

# HKIS General Practice Division Valuation Conference 2014

## Valuation Practice in Hong Kong



9:00am to 5:00pm, Saturday, 28 June 2014  
Grand Ballroom, JW Marriott Hotel  
Pacific Place, 88 Queensway, Hong Kong

# TABLE OF CONTENTS

Message from Guest of Honour – Mr CHAN Mo Po, Paul, MH, JP	2
Message from the President – Sr KWOK Chi Wo, Simon	3
Message from the Chairman of General Practice Division – Sr HO Chin Choi, Joseph	4
Message from the Chairman of the Organising Committee – Sr WAN Wai Ming, Tony	5
Introduction of the Hong Kong Institute of Surveyors	6
Introduction of General Practice Division	7
Conference Programme	9
<b>Speakers and Papers</b>	
<i>Sr CHAN Pui Yee, Karen</i>	10
<i>Sr William WAN</i>	11
<i>Sr Alnwick CHAN</i>	17
<i>Prof CHAU Kwong Wing</i>	22
<i>Sr LAM Miu Sheung, Kelly</i>	23
<i>Mr Nova CHAN</i>	29
<i>Sr LAU Chun Kong</i>	36
<i>Sr CHAN Chiu Kwok, Charles</i>	40
<i>Sr Augustine WONG Ho Ming, JP</i>	41
<b>Moderators</b>	44
<i>Sr WAN Wai Ming, Tony</i>	
<i>Sr HO Chi Choi, Joseph</i>	
<i>Sr CHIU Kam-kuen</i>	
<b>Acknowledgement</b>	45
<b>Sponsors Advertisement</b>	46
<b>Organising Committee</b>	54

## MESSAGE FROM GUEST OF HONOUR



**Mr CHAN Mo Po, Paul, MH, JP**  
Secretary for Development  
HKSAR Government

I congratulate the General Practice Division (GPD) of the Hong Kong Institute of Surveyors (HKIS) on holding its first Valuation Conference, which is taking place under the theme of Valuation Practice in Hong Kong. The GPD has played an active and instrumental role in updating and enhancing the professional standards of general practice surveyors in our city. Additionally, the GPD is to be applauded for organising various continuing professional development events, as well as issuing guidance notes and codes of practice covering a range of subjects.

Valuation is one of the core responsibilities of general practice surveyors, and holding a valuation conference on the 30th anniversary of the HKIS highlights the importance of this wing of the profession. General practice surveyors also closely interact with the Government on valuation matters, a fact which indicates the profession's importance in bridging the private and public sectors. I have no doubt that the Valuation Conference 2014 will provide a very good platform for professionals from all sides to exchange views in a relaxing and vibrant manner, and I expect this will be a fruitful experience for all.

I wish the Valuation Conference 2014 every success.

**(Paul MP Chan)**  
Secretary for Development  
HKSAR Government

## MESSAGE FROM THE PRESIDENT



**Sr KWOK Chi Wo, Simon**

Welcome to the Hong Kong Institute of Surveyors – General Practice Division Valuation Conference 2014.

I would like to extend my warmest welcome to all of you to the Conference. This is the first-ever conference for the General Practice Division and I congratulate the Chairman for his excellent leadership and all council members of the Division for their tremendous efforts.

In recent decades, general practice surveyors have well proven their competence and expertise as advisers in land development and planning, land administration, various types of property valuation, asset management, property management, real estate agencies, project management and the operation of capital markets. The Conference aims to offer a valuable opportunity and platform for senior government officials and industry practitioners, academics, and our members to exchange their views and explore the challenges and opportunities that may arise from the valuation practice.

Demand for professional services in property valuation has escalated in recent years. In order to keep Hong Kong's valuation practice abreast of international standards, we must keep an eye on the latest trends and developments in the standards of local valuation practice and ensure that the practice in Hong Kong is up-to-date and at the highest standard level in the world. To keep track of the industry, our General Practice Division updated the "HKIS Valuation Standard" last year by incorporating the latest international changes and developments into the valuation practice and held this conference with a theme that focused on "Valuation Practices in Hong Kong". Today, I am delighted to meet so many prominent speakers and experts who have come to share and exchange their views and experiences from various perspectives. These, I believe, will be useful sources of information for future studies.

We are most honoured to have the Honourable Paul CHAN Mo-po, MH, JP to give us an opening keynote speech. We are also delighted to have so many distinguished speakers looking into the topic.

Taking this opportunity, I would like to extend my heartfelt thanks to all speakers, moderators, sponsors, guests, and the Organising Committee led by Sr Tony Wan and Sr Eugina Fok for helping to make this Conference successful. I am sure all the experiences and ideas that will be shared at the Conference will benefit everyone and I hope all of you will find the discussions enlightening and inspiring.

### **Sr Simon KWOK**

President, The Hong Kong Institute of Surveyors (2013-2014)

## MESSAGE FROM THE CHAIRMAN OF GENERAL PRACTICE DIVISION



**Sr HO Chin Choi, Joseph**

On behalf of the General Practice Division, it is my honour to welcome all of you to the GPD Valuation Conference 2014: Valuation Practice in Hong Kong. This is the first large scale valuation conference organised by the General Practice Division since its establishment in 1984, and it also marks one of the events to celebrate the 30th Anniversary of the Hong Kong Institute of Surveyors.

Valuation is one of the core competencies of a general practice surveyor. Valuation could be in the form of property valuation, statutory valuation, business valuation, financial asset valuation, intellectual property (IP) valuation and other special assets valuation. Other competencies of a general practice surveyor include asset management, building management, planning and development, project management, property research, and housing policy and management. A general practice surveyor is a valuation surveyor in nature, but simply a valuation surveyor may not be a general practice surveyor if he does not possess the other required general practice competencies at an applicable level.

Being a general practice surveyor, apart from observing the HKIS Valuation Standards and the HKIS Rules of Conduct, it is vital for us to observe the latest knowledge and technique as well as the upcoming challenges and opportunities in Hong Kong and in the valuation practice. Today, we offer a precious chance for our probationers in the general practice surveying industry to grasp a brief picture in the opportunities ahead and the skills to be aspired since tertiary education and throughout their training.

We believe the Conference not only gives us opportunities to socialise and share experiences in the field of valuation for different kinds of property, but also provides professionals, academics and practitioners insights for the future development of the valuation in the general practice surveying industry, as well as prepare stakeholders to excel and prosper.

Taking this opportunity, I would like to thank all speakers, moderators, guests, and Organising Committee members led by Sr Eugina Fok and Sr Tony Wan for their invaluable time and knowledge on making the Conference fruitful and successful. Last but not the least, I must offer my whole-hearted appreciation to all sponsors of the Conference for giving such great financial support to this event.

### **Sr Joseph HO**

Chairman, General Practice Division  
The Hong Kong Institute of Surveyors

# MESSAGE FROM THE CHAIRMAN OF THE ORGANISING COMMITTEE



**Sr WAN Wai Ming, Tony**

“Valuation” is the fundamental subject of our general practice in the surveying profession – I don’t think anyone would disagree with me. Having practiced for nearly two decades in the surveying field, I fully recognise the importance of valuation in different sectors of our real estate market. However, in practice, I do see the various difficulties encountered by our practitioners in professionally assessing the value of different types of property.

HKIS has long been organising relevant continuing professional development or structured learning events to help ensure members can upkeep their valuation skillsets and market knowledge. Nevertheless, none of them were on the scale of a conference, and instead were limited to ad hoc workshops.

About two years ago, I had, in a General Practice Divisional Council Meeting, suggested hosting a one-day valuation conference of local context for our HKIS members, i.e. the first one since the establishment of our Institute in 1984. Although I received lots of positive feedback, I was not yet prepared to step forward and shoulder this huge task at that point in time.

Not until the commencement of the office of the current GPD Council, my idea to organise our first valuation conference has been put up for deliberation again. With the expressed supports of a number of experienced practitioners, I have decided to take up the challenge to convene and chair the organising committee.

The whole organising process, albeit quite time-consuming, has exceeded my expectations and been running very smoothly and efficiently. The positive result is entirely attributable to the devotion of each and every organising committee member and the committee as a whole. Without their contributions, our intention to hold a valuation conference cannot come into reality. I would like to take this opportunity to express my gratitude to my colleagues, namely, Mr Charles CHAN, Ms Eugina FOK, Mr Harry CHAN, Ms Elza NG, Mr Winson CHENG, Ms Cher LAU, Mr Jeffrey WONG, and Mr Peter LOI for their tremendous efforts spent in organising the conference. Also, special thanks go to Ms Polly TSANG, Ms Jocelyn KWOK and Ms Vivian LU of Creative Consulting Group, who have all offered excellent public relations services to us.

I believe that this Conference will not just be a one-off occurrence. It will not come to the end of the road. More and more similar conferences would be held in the coming future to nourish our practitioners, especially the new blood – the younger generation who will become the future pillars of our industry.

Finally, I would like to share a meaningful statement I read from an article: “Life is like an open book; the person that never leaves home only reads but one page.”

With best wishes!

**Sr Tony WAN**

Chairman

HKIS GPD Valuation Conference 2014 Organising Committee

## INTRODUCTION OF THE HONG KONG INSTITUTE OF SURVEYORS

The Hong Kong Institute of Surveyors (HKIS or The Institute) was founded in April 1984 and had 85 founder members. The Institute was statutorily incorporated by virtue of the Hong Kong Institute of Surveyors Ordinance in January 1990 (Cap. 1148). In July 1991, there was also passed the Surveyors Registration Ordinance (Cap. 417) to set up a Registration Board to administer the registration of surveyors.

The HKIS total membership has now grown to over 8,000. As at 31 March 2014, there are 6,007 Corporate Members consisting of Members and Fellows – distinguished by the initials MHKIS and FHKIS respectively; and 66 Associate Members – distinguished by the initial AMHKIS. Apart from this, the total number of training grade members was 2,761.

To qualify as a corporate member of the Institute, surveyors must possess a recognised academic degree or similar qualification, followed by a minimum of 2 years supervised professional experience within strict guidelines, followed by an Assessment of Professional Competence (APC).

As a reputable and responsible professional body of surveyors, the Institute has always maintained vigorous assessment standards for entry to the profession and has also maintained high professional and ethical standards of member surveyors, through the various codes of professional practices, the code of ethics, and continuing professional development. The Institute has taken on an important and responsive consultative role in government policy making particularly on issues affecting land, property, construction.

The title “Surveyor” embraces a number of disciplines involved with land and its development with land and buildings, covering an extremely wide scope. Some surveyors work in private practices and others may work for a landowner, developer, building contractor or government departments and related bodies.

The Institute consists of six divisions:

1. Building Surveying Division
2. General Practice Division
3. Planning and Development Division
4. Quantity Surveying Division
5. Land Surveying Division
6. Property and Facility Management Division

A **land surveyor** measures and records the shape and position of the land, define the boundary and set out the legal boundaries of the sites. A **general practice surveyor** advises on the best use of the land, assesses the feasibility and viability of the proposed development project as well as the valuation, marketing, sale, leasing and management of completed developments. A **planning and development surveyor** further advises on the possible change of zoning, the likely environmental impacts and make suggestion on preliminary development contents. A **quantity surveyor** is concerned with the building contractual arrangements and cost control will evaluate the likely cost of the development project and advises on the most suitable kind of contract for the project. A **building surveyor** involves in the project management of building development proposal, holistic maintenance management of building and overall control of private building under relevant legislation. A **property and facility management surveyor** provides a comprehensive range of services in real estate management.

Internationally, the Institute has established and continues to expand its presence in the international scene through participation in various international platforms. Over the years, the Institute has shown its international importance and leading position by playing an important role in participating and joining different international organisations and committees included the World Organisation of Valuation Associations (WAVO), World Organisation of Building Officials (WOBO), Pacific Association of Quantity Surveyors (PAQS), International Federation of Surveyors (FIG), South East Asian Surveyors Congress (SEASC), International Valuation Standard Council (IVSC) etc.

Besides international participations, the Institute has established and continues to expand its presence in the international scene through reciprocity relationships with other national surveying bodies and through membership in relevant world bodies and international organisations in order to maintain its professional edge at international level. The Institute is one of the 3 founding members, apart from the Singapore Institute of Surveyors and the Institution of Surveyors, Malaysia, of the Surveyors’ Alliance Asia which was inaugurated in November 2004. The Institute has reciprocal agreements with:

- The Australian Property Institute (API)
- New Zealand Property Institute (NZPI)
- Singapore Institute of Surveyors and Valuers (SISV)
- The Australian Institute of Quantity Surveyors (AIQS)
- New Zealand Institute of Quantity Surveyors Incorporated (NZIQS)
- China Institute of Real Estate Appraisers (CIREA)
- China Engineering Cost Association (CECA)
- China Association of Engineering Consultants (CAEC)
- The Building Surveyor’s Institute of Japan (BSIJ)
- Canadian Institute of Quantity Surveyors (CIQS)
- Chartered Institute of Civil Engineering Surveyors (ICES)

The Institute continues to increase its importance and standing both locally and internationally. Through maintaining both a high professional standard of the Institute and the members locally, and keeping in pace with the professional levels internationally, the Institute is marching towards another step ahead of the summit.

## INTRODUCTION OF GENERAL PRACTICE DIVISION

Throughout years of development, the services offered by the General Practice Surveyors (GP Surveyors) can be wide and varied. Members through their professional training, skill and knowledge are in a position to offer skilled and effective advice in connection with planning, development, use, management and valuation of real properties; acquisition, compulsory purchase and compensation, negotiation of sales and lettings by private treaty and sale by tender or auction of real properties; and financial and economic aspects of investment in real property.

Besides real property related scope of work, experienced members are also involved in trade-related business assets and business valuation. GP Surveyors also involve in project management, asset management, and recently required intellectual properties valuation.

