

# Taking “People First” Seriously\*:

Reforming Urban Renewal in Hong Kong

## “사람 우선”을 진지하게 받아들이기:

홍콩의 도시재생 개혁

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홍콩의 건물들은 빠르게 노후화되고 있지만, 도시재생 과정은 더디게 진행되고 있다. 본 논문은 도시재생청과 민간 개발업자가 추진하는 도시재생 과정과 문제점을 분석하고, 도시재생청이 ‘사람 우선’ 접근 방식을 진지하게 받아들이어 이윤 극대화 모델을 포기하고 이주 대상 주민과 주변 지역 주민의 이익을 최우선으로 고려하는 도시재생을 위한 ‘신뢰 모델’을 도입할 것을 주장한다.

**[주제어]** 도시재생, 보상, 관리처분방식, 신뢰모델, 용적률, 수용, 강제 매각, 도시계획

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## I . Introduction

Like many cities that had been built rapidly after the second World War, Hong Kong's buildings are aging rapidly. In 1999, there were over 8,500 buildings in Hong Kong that were over 30 years old. This number rose to 15,000 in 2016. As of 2025-2026, according to government statistics, there are now nearly 30,000 such buildings in Hong Kong, making up to 60% of the private building stock.<sup>1)</sup> At the end of 2016, there were a total of 9,700 buildings in Hong Kong that were 50 years or older. Since 2016, this number increased approximately by 500 buildings annually. By 2046, there will likely be 28,000 buildings that are over 50 years old, and 326,000 units over 70 years old. As buildings become old, the condition of these buildings deteriorate due to the temporary nature of the buildings<sup>2)</sup> and often lack of proper and regular maintenance and management. Thus, these buildings can become dangerous, potentially “urban time bombs”.<sup>3)</sup>

Furthermore, there is unused plot ratio for older buildings making them ripe for redevelopment. Buildings that are 30-40 years old are often substantial high-rises, typically 20-40 storeys. But those that are 50 to 70 years old are generally shorter, ranging from 9 to 20 storeys, due to older construction techniques and height restrictions at the time. Older buildings in Kowloon were limited to around 12 storeys because of flight paths

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1) The Hong Kong Institute of Surveyors, “Building Doctor®” <[https://www.hkis.org.hk/en/division\\_bsd.html?id=233#:~:text=According%20to%20government%20statistics%2C%20there,building%20safety%20a%20pressing%20concern](https://www.hkis.org.hk/en/division_bsd.html?id=233#:~:text=According%20to%20government%20statistics%2C%20there,building%20safety%20a%20pressing%20concern)>, search date: 2026. 3. 30.

2) Often these buildings were put up cheaply and quickly to meet the housing need at the time. Some builders even used sea water to mix cement causing iron bars inside concrete to rust with old age.

3) *Ibid.*

restrictions for the former Kai Tak Airport. There are also the traditional “Tong Lau” that exceed 60 or 70 years old, that are typically only 3 to 6 storeys limited by regulations at the time that tied building height to the width of the street. The plot ratio of buildings that are 30 to 50 years old is often used up, making redevelopment financially difficult.<sup>4)</sup> But the plot ratio of Tong Lau and Older buildings in Kowloon is often not used up as current Outline Zoning Plans often allow for a much higher density, making these buildings full of redevelopment potential.

However, the pace of urban renewal is extremely slow. Despite continuous efforts by the government, dedicated agencies such as the Urban Renewal Authority (URA) and the Hong Kong Housing Society, Owners’ Incorporations, and relevant professional bodies to improve the situation, the overall condition of old buildings in Hong Kong remains unsatisfactory, posing a threat to public safety.

Urban renewal can be done by the government through URA or by private developers. Between 2014-2023, around 1600 private buildings were demolished and redeveloped by the private developers and URA combined. Private developers contributed to 75% of these redevelopments, representing the main driver of urban renewal in Hong Kong.<sup>5)</sup>

The URA can obtain full rights through government land acquisition work under the Urban Renewal Ordinance and the Land Resumption Ordinance.

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4) The Government of Hong Kong Special Administration Region, “LCQ6: Redevelopment of old areas”, <[5\) Development Bureau, “Legislative Council Brief”, <](https://www.info.gov.hk/gia/general/201904/03/P2019040300632.htm#:~:text=As%20the%20plot%20ratios%20for,not%2C%20the%20reasons%20for%20that>”:text=As%20the%20plot%20ratios%20for,not%2C%20the%20reasons%20for%20that>”, search date: 2026. 3. 30.</a></p>
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Developers must acquire properties privately, one by one, until ownership reaches the threshold (typically 80%), at which point they can buy the remaining 20% forcibly through the Land (Compulsory Sale for Redevelopment) Ordinance to unify ownership for redevelopment. Or they could negotiate with individual owners collectively to buy 100% of their ownership which can often be a very difficult process. This paper analyzes the difficulties in each method and proposes some solutions to the problem.

