in Mong Kok which are developed with a theme featuring a concentration of shops selling

similar products and hence making the place a theme zone, it will, to some extent, help attract the flow of people and revitalize old industrial areas.

Furthermore, fashion outlets in Hong Kong have become very popular places frequented by both locals and visitors, and we may as well regularize these outlets. Consideration can also be given to turning the factory buildings into clusters of creative industries and arts development. An example is the Hong Kong Jockey Club Creative Arts Centre in Shek Kip Mei, which is converted from a former factory building and scheduled for opening at the end of this year. Response to its leasing has been very enthusiastic with an oversubscription rate of nearly five times. This is proof that there are certain demands in the community.

Deputy President, I hope Members will understand that the proposals under discussion today are only expedient measures to address the serious mismatch in land and building resources. In the long term, the Government must do something, such as setting up a mechanism similar to the Urban Renewal Authority to assume a co-ordinating role and provide a fair and effective platform, in order to gather the small owners together and to assist them to transform or redevelop whole industrial buildings, thereby improving the environment of the community as a whole. I think this is an important task of the next term of the Government. When the new Chief Executive and the new ruling team come onto the stage, the Liberal Party will certainly propose this motion again to trigger the next round of public discussion. Thank you, Deputy President.