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Deciphering Property Development around High-Speed Railway Stations through Land Value Capture: Case Studies in Shenzhen and Hong Kong

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Abstract: Property development around transit stations has been viewed by many governments as a considerable way of financing public transportation. However, despite mounting evidence of the positive relationship between transport investment and proximate land value, the stakeholder relationship in enabling complex property–transit development has received relatively scarce attention. In this study, we analyze the railway financing strategies in two cities (Shenzhen and Hong Kong) connected by the first cross-border high-speed rail (HSR) network in China. Using a holistic power approach, this study presents power direction, power strength, and power mechanism as the critical factors for each case. The results reveal that different stakeholder relations arising from different social and institutional contexts have led to varying land value capture practices. The findings of this study contribute to sustainable railway financing in three phases: First, it unravels the relationship between railway financing and property development under the context of an intercity railway program, with the intervention of state power. Second, it sorts out critical elements in the implementation of the land value capture mechanism, especially institutional factors such as the role of the transit agency. Third, it directs a flexible development of the land value capture theory to cope with foreseeable problems such as land resource scarcity, institutional complexity, and interest divergence.

Keywords: land value capture; high-speed rail (HSR); transport; railway financing; rail plus property (R + P) model

1. Introduction

Improving the provision of public infrastructure is key to achieving sustainable development goals (SDGs) within the global context of increasing inequity and ecological deterioration [1]. For the next decades, it is predicted that the proportion of public infrastructure expenditures in the aggregate economy will continue to rise, accounting for 3.5% of annual GDP worldwide [2]. However, conventional revenue sources such as user charges and general taxes seem inadequate to cover the increasingly burdensome costs [3], generating a fiscal gap between enlarging costs and stagnant benefits. To remedy this imbalance, a variety of financing mechanisms have been invented to facilitate higher levels of private capital engagement. Existing financing modes have covered the wide span from full public financing, semi-public financing (such as public-private partnerships), up to full private financial mechanisms [4].

When it comes to the financing of public transport investment infrastructures such as rail transits, buses, and highways, an indispensable fact to be noted is that they have embraced many merits that have contributed to citizens' higher willingness to pay (WTP) in exchange for improved accessibility [5,6]. However, very limited academic efforts have been devoted to studying how the land-related revenues could affect the financing and

planning of public transport projects. One heated topic within this domain could be found in “land value capture” (LVC) studies. LVC has been viewed as an important, feasible, and justifiable transit funding vehicle for public transportation systems by linking land value increment with initial investments [4,7,8]. Aiming at sustainable urban development, city authorities have regarded capturing land value as critical approach for obtaining capital gains from investment, and are thus exploring different policy tools to be able to apply LVC worldwide [9,10].

However, more difficulties arise when we move on to an emerging type of mega public transit—the high-speed rail system. The problems in considering HSR in the context of LVC are attributed to the relatively short history of HSR development, the blurred understanding of its urban impacts, and its complex financing regime [11]. For example, one complexity in analyzing the intercity railway projects is the fact that multiple administrative regions engage in a cross-municipal railway. Drawing on the example of China, the state and provincial sectors provide considerable capital to large-scale intercity rail projects, while the other part is sourced from bank loans. The state railway company is entrusted with the tasks of determining and supervising all detailed issues of railway construction and operation due to its rich experience in delivering national railway projects, which also shares operational profits or deficits with its provincial subsidiaries [12]. Unlike intra-city rail projects, the municipal government is shifting from being a major investor to an ancillary investor, detached from raising capital funding and shouldering operational deficits; it is only requested to prepare land parcels for transit corridors and rail stations, is responsible for resettlement, and is engaged in line alignment and station site selection due to their strong control over local land and affairs [12,13]. Nevertheless, it remains a question whether intercity railway projects can stimulate new town development and create property value premiums which provide the pre-conditions for LVC.

Recognizing all these knowledge deficiencies, this study thus developed the following research questions: (1) Can LVC strategies be used to fund HSR projects? If yes, what are the operational models? (2) What factors have led to divergent practices of LVC? To address these questions, we visited two cases in Shenzhen and Hong Kong after scrutinizing the notion of LVC. Under distinct social and institutional contexts, they both decided to finance their first HSR along the XRL. We utilized a power relation framework developed by Wang et al. [14] to analyze how stakeholder relationships affected the realistic uses of LVC.

The rest of this paper is organized into five sections. In Section 2, we present the conceptual linkage between LVC and stakeholder engagement, and then explain how power framework works under our research context. In Section 3, we introduce the empirical strategy, including the analytical framework and research method. In Sections 4 and 5, we present the two cases as our empirical analysis. Finally, we summarize the findings with policy implications in Section 6.

2. Literature Review

2.1. Land Value Capture

LVC characterizes a certain aggregation of alternative financing methods by capturing a portion of land value increment that is attributed to the benefits of public interventions [8,10,15]. There are two prerequisites for the use of LVC: (1) there is an uplift in land value from public investment; (2) there are favorable public policies facilitating the capturing of increased land value [9]. It is notable that capturing methods have been diversified to account for all sorts of social, economic, and political circumstances all over the world [16]. According to Mathur [10], existing LVC tools are categorized into two broad categories. One consists of direct value capture mechanisms, such as property and land tax, betterment charges and special assessments, tax increment financing (TIF), and so on. The other comprises indirect value capture mechanisms, which include land lease/land sale, joint development, air rights sale, land readjustments, etc. Direct value capture methods are considered as wealth redistribution instruments that capture “unearned income” from private landowners and require a well-established taxation system. This group of instru-

ments is characterized as being “more sustainable” in circumventing the loss of arable construction land by implementing a recurring benefit-capturing mechanism, although facing public charges of regressive effects or arbitrary taxation rates [16]. In contrast, indirect capture methods prevail in a wider geographical scope because they hold a more pragmatic attitude towards value capture: that of generating revenues without encountering the risk of distorting the existing fiscal regime [4,16,17]. Furthermore, multiple LVC instruments can be used simultaneously to fund public transport projects. For example, property management and sale of land development rights are adopted by the Hong Kong rail operator, the Mass Transit Railway Corporation Limited (the MTRC), to fund the construction of its own metro system [10].

