Panel on Planning, Lands and Works

Subcommittee to Review the Planning for the Central Waterfront (including the Tamar Site)

Requests for information and questions raised at the meeting on 7 March 2006 requiring the Administration's response or follow-up actions

(a) To provide the information and reports requested in the motion passed at the meeting.

In the light of the motion passed on 9 February 2006, we have provided the Subcommittee meeting on 7 March 2006 with a list as well as copies of the relevant documents. Tamar site was formed in 1997 and the Government decided to withdraw it from the land sale programme in 1998, the documents provided are from 1997/ 1998 onwards and they are directly related to the decision to pursue the Tamar development project. The considerations as to why the Tamar development project is a preferred option to the in-situ redevelopment option have been set out in the Legislative Council brief issued on 30 April 2002 (at Annex 7 of Appendix I to our reply to the Subcommittee for the meeting on 7 March (LC Paper No. CB(1)1014/05-06(01)). Notwithstanding, in view of Members' interest in a consultancy study commissioned in 1990, we have attached at Annexes 1A & 1B two documents submitted by the consultant. The documents set out possible options for private sector participation in the redevelopment of the Central Government Offices (CGO) West Wing. The focus was on the mode of cooperation and financing, rather than technical feasibility.

(b) To provide further details on the estimated time scales for in-situ redevelopment of the Central Government Offices and Murray Building.

- 2. As explained at the Subcommittee meeting on 7 March 2006, we worked out the estimated timeframe assuming the adoption of a phased approach for demolition, decantation, interim reprovisioning and construction of new buildings. The decantation and interim reprovisioning would cause serious disruption to the operation of the Government Secretariat.
- 3. A table of comparison of the estimated implementation timeframe is at Annex 2.
- (c) To elaborate on the technical constraints involved and the renovation works required for installing technologically-advanced facilities in the existing CGO and Murray Building.
 - 4. Details of the information technology (IT), telecommunications and electronics requirements for proposed Central Government Complex (CGC) have yet to be However, we will likely incorporate in the new buildings centralised and expandable IT and telecommunications networks which have a built-in capacity for expansion and upgrading without the need to recourse to change of the whole system or network in future. In addition, we will adopt more effective and energy-efficient electrical, mechanical and building services systems such as elevators of better performance, air-conditioning systems with better air quality control and filtering capacity as well as temperature control, etc.
 - 5. The existing CGO buildings and Murray Building are 45 and 35 years old respectively. Many of the facilities are not meeting the present-day standards. For example, the CGO buildings are not practising fire safety standards of present days. It is desirable to add more fire exits and sprinkler system. the technological requirements, the cable trunks, network rooms and server rooms are reaching their maximum capacity. However, there is no physical space for their expansion in the The existing network rooms and server existing buildings. rooms are not able to satisfy the modern standards of provisions as specified in the preceding paragraph. Given the drastic developments of technologies in the past years, the cable trunks are overcrowded and the cables are not systematically arranged

and segregated.

- 6. To enable additional network capabilities technologies evolve in the years ahead (e.g. collapsing voice, data and video into a single platform at the maturity of telephony, etc.), significant renovation works would have to carry out to improve In this connection, expansion of the network capacity would be very difficult given the lack of space. from the necessary temporary relocation of offices and equipments to make way for renovation works causing disruption to the normal operation of the Government Secretariat, the low ceilings of the CGO and the aging of the buildings are posing serious structural constraints that would hamper provision of flexible power and data outlets through the raised floors. Ad hoc renovations works to address the existing problems would render comprehensive planning for continued inter-operability between present and future technologies, and better efficiency difficult.
- 7. In implementing the Tamar development project, we will require the tenderers to propose designs that are efficient and effective in use of space, and highly adaptive to meet future changes and advancement in technology. The building design should also be able to accommodate future alteration and expansion with built-in flexibility to facilitate changes in office layouts, IT systems and other office facilities.
- (d) To provide a detailed breakdown of the area required for offices and facilities, and the number of staff to be accommodated in the proposed CGC, and cost and benefit analyses for the Tamar development project.
 - 8. The Administration is in the process of updating the detailed breakdown. The updated information should be available for consideration by the Panel on Planning, Lands and Works at the meeting on 25 April 2006.
- (e) To clarify to what extent the considerations of having a respectable government building to signify the Government's status and administration and an excellent view to the harbour had affected the Administration's choice of site for

the new CGC.

- 9. The view to the harbour is not a key determinant in our choice of the Tamar site for developing the proposed CGC and Legislative Council (LegCo) Complex (LCC). The major considerations of the Executive Council in deciding on the use of the Tamar site have been set out in the LegCo brief issued on 30 April 2002. To recapitulate, they include provision of sufficient floor areas, the favourable planning considerations for a prime civic core, insignificant impact on the demand and supply of Grade A Office, improvement to be brought to the operational efficiency of the Government Secretariat and the need of the LegCo for a new building as long-term accommodation solution. The LegCo brief is at Annex 7 of Appendix I to our reply to the Subcommittee for the meeting on 7 March (LC Paper No. CB(1)1014/05-06(01)).
- 10. The proposed CGC, LCC and Civic Place would constitute a prime civic core of Hong Kong. The new development would project Hong Kong's position as a cosmopolitan city and Asia's world city. The design scheme for the project should be as a whole be responsive to the urban fabric of the Central District as well as the natural context of the waterfront setting. The distinct identities of the new CGC and new LCC should be duly reflected taking into account their respective constitutional roles.
- (f) To confirm whether the Administration has considered alternative uses of the Tamar site in 2000 and if so, the outcome of the consideration.
 - 11. The former Tamar Basin was first incorporated into the relevant draft Outline Zoning Plan (OZP) and zoned for commercial use in 1994 before the land was formed in 1997. The Government announced in January 1998 to withdraw the site from land sale programme and reserve the Tamar site for reprovisioning of the Government headquarters. Half of the site was rezoned to "Government, Institution or Community" (G/IC) use and the remaining half to "Open Space" use in May 1998. After having gone through a due pubic consultation process, the OZP was approved by the Chief Executive in Council in 2000. In April 2002, the Executive Council decided to launch the Tamar

development project, including the new CGC, new LCC and the Civic Place as core development components. Throughout, the existing zonings and planning intentions of the Tamar site have remained unchanged since 1998.

- 12. Since the announcement to reserve the Tamar site in January 1998, the Government had kept the relevant considerations under review. As explained in paragraph 9 above, the Executive Council took into account several major considerations, including the impact on demand and supply of Grade A office, in arriving at the final decision.
- (g) To explain why the proposed Tamar project and other planned developments in Central were concordant with the expectations and aspirations of the public; to confirm whether it has any plan regarding the future use(s) of the existing CGO buildings and the Murray Building and their sites after the existing offices had been reprovisioned to the proposed new CGC at Tamar; and to confirm whether it would provide assurance to allay worries about the environmental and traffic impacts of the future uses of or developments on the sites.
 - 13. The existing use of the CGO and Murray Building as "G/IC" use has been taken into account in assessing the future traffic flow and environmental situation of the Central District. If there were any change of the existing G/IC use, we would be bound to go through the statutory planning procedures instituted under the Town Planning Ordinance, including approval by the Town Planning Board (TPB) of the rezoning proposal, public consultation process and consideration of public views by the TPB. Ultimate approval of the revised OZP by the Chief Executive in Council is also required.
- (h) To confirm whether the public would be given the opportunity to view and comment on the design proposals submitted by bidders of the D&B contract; and to reconsider the option of holding a design competition for the project with a view to soliciting the best design and to allow maximum public participation in the design process.

- 14. The Government proposes to adopt the "design-and-build" (D&B) approach to implement the Tamar development project. The D&B approach can minimise the interface problems between the design and construction stages, as the designer architect and the building contractor can work hand-in-hand to make best use of the latest technical advancements available for the design of the project.
- 15. The Administration will explore the possibility of allowing the public to view the proposed designs, taking into consideration the legal advice on the implications on the fairness and integrity of the tender process.
- (i) To explain why the revised height limit was specified in terms of a height range and how the "20% building-free zone under the ridgeline" was defined.
 - 16. The statutory highest permissible height of the buildings to be developed on the Tamar site under the relevant OZP is 180m PD. To help preserve as much open view as possible, we have decided to take the initiative to tighten up the height restriction and lower the highest permissible height to 130m 160m PD. Whilst the statutory restriction of 180m PD applies indiscriminately to the whole Tamar site, we respond to the changing profile of the Victoria Peak with a range of different heights from 130m PD to 160m PD. The underlying principle is to ensure at least a 20% building-free zone under the ridgeline. The effect of the tightened restriction is illustrated at Annex 3.
 - 17. The principle of preserving views to ridgelines was stated in the Study on Urban Design Guidelines for Hong Kong (the Study) completed in 2002. In developing such principle, the community had been widely consulted and 6 popular and easily-accessible vantage points were identified and agreed to be important for preservation of views to the ridgelines. The 20% building-free zone was re-confirmed in the process of consultation of the Study and adopted in the Urban Design Guidelines of the Hong Kong Planning Standards and Guidelines promulgated in end of 2003.

- 18. In the context of the Tamar site, developments that may intersect the sightline from the closest vantage point at Tsim Sha Tsui Cultural Complex to Mount Gough would need to be controlled, if the 20% building-free zone below the peak within the view fan is to be maintained. Taking into account the varying ridgeline profile rising from east to west, a maximum height range of 130mPD 160mPD is recommended to allow variation in building heights while respecting the ridgeline profile.
- (j) To explore the possibility of better utilizing underground space to further reduce the heights of the buildings.
 - 19. At the last meeting with the Subcommittee on 7 March 2006, we have undertaken to explore the said possibility.
- (k) To explain how the future design and configuration of the Open Space would facilitate the use and enjoyment of the public and that there would be no barrier to public access to the Open Space.
 - 20. It has been the Government's plan to develop the Civic Place as a recreational open space for leisure and enjoyment of the public. The Civic Place will be designed to cater for multi-purpose needs, and will be safe and easily accessible by the public. We will encourage the tenderers to adopt special design features such as fountains and landscaped garden to provide a pleasing and leisure atmosphere with a sense of spaciousness for the public and greening of the city. We will also require the tenderers to propose designs of the Civic Place linking with primary pedestrian circulation and walkway systems and the adjoining waterfront promenade to form an integrated open space/ pedestrian network.
 - 21. Overall, the Civic Place will form part of the integrated open space network at the waterfront as it would be connected with the adjoining future waterfront promenade through an open space deck of 50 60m wide.

* * * * * *

REDEVELOPMENT OF THE

CENTRAL GOVERNMENT OFFICES

WEST WING

LEVETT & BAILEY
OCTOBER 1990

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REDEVELOPMENT OF THE CENTRAL GOVERNMENT OFFICES, WEST WING

THE BRIEF

- 1.01 The Hong Kong Government, through the Government Property Agency, is examining the options for redeveloping the site of the Central Government Offices, West Wing with the intention of providing modern and prestigious headquarters accommodation for the Government Secretariat. The site is bounded by Lower Albert Road to the south, Ice House Street to the west, Battery Path to the north and the Central Government Offices, Main and East Wings to the east, as indicated on the site plan attached hereto. The site area is approximately 10,500 sq.m.
- 1.02 The Government wishes to retain ownership of the entire site, and all newly constructed buildings thereon.
- 1.03 The West Wing site is grossly underdeveloped at present and a key feature of the redevelopment scheme is that optimum use should be made of the site and that the development potential should be maximised in so far as this is both practicable and desirable.

