Leveraging property values for metro railway development in Hong Kong

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Leveraging property values for metro railway development in Hong Kong
Experiences and lessons

Bo-sin Tang

Abstract
Joint development of real property and the metro railway by the Hong Kong MTR Corporation (MTRC) has contributed enormously to urban growth and spatial transformation of Hong Kong over the past four decades. This “rail plus property” (R+P) development model has also made the MTRC one of the most profitable and successful railway operators by world standards. Based on the theoretical framework of new institutional economics, this chapter explains why this model is more than simply using property incomes to subsidize metro railway development. It elucidates how the R+P model embodies an institutional arrangement that can effectively coordinate action of the government, railway operator, developers and other market players in transforming the urban built environment, and properly aligns their different interests and capabilities with appropriate incentives in accomplishing a desirable use of urban space. Successful implementation of the model requires supportive government land use and transport strategy, complementary project planning and development process, and competent and responsible organizations that strive towards making the best use of urban space and producing high-quality urban infrastructure and land development in fulfilling the private needs and the public interest. This chapter will examine the experiences of Hong Kong’s metro railway on urban spatial development and the property market, identify the critical success factors and highlight some potential problems of this model.

Introduction
Compact urban form and transit-oriented development help reduce the negative environmental impacts of urbanization and make cities more sustainable. As a high-capacity passenger carrier, metro railway is considered not only as one of the most efficient modes of public transport in terms of energy and urban land consumption, but also as an “integration leader” in possibly creating an integrated, user-friendly and bustling urban form (UITP, 2003). While
joint development of land uses and the metro railway generates obvious benefits, a lot of attention is put on the project design of such development (Bernick and Cervero, 1997; Bertolini and Spit, 1998; Cervero, 1998; Zhang, 2007; Cervero and Murakami, 2008) rather than on the institutional mechanism that makes it happen (Tang et al., 2004; UITP, 2009). One of the main obstacles in developing a metro railway system is its high construction and operating costs. How to finance its construction and sustain its operational viability after completion present major challenges to urban leaders and managers. This chapter elucidates the experience of the Hong Kong metro system (or the MTR for short) in addressing these issues and achieving a reasonably successful integration between land use and railway development. The emphasis is about how the Hong Kong MTR model embodies an appropriate implementation structure in organizing a sustainable use of urban space, rather than as a simple funding model for the construction of the metro railway.

**MTR: background and performance**

The Hong Kong metro railway system is operated by the MTR Corporation (MTRC). Established in 1975 by the Hong Kong government, the MTRC has carried out the missions of constructing and managing, on prudent commercial principles, a mass transit railway service, which now constitutes an integral part of the public transport system in Hong Kong. The Hong Kong government was the sole owner of the MTRC until October 2000, since when approximately 23 percent of its shares have been privatized and traded in the Hong Kong Stock Exchange. As the majority shareholder, the Hong Kong government has committed to maintaining not less than 50 percent shareholding in the company for at least 20 years from the date of the initial public offering in 2000. In December 2007, the railway network of another public railway organization, the Kowloon–Canton Railway Corporation (KCRC), was formally merged with the MTRC, making it a “railway monopoly” in the territory (Yeung, 2008).

The KCRC was a statutory corporation transformed in 1982 from the former Railway Department of the Hong Kong government, which had operated Hong Kong’s first railway connecting mainland China since 1910 (Yeung, 2008: 71–77). At the time of its merging with the MTRC, it operated the cross-boundary railway link with the mainland, and provided local railway services connecting new towns and urban districts in Hong Kong and a light rail system in the North Western New Territories of the city. Combining these networks after the merger and in the year of 2014, the MTRC operated a total railway route length of 220.9 km comprising 87 stations on ten lines and 68 light rail stops (MTRC, 2014). It now has a total annual patronage of over 1,900 million passengers using its domestic networks and its market share in franchised public transport exceeded 48 percent. Average weekday patronage of the domestic railway services (excluding the light rail) reached about 4.5 million passengers in 2014 (MTRC, 2014).

