Adaptive Reuse of Historic Buildings through PPP: A Case Study of Old Tai-O Police Station in HK

Jacky K.H. CHUNG

Abstract - Historic buildings which bear witness to our development can retain the local characteristics and preserve the culture and history of a country. However, preserving historic buildings can be very capital intensive and risky. To formulate a sustainable conservation policy, the HKSAR Government introduced the Revitalising Historic Buildings through Partnership Scheme (RHBTPS) based on Public Private Partnerships (PPP) concept in 2007. This scheme aims to encourage the private sector input in financing the adaptive re-use of Government-owned historic buildings so to give them a new lease of life for the enjoyment of the general public and overseas visitors. In the above context, this paper aims to explore the feasibility of applying PPP as a means of project finance for revitalising historic buildings with reference to the RHBTPS scheme and the case study of the Tai-O Heritage Hotel. The paper reports that the RHBTPS, which is classified as a modified BOT, is financially feasible to re-invest the revenue generated from running the business in the revitalised buildings through NPOs to subsidise the building maintenance costs and the assigned public services. The scheme can facilitate the Government to revitalise the historic buildings and bring the administrative, economic, social and cultural benefits to the community on account of providing significant amount of subsidies to the successful operators. Nevertheless, the Government also bears significant subsidy and risks in financing project initiation, design, construction and operation and a short list of challenges is identified in the paper.

Keywords - revitalisation, historic buildings, PPP, RHBTPS, Hong Kong

I  INTRODUCTION

Historic buildings which bear witness to our development can retain the local characteristics and preserve the culture and history of a country. Nevertheless, the conservation of historic buildings can be very capital intensive and risky and therefore, these buildings are generally funded and operated by the Government in Hong Kong. To formulate a sustainable conservation policy, the Government Policy Address Government Policy Address (#HKSAR Government, 2007) introduced the Public Private Partnerships (PPP) based Revitalising Historic Buildings through Partnership Scheme (RHBTPS) to facilitate the adaptive re-use of Government-owned historic buildings in Hong Kong. PPP generally describes as ‘a long term partnering relationship between the public and private sectors to deliver services’ (#MOS, 2004). In a broad sense, PPP is “the forms of co-operation between public authorities and the private sector which aim at ensuring the funding, construction, renovation, management and maintenance of infrastructure associated with the provision of a service” (#PPIAF, 2009).

In a narrow sense, PPP is “a contractual agreement between a public agency (federal, state or local) and a private sector entity”. Through this agreement, the skills, assets risks and rewards of each sector (public and private) are shared in delivering a service or facility for the use of the general public. (#NCPPP, 2011). The PPP approach contributes to encourage the input of private investment and expertise in financing the revitalisation of historic buildings.

In the above context, this paper aims to explore the feasibility of applying PPP as a means of project finance for revitalising historic buildings with reference to the RHBTPS scheme and the case study of the Tai-O Heritage Hotel. The paper begins with an introduction to the scheme of RHBTPS to develop a solid platform for the discussion. It is followed by an introduction to this heritage hotel project and lastly, a discussion of some lessons learnt from the project.

II  REVITALISING HISTORIC BUILDINGS THROUGH PARTNERSHIP SCHEME

The RHBTPS scheme is designed to:

1) preserve and put historic buildings into good and innovative use;
2) transform historic buildings into unique cultural landmarks;
3) promote active public participation in the conservation of historic buildings, and
4) create more job opportunities at the district level (#Commissioner for Heritage's Office, 2011).

With reference to the literature study, author would classify the RHBTPS scheme as a modified Build-Operate-Transfer (BOT) type PPP project. Under the scheme, a NPO will “build” (renovate) and “operate” the building throughout a fixed concession period under an agreement, and finally “transfer” it to the Government after the expiry. In comparison with traditional PPP adopted by the Government (#Efficiency Unit, 2008), some unique features of the scheme are listed below:

1) the scheme only allows NPOs to apply
2) the scheme is operating as a social enterprise and therefore, all financial revenue gained from the
operation is limited for re-investment into project associated activities only.

3) the scheme adopts a much shorter concession period, only 3-6 years;

The RHBTPS scheme received a significant amount of proposals introducing a wide range of adaptive reuse for the historic buildings, including museums, galleries, education centres, training institutes, hostels, restaurants etc. in Hong Kong. This paper will focus on the Heritage Hotel in the old Tai-O Police Station, as a case study for illustration.