- 1.04 Government's current requirement for Secretariat accommodation is such that at least one third of the site's full development potential may be made available for use by the private sector. The Government Property Agency is therefore desirous that the opportunities for private sector participation in the redevelopment be fully explored, particularly in regard to the funding, implementation and co-ordination of the project.
- 1.05 It is recognised that the scale and extent of interestrin this project will to a large degree be dependent upon the degree of flexibility that can be built into any invitation that is issued to the private sector. Clearly, Government's interests will need to be safeguarded, but an appropriate balance will need to be struck between the requirements of Government and the interests of the private sector.
- 1.06 Cognisance will need to be taken of the strategic location of the site and those parts of the site that are well vegetated with scrub and trees should be retained as far as possible, and as much of the new ground level as possible made available for public passive recreation and suitably landscaped. Vehicles should be excluded from this area as far as possible.

- The public streets fronting onto the lower levels of the site are extremely congested at present. The redevelopment proposal must therefore address this problem and incorporate improvements to both pedestrian and vehicular movements into, out of and through the site.
- 1.08 The Government has recently adopted new space standards for its office accommodation that are based on a new range of furniture, and this will need to be reflected in the amount, configuration and quality of space that is to be allotted for Government purposes.
- 1.09 The Government is actively promoting energy conservation and the project should be designed in such a way that the building fabric and engineering services combine to produce optimally energy efficient accommodation, both in terms of capital and running costs.

1.10

The Government wishes to explore the opportunities for private sector participation in order to minimise the need for capital outlay by Government and to provide the required Headquarters accommodation in the shortest possible time. The Government accommodation must be of a high design standard consistent with its status as the seat of Government. Its construction should be economic and cause the minimum of disruption to occupiers of adjacent accommodation.

REDEVELOPMENT OF CENTRAL GOVERNMENT OFFICES (WEST WING)

SUMMARY OF SALIENT FACTS

SITE AREA	10,500	sq m	
TOTAL GFA (BASED ON 15:1 PLOT RATIO)	157,500	sq m	
CAR PARKING SPACES	900	cps	
GOVERNMENT USE	100,000	sq m	
	300	cps	
AVAILABLE SURPLUS	57,500	sq m	4
(FOR UTILISATION BY PRIVATE SECTOR)	600	eps	

INDICATIVE EXAMPLE OF POTENTIAL RENTAL INCOME TO BE GENERATED FROM SURPLUS RETAIL/OFFICES/CAR PARKING

TATES TOTAL T	STATITT
RENTAL	VALUE

G/F RETAIL	HK\$2,150	p.s.m.	per month
OFFICE	HK.\$650	p.s.m.	per month
CAR PARKING	HK\$2,000	per space	per month

RENTAL INCOME PER ANNUM

G/F RETAIL	5.000	sq m Gro	ss @	0.70 @	HK\$2,150	HK\$7,323,000
		~		0.78 @	HK\$650	HK\$26,617,500
OFFICE	32,300	sq m Gro	ss w		11114000	HK\$1,200,000
CAR PARKING	600	spaces	@	HK\$2,000		
		-				HK\$35,342,500
TOTAL					¥	12
					^	HK\$424,110,000
TOTAL ANNUAL RE	NTAL INCC)ME				TK4424,110,000

say HK\$424 MILLION per annum

REDEVELOPMENT OF CENTRAL GOVERNMENT OFFICES (WEST WING)

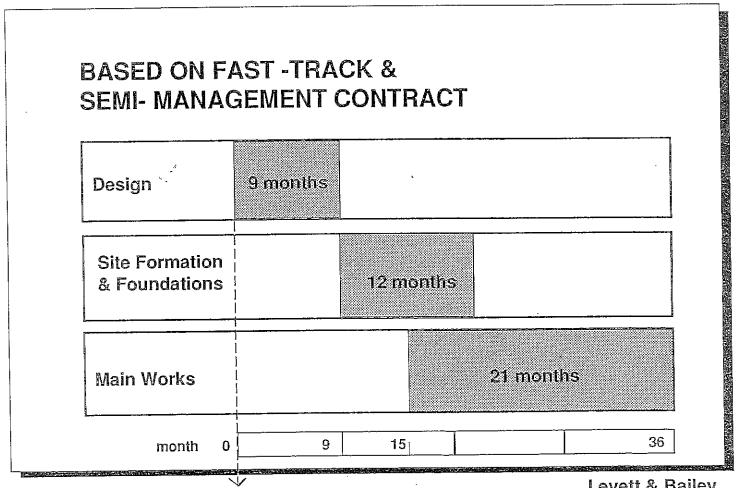
ESTIMATED TOTAL CONSTRUCTION COSTS FOR WHOLE DEVELOPMENT

DEMOLITION COST				say	HK\$2,000,000	
SITE FORMATION	10,500	sq. m.		say	HK\$20,000,000	HK\$22,000,000
					**	
CONSTRUCTION COST						
G/F RETAIL U/Fs OFFICE	100,000	sq. m. sq. m.	x x x	НК\$10,120 НК\$9,900 НК\$9,900	HK\$50,600,000 HK\$990,000,000 HK\$519,750,000	
CAR PARKING	•	sq. m.	x .	HK\$4,000	HK\$126,000,000	HK\$1,686,350,000
EXTERNAL WORKS				say	HK\$15,000,000	
BRIDGE				say	HK\$5,000,000	HK\$20,000,000 HK\$1,728,350,000
INFLATION ALLOWANCE	1.50) yrs		@ 10.0% j	pa say	HK\$267,900,000 HK\$1,996,250,000
PROFESSIONAL FEES A OTHER INCIDENTAL CO				@ 12.0%	say	HK\$240,000,000
TOTAL CONSTRUCTION COST (ASSUME COMPLETION IN END 1993)						HK\$2,236,250,000

say

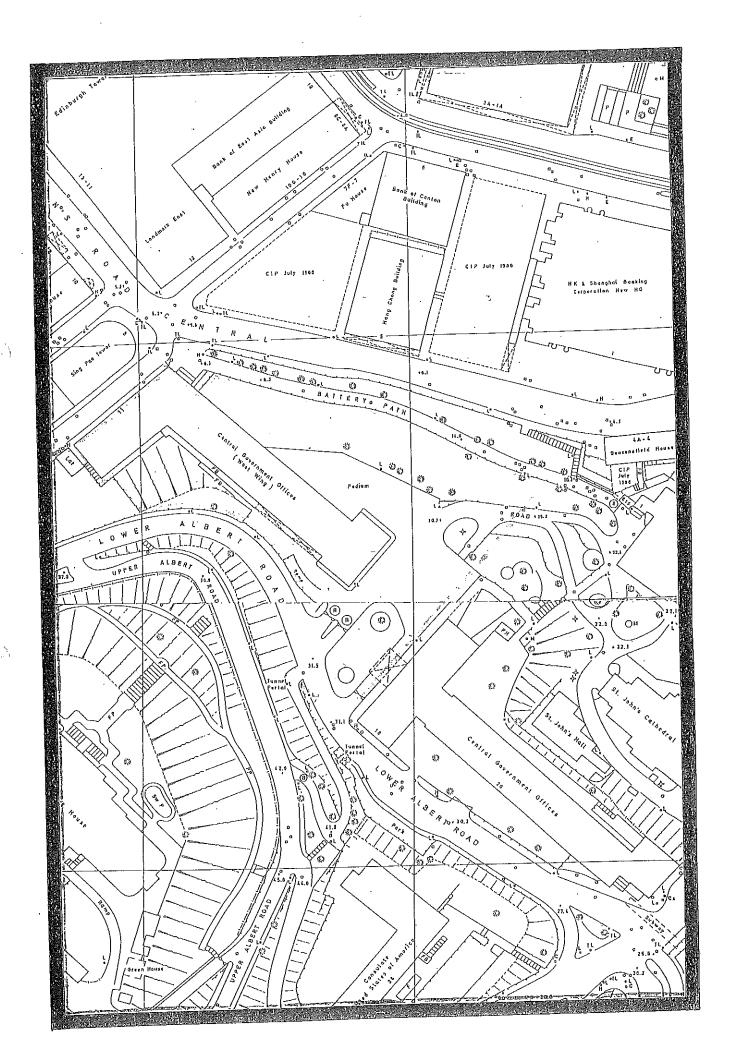
HK\$2,250 MILLION

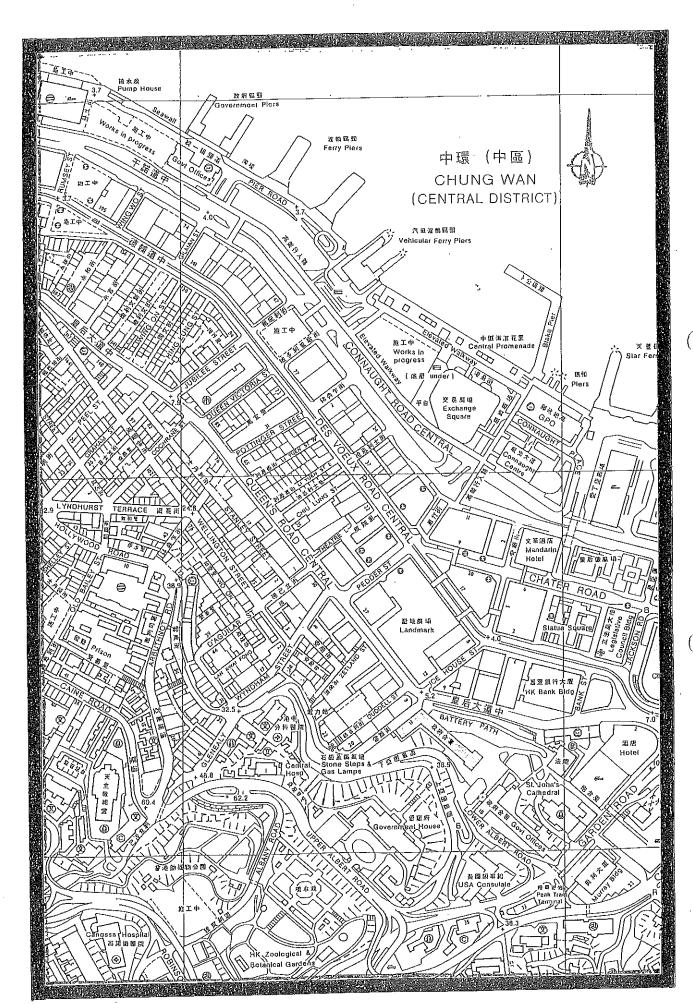
PROGRAMME



Date of formal decision to proceed

Levett & Bailey





HONG KONG GOVERNMENT GOVERNMENT PROPERTY AGENCY

PRELIMINARY REPORT

ON

REDEVELOPMENT OF THE
CENTRAL GOVERNMENT OFFICES
WEST WING

LEVETT & BAILEY
NOVEMBER 1990

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EXECUTIVE SUMMARY

- (1) An extensive survey has been carried out to ascertain the reaction of the development, construction and banking sectors to the opportunity for private sector participation in the redevelopment of the West Wing, Central Government Offices.
- (2) The response has been mixed, reflecting world events and local property market sentiment, ranging from enthusiastic in the case of the construction industry, through cautious in the case of the development community to ultra-careful in the case of the banking sector.
- (3) However, the overall consensus is that the opportunity will generate serious interest, and attract competitive bids, providing it is packaged in such a way as to respond to and overcome the concerns of the private sector.
- (4) Of paramount importance in the minds of potential bidders is the nature of the interest to be granted and the length/duration of the leasehold interest in the private sector element of the scheme. Our recommendation is that a structure be devised whereby a flying leasehold interest is granted in the private sector element and the period of tenure is identical to that offered in the case of other land grants, ie. until 2047. On this basis, potential bidders will have an identifiable interest which they can value, sell and mortgage in the normal manner, whilst the bankers will have an interest which they can charge, and in the worst case scenario, on which they can foreclose and take such steps as may be necessary to recover their loan.

