McKinsey&Company

JUNE 2016


INFRASTRUCTURE

# The 'Rail plus Property' model: Hong Kong's successful self-financing formula

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What can other cities learn from Hong Kong's approach to transit?

Cities around the world are building or expanding public-transit systems to cope with population growth and urbanization. But even as metro systems get bigger and serve more people, most continue to lose money.

For more than three decades, though, Hong Kong's MTR Corporation has defied the odds and delivered significant financial and social benefits: excellent transit, new and vibrant neighborhoods, opportunities for real-estate developers and small businesses, and the conservation of open space. The whole system operates on a self-sustaining basis, without the need for direct taxpayer subsidies.

MTR's railway system covers 221 kilometers and is used by more than five million people each weekday. It not only performs well—trains run on schedule 99.9 percent of the time—but actually makes a profit: $1.5 billion in 2014. MTR fares are also relatively low compared with those of metro systems in other developed cities. The average fare for an MTR trip in 2014 was less than $1.00, well under base fares in Tokyo (about $1.50), New York ($2.75), and Stockholm (about $4.00).

One important reason the system has been able to perform so well is that the government of Hong Kong has enabled MTR to make money from the property-value increases that typically follow the construction of rail lines. The key is a business model called "Rail plus Property" (R+P). For new rail lines, the government provides MTR with land "development rights" at stations or depots along the route. To convert these development rights to land, MTR pays the government a land premium based on the land's market value without the railway.

MTR then builds the new rail line and partners with private developers to build properties. The choice of private developer is made through a competitive tender process. MTR receives a share of the profits that developers make from these properties; this share could be a percentage of total development profits, a fixed lump sum, or a portion of commercial properties built on the site. By capturing part of the value of the land and property around railway lines, MTR generates funds for new projects as well as for operations and maintenance. That is why it does not need government subsidies or loans. Revenues from R+P developments above stations along MTR's Tseung Kwan O line, for example, financed the extension of that line to serve a new town, which has since grown to a population of 380,000.

MTR has applied the R+P model extensively. Buildings sit over about half of the system's 87 stations, amounting to 13 million square meters of floor area. New projects being planned or developed will add another 3.5 million square meters. A large proportion of MTR's current investment-properties portfolio of more than 267,000 square meters came from the sharing of assets.

The financial advantages of the R+P model have been proved over time. Instead of having to pay construction costs or take on the risks of building a world-class railway, the government collects proceeds from the land premium and profits from its roughly 76 percent stake in the company, which is listed on the Hong Kong Stock Exchange. During the 2014 financial year, MTR paid $590 million in dividends to the government. The R+P model also allows MTR to implement railway projects relatively quickly because it does not have to compete for public funds.

This model has become more than a source of railway financing; it is a critical part of Hong Kong's urban-development approach. Planners and government agencies seek to make every new railway line or extension into a corridor where well-planned, high-quality communities can flourish.

R+P developments are not featureless places that people want to rush through. They offer amenities that let people meet their everyday needs: buying coffee in the morning, checking email and accessing information over free Wi-Fi, getting laundry done, or picking up dinner. With pedestrian corridors linking railway stations to surrounding buildings and parks, R+P developments anchor compact, pedestrian-friendly, and appealing communities. During Hong Kong's famously heavy rainstorms and typhoons, the residents of R+P developments are prone to boast of how they can commute without getting wet.

Through R+P, Hong Kong has demonstrated how integrating railway expansion with property development can help make public-transit systems financially self-reliant while also promoting sustainable urban growth. Can other cities replicate this model?

R+P works in part because of Hong Kong's specific characteristics. The city's dense population and scarce land make real estate highly valuable, which helps R+P developments generate reasonable profits. People in Hong Kong are accustomed to living close to transit facilities and are inclined to appreciate the convenience of linked railway and property developments. Furthermore, the government's mandate that MTR operate according to prudent financial principles gave both sides a stake in finding a financially sustainable model for developing the city along railway corridors.

Even though Hong Kong is a unique case in many respects, other cities can still draw lessons from MTR's experience with the R+P model. Encouraging commercial and residential development near transit hubs, for example, is something that many cities can do. Another lesson is to consider allowing transit systems to capture some of the value of the real estate along their routes. Profit-sharing deals with developers, partial ownership of new developments, and on-site property rentals can all yield revenue to help pay for new investments in transit. These approaches can ease the financial strain of expanding public transit while making cities better places to live and work. ■

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