



The Hong Kong Institute of Surveyors  
**Annual Conference**  
**2006**



Surveyors In REIT

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# HKIS Annual Conference 2006 - Surveyors in REIT

## 15 July 2006 (Sat), Conrad Hong Kong

### Programme

Time	Topics	Guest Speakers
1 0830-0855		<b>Registration</b>
2 0900-0905	Welcome Speech	Mr. Chung-hang Wong President, HKIS
3 0905-0925	Opening Keynote	Mr. Frederick Ma, JP Secretary for Financial Services and the Treasury Hong Kong Special Administrative Region
4 0930-1005	The Link REIT Experience	Mr. Victor So Hing Woh, JP Executive Director & CEO The Link Management Ltd
5 1010-1045	A Developer's perspective on REIT	Mr. Justin Chiu Kwok Hung Executive Director Cheung Kong (Holdings) Ltd Chairman ARA Asset Management Ltd
6 1050-1105		<b>Tea Break</b>
7 1110-1145	REIT IPO	Mr. Paul Lai Head of Hong Kong Coverage Managing Director, Global Investment Banking, Asia-Pacific, HSBC
8 1150-1225	Research and Due Diligence for REITs	Mr. Paul Hart Executive Director Knight Frank Petty
9 1230-1400 Luncheon	An update on the Regulatory Environment for Real Estate Investment Trusts	Ms. Peggy Yang Associate Director of Investment Products Department The Securities and Futures Commission of Hong Kong
10 1410-1440	Valuation Approaches to Assessing the Fair Value of New REIT issues	Mr. Kam-hung Yu Executive Director Valuation & Advisory Services, Asia CB Richard Ellis Vice President, HKIS
11 1445-1515	A Building Surveyor's role in REITs	Mr. Raymond Chan Managing Director, Raymond Chan Surveyors Ltd Senior Vice President, HKIS
12 1520-1550	What makes a successful REIT and why is Asset Management Important	Mr. James Clark National Director, Property Asset Management Jones Lang LaSalle
13 1555-1610		<b>Tea Break</b>
14 1610-1655	Discussion Forum	Panel Chairman Mr. Charles Chan Managing Director Savills Valuation and Professional Services Limited
15 1655-1700	Closing Remarks	OC Chairman - Mr. Kam-hung Yu



## Frederick S Ma

Secretary for Financial Services and the Treasury  
Hong Kong Special Administrative Region

Hong Kong is an international financial centre (IFC) by any standards. Our financial services sector is one of the key pillars of Hong Kong's success, contributing more than 12 percent of our GDP. Ranked by the Heritage Foundation as the world's freest economy for the 12<sup>th</sup> consecutive year, Hong Kong possesses a number of fundamental strengths which facilitate its development as an IFC. Our financial markets are supported by a well-established financial infrastructure, a stable and free flow of currency, a low and simple tax regime, good corporate governance and a rich pool of talents. With these strengths, we attract funds from all over the world. In terms of competitiveness, Hong Kong was ranked second worldwide by the World Competitiveness Yearbook 2006 published by the International Institute for Management Development.

With a high degree of liquidity and an effective and transparent regulatory regime which is on a par with international standards, Hong Kong's financial markets provide an excellent investment and fund-raising platform. The Hong Kong stock market currently ranks eighth globally and second in Asia. To provide an impetus to its further development, the Government and the financial regulators have spared no efforts in facilitating market development and promoting product innovation with investors' interest at heart.

The introduction of Real Estate Investment Trusts (REITs) in Hong Kong was a milestone in the diversification of our capital market. The Link REIT, the world's largest REIT IPO, was listed on the Stock Exchange of Hong Kong in November last year. Notwithstanding a relatively short history, our REIT market is growing fast. Indeed, with more product choices, investors' various investment and hedging needs can be catered for, thereby further increasing the attractiveness of our capital market.

Apart from providing investors with an alternative investment means, the REIT market also brings new business opportunities to our financial professionals and other related sectors, in particular the surveying industry. The Hong Kong Institute of Surveyors Annual Conference 2006 offers a timely opportunity for exchange of views and ideas on the latest development of the Hong Kong REIT market and the challenges ahead. I encourage participants to make full use of the conference and I wish the conference every success.



**Chung-hang Wong**

President

Hong Kong Institute of Surveyors



It is a real pleasure for me to welcome you all to the Hong Kong Institute of Surveyors Annual Conference 2006. I am particularly delighted to know the Secretary for Financial Services and the Treasury will give us an opening keynote speech at this conference.

The theme of the 2006 HKIS Annual Conference is "Surveyors in Real Estate Investment Trust"(REIT). REIT has become very popular in Hong Kong after the launch of "The Link" by the government. Since then, many developers have followed suit to dispose of their properties by way of REIT. However, behind the scenes of offering REIT, there are different types of professional work needed to be done to ensure the establishment of a real estate investment trust is justifiable to the assets owners and attractive to the trusts investors.

All the assets offered by way of REIT must be high yielding properties with potential to produce further income for the investors. Developers have to assess the prospects of the property market as well as finding ways to meet the expectations of investors in the stock market. Surveyors have been involved in assessing the fair values of the new REIT issues. Surveyors will also be engaged to manage the REIT properties for high profitable returns. There are inter-relationships between the various parties and stakeholders involved in REIT. Both the practitioners and investors should know more about the regulatory framework for REIT in Hong Kong.

All in all, you will find it very useful to listen to our guest speakers on various topics of REIT in this one-day conference. I am sure you will bring back home valuable information about the latest development of REIT in Hong Kong afterwards.

I would like to express my gratitude to our honourable guests and speakers. Without their contribution, the conference would not be so important and successful. I would also like to thank you all for your support to the Hong Kong Institute of Surveyors.



## Kam-hung Yu

Chairman of HKIS Annual Conference 2006

Organizing Committee

Vice President - Hong Kong Institute of Surveyors

The listing of Link REIT on 25 November 2005 has made quite a mark on the capital market of Hong Kong, raising about HK\$21.6 billion. It was the largest REIT (Real Estate Investment Trust) listed in Asia and the third largest IPO on the Main Board of the Hong Kong Stock Exchange in 2005, after China Construction Bank and China Shenhua Energy, which raised around HK\$71.6 billion and HK\$25.5 billion, respectively, in the same year.