## II. Urban renewal by URA

The main difficulty of urban renewal by government agency used to be one of limited financial resources and lack of power to acquire properties for redevelopment. Urban renewal was first launched by the HK Housing Society<sup>6)</sup> under its Urban Improvement Scheme. Although it successfully completed about 30 projects, it faced the problems of financial sustainability and market risk, lacked statutory resumption power, and struggled to find suitable rehousing for affected residents. So in 1988, the Land Development Corporation was formed to take over urban renewal on a “project by project” basis. LDC was given power to request the government to resume land if negotiation with owners on “fair and reasonable” terms failed. Board members were appointed by the Governor and approval of the Secretary

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6) An independent, non-government, non-profit and self-financing entity established in 1948 by the Reverend R O Hall (the Anglican Bishop of Hong Kong) and other conscientious social leaders, but subsequently became a statutory body in 1951 under the Hong Kong Housing Society Incorporation Ordinance (Cap 1059). Its main mission is to build and provide affordable housing and rental estates to low-to-middle income people and special groups in HK.

for Planning, Environment and Lands was needed for each project. Although LDC now had power to request resumption, it could only do that if it had taken all “fair and reasonable” steps to negotiate with owners which was often protracted. As it was self-financing, it had to pay government full land premium for development sites which was a huge financial pressure, and had to work within what was allowed under existing planning regulations. It was not very successful. 26 out of 56 projects remained uncompleted when it was replaced by URA in May 2001 with a deficit of \$22 billion.

Compared to its predecessors, URA is a more modern and powerful agency.<sup>7)</sup> It carries out 4R: Redevelopment, Rehabilitation, Revitalization and pReservation. It has power to seek approval for projects that require amendment to the Outline Zoning Plan. It is also self-financing, but has less financial pressure as government waives land premium for redevelopment sites and injected a one-time capital of HK\$10 billion. Furthermore, it could directly request government to resume land allowing it to override dissenting owners more quickly. Members of the URA board must declare their interest.<sup>8)</sup> Members who are public officers must say so if a project is contrary to public interests.<sup>9)</sup> The Chairman and executive directors are answerable to Legislative Council.<sup>10)</sup>

Since its establishment, URA has accumulated as of December 2025 a net assets value of HK\$43.6 billion. However, it is still susceptible to market risk of “buy-high, sell low” cycle of property market downturn. Thus, since

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7) For background to the establishment of URA see The Government of Hong Kong Special Administrative Region, “Urban Renewal in Hong Kong”, <<https://www.cityu.edu.hk/cityuoncities/upload/content/original/705520220323130227.pdf>>, search date: 2026. 3. 30.

8) Urban Renewal Authority Ordinance (Cap 563) (URAO), s. 7.

9) *Ibid.*, s. 8.

10) *Ibid.*, s. 9.

2022/23 financial year, it has recorded three consecutive years of net deficit totally approximately HK\$10.1 billion.<sup>11)</sup> The main problem is that although its main purpose is for public good, it is trying to act as a commercial profit-making entity and yet does not have the expertise, agility, and flexibility of a private developer. It relies on developers to tender for projects and cannot build on its own. It does not have the holding power to hold out a project during market downturn. And in the pursuit of its commercial interest, many of its public non-financial objectives are not achieved, for example the interests of displaced residents from the old properties redeveloped are often sacrificed. It falls between two stools.

### 1. URA's sources of funding

URA's funding comes from a number of sources. Firstly, funds allocated by the Legislative Council which is paid by the Government<sup>12)</sup> and treated as a debt owed to the Government.<sup>13)</sup> Secondly, its income through upfront payments for successful tender bids by developers, sharing of sales profits from joint development projects with developers, and sale of its own properties. Other sources include funds deposited in its' bank account<sup>14)</sup> and bond issuance. It can borrow from government or other sources<sup>15)</sup> and can grant charges as security for borrowing.<sup>16)</sup> For example, the URA is issuing

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11) Urban Renewal Authority, "Annual Report 2024-25", <[https://www.ura.org.hk/f/publication/8155/URA\\_AR24-25\\_ENG.pdf](https://www.ura.org.hk/f/publication/8155/URA_AR24-25_ENG.pdf)>, search date: 2026. 3. 30.