III A CASE STUDY OF THE OLD TAI-O POLICE STATION IN HONG KONG

A. History of the old Tai-O Police station

Tai-O was a remote fishing village on Lantau Island in the western part of Hong Kong for centuries before being leased to the British in 1898. The old Tai-O Police Station which is a two-storey building situated on the small hill next to the present Tai-O Pier was built in 1902 as shown in Figure 1. This police station had witnessed and served the Tai-O village for over 100 years and it was eventually closed in December 1996. It was graded by the Antiquities Advisory Board as a Grade III Historical Building in 1988 and upgraded to Grade II in 2007.

B. Background of the Tai-O Heritage Hotel

The Tai-O Heritage Hotel has been awarded to Hong Kong Heritage Conservation Foundation Limited (HKHCFL). This is a new NPO established by a famous local properties developer named Sino Land Company Limited, which has rich experience in managing and revitalising historic buildings such as Fullerton Hotel & Resorts and Fullerton Waterboat House in Singapore. The development details of the Tai-O Heritage Hotel are summarised in Table 1 and Figure 2.

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
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<tr>
<td>Proposed service</td>
<td>Tai-O Heritage Hotel (4-star hotel)</td>
</tr>
<tr>
<td>Govt. subsidy for capital cost</td>
<td>HK$62,200,000.00 (money of the day HK$66,700,000)</td>
</tr>
<tr>
<td>Govt. subsidy for operation</td>
<td>Not required</td>
</tr>
<tr>
<td>Scope of works</td>
<td>• 9 sea view suites;</td>
</tr>
<tr>
<td></td>
<td>• a roof top café;</td>
</tr>
<tr>
<td></td>
<td>• a library;</td>
</tr>
<tr>
<td></td>
<td>• other ancillary facilities</td>
</tr>
<tr>
<td></td>
<td>• an exhibition area to display the history of the former police station</td>
</tr>
<tr>
<td>Rom price</td>
<td>HK$1,380 – 2,800</td>
</tr>
<tr>
<td>Hotel commissioning time</td>
<td>21 March 2012</td>
</tr>
</tbody>
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Fig. 1: The old Tai-O Police Station

Fig. 2: The revitalisation of the old Tai-O police station
The scheme charges only a nominal rental fee for the historical building. Moreover, it also provides all necessary subsidies for the awarded NPOs in initiating and running their projects. A summary of these subsidies is listed in Table 2.

Now, the Tai-O Heritage Hotel is operating as a social enterprise and therefore, all financial revenue gained from the hotel operation is be limited for re-investment into hotel operations only. Since only very limited financial information is available for this project, this study has invited a qualified Quality Surveyor to conduct a rough estimation (has not been included in the paper) of this project. The preliminary finding suggests that the project will reach breakeven point by 1 year. It is financially feasible to support its operation through the generated revenue as planned because the hotel attracts a stable business demand due to its natural scenery and cultural characteristics.

### IV FINDINGS AND DISCUSSION

To encourage the input from the industries, a total of six interviews were conducted with representatives from NPOs, developers, consultants and residents to collect their views on the RHBTPS in general and the Tai-O Heritage Hotel from Oct 2010 to April 2011 in Hong Kong. These interviews were structured following a set of predetermined short questions and respondents were encouraged to respond to these questions freely. The discussion dialogues were transcribed for analysis and their details will be presented in the following discussion.

#### A. Benefits of the scheme

The RHBTPS scheme ideally brings a wider range of resources and skills from the private sector and balances the concerns and limitations between urban development and conservation to facilitate the revitalisation of historical buildings. The interview results show that the RHBTPS scheme is generally recognised as an innovative approach of re-investing the revenue generated from running the business in the revitalized buildings through NPOs to subsidise the building maintenance costs and the assigned public services. The Tai-O Heritage Hotel is report to be a successful example, which can bring the following benefits to the community.

1) Administrative - The scheme introduces NPOs to operate the adaptive re-use of historic buildings, which allows the public agency to concentrate on its core competencies and maintains a small government. This also minimises the project risk bearing by the Government through the adjusted risk allocation / sharing with them.

2) Social- The old police station witnesses the continuous social and economic changes occurred in Tai-O for over a century. The scheme brings a new life to the station so as to preserve it as a historic cultural landmark in the local community. Moreover, the new hotel also serves as a tourist centre for visitors in displaying the history of the station and the Tai-O village.

