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Revitalization of industrial buildings into hotels: Anatomy of a policy failure

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ABSTRACT

Communities are faced with the conundrum of what to do with obsolete industrial buildings. Revitalization through adaptive reuse is seen as one option, with many buildings being converted to hotels. This paper analyses the policy by the Hong Kong government to encourage adaptive reuse of under-utilized high rise industrial buildings. It was launched over 20 years ago, with hotel conversion permitted since 2000. To date, though, few successful hotel redevelopments have occurred. Through in-depth interviews with key informants, secondary data analysis, and multiple site visits, the paper analyses why the policy has failed. Informants identified four broad themes, including core weaknesses of the policy itself, pragmatic development complications, building-specific reasons and various contextual issues.

1. Introduction

In 1997, when Hong Kong was celebrating its handover to China, the former British Crown Colony attracted 10 million tourist arrivals for the first time (HKTB, 2002a). By the end of 2013, more than 50 million arrivals were recorded (HKTB, 2013a). Hotel supply, though, has not kept pace with demand. A total of 87 hotels and tourist guesthouses (basic accommodations, rated below one star) offered a total of 37,500 rooms (HKTB, 2002b) in 1987. By September 2013, this figure had grown to 219 hotels and 790 guest houses offering 76,700 rooms (HKTB, 2013b). Average annual occupancy throughout most of 2013 stood at 89%, with the average room rate for High Tariff A hotels (equivalent to 5 star) at more than US$300 a night (HKTB, 2013b), and for all accommodation properties at more than US$175 per night. This tight hotel supply situation is expected to continue, as only another 8800 rooms are predicted to be built by the end of 2017 (HKTB, 2013c).

Space is the most scarce commodity in Hong Kong. The transformation of Hong Kong's economy from one based on light manufacturing to one dominated by the tertiary sector has resulted in a surplus of vacant or under-utilized industrial space. (Manufacturing accounted for 21.8% of GDP in 1981 (PD, 2009), but less than two percent by 2010 (CSD, 2012)). It is estimated that some 1.4 million m^2, or about eight percent of the total 17.2 million m^2 of industrial space is vacant (LegCo, 2011), while the Hong Kong chapter of the Royal Institute of Chartered Surveyors estimates that many more millions of sq meters of space is being underutilized or used for purposes which are outside the conditions of the initial land lease or planning approval (RICS, 2009). Most of these buildings are high rises. The Government has developed a number of policies since 1989 to encourage adaptive reuse and/or redevelopment of these sites. The first policies permitted conversion of industrial buildings into office blocks, while amendments made in 2000 and 2009 permitted a wider range of uses including hotel development. The hotel redevelopment initiative was embraced enthusiastically by politicians and industry when it was first announced. However, in the ensuing years, only a handful of hotels have been developed, while most of the initial proposals have lapsed. This paper examines the reasons why this policy has failed. Specifically, the study looks into the factors or reasons that prevent the revitalization projects from successful implementation and perceived flaws of policy regarding the revitalization projects. A qualitative approach using in-depth interviews was adopted.

2. Overview of adaptive reuse

Most buildings have an effective life span and once exceeded, two options exist, demolition or revitalization. Langston et al. (2008) identify six types of obsolescence: physical obsolescence where the building experiences natural decay over time; economic obsolescence where the building no longer generates the return on investment desired by the owner; functional obsolescence where current uses of the building no longer meet its needs;

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technological obsolescence where the building is no longer superior to alternatives, social obsolescence where the building no longer meets fashion or behavioral trends; and legal obsolescence where the building no longer satisfies a variety of building ordinances.

Adaptive reuse is often identified as a preferred revitalization option (Langston et al., 2008; Yung and Chan, 2012), for it provides a range of social, economic and environmental benefits. It has been defined as "process of adapting old structures for new purposes" (adaptivereuse.net). Proponents of adaptive reuse argue it can extend the useful life of buildings, may be more cost effective than demolition and rebuilding, and has the added benefits of reducing material, transport and energy costs associated with new builds (Ball, 1999; Bullen, 2007; Bullen and Love, 2010). Its benefits also extend well beyond the building's footprint to help revitalize existing neighborhoods, reduce land consumption and urban sprawl, create a valuable community resource and, importantly, retain the character of existing neighborhoods to enhance place attachment and lead to the esthetic continuity of urban landscapes (Ball, 1999; Bullen, 2007).

These benefits must be balanced against some risks associated with this type of development. Owners often resist adaptive reuse for they fear the return on investment will be lower than building new (Cantell, 2005; Shipley et al., 2006). Ball (1999) illustrates that buildings that have been persistently vacant may be in poor condition. In addition, the risk of significant cost and time over-runs is high, especially in older buildings (Bullen, 2007). Bullen and Love (2010), for example, identify the higher possibility of latent defects, hazardous materials, and unstable structures, which can drive up costs and delay projects significantly. Moreover, revitalized buildings may be less energy efficient than new buildings and require more ongoing maintenance (Bullen and Love, 2010), increasing operating costs, which have to be translated into higher rents. Yung and Chan (2012, p. 357) are more succinct, stating "adaptive reuse is a very expensive investment," especially in a place like Hong Kong.