Overall, LVC has spread from well-established markets, where tax-based mechanisms are used, to some flourishing markets, where land-centered financing practices are popular for mobilizing different resources to fund large-scale public infrastructure [1,16]. As Mathur [10] points out, to enhance the cooperation among stakeholders in LVC, inclusive value creation should be enabled to properly share the increased land value among public agencies, transit agencies, private real estate developers, and residential communities [18]. This inclusive strategy calls for a transparent and efficient policy that targets all involved stakeholders, but also a diversified way of generating land revenues, i.e., existing property appreciation, new transit-oriented developments, and so on [10]. Correspondingly, scholars should take a more comprehensive viewpoint in defining, observing, and analyzing LVC.

2.2. Analyzing Stakeholder Engagement in LVC: A Holistic Power Framework

Stakeholder engagement has long been identified as a critical prerequisite for successful transport planning that should be considered in the decision-making as well as the project workflow establishment stage [19,20]. On the one hand, engagement of stakeholders from diverse backgrounds helps to enrich project objectives and interests; on the other hand, engagement is also essential at the implementation stage in order to ensure the support from stakeholders [20]. For example, “inclusive value creation” calls for creating and sharing land value increment among all stakeholders—from public agencies and transit agencies to real estate developers, business holders, and surrounding neighborhoods, among others [16,21]. That being said, the specific role of transit agencies in LVC has rarely been reported in value capture studies. In most markets, transport agencies only participate in some phases within the LVC process (i.e., in transport construction and operation). For example, the transit agency in Washington DC is perceived as a “pure transit provider” despite its diversified utilization of LVC instruments, including the one-time lump sale/lease of property/development rights, connection fee charges from retailers, and the sharing of operational costs with developers [22]. In Hong Kong and Tokyo, the partial or complete privatization of transit agencies have given rise to entrepreneurial transit agencies that are willing to take up diversified business strategies towards land development around transit stations [9,23,24]. In a nutshell, the significant disparity of business focuses of transit agencies is believed to produce quite different approaches towards station-adjacent property development opportunities, and thus, their LVC preferences.

Recognizing that power relations among critical stakeholders could affect LVC outcomes, Wang et al. [14] developed a theoretical framework to unravel the complex power relations between LVC stakeholders. Borrowing the knowledge from the studies on Mechanics by Wilcox [25], the power relation framework features various perspectives of power, i.e., direction, strength, and mechanism: (1) Direction of power refers to the business relations among stakeholders in the acquisition of land values, which may either be competition, cooperation, or complementary. (2) Power strength indicates the scale of power, including four forms of power: coercive power—how an authority can coerce others to act; legitimate power—how a legitimate authority can prescribe the actions of others; induced power—using material awards to derive a power advantage; and competent power—using specialties and expertise to obtain power [26,27]. (3) Mechanism of power represents how stakeholders benefit from land, including market mechanisms—using price, supply and

demand, and competition as instruments; or administrative mechanisms—using the law, rules, and guidelines as instruments [14]. The power relation framework unravels the disparity in power relations between LVC stakeholders, whether triggered by temporal evolution or from geographical distinction, and will eventually lead to LVC practices. For example, in the dominant private land market in the US, local governments do not have power over land sellers, which exhibits a huge difference as compared to local governments in China that operate based on public land schemes [14].

2.3. The Rail plus Property Model: How A Holistic Power Framework Works

This section introduces a specific practice of LVC in transport planning, the rail plus property (R + P) model, which serves as a benchmark model in our empirical studies analyzing the LVC practices of the HSR projects. This model originated in Hong Kong, where the prosperous real estate market and high public transit usage justify the transit-oriented property development strategy to fuel urban transit system expansion [28]. In the R + P model, land parcels around newly built railway stations are exclusively granted by the Hong Kong government to the transit agency, the MTRC, at a “before rail” price, and then sold to private developers at an “after rail” price. In other words, the Hong Kong government sells the land premia to the MTRC in exchange for the construction and management of rail infrastructure. Property development above the railway station is perceived as the core business. Hong Kong’s success in the R + P practice has been reflected in its high-quality train services at relatively low fare prices, its highly compact urban form along corridors and stations, as well as the stable business revenues of the MTRC company over decades [23]. Portrayed with similar public land ownership and debt pressure from large infrastructure investment, many Chinese cities “duplicate” this model, some even inviting the MTRC to participate in their transport development programs [29]. For example, Shenzhen is the first mainland city to successfully implement the R + P project (known as the “Tiara” project). To address legislative barriers from the existing land transfer system, the Shenzhen municipal government managed to make use of conditional bidding (prior to 2012) and the land equity investment approach (after 2012) to grant land development rights above railway stations to the local transit company, the Shenzhen Metro Company (SZMC), instead of conventional cash contributions.

