

Hong Kong Mass Transit Railway Corporation, Hong Kong SAR, China

Full Description

Project Summary:

Background

Hong Kong is a very densely populated city, with a population of more than seven million people occupying a land area of only 1,104 km². Every day, over 11 million commuter trip are made using Hong Kong's public transportation system, which includes railways, trams, buses, mini buses, taxis, and ferries. Thus, Hong Kong recognized the need to invest heavily in its public transport systems, especially its railways, which serve as the primary public transport modality of Hong Kong.

Project Structure

In 1975, the Hong Kong government established the Hong Kong Mass Transit Railway Corporation (MTRC), a government-owned corporation responsible for providing metro services. Although it is majority-owned by the public administration, it is highly profitable and operates without public subsidies. This is possible because MTRC makes profits not only from the mass transit railway but also from its real estate business. When planning a new railway line, MTRC does not only assess the cost of construction but also prepares a master plan to assess the potential for property developments along the railway line. Subsequently, it purchases the development rights for 50 years from the public administration, which is the right "to construct property above railway stations and depots, and land adjacent to the railway." At the time of purchase, the value of these development rights does not consider the rising value resulting from the transport project – or "before rail" land premium.

Subsequently, the MTRC publicly tenders these development rights to private developers, with an additional land premium that takes into account the added value from the intended railway expansion. The private developers are responsible for the construction and commercialization risks and costs for the residential and commercial properties that they develop. MTRC is responsible for supervising the works conducted by the private developers, carrying out related civil works and enforcing technical standards and requirements for the interface between its railway premises and the property developments.

Revenues generated by the residential and commercial properties are shared between MTRC and the private developers. For residential units, if the private developer manages to sell all of the units before a contractually fixed deadline, the MTRC receives an agreed portion of the profit generated from these sales. If units remain unsold by the deadline, MTRC absorbs the unsold units and determines whether to sell or lease them on the open market. For shops and office units, MTRC earns a share of the revenue from the commercial leases held by the developers, or it may keep a portion of the assets developed to generate long-term rental income. This model also provides a revenue stream for the Hong Kong public administration, through taxes as well as dividends, as it is the majority shareholder of MTRC.

Lessons Learned

MTRC is widely regarded as the gold standard for transit management worldwide. From 1998 to 2013, property-related operations have generated almost twice the amount of money spent on railway line construction (profit from property operations totaled more than HKD 88 billion, or approximately USD 11 billion).

However, to understand whether the model could be replicated or not in other cities, it is worth considering the following:

- The scarcity of land in Hong Kong – private sector interest is particularly high due to the limited available supply.
- High traffic volumes on the railway network – Hong Kong has an average of 4.5 million passenger trips on metro lines every weekday. The high traffic volume creates a vast commercial potential for the properties connected to the railway network.
- The close relationship between MTRC to Hong Kong's public administration – this has helped facilitate the design of the project, including granting the development rights alongside the railway lines.
- MTRC's strong prowess in managing and developing property – this expertise would be difficult to replicate in one-off projects or for cases with limited market potential¹.

Footnote 1: https://www.unescap.org/sites/default/files/Case%204_Land%20Value_Hong-Kong%20MTR.pdf

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