HOW TO PAY FOR A NEW RAIL SYSTEM

HONG KONG is but a speck on the south-east coast of China – a territory of some 1,000 sq. kms. (400 sq. miles) in all – yet it provides a home and a livelihood for over five million people. The greater part of the territory is made up of unproductive hills or uninhabited islands and well over half the population is concentrated around the harbour, the traditional centre of commerce. In this region of roughly 50 sq. kms. (20 sq. miles) over three and a half million people live, work, go to school, eat and enjoy life, at a density averaging 70,000 persons per square kilometre or 175,000 persons per square mile. It is through this area that the main transit railway (MTR) has been threaded. Opened in October 1979, it now carries approaching one million persons per day.

Underground railways become necessary when the population of a city reaches a level and a sophistication at which surface transportation is no longer adequate to meet the demand of the travelling public. When this point is reached the cost of land for the right of way and frequent stations – the value of which arises precisely because of the concentration of population – is such as to make the cost of construction higher than many cities appear able to afford without heavy public subsidies. On the other hand such a territory, particularly one like Hong Kong with exceptional concentration of population and a high demand for short distance transportation combined with low private car ownership, provides the environment in which commercial operation is likely to prove most financially viable once the system is built.

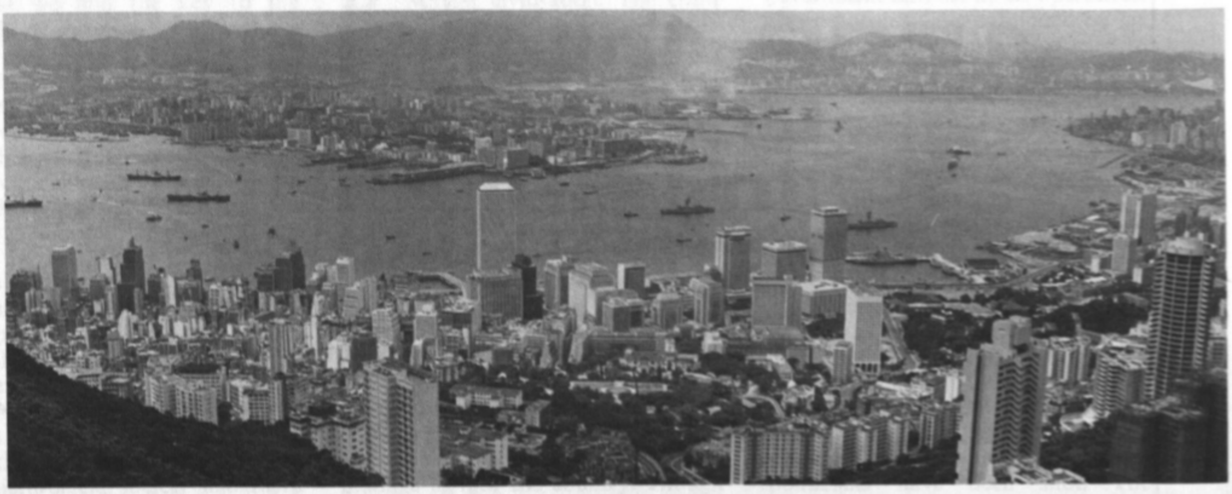
Apart from the MTR and the main railway to China, public transport in Hong Kong is and always has been operated by private enterprise without government subsidy. There are two separate bus companies, two tramway companies, two main ferry services and a large number of privately operated mini buses. These latter started as the result of strike action by some of the workers in the main bus companies during the Cultural Revolution in 1967 and provided so valuable a service that they have been retained and expanded; 4,000 14-seater minibusers now carry 1.5m passengers a day.

The MTR, the first section of which came into operation in October 1979, represents a direct challenge to the established bus and ferry services and now, with the decision to build the Island Line, the Hong Kong Tramways. The Hong Kong Government, with its basic philosophy o and belief in the benefits of free enterprise, would have pre ferred to have obtained the added service of the MTF harbour tunnel. However, for one reason or another n organisation came forward to undertake the constructio and operation of the MTR as a private venture. Hence having accepted that another level of transportation wa essential for the well being (and that means the economi welfare) of the people, the Government set about gettin the system designed and finding the finance to undertak the construction.

LONG TERM Government loans are not practicable in Hong Kong and contractor finance was not adequate or readily available. So for construction purposes the choice lay with international bank loans of relatively short term underwritten by the Government combined with internal Hong Kong resources.

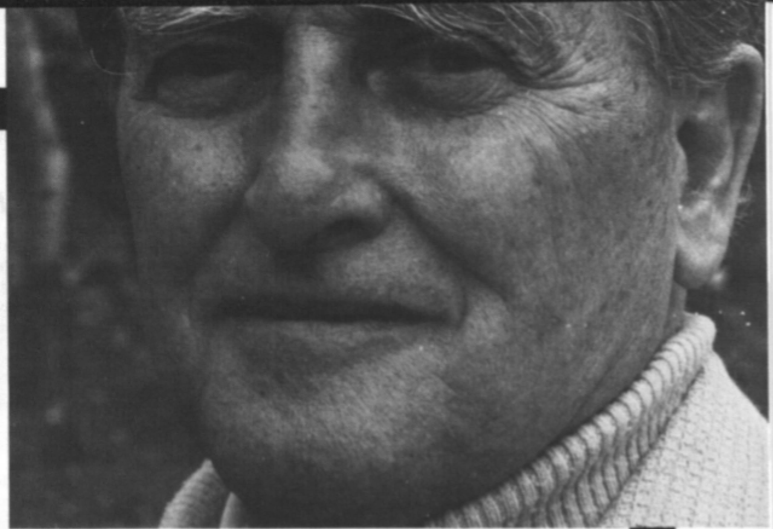
Traditionally in Hong Kong most public development projects – reservoirs, highways, public housing – were and are financed out of current revenue. This was inadequate to cover the major construction aspects of so large a project as the MTR and Government sought other ways to raise the greater part of the cost. *The enhanced value of land particularly at main stations arising from the operation of the MTR was an obvious choice.*

