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# VIABLE INFRASTRUCTURE FROM THE GROUND UP

How, for the provision of public infrastructure and affordable housing, may private sector finance be accessed and properly rewarded whilst retaining all associated rent as public revenue?

Rather than explaining the theory or describing the ideal method by which this can be achieved, I prefer to find concrete practical examples from around the world, which other jurisdictions can learn from.

I will therefore concentrate on the example of Hong Kong's Mass Transit Railway (MTR). Hong Kong is one of the most densely populated countries in the world, and is ideally suited to an underground public transport system. This was recognised by the then colonial British administration in the 1960's, and during the early parts of the 1970's plans had been developed to begin construction.

At first, a conventional method of finance was conceived, with the contract for construction going out to tender to international engineering firms, and was to be paid for by the public purse. The contract was awarded to Mitsubishi, but with the quadrupling of the oil price in 1973, and associated uncertainty, the company withdrew from the contract.

The Hong Kong government decided to re-think the whole project. Looking around the world, they noticed that when railways are built in other cities, the land around the stations increase in value. They decided therefore, to create a public company (MTRC) and grant to them the development rights for land around and above the stations. The land was bought by the government at pre-railway prices, and sold to MTRC at the same price; the company paid for the land with shares in the company which it gave to the government. It should be noted, that all land in Hong Kong is held by leasehold, not freehold. The Hong Kong government owns all the land, and leases are sold to individuals or companies for periods of 30, 50 or 75 years depending on the land use. The company was able to borrow against the value of the land, and start building the railway.

The company in turn was able to sell to developers the opportunity to build offices, apartments, hotels and shopping complexes in and above the stations at post railway prices. The difference in the purchase and sale price helped to pay for the construction of the railway.

Crucially, the MTRC held on to ownership of the shopping centres immediately above the central railway stations, and continued to receive rental and property management income from the shops operating there. This ongoing rental income supplements the cost of maintaining the railway.

The method was so successful that new lines were planned to serve new towns to be built on the outskirts of Hong Kong's New Territories, as well as a new Airport on Lantau island. In each case, the first question the MTRC asks is: "How much land do we need to pay for the railway?", which was exactly the question asked by Sharon Liu, Chief Town Planning Manager MTRC, in an interview in 2014.

There are now twelve underground or overground lines serving the Hong Kong territory, with three new lines either planned or under construction. With a mix of income streams, including fares, advertising, property development and rental income, the Mass Transit Railway Company is highly profitable, and does not rely on any public subsidy. Quite the reverse, with more than three quarters of the company still in public ownership, the MTRC pays an annual dividend to the Hong Kong government.

Financing the construction of new lines is by conventional borrowing and the issue of corporate bonds. With a healthy cashflow and profits, the MTRC is able to keep its borrowings to a minimum, and pays a low interest rate consistent with the strength of its balance sheet.

As well as enjoying an annual return on its initial investment in MTRC, the Hong Kong government benefits from the rising land values across the territory as more and more public transport infrastructure is built. Private investors in residential and commercial property are attracted to areas in the vicinity of new stations, and continue to pay healthy premiums for leases sold by the government. The government also enjoys new premiums when it agrees to a change in use for leases previously sold for agricultural or industrial purposes.

This method of financing public transport infrastructure is known as *value capture*, or *transport oriented development*, and there is a wide literature available to support the method. Although the Hong Kong government found it easier to implement given the structure of land ownership there, governments in other countries could employ compulsory purchase (United Kingdom) or eminent domain (United States) to secure the land to develop infrastructure without giving undue reward to private owners of land, who otherwise benefit disproportionately from the public investment.