Following Link, two additional REITs, Prosperity REIT and GZI REIT, were listed on the Hong Kong Stock Exchange in December 2005, respectively raising capital of HK\$2.1 billion and HK\$3.3 billion. In the first half of 2006, the IPO of the fourth REIT-Champion REIT was launched at the end of May and raised HK\$6.29 billion. Hong Kong's nascent REIT market is poised to receive a further boost along with another flurry of REIT listings, which are due to hit the market from the second quarter of 2006 onwards. A number of local developers, including Henderson Land, Sun Hung Kai Properties and Wharf, etc are pursuing to raise funds in the stock market by floating REITs within this year.

What does this mean for surveyors?

The launching of more REITs in Hong Kong will generate ample opportunities for surveyors in terms of professional work, such as valuation, property management, agency work in acquisition and disposal of properties, as well as consulting work such as devising value-added strategies aimed at repositioning existing properties. The swelling of the REIT market will inject new stimulus and rejuvenation into the commercial and industrial property sectors in Hong Kong, bringing a substantial increase in new development as well as conversion and rehabilitation projects, which will in turn provide numerous opportunities for surveyors in all fields of expertise.

The purpose of this Conference is to update members on the various aspects of REITs and their impact on our profession. We have included topics on REIT asset management, the regulatory framework of REITs, various valuation approaches in assessing the fair value of new REITs and how to undertake due diligence work on market study and building consultancy during the pre-listing stage. There will be an open discussion at the end of the conference, which will provide an opportunity for all participants to express their views on how different practices in the surveying field will be benefited by the development of REITs in Hong Kong.

I cannot put enough emphasis on the importance of REITs as a new platform which surveyors should start familiarising themselves with. From a regional perspective, REITs have provided significant capital for real estate investment in Asia. For instance, REITs are major players in the Japanese and Singapore property investment markets. Citing some statistics, Japan and Singapore respectively have thirty-two and nine listed REITs with market capitalisations of US\$28.8 billion and US\$8 billion, as of the end of March 2006. Hong Kong, as a laggard in the region, has four listed REITs, which had a market capitalisation of US\$6.4 billion at the end of May 2006. Given the well-developed legal and financial infrastructure of Hong Kong, the REIT market in Hong Kong is ready to expand substantially to catch up with Singapore in the short term and Japan in the medium to long term. Most importantly, the potential opportunities open to surveyors are significant but we need to adapt ourselves quickly in order to fully utilise our skills to play a more important role in the development of the REIT market in Hong Kong.

As Chairman of the Organizing Committee, I hope that the Conference will widen your perspective in regard to this new investment tool in Hong Kong. Also, I would like to thank all our guests, speakers, sponsors, organizing committee members, helpers and participants for their enthusiastic support for making a successful and memorable event.

# Organizing Committee



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## SPEAKERS

**Charles Chan**

Managing Director  
Savills Valuation and Professional Services Limited

Charles Chan was appointed Managing Director, Savills Valuation and Professional Services Limited in January 2006 and is responsible for overseeing a professional team of over 50 staff offering a full line of services including valuation; feasibility studies; government lease modification; rating appeal; litigation valuation and a range of other property consultancy services.

He is spearheading the further development and reinforcement of Savills' property services expertise as part of Savills' growth and commitment to service in the Asia Pacific region.

Prior to joining Savills, Mr Chan was Managing Director of Chesterton Petty Ltd. and with over 20 years of high-level strategic professional services expertise is recognized as a distinguished and acknowledged expert amongst the Hong Kong real estate community.

Mr Chan has an Advanced Higher Diploma in General Practice Surveying from Hong Kong Polytechnic University and an MSc in Property Development & Investment from the University of Greenwich. He is a Fellow of the Royal Institution of Chartered Surveyors and a Fellow of the Hong Kong Institute of Surveyors.

## Raymond Chan

Managing Director  
Raymond Chan Surveyors Limited  
Senior Vice President  
Hong Kong Institute of Surveyors



Mr Chan is the Managing Director of Raymond Chan Surveyors Limited. He is a Chartered Building Surveyor, Chartered Project Management Surveyor, Registered Professional Surveyor (Building Surveying) and an Authorized Person (Surveyor). He is Fellow of the Royal Institution of Chartered Surveyors, Fellow of the Hong Kong Institute of Surveyors, Member of the Chartered Institute of Arbitrators, Member of the Chartered Institute of Building.

Mr Chan serves the community extensively and is:- Member of Noise Control Appeal Board, 2001-2004; Member of Licensing Appeals Board, 2000-2003; Member of Appeal Board (Hotel & Guesthouse), 2000-2004; Member of Appeal Board (Club), 2000-2004; Member of Appeal Board (Bedspace Apartments), 2000-2004; Member of Appeal Tribunal Panel, 2000-2003; Member of Building Safety Improvement Loan Scheme Vetting and Approval Sub-committee, 2000-2003; Member of Authorized Person Registration Committees Panel, 1998-2002; Member of Contractors Registration Committee, 1999-2001; Member of Housing Committee of Yau Tsim Mong District Council, 2001-2003; Member of Panel for Hearing Objection to Railway Projects, 2002-2007; Member of Building Sub-Committee of the Land and Building Advisory Committee, 2005; Member of Home Purchase Allowance Appeals Committee Panel, 2005-2008; Member of Advisory Committee on Barrier Free Access, 2003-2007 and Member of Town Planning Board, 2006.

Mr Chan is currently Senior Vice President of the Hong Kong Institute of Surveyors and is:- Chairman of Building Surveying Division of the Hong Kong Institute of Surveyors, 2001-2004; Chairman of Surveyors Registration Board, 2006; Vice Chairman of YTM Concern for Livelihood Association, 1995 to now; Member of URA District Advisory Committee (Yau Tsim Mong District), 2002-2004; External Member of Divisional Advisory Committee, Division of Building Science and Technology, City University of Hong Kong, 2003-2006.

