

Preliminary Cost-Benefit Analysis

In response to Audit recommendation to convert lower floors in the TID Tower to retail use, SUD would assess its financial viability by using M/F as an example to analyze the cost-benefit of such a move. According to our office records, the GFA and IFA of the M/F of the TID Tower are about 1,400 m² and 900 m² respectively. A simplified, rough preliminary analysis for indicative purposes is as follows:

Cost		Benefit	
Conversion Cost from an office floor to an arcade shop floor:	900 m ² @ \$ 7,900/m ² Note 1	Total expected let out period (deduction of a renovation period of approx 5 months and tender period of 4 months)	51 months
Rental Expenses involved in leasing an alternative office of similar quality in the locality for a period of 5 years:	900 m ² @\$ 420/m ² Note 2 @60 months	Lettable Retail Space: (Efficiency Ratio of 50% Note 4 adopted)	700 m ²
Fitting-out costs of an alternative office:	900 m ² @ \$ 7,900/m ² Note 3		
Rough Estimate of Advertising Cost:	\$ 80,000		
Total Estimated Expenses	\$ 37 M	Total Estimated Rental: (Assuming that all units could be let out in one go Note 6)	700m ² @\$ 800/m ² Note 5 @51 =28.5 M
Term adopted for amortization:	60 months	Term adopted for amortization:	60 months
Monthly Amortised Expenses:	\$ 615,000	Monthly Amortised Rent:	\$ 476,000

monthly loss : #139,000 -

Notes *Loss* (*#8.3M*)
over 5 yrs.

- The unit cost (including works costs, contingencies, consultant's fee but excluding F&E) for converting an office floor to a retail floor depends much on the extent of finishes the Landlord would provide for tenants and such a cost is unlikely to differ significantly from the unit rates for fitting out offices. Please see the attached list of statistical fitting costs information from January to December 2007 at Appendix A.
- It is found that the unit office rent (\$ per m² per month) for leasing nearby office accommodation of similar quality is around \$ 420/m² per month.
- Please see the attached list at Appendix A.
- For prestigious quality shopping malls, the efficiency ratio usually lies on the low side, ranging from 40 to 60%. In designing a shopping arcade, the landlord will strike a balance between the area of the retail space the area for circulation and ancillary use. For this preliminary assessment, I would take 50% as the efficiency ratio in this case.

5. G/F shops of a shopping centre usually command a much higher rent than those on the upper floor. Shop No 5 of TID, facing onto Nathan Road and having a moderate level of pedestrian flow, could fetch 765/m² in 2006. Though the rent which a retail floor could command is difficult to be assessed at this stage (the rent depends much on its ability to draw customers after the operation of the converted retail floor and factors like its tenant mix, theme, number and size of the retail floor and design would all have a bearing on it), we would take \$ 800/m² per month at this stage for indicative purposes having regard to, among other things, the rental values which shops on the G/F of the TID have achieved in recent years.
6. I have assumed that all individual retail units could be let out in one go right after the completion of renovation works and the conduct of a tender exercise. If not, the amount of the total estimated rental should be adjusted downward accordingly. In addition, time required for a landlord to conduct promotional activities, to set up a suitable theme/niche/position in the market and to establish an appropriate tenant mix has not been taken into account in this above computation. Or, the total let-out period will have to be shortened significantly, thereby further hampering the feasibility of this recommendation.



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Feb 2008

Appendix A

Breakdown Costs For Fitting Out Projects From January to December 2007

MONTH	NEW PREMISES			MAJOR REFITTING-OUT			MINOR REFITTING-OUT						STORE			Overall			
	(ADG)			(ADG)			(ADG)			(MAINTENANCE)			(ADG & MAINTENANCE)						
	m2	F/O (\$)	F & E (\$)	m2	F/O (\$)	F & E (\$)	m2	F/O (\$)	F & E (\$)	m2	F/O (\$)	F & E (\$)	m2	F/O (\$)	F & E (\$)	m2	F/O (\$)	F & E (\$)	Total (\$)
1/07				476	3,427,800	124,000										476.0	3,427,800	124,000	3,551,800
2/07		---			---			---						---					
3/07	3,236	27,149,464	304,000	327	2,694,400	32,000										3,563.0	29,843,864	336,000	30,179,864
4/07				1,200	8,387,360	807,350										1,200.2	8,387,360	807,350	9,194,710
5/07							167	429,606								167.0	429,606		429,606
6/07	794	5,796,000	250,120													793.8	5,796,000	250,120	6,046,120
7/07	364	2,969,200														364.0	2,969,200		2,969,200
8/07	536	4,193,980	69,000	1,678	11,660,700	68,700										2,173.6	15,854,660	137,700	15,992,360
9/07		---			---			---											
10/07	826	7,624,360		2,589	18,117,600	939,500										3,415.2	25,741,900	939,500	26,681,400
11/07	424	2,338,800		475	4,965,360	57,400										898.6	7,304,160	57,400	7,361,560
12/07	1,864	11,761,440	1,061,000													1,864.1	11,761,440	1,061,000	12,822,440
TOTAL	8,043	61,833,164	1,684,120	6,705	49,253,220	2,028,950	167	429,606								14,916	111,515,990	3,713,070	115,229,060

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	<u>New Premises (ADG)</u>	<u>Major Refit (ADG)</u>	<u>Minor Refit (ADG)</u>	<u>Average of New Premises (ADG), Major Refit (ADG) and Minor Refit (ADG)</u>	<u>Minor Refit (M)</u>	<u>Store (ADG & M)</u>	<u>Overall</u>
Average F/O cost (\$/m2)	7,688	7,346	2,572	7,477	--	--	7,477
Average F&E cost (\$/m2)	209	303		249	--	--	249
Average total cost (\$/m2)	7,897	7,649	2,572	7,725	--	--	7,726

NOTE: This statistics should be used for internal reference only.