香港房屋委員會
Hong Kong Housing Authority

APPENDIX 24

Our Ref : HDCR4-2/PS/4-35/2 Tel No. : 2761 5049
Your Ref : CB(4)/PAC/R56 Fax No : 2761 7445

30 May 2011

Clerk to Public Accounts Committee
Legislative Council
8 Jackson Road, Central
Hong Kong
(Attention : Ms Macy NG)

Dear Ms Ng,

The Director of Audit's Report on the results of value for money audits (Report No. 56)

Hong Kong Housing Authority: Management of commercial properties (Chapter 7)

Thank you for your letter of 25 May 2011.

For the divestment of Hong Kong Housing Authority's retail and car parking facilities, the valuations of the divested properties were carried out by an independent property valuer, CB Richard Ellis Limited. The aggregate market value of the divested properties as determined by the said independent property valuer was $33.802 billion. Details of the valuation information and the considerations concerned are disclosed and clearly set out in Appendix IV to the Offering Circular (an extract from the said Offering Circular is at **the Annex**).

Yours sincerely,

(Vincent TANG)
for Director of Housing

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14 November 2005

The Board of Directors
The Link Management Limited
(for itself as manager of The Link Real Estate
Investment Trust ("The Link REIT") and
for and on behalf of The Link REIT)

Goldman Sachs (Asia) L.L.C.
The Hongkong and Shanghai Banking Corporation Limited
UBS AG acting through its business entity UBS Investment Bank

Dear Sirs

Hong Kong Housing Authority Retail and Car Parking Facilities Divestment, Hong Kong (together "The Properties")

Instructions

We refer to written instructions issued by the Joint Global Coordinators ("JGCs") on behalf of The Link Management Limited ("Letter of Instruction"), requesting formal valuation advice in respect of the abovementioned retail and car parking facilities. We have specifically been instructed to provide our opinion of the Market Value (as defined below) of the remaining leasehold interest in the Properties as at 30 September 2005 subject to all existing and proposed leases/tenancy agreements and occupancy arrangements.

We have prepared comprehensive formal valuation reports (individually a "Report" and collectively the "Reports") in accordance with the requirements of the Letter of Instruction, Chapter 6 of the SFC REIT Code, the Hong Kong Institute of Surveyors ("HKIS") Valuation Standards on Properties (First Edition 2005) and the following international definition of Market Value, namely:

"Market Value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market Value is also defined on the following basis:

"the price at which the property might reasonably be expected to be sold at the date of the valuation assuming:

i. a willing, but not anxious, buyer and seller;

ii. a reasonable period within which to negotiate the sale, having regard to the nature and situation of the property and the state of the market for property of the same kind;

iii. that the property will be reasonably exposed to the market;

iv. that no account is taken of the value or other advantage or benefit, additional to market value, to the buyer incidental to ownership of the property being valued;

v. that the seller has sufficient resources to allow a reasonable period for the exposure of the property for sale; and

vi. that the seller has sufficient resources to negotiate an agreement for the sale of the property."

In adopting this definition of value, we are of the opinion that it is consistent with the international definition of Market Value as advocated by the Royal Institution of Chartered Surveyors ("RICS") and the HKIS.

Reliance on This Letter

For the purposes of this Offering Circular, we have prepared this letter which summarises our Reports and outlines key factors which we have considered in arriving at our opinion of value. This letter alone does not contain the comprehensive data and support information included in our Reports. For further information to that contained herein, reference should be made to the Reports, copies of which are held by the Trustee of The Link REIT.

CB Richard Ellis has provided the Trustee with a comprehensive valuation report for each of the Properties. The valuations and market information are not guarantees or predictions and must be read in conjunction with the following:

- Each Report is approximately 80 to 100 pages in length and the conclusions as to the estimated values are based upon the factual information set forth in the respective Reports. Whilst CB Richard Ellis has endeavoured to assure the accuracy of the factual information, it has not independently verified all information provided by The Link Management Limited ("LML") (primarily copies of leases and financial information with respect to the Properties as well as various reports by independent consultants engaged by LML) or the government of Hong Kong (primarily statistical information relating to market conditions and demographics). The Reports contain detailed information which may be required by investors in order to fully understand the complexity of the methodology and the many variables involved.

- The methodologies used by CB Richard Ellis in valuing the Properties, namely Discounted Cashflow Analysis, Capitalisation Approach and Direct Comparison are based upon estimates of future results and are not predictions. These valuation methodologies are briefly summarised in the Valuation Rationale section of this letter. Each methodology begins with a set of assumptions as to income and expenses of the Properties and future economic conditions in the local market. The income and expense figures are mathematically extended with adjustments for estimated changes in economic conditions. The resultant value is considered the best practice estimate, but is not to be construed as a prediction or guarantee and is fully dependent upon the accuracy of the assumptions as to income, expenses and market conditions. The basic assumptions utilised for each Property are summarised in Valuation Rationale section of this letter.

- The Reports were undertaken based upon information available as at 30 September 2005. CB Richard Ellis accepts no responsibility for subsequent changes in information as to income, expenses or market conditions.

