

# Integration of Property and Railway Development: An Institutional Economics Analysis

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## ABSTRACT

This paper applies the theoretical insights of the new institutional economics in examining two alternative mechanisms of implementing the integration of property and railway development: the single-developer approach and the multiple-party approach. The relevance of these mechanisms is reflected in the recent debates concerning the KCRC Canton Road Station, the West Kowloon Cultural District Development and MTRC integrated development approach. This paper argues that a desirable development outcome can be generated when the incentive and constraint structure of the institutional framework is put in place such that the roles, interests and resources of the different parties are properly aligned.

## KEYWORDS

Land Use Planning, Property, Railway, Institutional Economics, Transaction Costs

## INTRODUCTION

Recently, two separate events have attracted a lot of discussions and debates from the property professionals in Hong Kong. The first event is about the axing of the Canton Road station. The Kowloon-Canton Railway Corporation (KCRC) announced its decision to drop the construction of a station of its new Kowloon Southern Link at Canton Road. The reasons provided by the KCRC and the government were that, firstly, such station was not viable on transport grounds<sup>1</sup>; and secondly, Wharf - the major property landlord of Harbour City accommodating the proposed station - refused to share the construction cost of the station and requested the government for an additional grant of permissible development floorspace<sup>2</sup>.

The second event is about the development of the West Kowloon Cultural District (WKCD) on a prime waterfront site. One of the controversies is

concerned with the government's proposal to award this 40-hectare site to a single private developer for 30 years. The intention was to ensure that the awardee would take an 'integrated approach' to 'plan, construct, operate, maintain and manage all the facilities in the project including both public and non-public facilities' within the District in a 'self-financing mode' without the need of government subsidy<sup>3</sup>.

<sup>1</sup> According to the estimates of the KCRC, the station can only attract an incremental daily patronage of about 17,000.

<sup>2</sup> Legislative Council papers indicate that Wharf has refused to share HK\$780 million of the station construction cost and has requested the government for a bonus plot ratio amounting to 600,000 sq. ft. of floorspace in connection with the redevelopment of the Harbour City. See ETWB (2005) and Liao (2005).

<sup>3</sup> Based upon a written reply by the Secretary for Housing, Planning and Lands, Mr Michael Suen, in the Legislative Council on 23 June 2004 [webpage: <http://www.info.gov.hk/gia/general/200406/23/0623196.htm>].

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These two events look entirely unrelated, but they aim at one practice in common. That is the use of property-related incomes to finance non-property activities and facilities in an integrated development project. Few land professionals will disagree that urban land development should be integrated in order to enhance efficiency, convenience and welfare of city life. There is however a lack of consensus about how this could be implemented. Take the integration of property and railway development as an example. Should these be implemented by separate parties or one single entity? In view of the Canton Road Station case, does it therefore lend support to 'a single-developer approach', as currently proposed in the situation of the West Kowloon Cultural Development District, so that such disputes could be avoided and a more efficient outcome be accomplished? Drawing upon the insights from the new institutional economics, this paper will discuss two different institutional mechanisms in implementing and organizing changes in the urban built environment, and examine the conditions under which a desirable outcome could be achieved.

## SYNERGY: RAILWAY & PROPERTY

It is nothing new to argue that urban land uses and transport facilities should be integrated. In theory, an integrated railway and property development is expected to generate the following key social and economic benefits (Fig. 1):

### (a) *Railway*

Urban rail transit will significantly improve the accessibility of the land around the stations and hence increase its values. By capturing these values through property development and other means, the railway operator can finance the construction of

the urban railway which is always expensive to build.

### (b) *Property*

Intensification of development density of the land around railway stations provides a large amount of floor space to support more residents and a higher intensity of urban activities, which will in turn improve the ridership of the transit railway and its operational viability.