This chapter focuses its analysis only on the mass transit railway system because the KCRC railway development was operated under different principles. Before the merger, the MTR system had a total route length of about 91 km, connecting the airport and the densely populated corridors in the main urban area (Figure 2.1). In 2006, it carried over 2.5 million passengers during an average weekday, accounting for about 25 percent (second to public bus services) of the total market share of franchised public transport services in Hong Kong (MTRC, 2006). Apart from railway operations, the MTRC has engaged actively in real estate development. In joint ventures with private developers, the MTRC before the merger developed over 65,000 housing units in high-density residential estates and over 1.4 million
sq.m. of upmarket commercial and office projects at 25 MTR stations in Hong Kong (2008 data). In 2014, the MTRC held an investment property portfolio of about 212,500 sq.m. of retail space and 41,000 sq.m. of offices. It also provided property management services to over 763,000 sq.m. of commercial space and more than 91,400 residential units (MTRC, 2014). Property development has contributed to its railway business in two ways. First, it provides a major income source to finance the construction of railway projects. Second, property development projects built on or near railway stations assemble a critical mass of railway riders that increases railway patronage.

The Hong Kong MTR network is one of the most successful built-and-operated infrastructure projects by world standards. It provides safe, reliable, efficient, and reasonably affordable transport services to the Hong Kong community. Unlike railway operators in many other cities, the MTRC is a profitable company that demands no operational subsidies from the government towards its daily operations (Figure 2.2). Furthermore, it contributed over HK$103 billion (US$13 billion) of financial gains to the Hong Kong government in terms of land revenue, cash dividend and proceeds from public listing, in addition to over HK$73 billion (US$9.4 billion) worth (as of 31 October 2008) of company assets (Chow, 2008). A more recent estimate was that, as at the end of 2012, the net financial gains to the government exceeded HK$226 billion (US$29 billion) including land sale income, annual dividends, IPO receipts and the asset value of government shareholding. This amount did not take into account the increase in property tax revenue (called “rates” in local terms) to the government from private property owners who had received property value enhancement due to improved connectivity to the MTR railway. These achievements are attributed to the business model of the MTRC, which is often described as the “Rail plus Property (R+P) model” invented by the

![MTR system map (before the merger)](image-url)
first chairman of the MTRC, Norman Thompson (MTRC, 2012). As the name suggests, the model entails a combination of both railway and property development. Indeed, property development and investment have made significant financial contributions to MTRC’s profits (Figure 2.3). The MTRC is therefore not a railway operator only; the company has become a prominent player in the local property market and has acknowledged itself as “one of Hong Kong’s biggest developers” (MTRC, 2012: 99).

The MTR network has exerted considerable impact on the Hong Kong property market. Real estate development on top of or near MTR stations is highly popular with developers, buyers and tenants. Housing estates that are better integrated with the MTR access facilities tend to command a price premium over that of comparable housing projects located slightly further away. Their property prices were found to be more resilient to property downturns and able to escalate more during property booms (Table 2.1). The presence of the MTR network has strongly encouraged private land development and building activities. Completion of new private floor space, especially from non-domestic buildings and along the Island Line, tended to cluster on land within the 400 m (walking distance) radius around an MTR Station (Table 2.2). The urban spatial structure of Hong Kong has evolved with the growth of the railway system, which is now earmarked by the government as the backbone of the local transport infrastructure. According to the recent estimates of the government planning department, about 75% of office/commercial floor space, 46% of industrial/storage floor space, and 43% of housing property is now located within 500 m of a railway station in Hong Kong (Ling, 2014).
Figure 2.3  Contribution of railway and property to MTRC’s operating profits