Summary of Divestment Portfolio

The Link REIT portfolio comprises a diverse range of publicly owned retail and car parking facilities within Hong Kong. These properties were originally developed by the Hong Kong Housing

Authority ("HKHA") to service the needs of the estates and local catchments across Hong Kong Island, Kowloon and the New Territories. The tenancy mix within these publicly owned facilities is predominantly locally based and includes supermarkets, large Chinese restaurants, fast-food operators and local convenience and service based outlets.

In total, the portfolio includes 180 properties containing a combined Internal Floor Area ("IFA") of 1,001,441.5 square metres and providing 79,485 car parking spaces. The variety of property types within the portfolio is extensive, ranging from smaller car parking facilities and retail shops to substantial district shopping centres offering higher order comparison based retailing. In terms of value, individual properties within the portfolio range from under HK$5 million for smaller facilities to in excess of HK$1.6 billion for the larger assets.

The older facilities include:

- A collection of shops located on the ground floor and in some instances first floor of domestic residential buildings. These facilities typically service local shopping needs and are often disjointed from a traditional retailing perspective, with the design and layout producing difficulties in guiding trade and achieving maximum rental growth. These centres may allow additional fast-food retailing and small destination uses, but only in the highly visible locations.
- Purpose-built retail properties with adjoining market buildings and auxiliary buildings. Built as retail but definitely older style, with their tired appearance often overstating their actual age. These facilities are generally of multi-level design and although they may have originally been the dominant centre in the catchment area, they are now forced to trade as secondary facilities to dominant private retail centres which are typically located at the junction of local transport infrastructure and either built over or adjacent to MTR stations. These centres do not present as well as the private centres and it is anticipated that intensive and pro-active management will be required to introduce new tenants, improve the retail offer, reduce vacancy levels and increase the potential for growth.

New facilities include:

- Purpose-built retail centres typically designed to service developing estates. They are typically air-conditioned or have been retro-fitted and provide the focal point of the estate. In areas where there is more private competition, the trade mix is very local. Centres in more distant locations may offer limited local fashion and sport outlets.
- Larger new centres in larger estates and catchments. The centres may include some secondary branded fashion, jewellery and gift shops. However, the bulk of these centres are still anchored or underpinned by one, possibly two supermarket chains, branded/chain fast-food outlets and large Chinese restaurants.

Within the portfolio there are approximately 10 to 15 centres which we consider to be the best of the Link REIT portfolio, in terms of both size and income security. They are typically new or dominant in their catchment or are situated in locations which benefit from potential tourism. These centres are the trophy assets of the portfolio.

Valuation Rationale

In order to assess the market value of the diverse range of properties included in The Link REIT portfolio, we have considered a broad cross-section of recent retail and carpark sales evidence throughout Hong Kong. The local evidence considered provides an indication of market demand for these investments and helps to establish appropriate market parameters on which our assessment of value has been based. Given that The Link REIT portfolio is expected to be one of the first major REITs to be launched in Hong Kong, we have additionally had regard to recent market activity involving REIT purchasers in international markets including Singapore in order to establish the fundamental investment criteria utilised by REIT vehicles.

Having regard to the return driven focus of REIT vehicles, the valuation methodology adopted in assessing the market value of the underlying property assets needs to reflect both the investment criteria and reporting requirements of REIT vehicles. As such, we have relied upon discounted cashflow analysis and a capitalisation approach as our primary valuation methods, supported by the direct comparison method. Although retail investments in Hong Kong are typically valued using a direct comparison approach, this method of valuation has inherent limitations in quantitatively reflecting various property specific characteristics including:

- Quality of existing tenant covenants;
- Lease expiry profile;
- Vacancy rate and leasing potential;
- Passing rents in comparison to market;
- Redevelopment potential;
- Potential for turnover and rental growth.

All of these factors are particularly important to REIT vehicles as they directly impact on the cashflow and growth potential associated with the property (and hence the return to investors in the REIT). In relation to the direct comparison approach, these dynamic factors must all be reflected in a single variable, namely the value rate per square metre.

In contrast, both discounted cashflow analysis and the capitalisation approach can accurately reflect these property specific items by utilising individual assumptions which have been verified by market evidence. The ability to adopt specific assumptions to reflect the tenancy and cashflow profile in both these valuation methods is considered to be particularly relevant for REIT based purchasers where delivering returns to investors is of paramount importance.

A brief summary of each of these valuation methods is provided as follows:

Discounted Cashflow Analysis

We have carried out a discounted cashflow analysis over a 10-year investment horizon in which we have assumed that the Property is sold at the commencement of the eleventh year of the cashflow. This form of analysis allows an investor or owner to make an assessment of the long term return that is likely to be derived from a property with a combination of both rental and capital growth over an assumed investment horizon. In undertaking this analysis, a wide range of assumptions are made including a target or pre-selected internal rate of return, rental growth, sale price of the property at the end of the investment horizon, costs associated with the initial purchase of the property and also its disposal at the end of the investment period.

The cashflow analysis, which comprises annual income streams, is based upon the following assumptions:

- We have estimated that inflation will grow at rates between 1.90% and 2.68% per annum during next 10 years, reflecting an average growth rate over the forecast cashflow period of

2.45% per annum. The adopted inflation rates are in line with consensus forecasts as detailed in the Market Consultants Report.