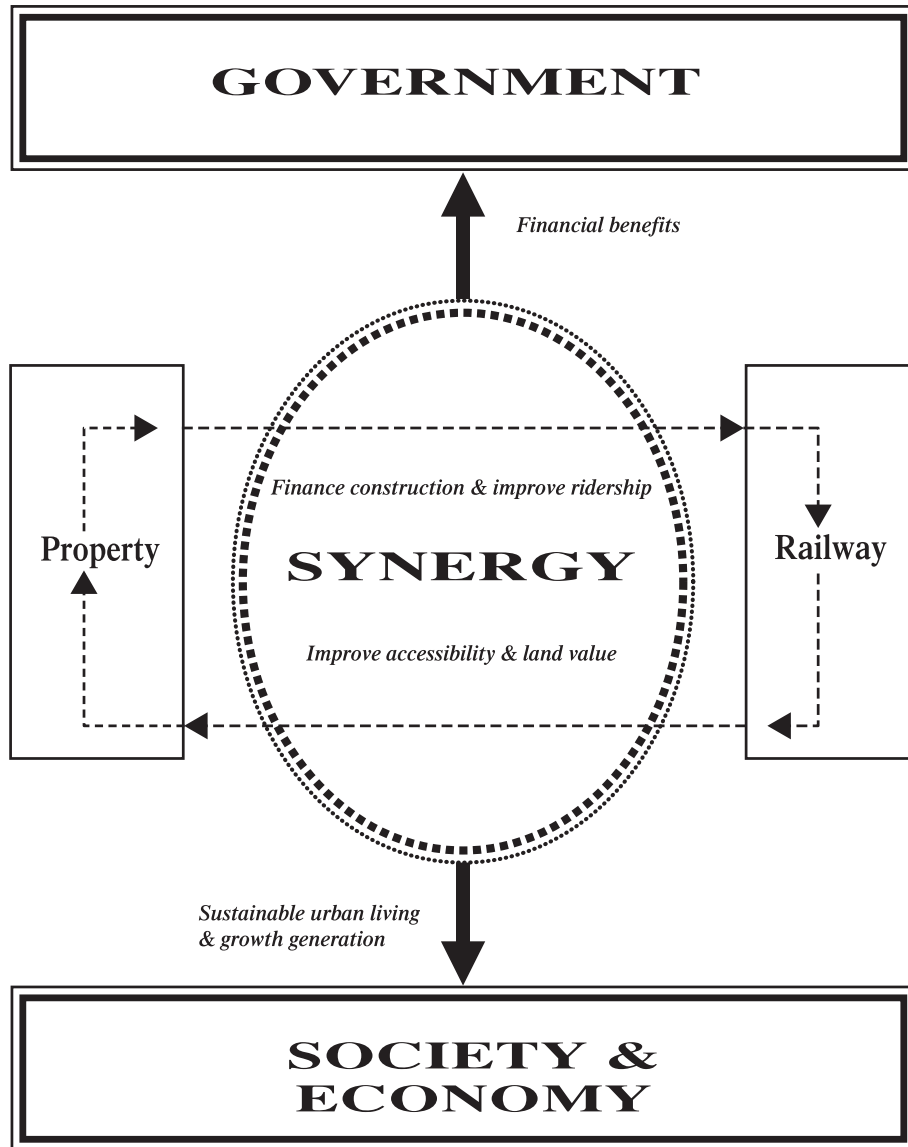
### (c) *Government*

The government can receive financial gains in terms of the land premiums generated from property development of the station sites, a higher level of rates from private properties with improved accessibility and other monetary returns on railway operations (if owned by the government). Furthermore, the government may not be required to subsidize the operations of the railway, if the latter can be financially sustained by a large pool of transit riders within the catchment areas.

### (d) *Society & Economy*

Society at large achieves a more sustainable form in terms of the compactness of urban development, more efficient use of scarce urban space, more open space, less urban sprawl, fewer roads, reduced air pollution from cars, and improved pedestrian-friendly environment. All these features can enhance the overall quality of urban life characterized by improved health, better convenience, greater diversity of life style and more time saving. The economy will equally be benefited as a result of the improved efficiency in transport and human activities.

**Figure 1**  
**Synergy of Integrated Railway and Property Development Model**



Source: Authors

## NEW INSTITUTIONAL ECONOMICS

If there are obvious mutual gains to the railway company and land developer in an integrated development project, why was there a deadlock in the case of the Canton Road Station? One interesting perspective is provided by the new institutional economics which refer to the use of neoclassical economic theories in explaining economic and social institutions such as government, markets, firms, and urban planning. This is often thought of as closely associated with the Chicago School, and also to the work of the economic giants like Ronald Coase, Armen Alchian, Oliver Williamson, Douglas North and others who focus on the analysis of 'transaction costs', 'property rights' paradigm and 'institutional changes' in the society (New School University, 2002).

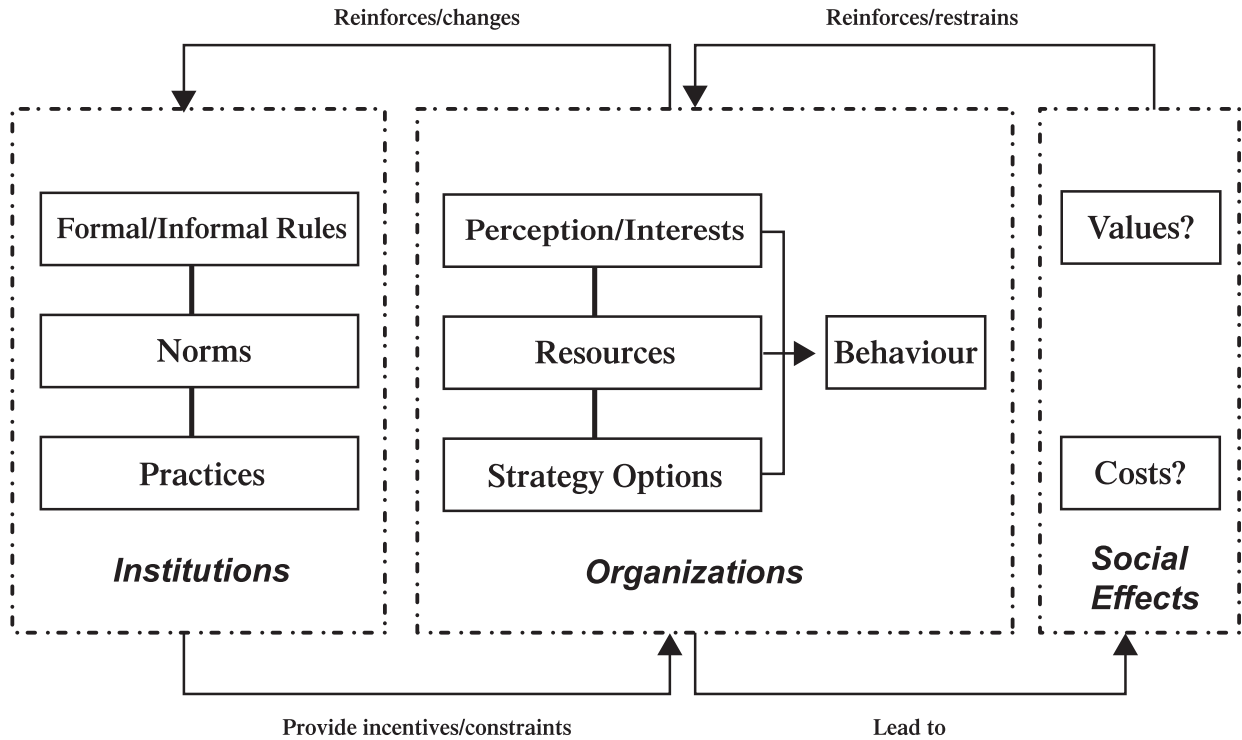
Under the new institutional economics, a transaction is the basic unit of its analysis and it is defined as an exchange of resources, assets of economic values, or reciprocal promises and action between the contracting parties in society (Dixit, 1996). Transactions can take place in the public or private sectors, and in the economic or political markets. When this concept is applied to land development, the issue of property rights becomes evident and pivotal. Land is an immobile asset. The subject matter of property transactions refers to the 'portable' bundles of property rights attached to the land assets (Seabrooke et al., 2004). Whether value can be created and captured through sensible use and development of the land asset is dependent on the property rights system, and in a broader framework, the institutions.