- We believe that if the issues of the interest and the period of tenure are resolved, then the other matters that we have highlighted in our report, although important, can be overcome and accommodated within the bid documentation through, for example, the incorporation of a planning brief to provide general guidance as to the overall parameters within which the bidder should formulate his proposals, and in the case of the Government accommodation, the inclusion of a performance specification incorporating financial allowances where it is not possible to be definitive at this stage.
- (6) Having reviewed all options, we believe that it is in Government's best interests to pursue the developer route to maximise the potential of the opportunity and to minimise the risk to Government. The basis of tender will be that the bidder will be required to assume full responsibility for the development and financing of the scheme as a whole but in return, by way of reward, would enjoy the income from the private sector element of the scheme.
- (7) We recommend that potential bidders be invited initially to express interest in the opportunity based on the bid documentation, which would be issued in full to all parties. Following pre-qualification to be assessed on financial standing, technical capability and relevant previous experience, those shortlisted will be invited to submit their proposals. Each offer would comprise two elements. Firstly, the premium and/or annual rental that the bidder would be prepared to pay in exchange for securing the income from the flying leasehold interest in the private sector element of the scheme until 2047; and secondly, the outline design solution proposed by the

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bidder, in that we are cognisant that it is a very strategic site and the home of Government, and clearly, therefore, Government must reserve to itself the right of approval to ensure that it is comfortable with the conceptual design/layout that is proposed.

PROPOSED REDEVELOPMENT OF THE CENTRAL GOVERNMENT OFFICES, WEST WING

INTRODUCTION

In July 1990, the Hong Kong Government announced proposals to redevelop the site of the Central Government Offices, West Wing, to provide a modern headquarters building for the Government Secretariat. The Government furthermore advised that it was its intention to solicit participation by the private sector, and by so doing, to utilise the expertise of the development and construction community in ensuring the maximisation of the potential of the site and the timely and economical completion of the project.

A number of local firms of property consultants were invited to submit proposals outlining the approach that they would recommend should be adopted by Government to attract maximum interest in this opportunity, and in particular, to advise on the form and scope of the documentation that would be necessary to safeguard Government's interests, and to ensure that its requirements in relation to such issues as funding, design, construction programme, etc. were met.

Following review of the various submissions received for the assignment,

Levett and Bailey Chartered Surveyors were appointed on the 12th October 1990, and their

Terms of Reference are contained in a Brief, which is attached as Appendix A. The

principal objectives as set out in that Brief are:

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- (1) Government wishes to retain ownership of the site and the buildings thereon.
- (2) Government wishes to maximise the potential of the site.
- (3) Government does not wish to have to finance the project, but hopes to achieve a situation where the successful bidder regards the income stream from the non-Government accommodation as adequate reward.
- (4) Government is cognisant of the strategic location of the site and its responsibility to ensure that any scheme of development responds in terms of design and quality, and is also sensitive to issues such as the environment, traffic, energy conservation, etc.

THE ROLE OF LEVETT AND BAILEY

The role of Levett and Bailey, as set out in the Appointment of Consultant Agreement, is to undertake an extensive review of all the options open to Government for soliciting private sector participation, to consolidate the results into a composite report and to submit that report to Government, together with recommendations as to the most advantageous method of inviting participation by the private sector in the scheme.

METHODOLOGY

Since appointment, we have canvassed opinion extensively within the private sector, and have had no less than 45 meetings with senior representatives of the development, construction and financial sectors. We have also met with various Government Departments and sought the counsel and advice of leading practitioners in the fields of property law and taxation. A schedule of the meetings that have been held during this period is attached as Appendix B.

Our approach has been to table a general information memorandum, summarising the salient facts relating to the opportunity, and incorporating the relevant sections of the Government Brief, together with preliminary indications as to the development potential of the site, the possible income flow from the surplus accommodation (ie, the potential reward to the successful bidder), the likely cost of the entire scheme and the time scale for completion of the project. A copy of the information memorandum is attached as Appendix C. Having explained the information memorandum, we have then used a massing model to demonstrate the scale and size of the opportunity, and to highlight the issues that a bidder will need to address, given the strategic location of the site.

We have then, with a view to securing comment and reaction, outlined a range of possible contractual solutions ranging from : -

- (a) The Developer Option, where the developer finances and builds the whole development, and is granted rights over the surplus accommodation with the intention that the income generated from such rights will cover construction costs, debt service and provide a reasonable return.
- (b) The Contractor Option, where the development is constructed by a contractor but payments are deferred and amortized over a period, with the intention that the income accruing from the surplus accommodation will be utilised to discharge Government's liability.
- (c) The Financing Option, where Government acts as the developer, directly borrows the necessary funds and the income from the surplus accommodation is used to repay the loan and retire the debt.

GENERAL REACTION AND RESPONSE

Without exception, we have been well received by all the parties that we have interviewed, and general market reaction has been to welcome this initiative on the part of Government, and to express the hope that if this form of private sector participation proves to be a successful formula, it will be used as a precedent for other similar situations in the future. The response has been mixed, ranging from enthusiastic in the case of the construction industry, through cautious in the case of the development community, to ultracareful in the case of the banking sector.

(a) The Developers' Response

Most developers viewed the opportunity positively albeit somewhat cautiously, and several mentioned that it could provide them with a significant foothold in Central. Concerns about the world situation, and more particularly, the present state of the office market appeared foremost in their minds. Issues which were repeatedly raised in discussion were the need for an identifiable and "bankable" interest in the private sector element of the scheme, requests that maximum flexibility be permitted in relation to the design of the private sector space; that, in terms of the tender documentation, any variables be kept to a minimum; that the basis of bid be kept as simple as practicably possible; and that as far as possible, the terms on which the opportunity is offered do not differ substantially from those upon which other lots will be offered in the foreseeable future, as developers will inevitably make a comparison and be faced with a choice as to which opportunity they should pursue. Also, developers sought maximum flexibility in regard to the leasing and alienation of the

private sector element, and some re-assurance as to Government's plans and intentions in regard to the redevelopment of the remainder of the Central Government Office compound.

Most developers are concerned to ascertain the plans for the Central and East Wings and also Government's future land sales programme, particularly in relation to the Post Office site and HMS Tamar, in that these site could clearly generate competing schemes, and if offered on the more traditional basis, could represent a less restricted option to potential bidders. In the circumstances, so far as Government considers practicable, we would suggest that potential bidders be provided with some indication as to Government's strategy in this respect.

(b) The Contractors' Response

The reaction of the construction community to the opportunity has been extremely positive, particularly in the case of overseas contractors who are frequently required to bid on the basis of deferred payment terms, and are, therefore, familiar with the type of arrangement envisaged in this case. They see it as an opportunity to secure a major building contract at a time when few such projects are available, but all the contractors interviewed did stress the advantage of an early award, since they envisage that they will become more and more committed in the future on infrastructure works.

In general, contractors showed more concern for the mechanics of the bidding rather than the overall concept. Several indicated that they might finance the construction

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out of their own resources, and as a consequence, the nature of the interest to be granted and the collateral afforded by that interest were not such major concerns. The majority, however, talked of forming joint ventures with developers or of selling on their interest in the private sector element to a long term investor, in which event the nature and stature of the interest was an important issue to them.

(c) The Bankers' Response

Not unexpectedly, the financial sector was somewhat cautious about the proposal, and, in particular, they were concerned about the world economy and the current state of the office market. Invariably, the questions raised focused on the nature of the interest to be granted in the private sector element and the security afforded by that interest to the lending institution. The ability of the successful bidder to pledge/charge that interest and a clear definition of the lender's position in the event of default/foreclosure were considered to be of paramount importance. Most of those interviewed indicated that their interest and willingness to lend would hinge primarily on the experience and status of the successful party, and that, in any event, they were unlikely to lend on a non-recourse basis given the current market conditions, and would be looking for corporate letters of comfort or even guarantees. The American Banks were likely to be restricted from lending for real estate purposes because of the concern of their Headquarters with the problems within the US property market. The Japanese Banks will also be restricted by the requirements of the Bank for International Settlement (BIS) as they aim to meet the 8% capital adequacy ratio by March 1993.

(d) The Response from Government Departments and other Private Sector Specialists

With a view to addressing planning, traffic, geotechnical and other related issues, useful preliminary discussions have been held with the relevant Government Departments. As a result, traffic and site investigation studies will be commissioned shortly, and the Planning and Environmental Protection Departments have agreed to assist with the preparation of Briefs to be issued to all potential bidders. Meetings have also been held with the Registrar General's Department, and this has been very helpful in assessing the most appropriate structure for the joint venture and the range of interests that could be granted by Government in the private sector element, based on previous experience and precedents.

We have also consulted with leading legal and accountancy practitioners in the private sector, who have been involved in the structuring of similar arrangements both in Hong Kong and elsewhere. Their reaction has, on the whole, been positive, but they have stressed the need to frame the documentation in such a way as to allow bidders maximum flexibility. Such flexibility would enable bidders to create a tax efficient structure, to minimise tax exposure and to maximise the opportunity to utilise depreciation and other allowances by the creation of the appropriate on-shore and offshore corporate vehicles. In turn, this would be reflected in the receipt of more competitive bids by Government.

THE MAJOR ISSUES IDENTIFIED AND THE SOLUTIONS RECOMMENDED

(1) The World Economy

ISSUE

Most of those interviewed are regional, if not international, corporations, and hence, they are exposed to the cyclical movements in the world economy. At the moment, most, generally speaking, are pessimistic, foreseeing recession in the majority of the markets in which they operate. Similarly, all are concerned about the uncertain political situation in the Middle East, and a number of Japanese corporations indicated that they are basically out of the market until the current problems in the Gulf are resolved.

SOLUTION

Clearly, these are matters outside the control of the Government, but inevitably, investor sentiment is likely to be a significant factor when potential bidders are formulating and framing their proposals. As a result, we would anticipate that most bids would be framed on a conservative basis, and that those in the marginal bidder category would not submit proposals.

(2) The Hong Kong Property Market

ISSUE

The impending over-supply of Grade A office space that is currently overhanging the market is of serious concern to most potential bidders. Whilst on the basis of our estimated construction programme the project will not be due for completion until 1994, the successful bidder will be endeavouring to identify anchor and major tenancies some 12-18 months in advance of completion, ie, in 1992/3 by which time some 15 million sq.ft. of new accommodation will have been released onto the market. Inevitably, this will have a marked impact on rental levels, and there will be strong competition between landlords even for the smallest of tenants, and any bidder is bound to be influenced by this situation when formulating his bid.