# SPEAKERS



## Justin Chiu

Executive Director  
Cheung Kong (Holdings) Ltd  
Chairman  
ARA Asset Management Ltd

Mr Chiu has more than 26 years of experience in real estate business and is one of the most respected professionals in property business in Hong Kong. He is an Executive Director of Cheung Kong (Holdings) Limited in Hong Kong since July 2000, in charge of property sales and marketing.

Mr Chiu is also the Chairman of ARA Asset Management Ltd, one of the leading asset management companies in Asia. In August 2003, he successfully launched and listed the Fortune Reit, the first cross-border real estate investment trust in the Main Board of the Singapore Stock Exchange.

In December 2004, Mr Chiu successfully launched and listed the Suntec Reit, the first composite real estate investment trust, in the Main Board of the Singapore Stock Exchange. In December 2005 Mr Chiu successfully launched and listed the Prosperity Reit, the first real estate investment trust sponsored by a private developer, in the Main Board of the Hong Kong Stock Exchange.

Mr Chiu is highly respected as a pioneer in real estate investment trust business in Asia. He holds a Bachelor of Sociology degree and a Bachelor of Economics degree from Trent University in Canada and is currently a fellow of Hong Kong Institute of Real Estate Administration (HKIREA). Mr Chiu is a member of the Shanghai Committee of the Chinese People's Political Consultative Conference and is also a financial columnist for two major newspapers in Hong Kong.

## James Clark

National Director  
Property Asset Management  
Jones Lang LaSalle



In his capacity of Head of REIT Optimisation and Asset Management Group, James Clark is responsible for the development of Jones Lang LaSalle's premium management solutions offering across Asia. The capability is an innovative system of asset and portfolio management, evolving from a structure with a single point of contact, to coordinate the efforts of required property disciplines, delivering a service to maximise the long-term value of property assets under management. The strength of the capability is most relevant with regards to large single assets, a portfolio of assets or at the Pre and Post IPO stage of a REIT.

Having 20 years of real estate experience, Mr Clark has acted for an extensive number of real estate owners, including General Property Trust, Australia's largest diversified listed property trust and GZI REIT the first Hong Kong listed REIT with exposure to PRC assets.

Mr Clark's key skills and experience are:- led and managed teams of professionals responsible for property and asset management of a single asset and portfolio of assets; provided Pre IPO and Post IPO Property Consultancy for GZI REIT; currently delivering Asset and Property Management Consulting, GZI REIT; developed client service delivery to maximize yields, achieve client financial and operational targets, increased client cash flow and importantly enhanced the value of client assets; specialized in leasing & renewals by establishing client strategic portfolio objectives, branding and positioning the asset, superior market intelligence, increased lease expiry profiles and reduced vacancy rates; created effective communication with all stakeholders of real estate assets as well as implemented risk identification and management systems.

Mr Clark is currently completing the Queensland University of Technology Master of Business Administration and holds the Australian Securities Institute Diploma of Financial Markets. He completed the University of Queensland Associate Diploma of Valuation (Business Management) and is a Registered Valuer/Surveyor (Australia), Licensed Auctioneer (Australia) and Real Estate License (Australia).



# SPEAKERS



## Paul Hart

Executive Director  
Knight Frank Petty  
Hong Kong

Mr Hart has been an Executive Director of Knight Frank Petty, Hong Kong since July 1997. He is a Chartered Surveyor with a broad base of experience covering valuation, property due diligence, and retail and development consultancy. His clients include The Link REIT, JTC Corporation, Fortune REIT, Macquarie Pacific Star Prime REIT, Macquarie Bank, HSBC, Hang Seng Bank, Macquarie Goodman, UBS, Goldman Sachs, JP Morgan, KCRC, and MTR Corporation. Paul is also an advisor to HSBC on the management of their Hong Kong Estate including the disposal of repossessed properties.

Mr Hart works closely with the Asset Management Services, Valuation and Business Space & Investment Divisions in Hong Kong and China, working in collaboration with clients and our consultants to establish strategic real estate goals and oversee service delivery.

Between February 1993 and July 1997, Mr Hart was the Commercial Manager - Real Estate, of the Airport Authority, Hong Kong and oversaw some HK\$10 billion worth of private sector investment in airport real estate. Prior to this, Mr Hart was a valuation surveyor attached to the Hong Kong Island and Special Properties divisions of the Rating and Valuation Department, Hong Kong since January 1993.

Mr Hart is a Registered Professional Surveyor (GP), Fellow of the Royal Institution of Chartered Surveyors, Fellow of the Hong Kong Institute of Surveyors, Associate of the Australian Property Institute, Registered Urban and Rural Valuer in Australia, Licensed Estate Agent in Hong Kong and Justice of the Peace in Queensland, Australia.

# SPEAKERS



## Paul Lai

Head of Hong Kong Coverage  
Managing Director  
Global Investment Banking, Asia-Pacific  
HSBC



Mr Lai has over 9 years of corporate finance and investment banking experience including mergers and acquisitions, local and international debt and equity capital markets and advisory transactions. He has been involved in a wide range of transactions in various industry sectors for governments and corporates throughout Asia, Europe and the United States. Paul Lai was involved in the Link REIT and GZI REIT initial public offerings as well as a number of other ongoing REIT transactions.

Paul has a Master of Business Administration degree from Pepperdine University and a Bachelor of Science, Business Administration degree from University of Southern California.

## SPEAKERS

**Victor So**

Executive Director & CEO  
The Link Management Limited

Mr So holds a Master's degree in Business Administration from the Chinese University of Hong Kong. He is also a fellow member of the Hong Kong Institute of Surveyors, the Royal Institution of Chartered Surveyors, Hong Kong Institute of Housing and Chartered Institute of Housing.

Mr So has many years of experience in property development and management in Hong Kong. He started his career as a civil servant; he then left the Government and became the Assistant General Manager of Hutchison Properties Ltd (a subsidiary of Hutchison Whampoa Ltd) from 1972 to 1981, Property Director of Mass Transit Railways Corporation from 1981 to 1990, CEO/ Executive Director of Hong Kong Housing Society from 1990 to 2002 and Executive Director of Sun Hung Kai Properties Ltd from 2002 to 2004. He is now the CEO and Executive Director of The Link Management Ltd, Manager of The Link REIT, which was successfully launched in November 2005 as the first REIT in Hong Kong.