The supremacy of the Hong Kong R + P model is believed to be attributed to the appropriate engagement of the transit agency, which can be further elaborated following the previous holistic power framework of Wang et al. [14]:

- (1) In terms of power direction, cooperation overtakes competition, with the transit agency taking up a leading role. This can create an integrated transport–land use pattern and coordinate divergent interests between public and private interests [30]. Aveline-Dubach and Blandeau [31] described the reciprocal relationship between these participants as an “urban growth coalition”: the government benefits from obtaining high-quality transport infrastructure and a compact, transit-oriented urban environment without directly devoting fiscal investment; the transit company gains access to property development and maximizes its profitability through a diversified portfolio, such as property development and management, advertising, telecommunications, and so on; the big, local property groups also benefit from expanding their control over the territory, because R + P stipulates that MTRC’s land tenders should be awarded to bidders on the basis of financial health status.
- (2) In terms of power strength, the MTRC enjoys high levels of competent and legitimate power. Competent power refers to the abundance of specialists and requisite knowledge to solve difficult problems or collaboratively accommodate stakeholder needs. The railway station and above-station properties are linked in terms of site footage, civil works, and ancillary services. Only a single transit agency with a rich experience and professional skills in planning and developing railway property, such as the MTRC, has the power to plan and manage such an integrated project [32]. In fact, the MTRC acts as a “master planner and designer” that not only prepares a de-

velopment layout plan and resolves all interfaces with rail stations, but also takes care of tendering land parcels, acts as a liaison between the government and developers, and monitors development quality as well as the sale and management of completed properties [23]. An agent owns legitimate power when it has the legitimate authority to prescribe the actions of other stakeholders [27]. In this regard, MTRC exploits “Development Agreements” to ensure the compliance of developers in obeying the master plan for station development [30]. MTRC is in a strong position among the contracting parties, i.e., to benefit from the land and hence maximize the synergistic effects of railway property.

- (3) In terms of power mechanism, the Hong Kong R + P model mostly uses a market mechanism, where the government, as the landowner, shares land development profits with the transit agency so that all the resources (land, rail, capital, professional skills) can be efficiently disposed by a single company. Compared with an alternative public-led model (where the government directly disposes land development rights to the developers through public auction), this arrangement is argued to decrease the transaction costs and improve overall efficiency [30]. In addition, administrative mechanisms also exist, such as the exclusive land grant from the Hong Kong government to the transit agency.

3. Empirical Strategies

3.1. Selection of Cases and Sources of Data

This study selects Shenzhen and Hong Kong as research sites due to their explicit differences in terms of institutional and social contexts despite their close geographical association along the Guangzhou–Shenzhen–Hong Kong Express Rail Link (the XRL). Both cities are characterized by high population density (over 6700 people per square kilometer), with housing problems. To achieve sustainable growth, both cities have actively embraced a TOD development ideology in urban planning [23,29]. (See Figure 1)

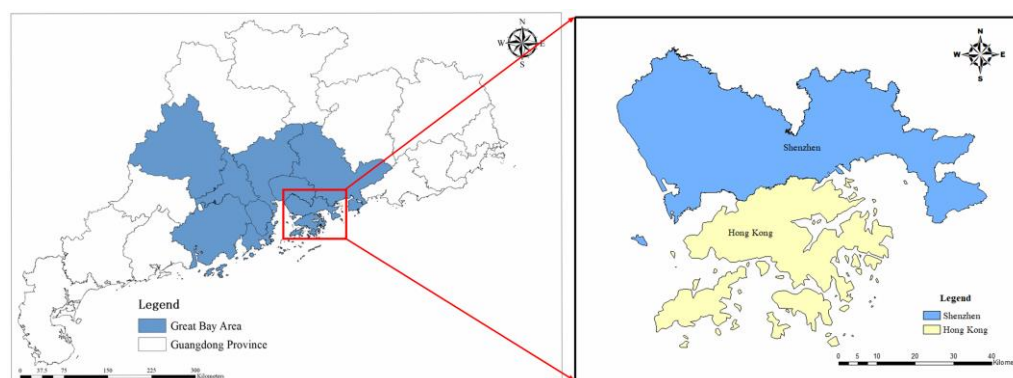


Figure 1. Location of Hong Kong and Shenzhen (Source: authors).

This study mainly uses the mixed-method approach, which includes a policy review and a stakeholder interview. Policy documents are drawn from a wide range of sources, including: (1) literature regarding the rail plus property model, high-speed rail financing, and land value capture; (2) governmental policy documents relevant to LVC practices, including TOD planning and transport financing; (3) project enterprise reports such as annual reports of railway companies; (4) third-party reports. The detailed and reviewed policy documents are presented in the Table 1.

Table 1. Data sources of the policy review.

Category	Institution	Description
Government documents	Hong Kong Legislative Council Committee, subcommittee on Matters Relating to Railways	Papers, reports, and ordinances before and during HSR development, including feasibility assessment; station location selection and supporting facilities; operation matters.
	Town Planning Board, HKSAR	Town Planning Ordinance. Section 3 Functions of the Board, Section 4 Contents of Lay-out Plans and Powers of the Board.
	Transport and Housing Bureau, HKSAR	Report of the Hong Kong Section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link, in 2014, by an independent expert panel.
	Shenzhen Housing and Construction Bureau	Official website; notice on the announcement of the results of the preliminary review of the public rental housing application at Langlu Home.
	People’s Government of Guangdong Province	Shenzhen Affordable Housing Regulations. Minutes of the Meeting of the Ministry of Railways and Guangdong Province on Promoting the Construction of the Guangdong Railway in a Sound and Fast Way, 2010.
	National Railway Administration of the People’s Republic of China	Official website—introduction of the Shenzhen North Railway Station Comprehensive Transportation Hub Project: Winner of the 2012 Zhan Tianyou Award.
Enterprise reports	SZMC	Official Website; Annual report, 2019.
	SZMC	Corporate Bond Credit Rating Report, 2020.
	SZMC	Public issuance of green corporate bonds, 2021.
	MTRC	Hong Kong SAR Government MTR Privatization Share Offer Prospectus, 2000.
	MTRC	Official Website; Annual report, 2019.
	China Railway Group Limited	Annual report, 2020.
	Guangdong Railway Construction Investment Group Co., Ltd.	Official Website; Tracking rating report, 2017, 2020.