SOLUTION

This is one of the few remaining sites in "core" Central. Furthermore, the private sector element will be immediately adjacent to the new Government Headquarters and there are many organisations which would welcome the opportunity to lease premises close to those Government Departments with which they are frequently in contact. This is also a potential opportunity for a major corporation, wishing to reinforce its commitment to Hong Kong and the region, to consolidate its activities and to occupy a significant portion of the private sector accommodation, with the possibility of securing the naming rights to the private sector element. Finally, although rental levels in the short and medium term may be falling, the potential for growth is obviously

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far greater in the case of a prime site, such as this. We believe that many of these concerns can be addressed by the careful positioning and promotion of the opportunity when it is offered to the market, although inevitably, bidders are likely to adopt a somewhat cautious attitude when formulating their proposals in the light of these circumstances.

(3) The Nature of the Interest

ISSUE

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This is undoubtedly the most fundamental issue and it was raised time (and time again in our discussions with potentially interested parties. Given the strategic location of the site, Government has stated its desire to retain ownership of the entire site and any buildings erected thereon, and that it is not willing to grant a ground lease over the site in the normal way, nor to partition the site and grant a ground lease over that portion of the site on which the private sector accommodation is to be built.

Developers indicated that so far as is practicable, they would like the interest to be granted in the private sector element to be of comparable standing in terms of title and tenure with other opportunities that might be offered in the market in the foreseeable future, otherwise they foresaw considerable difficulty in persuading their respective Boards to bid for the opportunity. Developers were also concerned that the interest that is to be granted be regarded by the banks as of sufficient stature and adequate collateral for the funding that they would wish to

raise, without the necessity to pledge other security or offer corporate guarantees.

The contractors, also, were anxious to establish the nature of the interest to be granted, both from a funding and on-sale point of view, whilst the banks stipulated that the interest must be sufficiently finite and capable of legal definition so as to provide them with the necessary security in relation to the charging of the interest. In particular, in the event of default, they would wish to be able to foreclose and, as mortgagee in possession, to dispose of the interest or to utilise the rental as a means of recovering the debt owed to the bank.

SOLUTION

During the course of our discussions, it has become increasingly clear that the market would not regard a long lease at a peppercorn rent of the private sector element as sufficient inducement, and that if Government is to attract wide interest in the opportunity, such a lease, even it were to run until 2047, would not be considered favourably by the bidders and their financial backers. Hence, we believe that it will be necessary to consider the type of arrangement that has been adopted with the KCR in relation to KCR House and Jubilee Gardens, where effectively, a flying leasehold interest was created in the case of the private sector element of the scheme.

Having discussed this concept with the representatives of the Registrar General's Department, we understand that the usual way to do this

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would be a grant of the land to the developer with a requirement to assign back to Government in the form of the Financial Secretary Incorporated (FSI), undivided shares in the lot in respect of the Government Accommodation. However, in view of Government's stated wishes in respect of ownership, it may be possible for ownership to be retained by Government by means of the grant of a leasehold interest in the entire lot to be made to the FSI, which in turn would lease or assign undivided shares in the lot in respect of the private sector element to the successful bidder. Alternatively, the grant of the lot to FSI could be made subject to the specific exception and reservation of all those parts of the lot not comprising the private sector element (i.e. they would be treated as a "Green area"), the boundaries of which could be defined in terms of a tower footprint at podium level. Prior to the execution of the grant to FSI, Government could enter into Heads of Agreement with the developer and contemporaneously with signing a Building Contract, FSI and the developer would execute an Agreement for Sale and Purchase of the private sector element of the scheme. Adopting either formula, it should be possible to create a leasehold interest in its own right, capable of meeting the private sector's concerns. In the second case, it would be suspended over Crown Land with the boundaries, i.e. the tower footprint, defined at podium level, and with the land and structures below a defined datum, and the Government Headquarters remaining vested in the Crown.

(4) The Length of Interest

<u>ISSUE</u>

Although a number of private sector joint ventures have been negotiated in the past where the developer has accepted a repayment period of between 25 and 40 years, such agreements were negotiated in a rising market when the sentiment was materially better than today. Similarly, whilst preliminary analysis would appear to indicate that the right to receive the anticipated income stream from the private sector element over a period of 25 years would be sufficient reward to the successful bidder, most developers and bankers consider it as a marginal situation when compared with other opportunities. Without exception, the developers and bankers indicated that Government should, if possible, grant the interest in the private sector element until 2047.

SOLUTION

We see considerable merit in granting a leasehold interest in the private sector element of the scheme until 2047. This will counter concerns about the sufficiency of the period, and as can be seen from the valuation attached as Appendix D could generate a significant surplus over and above the cost of the scheme. This will, of course, preclude any opportunity for Government to secure possession of this accommodation until 2047, and Government will clearly need to weigh the probability of receiving a balancing premium against the deferral of the reversion until 2047.

(5) Disposal of Interest/Approval of Tenants

ISSUE

Concern has been expressed that Government might endeavour to restrict the right of the successful bidder to mortgage or dispose of his flying leasehold interest or might reserve to Government the ultimate right of veto as regards any prospective purchaser. Similarly, interested parties have questioned whether Government would wish to approve those tenants leasing accommodation in the private sector element, given political and other sensitivities.

SOLUTION Clearly, any measure that restricts the developer's flexibility and freedom of choice will be reflected in the bid submitted, and we would recommend that any restriction on alienation and sub-letting be avoided.

(6) Mortgagibility of Interest/Right of Foreclosure

ISSUE

To a large extent, we have covered this under the nature of interest to be granted. In summary, the developers require an interest which the bank will consider as sufficient security, and against which they will lend whilst the Banks seek an interest against which they can foreclose in the event of default.

SOLUTION We hope and believe that our proposal to create a flying leasehold interest in the private sector element will to a large extent overcome this problem.

(7) <u>Stratification of Private Sector Element</u>

ISSUE

A number of Chinese developers have enquired whether Government would permit the flying leasehold interest to be sub-divided and sub interests sold off, on a strata title basis as is often the case in Hong Kong, as this would increase materially their interest in the opportunity.

SOLUTION Whilst the right to subsell on a strata title basis might increase the extent of interest and the scale of bids received, we do not consider that such a course would be appropriate in the case of a building, which is an integral part of a development incorporating Government Headquarters. Furthermore, the potential problems that can arise with respect to the maintenance and management of buildings in multi-ownership are well known in Hong Kong, and we do not consider that it is an appropriate solution in this instance.

(8) <u>Tax Considerations</u>

ISSUE We are advised that the parties to a number of joint ventures of this nature have failed to appreciate the tax implications, and as a result,

have failed to create, at the outset, the most tax efficient structure/vehicle, and have encountered resistance from the authorities to any subsequent restructuring. We understand that these issues relate primarily to the charging of interest as a deductible expense and the utilisation of depreciation allowances on that part of the scheme which is handed back subsequent to completion of construction.

It would appear that if developers/contractors are to utilise the depreciation allowances in the case of the expenditure incurred on the Government accommodation, then it is necessary for them to maintain some form of interest in that tower, albeit that it can be at a nominal rental. Hence, it has been suggested that Government, on completion of construction, might be willing to accept a situation where it occupies the Government Headquarters on payment of a rental of HK\$1 per annum to the developer, who would thus retain an interest in the property.

SOLUTION

We assume that Government is not prepared to accept a situation where it does not own its Headquarters and an intervening interest is created, albeit at a nominal rent. In these circumstances, we consider it is the responsibility of each bidder to identify the most efficient means of structuring their bid for tax purposes.

(9) GFA Bonus and Dedication Calculations

ISSUE

In the case of any large scale scheme of this nature, it is traditional for developers to seek to maximise the gross floor area and the plot ratio through the dedication of ground floor areas to public use and as a result, secure an increase in the gross floor area equivalent to five times the amount dedicated. In this particular case, we would anticipate that much of the podium deck at the Lower Albert Road level will be dedicated to public use, and indeed, on the basis of some very preliminary calculations which are attached as Appendix E, it may be possible to achieve an increase in the plot ratio/gross floor area to the maximum permitted, namely 18:1. This is a major issue affecting the financial viability of the project, in that, given that the Government requirement is fixed at 100,000 sq.m., every square metre of bonus that is secured represents additional revenue and return to the successful bidder.

SOLUTION

Potential bidders will need to be advised, and indeed, assured, that provided their scheme satisfies all the relevant regulations, the usual dedication allowances and bonuses will be permitted, and can be assumed for purpose of formulating their bid. As can be seen from the calculations appended as Appendix D, an increase in the plot ratio from 15:1 to 18:1 generates a very significant surplus over and above construction cost.

(10) Section 16 Application

ISSUE

The site is currently shown as GIC on the Outline Zoning Plan, and we understand that it may be necessary, given that private sector participation is now proposed, for a Section 16 Application to be submitted by the Government Property Agency to the Town Planning

Board, outlining the broad elements of the proposal and supported by

Traffic and Environmental Studies.

We are concerned that until Government has completed the selection process, it will be difficult to submit a meaningful application, as each proposal will differ materially from the other, and it would be imprudent, we believe, to anticipate the scope of the successful bid. Similarly, if applicants are advised that they will have to secure the approval of the Town Planning Board to their scheme, we would see this as a major deterrent, and in effect, Government will be inviting conditional proposals from interested parties which is clearly to be avoided, if possible.

SOLUTION

Notwithstanding that the scheme will contain a private sector element, the ownership of the site and the bulk of the accommodation is to remain vested in Government, and therefore, is in compliance with the GIC Zoning. In the circumstances, we suggest that the Planning Department be persuaded to accept the substitution of a Planning Brief to be prepared in co-operation with the Planning Department, and

which would be issued to all potential bidders as part of the tender documentation. This Planning Brief would incorporate all those matters that would normally be addressed in a Section 16 Application, and if considered appropriate, the Planning Department could play a part in the adjudication of the various conceptual design solutions that are submitted. This would avoid submission now of inevitably incomplete applications or bids being invited which would be conditional upon the relevant Section 16 approval being secured.

(11) Security and Identity

ISSUE

We imagine that Government would wish for its Headquarters to be a building with its own identity, which makes a statement in its own right. Also, there is a strong case for distinguishing and separating the private sector element from the Government accommodation, so each has a flavour and identity of its own. Furthermore, we imagine that Government may have special requirement in regard to security and may wish to restrict access to certain areas.

SOLUTION The general view of the development community is that, given these considerations, the site naturally lends itself to a two tower development over a common podium, housing car parking and retail space. The new Government Headquarters would be sited at the eastern end of the site, whist the private sector tower would be sited at the western end, close to Ice House Street and Queen's Road Central.

As a result, rental income from the private sector element would be maximised due to its close proximity to "core" Central, shopping and food outlets and the MTR. In contrast, the new Government Headquarters would continue to enjoy the rather more tranquil access off Lower Albert Road, in keeping with and befitting the seat of Government.

(12) <u>Definition of Government Requirements</u>

ISSUE

Reservations have been expressed about Government's ability to define its accommodation needs at this point in time, particularly given the very early stage in the conceptual process. Bidders are particularly worried about changes in direction/specification etc. subsequent to their bid being submitted.