12) URAO, s.10(1)(a).

13) *Ibid.*, s. 15.

14) *Ibid.*, s. 10(2).

15) *Ibid.*, s. 11.

16) *Ibid.*, s. 11(6).

a HK\$8 billion dual-tranche bond in early 2026, and has increased its borrowing limit to HK\$35 billion in anticipation of high expenditure (HK\$23.5 billion for six ongoing projects). The Legislative Council may authorize the Financial Secretary to provide the URA with guarantees for loans, bonds or fees on behalf of the Government.<sup>17)</sup>

## 2. Accountability

URA is accountable to the government. Although it is self-financing, it is subject to the monitoring of the Secretary for Financial Services and the Treasury who may give the URA general or specific written instructions in any financial year regarding the amount that the URA may disburse,<sup>18)</sup> and if there is a surplus, the URA may invest or reserve it, or use it for the purposes of the URA. The Financial Secretary may also require the URA to pay the surplus to the Government.<sup>19)</sup> The Secretary for Development may ask URA to provide detailed information on URA's affairs<sup>20)</sup> and CE may give direction to URA as to exercise of its powers and duties.<sup>21)</sup>

## 3. Urban renewal strategy

The Secretary for Development may prepare from time to time an urban renewal strategy for the purposes of urban renewal.<sup>22)</sup> The Secretary must

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17) *Ibid.*, s. 13.

18) *Ibid.*, s. 10(3).

19) *Ibid.*, s. 14.

20) *Ibid.*, s. 32.

21) *Ibid.*, s. 33.

22) *Ibid.*, s. 20(1).

consult the public before finalizing the urban renewal strategy, but need not consult the public before revising or amending the strategy if she considers that such revision or amendment is minor, technical or insignificant.<sup>23)</sup> In the course of consultation, the Secretary need not disclose information which, in her opinion, would not be in the public interest to disclose.<sup>24)</sup>

#### 4. Urban renewal plan

URA must submit a 5-year corporate plan<sup>25)</sup> and a one-year business plan annually<sup>26)</sup> to Financial Secretary for approval. Under the Urban Renewal Authority Ordinance, the URA can conduct urban renewal through “development projects” or “development schemes”.

Urban renewal projects that meet or do not require amendments to the land use as shown in the Outline Zoning Plan (OZP) are classified as “Development Projects”; Development projects must meet the requirement of Town Planning Ordinance.<sup>27)</sup> Plans that require amendments to the land use as shown in the Outline Zoning Plan are classified as “Development Schemes.” A draft scheme must be submitted to the Town Planning Board for approval. Anyone aggrieved by the decision of the Secretary for Development may lodge an appeal to the Appeal Board.<sup>28)</sup> If URA decide to proceed by way of development scheme, objections procedure does not apply.<sup>29)</sup>

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23) *Ibid.*, s. 20(2).

24) *Ibid.*, s. 20(3).

25) *Ibid.*, s. 21.

26) *Ibid.*, s. 22.

27) *Ibid.*, s. 26.

28) *Ibid.*, s. 28.

29) *Ibid.*, s. 25.

#### 4.1 Development Projects

To implement a development project, URA must publish a notice in the Gazette every month for two months (the publication period) and in local Chinese and English newspapers weekly, announcing the commencement date of the project, a project summary (general nature and impact of the project), and the time and place where the project information will be displayed and made available to the public.<sup>30)</sup>

Persons affected by development project may lodge objections within the publication period and URA must consider all objections and submit a proposal within 3 months after the publication period to Secretary for Development for consideration and approval.<sup>31)</sup> The Secretary will order the URA to publish the authorization notice or amendment notice for the project in the Gazette. Anyone who feels aggrieved by the Secretary for Development's decision may appeal to the independent Appeal Board.<sup>32)</sup> The Appeal Board panel may determine whether to set aside or amend the Secretary for Development's decision.

#### 4.2 Development Scheme

Any new draft plans or revisions to draft or approved plans will be open for public review for two months. After the two-month period, these submissions will be made available for public review as soon as possible. During the first three weeks of public review, anyone can comment on the

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30) *Ibid.*, s. 23.

31) *Ibid.*, s. 24.

32) *Ibid.*, s. 28.

submission to the Town Planning Board. These comments will be available for public review as soon as possible after the three-week period.