Institutions are constructed by the human society to govern our relations with each other. In a broad sense, institutions comprise both formal and informal rules, norms and practices that influence perception, knowledge, resources and interests of the actors and hence structure the patterns of their interactions in daily life (Fig. 2). Such arrangement governs the relationships between the stakeholders in the process of economic and social transactions. In essence, the institutions provide the systems of incentives and constraints which influence and frame the organizational behaviour.

In this respect, new institutional economics informs that the existence of private property rights is a pre-requisite to voluntary market transactions that seek to maximize economic efficiency and hence result in the best allocation and use of resources. A private property rights system refers to the conditions in which the owners are protected by law to have the exclusive rights to possess and use, to derive income from and to transfer the asset. In reality, the exclusive rights of private property are never complete. However, in a market economy, the above ownership rights are largely intact and the conditions under which the owners can exercise their rights are generally transparent. Given a clear, enforceable definition and delineation of property rights in land assets, individual owners will have an incentive to protect them, enhance their values through deliberate improvements and capture the benefits generated from their timely investment and transactions with others. Voluntary negotiations and exchanges between the individual parties will lead to an optimal use of the resources and ultimately maximize the welfare to the society as a whole<sup>4</sup>.

<sup>4</sup> The famous 'Coase Theorem' has demonstrated, given a clear delineation of property rights, the power of market forces in reaching an amicable solution for conflicting use of resources. Put it simply, the Theorem argues that market negotiations and transactions between the parties can resolve any externality problems (such as pollution and/or misuse of land resources), irrespective of the initial property rights entitlements of the resources being traded. In other words, how the assignment of the property rights is initially assigned will not affect the efficiency of resource allocation. The results will be identical in which the private parties will 'internalize' the externalities in the transactions. However, this outcome depends on the condition of zero transaction costs. But the power of the Coase Theorem lies in its corollary: because of the presence of the transaction costs, the initial assignment of the property rights is critical in determining the outcomes (see Lai and Lorne, 2003).

**Figure 2** *Institutions & Organizations: Theoretical Perspectives*



Source: Authors

Another reason why a private property rights system is a critical component in contributing to the protection, enhancement and possible capture of the asset values is because it will exert a constraint on the opportunistic action of others (Klein et al., 1997)<sup>5</sup>. This, of course, depends on the enforceability of the property rights system. As an example, common resources are quickly depleted because their values are

'dissipated' under competitive, free-riding opportunistic actions. While the new institutional economics suggests that privatization and market transactions of these common resources may help to resolve the problems, it also points out that the presence of high transaction costs (e.g. difficulty in enforcing the contracts) may prevent desirable market outcomes and / or market exchanges to happen.

<sup>5</sup> Klein et al. (1997: 2) give this example: 'Property rights tell you, not what you may or may not do with your property, but rather what others may or may not do with your property. What prevents you from filling in a swamp on your land is a regulation. What prevents others from trespassing to hunt ducks on your land is a property right.' (Italics original)

In other words, new institutional economics recognizes that voluntary market transactions between the contracting parties are not cost-free. This is particularly true in the case of land development, even in a free market economy which is generally open and transparent. High transaction costs are commonly represented in the following aspects (Alexander, 2001a; 2001b; Seabrooke et al., 2004; Hong, 1998):

- (a) Asset specificity refers to the complex situations under which the assets, resources and decisions are interdependent. Integration of railway and property development is a lumpy investment and cannot be infinitely redeployed, easily divisible and substitutable.
- (b) Imperfect knowledge about the conditions of the development sites and the contracting parties tends to increase the monitoring, enforcement and search costs.
- (c) Uncertainty about the changing economic conditions will increase the development risks and the costs of delineating all the rights of the contracting parties to benefit from the land.
- (d) A lengthy time period in completing the whole development will increase the uncertainty and the overall project risk.
- (e) Negotiation, enforcement and administration costs will increase as a result of the need to constrain opportunistic behaviour, cheating and non-compliances of the involved parties.