SOLUTION We believe that this can largely be overcome through the incorporation in the bid documents of a performance specification, which would lay down the basic standards that Government is seeking to achieve, defined both financially and technically. Where Government is not in a position to be specific in terms of technical performance, relevant financial allocations could be included and overall standards, for instance, set by specifying a minimum cost per gross sq.m. of office accommodation.

(13) <u>Use of Private Sector Element</u>

ISSUE

Developers feel strongly that the mix of uses within the non-Government element should be left to the discretion and judgement of the developer, dependent upon his view of the return likely to be generated by the various alternatives.

<u>SOLUTION</u>

We recommend that the mix should be left to the developer as it is both his risk and his reward. However, in terms of an ultimate sanction, each bidder will be required to submit a conceptual design solution as part of his bid, and if Government considers that the mix is inappropriate, Government is in a position to reject the conceptual design submitted and to select a more appropriate proposal.

(14) The Environment

ISSUE

The boundaries of the site as prescribed by the Government Property Agency involve the retention of Battery Path and the attractive row of trees fronting onto Queen's Road Central, and as a result, the development will be set back from Queen's Road Central. A number of developers have questioned the justification for, and desirability of, retaining Battery Path, and have suggested that the development would be more successful if it fronted directly onto Queen's Road Central, albeit with some set-back, particularly if the value of the retail facing onto Ice House Street and Queen's Road Central is to be maximised.

SOLUTION Direct exposure to Queen's Road Central could enable a greater portion of the area within the podium to be used for retail purposes, but the environmental loss and the possible tunnel effect that could be created if the site line were to be brought forward are major considerations. It is also to be borne in mind that the majority of developers do not perceive the site as an attractive retail location, preferring to allocate the private sector gross floor area to office use, which they considered to be more appropriate and less prone to risk.

(15) Fast Tracking of Approvals

ISSUE

The Developers were concerned to establish the approval procedures to be adopted in the case of this particular scheme, which, of course, is to be built largely for Government. They expressed the view that bidders would respond positively to some form of streamlining and the establishment of an agreed procedure from the outset, particularly in regard to the identification and prioritisation of Government requirements, if the scheme is to be completed within the requisite time frame.

SOLUTION Clearly, the Government Property Agency, assisted by the relevant

Consultants, is in a position to exercise this function, if given the appropriate authority and the establishment of a Project Co-ordination

Group comprising representatives from the relevant interested

Departments would seem a logical step to provide the successful bidder

with the appropriate reference point. Similarly, if the project could be given priority status in relation to the approvals and consents that will need to be obtained from the various Government Departments, and a team at ASD/BLD dedicated to consider and process any submissions, we see this as being extremely helpful and of re-assurance to prospective bidders.

(16) Site Access

ISSUE

This is not really an issue in that clearly it would be impractical to consider vehicular access other than from Lower Albert Road.

However, given the differing priorities and objectives as between the Government and the private sector and also security considerations, each element may require its own entrance and individual treatment at podium level.

SOLUTION

It will be necessary, as part of the offer documentation, to address and stipulate points of access and egress. Any special Government requirements in regard to security will need to be recorded within the performance specification.

(17) <u>Car Parking</u>

ISSUE

Understandably, there is resistance on the part of the Transport

Department to the introduction of additional traffic along Lower Albert

Road, and the Department is concerned that a major development with attendant car parking will exacerbate what is already a difficult situation. However, Government would appear to have a requirement of approximately 650 spaces, and developers have indicated that car parking is fundamental to the success of the project, particularly if retail is to be considered as a serious option.

SOLUTION

With the approval of the Government Property Agency, it would be our intention to commission Wilbur Smith Associates to undertake a traffic study to review the capacity of the existing road system and junctions with a view to establishing and substantiating the scope and scale of any increase of traffic numbers that could be tolerated within the present system. Similarly, they would be asked to examine certain improvements that are proposed on Lower Albert Road and to assess the impact these works would have in terms of increased traffic numbers. It is intended that the results of this study would be made available to potential bidders to facilitate their appraisal of the opportunity and to avoid the situation where each developer commissions his own study with cost and delay implications. It would also be available if required to support any discussions with the Planning Department.

(18) <u>Pedestrian Movement</u>

ISSUE

The development is likely to generate an office population in excess of 15,000 persons, and satisfactory arrangements for the horizontal and vertical movement of people to the site and within the scheme will be fundamental to the success of the project. Bridge links are, of course, in existence from Chartered Bank and planned from 9 Ice House Street, but we doubt whether these will in themselves be sufficient.

Furthermore, the height differential between Queen's Road Central and Lower Albert Road is some 100 ft., and the need to create obvious and identifiable office entrance statements at both of these levels will therefore need to be addressed. We would, for instance, envisage considerable resistance to a situation where those working in the offices would be required to travel by escalator from Queen's Road Central to the Lower Albert Road level, given the height differential involved.

SOLUTION

As part of their study assignment, Wilbur Smith Associates will be asked to examine pedestrian movements and access to the site.

Contemporaneously, we have opened discussions with the Mass Transit Railway Corporation with a view to establishing the feasibility of a link to the MTR either via the basement of Landmark, or underneath Ice House Street, but initial indications are that the cost will be high and major disruption would be caused during construction. Again, the results of such investigation would be made available to interested parties.

(19) Geotechnical

ISSUE

The sloping nature of the site and the absence of any soil and site investigation information is of concern to both developers and contractors. With complicated schemes of this nature, if difficulties and cost over-runs are experienced, these are most likely to occur at the site formation and foundation stage, and therefore, we can appreciate these concerns.

SOLUTION

Ove Arup and Partners are familiar with the site and made a preliminary assessment of the work and costs involved in 1981. However, unfortunately, no trial bores or site investigation was carried out at that time. Hence, with the authority of the Government Property Agency, we would propose to commission Ove Arup and Partners to co-ordinate and supervise the sinking of a number of trial bore holes with the intention that the results should be made available to potential bidders. This would avoid the need for each bidder to undertake has own investigation and generally facilitate the bidding.

(20) Services

ISSUE

Developers have enquired as to the position with regard to services, in particular access to mains connections for the drainage and sewage to be generated by this large scheme. Similarly, they have enquired as to the possibility of utilising sea water for air cooling purposes, and would

Banking Corporation when it built its new
Headquarters Building in if Government and the Bank would so
permit and provided it is technically and financially practicable so to
do.

SOLUTION

We have already held initial meetings with representatives from the

Bank and the various utility companies and relevant

Government Departments. It would be our intention to provide as much information as possible on these issues to bidders in the tender documentation.

(21) Project Co-Ordination and On-Going Property Management

ISSUE

A number of parties have enquired as to how Government intends to monitor and safeguard its position during the development period, and also its strategy in regard to the long term management of the property.

SOLUTION Subsequent to preparation and issue of the tender documentation, there is clearly the need for an ongoing independent involvement to assist in the review of the bids and the eventual award, and to monitor Government's interests throughout the planning and construction phases. Developers have indicated that they would welcome such an independent reference point, which should be provided for in the documentation, together with a stipulation that the cost of such

policing/monitoring shall be borne by the successful bidder.

As to the future management of the completed buildings, we can see merit in this being undertaken by the developer, as essentially, the scheme is to be designed and built as a single entity. Government may wish to control security within its own premises but the day to day maintenance, upkeep and operation of the development would be best co-ordinated through a single management organisation. We would suggest that the documentation should provide that, subject to a detailed management strategy being agreed between Government and the successful bidder, the future management of the entire development will be entrusted to the successful bidder.

(22) Other Issues To Be Considered

(a) Lease Reversion

If a flying leasehold interest is granted in the private sector element until 2047, Government will have foregone the opportunity to utilise the space constructed in the private sector tower until after that date. This would, therefore, mean that any future expansion over and above the 100,000 sq.m. currently to be provided for Government use would have to be accommodated in other premises - possibly on the site of the current Central or East Wings or Beaconsfield House. If Government was sufficiently certain as to its likely future requirements, then, it might be possible to claw back space from the

developer at pre-determined dates on a pre-defined basis, but clearly, this would impact on the developers view of the opportunity, and we would therefore caution against such a requirement.

(b) Top Slice Sharing/Government Guarantee of Minimum Return

Given the current state of the world economy, and more particularly the Hong Kong office market, developers are bound to approach this opportunity cautiously, and to adopt conservative predictions in respect of rental levels, growth, etc. In such circumstances, Government might wish to consider some form of arrangement whereby each bidder is required to declare the rental levels upon which his bid has been formulated, and if these levels are materially exceeded in the future Government and the successful bidder participate on the basis of a pre-agreed formula in the excess rental.

The natural counter to the suggestion that Government should share in the top slice would be a proposal from the developer that Government should in return guarantee a minimum rental level to the successful bidder. One or two of the more pessimistic parties interviewed have put forward this suggestion, but we do not believe such a guarantee to be appropriate or necessary if the nature and term of the interest granted accords with our recommendation.

On balance, we would not recommend that the documentation be complicated and clouded by such provisos, but believe that the element of competition proposed between the parties linked to a clear definition of the nature and term

of the interest that is being offered will be sufficient to ensure that interested parties incorporate in their bid a reasonable share of any perceived rental growth.

(c) Occupational Interest and Naming Rights

There is the possibility that one of Hong Kong's major financial institutions or corporations may see this as an opportunity to secure the right to develop a new Headquarters Building for its own occupation. Hence, an occupational rather than developer led bid could be received, accompanied, we would anticipate, with the request that the successful party be permitted to name the private sector tower.

We do not envisage this to be a problem and consider that it can be catered for in the documentation. Indeed, the endorsement of the scheme through the involvement of, and investment by, a major Hong Kong or international corporation can only add to the stature of the development.

(d) The Land Commission

We understand that it would be Government's intention at an appropriate stage to consult with the Land Commission in relation to its plans for this site.

Indeed, it may be that the Land Commission would consider that the future SAR Government should share at least in any premium obtained over and above the cost of building the Government accommodation. Alternatively, the

payment could take the form of an annual rental or a sinking fund to be utilised for the future maintenance of the property. In any event, an early discussion with the Land Commission in advance of the offering would appear to be necessary and appropriate.

RECOMMENDATIONS AS TO FUTURE DIRECTION

(1) BASIS OF TENDER

We have given careful thought to the various options available to Government, and believe that Government's objectives would be best achieved through the medium of a developer-led solution.

Of the three options that we have considered, the solution whereby Government undertakes the development and itself raises the necessary funding would appear to be the least suitable. Clearly, Government is in a position to obtain funds and to secure credit on considerably better terms than any corporate borrower from the private sector, but such a scheme would expose Government to the full development risk and to the vagaries of the property market. We also understand that Government is reluctant to increase its financial exposure at the present time, preferring to reserve funds for major infrastructure projects.

As to a possible contractor-led solution, there are undoubtedly contractors capable of undertaking this project, who would be prepared to accept payment on deferred terms. A number of the banks are also supportive of this solution because of the perceived security of guaranteed payments by Government to the contractor. However, Government would still be exposed to fluctuations in the property rental markets, and the contractor's philosophy is likely to be short term in nature, and to attach less importance to such issues as quality and finishes. Finally the contractor will

inevitably mark up his price to reflect deferred payment.