A number of regulatory challenges must also be addressed, especially if the building has been heritage listed. To begin, it may be necessary to seek permission to re-zone land from one use to another (Ball, 1999; Yung and Chan, 2012). Even if successful, the building must comply with new or different fire and safety building code regulations (Cantell, 2005). All told, the costs of dealing with regulatory agencies could add an additional 30% to the cost of construction and double the time needed for project completion (Yung and Chan, 2012). These challenges become even greater if restrictions apply that limit or restrict the ability of developers to alter the footprint or capacity of the building or to change its exterior (Bullen and Love, 2010).

A range of technical and functional issues must also be considered. Developers and architects highlight the challenges of matching existing components of the building and whether proposed or needed modifications would maintain its structural integrity (Bullen, 2007). Changing the external appearance may be difficult or impossible, which can limit the range of uses, especially if the building is esthetically unattractive (Bullen and Love, 2010). It may also be difficult to reconfigure the interior. As Cantell (2005) suggests, low ceilings in many industrial buildings make them functionally obsolete today especially if renovation necessitates the addition of false ceilings to hide air ducts, wiring and pipes (Stratton, 2000). Alternately, thick concrete slabs built to withstand heavy industrial loading may add to redevelopment costs, especially if plumbing has to be added, while old plumbing and wiring will have to be replaced (Cantell, 2005).

The location and its surrounding neighborhood may also limit the appeal of adaptive reuse. Ambitious projects may not fit into the demographic, socio-economic or current uses of the locality (Yung and Chan, 2012). While adaptive reuse may be a springboard to urban redevelopment, few developers are willing to take the first mover risk as it may prove challenging to attract clients who are willing to pay the rents required to generate a sufficient return on investment (Au, 2012). Proximity to main roads, shops and transit as well as the overall amenity of the area influences the range of conversion options available (Stratton, 2000).

Adaptive reuse for tourism purposes is common in many jurisdictions (Jansen-Verbeke, 1999; Nasser, 2003; Nuryanti, 1996; Teo and Yeoh, 1997; Xie, 2006). Much of the literature has focused on historic buildings, including both iconic sites (Henderson, 2001) and more vernacular buildings (Chang and Teo, 2009; Henderson, 2011). Surprisingly little research, though, appears to have been conducted examining the criteria for successful conversion to hotels. Jansen-Verbeke (1999) suggests large hotel companies see this type of investment as being risky. Instead, it seems to be more appealing to smaller investors. Jefferson (2005) is one of the few authors to address this issue specifically. Her study of a conversion project in Philadelphia determined the cost of rehabilitating windows to retain the original character added an extra US$400,000 to the cost. Inserting hotel features, including a lobby/reception area, kitchens and other food and beverage outputs were also challenging and costly, for the original configuration of the building did not suit easy modification. Even such seemingly small matters, such as the width of corridors can prove to be costly to address, for commercial buildings often have wide corridors, which can consume valuable guest room space. Building lifts and elevators may also have to be relocated or resized to meet anticipated guest numbers.

3. Public policy as 'strategy'

It is well recognized that governments have a number of critical roles to play in policy development associated with tourism (Hall and Jenkins, 1995). Public policy has two components: formulation and implementation. In many ways, public policy development and implementation is similar to the strategic management process, with a few notable exceptions discussed shortly. (Grundy, 1998) and Okumus and Roper (1999) suggest the strategic management process likewise consists of two stages: a strategy planning (or formulation) stage and; a strategy execution (or implementation) stage. The former is used to set plans, while the latter determines who is to follow through with this policy to achieve the former. The risk of failure is higher at the implementation stage, due to lack of sufficient skills and resources. Alternately, the inherent weaknesses of badly formulated plans will be exposed during their implementation stages. In a similar manner, it has been observed that writing public policy is easy, but implementation is challenging for it relates to the ability to connect intention and actual and measureable results (O'Toole, 1995; Krutwaysho and Bramwell, 2010).

As such, public policy success can be measured by similar criteria used to evaluate strategic decision making in industry, with two key important provisos. First, businesses have the ability to exert influence throughout the entire organization, from the chief executive down to the most junior staff person. Government does not have that freedom, especially in a place like Hong Kong, which prides itself on being one of the world's freest economies (Heritage Foundation, 2012). Instead, its role is to encourage stakeholders to adopt the policy and implement it on its behalf. Second, public policy development is fundamentally a political activity that is influenced by the economic and social characteristics of the community and stakeholders each policy serves (Hall, 2008). Campbell (1996) reminds us how self interest of stakeholders and local political concerns may inhibit implementation.

Little has been written on public policy implementation in adaptive reuse programs, other than recognizing the need for a long-term approach and the need to consider the wider community's views (Teo and Lin, 2011). Cantell (2005) suggests a holistic