These high transaction costs in land development activities are 'frictions'. What the new institutional economics suggests that the logical move is to consider how to eliminate or reduce such 'frictions'

in order to encourage cost-effective voluntary exchanges. Whether this necessarily justifies government intervention is an empirical question, and 'there is no a priori guarantee' of efficiency in such action (Lai and Lorne, 2003, p.8). In fact, direct state allocation of resources is only one possible means. Following Coase's (1937) ideas about the nature of firm, transaction cost theory suggests that there are other possible institutional forms of governing the production of urban built environment (Alexander, 1992a, 1992b, 1994, 2001a, 2001b). In other words, to be effective, urban planning and land development do not necessarily have to be carried out exclusively by the government. There are other feasible forms of land use governance which can also reduce transaction costs, depending on the attributes of the transactions in the land development process. Indicative planning, contract zoning, private-public partnership, voluntary contractual covenants are some examples of the bilateral type of governance structure.

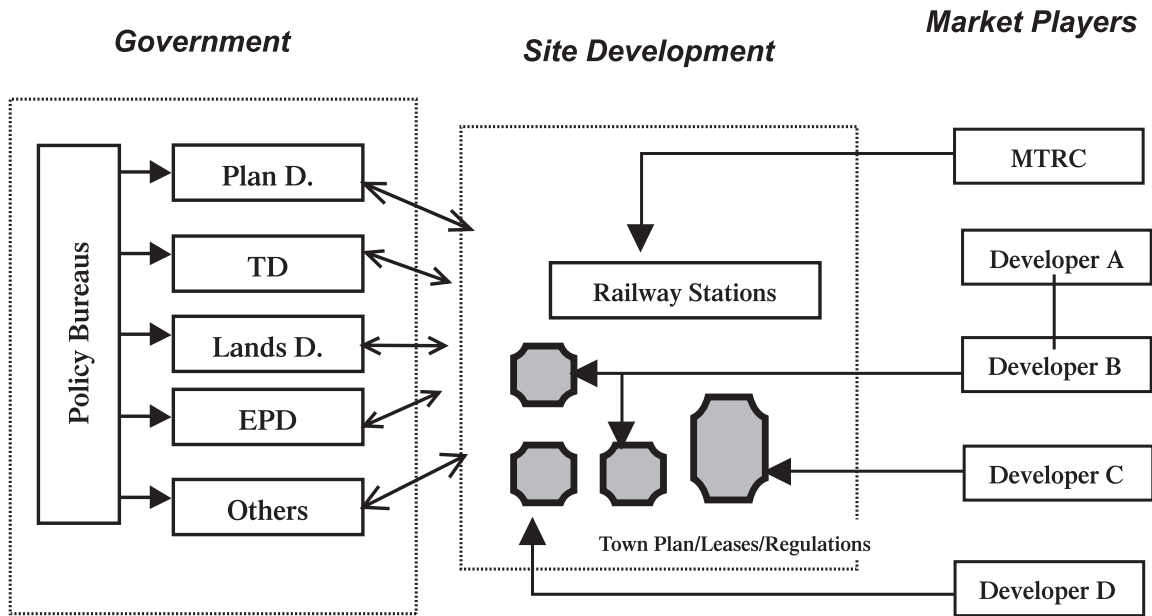
## TWO INSTITUTIONAL FORMS

The above theoretical discussions emphasize the importance of institutions in influencing and determining the outcomes of resource allocation. In many instances, it is simply impossible or very costly to choose among different institutions. For example, in the case of the Canton Road Station, it is unrealistic now to grant Wharf a priority right of having a KCRC station underneath the Harbour City. But imagine if that could be done. The KCRC would then have to consider whether it was worthwhile to compensate Wharf of not having a new station underneath its development. If this re-assignment of development rights were at all possible, the current scenario would have changed.