In the case of the developer-led bid, the development and contractual risks would rest firmly with the developer, and the planning, design and execution of the scheme would be in the hands of experienced and tested professionals. Also, given that the developer is to be granted by way of reward, a long leasehold interest in a substantial part of the development, the developer clearly has an identity of interest with Government in ensuring the long term success of the scheme.

Having considered, at some length, all the views expressed to us, we believe that if Government is both to maximise the development opportunities and ensure the widest participation, documentation should be drawn up the following basis and offers solicited accordingly: -

- (a) Bidders would be expected to assume full responsibility for the development and financing of the scheme as a whole, but in return, by way of reward would enjoy the income from the private sector element of the scheme.
 - (b) The successful bidder would be granted a flying leasehold interest in the private sector element on the basis outlined in our report.
 - (c) The duration/term of that interest shall be until 2047.
 - (d) There should be no, or at lease minimal, restrictions on alienation, sale, charging or leasing in the case of the private sector element.

- (e) In so far as Government requirements are concerned, these will be dealt with through a performance specification which would cover the needs of Government including financial allocations where it is not possible to be definitive at this stage. This would also stipulate the minium number of car parking spaces to be provided for Government by the developer.
- (f) General guidance in regard to the massing, height, layout and design of the scheme would be incorporated in a Planning Brief, but the bidders will be afforded maximum flexibility in relation to the design and planning of the private sector element.
- (g) Bidders will be advised that solutions maximising gross floor area and plot ratio through dedication will be welcome and supported, provided they satisfy the usual Government regulations.
- (h) The documentation will indicate a minimum sum to be expended on the scheme as a whole and on the Government Headquarters, and that the scheme as a whole and the Government Headquarters shall be completed within certain specific dates.
- (i) Any ancillary works to be provided at the developer's expense will be clearly specified and defined, such as MTRC access tunnels, foot bridges, the widening of Lower Albert Road, etc., and similarly, any liability to underwrite Government relocation costs during the development period will require to be quantified.

(j) Government's requirements for the monitoring and control of the project will be defined, as will the developers liability to meet the expense involved.

Finally bidders will be invited to: -

- (a) indicate the premium or annual rental that they would be prepared to pay to Government for the flying leasehold interest in the private sector element of the scheme.
- (b) submit outline design proposals sufficient to illustrate their intentions in regard to the planning and layout of the development.

Government's final decision would therefore be based on the most acceptable combination of these two aspects.

(2) MODE OF TENDER

We consider that Government would be prudent to approach the offering in two stages, and based on the full documentation initially to INVITE EXPRESSIONS OF INTEREST to be assessed on financial and technical capability, including previous relevant experience. This would enable Government to pre-qualify only those bidders which are considered to have the relevant expertise and financial resources and avoid potential embarrassment if proposals are received from bidders who are clearly not capable of meeting Government's requirements. Pre-selection would also be well received by potential bidders who would normally be involved in considerable effort

and expense in formulating this type of proposal, as those eliminated would not incur abortive expenses, whilst it would heighten the interest of those that were shortlisted.

Having identified/pre-qualified the most serious contenders, they would then be invited to bid based on the documentation.

The further advantage of this two stage approach is that it provides Government with the opportunity for an interim review, and if the world situation were to deteriorate or conditions in Hong Kong were, for some unforeseen reason, to turn for the worse, Government could at the pre-qualification stage modify its strategy to suit the changing circumstances.

CONCLUSION

We believe that the basis and mode of tender that we have recommended will attract maximum interest, and that developers, contractors, the financial community and potential end users will participate in various combinations and joint ventures. It responds to the requests that we have repeatedly received that Government should be as definitive as possible in regard to its requirements, whilst permitting maximum flexibility in the case of the private sector element. Most particularly, it defines the interest and term to be granted to the successful bidder which can be valued to support the bid and can be utilised as security for funding. In all respects, therefore, we consider it to be a solution to which the private sector will respond positively and keenly.

APPENDIX A

1.00 <u>Introduction</u>

- Property Agency, is examining the options for redeveloping the site of the Central Government Offices, West Wing with the intention of providing modern and prestigious headquarters accommodation for the Government Secretariat. The site is bounded by Lower Albert Road to the south, Ice House Street to the west, Battery Path to the north and the Central Government Offices, Main and East Wings to the east, as indicated on the site plan attached hereto. The site area is approximately 10,500 sq.m.
 - 1.02 The Government wishes to retain ownership of the entire site, and all newly constructed buildings thereon.
 - 1.03 The West Wing site is grossly underdeveloped at present and a key feature of the redevelopment scheme is that optimum use should be made of the site and that the development potential should be maximised in so far as this is both practicable and desirable.

accommodation is such that at least one third of the site's full development potential may be made available for use by the private sector. The Government Property Agency is therefore desirous that the opportunities for private sector participation in the redevelopment be fully explored, particularly in regard to the funding, implementation and co-ordination of the project.

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It is recognised that the scale and extent of interest in this project will to a large degree be dependent upon the degree of flexibility that can be built into any invitation that is issued to the private sector. Clearly, Government's interests will need to be safeguarded, but an appropriate balance will need to be struck between the requirements of Government and the interests of the private sector.

1.06 Cognisance will need to be taken of the strategic location of the site and those parts of the site that are well vegetated with scrub and trees should be retained as far as possible, and as much of the new ground level as possible made available for public passive recreation and suitably landscaped. Vehicles should be excluded from this area as far as possible.

- 1.07 The public streets fronting onto the lower levels of the site are extremely congested at present. The redevelopment proposal must therefore address this problem and incorporate improvements to both pedestrian and vehicular movements into, out of and through the site.
- 1.08 The Government has recently adopted new space standards for its office accommodation that are based on a new range of furniture, and this will need to be reflected in the amount, configuration and quality of space that is to be allotted for Government purposes.
- The Government is actively promoting energy conservation and the project should be designed in such a way that the building fabric and engineering services combine to produce optimally energy efficient accommodation, both in terms of capital and running costs.
- 1.10 The Government wishes to explore the opportunities for private sector participation in order to minimise the need for capital outlay by Government and to provide the required Headquarters accommodation in the shortest possible time. The Government accommodation must be of a high design standard consistent with its status as the seat of Government. Its construction should be economic and

cause the minimum of disruption to occupiers of adjacent accommodation.

2.00 The Role of the Consultant

10

The Consultant will act as the development adviser, providing the Government Property Agency with an independent point of reference throughout the consultancy, and will be responsible for undertaking an extensive review of all the options open to Government for soliciting private sector participation and for advising as to the technical and financial feasibility of all the options in question.

3.00 Scope of Consultancy

Following the preparation of an outline information

package, wide ranging interviews will take place

with the leading members of the development,

financial and construction communities and with the

relevant Government Departments. The concepts and

ideas thrown up as the result of these discussions

will be thoroughly reviewed and financially tested

and the results consolidated in a composite report,

prioritising the various proposals and setting out
the Consultant's recommendations to Government. The

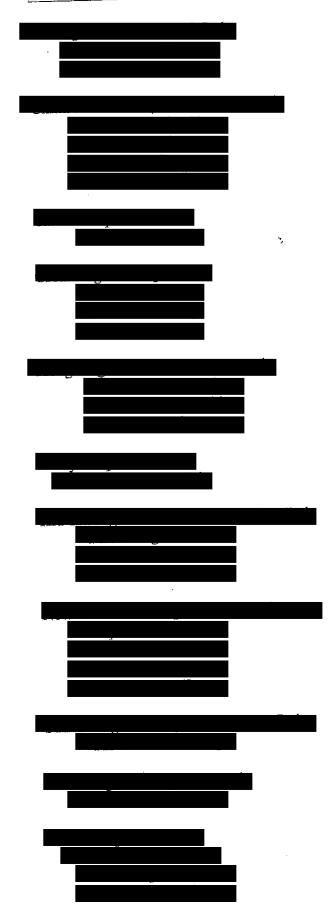
inter-relationships between cost, time and value will be material in recommending a preferred option. The Consultant shall complete and submit the report within 5 calendar weeks from the date of the Articles of Agreement. The report will then be considered by the Steering Group to whom the Consultant will be required to make a formal presentation to assist the Steering Group in arriving at its decision.

4.00 Appointment of Sub-Consultants

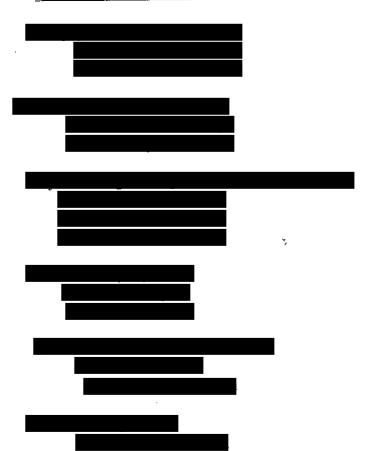
It is recognised that additional professional skills and services may be required as part of the review, and the Consultant is therefore to be permitted to appoint such Sub-Consultants as may be necessary to complete the assignment, subject to having received the prior written consent of the Government in accordance with Clause 13(2) of the Conditions of Engagement.

APPENDIX B

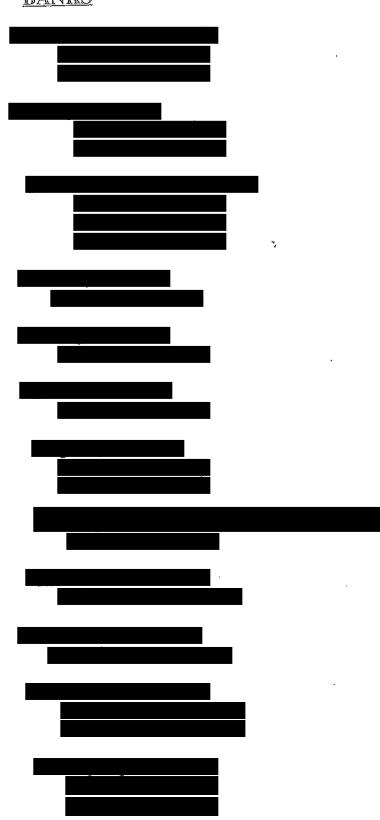
DEVELOPERS



CONTRACTORS



BANKS



OTHERS





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APPENDIX C

REDEVELOPMENT OF THE

CENTRAL GOVERNMENT OFFICES

WEST WING

LEVETT & BAILEY
OCTOBER 1990

CONTENTS

1 .	THE BRIEF	<u>PAGE</u> 1
2	DEVELOPMENT SUMMARY	4
3	CONSTRUCTION COST ESTIMATE	5
4	PROGRAMME	6
5	LOCATION & SITE PLAN	7

REDEVELOPMENT OF THE CENTRAL GOVERNMENT OFFICES, WEST WING

THE BRIEF

- 1.01 The Hong Kong Government, through the Government Property Agency, is examining the options for redeveloping the site of the Central Government Offices, West Wing with the intention of providing modern and prestigious headquarters accommodation for the Government Secretariat. The site is bounded by Lower Albert Road to the south, Ice House Street to the west, Battery Path to the north and the Central Government Offices, Main and East Wings to the east, as indicated on the site plan attached hereto. The site area is approximately 10,500 sq.m.
 - 1.02 The Government wishes to retain ownership of the entire site, and all newly constructed buildings thereon.
 - The West Wing site is grossly underdeveloped at present and a key feature of the redevelopment scheme is that optimum use should be made of the site and that the development potential should be maximised in so far as this is both practicable and desirable.