Land in Hong Kong was declared to be Crown land when the colony was founded. The sale of Crown leases and the renewal and regrant of these leases has been a source of revenue ever since. Thus when the MTR came to be built it was not a difficult matter to establish the route and in most cases to set aside crownland for the stations and the marshalling and maintenance depots. In many cases stations were located under existing streets but in a number, particularly important ones in the central district



NEWS ANALYSIS by RICHARD CLARKE

● *The author (right) worked in Hong Kong for 26 years, and is an expert on the British colony's land tenure system.*



of Hong Kong Island, they were located under valuable crownland sites recently freed from earlier development.

In these circumstances the Government had a choice. It could have sold (by auction or tender to the highest bidder) the land on which the stations were to be built with a requirement that the purchaser should provide space for the MTR. Or it could sell the site by private treaty to the MTR Corporation allowing the latter to make such arrangements as it could to capitalise on the development potential of the site over and above the requirements of the railway. It chose the latter method. This approach was somewhat different from that adopted where stations were built largely under public streets when in certain cases private developers were required to provide access points and other facilities required by the MTR.

But we are concerned with the sites granted to the MTR. These have included three important commercial sites and one large depot site in connection with the Modified Initial System (MIS), two significant sites on the Tsuen Wan extension and no less than 13 potential sites in connection with the Island line, construction of which has now started. The cost of the MIS was in round figures $7,000 millions, roughly $60 millions per mile or three times London underground costs. The Tsuen Wan extension will raise the cost to $12,000m and the Island line when completed in 1985 will raise the total cost (at 1980 prices) to $20,000m. In 1980 the profit from the two commercial sites on the Island was $572m at which time only part disposal had taken place. More recent figures are unfortunately not yet available but it is estimated that upwards of 20 per cent of the cost of construction of the system will eventually be recovered from property development. The financial arrangements are designed to recover all debt by 1993 and it seems likely to be the only Mass Transit System built in recent times which will be financially as well as socially successful. Compare the San Francisco Bay Rapid Transit which cannot even cover its running costs.

NEVERTHELESS, whilst they can be described as progressive, the financial arrangements call for some comment. The depot and station sites were sold to the MTR by private treaty rather than by some form of public competition with auction or tender normally adopted by the Hong Kong Government when disposing of crownland for commercial purposes. In a rising market and from the very nature of the process, the price laid by the MTR, whilst theoretically the market value, in practice was invariably less than would have been achieved had the site gone to public competition. Thus it can be said that the gain to the MTR was a loss to the public purse. The critics of the system claim that the process is an undercover method of providing a public subsidy detrimental to the interests of the other public transport systems operated by private enterprise. There is some truth in this.

On the other hand since the sites in question had to provide a major MTR facility (station or depot), it would have been difficult to develop such sites other than in co-operation with the MTR. By allowing the MTR to use the air rights for commercial purposes, the Government maximised the value of the sites. Also the MTR in its negotiations with potential developers was able to use a system of public tender and adopt financial arrangements enabling the MTR to capture the larger part of the land value for the benefit of the travelling public.

However, whilst these arrangements will enable the MTR to cover a significant part of the cost of the system from the sale of air rights, it will capture only a small part of the total increase in land value resulting from the operation of the MTR. The major part of such increase will accrue to private leaseholders of land served by the system and a lesser part to Government by the increase in value of common land sites still in Government hands. An illustration of this is the sale by Government last year of a 4,600 sq. metre site at the end of the Tseun Wan extension for $234m. Compare this with a similar commercial site in central Hong Kong at the other end of the line, a site of 3,214 sq. metres, sold for $908 millions or $282.514, say £24,000 per sq. metre.

HONG KONG is fortunate in its recognition of the basic importance of land value in the economy of its territory. Its land policy and dedication to free trade is largely responsible for the success of its economy. It has a first class system of registration of land transactions, ownership, prices, realised, etc., every parcel of land being fully detailed by cadastral survey and lot number. It would thus be a simple matter to adapt the present rating system based on the UK practice of rateable values (land and buildings) to one of land value only. The present system brought in a revenue of some $800m in 1978/79, about six per cent of the total colony revenue. On the other hand, the sale of just a few acres of crownland (by public auction or tender) brought in over $2,000m in the same financial year. The following year the site revenue doubled whilst rate return increased only slightly.

There is clearly scope for obtaining a much greater part of Government revenue from land value taxation (LVT) but historical and political considerations make such a change unlikely. In these circumstances the adoption of the arrangements used to assist the financing of the MTR by the capture of land value on major sites must be welcomed. It seems to illustrate the level of revenue which could be recovered by a system of LVT. And it explains in part why, despite a healthy economy and some wise government policies, the distribution of wealth in Hong Kong remains inequitable.