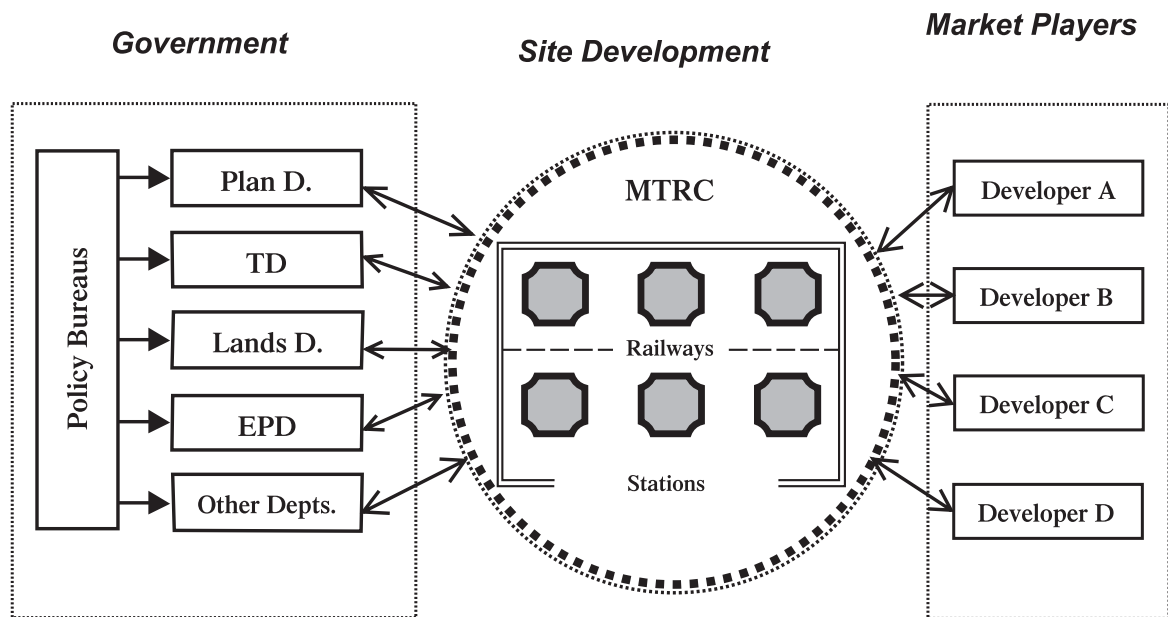
In some circumstances, however, an institutional choice in implementing an integrated land development project is possible. There are two alternative institutional forms in governing and

**Figure 3**  
**Government, MTRC and Developers: Two Institutional Models**

**MODEL A**



**MODEL B**



Source: Authors

coordinating the transformation of urban space for railway and adjoining land properties (Fig. 3).

Model A represents government planning, assignment, attenuation, and restrictions of private individual rights over the use of land resources in and near railway stations. This institutional form of land use governance involves public-sector decision making, statutory framework and third-party regulation and enforcement by the government. Under this approach, the statutory town plans, land lease documents, the government land sale programmes, and the government policies and regulations provide the principal coordinating mechanisms in bringing together all the key players in developing the sites. The railway company is one of many developers and is primarily assigned with a limited role of constructing the railways and the stations only. Project implementation relies mainly on the interactions between these market players and the various government departments, their interpretations of the many government policy regulations and contracts, and their compliance with the conditions imposed upon them.

Model B is institutional approach now implemented by the MTR Corporation Ltd (MTRC). This model puts the MTRC at the central stage in planning and coordinating development of the station sites. This approach does not obviate the need for statutory town plans, land lease documents, government policies and regulations, but unlike the previous model, they only frame rather than dictate all the development particulars. The site development details are expected to be worked out by the MTRC in negotiation and consultation with the government departments and the developers. Exclusive development rights for the station sites are granted to the MTRC and this provides an incentive for the

corporation to plan and develop the sites in such a way as to maximize the values of its entire development projects and 'internalize' all possible external benefits generated from railway and property development. The MTRC provides the platform for the resolution of conflicting interests of all the relevant parties in connection with the site development.

The central thesis of the new institutional economics is that the appropriate institutional form of governance for spatial transformation – whether through public sector planning and multiple-player approach like Model A, or through integrated private sector planning by the MTRC like Model B – is contingent upon the minimization of transaction costs<sup>6</sup>. The characteristics of the activity in question, the attributes of the type of transaction and the specific circumstances in history all play a role in determining the actual outcomes of the institutional form (Ball et al., 1998: 105-134).

## EMPIRICAL CASES & APPLICATIONS

There seems ample evidence to demonstrate that Model B is capable of creating better development outcomes than Model A. The MTRC has the corporate mission to construct and operate the urban transit railways in Hong Kong. It is probably one of the few railway companies in the world that requires no operating subsidies from the government. This is attributed to its prudent management, but also its capture of land development opportunities at its stations. A major strength of the MTRC approach is that the institutional form does not only give the incentives for the corporation to maximize the returns from its land resources by means of good planning and design, but it also provides the appropriate means to implement

<sup>6</sup> Irrespective of either Models A or B, the government is always there influencing the land development process. The fundamental issues are in what ways and to what extent. Model A does not put the government at the centre because our emphasis is on the different means of implementing the project at the site level.



the development schemes<sup>7</sup>.

### Improving Public Planning Design

The alternative government land sale approach, more often than not, lacks both the incentives and the meticulous means to ensure successful implementation of the proposed projects. The government is not subject to the same degree of financial discipline as in the case of a private corporation like the MTRC. Although the government is also obliged to make the most appropriate use of land resources, this is only a general principle. The government has to address and balance it with the numerous competing social, economic and political objectives, other than the prudent commercial principle as in the case of the MTRC. Furthermore, different government departments have their separate missions and policy considerations. Their different policy instruments have varying strengths and weaknesses.

For instance, government town planning in Hong Kong is most effective in terms of regulating land use disposition, development intensity and certain elements of the built form including building height, number of storeys and site coverage. It is strong in development control but is notoriously weak in the areas of urban design, project initiation and scheme implementation. Furthermore, marketability of the development projects has never been the main concern of the government planners as a development regulator. This is often considered as a matter of the private sector. Indeed, it is perhaps not inaccurate to say that all government

regulations are intended to be 'satisfying', i.e. setting the minimum acceptable standards and requirements, rather than 'maximizing', i.e. prescribing all the details and leaving minimal flexibility. This is certainly a prudent way of public administration in a small government-large market scenario.