Mr So is also active in public services. He had served as a member of the Hong Kong Housing Authority, the Town Planning Board, the Lands and Buildings Advisory Committee, the Long Term Housing Strategy Review Committee, the Council of the Employers' Federation of Hong Kong, the Infrastructure Development Advisory Committee of the Hong Kong Trade Development Council, the Managing Board of the Kowloon Canton Railway Corporation, the Supervisory Board and Nominating Committee of the Hong Kong Housing Society and Chairman of the Housing Managers Registration Board. He is now a member of the Hong Kong Housing Society and the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption.

# SPEAKERS



## Peggy Yang



Associate Director  
Investment Products Department  
The Securities and Futures Commission  
of Hong Kong

Ms Yang joined the Securities and Futures Commission of Hong Kong in 2001, responsible for supervising the authorisation of investment products and assisting in the formulation of policies. Prior to this, Ms Yang has worked for the Mandatory Provident Fund Schemes Authority and in the investment industry as a fund manager, focusing on Hong Kong, North American and Australian listed companies. She is also a CFA charter holder.

# SPEAKERS

## Kam-Hung Yu



Executive Director  
Valuation & Advisory Services Asia  
CB Richard Ellis

Mr Yu is a chartered general practice surveyor with over 24 years property experience in Hong Kong, specialising in valuation of property and business, investment and development site sales and property development.

Mr Yu has a wide breadth of experience in valuation and sales market. The types of properties sold by him included, inter alia, whole block offices and residential buildings, shopping centres, projects under construction, development sites and agricultural land. His main experience include land advisory services, portfolio and securitisation valuations, rent review negotiation, litigation, government lease modification application, premium negotiation, site valuations, development site sales, investment sales and property development.

Major assignments, which Mr Yu has been responsible for, include the following: Yearly Rating Appeal of ExxonMobil HK Asset; The LINK REIT; Alternative and best use analysis and valuation for various public listed companies; Feasibility Consultancy for a Syndicate; Litigation & Dispute Related Consultancy; Non-performing Loan Portfolio Consultancy; Rent Review and Litigation; Securitisation Consultancy as well as Valuation consultancy for various large scale investment/development properties in PRC and Hong Kong.

Mr Yu is currently Vice President of the Hong Kong Institute of Surveyors and is Immediate Past Chairman for General Practice Division of the Hong Kong Institute of Surveyors; Chairman of Business Valuation Forum Advisory Board; Fellow of the Hong Kong Institute of Surveyors; Fellow of the Royal Institution of Chartered Surveyors; Fellow of the Hong Kong Institute of Real Estate Administration; Registered Professional Surveyors (General Practice Division); Council Member of China Institute of Real Estate Appraisers and Licensed Estate Agent in Hong Kong.

Mr Yu has a Bachelor of Science Degree (Honours) in Estate Management from the University of Reading, UK.



### Richard Ho



Partner and China Industry Leader of the  
Real Estate and Construction Practice  
Deloitte Touche Tohmatsu

Richard has more than 20 years' experience in auditing listed companies, conglomerates from Mainland China and subsidiaries of multinational corporations operating in the region, assisting growing companies going public, and providing assistance in corporate exercises. His clients are involved in property development and investment, construction and engineering, retailing, trading, manufacturing, and publishing.

Richard is the China Industry Leader of the Real Estate and Construction Practice which comprises a dedicated team of professionals drawn across service functions of audit, tax, consulting and financial advisory. He also participates in the firm's Global Real Estate Group executive committee.

Richard has a bachelor degree in financial administration and master degrees in international real estate and financial management. Richard is a Fellow of the Hong Kong Institute of Certified Public Accountants, a Fellow of CPA Australia, and an Associate of the Institute of Chartered Secretaries and Administrators.

Richard has been appointed as a member of the Town Planning Appeal Board and the Chung Wan and Mid-Levels Area Committee by the Hong Kong SAR Government.

# Authors

## Vivian Lam

Partner, Hong Kong  
Paul Hastings



Vivian Lam is a partner in the firm's Hong Kong office. Ms. Lam's practice focuses on cross border acquisitions and investments; general commercial law; cross border finance, acquisition finance and real estate finance; debt restructuring and general corporate restructuring. Ms Lam has extensive experience in representing foreign investors and financiers in real estate investments and financings in various cities in China, structuring and setting up investment vehicles (including joint ventures and other foreign invested entities in China), advising Chinese companies on initial public offerings in Hong Kong and representing distressed borrowers and issuers as well as liaison banks and creditors in relation to debt restructurings.

Ms Lam has represented various real estate investment trusts on initial public offerings and follow on acquisitions, and represented GZI Real Estate Investment Trust, the first real estate investment trust to hold a portfolio of PRC properties, to list on the Hong Kong Stock Exchange.

Ms Lam is a graduate of Trinity College, Oxford University (BA (Oxon), MA (Oxon)) and attended the College of Law at Guildford. She completed her articles in London and was admitted as a solicitor in England & Wales. She is also admitted in Singapore and Hong Kong. Ms Lam is fluent in English, Cantonese and Mandarin.



## Raymond Li



Partner, Hong Kong  
Paul Hastings

Raymond Li is a partner of the firm's Hong Kong office and vice chair of the firm's greater China practice. His practice focuses on corporate finance and international trade. Mr Li has advised a number of international banks and has substantial experience in many areas of banking and finance. He is actively involved in non-performing loans, corporate restructurings, Chinese foreign exchange matters and cross-border transactions. Mr Li also has extensive experience in various aspects of project finance in China, including bilateral finance, commercial loans, banking loans, business finance, asset finance and infrastructure project finance such as power plants, toll roads, hydroelectricity stations, piers and industrial power development projects.

