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**Preliminary Report on Land Sale Revenue Estimation for
Lantau Tomorrow Vision**

Prepared by:

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The Lantau Tomorrow Vision announced by the Chief Executive in her 2018 Policy Address has attracted a lot of public attention. There are concerns within the community about the significant sums to be invested for reclamation and infrastructure and thus the economic feasibility including the demand for relevant space.

The Vision and the Land Reserve Function

The HKIS noted that the positioning of the Lantau Tomorrow Vision will be the CBD3. This study would focus only on Phase I of the reclamation would be around 1,000 ha at Kau Yi Chau. The planned size of commercial development for CBD3 will be of some 4 million m² (or 43 million ft² which would be some 20 blocks of IFC2) which critical mass would be important for commercial success. There will be a significant supply of ranging from 150,000 to 260,000 residential units. The scale of the development is significant and will be bigger than Shatin new town in terms of residential population and the planned private and public sector housing units split would be 30% and 70%.

The Lantau Tomorrow Vision in particular the reclamation on east Lantau Island when realised would become the most significant source of land reserve in Hong Kong in the years to come. If the Government goes along with the “Infrastructure First” policy, then Hong Kong will have a readily developable land reserve (including necessary infrastructure of railways and roads) which the Government can put to the market in an

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organised manner (not to flood the market) in a period of say 15 to 20 years to suit social needs and market demand. There has been concerns about the costs of reclamation and infrastructure which could end up to the order of HK\$1,000 Billion (for 1,700 hectares) and whether Hong Kong should put the public money for the Vision.

The HKIS would like to put forward the following analysis to facilitate the consideration of this important issue. We would first look at the amount of floor space which would be created in this development exercise. And then a discussion can be made for the land revenue which may be generated from the sale of government land for commercial and residential use.

Estimation of Developable Floor Space for Residential and Commercial Uses

The Lantau Tomorrow Vision would create a high density metropolis environment which should be able to capitalize upon the infrastructure development to be invested in the same. For the residential development portion, assuming 75 m² and 50 m² for each of the private and public sector residential unit, the maximum total Gross Floor Area (“GFA”) would be in the order of some 14.86 million m². The total GFA would become about 18.58 million m² (including commercial space); the quoted sum of HK\$1,000 Billion would translate to an accommodation value of HK\$54,000/m² (or about HK\$5,000/ft²) which is a reasonable unit rate in light of urban land value in the past two decades. If the total cost would be HK\$500 Billion as previously suggested by sources close to the Government, then the accommodation value would be reduced by half to just HK\$27,000/m² (or about HK\$2,500/ft²). The creation of developable would need to incur two broad items of costs: land cost and infrastructure costs. For lands held by private owners, resumption powers would need to be used and compensation would be paid. The infrastructure costs would need to be incurred anyhow relating to new areas to be used for development purpose. The more widespread the area would be, the higher should be the infrastructure costs per person served to be spent on the same.

Land Sales Revenue to Exceed Land Development Costs

Land sale revenue would be generated from the commercial floor space and the private residential floor space which should exceed the lump sum of HK1,000 Billion mentioned above. There would also be some meaningful land revenue to be created from the public sector housing units which are for sale (like HOS units, Starter Homes units and Housing Society units) as revealed in recent announcement relating Housing Society sale units which land premium to be charged by the Government will be at 1/3 market land value.



We are mindful that competitiveness of Hong Kong as a whole has been adversely affected by the shortage of commercial space and the world record of high office rental. This has been witnessed by the extremely low vacancy rate in the Central CBD at 1.5% which means businesses are very difficult if not impossible to take up additional space. The 2030+ planning study had previously suggested a 1,000 ha reclamation and the commercial floor space size could be in the order of some 2.4 million m². The current planned size of CBD3 at 4 million m² (for offices, retail, hotels, etc uses) has increased by around 70% versus the previous recommendation and would provide bigger capacity for future expansion to cater for the growth of the economy of Hong Kong to capitalise upon the Belt and Road and the Guangdong, Hong Kong and Macao Greater Bay Area Initiatives. Benchmark indications could be made to the commercial AVs in Central CBD, Kai Tak New Development Area and Cheung She Wan Business District. An AV of say HK\$86,000/m to HK\$97,000/m (or about HK\$8,000 to \$9,000/ft²) would serve good indication purpose.

For the residential AVs, the positioning of the CBD3 (good accessibility and high income working opportunities) and the harbour/seaviews to be enjoyed by the island nature of reclamation should mean good demand for the private residential space. Benchmark indications could be made to residential AVs in Kai Tak New Development Area and areas within walking distance of MTR stations. An AV of say HK\$107,640/m to HK\$129,200/m (or about HK\$10,000 to \$12,000/ft²) would serve good indication purpose. There would also be public housing sector units which would be sold at discounted prices to reflect the affordability of the selected group of citizens to be subsidised. There would also be public housing rental units which would be subsidised by the Government in terms of land and construction costs.

The land sale revenue would come after the reclamation has been done and infrastructure in place and thus there is a time lag which could span from a few years up to one to two decades. In anticipation of gradual growth of the economy, it would be reasonable to expect appreciation in land value in the medium to long term. Such appreciation in land value which would balance out the present value effect of revenue to be collected from site sales in the future. For the vacant reclaimed land nor ripe for disposal or development, they can be put to different temporary uses including driving school, recreational and amusement park purposes.

The commercial land value would be in the order of HK\$344 - \$387 Billion and the private residential land value (based upon maximum number of some 78,000 units) would be in the order of HK\$630 - 756 Billion. The total land value (excluding potential revenue from public sector residential units would be around HK\$ 974 – 1,143 Billion. The indicative land value assessment for the commercial and private residential uses suggests that it



makes economic sense for the reclamation project under the Lantau Tomorrow Vision.

Remarks:

1. The detailed study of the 1000 ha reclamation is yet to be done including but not limited to the development intensity, infrastructure provision in particular transportation links.
2. The government has planned to apply for funding for the detailed research.
3. This estimation is a broad brush exercise for indication purpose and not to be treated as a formal valuation exercise.

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