Tung Chung Station is a case in point. The initial government land use planning proposal for this station development was not considered satisfactory by the MTRC. The MTRC planners subsequently put forward their proposals in revising the urban design and land use planning of the Station area. What they did was to arrange the array of high-rise residential towers in a curvilinear pattern to take full advantage of the spectacular sea and mountain views. This creates a visually stunning identity to complement Hong Kong's landmark gateway. The commercial complex is strategically designed to bridge across the North Lantau Expressway and Airport Express Link and provides the first impressions of Hong Kong for in-bound visitors (Fig. 4). This example illustrates how the MTRC approach has not only maximized its returns by capitalizing on the full potential of its land resources, but it has also delivered a masterpiece that receives wide public applause.

### Responding to Imperfect Information & Uncertainty

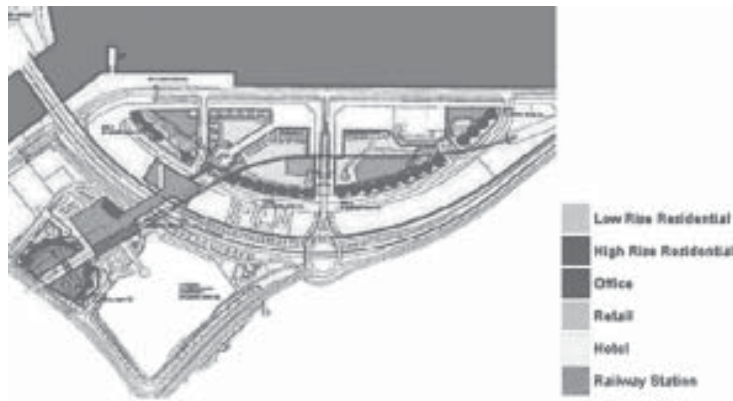
Government institutions, by their very nature, are inept in reacting to swift market changes. The government bureaucracy is rightly not commercially-oriented. There is likely to be a

<sup>7</sup> The KCRC (a public body) appears to operate under a different incentive and constraint structure from that of the MTRC (a publicly listed company with government as a major shareholder). For instance, its recently completed West Rail has suffered tremendous losses. Part of the reasons is due to its lack of integration with the development of the West Rail property sites. The Chairman's Statement in KCRC (2004) suggests that under the project agreement with the government, 'the Corporation is acting as the agent for the Government in developing these sites. ... The Corporation has made the request that the Government give high priority to the development of these sites once property market conditions improve [but the agreement is that housing development of these sites will not be completed before 2008/2009].' This seems to imply that there is little incentive for the KCRC to develop properties in an integrated and timely manner so as to provide ridership to the West Rail, although this issue is beyond the scope of this paper.

**Fig. 4**  
**Tung Chung Development: Comparison of Master Plans**



**Government's Initial Master Plan**



**MTRC's Revised Master Plan**

time lag in the government responses to the corresponding changes in market environment and the best timing is then lost. Alternatively, the MTRC model provides a sound institutional mechanism in addressing the possible problems of uncertainty and imperfect information associated with most real estate transactions. Property development is a lengthy process. Unforeseeable changes in economic and market conditions can happen that make the initial planning proposals obsolete.

The MTRC has the organizational flexibility and capability to adjust to the market changes primarily because its performance is closely linked with the market conditions under the current institutional setup. Firstly, the MTRC is disciplined by the financial market to operate on prudent commercial principles. Its management

performance will have an important bearing on its credit ratings, costs of borrowing and hence financial results. Secondly, the corporation is disciplined by the developers who choose to participate as its development partners in implementing the property projects. Developers agree to offer a sharing of their profits from the above-station development projects, when the MTRC invites them for tender. The MTRC is required to shoulder both development as well as financial risks in this process as the profit sharing is highly sensitive to the market conditions. Thirdly, the corporation is required to pay full market premiums to the government for the property development rights. The market premiums are levied on the property developers who are susceptible to the market environment.

The MTRC therefore has the incentives to make

**Fig. 5 Tseung Kwan O Town Centre Development: Comparison of Master Plans**



**Initial Master Plan**



### Revised Master Plan

sure that planning and implementation of its property development packages will meet the market needs. The corporation has to closely monitor the market sentiments before offering its tender invitations to developers. All these enhance the practicability and marketability of the development projects so that they must fall within the acceptable risk levels of the corporation. Unlike other private developers, the MTRC is not prepared to take up highly risky and speculative development schemes on their stations.

The Tseung Kwan O (TKO) Station development is a case in point. Under the current government planning proposal prepared back in the 1990s, two office towers above four levels of retail uses were proposed at the station site, integrating with the partially underground TKO MTR station with a public transport interchange and carparks. The MTRC has found these planned uses obsolete and unsuitable for the town centre site. In 2003, the MTRC submitted a planning application to the Town Planning Board requesting for a change of land uses to residential, hotel and retail uses (Fig. 5). This example reflects the merit of the MTRC approach in reacting responsively and

flexibly to the problems of imperfect information and market uncertainty associated with planning for property development.