Mr Li has participated in various direct investments, mergers and acquisitions, and equity and debt offerings in China. He also has extensive knowledge in international finance, investment holdings, Sino-foreign joint ventures, Sino-foreign cooperation and foreign invested enterprises in China. Mr Li has represented the Chinese Ministry of Commerce (the former Ministry of Foreign Trade & Economic Cooperation), the Chinese Chamber of Commerce and other enterprises in China in numerous Section 421 investigations initiated by the United States International Trade Commission and the Department of Commerce with respect to Chinese imports.

Mr Li received his law degree from Xiamen University in 1988 and qualified as a PRC lawyer in 1989. He is fluent in English, Cantonese and Mandarin.



### Andrew Ness

Executive Director  
CBRE Research  
CB Richard Ellis



As Executive Director of CBRE Research, Mr Ness is responsible for coordination work between CB Richard Ellis research teams in Asia. In addition, he is directly involved in the ongoing work of establishing the company's platform for undertaking property related research on a regional basis, supervises the work of deploying research to support client-based initiatives, maintenance of the company's regional information management platform, the provision of in-house support to its agency and professional services departments in Asia and the preparation of the company's Asia, Asia Pacific and Greater China research publications. Mr Ness's articles and analysis concerning the Greater China and Asian property markets have been published in the South China Morning Post, China Business Review, Britain in Hong Kong Magazine and the Hong Kong Standard.

For the first annual International Conference on Real Estate Securitization and Finance in Taiwan, Mr Ness did a presentation examining the development of REITs in various jurisdictions in Asia to date, exploring the factors which have given rise to the necessity of creating real estate investment trusts in various Asian real estate markets; the impact of REITs on the markets where they have been successfully launched and regulatory constraints confronted by REITs in certain markets.

For a conference organized by the Economist Corporate Network in Hong Kong, Outsourcing and Shared Service Centers: How to Find the Best Business Model, Mr Ness analyzed the different locations in the People's Republic of China, with respect to their viability for hosting business process outsourcing and offshoring activity.

For a conference in Hong Kong organized by the RICS, RICA and RICE, Heritage Conservation: Opportunities and Challenges, Mr Ness presented on the history of heritage conservation in Beijing since 1949, the changing regulatory environment for heritage conservation in change; examples of success and failure in undertaking heritage conservation in Beijing and a look at future trends regarding adaptive re-use of buildings under conservation orders.

In a presentation to the 3rd Annual Asia Pacific Retail Conference, sponsored by Oxford University, KEIT of the Ministry of Commerce and Seoul Economic Daily, Mr Ness examined the boom in consumerism in China; the reasons why China has now become a high priority on the overseas expansion lists of large-format chain type retailers; and the strategies they have deployed to ensure their continued fast expansion into China's relatively less saturated markets of China 2nd, 3rd and 4th tier cities.

Mr Ness completed a Bachelor of Arts from the Columbia University in 1975.



### Kenny Suen

Managing Director  
Vigers Hong Kong Limited



Mr Suen has been the Managing Director of Vigers Hong Kong Limited since March 1993 and has overall management responsibilities over five key services areas including Vigers Real Estate Agency, Valuation, Property Management, Building Consultancy and Security Services with a total headcount in excess of 500.

Mr Suen has assisted a number of developers on the professional works in assembling the REIT initiative including the Fortune REIT, Prosperity REIT and several current instructions under preparation. He had also offered consultancy services to the Paliburg Group in the securitisation of Kowloon City Plaza and Paliburg Plaza. Mr Suen has been retained by a number of international institutional investors in sourcing quality real estate assets and offering asset enhancement consultancy services in managing and operating property portfolios on a worldwide basis.

In Hong Kong, Mr Suen has developed a successful working relationship with a number of Government Authorities over the years including Housing Authority and Buildings Department. He has been appointed by a number of corporate clients including Hongkong Land, and PCCW on strategic maintenance management assignments with an associated annual works budget of HK\$200 million.

In addition, Mr Suen has been in charge of a number of residential and commercial developments in the delivery of Project Management services. He was involved in a number of projects in P.R.C. in the capacity of Project Manager dealing with large-scale multi-million dollars industrial estate development, residential and commercial developments, acting as Project Director in charge of a number of major renovation/ refurbishment contracts of residential properties. Prior to this, Mr Suen was Principal Building Surveyor with Hunter & Partners, London.

Mr Suen graduated from the De Monfort University in the UK with a Bachelor of Science (Hons) degree in surveying and has a Postgraduate Certificate in Project Management of the Tongji University in Shanghai. He is Fellow of the Royal Institution of Chartered Surveyors, Member of the Chartered Institute of Arbitrators, Fellow of the Hong Kong Institute of Surveyors, Fellow of Hong Kong Institute of Facility Management and an Authorized Person.

Mr Suen is a Member of Inland Revenue Review Board, Member of Appeal Tribunal (Building), Member of Registration of Persons Tribunal (Immigration Department), Member of Land & Building Advisory Committee (Buildings Department), Member of Technical Advisory Panel (Buildings Department), Member of Town Planning Appeal Board (Town Planning Department) as well as Member of Contractors Registration Committees (Buildings Department).

# Authors

## Janet Xu

Hong Kong Legal Consultant  
Jun He Law Office



Practice Area (both Hong Kong and China): FDI, Merger and Acquisitions, Real Estate Properties, Telecommunication Services and General Corporate and Commercial.

Janet Xu has substantial experience in various legal areas, especially in handling foreign direct investment, merger and acquisitions and real estate property transactions in the PRC. She also advises on other corporate and commercial transactions, telecommunication and internet services, banking, NPLs and infrastructures.

Janet was awarded with law degrees from University of Hong Kong and Tsinghua University in the PRC. She is qualified in Hong Kong, United Kingdom and New Zealand. Janet speaks fluent English, Cantonese, Putonghua and Taiwanese.

Janet is currently working at the Beijing office of Jun He Law Offices. Janet has substantial legal practice experience in both Hong Kong and New Zealand before she moved to work in the PRC.

Jun He Law Offices is one of the best law firms in China. It has more than 50 partners and 160 associates. It has offices in Beijing, Shanghai, Shenzhen, Dalian, Haikou, New York and Hong Kong.