With the great contributions of our previous council members and the divisional members in the past 30 years, we have made lots of achievements and our divisional total membership was over 2,300 as at 31 March 2014. The major roles played by the GP Surveyors are as follows:

### **Valuation**

The GP Surveyors value all types of real properties for various purposes. The range of valuation services covers:

- (1) Valuations for sale, purchase, letting and mortgage purposes.
- (2) Statutory valuations relating to rating, stamp duty, estate duty, etc.
- (3) Valuations of company portfolios for balance sheet purpose, company floatation, takeovers and mergers.
- (4) Feasibility studies on all types of real properties.
- (5) Acting as an expert witness, independent valuer or arbitrator in valuation disputes.

### **Acquisition and Compensation**

Property development involves acquisition and redevelopment, particularly in urban renewal which requires the extensive participation of GP Surveyors. GP Surveyors provides services including:

- (1) Valuation for acquisition for redevelopment.
- (2) Statutory valuation and procedure under the compulsory purchase law and the associated property auction and related works.
- (3) Valuation for compensation upon land resumed under the statutory lands resumption ordinance and the associated business and disturbance compensation.
- (4) Acting as expert witness in court for compensation dispute.

### **Planning and Development Consultancy and Land Valuation**

Real estate development is a complex process which needs professional expertise and judgement. The GP Surveyors provide a comprehensive range of professional services covering:

- (1) Market studies and evaluation of development.
- (2) Feasibility study and valuation for development land.
- (3) Land valuation for different users and purposes.
- (4) Negotiation with Government on modification, surrender and re-grant of land leases.
- (5) Valuation for land premium upon lease modification and land exchange.
- (6) Applications and appeals to Town Planning Board in respect of change of uses, etc.
- (7) Preparation of detailed financial assessments, cash flow studies and expenditure control systems throughout the development period.
- (8) Preparation of development and design briefs.
- (9) Constant monitoring of the development to ensure that it meets the client's requirements and reflects market needs.

## INTRODUCTION OF GENERAL PRACTICE DIVISION

### **Project Management**

Project management is one of the key professional services provided by GP Surveyors. Project managers act for the clients to manage their projects from feasibility studies to completion. By providing project management services to clients, a GP Surveyor will act as a lead consultant to manage a team of out-sourcing contractors in projects related to real property (including planning and development, sales and letting and property management) and corporate real estate services.

### **Asset Management**

GP surveyors are usually engaged to monitor and maintain properties of value to an entity or group or individual. It may apply to real properties such as property and facilities management, real estate agents, and corporate real estate services. Some GP surveyors are employed in fund house to monitor a portfolio of investment funds in real estate or infra-structures.

### **Sales, Lettings and Auctions**

GP Surveyors, on behalf of clients, negotiate the purchase, sale or leasing of all types of lands and buildings. He acts as an auctioneer in disposal of real properties or as owner's agent in selling properties by private treaty or tender. He also advises on marketing strategy and on the preparation of sale and lease documents.

### **Property Management**

In a society of rising user expectations, good quality professional management services are an essential element to sustain and enhance the value of the real property. GP Surveyors undertake the management of all types of real properties and negotiates with tenants on rent review, lease renewal and re-letting of premises. He also advises on situations of refurbishment/renovation and redevelopment.

### **Business Valuation**

Business valuation becomes part of the key professional services provided by GP Surveyors in recent years due to the prosperous development of the merger and acquisition activities in Hong Kong and the requirements of the financial reporting standards. GP Surveyors undertake the purchase price allocation, equity interest valuation, financial derivatives and intangible assets (including intellectual property) valuations.

### **Intellectual Property (IP) Valuations**

IP is a kind of intangible assets which includes copyright, trademarks, patents, industrial design rights, and in some jurisdictions trade secrets. There are a number of GP surveyors are specialised in such IP valuations for various purposes such as public documents, merger and acquisition, accounts reporting, and litigation.

### **Serving Organisations**

Apart from their work in the private practice and quasi-government bodies, GP Surveyors are also employed by the HK Government in various departments such as the Lands Department, Rating and Valuation Department and Housing Department to handle work including government land disposal, resumption, rating, taxation, sales and letting, management public housing and home ownership scheme, etc.

# CONFERENCE PROGRAMME

Time	Program/Topic	Speaker
08:30 – 09:00	Registration	
09:00 – 09:05	Welcome Speech	<b>Sr KWOK Chi Wo, Simon</b> President The Hong Kong Institute of Surveyors
09:05 – 09:35	Opening Keynote Speech	<b>Mr CHAN Mo Po, Paul, MH, JP</b> Secretary for Development HKSAR Government
09:35 – 09:40	Group Photo with Guest of Honour	
09:40 – 09:50	Votes of Thanks and General Introduction	<b>Sr HO Chin Choi, Joseph</b> Chairman, General Practice Division The Hong Kong Institute of Surveyors
09:50 – 10:20	Valuation in the Government Context	<b>Sr CHAN Pui Yee, Karen</b> Assistant Director/Valuation Lands Department, HKSAR Government
10:20 – 10:40	Coffee Break	
10:40 – 11:10	Valuation for Demand-led Redevelopment Projects: Constants and Variables	<b>Sr William WAN</b> Director, Property and Land Urban Renewal Authority
11:10 – 11:40	Premium – It is Valuation or Negotiation	<b>Sr Alnwick CHAN</b> Executive Director, Head of Valuation and Professional Services Knight Frank Petty Limited
11:40 – 11:50	Q & A	Moderator: <b>Sr WAN Wai Ming, Tony</b> Council Member, General Practice Division The Hong Kong Institute of Surveyors
11:50 – 11:55	Souvenir Presentation to Speakers	
11:55 – 12:00	Souvenir Presentation to Sponsors	
12:00 – 13:00	Lunch	
13:00 – 13:30	Valuation of Trade Related Property	<b>Prof CHAU Kwong Wing</b> Head and Chair Professor Department of Real Estate and Construction The University of Hong Kong
13:30 – 14:00	Rating Valuation of Special Properties – The Hong Kong Experience	<b>Sr LAM Miu Sheung, Kelly</b> Principal Valuation Surveyor Rating & Valuation Department, HKSAR Government
14:00 – 14:30	Level 2 or 3 – What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes?	<b>Mr Nova CHAN</b> Partner PwC
14:30 – 14:40	Q & A	Moderator: <b>Sr HO Chin Choi, Joseph</b> Chairman, General Practice Division The Hong Kong Institute of Surveyors
14:40 – 14:45	Souvenir Presentation to Speakers	
14:45 – 15:05	Coffee Break	
15:05 – 15:35	Expert Determination and Arbitration	<b>Sr LAU Chun Kong</b> International Director Jones Lang LaSalle
15:35 – 16:05	Valuation under Land (Compulsory Sale for Redevelopment) Ordinance	<b>Sr CHAN Chiu Kwok, Charles</b> Managing Director Savills Valuation and Professional Services Limited
16:05 – 16:35	Valuation: Perspective of a Client	<b>Sr Augustine WONG Ho Ming, JP</b> Executive Director Henderson Land Development Company Limited
16:35 – 16:45	Q & A	Moderator: <b>Sr CHIU Kam-kuen</b> Vice Chairman, General Practice Division The Hong Kong Institute of Surveyors
16:45 – 16:50	Souvenir Presentation to Speakers	
16:50 – 17:00	Closing Remarks	<b>Sr Slayman CHAN</b> Vice Chairman, General Practice Division The Hong Kong Institute of Surveyors
17:00	End of Conference	

## SPEAKERS AND PAPERS



**Sr CHAN Pui Yee, Karen**

Assistant Director/Valuation  
Lands Department, HKSAR Government

■ **BIOGRAPHY**

Ms Karen Chan is currently the Assistant Director in charge of Valuation in the Lands Department of the HKSARG. She is a member of the Hong Kong Institute of Surveyors and the Royal Institution of Chartered Surveyors, and a Registered Professional Surveyor.

She has worked in the Lands Department for nearly 30 years during which time she has been involved in a variety of land matters including land disposal and acquisition, valuation of land and properties for various purposes, lease enforcement, land and squatter control, urban renewal and maintenance of man-made slopes on unallocated and unleased government land.

She has previously held various posts within the Lands Department such as the Assistant Director/Estate Management, the District Lands Officer/Tai Po, the District Lands Officer/Kowloon West, the District Lands Officer/Yuen Long and the Chief Estate Surveyor/Urban Renewal. At present, she is supervising and leading a challenging portfolio including the Valuation Section which deals with valuation of land and properties for various purposes; the Railway Development Section which processes various work arising from the resumption as well as the grant of land for implementing the railway projects; and the Tree Unit concerning trees on private lots and unleased/unallocated government land.

## SPEAKERS AND PAPERS



### **Sr William WAN**

Director, Property and Land  
Urban Renewal Authority

#### **■ BIOGRAPHY**

William Wan is a Registered Professional Surveyor (General Practice) engaged in property development, valuation for acquisitions, property sales, retail leasing and facility management. He obtained a bachelor's degree with first class honours in land management from the University of Reading in England and a master's degree in construction project management from the University of Hong Kong.

He went through his initial training in surveying at the Lands Department of Hong Kong Government. Thereafter and throughout many years of professional practice, he has held managerial positions in various statutory bodies with property business, including Airport Authority, Kowloon-Canton Railway Corporation, Mass Transit Railway Corporation and Hong Kong Housing Society. Serving the corporate objectives and business focus of various statutory bodies in different times of his career, he has extensive participation in commercial packaging, joint venture and management of major real estate developments such as the AsiaWorld-Expo and Logistic Centre at Hong Kong International Airport, The Palazzo atop East Rail - Fo Tan Section, International Finance Centre at Hong Kong Airport Railway Station, Yaumatei Six-Street Urban Improvement Scheme, as well as in the development planning for projects along East Rail, West Rail, Ma On Shan Rail and Tseung Kwan O Rail.

Currently he is a director of property and land in Urban Renewal Authority (URA) involved in the implementation of urban regeneration via the core objectives of redevelopment and rehabilitation. At the forefront of redevelopment process, he witnesses and encounters how the vocal minorities could retard the pace of urban renewal in the neglected districts, and how the good-faith projects could fall into the risks of community and political controversies, while having deep concerns about the future sustainability of urban renewal from financial perspectives.

### **Valuation for Demand-led Redevelopment Projects: Constants and Variables**

#### **Abstract**

Demand-led Redevelopment Project – a pilot scheme currently undertaken by the Urban Renewal Authority (URA) via a Development Model (the DL Model) introduced in July 2011, is a bottom-up approach to urban renewal in response to the Urban Renewal Strategy promulgated by the Hong Kong SAR Government in 2011.

The first Demand-led Redevelopment Project under the DL Model commenced in April 2012 and since then, a total of nine DL Projects had got off the ground. Among the nine projects, seven were successful for implementation in terms of property acquisitions, while one of them was terminated as a result of the concerned owners failing to attain the 80% threshold requirement for acceptance of acquisition offers made by the URA. The latest project (the 9th) started off this April pending the assessment and making of acquisition offers in June.

This DL Model is perceivably well received by property owners of old buildings, who can virtually decide, of their free will, to apply to URA for project selection and implementation, whilst they have almost no prospect of successful sale to private-sector developers. Sustainable urban renewal today has become a hot topic attracting conflicting views from all fronts. With every good intent and endeavour, URA is playing an important role to strive for a balanced resource allocation on urban renewal in response to the ever-increasing public needs, while exploring all practicable and financially viable implementation modes.

## SPEAKERS AND PAPERS

### **“Constants” and “Variables”**

Looking at the URA's prevailing acquisition policy, one would easily say that URA is facing numerous **“Constants”** and **“Variables”** in the valuation of acquisition offers and, yet, at the same time, ensuring financial viability of DL Projects which would induce a series of risks in the challenge of sustainability of the DL Model.

**“Constants”** cover the valuation basis and offer package, i.e. market value of a property and a home purchase allowance (based on a notional rate of 7-year-old replacement flat) for domestic owners, with the latter component inflating significantly the acquisition costs accrued to the URA inevitably. In addition, development restrictions under town planning controls, sustainable building design and revised GFA concession would often work against the development potential of an UR project under the model.

**“Variables”** arise from a spate of situations – the future market movement, existing building bulk, site characteristics and design constraints of the DL Projects, provision of facilities under GIC and public open space requirements.

These “Constants” and “Variables” would, to various extents, impact on the financial viability of DL Projects; however they could not be overcome by the valuation basis under URA's prevailing acquisition policy to restore the financial balance.

### **The Way Forward**

Looking ahead, the DL Model by URA if still meant to be a sustainable business, must be rationalized to continuously serve the public needs and at the same time maintain the financial viability of DL Projects. The exploration of alternative bases of valuation for implementation of DL Projects is now, no doubt, overdue.

The decades-long definition of home purchase allowance based on the rule of 7-year-old replacement flat is one of the critical factors to push URA out of the balance sheet. It is quite obvious that the URA's unit acquisition cost – in term of developable floor area, exceeds the accommodation value of the project site. On the other hand, URA is spending public money to implement and sustain the DL Model at prices substantially above the market level. Should the 7-year rule of fixing ex-gratia allowance continue to serve the DL Projects to imprudently benefit a certain group of owners who have not kept their buildings in good repair?

It is the high time that the DL Model should be implemented via other valuation bases closer to the norm of private acquisition activities to ensure its long-term sustainability for urban renewal.

# SPEAKERS AND PAPERS

## Paper

### 1. Background

Before 2011, redevelopment projects undertaken by Urban Renewal Authority (URA) for urban renewal purposes were primarily through a self-initiated mode. This mode was criticized by the public as being a “top-down” approach not duly considering the free will of the affected owners.