The research also utilizes unstructured expert and stakeholder interviews to obtain actual market information that would help to certify our arguments. Interviewees include: one project manager from the Vanke Property in the HBC Huilong Center project (on-site interview, last over an hour), two real estate agents in the Longhua district, Shenzhen (one online interview, one phone interview, last over half an hour), two property investors in the Huide Tower project (on-site interview, one is a local chain hotel operator). These interviewees all know quite a lot about the local real estate market and government policies.

The interview with the project manager contributes to our understanding of the localized development process. The interview data were analyzed via thematic analysis, which helped the investigators to identify and extract certain themes from a particular data set.

3.2. Analytical Framework

To solve the research questions in Section 1, we built an analytical framework, as shown in Figure 2. Realizing the importance of diverse stakeholder engagement, this paper argues that the power relations are subject to a series of socio-economic and institutional factors (such as railway finance politics, land administrative system, local real estate market, planning system, social attitudes). Furthermore, various power relations can lead to preferences towards varying LVC strategies: cooperative relationship is important for sophisticated LVC policymaking, while power imbalance and public sector dominance may repel the engagement of the private sector such as the transit agency or property developer.

In addition, this study firstly scrutinizes the role of the transit agency in the LVC, which is seldom investigated as previous LVC literature focused more on the land administration and marketization processes [14,18,19,22]. Given the specialized focus on the transit agency, the coercive power is left out in the power relation discussion. The participation of state and municipal governments is also looked upon, as state power is evident in an intercity railway financing regime [12]. In the case of Hong Kong, we applied a city-state concept as it is empowered with an autonomous transport financing regime and land administration [23,33]. We centered on three key stakeholders: the government, the transit agency, and the real estate developer, each with diverse interests and obligations. By employing a holistic power approach, their power relations are examined through three perspectives—direction, strength, and mechanism.

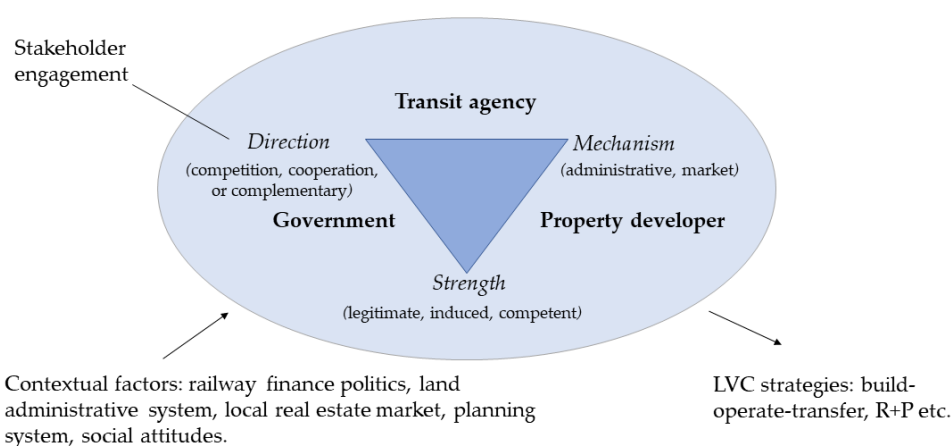


Figure 2. Analytical framework: stakeholder relationship affecting the outcomes of LVC application (the triangle indicates three power perspectives: direction, strength, and mechanism). Source: adapted from Wang et al. [14].

4. The Shenzhen Case

4.1. SZMC as Leading Stakeholder in LVC

The Shenzhen North Railway station (SZNRS) is the principal intercity railway hub for Shenzhen city, covering 2,400,000 m² (240 ha) of land, with 11 platforms and 20 railway tracks. The station was the terminal station of the first phase of the XRL—Guangzhou South to Shenzhen North. By year 2015, this station was connected to several national and regional HSR corridors, including the Beijing–Guangzhou line, the Hangzhou–Fuzhou–Shenzhen line, and the Nanning–Guangzhou line. This station was designated to fulfill two targets—to satisfy the long-distance travel demand from Shenzhen (and Hong Kong) residents to other major cities in China, and to effectively reduce the travel time between Guangdong and Hong Kong.

The financing arrangement for the mainland section of the XRL signifies the commencement of a new era of railway financing in mainland China, in which the state and provincial sector each injected 50% of the capital into the newly established railway project company—in this case, the Guangzhou–Shenzhen–Hong Kong Passenger Dedicated Line Co., Ltd. In addition, the local transit agency, the Shenzhen Metro Company (SZMC), acted as a pivotal stakeholder: on the one hand, the SZMC represented the Shenzhen municipality, contributing to 27.43% of the total investment (the shares held by the provincial sector); on the other hand, the SZMC also engaged in the two above-station property development programs in collaboration with the government and private developers—the HBC Huilong center and the Huide Tower [34]. With this factual evidence, an “R + P” model was then regarded as the logical solution to fund the rail development.