The Town Planning Board or its Representation Hearing Committee (RHC) will convene to hear and review the submissions and comments received regarding the draft plans. After hearing the complaints and comments, the Town Planning Board or RHC will decide whether to amend the draft plan. If the Town Planning Board or RHC decides to propose amendments to the draft plan, the proposed amendments will be made available to the public for review as soon as possible. During the first three weeks of the review period, anyone (other than the complainant and commentator) may provide further comments to the Board. After the three-week period, these further comments will be made available to the public for review as soon as possible. If there are further comments that do not object to the proposed amendments, the Town Planning Board or RHC shall convene a meeting to review the further comments and approve the proposed amendments. If any further objections arise, the Town Planning Board or RHC will convene a further hearing to hear and consider such objections.

After considering the further objections, the Town Planning Board or RHC will decide whether to approve the proposed amendments or modifications to the draft plan. The amendments to the draft plan will be made available to the public for review as soon as possible. The draft plan, together with any statements, comments or further comments (if any) regarding the plan and any amendments made by the Town Planning Board or RHC, will be submitted to the Chief Executive in Council for approval within nine months after the end of the plan extension.

### III. Problems with URA's system

The main problem is that the URA has failed to meet its own identified people centered or "People First" approach, which has become a bit of a slogan. The quality of life for displaced owners has been largely reduced. The parties who benefit from redevelopment at the expense of the displaced home-owners are the affluent buyers from other areas, participating developers, and the URA itself.

#### 1. Compensation

URA can request Secretary for Development to make recommendation to Chief Executive in Council for resumption of land within areas affected by development project or development scheme.<sup>33)</sup> If the Chief Executive and the Executive Council decide that the land needs to be resumed for public purposes, the Chief Executive may order resumption. The land will be returned to the government three months after the notice is issued. A shorter period may be granted if resumption is urgent. Owners may receive statutory compensation and special allowances. If an agreement cannot be reached on the statutory compensation amount, either party may file a claim with the Lands Tribunal to determine the amount of compensation. Anyone dissatisfied with the Director of Lands' decision regarding Home Purchase Allowance (HPA) payments may file a written appeal to the Appeals Committee within 60 days of the decision. If the Director of Lands does not accept the Appeals Committee's decision, the case will be referred to the Secretary for Development for a final decision. URA must not sell land resumed unless approved by CE in Council.<sup>34)</sup>

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33) *Ibid.*, s. 29.

The main problem is the compensation model adopted by the URA. It is too focused on profit-making. For owners occupied flats, URA uses a “7-year-old replacement flat” model<sup>35)</sup> to compensate owner-occupiers of residential properties affected. Compared to the value of a new build, the value of this “near new” build is 9-10% lower. The aim is to provide enough funds for owners to purchase a 7 year old similar-sized flat in the same locality. Whilst the URA claims that this model is very generous, and is currently considering reducing it,<sup>36)</sup> many owners claim that it is not enough. First, given the shortfall of 10 %, they cannot afford a new flat in the same district, and must either settle for a second hand (7 year old) flat or switch from owning to renting. URA might claim that the displaced owner's flat is old and dilapidated, so being able to exchange it for a newer second hand flat is already an improvement, but this is true only if the displaced owner's flat does not have redevelopment value (for example, the plot ratio is already used up, in which case the URA would not have acquired it for redevelopment in the first place). So, as long as the increased plot ratio would be enough to make it financially viable, displaced owners should be compensated based on the value of a new build. URA's profit will still increase in a rising market. Although in a down turn, it may suffer a loss,

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34) *Ibid.*, s. 30.

35) This is unnecessarily complicatedly divided into two parts. First, the market value of the dilapidated property. The “best use value” test is used for this and does not take into account the increased value after redevelopment. Second, an ex-gratia allowance called “Home Purchase Allowance” which is the difference between the value of seven-year-old flat and the owner's flat. The upshot is that the value of a seven year old flat is used as the compensation.

36) South China Morning Post, Vivian Au, “Hong Kong's URA may review compensation cuts for residents affected by redevelopment”, 2025. 7. 18, <<https://www.scmp.com/news/hong-kong/society/article/3318815/hong-kongs-ura-may-review-compensation-cuts-residents-affected-redevelopment>>, search date: 2026. 3. 30.

this cannot be avoided even with the “7-year old” compensation model. The only difference is that the loss will be 9-10% smaller. The only way to avoid such market risk is to adopt a completely different model, or what I call the “trust model” as proposed below. Secondly, even if the owners are contented to acquire a “7 year old flat” in the same district, due to supply and demand imbalances, second hand property prices in redevelopment areas often rise along with the redevelopment projects, especially in a bullish market, as soon as redevelopment becomes public knowledge, making it difficult for owners to purchase similar replacement unit.