In response to the public criticism and other concerns, a new Urban Renewal Strategy promulgated by the Hong Kong SAR Government in 2011 came into effect, providing that “**URA may respond to a joint approach from building owners to initiate redevelopment of their lot(s)/building(s)**”. A pilot scheme via a Demand-led Redevelopment Project Model (DL Model) was launched by URA in July 2011. The DL Model is a “bottom-up” approach that can be jointly initiated by building owners on application to URA for selection of their site based on certain pre-fixed criteria.

The first project under the DL Model commenced in April 2012 and since then, another eight DL projects had got off the ground. Among them, seven projects were successful for implementation in terms of property acquisitions, whilst one of them was terminated as a result of the concerned owners failing to reach the 80% threshold requirement for acceptance of acquisition offers made by URA. The latest project (the 9th DL project) was started in April this year pending making and acceptance of acquisition offers.

This DL Model is perceivably well received by property owners of dilapidated buildings, who can virtually decide, of their free will, to apply to URA for selection, whilst there would be almost no prospect of successful joint sale to private developers. Sustainable urban renewal has become a hot topic attracting dissenting views from all fronts. With every good intent or endeavour, URA has to strive for a balanced resource allocation for urban renewal in response to growing public needs, while exploring practicable and financially viable implementation modes.

### 2. Constants and Variables

Looking at the URA's prevailing acquisition policy, one would have no difficulty in saying that URA is facing numerous “**Constants**” and “**Variables**” in assessment of acquisition offers and, yet, at the same time, ensuring the financial viability of DL Model which would invariably induce a slew of risks in business sustainability.

#### 2.1 “Constants”

##### Valuation Basis and Offer Price

Currently URA's offer package to a domestic owner-occupier (O/O) equals to the market value (MV) of his / her old flat based on existing use value plus an ex-gratia allowance (EGA) and other relevant allowance such as removal allowance. The EGA represents an amount of home purchase allowance (HPA) which is the difference between the MV of a notional replacement flat and the MV of the old flat under acquisition. For non-resident owners (non-O/O), they will in general receive an EGA equivalent to 50% of the same HPA.

The valuation basis for a notional replacement flat is dictated by the decades-long 7-year rule: a notional 7-year-old replacement flat in comparable quality buildings, situated in a similar locality in terms of characteristics and accessibility, at the middle floor of a notional building, with average orientation, i.e. not facing south or west, and without sea view.

## SPEAKERS AND PAPERS

For example, if a 7-year-old notional replacement flat is assessed at \$10,000/sq.ft. on saleable area (SA) and the MV of an old flat is \$4,000/sq.ft. (SA), an O/O will get an EGA amounting to \$6,000/sq.ft. (SA) or about 150% on top of the MV. He/She will therefore receive a total offer of \$10,000/sq.ft. (SA). The non-O/O is eligible for 50% of the same EGA under the current policy and URA's offer to them would be \$7,000/sq.ft. (SA) or 1.75 times MV in this example.

In general and depending on the numbers of O/O and non-O/O in a DL project, the top-up to MV would not likely fall below 75% as being EGA in acquiring domestic property interests. Nevertheless this large top-up amount for property acquisitions has no relevance to the redevelopment site value which is largely hinged on the maximum allowable GFA and permitted uses in the Land Grant.

The HPA component inevitably has inflated significantly the acquisition cost accrued to URA, and has threateningly pushed URA out of the balance sheet of utilizing public money to carry out DL projects, particularly for those sites with a small plot ratio gain against the existing building bulk to be acquired.

On the acquisition policy side, there are voices that DL projects should be viewed as a social mission for which URA is obliged to make offers to the affected owners under the prevailing acquisition policy irrespective of the project's financial viability.

However, on the revenue side of the URA's balance sheet, there are statutory and non-statutory development controls through town planning, sustainable building design guidelines, tightened GFA concession and parking spaces requirements which patently limit the redevelopment bulk of a site. In most cases, the plot ratio gain over the existing building bulk is so limited that there would be no business case for redevelopment, should the acquisition cost of the 7-year rule well exceed the site value.

### 2.2 "Variables"

#### (a) Redevelopment Potential of DL Project

Redevelopment potential of a project varies significantly according to the existing building bulk, site characteristics and design constraints.

Site assembly of aged buildings by private developers has been a channel for acquiring land bank for future developments. However, inevitably the number of financially viable projects is decreasing over the years. The applications to URA under the DL Model were essentially from the group of dilapidated buildings which could not attract the interest of private developers, owing to the combined effect of limited surplus plot ratio and high acquisition cost to buy out the existing bulk while the price upside upon redevelopment would be remote.

For example, the seven successfully implemented DL projects are located at secondary streets in Sham Shui Po, Tai Kok Tsui and Kowloon City districts. Their site areas range from approximately 4,600 sq.ft. to 15,000 sq.ft., whereas the existing-bulk plot ratios range from about 4.9 to 7.4. Plot ratio gain of these DL projects is obviously low, with an average of 2.4 or 38% over the existing bulk.

Furthermore, some of the DL projects abut on streets of less than 15m in width which is regulated by building set-back. The set-back requirement together with the prevailing provision of parking spaces has seriously cut down the valuable retail space at street level, thereby diminishing the site value and entailing the construction cost for basement.

## SPEAKERS AND PAPERS

### (b) Provision of GIC Facilities and Public Open Space

In some circumstances DL projects may need to incorporate certain GIC facilities and public open space at ground and/or upper floor of the future development to serve the district needs and achieve planning gain. The GIC provisions are GFA accountable, thereby further diminishing the site value and future sales proceeds of a project.

### (c) Future Market Movement

Under the DL Model, URA has to purchase at least 80% of the property interests in a project in order to achieve the required threshold for project implementation, which is basically consistent with the Land (Compulsory Sale for Redevelopment) Ordinance. This high threshold requires substantial cash outflows at the initial stage whereas the growing difficulties encountered in the cumbersome resumption and clearance of the unacquired property interests could cause delay in tendering out the cleared site. In the event of uncertainly long disposal programme, a project looks like a healthy nest egg could easily be scrambled into an ugly mess.

## 3. Way Forward

Like it or not, our society, not only URA, is increasingly faced by social problems of how to maintain these dilapidated buildings in a safe manner, and who would be financially capable of redeveloping them!

What is clear is that public money has to be further injected, somewhat irresponsibly, into the process of insisting upon the political basis of large top-up of MV to purchase dilapidated flats to preferentially benefit a minority group of owners in the society. From a standpoint of social fairness, what would be the responses of tax payers and the public at large, particularly those in the age groups of 1980's and 1990's who do not own a dilapidated flat eligible for the benefit of the DL Model, who have no adequate financial means to purchase their own residence, or who are not eligible for public housing assistance? Should their overall feeling be considered?

If the DL Model is still meant to be a sustainable tool to drive ahead urban renewal, it must be rationalized to continuously tackle the problems of urban decay and at the same time maintain the financial viability of DL projects. The exploration of alternative bases of valuation for implementation of DL projects is now, no doubt, overdue.

### 3.1 Review of Offer Basis: HPA at 7-year rule

The decades-long definition of HPA based on the practice of 7-year-old replacement flat has a political background which is a key factor to pushing URA out of the balance sheet. The offer package to domestic O/O and non-O/O based on HPA regardless of the redevelopment site value has indeed worked against commercial logic and entailed the spending of substantial public money. The unit acquisition costs of those DL projects already implemented - in terms of developable floor area, largely exceed the accommodation value of the project site at market level. The situation is aggravated by the recent looming of construction cost escalation which further reduces land value. This financial anomaly could only be balanced out with significant price upsurge upon completion of redevelopment, but this scenario looks rather remote in the coming years.

### 3.2 Alternative Offer Basis

There were suggestions to a change of the 7-year rule to 10-year or 15-year. However, the price difference for 7-year, 10-year or 15-year basing on empirical analysis, is not substantial and could unlikely restore the financial balance of DL projects anyway.

## SPEAKERS AND PAPERS

One option to rationalize the financial arrangement for DL projects is to make reference to the assessment basis under the Land (Compulsory Sale for Redevelopment) Ordinance. This may be a long-term solution that could ensure sustainability of DL Model as the acquisition offer would be linked to the site value of the project itself.

Other option may rest on the recognition of the owners' rights to the future development profit (if any) of their site. Owners could be entitled to the future sharing of profit from land sale/sales proceeds in lieu of the EGA based on HPA, which could be one of the ways to make the offer package more attractive to owners. This would also be a fair mechanism to address the at-all-times claim of owners for entitlement to redevelopment profits from their co-owned site while not exposing to the risk of contributing to construction cost.

#### 4. **Observation**

Notwithstanding that the DL Model may serve as a catalyst for speeding up urban renewal, the catch is that it is bound to place URA into financial imbalance and not sustainable in the long run unless with a huge injection of public fund. It is the high time that the DL Model should be implemented via other valuation bases which are closer to the norm of private-sector acquisition to ensure its long-term sustainability.

As a thought-provoking scenario, could the DL Model be turned into a "real joint redevelopment" model by co-owners with the professional assistance of an institutional framework to carry out the redevelopment and finance the construction and interim rehousing costs upfront? Under such circumstances, there would be no property acquisitions and hence no confrontation, while upon completion of the redevelopment, the co-owners will then pay for such costs via bank mortgages. In effect they can always keep their property ownership, retain local network and possess a decent flat in-situ for habitation. At the same time, public financial resources can be better utilized and channelled into a larger number of urban renewal projects for the sustainability of our home city.

## SPEAKERS AND PAPERS



### **Sr Alnwick CHAN**

Executive Director, Head of Valuation and Professional Services  
Knight Frank Petty Limited

#### ■ BIOGRAPHY

- Mr Chan specialises in land matters and is actively engaged in land exchange and lease modification applications under which premium negotiations fall within the critical path of application process.
- His work spans from religious institutions, utility installations, residential, office and hotel properties. The latest concluded cases include a prime property in the Peak and a conservation-cum-development project in Pokfulam.
- In recent years, Mr Chan has been actively involved in litigation support services to both majority and minority owners in disputes arising from the Land (Compulsory Sale for Redevelopment) Ordinance (Cap 545) and often appears in the Lands Tribunal and High Court giving expert opinion on values.
- Prior to joining Knight Frank in 1997, Mr Chan spent 14 years in general practice, in both private and public sectors, including the Hongkong and Shanghai Banking Corporation, the Hong Kong Jockey Club and the Lands Department of the Hong Kong Government. His expertise includes land administration and development consultancy.
- He is a Fellow Member of the Royal Institution of Chartered Surveyors as well as the Hong Kong Institute of Surveyors elected in 2005. He is also a member of both HKMAAL Accredited Mediators and HKIA/HKIS Joint Panel of Mediators.
- Knight Frank's Land Advisory Service Division, led by Alnwick, received the RICS Professional Services Team of the Year Award in 2014.

### **Premium – It is Valuation or Negotiation**

#### **Paper**

Land premiums typically represent the difference between the value of land under its previous lease conditions (the 'before-value'), and its increased value under the modified conditions (the 'after-value'). The payment of land premiums arises contractually, but is not pursuant to statutory law.

The property industry generally accepts that land premium is payable when there has been a clear change in development density or usage. Differences of opinion in these situations largely lie in gross development value (GDV) and cost, but valuation components can usually be agreed after protracted negotiation and submissions. A rise in construction cost and the special characteristics of some lots (eg a sloping site) can often lead to huge variances in the allowance for cost, but the adoption of established cost indices can narrow the difference, if they are kept up to date.

## SPEAKERS AND PAPERS

There are situations where government departments are too slow to comment on cost estimates and in the occasional case, government departments are reluctant to advise on cost, due to the lack of data or resources. In these instances, government departments need to work as a team to facilitate property development to meet market demand.

In terms of the GDV, the difference can be small in a falling market and huge in a rising one. More reasonable offers have come out of the Lands Department in the last six months and efforts to increase the supply of residential units and hotel rooms, both much needed in the market, have been appreciated by the industry.

Land premiums arise from land leases. In Hong Kong, land leases come in many different forms and there are always conflicts of opinion on the before-value. In recent years, the surge in the transaction price of industrial property has often been disregarded by the Lands Department, which sees such value enhancement as due to zoning or government policies and should therefore not be considered in the before-value assessment.

Market Value is defined as 'the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties have each acted knowledgeably, prudently and without compulsion'.

As industrial property transactions fall squarely within the definition of Market Value, they should therefore be accepted as a proper comparable. The government has cited that the 'Hope Value' created by zoning or government policy should not benefit an owner. This is an incorrect approach. According to the 2012 edition of The HKIS (Hong Kong Institute of Surveyors) Valuation Standards, Hope Value should be limited to the extent that would be reflected in offers made by prospective purchasers in a general market, under a rational environment, which means that market evidence is required. Therefore, if the general market accepts that Hope Value should be attached to a property, there is no valid reason why the government – acting in the capacity of a landlord – should decline to accept such a transaction as being market comparable.

On the one hand, the government aims to promote development through town planning and/or government policies, but at the same time, is willing to short-change the before-value, which defeats its own policy objectives and planning intentions.

The government may argue that accepted land premiums serve as indication that there are willing buyers and sellers in the land-premium market. However, one must bear in mind that the seller is typically a monopoly in Hong Kong and buyers have little choice but to settle the land premium after several rounds of appeal.

The government, acting in the capacity of a landlord, is able to dictate the level of land premiums, thereby creating an imperfect market. This may be one of the reasons why there have been relatively few changes of land-use from industrial to office in areas such as Wong Chuk Hang and Tsuen Wan, compared to Kowloon East, where the prospect of growth justifies the risk of paying hefty land premiums.