4.2. Cooperative Power Direction in Land Value Capture

Due to the involvement of the state and provincial sectors in HSR financing, the value capture mechanism should be modified to allow for inclusive value creation and value sharing among all stakeholders, especially from a single municipality to cross-government level [10,13,23]. In this regard, the SZMC attempted to ally with diverse stakeholders. In the HBC Huilong center project, the SZMC collaborated with a leading domestic property developer, the Vanke Enterprise, to co-develop real estate in synchronization with the railway project. This arrangement is analogous to Japan’s joint development model to improve the integration between rail stations and real estate projects (Sina News 2016, interview with Tan Huajie, Senior Vice President of Vanke Enterprise. In the joint venture, the MTRC holds 51% of the total capital. (<http://finance.sina.com.cn/roll/2016-07-04/>) (accessed on 7 March 2021)). Within this collaboration, the Vanke provided a whole package of professional services after obtaining the land parcel, including design, construction, and property management, offering essential help to shorten the property development process (interviewee 1, project manager). In the Huide Tower project, a joint venture with a state company—the China Railway Group limited (CRG)—was established to capture value for state-owned enterprises (interviewee 1 and 2: project manager, senior real estate agent), in which the shares held by the SZMC also reached 51% [35].

The SZMC retains a flexible and negotiable relationship in sharing land profits with the Shenzhen municipal government. As a subsidiary under the Shenzhen State-owned Assets Supervision and Administration Commission (SASAC), the SZMC can smoothly acquire the land parcels through equity investment from the SASAC [18]. One feature in the R + P practice in Shenzhen is that the SZMC shoulders government obligations in providing public housing as it is able to assume higher financial risks with government backup [34]. In comparison to the practice in Hong Kong, real estate development in Shenzhen is very much a cross subsidy from the government for railway and public housing construction—when property development fails to fill the financial gap for railway construction and operation, the SZMC receives government subsidies to mitigate operation deficits; otherwise, when the government considers that the profit margin of the SZMC is too high during a real estate surge, the SZMC is asked to spare a portion of building units as public housing [29]. The houses would be allocated by Shenzhen government and be rented at a subsidized price to certain groups who are eligible for certain “affordable housing” programs [36]. For instance, Yang et al. [29] reviewed thirteen R + P projects in Shenzhen, finding that six of them were involved in public housing provision.

4.3. Acquisition of Power through Market and Administrative Mechanism

The next question is how the SZMC managed to obtain power in its R + P model. As mentioned earlier, four forms of power exist in stakeholder relations. For competent power, SZMC has accumulated experience in R + P programs as one of the first transit agencies in China to trial the value capture mechanism. Prior to the introduction of the R + P model, transit funds were mainly paid by cash, which could partially come from the public land sale around stations [29]. However, land lease revenues were not dedicated to recoup the

construction and operational costs. There was also a significant time gap between expenditures for transit construction and the collection of land lease revenues [29]. Inspired by the success of Hong Kong, in 2013, the SZMC established the department of property development (known as SZMC Property, or “Shentie Zhiye” in Chinese) to manage the property business, especially for R + P projects [18]. A series of subsidiary project companies were set up to be responsible for the development, construction, operation, and management of different R + P projects, all of which were ultimately managed by the SZMC Property (These subsidiary companies include but are not limited to: Shenzhen Metro Qianhai International Development Co., Ltd. (referred to as “Qianhai International”), Shenzhen Langtong Real Estate Development Co., Ltd. (referred to as “Langtong Company”), Shenzhen Metro Nordisk Shenzhen Metro Vanke Investment Development Co., Ltd. (abbreviated as “Shen Tie Nuode”), Shenzhen Metro Vanke Investment Development Co., Ltd. (abbreviated as “Shenzhen Vanke”); the SZMC is the only or main shareholder of all these companies.) [35]. In the case of the Huide Tower project, the collaboration with the China Railway Group further fortified the competent power, given CRG’s provision of technical resources in dealing with all sorts of construction difficulties in an HSR project [37].

Given the involvement of cross-municipality governments, the legitimate empowerment of a local agency was necessary to allow such a single agency to lead the project. In July 2010, the Guangdong provincial government authorized its provincial railway investment company to collect real estate revenues and to transfer it to the regional transit company (i.e., the Guangzhou–Shenzhen–Hong Kong Passenger Dedicated Line Co., Ltd.). This firstly legitimized the practice of higher-level government entities sharing land development benefits with municipal governments in China, removing the cross-jurisdictional concerns that were inevitable regarding this type of R + P development [13]. As for the state, the joint venture between the local municipality (the SZMC) and the state (the CRG) did not only establish a plausible market approach to recoup the enormous fiscal investment from the central government, but also added to the authoritativeness of the SZMC in the subsequent development.

Induced power is essential for a successful R + P model to activate the engagement of other stakeholders in the coalition. Cervero and Murakami [28] describe the R + P as “a carefully conceived process for planning, supervising, implementing, and managing station-area development and tapping into the land price appreciation that results”. To achieve the implementation, two sources of induced power were utilized through the market and administrative mechanism. The first is associated with the choice of station location. The SZNRS ended up with a peripheral location outside the built-up area, which could reduce land-related expenditure for the governments (land concession fee, demolition fee, and resettlement fee). Although proximity to urban centers may precipitate a larger potential passenger flow, municipal governments lack the incentive to do so as it is divorced from the operational deficit of the national HSR system [13]. Transit agency engagement is facilitated by this development-based station placement decision, as a large proportion of vacant state-owned land (formally consolidated by government using coercive power) around the station paves the way for succeeding development, and boosts land lease revenue. The government also contributes to a large proportion of urbanization campaign along with HSR investment, launching a number of subsequent development strategies such as the integration with the local rail transit network (in June 2011, six months before the HSR inauguration, metro line 4 and line 5 were opened, connecting Futian and Luohu, two urban centers to the HSR station), district boundary reorganization (in 2011, the Longhua New District (LHND) was separated from the original Bao’an district, enabled with the higher political power of planning and financing affairs), and new town development.