# Conference Papers

# The Link REIT Experience

**Victor So**  
**Executive Director & CEO**  
**The Link Management Limited**



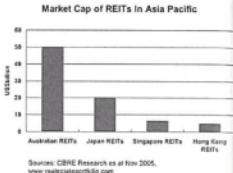
Hong Kong Institute of Surveyors  
 The Link REIT Experience  
 15 July 2006



### About REIT

#### History of REITs

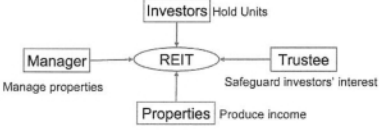
- Started in USA in the 1960s, Now it has a mkt cap of US\$350B
- Took Roots in Australia in the 1970s
- In Asia, Singapore was the first to launch a REIT – July 2002
- Its current mkt cap is app US\$7B
- Hong Kong – First REIT – The Link REIT launched in Nov 2005
- Now HK has a mkt cap of US\$4.89B. More in the pipeline.



### About REIT - The REIT Structure

**REITs are investment vehicles that typically hold income producing real estates. Special features are:**

- An entity that acquires property
- Listed on the stock exchange as an investment trust with units hold by investors
- Typically managed by a professional manager
- Generally distributes most or all of its net income

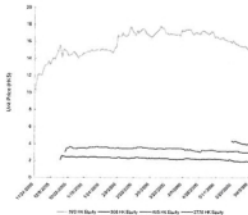


### About HK REIT

- REIT : collective investment scheme regulated by SFC
  - Listed Stock: overseen by Hong Kong Stock Exchange and SFC
- Subject to stringent REIT Code:
  - distribute min 90% of net rental income
  - prohibited from property development or speculative investments
- Restrictions recently relaxed
  - max gearing ceiling increased to 45% from 35%
  - allow investment outside Hong Kong
- Target
  - Defensive type – utility-like
  - Offers bond-like steady income but with upside potential as the property value may appreciate
  - Appeals to long-term investors
  - Organic growth and acquisition potentials

### The Link REIT - A Record-breaking REIT

- FIRST** REIT listed in Hong Kong
- LARGEST** REIT IPO in the world
- 3% PREMIUM** on Net Asset Value



- BIGGEST** privatization plan of **LARGEST** retail and carpark portfolio held by a single owner – The Housing Authority
- Strongest** performing REIT in HK


### A Unique Portfolio of Retail and Carpark Facilities

#### Key statistics

- 180 retail and carpark facilities
- 960,000 sq.m. of retail IFA
- 9,200 individual leases
- 79,000 car park spaces
- 9% and 14% of retail and carpark spaces in HK

#### Unique characteristics

- Adjacent to 40% of Hong Kong's population
- Unique trade mix that serves the daily needs of local residents



# The Link REIT Experience

### The Link REIT

<b>Management</b>	<ul style="list-style-type: none"> <li>Internally Managed</li> </ul>
<b>Distribution policy</b>	<ul style="list-style-type: none"> <li>100% payout, in principle, of distributable income for 2 financial yrs</li> </ul>
<b>Business focus</b>	<ul style="list-style-type: none"> <li>Holds retail real estate for recurring rental income</li> <li>No speculative development</li> <li>Increase return through asset enhancement</li> <li>Expand portfolio through acquisition</li> </ul>
<b>Capital structure</b>	<ul style="list-style-type: none"> <li>Initial gearing of 36%</li> <li>Maximum gearing of 45% borrowings to total gross assets required by SFC</li> </ul>
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>Governed by the REIT Code and Trust Deed</li> <li>Independent Trustees</li> <li>Board is made up of a majority of independent non-executive directors</li> </ul>

### The Link REIT Valuation at IPO

<b>Retail Facilities:</b> <ul style="list-style-type: none"> <li>Valuation: HK\$27.3bn</li> <li>Indicating HK\$27,218 per square meter of IFA</li> <li>Initial yield: 6.58%</li> </ul>
<b>Carpark Facilities:</b> <ul style="list-style-type: none"> <li>Valuation: HK\$6.5bn</li> <li>Indicating HK\$82.343 per bay</li> <li>Initial yield: 7.83%</li> </ul>
<b>Total Portfolio:</b> <ul style="list-style-type: none"> <li>Total Valuation: HK\$33.8bn</li> <li>Initial yield: 6.82%</li> <li>Internal Rate of Return: 9.27%</li> </ul>

### Providing Higher Return Through Gearing

Market	No of REITs Listed	REIT Market Cap (US\$bn)	Dividend Yield	10-Year Government Bond Yield
Japan	26	22.2	3.7% (avg)	1.56%
Singapore	7	6.4	5.1% (avg)	3.05%
South Korea	6	0.6	7.9% (avg)	5.48%
The Link REIT		2.8	5.5% (IPO price) 3.4% (assuming a mkt price of \$17)	4.48%
Taiwan	2	0.6	4.1-4.6%	1.99%
Thailand	8	0.5	6.0-8.0%	6.58%
Malaysia	4	0.2	5.4-6.8%	4.2%

Source: CBRE Research as at Nov 2005

### Asset Enhancement – A Virtuous Cycle

### The Link REIT - A Case Contrary to Traditional Wisdom

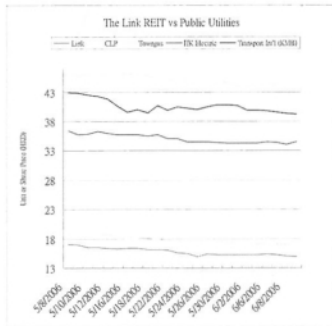
Benchmark	Yield (%)
The Link REIT (5/16/06)	5.5
Avg HK Property Dividend Yield (June 06)	2.8
HK 10yr Govt Bond	4.5
HK Bank Deposit Rate	2.0

- Unit price appreciated by about 45% since IPO
- DPU more favorable to listed property stocks
- Yield below 10yr HK Government Bond
- Treated like a growth rather than defensive stock
- Growth can only be achieved through asset enhancement