## SPEAKERS AND PAPERS

### Contentious issues

- Amendments to master layout plans
- Relocation of XYZ points
- Addition of underground carports
- Relaxation of building heights with no increase in gross floor area/storeys
- Religious institutions
- Footbridges and footbridge connections

### Amendments to master layout plans

In the property industry, it is understood that a land premium is payable if the master layout plan (MLP) proposed to be amended is made known to the market or owner, prior to the land sale. The rationale is that the initial purchase was subject to a MLP.

The more common situation is where a MLP is submitted and approved after land sale as part of development control on the conceptual design. It is only fair that the amendment of such a MLP should not command a land premium, as the owner should be entitled to make changes within the development perimeters of the land lease. Amendments to the MLP should be examined on design merit and be complementary to the neighbourhood or comply with the Outline Zoning Plan. It should never be taken as an opportunity to demand a land premium, irrespective of any enhancement that may be brought about by the approval of the MLP and conversion.

### Relocation of XYZ points

Notwithstanding the fact that some leases provide for the relocation of XYZ points on plans, if approved by the Director of the Lands Department, the Lands Department still charges a land premium to permit such relocations. Given that the empirical land premium these days is around HK\$1,000,000, the principle of charging a land premium in such cases is wrong and the sum is unreasonable. Assuming the relocated position does not endanger public safety, a prudent landlord should allow for design flexibility. The relocation of XYZ points was once regarded as a technical modification with no land premium payable, but now, land premium is individually assessed.

### Addition of underground carports

When underground carports are added, any value enhancement should be confined to the difference in value of the carport at ground level versus underground. The value should not be stretched to assume value enhancement to the property as a whole, as the enhancement is purely aesthetic and psychological and should not be arbitrarily quantified.

### Relaxation of building heights with no increase in gross floor area/levels

The problem here lies in precedent cases established by the Lands Department to charge a land premium on a percentage of the GDV, to reflect the enhancement arising from a 'better' ceiling height. Again, this percentage approach needs to be reviewed in cases of high GDV, as any percentage adopted could translate to an astronomical figure, depending on the building's location and floor area.

### Religious institutions

Some sites are granted exclusively for religious purposes and churches are often combined with a school. It is established policy to grant these sites at a reduced land premium, ie two-thirds or two-ninths of the full market value, depending on the scale of the shared usage.

## SPEAKERS AND PAPERS

The first difficulty faced by religious institutions is the basis of the full-market value of a 'Government, Institution or Community' (GI/C) site, or a site designated for religious/school/kindergarten use. The government has been adopting what it calls 'the best alternative' use, whereby if a site is located in the New Territories, it adopts the New Territories Exempted Houses accommodation value (NTEH AV) as the full market value. The problem is that at the peak of the market, the NTEH AV reached HK\$100,000 per square metre (sqm) in the Sai Kung area and religious institutions simply cannot afford to pay an accommodation value of up to HK\$66,000 per sqm (ie HK\$1,000,000 x two-thirds), especially when building-bulk can be quite large for these type of buildings.

The reduction percentage simply does not work when the property market is overheated. If the government cannot accept the idea of no premium being charged, a more equitable approach would be to assume a Grade-C office development as the hypothetical development. From the point of view of the religious institution, office use is the best alternative in the absence of a private treaty grant.

There are numerous examples where small churches have been established on the commercial podiums of residential buildings or within non-core office buildings. Some churches meet on Sundays in hotel function rooms or in public parks, if they cannot afford to hire a venue. The government should review whether the land-premium is necessary or the discount is still appropriate when property values have risen so significantly since the 1990s, and consider basing hypothetical development on Grade-C office buildings rather than residential value.

### **Footbridges and footbridge connections**

The government should aggressively promote footbridges and footbridge connections, rather than charge land premiums based on potential enhancement in value to a parent lot. For completed buildings, the addition of a footbridge is assessed on enhancement to the GDV of the entire building. Is that fair and equitable in valuation terms?

With the growth in population and tourist arrivals in Hong Kong, ground-level pavements in urban areas and new towns can no longer cope with the foot traffic. Footbridges can segregate vehicular and pedestrian traffic to improve safety and provide a pleasant cityscape. The government appears to have reversed this priority and seldom sees public benefit as outweighing the interests of lot owners.

Landlords should exercise prudent judgement to encourage the provision of footbridges, especially to existing buildings in congested areas such as Wan Chai, Causeway Bay, Central, Mong Kok and Tsim Sha Tsui. For example, the footbridge crossing between Wan Chai MTR station and Immigration Tower is overly congested. Given that the buildings nearby are privately owned, unless the government initiates a resumption to implement new/additional footbridges, the burden could be shifted to the private sector, if the government is prepared to forgo the premium.

During various town-planning forums, the importance of "connectivity to the city" and bringing vibrancy to a neighbourhood have been discussed. It is important for the government to think unconventionally and make bold decisions. Collaboration creates progress, but the false accusation of collusion can often overshadow creative ideas, which also benefit the public.

The public should be educated on the complexity and cost implications of providing footbridges. However, as long as footbridges are open to the general public and properly managed, the public benefit is obvious. It's a win-win situation, and the administration should take the lead to create better city spaces and improve urban connectivity.

## SPEAKERS AND PAPERS

### **Conclusion**

In the last two decades, there has been much debate on the transparency of land-premium assessment. There have been reforms to expedite the process and proposals to introduce arbitration to resolve disputes.

The existing principles of land-premium assessment are fine. The challenge lies in striking a balance between protecting land revenue and making prudent judgements on the level of premiums that fall within the definition of Market Value. A good landlord looks for sustainable growth and look after his tenants. They look for collaboration and long term development as partners. This is lacking when the Government wears both hats. The government needs to recognise that collaboration is not collusion and that making changes for the betterment of Hong Kong requires bold decision-making.

Before China resumed the exercise of sovereignty over Hong Kong, there was general fear of communism. Fear still persists today, but of a modified form of communism initiated by local politicians who no longer support a capitalist society.

If land premiums can be based on valuation and lesser time is spent on appeal and negotiations, developments of a higher quality will appear in Hong Kong, which the land administration can be proud of.

## SPEAKERS AND PAPERS



### **Prof CHAU Kwong Wing**

Head and Chair Professor  
Department of Real Estate and Construction  
The University of Hong Kong

#### ■ **BIOGRAPHY**

Professor K. W. Chau is a past president of the Hong Kong Institute of Surveyors (2009-10). He is currently Chair Professor and Head of the Department of Real Estate and Construction and Director of the Ronald Coase Centre for Property Rights Research at The University of Hong Kong. His main areas of research include real estate finance and economics, real estate price index and urban analysis. Most of his works are empirical studies with implications for policy makers and practitioners. He received the International Real Estate Society Achievement Award in 1999. He served as president of Asian Real Estate Society (1996-7), and International Real Estate Society (2000-1).

### **Valuation of Trade Related Property**

#### **Abstract**

This presentation discusses the distinction between trade related properties and other real properties and introduces different approaches for valuing trade related properties. The theoretical basis and the assumptions of various methods of apportioning the value of a trade related property into real property (building and land) and other assets for various purposes will also be discussed.

## SPEAKERS AND PAPERS



### **Sr LAM Miu Sheung, Kelly**

Principal Valuation Surveyor  
Rating & Valuation Department, HKSAR Government

#### ■ BIOGRAPHY

Currently the Principal Valuation Surveyor of the Rating Division of the Rating and Valuation Department (RVD), Kelly oversees the assessment of new properties, both domestic and non-domestic, to rates and Government rent in Hong Kong. Kelly has amassed extensive experience in rating matters and statutory valuation work through her exposure in both the private and public sectors.

Prior to joining RVD in 1996, Kelly held various challenging positions in the private sector both locally and overseas. During her service in RVD, Kelly worked in the areas of valuation of special properties, the annual General Revaluation exercise of properties in Hong Kong, support services as well as staff training and development. From 2006 to 2009, Kelly worked in the Government Property Agency and successfully managed the owned and leased property portfolio of the Hong Kong SAR Government, ensuring prudent utilisation of resources.

Kelly had fruitful exchanges and sharing with Mainland and overseas valuation practitioners through various professional symposiums and workshops.

### **Rating Valuation of Special Properties – The Hong Kong Experience**

#### **Abstract**

Property rates are one of the important taxes chargeable on landed properties in Hong Kong. With all properties liable to rating assessment (except for certain specific exemptions), rates provide a steady and reliable source of government revenue to finance public expenditure and services. In Hong Kong, there is no statutory prescribed method of valuation for rating assessments, the choice depends upon the nature of the tenement and the availability of rental evidence. The sole target is to ascertain the annual market rent of the tenement. A valuation based upon rental evidence is always the preferred method. For certain types of properties, however, where there is no rental evidence available to permit the use of the rental comparison method, recourse may be had to trading receipts and expenditure as an indication of the rent which the occupier might reasonably be expected to pay if he were to rent the property. In some other cases where the tenements are rarely let and that the receipts and expenditure method is considered inappropriate, reference may need to be made to the cost or more specifically the annual equivalent of the capital cost of providing the site and of building a similar property, hence the contractor's method of valuation. These three valuation approaches have over the years gained clear judicial recognition for valuing properties for rating purposes in Hong Kong. The presentation will give an outline of the rating principles, followed by a brief description of the receipts and expenditure method and the contractor's method of valuation. To give a better understanding of the application of these methods of valuation in the rating context, examples and precedent cases will be used to explain the rating principles and bases for the valuation methods employed.

## SPEAKERS AND PAPERS

### PowerPoint

#### Rating Valuation of Special Properties : The Hong Kong Experience



Ms. Kelly Lam, Principal Valuation Surveyor  
Rating and Valuation Department, Hong Kong SAR Government

#### *Rates and Rateable Value*

##### *Rates*

- A tax on occupation of properties
- Assessed and collected under the Rating Ordinance (Cap 116)
- Calculated as a percentage of the “Rateable Value”
- The percentage is 5% for the Financial Year 2014/15

##### *Rateable Value*

- Assume the property is vacant and to let in the open market as at the “Valuation Reference Date”
- An estimate of the annual rental value

##### *Valuation Reference Date*

- A date designated by the Chief Executive of HKSAR. The rateable value assessed by the Commissioner is ascertained by reference to the rental level at that date
- For 2014/15 General Revaluation, the designated Valuation Reference Date is 1 October 2013

## SPEAKERS AND PAPERS

***Plant and Machinery - Section 8 of Rating Ordinance (Cap 116)******Rateable***

All machinery (including lifts) used as adjunct to the tenement

***Not rateable***

Machinery for the purpose of manufacturing operations or trade process

***Plant (Section 8A of Rating Ordinance)***

- cables
- ducts
- pipelines
- railway lines
- tramway lines
- oil tanks
- settings and supports for plant or machinery

***Methods of Valuation***

- Rental Comparison Method
- Receipts and Expenditure Method (R&E or Profits Method)
- Contractor's Method (Cost Method)

***Receipts and Expenditure (R & E) Method***

- The R & E Method aims to identify
  - The return to the hypothetical tenant in running the business (tenant's share)
  - The return (i.e. rent) to the hypothetical landlord
- The R & E Method may not be applicable where the occupation of a property is not occupied for profit motive
- The profit and loss account provided by the actual operator may not be relevant in assessing the rateable value of the property concerned

***Characteristics of properties valued by R & E Method***

- Seldom let in the open market
- Rental evidence not available
- Special properties, usually possess some monopoly elements
- Occupied with a profits motive
- Rent relates to the gross receipts or profits

***Examples of Special Properties valued by the R & E Approach***

- Electricity Supply and Distribution System
- Gas Supply System
- Hotels
- Tunnels
- Railways System
- Theme Parks

## SPEAKERS AND PAPERS

### *R & E Method*

#### *Reasonableness of the actual revenue and expenses*

##### *Factors to be considered*

- Compare with trading accounts in similar properties
- Compare with accounts of past years
- Statistical figures of the relevant market
- Views or expectations of actual operators on the business environment

#### *Tenant's Share*

##### *Return on tenant's investment, including*

- Interest on tenant's capital
- Tenant's remuneration
- Compensation for risk

##### *Calculation of amount of Tenant's Share*

- Tenant's Capital x %
- Gross Receipts x %
- Divisible Balance x %
- Spot figure, depending on the nature of business, risks, scale of capital invested, etc.

### *R & E Method – Hotels*

- Collect and analyse the profit and loss accounts
- Assess the rateable value of each hotel
- Deduce the average rateable value per room for each hotel
- Compare the average rateable value per room of each hotel of similar class in similar location (location, size, facilities etc.)
- Make appropriate adjustments if considered not reasonable
- Apply the average rateable value per room in valuing those hotels without reasonable accounts

### *R & E Method – Theme Park*

- Income and Expenses Analysis
  - Collect revenue and expenses from the theme park operator
  - Estimate the anticipated annual revenue, expenses and tenant's share of the hypothetical tenant as at the Valuation Reference Date
- Assess the reasonable rent that the hypothetical tenant would pay
- Compare with the rateable values of other theme parks

## SPEAKERS AND PAPERS

***R & E Method – Cross-Harbour Tunnel***

**Case: *The Cross-Harbour Tunnel Limited v. Commissioner of Rating and Valuation* (RA 3 of 1978)**

**The Hunghom Cross-Harbour Tunnel*****Rateable Portion***

- The tunnel structure
  - A facility on the seabed that makes it possible for drivers to drive their own vehicles from one side of the harbour to the other
  - Not a trade process

***Rateable Plant and Machinery***

- Ventilation System
  - Part of the structure, used as adjunct to the tenement, not a trade process
- Water Mains and Pipes
  - Embedded in the walls of the tunnel

***Tenant's Share***

- Needs to compare with the hypothetical Landlord's return on his huge capital investment
- Considers whether the hypothetical tenant can cover interest on tenant's capital, remuneration and compensation for risk

***Contractor's Method (Cost Method)***

- Built on the hypothesis that, the hypothetical tenant has an alternative to purchase the land and build a similar property for occupation by himself

***The Concept***

- Assuming the rent is equal to the annual interest the hypothetical tenant pays by borrowing money or the opportunity cost he foregoes by using his own capital to buy the land and construct the alternative building
- The annual rent will not be greater than the interest or opportunity cost, or else the hypothetical tenant will build the building for himself

***Why***

- No rental evidence available for similar properties
- R & E method not applicable, e.g. no profit, etc.