- 1.04 Government's current requirement for Secretariat accommodation is such that at least one third of the site's full development potential may be made available for use by the private sector. The Government Property Agency is therefore desirous that the opportunities for private sector participation in the redevelopment be fully explored, particularly in regard to the funding, implementation and co-ordination of the project.
- 1.05 It is recognised that the scale and extent of interest in this project will to a large degree be dependent upon the degree of flexibility that can be built into any invitation that is issued to the private sector. Clearly, Government's interests will need to be safeguarded, but an appropriate balance will need to be struck between the requirements of Government and the interests of the private sector.
- 1.06 Cognisance will need to be taken of the strategic location of the site and those parts of the site that are well vegetated with scrub and trees should be retained as far as possible, and as much of the new ground level as possible made available for public passive recreation and suitably landscaped. Vehicles should be excluded from this area as far as possible.

- 1.07 The public streets fronting onto the lower levels of the site are extremely congested at present. The redevelopment proposal must therefore address this problem and incorporate improvements to both pedestrian and vehicular movements into, out of and through the site.
- 1.08 The Government has recently adopted new space standards for its office accommodation that are based on a new range of furniture, and this will need to be reflected in the amount, configuration and quality of space that is to be allotted for Government purposes.
- The Government is actively promoting energy conservation and the project should be designed in such a way that the building fabric and engineering services combine to produce optimally energy efficient accommodation, both in terms of capital and running costs.

1.10

The Government wishes to explore the opportunities for private sector participation in order to minimise the need for capital outlay by Government and to provide the required Headquarters accommodation in the shortest possible time. The Government accommodation must be of a high design standard consistent with its status as the seat of Government. Its construction should be economic and cause the minimum of disruption to occupiers of adjacent accommodation.

REDEVELOPMENT OF CENTRAL GOVERNMENT OFFICES (WEST WING)

SUMMARY OF SALIENT FACTS

SITE AREA	10,500	sq m	
TOTAL GFA (BASED ON 15:1 PLOT RATIO)	157,500	sq m	
CAR PARKING SPACES	900	cps	
GOVERNMENT USE	100,000	sq m	
	300	cps	
AVAILABLE SURPLUS	57,500	sq m	J.
(FOR UTILISATION BY PRIVATE SECTOR)	600	cps	

INDICATIVE EXAMPLE OF POTENTIAL RENTAL INCOME TO BE GENERATED FROM SURPLUS RETAIL/OFFICES/CAR PARKING

RENTAL	V٨	ΙJ	UE

G/F RETAIL	HK\$2,150	p.s.m.	per month
OFFICE	HK\$650	p.s.m.	per month
CAR PARKING	HK\$2,000	per space	per month

RENTAL INCOME PER ANNUM

G/F RETAIL	5,000 sq m Gr	oss @	0.70 @	HK\$2,150	HK41,323,000
OFFICE	52,500 sq m Gr	oss @	0.78 @	HK\$650	HK\$26,617,500
CAR PARKING	600 spaces	@	HK\$2,000		HK\$1,200,000
TOTAL	000 Spaces	0	,		HK\$35,342,500
IOIAL				x	12
TOTAL ANNIIAL R	ENTAL INCOME				HK\$424,110,000

say HK\$424 MILLION per annum

REDEVELOPMENT OF CENTRAL GOVERNMENT OFFICES (WEST WING)

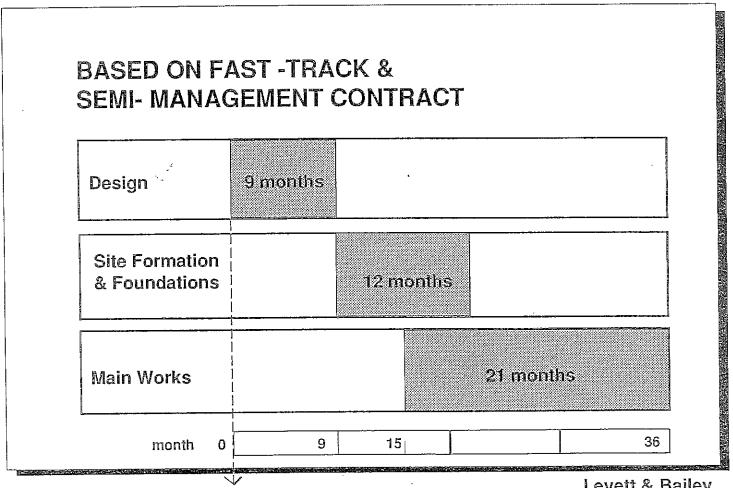
ESTIMATED TOTAL CONSTRUCTION COSTS FOR WHOLE DEVELOPMENT

DEMOLITION COST	10,500	sq. m.		say say	HK\$2,000,000 HK\$20,000,000	HK\$22,000,000
CONSTRUCTION COST G/F RETAIL U/Fs OFFICE CAR PARKING	•		x x x x	HK\$10,120 HK\$9,900 HK\$9,900 HK\$4,000	HK\$50,600,000 HK\$990,000,000 HK\$519,750,000 HK\$126,000,000	HK\$1,686,350,000
EXTERNAL WORKS BRIDGE				say say	HK\$15,000,000	HK\$20,000,000 HK\$1,728,350,000
INFLATION ALLOWANCE	. 1.50) yrs		@ 10.0% pa	a say	HK\$267,900,000 HK\$1,996,250,000
PROFESSIONAL FEES AN OTHER INCIDENTAL COS TOTAL CONSTRUCTION	STS	(ASSUI	ME (@ 12.0% COMPLETION IN 1	say END 1993)	HK\$240,000,000 HK\$2,236,250,000

say

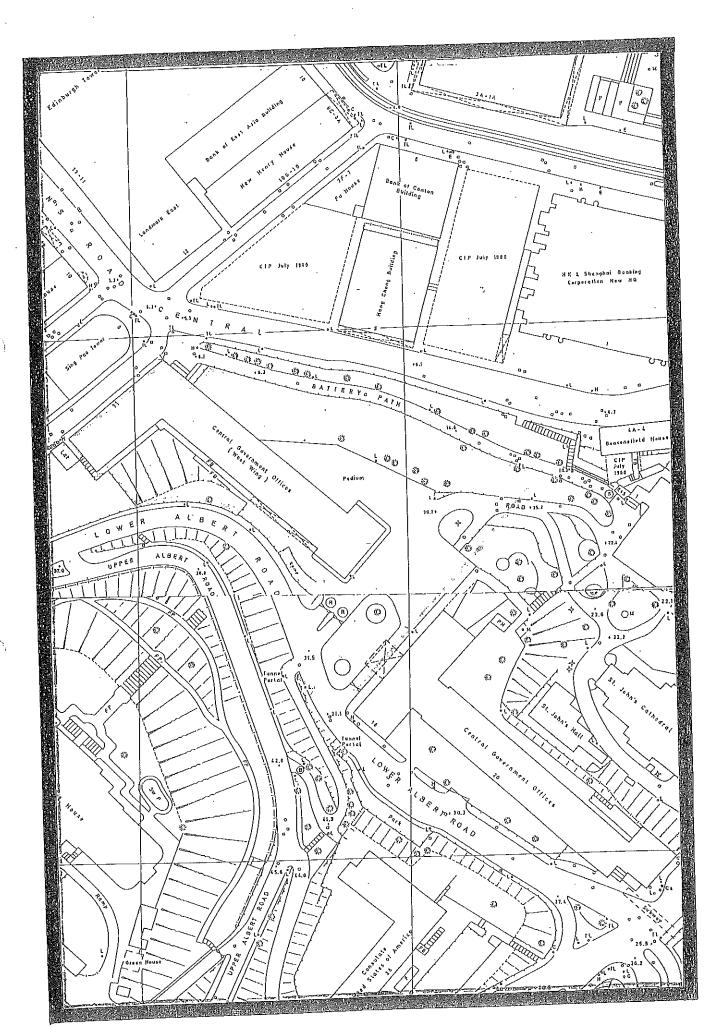
HK\$2,250 MILLION

PROGRAMME



Date of formal decision to proceed

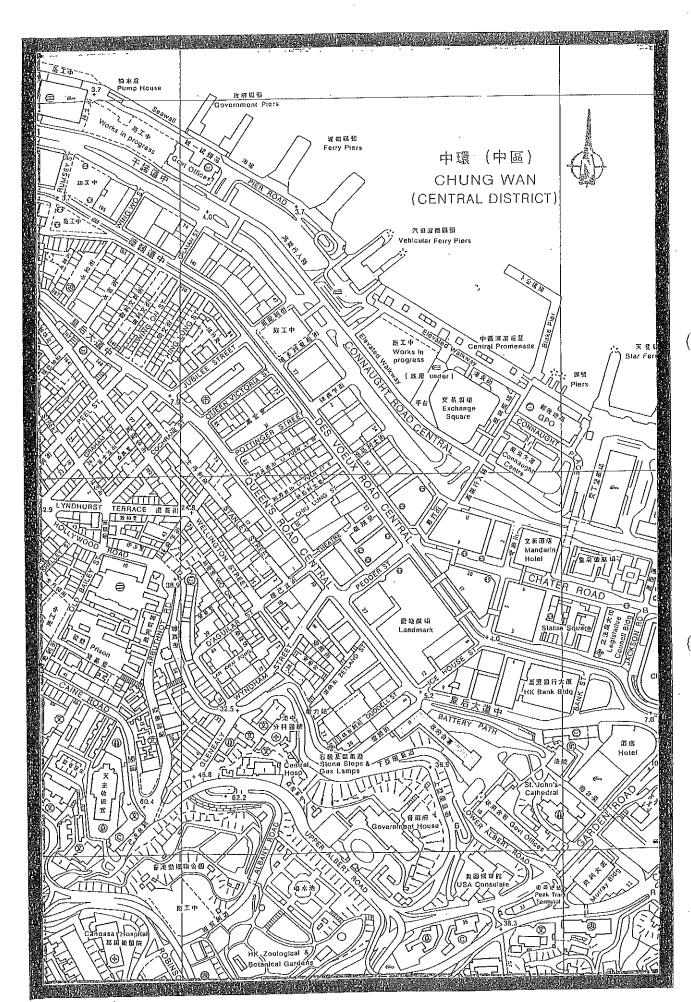
Levett & Bailey



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APPENDIX D

OPTION 1A

VALUATION OF 25 YEAR LEASE OF SURPLUS ACCOMODATION AT PLOT RATIO OF 15

Valuation of Surplus Retail/Office Spaces of Proposed Redevelopment on Central Government Offices (West Wing)

Rental Income							"		
	B	tental per i	nonth	Rental per and	um				
G/F _. Retail		HK\$200 IK\$2,150		HK\$2,400 HK\$25,800					
U/Fs Office	OR	HK\$55 HK\$590		HK\$660 HK\$7,080				·	
The Valuation									
G/F Retail	YP for	•	sq. m. yrs	0.70 129	@ & &	HK\$25,800 4%	=	HK\$90,300,000 6.9439	HK\$627,034,170
U/Fs Office	YP for	52,500 25	sq. m. yrs	0.78 135	@ % &	нк\$7,080 4%	=	HK\$289,926,000 6.4930	HK\$1,882,489,518
Car Parking Sp	ace.	600	no.		@	HK\$250,000	=		HK\$150,000,000
Capital Value			*	` <i>,</i>					HK\$2,659,523,688
. Compare with 6	Gross Deve	elopment C	ost as at	end of Year 3				Net Profit:	HK\$2,649,150,000 HK\$10,373,688
				P.V. for	: З	yrs @		11.5%	HK\$7,483,579
RESIDUAL A	TMUOM							say	HK.\$7,000,000

Residual Amount is the amount available to cover any additional requirements under the tender documentation with the balance for allocation as between the parties in such proportions as the Developer deems appropriate.