For investors who do not live in the flat, the compensation is lower. Like the owner-occupiers, investors also get a compensation based on market value of the dilapidated property. But they get a “Supplementary Allowance” which is 50% less than the HPA. Even though investor doesn't live there himself, he loses rental income and future usage rights.

Thus, neither the compensation nor the allowances treat owners and investors fairly, because they lose the opportunity to share in the benefits of redevelopment. Rather than improving the model, URA is currently considering to cut compensation for residents affected, taking advantage of the recent annual deficits suffered by URA due to the downturn of the property market, which could be temporary in the property market cycle.

## 2. Flat-for-Flat Scheme

URA launched the Flat-for-Flat Scheme<sup>37)</sup> (FFF) on February 24, 2011,

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37) See Urban Renewal Authority, “Flat-for-Flat Scheme”, <

following the announcement of the New Town Redevelopment Strategy. Owner-occupiers affected by URA redevelopment projects can choose FFF instead of cash compensation. Owners must first accept cash compensation calculated based on the value of a nominally seven-year-old replacement apartment as mentioned above. Then, they can choose to purchase a unit on the lowest five to eight floors of the future new development, or an FFF unit developed by the URA at the Kai Tak site. Again, despite being a theoretical alternative to cash compensation, this Scheme has not been successful. As of Dec 2025, since its inception in 2011, only 67 owners (approximately 2%) have taken up this offer.

The problem is that the price of the new unit as determined at the time of the acquisition contract is the market value of a new apartment which includes profit which should belong to the displaced owner. In other words, the price should be the cost of construction of the new property, not its market price. And as the price is definitely higher than the compensation amount (at least 9-16% higher), most owners would not be able to afford it. Also why is the replacement unit allocated on the lowest five to eight floors, instead of the highest five to eight floors? Clearly, the URA and the developers want to maximize their profits through this arrangement.

### 3. Facilitation services (pilot program)

The Urban Redevelopment Strategy, announced in February 2011, stated that URA could act as an advisor to help owners collect titles for owner-initiated redevelopment projects. The URA established its wholly-owned subsidiary, Urban Redevelopment Facilitating Services Co. Ltd. (URFS), to implement the facilitation service as a pilot scheme.

This service does not involve acquisition, compensation, resettlement, or land repossession. It primarily assists owners in collecting titles for the joint sale of their properties. The services include: (a) appointing professional advisors on behalf of owners, coordinating and monitoring the services provided by the advisors; and (b) persuading uncommitted owners to join the pilot scheme to jointly sell their properties under the scheme. URFS will receive 1% of the proceeds from the joint sale for these services. The problem is the plan should help homeowners rebuild rather than sell their properties. This is the only way to truly shed the impression of collusion between officials and businesses. Again, the program has not been very successful. Many projects failed to reach the public auction stage because owners could not reach a consensus on the reserve price and how to divide the proceeds of sale. In 2024-25, three projects were received, one was rejected and two were selected for further consideration.

#### 4. Demand-driven redevelopment projects (pilot projects)

The Urban Renewal Strategy, announced on February 24, 2011, stipulated that the URA could undertake urban renewal projects by accepting joint requests from property owners if certain conditions are met. This would be done as development projects under s. 26 of the URA.

This too has been a failure. All 77 applications received in 2016 were rejected on the grounds of "lack of available resources in a reasonably short period of time" even though URA's accumulated surplus from 2001 to 2016 reached a staggering HK\$19.464 billion. The real problem is that many projects submitted were small and fragmented, so did not have the scale to be financially sustainable and for district-wide planning and improvement

to the road networks and public open spaces.

## 5. “People-First Approach”

The Government formulated the “People First” approach in 2011 to be the core philosophy to guide the URA for urban renewal in Hong Kong. It is intended to shift the focus from simple demolition and reconstruction to improving the quality of life and preserving social networks.<sup>38)</sup> This means the needs and welfare of affected residents and business operators will be prioritized and aims to provide fair compensation and proper rehousing to ensure residents' living conditions are improved rather than merely displaced. These are laudable aims and should be highly commended. However, the URA has failed to live up to this expectation. As mentioned, many units after redevelopment are actually unaffordable to the displaced homeowners. For the price URA charges for the new flats, the monthly mortgage payments are often higher than the average monthly household income of residents in the area (see Table 2 below). Of course, for displaced owners, they would have received cash compensation which they could use to pay for the bulk of the purchase price and top up the balance, so if they have to borrow to pay for the top up, their monthly instalments would be significantly lower and probably affordable. However, as the top up was often substantial, many owners have chosen to take the cash compensation to buy in nearby areas to maintain their social networks without the financial burden of a new build. For example, in the Kwun Tong Town Centre project, 97% of the owners

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38) Development Bureau, “People First - A District-based and Public Participatory Approach to Urban Renewal: Urban Renewal Strategy”, <[https://www.devb.gov.hk/filemanager/en/Content\\_3/URS\\_eng\\_2011.pdf](https://www.devb.gov.hk/filemanager/en/Content_3/URS_eng_2011.pdf)>, search date: 2026. 3. 30.