***Examples of properties valued by the Method***

- Oil depots
- Recreation clubs
- Golf Courses
- Pumphouses and pipelines

***5 Stages in the Cost Method***

- 1) Estimate the construction costs of the building, plant and machinery as at the "Valuation Reference Date"
- 2) Adjust to reflect the conditions of existing property (including allowance for age and depreciation)
- 3) Estimate the land value
- 4) Apply decapitalisation rate to arrive at the rental value
- 5) Stand back and look

## SPEAKERS AND PAPERS

### *Cost Method – Recreation Properties*

*Case : Royal Hong Kong Yacht Club v. Commissioner of Rating and Valuation (RA 38 of 1985)*

- Private recreation club, located on the north shore of Hong Kong Island
- Facilities include open car park, berths, club house building and swimming pool

#### *Ownership Benefits*

- Rental Income
- Title ownership
- Security of tenure and permanence of use
- Assets in support of business
- Enjoys capital appreciation
- Right to dispose of property
- Security for financing the purchase of plant
- Freedom to alter, add or demolish property; or change of use
- No uncertainties in budgeting for rental increase

### *Cost Method – Oil Depot*

*Case : Mobil Hong Kong Limited v. Commissioner of Rating and Valuation (RA 244 of 1991)*

- Oil Depot for storage and distribution of petroleum products
- With ancillary parking and a large pier for marine access
- No direct profit derived from the occupation of the oil depot
- Valued by rental comparison method and cost approach

### *Cost Approach - Case : Mobil Hong Kong Ltd*

#### *Points to note in the case*

1. *Ownership Risks*
2. *Both Landlord's and Tenant's Viewpoints to be Considered*
3. *Credit Rating of a Particular Ratepayer to be Ignored*

### *Conclusion*

#### *Last Step*

Consider the hypothetical tenant's ability to pay rent

#### *Bear in mind*

The objective of rating valuation is to find out a reasonable rateable value of a property  
It is vital to adopt the appropriate method(s) of valuation

## SPEAKERS AND PAPERS



### **Mr Nova CHAN**

Partner  
PwC

#### ■ **BIOGRAPHY**

Nova is a Deals partner and leads the valuation practices in PwC China. He has followed through the entire deal cycle and accumulated extensive experience in M&A advisory, due diligence, modelling, valuations, negotiation, post deal integration and divestiture. He serves clients making investments into China, corporates and joint ventures operating in China as well as Chinese enterprises making outbound investments.

He served as a member of the International Valuation Standards Council's (IVSC) Standards Board from 2008 to 2012 and currently is a member of both Global and Asia Business Valuation Committees for the Royal Institute of Chartered Surveyors (RICS). He has served as a member of the Valuation Standards Technical Committee in China for more than a decade and has deeply involved in drafting the Chinese Valuation Standards since 1998. He has involved in many milestone research studies on topics including business valuation, intangible valuation and fair value measurements, and drafting of national text books and training materials.

Nova received a BBA (1st Honour) degree from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA), a fellow member (FCCA) of Association of Chartered Certified Accountants (ACCA), and the first and only non-Mainland China resident who has gained a Chinese Certified Public Valuer (CPV) title.

### **Level 2 or 3 – What Does it Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes?**

#### **Abstract**

IFRS 13 became effective in January 2013 and categorises any fair value measurement into a three-level hierarchy (Levels 1, 2 and 3) based on the type of inputs. This brings a change to the fair value measurements of investment properties since IAS 40 used to link the measurement hierarchy to the underlying valuation techniques. Given real estate assets are often unique and not regularly traded without observable input data for identical assets, fair value measurements of investment properties will be categorised as Level 2 or Level 3 valuations, and mostly fall within Level 3 as significant adjustments are likely to be applied to observable market inputs in property valuations. IFRS 13 requires additional disclosures for Level 3 measurement, including a reconciliation of opening and closing balances, quantitative information about unobservable inputs and assumptions used, and a description of the valuation processes in place. Consequently, an effective communication interaction between the valuer and the auditors would be critical to avoid any surprised delay in the audit process especially with respect to the categorisation of the input hierarchy.

## SPEAKERS AND PAPERS

### PowerPoint

HKIS General Practice Division Valuation Conference 2014 -  
Valuation Practice in Hong Kong

***Level 2 or 3 - What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes***

28 June 2014

**Application of Fair Value Hierarchy to Investment Property**

***Nova Chan***



### ***Nova Chan, Partner***



+86 (21) 2323 2501  
nova.chan@cn.pwc.com

Nova is a Deals partner and leads the valuation practices in PwC China. He has followed through the entire deal cycle and accumulated extensive experience in M&A advisory, due diligence, modelling, valuations, negotiation, post deal integration and divestiture. He serves clients making investments into China, corporates and joint ventures operating in China as well as Chinese enterprises making outbound investments.

He served as a member of the International Valuation Standards Council's (IVSC) Standards Board from 2008 to 2012 and currently is a member of both Global and Asia Business Valuation Committees for the Royal Institute of Chartered Surveyors (RICS). He has served as a member of the Valuation Standards Technical Committee in China for more than a decade and has deeply involved in drafting the Chinese Valuation Standards since 1998. He has involved in many milestone research studies on topics including business valuation, intangible valuation and fair value measurements, and drafting of national text books and training materials.

Nova received a BBA (1st Honour) degree from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA), a fellow member (FCCA) of Association of Chartered Certified Accountants (ACCA), and the first and only non-Mainland China resident who has gained a Chinese Certified Public Valuer (CPV) title.

# SPEAKERS AND PAPERS

## Section 1 *Fair Value Measurements*

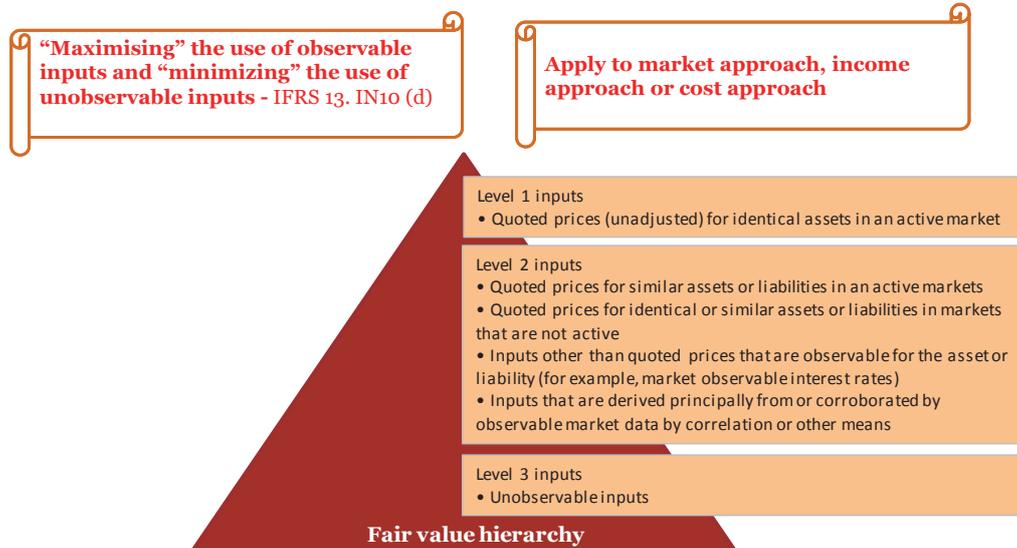
Level 2 or 3 - What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes  
 • Application of Fair Value Hierarchy to Investment Property  
 PwC

28 June 2014  
 1

Section 1 – Fair Value Measurements

### 1.1 Fair Value Hierarchy

Fair value measurements are categorised into a three-level hierarchy based on the type of **“inputs”** and no longer based on the valuation **“methods”**.



Level 2 or 3 - What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes  
 • Application of Fair Value Hierarchy to Investment Property  
 PwC

28 June 2014  
 2

## SPEAKERS AND PAPERS

Section 1 – Fair Value Measurements

### 1.2 Disclosure Requirements

FV measurements	Disclosure requirements
All	<ul style="list-style-type: none"> <li>Fair value measurement at the end of the reporting period</li> <li>Level of the fair value hierarchy</li> </ul>
All non-recurring	<ul style="list-style-type: none"> <li>The reason for the measurement</li> </ul>
All recurring	<ul style="list-style-type: none"> <li>Amounts of transfers between Level 1,2 and 3</li> <li>The entity's policy for determining when transfers between levels are deemed to have occurred</li> </ul>
Level 1	<ul style="list-style-type: none"> <li>Transfers from and into Level 1</li> </ul>
Level 2	<ul style="list-style-type: none"> <li>Description of the valuation techniques(s) and the inputs used in the fair value measurement</li> <li>Changes in valuation techniques and reasons for making those changes</li> </ul>
Level 3	<ul style="list-style-type: none"> <li>Description of the valuation techniques(s) and the inputs used in the fair value measurement</li> <li>Changes in valuation techniques and reasons for making those changes</li> <li>Quantitative information about the significant unobservable inputs used in the fair value measurement if reasonably available</li> <li>Description of valuation processes, policies and procedures</li> <li>If the highest and best use differs from its current use, an entity should disclose the fact and why the non-financial asset is being used in a manner that differs from its highest and best use</li> <li>Narrative description of sensitivity of the fair value measurement to significant changes in unobservable inputs (recurring only)</li> </ul>

Source: IFRS 13 and PwC

Level 2 or 3 - What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes  
 • Application of Fair Value Hierarchy to Investment Property  
 PwC

28 June 2014  
 3

Section 1 – Fair Value Measurements

### 1.3 Typical Inputs for Investment Property Valuation

Only Level 2 and 3 inputs are applicable with the **vast majority being Level 3**, which requires the most extensive level of disclosure

Level	Examples
2	<ul style="list-style-type: none"> <li>Sale prices per sqm for similar properties in similar locations</li> <li>Observable market rent per sqm for similar flats</li> <li>Property yields derived from latest transactions</li> </ul>
3	<ul style="list-style-type: none"> <li>Yields based on the management estimation</li> <li>Significant yield adjustments based on management's assumptions about uncertainty/risk</li> <li>Assumptions about future development of parameters (vacancy, rent) that are derived from the market</li> <li>Cash flow forecast using the entity's own data</li> <li>Market rent with significant adjustment</li> </ul>
<b>For Investment Property Under Construction (IPUC)</b>	
	<ul style="list-style-type: none"> <li>Estimated construction costs to complete</li> <li>Developer's profit</li> <li>Risk margin/contingency</li> <li>Finance costs</li> </ul>

Source: Application of fair value hierarchy to real estate (HKICPA A Plus, January 2014) and PwC

Level 2 or 3 - What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes  
 • Application of Fair Value Hierarchy to Investment Property  
 PwC

28 June 2014  
 4

## SPEAKERS AND PAPERS

## Section 2

### *Level 2 or Level 3 – Practical Challenges*

Level 2 or 3 - What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes  
 • Application of Fair Value Hierarchy to Investment Property  
 PwC

28 June 2014  
 5

Section 2 – Level 2 or Level 3 – Practical Challenges

#### 2. Level 2 or Level 3 – Practical Challenges

##### Professional judgment (IFRS 13.73)

- The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the “**lowest level**” input that is “**significant**” to the entire measurement.