### The Link REIT vs Hysan and Hang Lung

# The Link REIT Experience

## The Link REIT vs Public Utilities



## Distributable Income

Most or all of the net income are distributed to unit holders. Asset enhancement projects which are income growing and yield accretive have to be financed through borrowings

- Distribute 100% of the Distributable Income (first 2 years)
  - Investment Properties are not subject to depreciation but annual re-valuation
  - Market growth expectation affected effective yield
- The REIT discipline steady organic growth and cost control according to budget to support the asset value
  - Asset enhancement according to plans through borrowings

## Annual Revaluation of Assets

### Valuation of the Investment Properties

- Once a year
- Conducted by an independent property valuer
- Same valuation methods are expected to be consistently applied

### Revaluation Surplus / Deficit

- Both revaluation surplus and deficit will be reflected in the P&L
- For calculation of Distributable Income
  - Revaluation deficit will be included
  - Revaluation surplus will be excluded

## The Public Sector Legacy



## Questions & Answers...



# A Developer's Perspective on REIT

## A Strategic Approach to Divesting Property

**Justin Chiu**

**Executive Director, Cheung Kong (Holdings) Ltd**  
**Chairman, ARA Asset Management Ltd**

### 1) A Developer's Perspective

Securitization of real estate markets has become increasingly popular, providing investors with access and liquidity to real estate which is not available previously. Real Estate Investment Trusts (REITs) is one of the most well received vehicles both for fund raising and as investment opportunities in many overseas markets for some years.

REITs provide developers with an alternative corporate structure whereby they can enhance shareholders' value from the divestment of assets into REITs at a value usually higher than what is currently reflected in their share prices. Proceeds may then be re-deployed into other business ventures which give better profit margins or returns to the developer. On the other hand, a new source of income can also be generated through providing asset management services to the REITs.

In Asia, the ownership of prime-quality commercial properties which are suitable for injecting into REITs is confined to a small group of property companies and the government. They play an important and pioneering role in establishing the REIT market in Asia.

### 2) Portfolio Selection

A property developer's choice for properties to be listed in a REIT is relatively simple. Large scale, illiquid and non-core properties are ideal assets to be divested into a REIT. On the other hand, REIT investors are usually attracted by the high pay-out, regular and less volatile returns of the REIT investments. Therefore, a REIT portfolio should be sufficiently large with diversified tenant-mix to provide the stability of rental income.

#### 2.1) Size of Portfolio

The issue size of a REIT has significant impact on both the level of investor interest and the market response. A very small issue will probably not be able to attract much attention in the market without a tremendous marketing effort. On the other hand, a very large issue may not be easily absorbed by the market, unless the asset yields are attractive and market conditions such as interest rates environment and the economic outlook are favorable.

#### Listing Size of Hong Kong REITs

	IPO fund raised	Over subscription		Market Cap (as at 24 May, 2006)
	HKD Billion	HK	Int'l	HKD Billion
Link	19.5	19	19	33.1
Prosperity	1.9	260	19	2.4
GZI	1.8	496	74	3.0
Champion	6.3	6.5	3.5	11.8

#### 2.2) Stability of Rental Income

The total return of REIT investment is made up of both price appreciation and rental yield. The rental component tends to form a significant portion of the total return though some REITs in



# A Developer's Perspective on REIT

## A Strategic Approach to Divesting Property

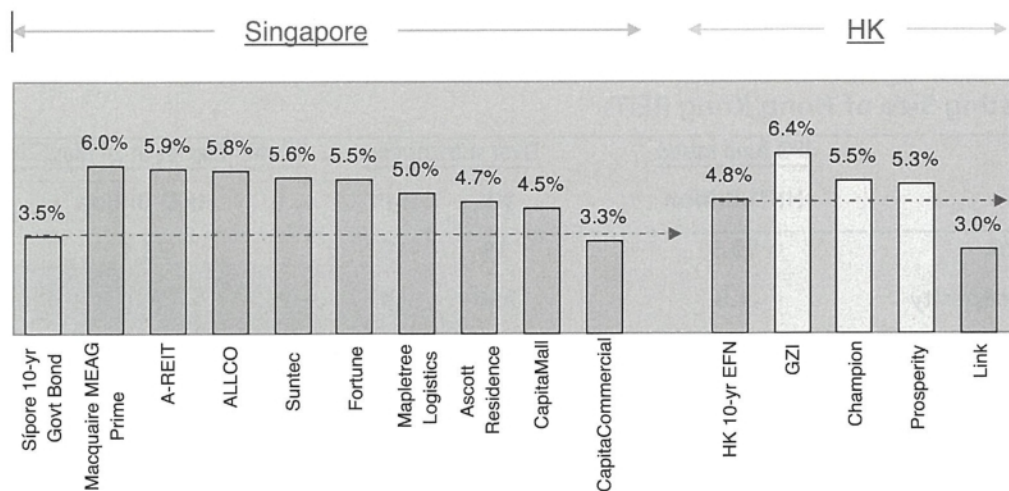
Asia have so far given investors more price appreciation. Since income streams from the real estate are considered more predictable and REITs have a relatively low correlation with equities, most investors rely on REITs to provide a stable cash flow and as a hedging means to reduce the volatility in their investment portfolios. Real estate assets with a stable stream of incomes such as office buildings, shopping centers, and industrial properties are ideal properties to be injected into a REIT.

### 2.3) Property Diversification

Different property sectors may have different characteristics and will respond to economic changes in different paces. For example, hotels, which have the shortest duration leases, can respond more readily to reflect the changing market condition. Theoretically, as different sectors perform differently during the economic cycle, the risk and return of the REIT portfolio could be hedged through sector diversification to maintain the stable yield that investors want. However, contrary to this common assumption, we observe that the majority of REITs in the market are sector specific rather than sector diversified.

Studies on Asian REITs suggest that a sector specific REIT performs better than a mixed REIT. The savings in the operation and transaction costs for managing a sector specific REIT would translate into higher yield distributions to its investors. On the other hand, not all sectors in the property market will give the same level of performance and yield during a given period. So investors tend to choose a REIT or a mix of REITs that matches their investment strategies. As a matter of fact, from the perspective of most institutional investors, sector diversification within a REIT may be unnecessary as they have already owned a diversified portfolio of properties, stocks and bonds. In addition, the general market tends to be more receptive to sector-specific REITs because of their clear identities and investment objectives. It is easier for the issuer to position a sector specific REITs in the market as valuation comparables are more readily available.