Source: MTRC annual report, various issues

Table 2.1 Property price comparison of comprehensive housing estates

<table>
<thead>
<tr>
<th>Estate A: Better integration with MTR access</th>
<th>Estate B: Longer distance to MTR in same neighborhood</th>
<th>Differences in housing prices – Estate A vs Estate B (HK$/m² and %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sceneway Garden Lahore</td>
<td>3126*</td>
<td>3761*</td>
</tr>
<tr>
<td></td>
<td>(+ 6.9%)</td>
<td>(+ 6.9%)</td>
</tr>
<tr>
<td>Sceneway Garden Lahore</td>
<td>2077*</td>
<td>3459*</td>
</tr>
<tr>
<td></td>
<td>(+ 5.5%)</td>
<td>(+ 7.6%)</td>
</tr>
<tr>
<td>Sceneway Garden Lahore</td>
<td>3719*</td>
<td>3942*</td>
</tr>
<tr>
<td></td>
<td>(+ 9.9%)</td>
<td>(+ 9.5%)</td>
</tr>
<tr>
<td>Sceneway Garden Lahore</td>
<td>701*</td>
<td>5590*</td>
</tr>
<tr>
<td></td>
<td>(+ 2.2%)</td>
<td>(+14.3%)</td>
</tr>
<tr>
<td>Sceneway Garden Lahore</td>
<td>6266*</td>
<td>117</td>
</tr>
<tr>
<td></td>
<td>(+ 11.5%)</td>
<td>(+ 2.1%)</td>
</tr>
<tr>
<td>Sceneway Garden Lahore</td>
<td>2760*</td>
<td>11700*</td>
</tr>
<tr>
<td></td>
<td>(+ 6.4%)</td>
<td>(+ 20.0%)</td>
</tr>
</tbody>
</table>

Notes: *Significance level at .000.

Property price comparison is based on average monthly property transaction prices of the housing units in these housing estates during the study period. Data are extracted from property transaction records supplied by EPRC.

Source: Author’s analysis
Institutional arrangement: theoretical explanations

Land use planning has long recognized a synergistic relationship between transport and land development. Metro railway can substantially improve urban transport accessibility and hence the value of the land serviced by the railway system. The rise in land values and property prices can help finance railway construction and sustain its operational viability. But this synergy does not come about naturally. It requires a conscious effort of all stakeholders in organizing the use and transformation of urban space. The R+P model of the MTRC is more than just a juxtaposition of railway and property development. It is equally not represented only by the landmark property development projects on top of the MTR stations; they are just the physical outcomes of the model. Nor is it simply the use of real estate incomes to subsidize and finance railway development. Instead, the R+P model represents a unique approach in handling the relationship between land use and railway infrastructure (Tang et al., 2004). It embodies an institutional framework that can effectively coordinate the action of numerous players in transforming the urban built environment and accomplishing a desirable and efficient outcome.

Under the perspective of new institutional economics (NIE), institutions refer to the “rules of the game” that cover the formal rules, informal norms, and their enforcement characteristics (North, 1981; 1990; 1997). Institutions are constructed by human society to govern the social relationship and structure the pattern of social interaction in daily life. The institutional arrangement provides the systems of incentives and constraints that influence individual and

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### Table 2.2 Completion of private floor space near MTR stations, May 1981–December 2014

<table>
<thead>
<tr>
<th>Type of buildings/ completion of usable floor area (UFA)</th>
<th>MTR Island Line</th>
<th>MTR Tsuen Wan and Kwun Tong Lines</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Residential or composite buildings</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic UFA within 600 m of MTR station (in ‘000 m²)</td>
<td>5250.76 (100%)</td>
<td>3558.53 (100%)</td>
</tr>
<tr>
<td>Domestic UFA within 400 m of MTR station (in ‘000 m²)</td>
<td>4172.87 (79%)</td>
<td>1806.73 (51%)</td>
</tr>
<tr>
<td>Domestic UFA between 400 m and 600 m of MTR station (in ‘000 m²)</td>
<td>1077.89 (21%)</td>
<td>1751.81 (49%)</td>
</tr>
<tr>
<td><strong>Commercial and industrial buildings</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-domestic UFA within 600 m of MTR Station (in ‘000 m²)</td>
<td>5691.42 (100%)</td>
<td>6954.58 (100%)</td>
</tr>
<tr>
<td>Non-domestic UFA within 400 m of MTR Station (in 000 m²)</td>
<td>4684.17 (82%)</td>
<td>4338.25 (62%)</td>
</tr>
<tr>
<td>Non-domestic UFA between 400 m and 600 m of MTR Station (in ‘000 m²)</td>
<td>1007.25 (18%)</td>
<td>2616.33 (38%)</td>
</tr>
</tbody>
</table>