(involving 1653 property interests) chose to take cash compensation highlighting the core challenges of the FFF model.

So, redevelopment under URA's existing models has not benefited the original homeowners or residents of the area. Buyers are mostly wealthy people from other districts or foreign countries, including mainland China. Inexpensive community shops before redevelopment have been replaced by high-end shopping malls. Old properties have been replaced by luxury homes, hotels, and serviced apartments. Residents living around the redevelopment projects are unable to afford the increased rent and living costs after redevelopment and are forced to leave, replaced by wealthy people. Whilst redevelopment represents progress, the displaced residents do not benefit from it. Also, the local culture of the area is lost forever. Take, for example, the Lee Tung Street project in Wan Chai. From the printing factories that clustered there in the 1950s, Lee Tung Street was known locally as “Wedding Card Street.” Traditional urban handicrafts, emphasizing bespoke wedding cards, were rich in local culture. After redevelopment, it became a luxurious promenade resembling Western neo-classical architecture. The famous Lee Tung Street wedding card culture is gone forever, along with the collective memory of Hong Kong people. This reduces the sense of belonging among Hong Kong residents and negatively impacts the tourism industry. The enormous social costs are something redevelopment projects cannot adequately compensate.<sup>39)</sup> Whilst bringing in new blood to the area may be a good thing, this is done not through cross-fertilization, but by total replacement of original owners by outsiders, destroying the original social

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39) For a canto-pop song reminiscent of the Wedding Card Street see YouTube, Kay Tse, “Wedding Card Street”, <<https://youtu.be/40RaRER4IaI?si=q-ztXpsNcd-kyMd2>>, search date: 2026. 3. 30.

fabric and unique culture of the area in favour of senseless modern design which is common place in the name of progress.

## 6. Principles of Land Resumption

Previously, s. 29 stipulated that URA could not ask government to resume land unless it “had taken all reasonable steps to acquire the land by other means, including negotiating the purchase of the land on fair and reasonable terms.” This provision has been repealed to make it easier for URA to request government for resumption. URA now has the sole discretion to decide whether to negotiate with owners or resume land at will. Compulsory acquisitions that violate the wishes of the affected owners should be a last resort when both parties have failed to reach an agreement despite their best efforts.

## 7. Urban Renewal Authority's self-financing responsibility and profit maximization

URA is a self-financing agency and must pay close attention to its financial situation. It treats urban renewal as a business, striving to maximize profits. This is the root cause of the problem. Whilst self-financing is a good financial discipline for government agencies, striving for profit maximization runs contrary to its public purpose and mission. Any profits gained must benefit the very people for which redevelopment is carried out in the first place, not the agency itself, developers or outsiders. Currently, it has the privilege of land acquisition, unwittingly transforming itself into a real estate developer with a functionalist redevelopment perspective. It uses its statutory power

of resumption to acquire profitable urban areas, maximizing profits, replacing original owners, destroying the existing urban social structure, whilst upgrading the redeveloped areas, replacing local culture and heritage forever. Many projects generated profits ranging from HK\$8 million to HK\$2.3 billion (see Table 1). The majority of these profits should rightfully belong to the original owners. URA is not a commercial entity; it is a statutory body established to meet public needs for public interest. It should not overemphasize profit maximization, squeezing every last drop of profit under the guise of urban redevelopment.

#### IV. Private Redevelopment

Urban renewal can also be done by the owners themselves or developers who have acquired ownership of all the units in the building to be redeveloped. Redevelopment by private individual owners themselves collectively is extremely rare as individual owners often lack the necessary financial resources, knowledge, and skills required for such redevelopment, as well as the difficulty in getting all the owners to agree to redevelop.

Redevelopment by developers is more common as they have the financial might and know-how. Indeed, developers are the main drivers for urban renewal in Hong Kong, responsible for 75% of the projects.<sup>40)</sup> However, they face the same problem of getting all the owners to agree unless they manage to buy out every owner. This has now been made easier by the

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40) The Government of Hong Kong Special Administrative Region, “LCQ21: Urban renewal”, <

Land (Compulsory Sale for Redevelopment) Ordinance passed in 1999 which makes it possible for a developer who has acquired the requisite percentage of ownership to force the remaining owners to sell for redevelopment. The threshold was initially set at 90%, but reduced to 80% in 2010 as it was not easy to meet the threshold in some cases. It was further reduced to 65% on December 6, 2024, for buildings over 60 but under 70 years old in designated areas, and for all buildings over 70 years old in Hong Kong.

