

Report No. 50 of the Director of Audit — Chapter 2

COMMERCIALISATION AND UTILISATION OF GOVERNMENT PROPERTIES

Summary

1. The Government Property Agency (GPA) was established in April 1990 to administer and manage efficiently and cost-effectively all government-owned and leased properties. According to the Accommodation Regulations, the GPA's objectives in respect of the utilisation and commercialisation of government properties are: (a) to ensure that all government accommodation is fully utilised with maximum efficiency and value for money; and (b) to introduce appropriate commercial activities in suitable government accommodation so as to maximise the return to the Government for its capital investment. In the GPA, the Site Utilisation Division (SUD) is responsible for handling matters relating to these two objectives.

Commercialisation of government properties

2. ***Trade and Industry Department (TID) Tower.*** The Audit Commission (Audit)'s review of the government property portfolio found two properties of considerable commercial value. They are the TID Tower in Mong Kok and the Queensway Plaza in Admiralty. The TID Tower is a 23-storey building acquired by the Government in 1990. Before acquisition, the ground, the mezzanine, the first and the second floors (i.e. the lower floors) were fitted out as a shopping arcade and leased to retail shops. After acquisition, except for the ground floor which continued to be leased to compatible businesses, the remaining areas were mainly allocated to the TID for use as office accommodation. In June 2005, the TID informed the GPA that it would return surplus areas of 1,000 to 1,500 square metres to the GPA. In May 2006, the GPA considered that relocating government offices in the TID Tower to a proposed new government office building around 2013 would release sizeable commercial space and land for other development. In March 2007, after a detailed review of office accommodation and relocation of offices, the TID informed the GPA that surplus areas of about 1,790 square metres could be released. Up to December 2007, the GPA allocated 1,600 square metres, including portions of the mezzanine and the first floors (i.e. 742 square metres), to the Student Financial Assistance Agency (SFAA), and 190 square metres on the eleventh floor to the Labour Department.

3. ***Need to realise the commercial potential of the TID Tower.*** The GPA followed the general principle of Accommodation Circular No. 1/97 in allocating surplus areas in 2007. According to the circular, once surplus accommodation is available, the GPA will try to identify alternative government users before considering commercialisation. However, the TID Tower is a unique government property located at a prime location and has considerable commercial value. The basements, the ground, the mezzanine, the first

and the second floors have valuable commercial potential for use as a shopping arcade. In Audit's view, without conducting a cost-benefit analysis, the relocation of the SFAA to the lower floors in 2007 might not be the most economic use of the space released by the TID. In addition, some areas on the first floor, used by the TID for common facilities (such as the staff recreation room), could also be converted for retail use after relocating the facilities to the other floors. As the TID informed the GPA in June 2005 that it would release surplus areas, the GPA might not have made use of the opportunity at that time to fully realise the commercial potential of the lower floors.

4. ***Commercialisation of the Queensway Plaza.*** The Queensway Plaza is a shopping mall situated in a prime location above the Admiralty Mass Transit Railway (MTR) Station. The GPA successfully realises the commercialisation potential of the Queensway Plaza and maximises the return to the Government by letting out all the shops to a principal tenant.

5. ***Audit recommendation.*** *Audit has recommended that the Government Property Administrator should explore the commercialisation opportunities of converting the basements, the ground, the mezzanine, the first and the second floors into a shopping arcade for retail use, taking into account the future use of the TID Tower, the market conditions and the successful experience of letting out the Queensway Plaza.*

6. ***Need to enhance the commercial value of the ground floor shops.*** In 1990, when the GPA first let out the ground floor shops in the TID Tower, the monthly rents compared favourably with the corresponding Rating and Valuation Department rental valuations of ground floor shops at nearby developments. Audit analysis of the changes in commercial value of the shops in the TID Tower over the 18-year period from 1990 to 2007 revealed that, on the whole, the annual rental income had increased by 38%. However, for seven shops, the monthly rents per square metre in 2007 were substantially lower than those in 1990. It seems unreasonable that the rents of the seven shops in 2007 are lower than those in 1990. As the TID Tower is located in a prime commercial location, Audit considers that there is a need to enhance the commercial value of the shops on the ground floor so as to maximise the return on the Government's investment. *Audit has recommended that the Government Property Administrator should take measures (e.g. holding marketing promotion activities and improving the shopping environment) to enhance the commercial value of the shops on the ground floor of the TID Tower.*