### Internalizing Externalities & Maximizing Synergy

Another key advantage of having a single entity like the MTRC to manage the joint development of railway and above-station property development is that it allows comprehensive planning and implementation of the projects. All possible development options can be evaluated at the planning stage before adopting and implementing a final, optimal option. This mechanism will help to enhance and maximize the synergistic effects between railway and property.

Maritime Square is a case in point. It is a shopping centre planned and managed by the MTRC at part of the development of Tsing Yi Station. It is not only the largest in Tsing Yi, (over 46,000 sq.m. of retail space), but it has also been carefully designed to ensure that its theme, quality and provision will become the focal point of the community for both the local residents and

**Fig. 6 Maritime Square and its Weather-free Connection with Tsing Yi MTR Station**



commuters. One special design consideration is to promote an apparently 'seamless' space integration between the railway station and the shopping centre so that a maximum degree of convenience is provided to the residents, passengers, visitors and shoppers. The shopping centre is also fully integrated with the above-station residential development alongside extensive landscaped open space and other recreational facilities. The residents can basically enjoy a 'weather-free' environment for their daily activities within the station development (Fig. 6).

All these benefits are made possible because the opportunities of land use integration were fully evaluated at the master planning stage by the MTRC. Furthermore, by means of 'Development Agreements', the MTRC will control, monitor and supervise implementation of the adopted master plan proposals of the station development by the developers which have won the subject tender. The Development Agreements stipulate, in great details, the conditions, responsibilities and duties to be fulfilled by the developers as the implementation agent of the MTRC. Most developers describe the conditions of Development Agreements as very 'harsh'. Nonetheless, the Development Agreements perform an important function in ensuring that good quality development product will come out in the end.

Question may arise as to whether the same extent of land use integration between railway station and property development could equally

be achieved, not by a single-developer approach of the MTRC, but through separate private negotiations between the railway operator and the adjoining property owners. The answer is in the negative because:

- (a) The connection between the railway station and the property development is likely to be a remedial action, which is often a second-best option. Examples include the new underground pedestrian links between Pacific Place and Admiralty MTR station and between Times Square and Causeway Bay MTR station. These two links have been constructed and opened for use long after the completion of the stations. An afterthought in land development is unlikely to have exploited the best opportunities, including timing, resources and design.
- (b) Sometimes, it may not be entirely feasible from a physical perspective to establish the connections once all the committed development has been built.
- (c) The costs of negotiation between the railway operator and the property developers are likely to be prohibitively high, resulting in project delays and/or failure. There is no guarantee that an agreement will be reached, as in the KCRC Canton Road case.

The single-developer approach of the MTRC is most suitable to achieve the benefits of land use integration with railway because it can delineate all the rights of the involved parties to benefit from the land. By 'internalizing' all the otherwise 'external' benefits to the separate parties, the MTRC can maximize the synergistic effects between railway and property. Real estate interests and transport considerations are *not* necessarily compatible. Likewise, property planner and transport planner have different objectives and they do not necessarily agree with each other. For instance, property planners want to retain the shoppers within a shopping mall. They would therefore favour the layout design of the public corridors so as to channel the pedestrian flows to go past as many shops as possible. Transport planners, however, want a direct

access of the passengers to the station facility and an efficient pedestrian flow for the sake of safety and convenience purposes. If these two parties work for separate organizations, like in the case of the Canton Road Station, their own considerations become 'external' to the other. It becomes very costly, if not impossible, for them to resolve their conflicts through private negotiations in order to allow the synergy of property and transport to take full effect.

Sha Tin KCRC station is another example. The nearby privately developed New Town Plaza seeks to maximize the shopping space at the expense of the public circulation space. On the other hand, the railway operator needs to connect the station entrance area with the shopping mall in order to attract or disband train

**Fig. 7 Congested Interface Area connecting New Town Plaza & Sha Tin KCR Station**





passengers in an expedient manner. As a result, during the peak times, pedestrians and shoppers are often clogged at the interface areas between the KCRC station and the New Town Plaza shopping mall (Fig. 7). Such congestion causes discomfort to both the shoppers and the passengers. This is an example of how separate considerations are causing diseconomies and inefficiency to external parties.

Conflicting objectives can be more effectively resolved when the decisions are put under a company hierarchy. What this actually does, is to turn a possible 'zero-sum game' between two separate parties into a 'trade-offs' decision within one single firm. A single-developer approach of the MTRC can weigh the relative costs and

benefits of these competing options, achieve a delicate balance of these apparently incompatible considerations, and come up with an optimal solution. The transaction costs in reaching a settlement within a firm are much lower than between separate companies. The decision so reached will maximize the full synergy between transport and property and minimize their harmful interface effects.