OPTION 1B

VALUATION OF LEASE UPTO 2047 OF SURPLUS ACCOMODATION AT PLOT RATIO OF 15

Valuation of Surplus Retail/Office Spaces of Proposed Redevelopment on Central Government Offices (West Wing)

Rental Income

	Rental per month	Rental per annum
G/F Retail	HK\$200 p.s.f. OR HK\$2,150 p.s.m.	HK\$2,400 p.s.f. HK\$25,800 p.s.m.
U/Fs Office	HK\$55 p.s.f. OR HK\$590 p.s.m.	HK\$660 p.s.f. HK\$7,080 p.s.m.

The Valuation

G/F Retail	YP for	. 5 , 000 53	sq. m. yrs	0.70 12%	@	HK\$25,800	==	HK\$90,300,000 8.3128	HK\$750,645,840
U/Fs Office	YP for		sq. m.	0.78 13%	@	HK\$7,080	=	HK\$289,926,000 7.6805	HK\$2,226,776,643
Car Parking Sp		600	no.		@	HK\$250,000	=		HK\$150,000,000
Car ranking of	,1104		*.	;					HK\$3,127,422,483
Capital Value									HK\$2,649,150,000
Compare with	Gross Deve	lopment (Cost as at en	d of Year 3				Net Profit :	HK\$478,272,483
				P.V. for	. 4	yrs @		11.5%	0.7214
				L. A. 101		J C			HK\$345,025,769
RESIDUAL A	/WONN.1							say	HK\$345,000,000

OPTION 2A

VALUATION OF 25 YEAR LEASE OF SURPLUS ACCOMODATION AT PLOT RATIO OF 18

Valuation of Surplus Retail/Office Spaces of Proposed Redevelopment on Central Government Offices (West Wing)

Rental Income

	Rental per month	Rental per annum
G/F Retail	HK\$200 p.s.f. OR HK\$2,150 p.s.m.	HK\$2,400 p.s.f. HK\$25,800 p.s.m.
U/Fs Office	HK\$55 p.s.f. OR HK\$590 p.s.m.	HK\$660 p.s.f. HK\$7,080 p.s.m.

The Valuation

G/F Retail	YP for	•	sq. m. yrs	0.70 12%	@ &	HK\$25,800 4%	=	HK.\$90,300,000 6.9439	HK\$627,034,170
U/Fs Office	YP for	84,000 25	sq. m. yrs	0.78 13%	@ &	HK\$7,080	=	HK\$463,881,600 6.4930	НК\$3,011,983,229
Car Parking S	pace	600	no.		@	HK\$250,000			HK\$150,000,000
Capital Value									HK\$3,789,017,399
Compare with	Gross Devel	lopment C	ost as at end	of Year 3				Net Profit :	HK\$3,178,980,000 HK\$610,037,399
RESIDUAL A	TNUOM			P.V. for	3	yrs @		11.5%	0.7214 HK\$440,080,979
								say	Н С\$440,000,000

Footnote:

OPTION 2B

VALUATION OF LEASE UPTO 2047 OF SURPLUS ACCOMODATION AT PLOT RATIO OF 18

Valuation of Surplus Retail/Office Spaces of Proposed Redevelopment on Central Government Offices (West Wing)

Rental Income

	Rental per month	Rental per annum		
G/F Retail	HK\$200 p.s.f. OR HK\$2,150 p.s.m.	HK\$2,400 p.s.f. HK\$25,800 p.s.m.		
U/Fs Office	HK\$55 p.s.f. OR HK\$590 p.s.m.	HK\$660 p.s.f. HK\$7,080 p.s.m.		

The Valuation

G/F Retail	YP for		sq. m. yrs	0.70 12%	@	HK\$25,800	11	HK\$90,300,000 8.3128	нк\$750,645,840
U/Fs Office	YP for		sq. m. yrs	0.78 13%	@	HK\$7,080	=	HK\$463,881,600 7.6805	HK\$3,562,842,629
		600	no.		@	HK\$250,000	=		HK\$150,000,000
Car Parking S	pace	000	no.	<i>:</i>					HK\$4,463,488,469
Capital Value								•	HK\$3,178,980,000
Compare with	Gross Deve	lopment C	Cost as at end	l of Year 3				Net Profit :	HK\$1,284,508,469
				P.V. for	3	yrs @		11.5%	0.7214 HK\$926,644,409
RESIDUAL A	TNUOMA								нк \$927,000,000
								say	LITZ4251,000,000

SENSITIVITY ANALYSIS 1: 25 YEARS LEASE OF SURPLUS ACCOMMODATION

A SENSITIVITY ANALYSIS ON OFFICE RENT AND PLOT RATIO AT RATE OF FINANCE OF 11.5%pa RESIDUAL AMOUNT (HK\$ MIL)

OFFICE RENT	PLOT RATIO			ATIO OITA
	15	16	17	18
HK\$45	(246)	(152)	(59)	35
HK\$50	(108)	14	135	256
HK\$55	7	152	296	440
HK\$60	146	317	489	661
HK\$65	261	456	650	845

B SENSITIVITY ANALYSIS ON RATE OF FINANCE AND PLOT RATIO AT MONTHLY OFFICE RENT OF HK\$55 per sq ft RESIDUAL AMOUNT (HK\$ MIL)

FINANCE RATE PLOT RATIO				
THE TOTAL	15	16	17	18
10.0%	48	201	354	506
10.5%	34	184	334	484
11.0%	21	168	315	462
11.5%	7	152	296	440
12.0%	(5)	136	278	419
12.5%	(18)	121	260	398
13.0%	(30)	106	242	378

FOOTNOTE:

SENSITIVITY ANALYSIS 2: LEASE UPTO 2047 OF SURPLUS ACCOMMODATION

A SENSITIVITY ANALYSIS ON OFFICE RENT AND PLOT RATIO AT RATE OF FINANCE OF 11.5%pa RESIDUAL AMOUNT (HK\$ MIL)

OFFICE RENT		PLOT RATIO				
Office realization	15	16	17	18		
HK\$45	46	· 180	313	447		
HK\$50	209	376	542	709		
HK\$55	345	539	733	927		
HK\$60	508	735	961	1,188		
HK\$65	645	898	1,152	1,406		

B SENSITIVITY ANALYSIS ON RATE OF FINANCE AND PLOT RATIO AT MONTHLY OFFICE RENT OF HK\$55 per sq ft RESIDUAL AMOUNT (HK\$ MIL)

FINANCE RATE		P	LOT R	ATIO
FIIAMOD 18112	15	16	17	18
10.0%	399	604	809	1,013
10.5%	381	582	783	984
11.0%	363	560	757	955
11.5%	345	539	733	927
12.0%	328	518	709	899
12.5%	311	498	685	872
13.0%	294	478	662	846
L				* .

APPENDIX E

PROPOSED CENTRAL GOVERNMENT OFFICES West Wing Redevelopment

Possible Bonus Area Calculations

: 10,500 m² Site Area

: say 10,000 m² Deck Area

Class of Site : 'C'

Permitted Plot

: 15 Ratio (non-

Domestic)

Tower Dimension : say $40m \times 40m$ (similar to Gloucester Tower)

Assuming the entire roof deck at Lower Albert Road level is dedicated to public passage except entrance lobbies to Towers above subject to Building Authorities approval.

 $= 10,000 - 40 \times 40 \times 2$ Area Dedicated to Public = 10,000 - 3,200

 $= 6,800 \text{ m}^2$

Assuming Bonus Factor (with street frontage)

 $= 6.800 \times 5$ = 34.000 m² or Therefore Bonus G.F.A.

 $= \frac{34,000}{10,500}$ Equivalent Bonus P.R. = 3.238

> Maximum Bonus P.R. $15 \times 20\% = 3$

Therefore Dedication Area Bonus Plot Ratio = 3 or

 $= 3 \times 10,500$ Bonus G.F.A.

 $= 31,500 \text{ m}^2$

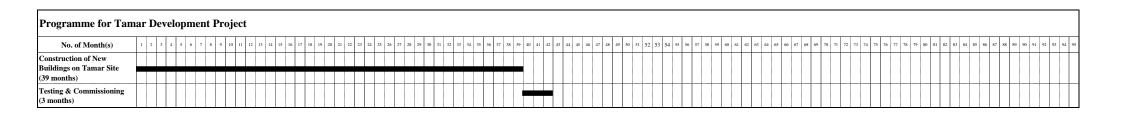
Comparison of Implementation Programme

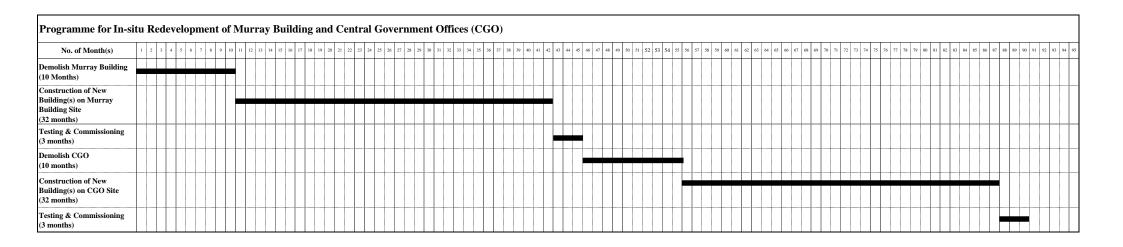
Tamar development project VS In-situ redevelopment of Murray Building and Central Government Offices (CGO)

Tamar		In-situ Redevelopment Murray Building + CGO		
<u>Event</u>	<u>Duration</u> (Months)	Event	<u>Duration</u> (Months)	
• Construct new building(s) on Tamar site	39	Demolish Murray Building	10	
• Testing & Commissioning (T&C)	3	 Construct new building(s) on Murray Building site 	32	
		• T&C	3	
		Demolish CGO	10	
		Construct new building(s) on CGO site	32	
7D-4-1	42	• T&C	3	
Total	42	Total	90	

Note:

- (1) The Murray Building + CGO Option is 48 months (**4 years**) longer than the Tamar Option counting from Day One of construction work on site.
- (2) The pre-contract lead time for the Murray + CGO Option will be longer than the Tamar Option, since preliminary feasibility study, topographical survey, preliminary environmental review, ground investigation etc. have already been carried out for the Tamar Option.
- (3) The 3 months allowed for T&C includes testing and commissioning of IT and building services systems and moving-in of tenants.
- (4) The 32 months each allowed for the construction of new building(s) on the Murray Building and CGO sites is a preliminary assessment assuming the scope of development will be the same as the Tamar Option. Time has not been allowed for any unforeseen underground utilities, geotechnical complications and adverse underground soil conditions etc. for the Murray + CGO Option.
- (5) Programme barcharts comparing the 2 Options are attached.







PROTECTION OF RIDGELINE