- Rental growth patterns for each individual tenancies and carpark operations reflect the rent review provisions of each lease, including staggered rental increase where applicable. We have assumed that upon expiry of the tenancies and carpark operations, typically new three-year leases will be granted on the basis of a market rent with no annual increases.
- Other income such as advertising and promotions, casual and sundry income have been forecast to increase annually in accordance with income growth.
- We have forecast total outgoings and outgoings recoveries to increase in accordance with inflation, and in addition, we have deducted rates and government rent, both of which increase annually in accordance with the income growth forecast adopted within our calculations.
- An annual vacancy and bad debts allowance has been provided over various properties within the portfolio. These allowances have been calculated as a proportion of gross income (excluding car parking income) and have been deducted throughout the term of the cashflow. These allowances range up to 25%, reflecting the anticipated long term trading position and the likely ongoing level of vacancy within each property.
- An allowance for owner's non-recoverable expenditure calculated initially at 1.0% of gross retail income and forecast to increase in line with inflation is deducted throughout the cashflow.
- Immediate capital expenditure as forecast by Chesterton Petty has been deducted during the first year of the cashflow, together with the ongoing forecast capital expenditure.
- A letting up allowance calculated as three months' gross rent together with an incentive allowance of 0.5 month gross rent has been provided on expiry of existing leases. An assumed renewal probability of between 80% and 85% has been included within our letting up calculations for existing leases. A letting up allowance of 12 months gross rent has been provisioned over existing vacancies.
- The property is assumed sold at the end of year 10 at a price based upon the forecast year 11 income and on the terminal capitalisation rate for the remaining property lease term. Our selected terminal capitalisation rate, used to estimate the terminal sale price, takes into consideration perceived market conditions in the future, estimated tenancy and cashflow profile and the overall physical condition of the building in 10 year's time. The adopted terminal capitalisation rate additionally has regard to the duration of the remaining tenure of the property at the end of the cashflow period.
- Acquisition costs and disposal costs have been deducted, equating to 4% and 0.875% respectively.
- The analysis proceeds on a before tax basis, and whilst we have not qualified any potential taxation benefits associated with the properties, we are of the view that these are issues which a prospective purchaser would reflect in its consideration.
- The analysis is based on the assumption of a cash purchase. No allowance for interest and other funding costs have been made.
- We have discounted the income at each year of the cashflow on a midpoint basis which assumes an income of six months in arrears and six months in advance.

We have investigated the current market requirements for an investment return over a 10-year period from retail and car parking properties. We hold regular discussions with investors active in the market, both as purchasers and owners of shopping centres. From this evidence, we conclude that market expectations for the portfolio are currently in the order of 8.75% to 9.75%, which we have applied within our calculations. The overall portfolio internal rate of return is in the order of 9.27%.

We note that the prevailing Hong Kong 10-year Exchange Fund Notes ("EFN") is in the order of 4%, indicating a risk premium of between 4.75% and 5.75%. Based on our analysis of comparable sales within the international REIT market, this slightly higher premium reflects the nature of the portfolio and the inherent investment risks associated with the South-East Asia region and the current status of the prevailing bond rate in Hong Kong.

Capitalisation Approach

We have also utilised a capitalisation approach in which the net income on a fully leased basis has been estimated having regard to the current passing rental income and potential future income from existing vacancies. Other income relating to advertising and promotion, casual leasing, sundry items and car parking revenue has additionally been incorporated within our calculations. From this figure, we have deducted outgoings expenditure, rates, government rent, management fees and an ongoing vacancy allowance to reflect possible future vacancies and bad debts. We have additionally incorporated an ongoing other non-recoverable expenditure allowance within our calculations.

The adopted fully leased net income is capitalised over the remaining tenure of the property from the valuation date at appropriate investment yields in order to produce a core capital value. We have applied individual yield to the retail and carpark components of the property to reflect the perceived higher levels of risk associated with the carpark operations. The yields adopted within our calculations generally range from 5.5% to 9.0% for the retail components and from 8.0% to 9.0% for the carpark components. The average initial yield for the portfolio equates to 6.82%. The adopted yields reflect the nature, location and tenancy profile of the various properties together with current market investment criteria, as evidenced by the market evidence considered. Thereafter, appropriate capital adjustments relating to letting up costs associated with existing vacancies, rental reversion adjustments and capital expenditure requirements have been included.

Direct Comparison Approach

As a supporting method of valuation, we have utilised a direct comparison approach to ensure that the overall value rates (per square metre of IFA and per car parking space) indicated by our DCF and capitalisation approach calculations are within market parameters in the context of the sales evidence considered.

Summary of Individual Property Details

Comprehensive details of the 30 largest properties within the portfolio (by value) are provided below together with a summary schedule which outlines our valuation assessment for all properties within the portfolio. We note that the 30 largest properties detailed below represent slightly more than 50% of the total value of the portfolio. The Link REIT will own 100% of all properties.

****Note by Clerk, PAC:*** *Pages IV-7 to IV-63 not attached.***