When a developer has reached the threshold, it can apply to the Lands Tribunal for a compulsory sale where all ownership rights (including the majority ownership) would be sold through public auction. To protect the interests of minority owners, the Lands Tribunal shall not make a sale order unless (a) it considers that- (i) the age of existing development on the site or its condition of maintenance justifies it; or (ii) the site should be redeveloped; and (b) the majority owners have taken reasonable steps to acquire all undivided shares of the site (e.g., by negotiating the purchase of the minority shares on fair and reasonable terms). A reserve price must be set for the land to be auctioned, taking into account the site's redevelopment potential, and approved by the Tribunal.

Due to intense competition for land and continuously rising land prices prior to 2020, the potential and benefits of acquiring older buildings were greater. For example, in 2018, there were nearly 30 applications for compulsory auctions, more than double the number in 2017. So developers play a crucial role in urban renewal through the Ordinance.

However, the fundamental problem is that most transactions are completed at the reserve price, far below the government's land auction prices for the land in the area, because of lack of competition in such auction. This is because when a developer has acquired 80% (or whatever is the threshold)

of the ownership of the building to be redeveloped, no one will compete with him in an auction of the building because the competing bidder must buy out 100% of the rights at the bidding price, while the developer who already owns 80% (or whatever is the threshold) only needs to buy out the remaining 20% at his bidding price, which is a smaller financial burden for the incumbent developer.

## V. Proposal for reform

URA needs to go back to the first principle or its original objective which is to benefit the original owners and the surrounding area. The purpose is not for URA to make profit at the expense of the original owners. With this in mind, I think URA's role should be to help the original owners to do what they could have otherwise done collectively themselves if they had the necessary financial resources and knowledge to do so. Of course, no one is expected to render these valuable services to the owners without reasonable compensation and owners cannot expect to be given such windfall. But they should not be forced to give up their ownership for inadequate compensation whilst URA and participating developers are making a fortune out of their misery. Somewhere in between would be a better position.

Thus, I suggest that when URA acquires the land by compulsory resumption from the owners, it should hold the title as trustee for the owners as beneficiaries and use the land required for redevelopment.

Before redevelopment, original owners will be evacuated to temporary housing. URA will provide funding for the evacuation cost and cost of the development project as a loan to owners. URA already has the power to

lend money to displaced person or business.<sup>41)</sup>

URA will act on behalf of any missing owners, completing the redevelopment first and allowing them to return within a reasonable timeframe to claim their beneficial entitlements.

URA may collaborate with the Town Planning Board to redesign the site to address potential increases in traffic, pedestrian flow, and parking needs. Parts of the site may need to be converted into parks or other community spaces, and some redeveloped units must be retained for community use.

URA must calculate all costs for the redevelopment project. This includes demolition costs, any land premiums payable to government for changes in conditions and plot ratios, construction costs to be paid to construction company or participating developer, URA's fee, and interest on its loan to the project. It also includes any costs for temporary housing provided to original owners. No cash compensation will be paid out to displaced owners, but they will get their share of the new build in the form of a replacement flat (size and elevation proportionate to their original flat with any increase in size or improved elevation at additional cost) and any profit from sale of remaining units.

The redevelopment can be carried out by URA acting as the developer working with construction company or act in joint venture with developer. Where the URA acts as the developer, it will collaborate with the construction company, architects, surveyors, civil engineers etc, provide funding and handle the allocation of completed units among original owners and sale of surplus units. For these efforts, it will take a reasonable compensation to cover its operation. This can be based on a percentage of the total costs. Whatever is left of the profit would then be returned to the owners.

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41) URAO, s. 12.

Obviously, the URA should only take on the project if it is a financially viable project.

To assess if a project is viable, the starting point could be the plot ratio. How much increase in plot ratio is allowed as that will determine the maximum number of units that can be built. If the proceeds of sale from the increased number of units equals or is greater than the cost of the project, then the project is viable.

A transparent mechanism of costing and accounting is essential to prevent unlimited cost escalation, and to calculate each owner's entitlement. URA can allocate a percentage of the total project value or cost, such as 1% to 10%, as a trustee service fee.