**Notes:** The analysis is based on data from the Monthly Digests of the Buildings Department from May 1981 to December 2014 about completion of new buildings for which occupation permits have been issued. Locations of the new buildings are identified using GeoInfoMap of the Lands Department and the statutory planning portal of the Town Planning Board. MTR Island Line covers all the stations from Chai Wan Station to Sheung Wan Station. MTR Kwun Tong Line covers all the stations up to Kwun Tong Station.

**Source:** Author’s analysis
organizational behaviour. Depending on circumstances, such behaviour may take the form of “cooperative exchanges” that enhance benefits of all the contracting parties and improve overall economic efficiency, or, conversely, of “exploitative appropriation” of the others resulting in welfare reduction (Hirshleifer, 2001). In the long run, collective outcomes of these strategic interactions can either reinforce or transform the prevailing institutions (Aoki 2000; Campbell, 2004).

Transformation of the urban built environment, as in the case of railway and property development, involves numerous exchanges of resources, information, assets of economic values, promises, and actions between many parties in the process. Whether benefits can be generated and captured through a sensible use and development of the land resources depends on the underlying institutions, especially in connection with the property rights system. Urban land resources, like many common-pool resources, are vulnerable to competitive, free-riding opportunistic actions that can quickly deplete their economic values. Privatization is a possible means to resolve this problem. Given a clear delineation of property rights in a land asset, an individual owner will have an incentive to protect it, enhance its value through deliberate improvements and capture its benefit through voluntary transactions with others. However, the NIE perspective recognizes that market transactions and their enforcement are not cost-free. High transaction costs are “frictions” that can stifle beneficial exchanges and adversely affect the efficient use and allocation of resources. The theoretical implication, therefore, is about how to devise an appropriate institutional arrangement that works towards reducing the transaction costs.

To integrate railway and property development in an urban context embodies extremely high transaction costs. Railway and property involve different business knowledge and expertise. Furthermore, the task of combining railway and above-station property development includes numerous interdependent decisions, assets, and resources, which may not be easily divisible. Imperfect knowledge about the conditions of the development sites will increase the monitoring and search costs. Many stakeholders, such as the government, railway operator, land developers, contractors, and the general public are participating in the development scene. Opportunism, cheating, and non-compliance of these parties tend to increase the negotiation and enforcement costs of the process. This is especially likely to happen when real estate objectives and transport considerations become incompatible and when these two aspects are pursued by separate organizations. The business objective of the other party is “external” to its own. It may not be possible for them to resolve the conflicts through private negotiations in order to allow the synergy of property and transport to take full effect.

There are many possible institutional forms of governing the production of the urban built environment (see, e.g. Alexander, 2001a; 2001b). Below are two possible institutional models for organizing and coordinating the transformation of urban space for a metro railway and its adjoining land development (Figure 2.4).