Another source of induced power comes from supportive land zoning regulation. A supportive, compatible, consistent, and specific land zoning system contributes to mitigate project risks, thus encouraging transit participation in TOD projects [38]. As previously stated, a peripheral location choice of the SZNRS circumvents its development from planning restrictions as in highly urbanized areas. Land density bonus and floor

area ratio (FAR) transfer practices are allowed at the land parcel level in order to enable developers to enjoy higher development density around transits, ranging from a 20% to an 80% increase from the baseline density parameter [29]. In this way, the coalition between local governments and the SZMC, and even the private developers, have benefited from the R + P and land reproduction. Only concerns have shifted from “whether feasible” to “whether sustainable”, and to “whether justifiable”, as such a mega-project consumes immense quantities of state-owned land resources in such a high-density city where land means everything.

5. The Hong Kong Case

5.1. A Government-Led Model Where the Role of MTRC Is Marginalized

XRL (the Hong Kong section) is the world’s first all-underground high-speed railway project. As a mega-transport project, it terminates at the Hong Kong West Kowloon Station (HKWKL), with a footprint of 110,000 m². It consists of a ground floor with four lower levels beneath it, and the lowest housing 10 railway platforms. The gross floor area is 380,000 m². The trains run in parallel tunnels, which extend underground to the Shenzhen Futian district [39]. The Hong Kong section of the XRL project firstly connects Hong Kong with the national HSR network in China, enabling passengers to travel between Hong Kong and Mainland cities at speeds of over 200 km/h. Thereby, it is recognized as a project of strategic importance that will enhance Hong Kong’s status as a gateway to Mainland China [39].

Prior to the XRL project (Hong Kong section), most mass transit railway financing in Hong Kong adopted an “ownership approach”, where the MTRC was responsible for the funding, design, construction, and operation of projects [23]. However, the Hong Kong government adopted a “concession approach” in the case of XRL, in which government owns the railway assets, pays for the project, assumes the construction risks, and assigns the MTRC to manage all aspects of the whole project [39]. Once railway construction is completed, the whole railway project is transferred back to the government, while the MTRC continues to operate in the form of a railway franchise, paying a concession fee to the government for cost recovery [40].

The authority to decide on the railway financing arrangement is largely held by the government. A subcommittee of the Legislative Council Panel on Transport takes the charge of overseeing and examining proposed railway financing arrangements, largely under the principle of financial viability [23]. With a default option of ownership approach (known as the “R + P” model), case-by-case examination is required to figure out the most appropriate financing mode. In this case, with a concession approach being prioritized, Hong Kong adopts alternative value capture instruments, i.e., it can sell preserved land above the terminus station through public bidding. On 26 November 2019, a piece of land development right above the West Kowloon station was sold at a price of HKD 42.2 billion to a local property developer, the Sun Hung Kai Properties Limited (SHKP), who proposed to make use of this land parcel for a TOD-featured landmark integrated complex project [41]. Apart from land auctioning, Hong Kong captures increased land value from existing properties through its well-established tax administrative system [16], which contributes as a secondary public revenue source. In an HSR study, Bao and Mok [42] noted that “land sales accounted for 27% of government revenue in 2018, whereas tax from profits accounted for 22% in Hong Kong.” They also evaluated the aggregate increase in property values to be HKD 46.6 billion, owing to the HKWKL project, which accounted for 55% of the total project construction cost of HKD 85.3 billion. This property premium could be captured through multiple taxation tools, i.e., tax rates (5% of estimated annual rent revenues), government rent (3% of estimated annual rent revenues), property tax (15% of net rent revenues), etc. In the following sections, we will examine latent factors that have prompted the MTRC to forfeit the leading role in the HSR project.

5.2. Power Direction: From Cooperative to Competitive/Unsupportive

As indicated in Section 2.3, the MTRC plays a critical role in R + P projects. The unique business framework in which the MTRC heavily influences the planning and coordinates station site development, was once thought to be one market-oriented feature of the best advantages of this model [30]. Specifically, the site development details were worked out by the MTRC after aligning with the public interests of government departments and the private interests of the developers [23,30]. However, in this case, it was discovered that both the government and the private sector had transformed their attitudes into being unsupportive of an MTRC-led R + P model.

From a government stand, an R + P model implies that the MTRC will be responsible for the finance, design, construction, operation, and maintenance of the new railway project, and ultimately owns the railway. Due to the political risks involved in the cross-border cooperation, the Hong Kong government decided to retain full ownership of the HSR infrastructure. To better implement the blueprint designed for the HSR area, i.e., to secure a low-density, high-quality public space around new HSR stations [31], the government preferred to bypass the MTRC during development to have a direct conversation with real estate developers. Past experiences show that the MTRC retains a market-oriented feature when facilitating above-station development in order to fully leverage land resources (i.e., the Tung Chung project, the Tseung Kwan O station project (according to Tang et al. [30], in the Tung Chung above-station development, the MTRC improved the government planning and design with the maximization of the sea-view potential of land resources; in the Tseung Kwan O station project, the MTRC proposed a change in land use to satisfy rising market needs). By rejecting the R + P model, the Town planning board (the TPB) could specify a comprehensive development area to guide the localized land development as well as deny some “inappropriate” development proposals (termed as “master layout plan”) prepared by private developers [43]. For example, in January 2021, the proposed master layout plan prepared by SHKP was rejected by the TPB because the proposed development plan “fails to demonstrate the significant planning or design gains to justify proposed relaxation of building height restrictions and breakthroughs in the ridge line from a strategic viewpoint” [44].