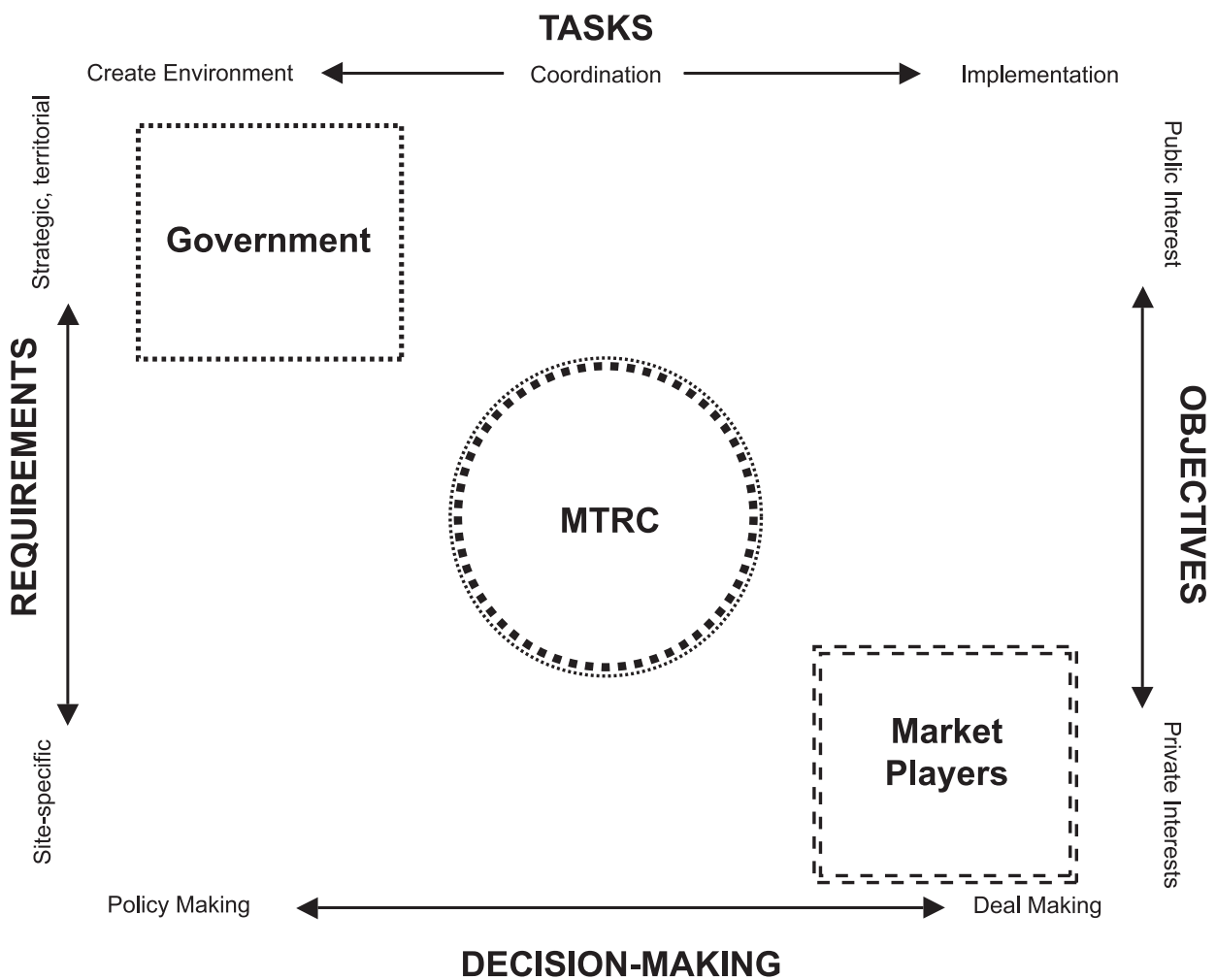
## CONCLUSION

Based upon the new institutional economics and some empirical examples, this paper discusses why the single-party, integrated planning approach like the MTRC has provided a better institutional mechanism than the alternative government planning and land sale approach in

implementing integrated railway and property development project. Does this therefore mean that the West Kowloon Cultural District Development should best be implemented by a single-developer approach? What insights could we draw from the MTRC approach?

We consider that the success of the MTRC approach lies in the proper alignment of the institutional roles of all the involved parties with their objectives, tasks, requirements, expertise, interests, resources and decision-making environment. Fig. 8 highlights the respective role

**Figure 8**  
**Institutional Functions of Different Organizations: Four Dimensions**



Source: Authors



of the MTRC vis-à-vis those of the other organizations.

Under this institutional setup, the government creates a favourable incentive and constraint environment, sets major policy objectives of strategic and territorial nature that take into account the public interest in connection with the joint development of the mass transit railway and station property. On the other hand, the market players such as property developers in pursuing their private interests, are responsible for implementing the projects subject to the site-specific requirements and the deals agreed in connection with the joint development projects. Finally, the MTRC acts as the intermediary between the government and market players for coordinating the implementation of these joint development projects, converting strategic objectives into site-specific requirements, transforming policies into deals and balancing possible conflicts between public and private interests.

Implementing integrated project over a long duration involves complex 'transactions' and hence high transaction costs. The intermediary, like the MTRC in the integrated railway-property projects, helps to reduce transaction costs. Eliminating this intermediary within the institutional setup implies either: (a) an expansion of the two remaining organizations into areas and functions which they are neither good nor proper at performing; or, (b) leaving a gap between strategic policy objectives and detailed implementation at the site level, between policies and deals, and between balancing public and private interests. This is probably the key problem we see in the proposal for a single-developer approach for the development of the West Kowloon Cultural District Development. Whether this development should best be coordinated by a 'development corporation' or other intermediaries depends on whether such institution is subject to an appropriate set of incentives and constraints so that it can make sensible trade-off decisions in a cost-efficient

manner and implement the project in a truly integrated fashion.

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