Model A assigns separate roles and functions to the railway company and land developers respectively. The government provides land or development rights, through competitive sale or direct allocation, to these companies separately. The railway company is primarily responsible for constructing and operating the railway infrastructure while the land developers implement their own real estate projects within the railway catchment areas. Under this model, public-sector decision making, statutory town plans, and government policies and regulations are the principal coordinating mechanisms in bringing together all the key players in developing the sites. The degree of railway and property integration at the project level relies mainly on the quality of interactions between these market players, their interpretations of the government regulatory framework and their compliance with the conditions imposed upon them.
Model B presents the R+P business model implemented by the MTRC. This model puts the railway company at the centre in planning, coordinating and managing the use and development of space around the station sites. While the railway company is assigned with the missions of constructing and operating the railway infrastructure, it also receives a government grant of exclusive development rights for the land above and around railway stations. The MTRC has to pay a land premium, at full market value, to the government on the basis of a greenfield site without a railway. It builds the railway and develops the property in partnership with qualified land developers, who are required to shoulder the land premium and share property development profits with the railway company. Project planning and development particulars are determined by this consortium in consultation with the government and other public authorities. The railway company supervises implementation of both railway and property development projects and provides the platform for resolving all possible conflicts of the relevant parties in connection with site development at the project level.

Both models involve leveraging property development incomes to support railway construction. In Model A, this is undertaken through the government by channeling land sale revenues to the railway company in terms of capital injection and/or providing a fare subsidy to support daily operations of the railway after completion. In Model B, however, the subsidy is more subtle and is primarily in the form of an exclusive land grant to the MTRC at the stage of project commissioning. Under a project agreement, the company is required to pay land revenues to the government and also fulfill its contractual duty of building the railway. The MTRC has to make the best use of its land resources in order to generate and capture the additional values derived from integrating railway and property development together.

Both Models A and B can achieve some form of integration between railway and property development. Nonetheless, judging from the theoretical NIE perspective and the empirical evidence, Model B is definitely more capable of generating better integration and more positive
development outcomes, primarily because it embodies comparatively lower transaction costs than Model A. The merit of the R+P model is not only that it provides an incentive and constraint structure for the MTRC to maximize the returns from its land resources by means of comprehensive planning, good design and appropriate project timing, but it also provides a proper alignment of the interests, resources, expertise, and decision-making capabilities of all the key parties including the government, property developers and the MTRC.

First, it is appropriate for the government to operate at a strategic level by creating a favorable regulatory environment and setting supportive strategic land use and transport policies that take into account the public interest of the territory. The government gives autonomy to the MTRC in its corporate management such that business efficiency can prevail in its daily operations. In addition to the exclusive land grant to the MTRC, the government also needs to implement a complementary urban growth management policy that encourages higher development density around railway stations, and a public transport policy that restricts competition from other transport modes. Second, the property developers, in pursuing their private interests, operate at the project level, and they are required to build the development projects taking into account site-specific requirements and the deals agreed with the MTRC. Private developers have to compete through tender by offering the best bid to the MTRC in order to get the property development contracts. Finally, the MTRC operates at the intermediary level responsible for monitoring and coordinating the implementation of joint development projects, converting strategic objectives into site-specific requirements, transforming policies into deals and balancing possible conflicts between the public and private interests. In the process, the company performance is also disciplined by the financial market, which exerts an impact on its credit ratings, costs of borrowing, and financial returns to investors. This creates additional incentives as well as constraints to the MTRC towards maximizing the values of all development projects and “internalizing” all possible external benefits generated from railway and property development.

Case study

This section provides a case study of Tung Chung development to illustrate the positive impacts of the Hong Kong R+P Model on spatial planning and the urban built environment. Tung Chung new town was developed as part of the Airport Core Programme in the late 1980s. In 1989, the then colonial government decided to build a new international airport at Chek Lap Kok, located more than 30 km to the west of the central business district, and planned to complete it before the return to China of political sovereignty of Hong Kong in July 1997. Located about 2 km to the south-east of the new airport site, Tung Chung new town was concurrently planned and developed, not only as a new housing area, but also as an airport back-up community. Massive infrastructure investment has been made to build up this new town and develop the adjoining land during the past two and a half decades. Tung Chung is now connected to the main urban areas of Hong Kong by MTR line (Tung Chung Line) and major highways, such as the North Lantau Expressway, the Lantau Fixed Crossing and the Tsing Ma Bridge.