3) Economic- The scheme creates economic growth, employment and investment opportunities. The new hotel creates around 103 jobs during renovation period and 10 full-time and 10 part-time jobs for local residents upon project completion. Moreover, the hotel generates revenue from the hotel accommodation services and local tour to finance the associated education activities in long run.

4) Cultural - The scheme helps to preserve the unique characters and architectural merits of the station. The hotel keeps and the original building fabrics including Chinese pan-and-roll tile roof and projecting eaves, in its original authentic state. Moreover, it also preserves the surrounding landscape, wooded slope, natural vegetation preserved around the station as a whole in relation to its unique site environment.

#### B. Challenges of the scheme

Nevertheless, the interview results reveal that the RHBTPS scheme is expected to suffer from the following challenges.

1) Financial risk - The Government provides significant amount of subsidy to successful operators in financing project initiation, design, construction and operation. Public sector (Government) is responsible for all the initial cost (renovation of the historic buildings) and subsidies for the operating cost for the

<table>
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<th>Types</th>
<th>Purpose</th>
<th>Tai-O Heritage Hotel</th>
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<tr>
<td>Consultancy fees</td>
<td>covering in part or full incurred for the development of the selected proposals</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Capital funding</td>
<td>covering the renovation and construction works (e.g. for the Tai-O Heritage Hotel)</td>
<td>HK$66,700,000</td>
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<tr>
<td>Maintenance funding</td>
<td>covering the construction works for the undisturbed slopes and structural repairs of the buildings</td>
<td>around HK$ 200,000 per annum</td>
</tr>
<tr>
<td>One-off grant</td>
<td>subsidising the starting and operating costs of social enterprises for the first and second year</td>
<td>Not applicable</td>
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1-2 years to the NPOs (if required). On the other hand, private sector (NPOs) does not need to pay initial cost and only needs to concentrate on the operation of the historic buildings. If the adaptive re-use of historic building not operate properly, the loss of NPOs is minimal. Therefore, most of the risks are on Public sector and therefore, better allocation of risks cannot be achieved.

2) Application risk - In the application stage, all applicants are required to submit technical proposals illustrating their proposed adaptive re-use of the historical buildings. The interviewees believe that most applicants have no construction knowledge and finally employ consultants to prepare their proposals.

3) Design risk - It is noticed that all heritage buildings are built a long time ago and their safety and health standards are not meet up to the current Ordinance requirements. In the design stage, in principle, the successful applicants can apply exemptions from Buildings Department (BD) with sufficient justifications. However, this procedure is expected to be very complicated and finally, the applicants are still required to undertake a substantial amount of alteration and addition works to upgrade their buildings for adaptive re-use.

4) Contractual risk - In the operation stage, the Government monitors the performance of the awarded operators regularly and can terminate the agreements and re-take possession of the historic buildings without any compensation in case of any unsatisfactory performance in accordance with the agreed proposal. Moreover, the contractual periods of the scheme (around 3-6 years) are relatively short in comparison with traditional PPP projects (around 30-50 years). The Government reserves the right to renew the agreements subject to the operator performance and other factors prevailing, which could be irrelevant to the operator, at the time upon their expiry. As a result, these will finally discourage long term investment and improvement programme by the operators.

5) Management risk - All financial revenue gained from the project operation is limited to re-invest into the project operation only and therefore, the operators may lack incentive and motivation in improving their service in the operation stage.

This paper has discussed the feasibility of applying PPP as a means of project finance for revitalising historic buildings with reference to the RHBTPS scheme and the case study of the Tai-O Heritage Hotel. The interview results show that the RHBTPS scheme is generally recognised as an innovative approach, which brings a wider range of resources and skills from the private sector, in balancing the concerns and limitations between urban development and conservation to facilitate the revitalisation of historical buildings. The example of the Tai-O Heritage Hotel suggests that the scheme is financially feasible to re-invest the revenue generated from running the business in the revitalized buildings through NPOs to subsidise the building maintenance costs and the assigned public services. It facilitates the Government to revitalise historic buildings as well as bring the administrative, economic, social and cultural benefits to the community benefits on account of providing significant amount of subsidies to the successful operators. At the same time, the example also reveals that the Government bears huge significant subsidy and risks in comparison with the operators and a short list of challenges including financial risk, application risk, design risk, contractual risk and management risk is identified in the paper. Since the paper is limited to focus on the RHBTPS scheme, author suggests conducting further study to examine the scheme with alternative approaches such as outsourcing and management contract.

REFERENCES


V CONCLUSIONS