Management and reporting of identified commercialisation opportunities

7. ***Delay in processing an identified commercialisation opportunity.*** Audit found that there was an undue delay in the processing of an identified commercialisation opportunity by the SUD. Audit noted that the SUD had not followed up the commercialisation opportunity at the Mong Kok Stadium for an unduly long period of three years. In Audit's view, the financial benefits of the proposed tender for the commercialisation opportunity have been adversely affected and there are revenue implications to the Government. *Audit has recommended that the Government Property Administrator should process all identified commercialisation opportunities promptly in order to protect government revenue.*

8. ***Monitoring of identified commercialisation opportunities.*** To monitor the progress of identified commercialisation opportunities and keep track of the results, the SUD maintains a list of these opportunities for each year. The SUD updates the progress of each case included in these lists on a quarterly basis. Although the progress of the Mong Kok Stadium case was updated quarterly, the actual status of the case was not reported and the GPA management was not aware of the delay. *Audit has recommended that the Government Property Administrator should: (a) provide additional information (such as target and actual completion dates of each case, and reasons for variances at different stages) to facilitate the monitoring of the progress of the cases; and (b) step up efforts in monitoring the progress of identified commercialisation opportunities and ensure that all cases are promptly and duly processed.*

9. ***Measures to protect government revenue.*** Audit found that there was a prolonged delay in finalising the detailed instructions to be followed for handling recommendations made for not pursuing identified commercialisation opportunities. *Audit has recommended that the Government Property Administrator should review the circumstances leading to the prolonged delay in finalising the detailed instructions and introduce measures to expedite the issue of the instructions.*

Utilisation of vacant and surplus government properties

10. ***Need to properly manage the areas reserved for MTR entrance/exit.*** Audit found that three government premises in Building A, Building B and Building C, originally reserved as MTR entrance/exit areas, had remained vacant for a long period of time. The premises in Building A and Building B, located in private developments and vested in the Financial Secretary Incorporated (FSI), had remained vacant since they were assigned to the Government in 1980 and 1982 respectively. Audit reviewed the GPA's efforts in putting the two premises in Building A and Building B to other gainful uses, and found that there were a number of outstanding issues to be resolved by the GPA. The premises in Building C, assigned to the Government of Hong Kong in July 1994 and managed by the Buildings Department, had remained vacant since 1994. In Audit's view, the GPA needs to: (a) resolve all the outstanding issues, including the building concessions issue and the water seepage problem in Building A and Building B; and (b) explore options to put the three premises in Building A, Building B and Building C to other gainful uses.

11. ***Audit recommendations.*** *Audit has recommended that:*

Building A and Building B

- (a) *the Government Property Administrator should: (i) in consultation with the Department of Justice and the relevant government departments, explore options to put the premises to other gainful uses; (ii) explore the use of the premises as a cash point, for panel advertising or display boxes, and clarify with the Director of Buildings as to whether the premises may be put to commercial use through short-term waiver; and (iii) in consultation with the Department of Justice, resolve the dispute over the legal responsibility for the water seepage and rectify the water seepage problem in both premises;*

Building C

- (b) *the Director of Buildings and the Government Property Administrator should jointly: (i) consider the feasibility of transferring the management of the reserved MTR entrance/exit areas to the GPA; (ii) explore options to put the premises to other gainful uses; and (iii) consider the need for assigning the premises to the FSI; and*

Future reserved MTR entrance/exit areas

- (c) *the Director of Lands should, based on the advice from the Government Property Administrator and the Director of Highways, make provisions for other gainful uses in lease conditions in case future reserved MTR entrance/exit areas, located in private developments and vested in the FSI, are no longer required for the designated purposes.*

12. ***Handling of surplus specialist departmental buildings.*** In June 2005, the Financial Services and the Treasury Bureau, in conjunction with the GPA, prepared a Property Strategy Group (PSG) paper. The aim was to rationalise the procedures on the handling of surplus specialist departmental buildings and to develop an approach which would be most efficient and cost-effective from the overall government perspective. The PSG planned to promulgate an Accommodation Circular to implement the new arrangements. However, as at 31 December 2007, after a lapse of two and a half years, the GPA had not finalised the arrangements for handling surplus specialist departmental buildings. *Audit has recommended that the Government Property Administrator should, in consultation with the Secretary for Financial Services and the Treasury: (a) resolve all the outstanding issues and finalise the arrangements for handling surplus specialist departmental buildings; and (b) urge the PSG to provide the GPA with strategic directions and support for handling surplus specialist departmental buildings.*

Response from the Administration

13. The Administration generally agrees with the audit recommendations.

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