For private developers, their alliance with the MTRC has gradually broken down since the real estate crisis in 1997. This crisis has resulted in a wave of privatization of large public facilities and the deregulation of some monopolistic sectors, leading to a power shift towards big property groups and business elites [31]. In 2000, nearly a quarter (23%) of the capital of the MTRC was privatized through public flotation [4]. As a result, the MTRC was required to operate on commercial principles, receiving increasing scrutiny from civil society and the Hong Kong Stock and Security Market (HKSSM); meanwhile, they continued to assume government oversight [4,28,29]. The R + P model has been accused of “making too excessive profits from property development”, “not providing enough social housing”, and “squeezing small private dwellings out of prime transit areas” [5]. Moreover, the list application in 2004 enabled private developers to freely acquire land from the government with the submission of future development operations, thus shifting their attitude towards the MTRC, from seeing it as an ally to a major competitor in obtaining land grants [31].

5.3. Loss of Power Strength for MTRC: Through Market and Administrative Mechanisms

For its lack of experience in engaging in HSR development, the competence power of the MTRC has seen a decline in the HSR project. The full-line underground design and the dense building foundations surrounding the station have escalated the engineering challenges to this HSR project (Lam Sai-hung, Chief Engineer of Railway Development Office, Hong Kong Highways Department) (See details of the online report at <http://www.chkri.hk/seminar/> (accessed on 23 February 2021)). Rising labor costs have jointly led to constant project delays as well as budget overrun. The Entrustment Agreement in 2010 (EA2) specified that the whole project would be completed by August 2015 with a total cost

of around HKD 65 billion. In 2014, the MTRC announced that the project would have to be postponed to 2017; in November 2015, the Entrustment Agreement 3 (EA3) revealed that the Hong Kong government would bear a maximum cost of HKD 84.4 billion, the excess being undertaken by the MTRC, except for prescribed expenses in EA2 [39].

The MTRC has also suffered from a legitimate power downsizing through the administrative mechanism. The XRL was co-built and co-operated by the MTRC and mainland operators, with a majority section of the rail line built by mainland ventures. For the implementation of the co-location arrangement (according to the Guangzhou–Shenzhen–Hong Kong Express Rail Link (Co-location) Ordinance (Cap 632), a Co-location arrangement is similar to the Juxtaposed Controls between two states, except that in this case, it is between two separate customs territories within the same sovereign state), the West Kowloon Mainland Port Area was delineated (the Mainland Port Area is the demarcated area on the underground second floor—the arrival level, the underground third floor—the departure level, and the underground fourth floor—the platform level of the West Kowloon HSR station), in which everyone is subject to the law of mainland China. Moreover, the ticket fare was established based on the Chinese Yuan, while the Hong Kong dollar fare would be adjusted monthly according to the prevailing exchange rate [45]. The actual ticket revenues are heavily influenced by the de facto cross-border regulations, which is also beyond the jurisdiction of the transit agency. Overall, the legitimate power held by the MTRC as well as the Hong Kong government was impaired.

The lack of competency and legitimate power have resulted in higher risks associated with the R + P model. Traditionally, in the metro-based R + P model, land size granted for property development is viewed as the key to combating financial risks and to yielding potential profits for the MTRC [29,32]. According to the MTRC [46], in a typical R + P establishment procedure, the government and the MTRC first jointly decide the railway alignment. After that, lifecycle costs and operational incomes are estimated by third-party consultants commissioned by the government, thus deriving a “funding gap” (a funding gap in the Hong Kong R + P practice is the difference between total fixed asset investment in subway construction and the present value of cash flows of subway operation over the next 50 years, where the total fixed asset investment in subway construction is the present value of subway capital investments plus 30% risk premiums, and the present value of cash flows over the next 50 years could be simply viewed as the operation revenues (i.e., farebox revenues, advertising, etc.) minus railway operation costs); the final step is to negotiate on the land parcel sizes granted to the railway company based on a “rule of thumb” approach and under the “optimistic market scenario” [32]. An R + P model will be adopted only when there is an agreement between the government and the MTRC. However, increasing uncertainty in aspects of both cost and profit has made the estimation of funding gaps unlikely.

The loss of induced power of the MTRC is attributed to the collective effects through market and administrative mechanism. The designated West Kowloon station is located very close to the existing city center, with almost 30% of the total population and 50% of the working population concentrated within a 5 km radius [47]. Proximity to the potential passenger market as well as potential destination sites helps to meet the realistic travel demand and transport-sector revenues. However, the central location has pushed up the sunken costs of land acquisition fees, and has thus, by market principles, restricted the room for land development and its benefits for an R + P model. Moreover, because of the vicinity of the nearby West Kowloon cultural district, the planning authority envisages the synergistic effect of a high-level integration of railway and cultural facilities, benefiting the transport, tourism, and hostel sectors, thus branding a new city image. Consequently, high-rise residential development around the station area, which is at the heart of the MTRC’s R + P model [28], is believed to contradict quality-based planning objectives, and is forced to give way to office development and green public spaces [47].

6. Summary and Implications

6.1. Summary of Findings

This study has compared different property development practices around HSR station areas by benchmarking with the concept of land value capture, i.e., the rail plus property model. In both Shenzhen and Hong Kong, high-speed rail has been highly valued by planning authorities as a stimulus for sustainable growth and is closely associated with property development activities. However, different stakeholder relations that have emerged with different social and institutional contexts have led to contrasting choices in the application of the LVC to this new railway program.

Shenzhen chooses to upgrade rather than to abandon the R + P model, in which the transit company continues to play the role of a pivotal stakeholder as in a metro-based R + P model (Figure 3). The biggest difference to the prototype model in Hong Kong is that the SZMC operates as a state-owned enterprise, shifting its business focus from profit-making in the real estate industry [29]. The transit agency has received legitimate power and induced power from the local authority to maintain a cooperative power direction with diverse stakeholders, given a complex multi-governmental financing engagement. Plus, it mitigates potential risks from a close, negotiable relationship with local government based on a relatively simple funding principle (Table 2).