##### Level 3 disclosure

- Level of details required vs. confidentiality

##### Not fully familiar with accounting requirements

- Management or its expert

##### May become a last minute surprise

- Communication is critical

Level 2 or 3 - What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes  
 • Application of Fair Value Hierarchy to Investment Property  
 PwC

28 June 2014  
 6

# SPEAKERS AND PAPERS

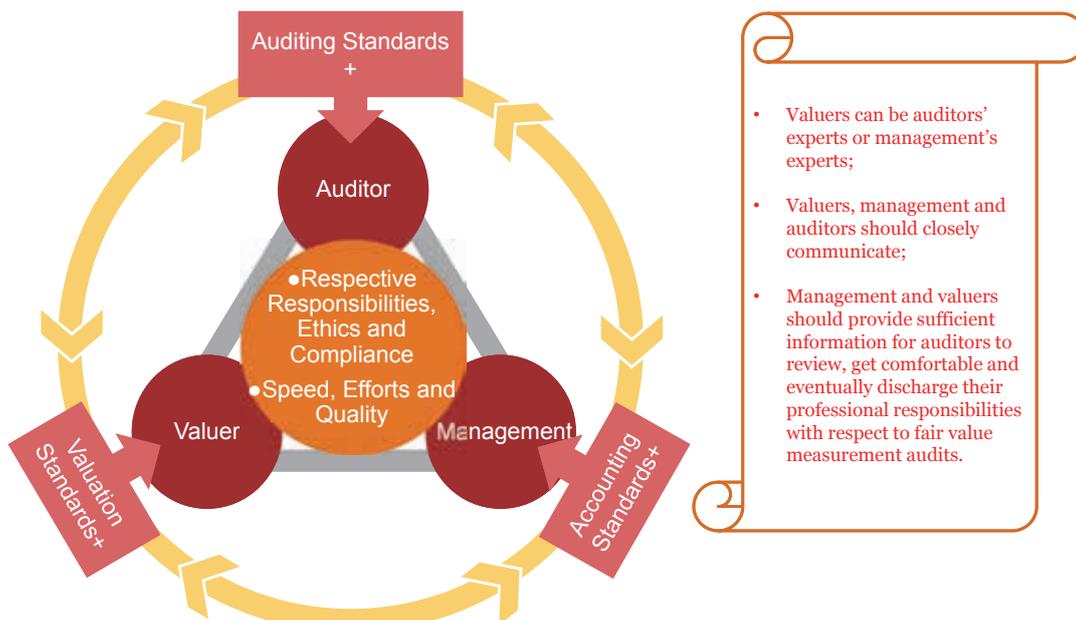
## Section 3 *Communication between Valuers and Auditors*

Level 2 or 3 - What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes  
• Application of Fair Value Hierarchy to Investment Property  
PwC

28 June 2014  
7

Section 3 – Communication between Valuers and Auditors

### 3.1 Three Dimensional Interaction



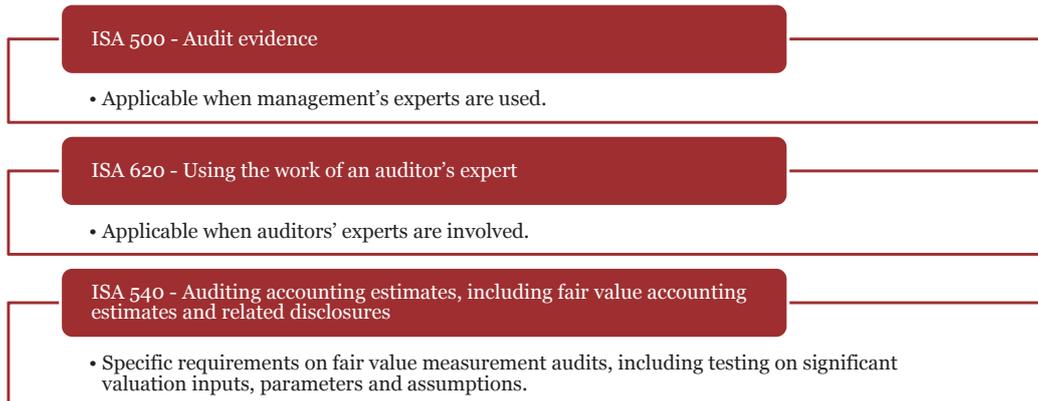
Level 2 or 3 - What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes  
• Application of Fair Value Hierarchy to Investment Property  
PwC

28 June 2014  
8

# SPEAKERS AND PAPERS

Section 3 – Communication between Valuers and Auditors

## 3.2 Mutual Understanding and Interaction



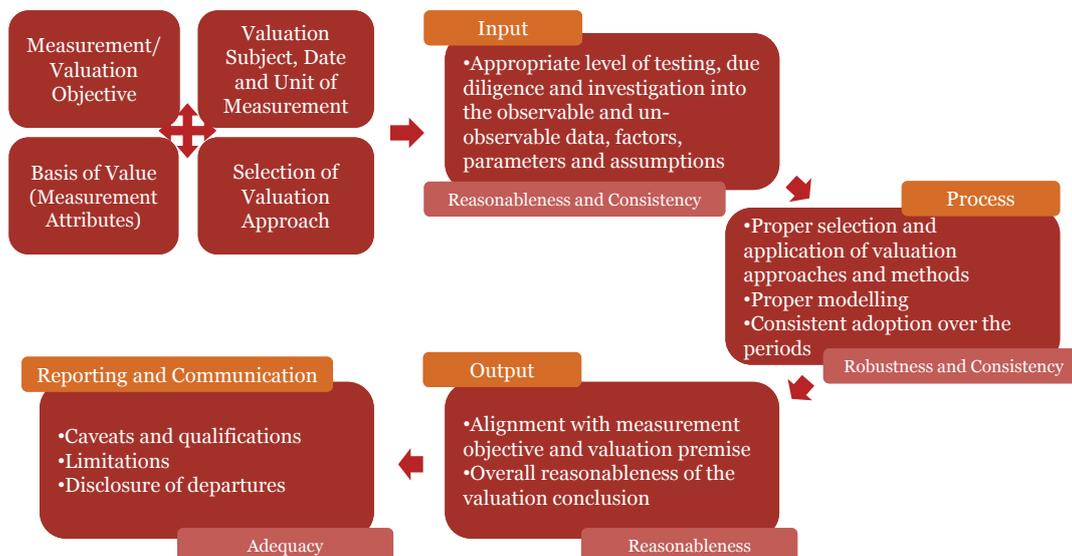
Further guidance can be found in the **IVSC Paper – “A Guide to the Audit Process for Professional Valuers”** as well as IVS 101 and IVS 300.

Level 2 or 3 - What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes  
 • Application of Fair Value Hierarchy to Investment Property  
 PwC

28 June 2014  
 9

Section 3 – Communication between Valuers and Auditors

## 3.3 Reasonableness, Robustness, Consistency and Adequacy



Level 2 or 3 - What Does It Mean for Valuers and Appraisers Engaging in Valuations for Financial Reporting Purposes  
 • Application of Fair Value Hierarchy to Investment Property  
 PwC

28 June 2014  
 10

## SPEAKERS AND PAPERS



**Sr LAU Chun Kong**  
International Director  
Jones Lang LaSalle

### ■ BIOGRAPHY

#### **Current responsibilities**

Mr. Lau is a chartered surveyor with over 27 years' property experience in Hong Kong, the PRC and the Asian region. He is the Head of the Valuation Advisory Services Department of Jones Lang LaSalle Hong Kong and is an International Director of the firm with responsibility for the Asia valuation and advisory business.

#### **Professional experience**

His main valuation, consultancy and sales experience include:

- Portfolio valuations
- Valuation due diligence services
- Litigation valuation advice and expert witness
- Government lease modification application and premium negotiations
- Development Consultancy
- REIT property advice
- Investment and development sites sales

#### **Education and affiliations**

Mr. Lau graduated from the Hong Kong Polytechnic University in 1986 with a Professional Diploma in Estate Management. He has also received a Master of Arts Degree from The Chinese University of Hong Kong in 2008. He is active in the activities in the Hong Kong Institute of Surveyors ("HKIS") and the Royal Institution of Chartered Surveyors ("RICS") in Hong Kong. He is also a member of the following organisations/committee: Estate Agents Authority, Surveyors Registration Board, the Land and Development Advisory Committee, Administrative Appeals Board and Harbourfront Commission.

### **Expert Determination and Arbitration**

#### **Abstract**

Independent expert determination and arbitration are commonly adopted methods for dispute resolution. These two methods can be found in Hong Kong for the determination of rental values and capital values of property interests.

In the private property market, independent expert determination has been more often used than arbitration. The government has decided to introduce a Pilot Scheme for land premium assessment by arbitration rather than by independent expert determination. Given the very significant lump sum of public money being involved in land premium assessments, how such arbitration should be implemented has attracted a lot of attention and feedback from the community.

Independent expert determination and arbitration has its own merits and characteristics respectively. The selection and appointment of the independent valuation expert or arbitrator (s) could be the most challenging part of the process. Independent experts are not bound by the representations and rebuttals submitted to him, whilst arbitrators will rely upon the submissions and particularly the evidence presented by the parties. The independent valuation determination could be with or without reasons subject to the terms of the contract between the two parties or the instruction to the independent valuation expert. A good understanding of these considerations would facilitate the interested parties in their choice of relevant method and terms of the contract to suit their needs.

## SPEAKERS AND PAPERS

### Paper

Independent expert determination and arbitration are commonly adopted methods for dispute resolution in the Hong Kong property market. The subject matters to be determined could relate to rental values in rent review and lease renewals and capital values of property interests in joint venture projects. In January this year, the Chief Executive of the HK SAR Government announced that a Pilot Scheme will be implemented to determine land premium in lease modification cases by means of arbitration. This paper will look at recent developments and examples in the market.

### 1. Prevalence of Expert Determination in the Private Market

The choice of the method would be dictated by the contract made between the parties. In the private market, expert determination has been more frequently used than arbitration. The method of expert determination should be quick and inexpensive as it would normally be without the delay and expenses associated with legal process. The results of the determination would be binding and could be kept private. Arbitration is often thought as a kind of litigation. Arbitration Ordinance applies to arbitration under an arbitration agreement if the place of arbitration is in Hong Kong.

The number of appointments of independent valuation experts and arbitrators made by President of Hong Kong Institute of Surveyors (“HKIS”) could probably be the best indicator of which method is more preferred in the property market. There were a total of 88 appointments made by the President in the three years period from 2007 to 2009. There were a total of 80 appointments for independent valuation experts (i.e. over 90%) and only 8 were for arbitrators.

Expert determination is also seen as the prevailing method for dispute resolution in a sample of tenancies registered in the Land Registry. Five tenancies have been selected for the study and the related premises are located in five different shopping centre and office developments including APM, Harbour City, IFC II, Landmark Atrium and Pacific Place. Expert determination method has been adopted in four tenancies, with one of these tenancies allows the landlord to elect for arbitration before the appointment of the valuer. Only one of the tenancies adopts the arbitration method.

A recent example in a property development joint venture also has made use of independent expert as the method to resolve dispute of property interest value. A joint venture was formed between New World Development Company Limited and Vanke Property (Overseas) Limited to develop a project known as West Rail Tsuen Wan West Station TW6. The subject matter relates to the grant of default call right. If the parties fail to reach an agreement on the fair market value of the defaulting party's interest in the joint venture, then such fair market value shall be determined by an independent expert.

### 2. Selection and Appointment of Valuation Expert/Arbitrator

The matters addressed in the dispute resolution clauses of the above-mentioned five tenancies should provide good indication of the market practice in Hong Kong. Some of the matters covered in these tenancies include:

- Issue(s) to be determined: market rental and fair market value
- Qualifications for the Expert Determiner
- The method of selection and/or appointment of the Determiner
- The Determination will be binding and final
- Reasoned Determination
- The payment of the Expert's fees and expenses
- Parties' costs
- Timing

## SPEAKERS AND PAPERS

The selection and appointment of the valuation expert/arbitrator could be the most challenging part of the process. In all these tenancies, failing agreement between the landlord and the tenant, the appointment/nomination of the valuation expert/arbitrator is to be made by the President of the HKIS.

The HKIS in 2011 published a guide to users who wish to make use of the services of the HKIS for such appointment. The publication is known as "Practical Guide for the Application to the President of the Hong Kong Institute of Surveyors for the Appointment of an Independent Valuation Expert" ("Practical Guide") and it is available on the HKIS website.

The Practical Guide provides that upon receiving relevant application with administration fee, the President of HKIS will select a proposed appointee from the List of Independent Valuers, seek for the confirmation from the proposed appointee of eligibility to act and consider the objections made with reasons, if any, by the parties. The President would then be able to make the appointment or propose another appointee as appropriate. The valuation expert should settle the fee and terms of engagement with the parties before he commence the expert determination. However, the appointment could stop then if the fee and terms of engagement could not be agreed or that the dispute had been settled. The appointed expert could not then seek for the fee for the abortive work from the parties.

A modified process has been proposed in "Guidance Notes of Surveyors acting as experts in commercial rent review determinations (Hong Kong)" ("Guidance Notes") which is jointly prepared by the HKIS and the Royal Institution of Chartered Surveyors (Hong Kong) ("RICS (HK)") and is intended to be published within this year. The appointment of the valuation expert by the relevant appointment authority will be expressed to be subject to a condition precedent of receipt of relevant undertakings for payment of the fee to the valuation expert. If no undertaking is received, the appointment does not take effect. With this procedure in place, this should improve the efficiency in the appointment process.

### **3. Submissions, Representations and Reasons**

Whilst the independent expert determination process could include submission of expert reports (by both parties) and rebuttal(s), the independent valuation expert is not bound by the representations and rebuttals submitted to him. The valuation expert can exercise his own discretion to take into account or reject these representation and rebuttals. Out of the four tenancies which have the expert determination as the method of dispute resolution or the prevailing method, only two have covered matters on representations, whilst the other two are silent on this point.

In arbitration, the arbitrator will rely upon the submissions and particularly evidence presented by the parties.

The independent valuation determination could be with or without reasons subject to the terms of the contract between the two parties or the instruction to the independent valuation expert. The default position would be for determination without setting out reasons. Out of the above mentioned four tenancies, only one has specified the written decision is to be made with reasons and within certain time frame.

## SPEAKERS AND PAPERS

### 4. Pilot Scheme for Arbitration on Land Premium

The government has decided to make use of arbitration rather than expert determination for disputes in relation to land premium assessment. Land premium involve public money and could be very large in terms of lump sum. How such arbitration should be implemented has attracted a lot of attention and feedback from the community including concerns on fairness, conflicts of interests, and any post-award interests available to arbitrators.

The HKIS welcomes this new government initiative and has submitted suggestions to the Director of Lands in its letter dated 22 April 2014. The suggestions include the arbitration mechanism, arbitration agreement between the government and the landowner, basis of arbitration, timing to complete the arbitration and composition of the arbitration panel including one expert member who shall be a corporate member (General Practice Division) of the HKIS.

The above discussion of how submissions, rebuttals and evidence are handled differently in the two dispute resolution methods should be a major reason for the choice of arbitration rather than independent valuation in the Pilot Scheme.

### 5. Limitation of Liability

For independent valuation expert, they could be liable for negligence. It is also common these days for valuers to limit their liability in their contracts with clients for valuation services. The to-be-published Guidance Notes also provides that the appointed valuers would need to hold an appropriate level of professional indemnity cover.

As provided in the Arbitration Ordinance, in the exercise or performance of the arbitral functions, an arbitrator is liable in law for an act done or omitted to be done only if it is proved that the act was done or omitted to be done dishonestly.