Tung Chung Station is planned to be the town center of Tung Chung new town, and is also the terminal station of the Tung Chung MTR Line. According to the government's initial conceptual master plan, commercial uses were proposed to be developed on and around the station site (Figure 2.5). Strategic transport links such as the North Lantau Expressway and the Airport Express Link (a high-speed train also operated by the MTRC) would run along the southern edge of the major housing areas, pass the commercial zone and connect to the new
airport. Several housing zones were proposed to the north-east and south-west of Tung Chung Station. Low- to medium-density residential development was proposed on the waterfront, and several large high-rise high-density housing zones were located on the inland sites. Land parcels for open space, government and community uses were identified on the master plan.

Think about this conceptual master plan for Tung Chung New Town as a typical output of Model A from our theoretical framework in Figure 2.4. Compare it with the development plan of the Tung Chung town center that was subsequently prepared and actually built by the MTRC under the R+P Model (Figure 2.6). Endowed with the exclusive grant of development rights of land on and around the Tung Chung Station, the MTRC did not implement the conceptual master plan of the government. It sought to revise the urban design and spatial planning of the station area with a view to enhancing marketability of its property for buyers and investors, and creating an iconic landmark for visitors and tourists at this strategic location. What the MTRC did was to arrange the array of high-rise residential towers in a curvilinear pattern along the southern edge to take full advantage of the spectacular sea views to the north and mountain views to the south. This creates a visually stunning development identity that strengthens the landmark of this Hong Kong’s gateway position (Figure 2.7). The low-rise housing complexes were set back and located on the seaward side to avoid obstruction of sea views to the high-rise blocks. Landscaped public open space was built into green corridors and integrated into the development connecting to Tung Chung Station. The commercial complex is strategically designed to bridge across the North Lantau Expressway and the Airport Express Link to provide a welcoming first impression to Hong Kong’s inbound visitors.

![Figure 2.5 Comparison of conceptual master plans for Tung Chung New Town Development: Government’s initial master plan](image-url)

*Source: Author, based on a government plan*
Figure 2.6  Comparison of conceptual master plans for Tung Chung New Town Development: MTRC’s revised master plan

Source: Author

Figure 2.7  Tung Chung development based on MTRC’s master plan

Source: Author
Why can Model A (i.e. the government-led approach) not come up with such a design scheme? Can this scheme be implemented through Model A? Following the theoretical arguments above, a major strength of Model B (i.e. the R+P Model) is that it does not only provide the incentives for the MTRC to maximize property returns by means of good planning and attractive design, but it also provides the appropriate institutional arrangement for the company to ensure implementation of the most desirable way to integrate railway and property development projects. The alternative government-led approach, more often than not, lacks both the incentives and the meticulous means to achieve the same result. To implement the alternative design scheme of the MTRC, for instance, government departments need to work together to stipulate and prescribe all the detailed requirements in their regulatory tools, such as zoning, land leases, and building covenants, enforce these provisions and monitor the implementation process by private developers during construction. The transaction costs to the government, under the existing incentive structure and bureaucratic coordinating mechanism, will be prohibitively high.

All regulatory institutions and enforcement mechanisms involve transaction costs of varying degrees. Government planning rules are more effective in terms of regulating broad land use disposition, development intensity, and some elements of the built form such as building height, number of storeys, and site coverage. It is notoriously weak in the aspects of urban design, project innovation and scheme implementation. The marketability of private development projects has never been a principal concern of development regulators. Indeed, government regulations tend to be more cost-effective when they aim at “satisfying”, i.e. setting the minimum acceptable standards and requirements, rather than “maximizing”, i.e. prescribing all the details and leaving minimal flexibility. Relying on the government to achieve the latter objective works against the incentive structure faced by most civil servants, and its enforcement will encounter enormous difficulties. This case study illustrates how the application of the R+P model at the right place can better realize the full potential of land resources, and deliver a development masterpiece that receives wide public applause. If the initial planning proposals for Tung Chung town center were to be implemented through separate land allocation by the government to property developers and the railway company, it would have ended up as another commonly found high-density development cluster that might be incongruent with its strategic gateway location.