In comparison, Hong Kong opts for an alternative model led by the government. The MTRC, as an enterprise listed in the HKSSM, has been substantially privatized, thus being more inclined to operate as a profit-seeking entity, and more sensitive to the potential risks related to HSR construction [4,29]. The political risks and strategic importance of this cross-border transport project has impelled the government to take a more critical view of an MTRC-led model. In addition, the competent power of MTRC has become insufficient in the face of such a financially and technically challenging railway project (Figure 3). To this end, the government has prioritized public goals in terms of railway station placement and overall planning, marginalizing the lucrative real estate development proposals. A public-led model thus stands out.

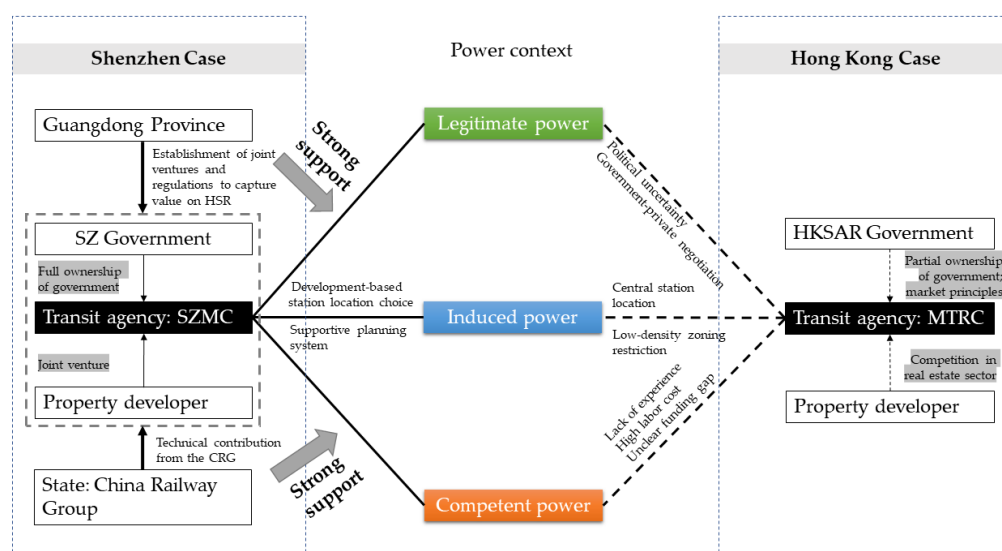


Figure 3. Power relations in the two cases of Shenzhen and Hong Kong, from a transit agency perspective.

Table 2. Comparison of property projects above the HSR stations in Shenzhen North and Hong Kong West Kowloon. Source: authors.

	Shenzhen North Station (HBC Center)	Shenzhen North Station (Huide Tower)	Hong Kong West Kowloon (SHKP-Owned Land Project)
Gross land area (GLA)	2.0 ha	1.9 ha	5.97 ha
Gross floor area (GFA)	14.24 ha	17.35 ha	17.64 ha–29.4 ha
Land development rights transfer	Land equity investment	Land equity investment	Public auction
Floor Area Ratio	7.0	9.0	3.0–5.0
Real estate developer	SZMC plus Vanke	SZMC plus CRG	Sun Hung Kai Properties (SHKP)
Development type	Office, shopping mall	Office, shopping mall, hotel, apartment	Office, shopping mall, hotel (proposed)
Land size grant under R + P	Under a rough guideline in which government makes 50% of the capital contribution using a land equity instrument		Government uses a conservative land grant calculation method

6.2. Policy Outlook for Future Railway Financing

The public transport system, regarded as a form of social good, is calling for an increasing amount of capital investment and a higher-level engagement of private capital. For railway investors, property development on formerly state-owned undeveloped land has been seen as an important source of revenue; a so-called “rail plus property” model represents a financially viable solution for the public capture of increased land value due to public investment [17,31]. However, this property-oriented financing model has been facing increasing challenges as the stock of available land continues to shrink, and land granting and the turning over of zoning power from the public to the transit agencies have incurred general society’s suspicion of corruption [9,38,48,49].

A realistic implication for future railway financing is to explore alternative LVC tools and to prepare a flexible LVC menu for a comprehensive decision-making assessment. In the longer term, tax-based instruments (such as property tax) may adapt to the land transfer restriction problem, enabling railway investors to share the economic development fruits of the railway project in the form of higher productivity, property development, and the increase of income [50]. Land adjustment may be another promising policy instrument because it is effective in facilitating large-scale urban redevelopment programs, as certified by successful applications in Japan, Korea, Germany, Spain, and the Netherlands [7].

For the intercity railway program, a reconfiguration of various stakeholders’ roles among governments, transit agencies, and real estate developers may be essential in the initial stage. In fact, some innovative institutional moves have been taken. In some cities, new governmental bodies have been established to manage regional transport planning and financing: these agencies work closely with state (in France and the UK), provincial (in Canada), and city (in San Francisco) governments to develop taxation instruments for the LVC [9]. From the perspective of intergovernmental collaboration, the establishment of a new LVC institution is thought to be necessary in carrying out ex-ante assessment and decision-making, to facilitate the engagement of critical stakeholders in mega transport projects such as the HSR, and to reconcile the conflicts of interest among the involved entities [10,23]. In the future, how these institutions will contribute to the implementation of LVC, and how they can obtain and enforce their power through the power relation framework are interesting topics worth continuous academic attention.

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