

Legislative Council
Panel on Planning, Lands and Works

Financial Analysis of the
20-year Urban Renewal Programme –
Sensitivity Tests

The Urban Renewal Authority (URA) will be tasked to implement a 20-year urban renewal programme consisting of 200 urban redevelopment projects and 25 uncompleted projects of the Land Development Corporation.

2. The estimated income and expenditure using a 10 years' old, a 7 years' old and a 5 years' old replacement flat as the basis for the calculation of the Home Purchase Allowance are as follows :

Table 1. Estimated Income and Expenditure*

(a)	(b)	(c)	(d)	(e)
<u>Building Age of Replacement Flat</u>	<u>Gross Development Cost</u>	<u>Gross Development Value</u>	<u>(c)-(b)=(d) Profit/Loss</u>	<u>(d) / (b) x 100%</u> <u>Return on Cost</u>
	\$ billion	\$ billion	\$ billion	
10 years' old	245.6	254	8.4	3.4%
7 years' old	248.7	254	5.3	2.1%
5 years' old	251.1	254	2.9	1.2%

* At today's value

3. The key assumption used in the model is that all the projects are to be implemented independently without affecting market conditions and are started at the same time. Interest rate is assumed to be 8.5% per annum throughout the development period. It is also assumed that there is no pre-sale of flats. No projection of values is made and all values and figures adopted in the financial analysis are those at the date of assessment (ie, August 2000).

4. A series of sensitivity tests have been conducted on the financial assessment, including :

- (a) fluctuation in interest rate (plus or minus 1%);
- (b) fluctuation in property prices (increase or decrease by 10%);
and
- (c) changes in construction cost (increase or decrease by 10%).

5. The results of the sensitivity tests are set out in Tables 2, 3 and 4 which are attached.

Table 2. Sensitivity Test on Fluctuation in Interest Rate

	Base Case (8.5% per annum)		Decrease of Interest Rate by 1% (7.5% per annum)		Increase of Interest Rate by 1% (9.5% per annum)	
	\$ billion	%	\$ billion	%	\$ billion	%
Gross Development Value	254.0		254.0		254.0	
Acquisition/Resumption Cost	86.0	34.6%	86.0	36.1%	86.0	33.0%
Construction Cost	72.3	29.1%	72.3	30.4%	72.3	27.8%
Rehousing Cost	13.0	5.2%	13.0	5.5%	13.0	5.0%
Interest Cost	77.4	31.1%	66.5	28.0%	88.9	34.2%
Gross Development Cost	248.7	100.0%	237.8	100.0%	260.2	100.0%
Profit/Loss	5.3		16.2		-6.2	
Return on Cost		2.1%		6.8%		-2.4%

Assumption:

- Based on a 7 years' old replacement flat

Table 3. Sensitivity Test on Fluctuation in Property Prices

	Base Case		Increase of Property Prices by 10%		Decrease of Property Prices by 10%	
	\$ billion	%	\$ billion	%	\$ billion	%
Gross Development Value	254.0		279.4		228.6	
Acquisition/Resumption Cost	86.0	34.6%	93.7	35.9%	78.2	33.1%
Construction Cost	72.3	29.1%	72.3	27.6%	72.3	30.6%
Rehousing Cost	13.0	5.2%	13.0	5.0%	13.0	5.5%
Interest Cost	77.4	31.1%	82.3	31.5%	72.7	30.8%
Gross Development Cost	248.7	100.0%	261.3	100.0%	236.2	100.0%
Profit/Loss	5.3		18.1		-7.6	
Return on Cost		2.1%		6.9%		-3.2%

Assumptions:

- Interest rate at 8.5% per annum
- Based on a 7 years' old replacement flat

Table 4. Sensitivity Test on Changes in Construction Cost

	Base Case		Decrease of Construction Cost by 10%		Increase of Construction Cost by 10%	
	\$ billion	%	\$ billion	%	\$ billion	%
Gross Development Value	254.0		254.0		254.0	
Acquisition/Resumption Cost	86.0	34.6%	86.0	35.8%	86.0	33.3%
Construction Cost	72.3	29.1%	65.5	27.3%	79.9	31.0%
Rehousing Cost	13.0	5.2%	13.0	5.4%	13.0	5.0%
Interest Cost	77.4	31.1%	75.7	31.5%	79.1	30.7%
Gross Development Cost	248.7	100.0%	240.2	100.0%	258.0	100.0%
Profit/Loss	5.3		13.8		-4.0	
Return on Cost		2.1%		5.7%		-1.6%

Assumptions:

- Interest rate at 8.5% per annum
- Based on a 7 years' old replacement flat