Concluding remarks

Sustainable urbanization requires an efficient and intensive use of land space to accommodate the needs of a fast-growing urban population. Many developing countries are plagued by problems such as traffic congestion, environmental pollution, and urban sprawl. Metro railway provides a high-capacity, energy-efficient, and land-saving mode of urban transport and can therefore bring enormous benefits to rapidly growing cities. The MTR of Hong Kong is internationally famous because not only does it carry the above benefits, but it is also a profitable business venture that relieves the government of operational subsidy. This chapter explains the underlying institutional arrangement that has contributed to these positive outcomes. The essence of the R+P model does not lie in the simple use of land and property revenues to subsidize railway development. Nor is it replicable simply by the allocation of property development sites to a railway operator. The core argument is that the model embodies an institutional and regulatory framework that comprises a supportive government land use and transport strategy, a complementary project planning and development process, and competent and responsible organizations that strive towards making the best use of urban
space and producing high-quality urban infrastructure and land development in meeting the private needs and the public interest (Tang et al., 2004).

No model is perfect. While the R+P model has been remarkably successful over the past three decades, it also encountered some recent difficulties. The success of the model relies heavily on a growing urban economy, a healthy real estate market and the availability of government land allocation to the MTRC. These provide the essential setting for the MTRC to capture adequate property income and fare revenues to support railway development. But, as the Hong Kong government is currently facing enormous challenges in finding new land for future development, the opportunity to expand the R+P model into other new districts may be hampered. Furthermore, due to market openness and investment capital inflows, Hong Kong housing prices have climbed to record highs in recent years. Unaffordability of new housing units for many local families and increasing social polarization of the community imply that many households are increasingly unwilling to live away from the main urban areas and employment centers, leading to an adverse impact on MTR ridership. Rising demand for subsidized and affordable housing units also leads to growing public criticisms of the government policy of granting prime development sites to the MTRC for private property development.

Public perception towards the use of the metro railway and the form of high-rise, high-density living is another critical success factor. This is probably a major hurdle in applying the R+P model in many western cities in which low-rise development and auto-dependency are widely accepted by the community. In recent years, rising environmental awareness and community participation in Hong Kong have heightened public concerns about the undesirable impacts of high-rise development at strategic locations such as the waterfront and above railway stations. These development projects are described by some environmentalists as “walled buildings,” which are said to be out of proportion to their neighboring buildings, visually intrusive, blocking the sun and wind to the neighborhood, and eliminating street-level activities (Figure 2.8). The public demand for reducing development density may adversely affect the property returns under the R+P model and thus retard further expansion of the metro system.

Another closely related issue is the privatization of urban space. The R+P model requires government allocation and assignment of exclusive development rights of land to the MTRC. This approach allows the company to privatize the land and exploit fully the use of space in partnership with private property developers. This can impose a strong redistributive impact on the urban form by relocating economic opportunities across territory and concentrating development impetus along railway corridors. Concentration of geographical advantages, unless mitigated by counteracting spatial strategy, may lead to increasing territorial inequality, fragmentation of urban space, “splintering urbanism,” and social exclusion (Harvey, 1973; Graham and Marvin, 2001). All these contravene the goal of building harmony in a city that is essentially a place for community sharing, interaction and exchange, especially in public spaces. Privatization of public open space land is a worrying phenomenon in Hong Kong because it tends to be disintegrating and discriminating (Tang and Wong, 2008). Like sustainability, public space or open space is a multifaceted concept that serves multiple functions in an urban society. As urban sustainability is built upon an interdependency of human activities and a common destiny of the community, the R+P model may not be truly integrative if the development projects are socially exclusive rather than inclusive, or spatially segregating rather than assimilative. Privatization of urban space, while contributing to urban efficiency, cannot be a total solution. Pushing it to an extreme would endanger the public interest in an urban society unless it is concurrently accompanied by the development of inclusive public space.
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