### 6. Conclusion

Both methods of expert determination and arbitration are used in the Hong Kong property market. Expert determination is more commonly used in rental disputes. Independent experts are not bound by the representations and rebuttals submitted to him, whilst arbitrators will rely upon the submissions and particularly the evidence presented by the parties. The contract could also include different terms and conditions for the dispute resolution mechanism including inter alia qualification requirements of the expert/arbitrator, the appointment process, the determination with or without reasons, etc. A good understanding of the market practice and the different terms and conditions would be useful to interested parties who might require such dispute resolution services.

## SPEAKERS AND PAPERS



### **Sr CHAN Chiu Kwok, Charles**

Managing Director

Savills Valuation and Professional Services Limited

#### ■ **BIOGRAPHY**

Charles Chan is a member of General Practice Divisional Council, HKIS and the Managing Director of Savills Valuation and Professional Services Limited. He is responsible for overseeing a professional team of over 100 staff in Greater China 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.

### **Valuation under Land (Compulsory Sale for Redevelopment) Ordinance**

#### **Abstract**

Since the Land (Compulsory Sale for Redevelopment) Ordinance came into effect in 1999, the urban renewal arena has undergone fundamental changes, with thousands of people experiencing great improvements in their living environment once their homes were acquired by developers for site amalgamation.

Of all the applications for order for sale under the Ordinance, about two-thirds of cases were settled before trial by the Lands Tribunal. Of the remaining one-third of cases, over half relate to missing minority owners or title problems. The trial of such cases is only a procedural requirement, and in most instances, the remaining small number of cases requiring hot debate during trial are focused on valuation issues.

The views of the developer and the minority owner often diverge widely in terms of the existing use value of the minority owner's unit as well as the redevelopment value. The assessment of values is required under the Ordinance, which specifies the basis of such valuations. However, this does not prevent the valuers acting for the developer and the minority owner respectively presenting different opinions on how such valuations are prepared. In my presentation, I shall illustrate the principles of valuation under the Ordinance with a number of precedent cases.

## SPEAKERS AND PAPERS



### **Sr Augustine WONG Ho Ming, JP**

Executive Director  
Henderson Land Development Company Limited

#### **■ BIOGRAPHY**

After graduating from the then Hong Kong Polytechnic studying General Practice Surveying, Mr. Augustine WONG Ho Ming joined a leading real estate consultancy firm and was handling valuation of properties. He joined Henderson Land Group in November, 1996 and was appointed as the Executive Director of Henderson Land Development Company Limited in 2010. His main duties include acquisition of development sites by private negotiation, public auction and public tender, negotiation with the government on conversion of agricultural land to building land and town planning applications.

He is Fellow of The Hong Kong Institute of Surveyors, as well as a registered professional general practice surveyor and holds a Master Degree of Science in E-Commerce for Executives and a Master Degree of Economics.

He is currently Member of The Appeal Board on Public Meetings and Processions, Member of The Real Estate Services Training Board of Vocational Training Council, Convenor of The Legal Subcommittee of The Real Estate Developers Association of Hong Kong and Member of the Departmental Advisory Committee of The Building and Real Estate Department of The Hong Kong Polytechnic University. He was Member of The Long Term Housing Strategy Steering Committee, Member of The Hong Kong Housing Authority and its Commercial Properties Committee and Subsidised Housing Committee, Member of The Land and Building Advisory Committee, Member of The Estate Agents Authority since its establishment in 1997 as well as The Chairman of The Licencing & Practice Committee, Part-Time Member of The Central Policy Unit and Member of Commission on Strategic Development Committee On Economic Development And Economic Cooperation With The Mainland, Member of Estate Agents Appeal Board.

### **Valuation: Perspective of a Client**

#### **Abstract**

When a client wants to obtain a valuation, there must be a purpose. It may be for accounting, disposal, or other statutory purposes. Moreover, there are different types of clients. Some of them are really layman while some of them are experts in the field.

A lay client depends very much on a valuer and may not be able to understand the methodologies adopted. The burden of a valuer will be very great and must understand clearly the purpose of the valuation. This is not an easy job. Taking a small site adjacent to a large parcel of land owned by a developer pending development as an example. The value of the small site varies very much depending on whether special bid from the adjacent developer can be taken into account. In such case, simply stating the assumptions in the report may not be sufficient. One can see the difficulties in advising the lay client for disposal in such case.

If the client is also an expert in the field, such as a developer in Cap 545 case, the job of the valuer is also not easy. On one hand, a valuer must act fairly and reasonably because he will be an expert witness in the coming court hearing. On the other hand, the client may like to provide the valuer with ideas on various areas such as development potential. To what extent a valuer can take into consideration of client's opinion is a controversial issue.

Moreover, clients have expectations, rightly or wrongly, on the range of expertise possessed by valuers. Are valuers having reasonable and enough knowledge to carry out the jobs properly nowadays? Valuer is an expert in carrying out valuation but not necessary expert in every aspect. To carry out a job properly, a team work involving different experts is necessary.

## SPEAKERS AND PAPERS

### Paper

Valuation is an interesting topic. The first thing I learned in the first lecture of valuation in the college was “Valuation is an art”. Honestly I didn’t quite understand at that time. If valuation is an art, why should we spend so much time to learn about different valuation techniques such as residual method, discounted cash flow, year purchase, etc. Then when I had my first internship in the government, the first thing I learned from my colleagues about valuation was “Valuation is a matter of seniority”. This time, I could understand immediately for obvious reason. After more than 30 years in the field, I would like to share my observations on these two statements.

Valuation requires a lot of technical, legal, economic and mathematical knowledge. Taking valuation of a development site as an example, a valuer should understand legislations relating to development control, economic situations such as the trend of interest rate, market knowledge on sale prices and rentals; as well as the mathematical model for assessing the value of the site. All these are strictly speaking science subjects and can be handled by computer models with correct inputs. However, apart from simple valuations, most cases are still handled by human beings. There must be a good reason for that. I think it is because of judgement. Judgement on the economic forecasts; judgement on appropriate unit rates on sale price or rentals; judgement on rates of return; judgement on the future of the market and judgement on government policies, are all important factors for a right assessment of market value. Different people has different feelings on these factors and it explains why there may be wide diversity in market value between different valuers. What we, as clients, expect from a valuer is the ability to make reasonably correct judgements and to apply these in valuation. Since judgement is quite personal and thus valuation can be argued as an art.

Following on that, ability to make reasonable judgement is so important for a valuer. However, sometimes, clients may find valuers relying too much on mathematical model and with less emphasis on judgement. For example, in deciding the sale price of the completed project for a residual valuation, one may just adopt the latest sale price of similar project and how the market likely to perform in the coming future is not duly reflected in the model. Obviously, the end product of the valuation, i.e. market value of the site, will be quite different if the market is expected to go up or to go down in the near future. Similarly, after carrying out a valuation by employing one method, a valuer should sit back and look at the end figure to see whether it is reasonable based on market sense. A valuer is different from an ordinary person not just because of technical knowledge but the strong market sense. In this regard, let’s look at a case of a recently fully fitted out hospital ready to open for business shortly. Since hospital is a special property, a valuer may approach it on going concern basis. Nevertheless, it is still not yet opened for business and no income has been generated. According to the model, with no income, the value should be nil. Logically a valuer should not stop at this juncture and should either make reasonable assumptions after consulting client on budgets or forecasts or switch to other methods such as contractor’s basis.

Another example is assessing the market value of a small site adjacent to a large development site owned by a leading developer. This is a difficult job for a valuer and is almost a nightmare for a valuer. If the small site is developed on its own, the value will be much lower than as part of a large site after merging with the adjacent site. What basis a valuer should adopt: based on a standalone small site; part of a large site assuming the adjacent developer will pay for its full development potential; the average of the aforesaid basis. I must admit that I don’t have a perfect answer or there is a scientific method to determine the figure in general. In such case the judgement of a valuer is very important. Moreover, a valuer must be clear on the purpose of the valuation. If it is to fix the reserve price for disposal of the small site, it is important to explain clearly the situations to the client and the client need to make a commercial decision based on own considerations. If the purpose is assessing compensation for resumption of land, a valuer must make a reasonable assumption which can be supported by evidence on the possibility of merging with adjacent site. It is a matter of evidence and market sense.

## SPEAKERS AND PAPERS

Turning to another statement, it is common but does not sound very nice. I think it just reflects the general situation that a person in a more senior position should have more experience in the field. Thus if there is a difference in opinion, the one with more experience should prevail. However, it comes to a question that to what extent a valuer should follow the opinion of other people. Although a valuer is himself an expert and should act independently, he is not an expert in every area relating to real estate industry. For example, a valuer should have knowledge in legislations relation to development control but for the application of Buildings Ordinance, a building surveyor or an architect is more experienced and better qualified than a general practice surveyor. Logically, in such case, the opinion of other experts such as a building surveyor or an architect is more valuable. I would think that in such case, a valuer should have his personal view but be open to accept advice from other experts. If he can be convinced, it is no problem to adopt third party opinion in his valuation. However, if he is not convinced or the matter is too complicated, he may state the fact that this is the opinion of another expert. Then it will be the obligation of other experts to explain to other people or the court. What shouldn't happen is that the valuer forms his own view on one thing and refuse to change his mind just because he doesn't understand the matters completely. As a client, such valuer is the most problematic and adversely affects the image of a valuer. No one expect an expert knows everything but he need to understand the problem.

The next question is what expertise a valuer should have. A lot of technical areas such as development control, law, economics etc. have been mentioned. But I think valuation is the tool to consolidate all these together in order to give the value of an interest in a property. Nevertheless valuation may be considered by most students as a boring subject. To some extent, I agree with it. In particular when I was studying in the college. However, after working for many years, I am afraid I was wrong. On one hand it may be boring but on the other hand fundamentals of valuation are very useful in daily working life. Probably because of that, nowadays in the colleges, valuation is quite commonly taught through projects with emphasis on its application. As the result students may not have good understanding on the basic theories and the underlying philosophy. This phenomenon is more obvious in statutory valuations when a lot of legal cases are involved.

From a client's point of view, there must be a purpose in obtaining a valuation of a property. What a client expects to get from a professional valuer is a valuation which can be substantiated reasonably and convincingly. A valuer should have reasonable knowledge on various technical areas and able to understand advice from other experts. The purpose of the valuation will have impact on how the valuation is presented and what caveats should be stated.

## MODERATORS



### **Sr WAN Wai Ming, Tony**

Council Member, General Practice Division  
The Hong Kong Institute of Surveyors

Tony is a qualified general practice surveyor and has become the professional member of the Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors since 1998. Tony worked for both private and public sectors in the past 19 years. Recently, he has joined one of the largest charitable organisation in Hong Kong acting as its head of property division. His daily duties include but not limited to managing the entire property portfolio and overseeing various development/asset enhancement projects of the organisations. Before this position, Tony was the head of several departments of an international surveying firm supervising valuation, tenancy management, land consultancy and sale and letting business of the firm.



### **Sr HO Chi Choi, Joseph**

Chairman, General Practice Division  
The Hong Kong Institute of Surveyors

Joseph is Fellow of the Hong Kong Institute of Surveyors (HKIS), Fellow of the Royal Institution of Chartered Surveyors, Registered Professional Surveyor of HKSAR (General Practice) (Property and Facility Management), Member of The Hong Kong Institute of Housing, the PRC Registered Real Estate Appraiser, Member of The Canadian Institute of Mining, Metallurgy and Petroleum and Full Member of the Association for Project Management in the United Kingdom.

Joseph has broad experience in the field of asset (tangible and intangible) valuations and advisory in Hong Kong, Macau, Taiwan, mainland China, the Philippines, Vietnam, Mongolia, Malaysia, Singapore, Thailand, Bangladesh, Japan, Australia, Kazakhstan, Madagascar, Mongolia, Scotland, Finland, France, Germany, Poland, Brazil, Argentina, Guyana, Venezuela, Canada and the United States of America for various purposes since 1988.

He is the Chairman of the General Practice Division Council (2013-2015), the General Practice Division Council Members since 2005, Member of the HKIS Project Management Committee, Convenor of the HKIS Land Premium Arbitration Pilot Scheme Task Force and Honorary Secretary of the Hong Kong Business Valuation Forum. He has been responsible for drafting the various HKIS Valuation Standards adopted by the HKIS, and the Business Valuation Standards adopted by the Hong Kong Business Valuation Forum since 2004.



### **Sr CHIU Kam-kuen**

Vice Chairman, General Practice Division  
The Hong Kong Institute of Surveyors

K K CHIU is Fellow Member of both Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors. He is also the Fellow of Hong Kong Institute of Facility Management and the member of China Institute of Real Estate Appraisers.

He is now the International Director and the Head of Valuation and Advisory Services, Asia Pacific of DTZ Debenham Tie Leung Limited. K K has been working in valuation and appraisal profession for about 30 years.

K K is the representative of Hong Kong Institute of Surveyors to serve as a Board Member of International Valuation Standards Committee between 2005 and 2008 and has been the member of Advisory Forum of International Valuation Standards Council since 2009. KK has assisted for global valuation standards settings for over 10 years.

K K is also the Council Member of Hong Kong Institute of Surveyors and China Institute of Real Estate Appraisers.