### Yield Level in Singapore and Hong Kong



2006 Dividend Yield, Source: Smith Barney Estimates, IBES Estimates, Bloomberg as of 21 April 2006  
 The Yield of Champion is based on its IPO price

# A Developer's Perspective on REIT

## A Strategic Approach to Divesting Property

### 3) Benchmarking Yield

Yield and interest rates are the critical factors in determining the relative attractiveness of asset classes. Stable, attractive yields and their high payout ratios are the main drivers of REITs. The yield of a REIT is usually compared against two benchmarks, yield of other comparable REITs in same sector and the yield spread over risk-free government bonds.

Normally, to attract investors, a REIT would offer a certain yield spread over the Exchange Fund Note. As for Hong Kong, due to the characteristics of the market and the behavior of local investors who are relatively more speculative on capital growth, they are more willing to accept a lower yield which is slightly higher than the exchange fund note rate. The phenomenon of Link REIT trading at a yield less than that offered by the Exchange Fund's 10-year note is considered uncommon and may be partly explained by investors' huge expectation for the REIT Manager to generate much better performance from managing the portfolio more efficiently than the previous Government Authority. GZI, which has a property portfolio in Guangzhou, is the only cross-border REIT in Hong Kong. The additional risk exposed to the mainland real estate market is compensated by offering a higher yield to investors.

### 4) Financial Engineering and Structuring

As far as investors are concerned, there is usually a trade off between higher yields and the quality of assets in the portfolio. This is the reason explains why not too many new properties or Grade-A assets in prime locations are divested into REIT portfolios. From this perspective, Champion REIT would be considered quite an exceptional one. The current yield of prime property is so low that the issuer has to employ certain financial engineering strategies to boost the IPO yield of the 1.2 million square feet Grade-A offices to a high enough level<sup>1</sup> to attract investors. The yield enhancement mechanisms, which have the effect of increasing the DPU in a near term was given by (i) a DPU guarantee<sup>2</sup>, (ii) a distribution waiver<sup>3</sup> and (iii) an interest rate swap agreement<sup>4</sup>. It is not uncommon to exploit derivative instruments to hedge against risks such as interest rate or currency risk. Although it is difficult to judge the use of financial instruments for the benefit of unitholders, aggressive financial engineering may have a negative impact on yield quality due to the risk involved. As they are usually adopted to boost yield in the near term, the vulnerability of future yield may be an issue for institutions. As the effect of the financial sweeteners diminish in the future and if market does not perform as expected, the DPU will suffer a substantial drop when the yield enhancement mechanism expires.

<sup>1</sup> Based on the Champion REIT's IPO price of \$5.1, the forecasted annualized distribution yield is 5.5%.

<sup>2</sup> Great Eagle guaranteed that the DPU of Champion REIT for the FY06 will be not less than \$0.1694/unit.

<sup>3</sup> Great Eagle, Kerry Properties and Wing Tai, holding a total of 55% of Champion REIT units, has agreed to waive its entitlement to receive all or part of the distribution payable for the FY06-08 distribution period.

<sup>4</sup> The interest swaps have a "step-up" structure, in that the cash finance cost payable increase over the life of the interest rate swaps. The lower cash finance costs in the early periods are intended to enhance the DPU payable to unitholders for such periods.

# A Developer's Perspective on REIT

## A Strategic Approach to Divesting Property

### 5) Holding Structure

Under the Code on REIT, REITs in Hong Kong can hold assets indirectly via Special Purpose Vehicles (SPVs). Holding assets through SPVs enables the REIT to qualify for profit tax instead of paying property tax. The main difference lies in the higher tax deductions for profit tax thereby enhancing the REIT's distributions to investors. On the other hand, there will also be substantial savings in stamp duties when transferring properties' ownership via SPVs. The benefits go to the investors.

### 6) Tax Considerations

Its present taxation system has placed Hong Kong in a less competitive situation for the growth of REIT market when compared with other regions. Unlike Hong Kong, most countries have a two-tier taxation system, whereby profit is usually taxed first at the corporate level and then the dividend is subsequently taxed again at the shareholder level according to their individual income brackets. However, in those countries, REITs are offered tax pass-through benefits in which the REIT itself is exempted from paying profit tax and only dividend tax is paid at the shareholder level according to the investors' own income brackets. This would in turn increase the REITs' DPU distribution and retail investors will enjoy full benefits if their income bracket is low. There is no such tax advantage for REITs in Hong Kong. All incomes are taxed at the SPV level resulting in a lower distribution from the REITs. Given that there is no dividend tax in Hong Kong already, individual investors have no added advantage in investing into REITs over listed property companies.

### 7) Hong Kong as a Listing Regime

So far, Hong Kong is still one of the few places in Asia which have guidelines for listing REITs. The Hong Kong Securities and Futures Commission introduced the Code on REITs in August 2003. Though the market has not seen the first launch until late 2005, the market demand and awareness developed very quickly since then. Today, four REITs have been successfully listed with a total market capitalization of more than HK\$50 billion. As Hong Kong is considered the preferred regime for listing assets in China, Hong Kong is able to compete with Singapore for the dominant market for cross-border REITs in Asia.

Singapore is another popular location for listing cross-border REIT. Singapore enacted its first guidelines for REIT in 1999 and there are currently nine REITs listed in Singapore totaling a market capitalization of more than HK\$60 billion. Singapore has shown its effort to grow its REIT market by providing a more flexible regulatory approach and allowing a more efficient listing process.

### 8) Conclusion

In conclusion, REITs offer property companies a means to securitize their otherwise illiquid real estate assets. The choice of whether to inject further properties into REITs depends on the cash requirements of the property companies and their long-term business strategies. Companies having strong management skills in real estate and in possession of good quality assets with high rental growth potential are the perfect candidates for a successful REIT listing.