

Extract of the final report on "Review of the role and operation of the Hong Kong Industrial Estates Corporation"

- (c) felt that HKIEC is too orientated to larger companies and foreign companies.

96 Moreover, the relaxation of the selection criteria in 1998 to permit service industries and the nature of industries meeting such criteria are not well understood by investors. Our investigation of the expansion of activities permitted onto HKIEC's industrial estates suggests that, despite this, the emphasis continues to be on companies engaged in 'traditional' manufacturing activity.

97 Other estate providers across Asia are more proactive at marketing, with the JTC being particularly aggressive in this respect. Apart from Guangzhou, which relies on trade fairs and the activities of the provincial and municipal Foreign Investment Bureau, others in the region, especially Singapore and Taiwan, have adopted a proactive and aggressive approach to the attraction of investors. This gives these locations an advantage over HKIEC.

98 In addition, our work shows that the role and importance of HKIEC within the Hong Kong SAR Government's overall policy and strategy to promote inward investment into Hong Kong appears to be both unclear and limited. This has put HKIEC at a further competitive disadvantage in comparison to key regional locations, especially Singapore, Malaysia, Thailand and Taiwan, where close and direct linkages exist between the organisations responsible for foreign investment promotion and the estate providers.

Pricing

Estates and premises pricing

The competitiveness of the land premium offered by HKIEC within the Hong Kong market has declined and is also relatively expensive within the region

99 We have analysed HKIEC's position within the Hong Kong property market. Historically, given the relatively high land values in the open market, the provision of land on the industrial estates at cost has represented an attractive alternative to the purchase of industrial land in the open market in Hong Kong. In 1991 land on the industrial estates was some 30% of the cost of land in the open market. By 1994, the land premium represented just 5% of the value of open market industrial land.

100 However, due to recent changes in market conditions, the land premium currently being charged by HKIEC is perceived as being uncompetitive. For example, HKIEC's clients interviewed for the Study indicated that the relative cost advantage available that originally attracted them to the estate has eroded. The companies now consider that the industrial estates no longer have an advantage in terms of price compared with other locations.

101 The current land prices offered by HKIEC for its estates equate to:

- (a) HK\$2,400 m² in Tai Po
- (b) HK\$1,900 m² in Yuen Long
- (c) HK\$2,350 – HK\$2,900 m² in Tseung Kwan O, depending on whether the land has marine access.

102 If these prices are converted to accommodation values, based on a plot ratio of 2.5, they range between HK\$760/m² and HK\$1,160/m². This compares with an open market Accommodation Value in the New Territories of between HK\$0 and HK\$300/m².¹²

103 We conclude that, in terms of pure land value, the premium being charged by HKIEC exceeds the open market land value. This is particularly true given the relatively restrictive nature of HKIEC's lease document compared to a standard Government Lease.

104 In terms of pure land price, HKIEC's industrial estates are cheaper than both Singapore and Taiwan. If the incentives available in these locations are also taken into account, however, then this is not the case. The land cost in Hong Kong is higher than the remainder of the other regional locations.

Payment terms and conditions

The changing economic and property conditions has had a negative impact on how the payment of HKIEC land premium is perceived and the lease conditions are restrictive

105 HKIEC currently disposes of land to companies as a fully serviced site on a lease basis. The lease is subject to the execution of a standard leasing agreement that reflects the circumstances surrounding the grant payment for the land and payment of a single lump sum premium. These terms and conditions have four implications for companies.

106 First, given the decline in industrial land values, similar or lower land values are being achieved in the Hong Kong market for sites for which the land grant is far more flexible. Second, under current economic conditions, our view is that few occupiers in Hong Kong are prepared to pay an up-front lump sum for a site.

107 Third, other estates in the region offer more flexible payment terms and also alternatives such as a design and build contracts. This could be more attractive to investors unfamiliar with the local rules and regulations in Hong Kong. Finally, the agreement contains conditions that are relatively restrictive in nature. For example, one of the main restrictions is the prohibition of sub-letting. HKIEC's clients indicated that this restriction was causing difficulties in their

¹² Due to the lack of transactions on the open market, these values are derived from a residual method of calculation and, in many areas, the cost of construction exceeds the value of completed accommodation.