## ACKNOWLEDGEMENT

### Platinum Sponsors

Henderson Land Development Co Ltd  
Jones Lang LaSalle Limited  
Knight Frank  
Savills Valuation and Professional Services Limited

### Gold Sponsors

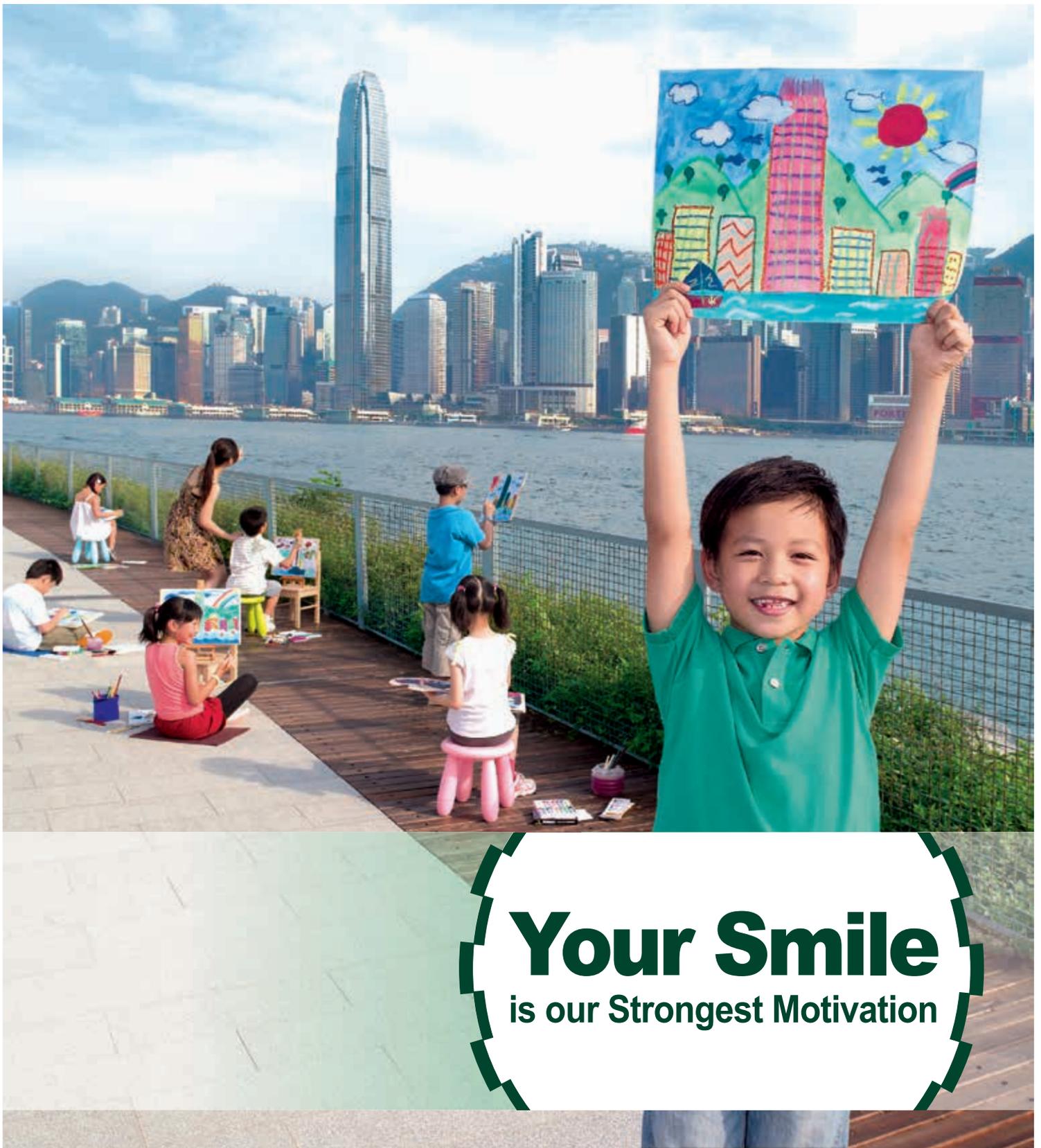
Freevision Limited  
Rykadan Capital

### Silver Sponsors

Ample Surveyor Services Limited  
Cushman & Wakefield Valuation Advisory Services (HK) Limited  
DTZ  
Hanison Project Management Limited  
LCH (Asia-Pacific) Surveyors Limited  
New World Development Company Limited  
RHL Appraisal Ltd

### Bronze Sponsors

Albert So Surveyors Ltd  
Analogue Group of Companies  
Gaw Capital  
Hong Kong Housing Society  
K. Wah Real Estates Co., Ltd  
Lanbase Surveyors Limited  
Land Marker (1980) HK Co Ltd  
Langdon & Seah Hong Kong Limited  
Lawson David & Sung Surveyors Ltd  
Pamfleet Group  
Sino Group



**Your Smile**  
is our Strongest Motivation



恒基兆業地產集團  
HENDERSON LAND GROUP

Henderson Land is committed to excellence not only in business, but also in building a better future for all, for a healthier and more harmonious community. We will continue our efforts in supporting education and sports development, promoting arts and culture and in the education of environmental protection. Because the satisfaction of our customers, our stakeholders, business partners and the well-being of the community at large is our most gratifying reward.

Your smile is our strongest motivation.



*A world of value  
in every square.*

To deliver exceptional value, we look at your real estate needs from every angle.

Combining in-depth local knowledge with far-reaching global insights, our teams find the real estate opportunity that's right for you. Down to the last square meter.

[jll.com.hk](http://jll.com.hk)

Tel +852 2846 5000 • [hongkongmarketing@ap.jll.com](mailto:hongkongmarketing@ap.jll.com)



# GLOBAL PRESENCE LOCAL EXPERTISE

OVER 335 OFFICES  
IN 52 COUNTRIES  
WITH OVER 12,000 PROPERTY PROFESSIONALS



[KnightFrank.com.hk](http://KnightFrank.com.hk)

+852 2840 1177

[info@hk.knightfrank.com](mailto:info@hk.knightfrank.com)



Knight Frank Petty Limited EAA Lic No C-010431  
Knight Frank Hong Kong Limited EAA Lic No C-013197  
Knight Frank (Services) Limited EAA Lic No C-012848

# CONGRATULATIONS

## Savills China

granted

**Grade 1 Qualification in  
Real Estate Valuation**

**房地產評估一級資質**

and

**Nationwide Qualification in  
Land Valuation**

**全國範圍土地評估資質**

*China's real estate market is developing rapidly, and the gap between China and mature international markets is narrowing alongside more sophisticated demands. Clients are looking for a reliable adviser which has both local and international qualifications.*

*Charles Chan  
Managing Director of Valuation and  
Professional Services, Savills*



### ABOUT THE QUALIFICATIONS

The qualifications are granted by the Ministry of Housing and Urban-Rural Development and the Ministry of Land and Resources. They are the highest qualifications in the valuation industry and signify that valuation reports issued by the holder are recognised by government authorities and financial institutions.

### ABOUT US

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth. It is a company which leads rather than follows and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

**savills**  
第一太平戴維斯

Established in 2005, possess a dedicated professional team comprising authorized persons, qualified building surveyors, designers and architect to deliver personalized and innovative solutions to our clients.

building surveyors - authorized person

**FREEVISION LIMITED**

富匯測量師有限公司



authorized person services  
building survey  
building consultancy  
development advice  
license consultancy  
project management  
planning and land advice  
building disputes resolution  
architectural & interior design

Unit B, 9/F, Tower B, Billion Centre, 1 Wang Kwong Road, Kowloon Tel 35792818 Fax 35792788 www.freevision.com.hk



*With Compliments of*



**Rykadan Capital Limited**

**宏基資本有限公司**

A Real Estate Development and Investment Company

27/F & 28/F, Rykadan Capital Tower, 135 Hoi Bun Road, Kwun Tong, Kowloon

九龍觀塘海濱道 135 號宏基資本大廈 27 及 28 樓

Tel: 3950 1800

Fax: 2547 0108

website: [www.rykadan.com](http://www.rykadan.com) stock code: 2288.HK

ample

SURVEYOR SERVICES LIMITED  
安普測量顧問有限公司

Planning  
Design  
Project Management  
Government Submission  
Survey  
Expert Witness  
BEAM

We deliver  
advice  
to owners and  
occupiers of real  
estate around  
the world

250 offices  
60 countries  
16,000 employees

[www.cushmanwakefield.com](http://www.cushmanwakefield.com)

CUSHMAN & WAKEFIELD 高緯環球



We work harder to get better results for you  
no matter where you want to go.

DTZ  
a UGL company

DTZ stands out for many reasons. Our unrivaled collaboration and unwavering commitment to everyday excellence makes us a global leader in property services. To see how big a difference we can make for your business, visit [dtz.com](http://dtz.com).

Investment & Advisory | Consulting | Global Corporate Services | Office Agency | Retail Services  
Valuation & Advisory | Property & Facilities Management | Project & Building Consultancy | Research

Designed  
for life



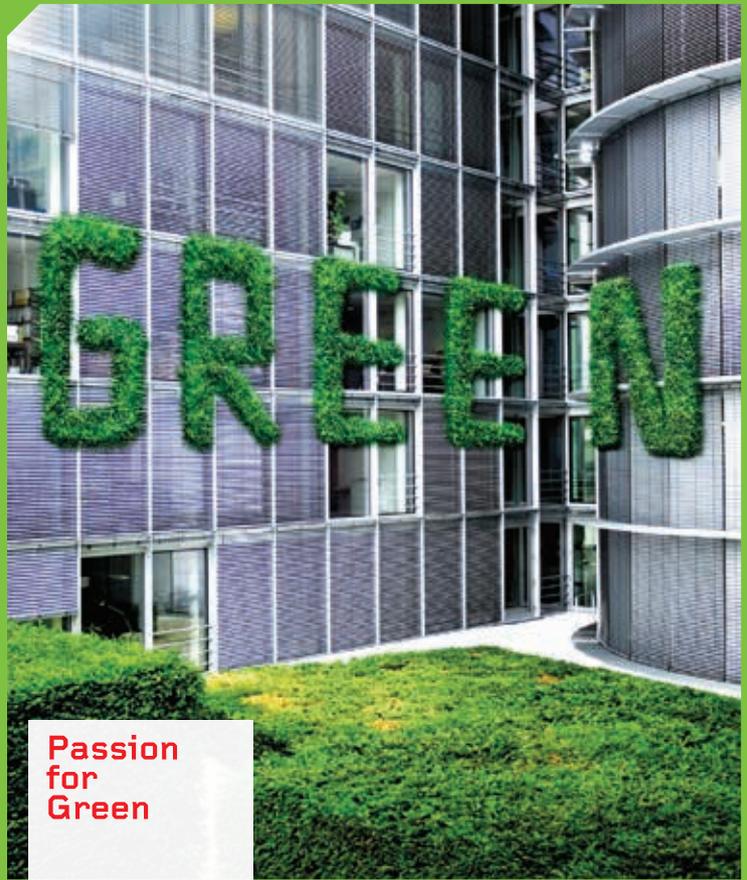
香港新界沙田源順圍5-7號  
沙田工業中心B座4樓1室  
Unit 1, 4/F, Bldg B, Shatin Ind. Centre,  
5-7 Yuen Shun Circuit, Shatin, N.T.,  
Hong Kong  
Tel: (852) 2414 3889  
Fax: (852) 2635 9669  
[www.hanison.com](http://www.hanison.com)

HANISON GROUP 興勝創建



利駿行測量師有限公司  
LCH (Asia-Pacific) Surveyors Limited

紮根香港  
放眼世界



Passion  
for  
Green

新世界發展有限公司  
New World Development Company Limited  
www.nwd.com.hk

革新建築 擁抱自然

最新建築理念，讓乎人類與環境的和諧。新世界所追求的，不單是表面的綠化，更是人類與自然環境的可持續互動。藉著低耗電設計、循環再用物料、從能源規劃開始，我們令都市生活與自然生態，和諧共存。

RHL Appraisal Limited is committed to provide responsive corporate valuation and advisory services through a team of valuation experts with diversified knowledge and professional designations in accounting, finance, financial engineering, law and real estate.



With  
Compliments  
致意

永利行評值顧問有限公司的評值團隊，由擁有會計、財務、金融工程、法律及房地產範疇專業知識及履歷的成員組成，致力為客戶提供及時及有效的服務。



Bronze Sponsors



ALBERT SO SURVEYORS LTD.



ANALOGUE GROUP OF COMPANIES  
安樂工程集團

基滙資本



GAW CAPITAL



HONG KONG  
HOUSING SOCIETY  
香港房屋協會



嘉華地產有限公司  
K. WAH REAL ESTATES CO., LTD.

宏基測量師行



Surveyors Limited



Land Marker (1980) HK. Co. Ltd.  
標誌測量 (1980) 香港有限公司

LangdonSeah  
威寧謝

AN ARCADIS COMPANY



羅迅測計師行  
Lawson David & Sung

SURVEYORS LIMITED

Property Consultants • Planning • Valuers • Auctioneers  
Estate Agency Licence No. C-006328



信和集團  
Sino Group

## ORGANISING COMMITTEE

### Chairperson

Sr Tony WAN

### Advisor

Sr Joseph HO

### Members

Sr Charles CHAN

Sr Harry CHAN

Mr Winson CHENG

Sr Eugina FOK

Sr Cher LAU

Sr Peter LOI

Sr Elsa NG

Sr Jeffrey WONG



## Supporting Organisations



### Head Office 總辦事處

Room 1205, 12/F, Wing On Centre, 111 Connaught Road Central,  
Sheung Wan, Hong Kong  
香港上環干諾道中111號永安中心12樓1205室

Tel 電話: (852) 2526 3679 Fax 傳真: (852) 2868 4612 Email 電郵地址: info@hkis.org.hk

### Beijing Office 北京辦事處

Room 616, 6/F, Zhongkun Plaza, No. 59 Gaoliangqiaoxiejie,  
No.1Yard, Haidian District, Beijing, China, 100044  
中國北京市海澱區高樑橋斜街59號院1號樓中坤大廈6層616室 (郵編: 100044)

Tel 電話: 86 (10) 8219 1069 Fax 傳真: 86 (10) 8219 1050 Email 電郵地址: info-bjo@hkis.org.hk

Website 網址: www.hkis.org.hk