If URA has a joint venture with a developer, there should be a formula of share of units allocated between owners and the developer, for example a 30-70 or 40-60 split enough for developers to cover all cost including their reasonable return. Owners should be allocated units in the higher floors proportionate to the size and elevation of their original unit. Developers should cover all the cost including URA's fee. Any profit from sale of any remaining units should be returned to owners on a *pari passu* basis.

## VI. Conclusion

At present, the pace of urban redevelopment in Hong Kong is too slow. Part of the problem is the lack of a fair and equitable model to share the fruit of redevelopment between the original owners, URA and any collaborating developers. A more healthy model as proposed would make it more equitable and encourage owners to cooperate and support any

redevelopment plan and speed up redevelopment process. The URA should take People First approach seriously and abandon the current profit maximization model.

7.1 Table 1 Incorrect Estimation of Surplus/ (Loss) of Urban Renewal Projects by URA<sup>60</sup>

Year	Project Name	Expected surplus/(loss) by URA \$	Actual surplus/(loss) \$
2002	Yau Ma Tei Reclamation Street Project (MOD595)	Unspecified loss	74 million surplus
2002	Shum Shui Po Fuk Wing Street/ Fuk Wa Street Project (Vista)	Unspecified loss	230 million surplus
2003	Hung Hom Baker Court Project (Baker Residences)	May incur loss	8.1 million surplus
2003	Tai Kok Tsui Bedford Road/Larch Street Project (i-Home)	May incur loss	180 million surplus

W. N. Wong, “[市建局15周年] 6項 目料蝕反賺資產增10倍, 常與信和合作”, HK01, 10 June 2016.

7.2 Table 2 Comparison of the Required First Installment and Monthly Mortgage Repayment of Buying a Flat Under the Urban Renewal Projects<sup>61</sup>

District	Wan Chai			Yau Ma Tei, Mong Kok	Shum Shui Po	Central & Western District	Kowloon, Tong	
Urban Renewal Projects	Johnson Road Project (J Residence)	Queen's Road East Project (Queen's Cube)	Lee Tung Street/ McGregor Street Project (The Avenue)	Reclamation Street Project (MOD 595)	Fuk Wing Street/ Fuk Wa Street Project (Vista)	First Street/Second Street Project (Island Crest)	Hang On Street Project (Park Metropolitan)	Shau Tin Town Center Project
<b>Comparison of the Selling Price</b>								
Year of Establishment	2007	2010	2015 (Started selling in 2013)	2008	2009	2010	2014 (Started selling in 2013)	Projected to be in 2018
The size of the smallest unit (sq. ft.)	458	400	334	483	412	433	457	600
Estimated price per sq. ft.	\$7,000	\$15,500	\$20,700	\$4,500	\$5,100	\$11,000	\$12,100	\$13,000
Estimated price per unit (HKD)	\$3,206,000	\$6,200,000	\$6,913,800	\$2,173,800	\$2,101,200	\$4,763,000	\$5,484,000	\$7,800,000
<b>Comparison of the Required First Installment and Monthly Mortgage Payments</b>								
First Installment	\$4,80,000	\$930,000	\$1,037,000	\$326,000	\$315,000	\$714,000	\$822,000	\$1,170,000
Estimated monthly mortgage repayment	\$12,900	\$23,540	\$27,870	\$8,800	\$8,500	\$19,200	\$22,100	\$31,440
Average family monthly mortgage repayment in 2011	Wan Chai District \$12,500			Yau Ma Tei, Mong Kok \$8,840	Shum Shui Po \$8,000	Central/Western District \$10,000	Kowloon, Tong \$6,450	
Average family monthly income in 2012	Wan Chai District \$33,000			Yau Ma Tei, Mong Kok \$20,000	Shum Shui Po \$17,000	Central/Western District \$32,000	Kowloon, Tong \$16,100	
Percentage of monthly mortgage over monthly income	40%	71%	84%	44%	50%	60%	137%	195%

本土研究社, 供不得其所 - 香港長遠房策略新視野, 本土研究社(香港)有限公司, 2015, at 127.

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[Abstract]

## **Taking “People First” Seriously: Reforming Urban Renewal in Hong Kong**

Say Hak Goo\*

Buildings in HK are ageing rapidly and yet the process of urban renewal is slow. This paper explains the process and problems involved in urban renewal by the Urban Renewal Authority and private developers and urges URA to take its ‘People First’ approach seriously, abandon its profit maximization model and adopt a ‘trust’ model for urban renewal for the benefit of the displaced owners and the surrounding areas.

[Key Words] Urban Renewal, Compensation, Flat-For-Flat, Trust Model, Plot Ratio, Resumption, Compulsory Sale, Town Planning

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