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Formerly C Y Leung & Company
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18th September, 2001

LWK & Partners (HK) Ltd.
9/F, Pacific Plaza
410 Des Voeux Road Central
Hong Kong

By Fax (2572 4908) & By Post

Attn: Mr. Ronald Liang

Dear Sirs,

RE: WEST KOWLOON WATERFRONT DESIGN COMPETITION

We refer to our recent meeting with Mr. Kenneth Poon of Davis Langdon & Seah Hong Kong Limited where we were provided with a proposal on development of the West Kowloon Waterfront Reclamation. A copy of an Area Schedule summarising the proposed development is attached at the Appendix for reference.

The proposal will leverage the unique prominent waterfront location and good accessibility of the area to develop it into a cultural/recreational focus infilled with commercial property developments.

According to the area schedule, the proposed main contents of private property developments comprise:-

Plot	Land Use	Land Area (sq.m.)	No. of Floors	Total Gross Floor Area (sq.m.)
2	Retail	30,800	3	92,400
3	Retail & Entertainment	31,500	3	94,500
			Sub-total (retail)	186,900
8	Residential (1,600 units)	38,500	1 x 60 1 x 50 1 x 40 1 x 30	144,000
			Sub-total (residential)	144,000 (90 sq.m. per unit)

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Plot	Land Use	Land Area (sq.m.)	No. of Floors	Total Gross Floor Area (sq.m.)	
14	Hotel (860 rooms)	7,700	38	61,500	
15	Hotel (1,000 rooms)	9,000	45	72,000	
			Sub-total (hotel)	133,500	(1,860 rooms)
16	Offices	11,000	55	88,000	
17	Offices	14,000	60	120,000	
			Sub-total (offices)	208,000	
			Grand Total	672,400	

For information and comparison purpose, the development on top of the Airport Express Kowloon Station which is to the immediate north of the subject area, comprising 7 development packages, will provide in total about 1,090,000 sq.m. of fully integrated residential, office, retail and hotel facilities. The details of the development are:-

Site Area	:	135,400 sq.m.
Residential GFA	:	608,026 sq.m. 5,814 unit (i.e. average 104.6 sq.m. per unit)
Office GFA	:	231,778 sq.m.
Retail GFA	:	82,750 sq.m.
Hotel/Service apartment GFA	:	163,472 sq.m. (1,700 rooms)

It is noted that the proposed development plans to provide similar floor area of offices and hotel/service apartment as the Kowloon Station. However, the component of retail provision is significantly larger than the Kowloon Station development.

In the following paragraphs, we will try to comment on the viability and value of each of the above components of development.

(A) RETAIL

- ◆ The stock in Tsim Sha Tsui (including Hunghom reclamation) as at the end of 2000 is 824,900 sq.m.. The proposed development will add 22.66% to the existing stock. The addition is very substantial and the market will take time to absorb.
- ◆ The vacancy rate of retail property in Tsim Sha Tsui as at the end of 2000 is 10.3%.

- ◆ For reference and comparison, the details of various high quality shopping developments are set out below:-

Ocean Terminal, Harbour City (Tsim Sha Tsui)	60,200 sq.m.
Ocean Centre, Harbour City (Tsim Sha Tsui)	20,810 sq.m.
Ocean Galleries, Harbour City (Tsim Sha Tsui)	35,860 sq.m.
Gateway I, Harbour City (Tsim Sha Tsui)	10,033 sq.m.
Gateway II, Harbour City (Tsim Sha Tsui)	37,160 sq.m.
Sub-total	164,063 sq.m.
Pacific Place (Admiralty, Central)	66,070 sq.m.
Festival Walk (Kowloon Tong)	91,165 sq.m.

- ◆ The current rent for shops in Harbour City is about \$70 to \$200 per sq.ft. of lettable area.
- ◆ Being prominently located and next to cultural facilities to be of international standard, the proposed retail shops are capable of attracting high income population and upper end tenants who can afford higher rent.
- ◆ However, retail property market is softening as a result of continuous shrinkage in consumption expenditure amid the on-going contractionary economy and the current vacancy rate is high.
- ◆ The proposed supply is very substantial, larger than the aggregate of the whole of the Harbour City shopping complex.
- ◆ The subject location is separated from the present shopping hub at the Nathan Road and Harbour City. It may not be easy to attract shoppers to this new area.
- ◆ There is therefore a concern that the proposed retail floorspace may be overprovided.

Opinion on Value

Capital value of the shops (average)	HK\$6,300 per sq.ft. (HK\$67,813 per sq.m.)
Accommodation value (i.e. land value per sq.ft. of gross floor area)	HK\$1,550 per sq.ft. (HK\$16,684 per sq.m.)

(B) RESIDENTIAL

- ◆ The stock of domestic units in Tsim Sha Tsui at the end of 2000 is 18,064 and the vacancy stood at a high level of 14.7%.
- ◆ Upcoming supply will mainly come from the developments above the Kowloon Station, totally about 5,800 units.

- ◆ The current sale price of the domestic units above Kowloon Station is about \$4,700 p.s.f. to \$5,500 p.s.f. (gross).
- ◆ The average unit size of 90 sq.m. appears large in today's weak market.

Opinion on Value

Capital value of the residential units (average) HK\$4,800 per sq.ft. (HK\$51,667 per sq.m.)

Accommodation value (i.e. land value per sq.ft. of gross floor area) HK\$1,750 per sq.ft. (HK\$18,837 per sq.m.)

(C) HOTEL

- ◆ Tsim Sha Tsui is a renowned tourist area with a high concentration of 4 or 5-star hotels. Merely in Harbour City, there are three hotels namely the Marco Polo Hongkong Hotel, the Marco Polo Gateway Hotel and the Marco Polo Prince Hotel providing a total of 1,503 rooms.
- ◆ With the edge of easy access to Central on Hong Kong Island and the International Airport via the Airport Express as well as the unique waterfront location, the subject site is an attractive location for high-tariff hotel.
- ◆ The tariff rates and occupancy rates of high-tariff hotels have picked up remarkably since 2000.
- ◆ The former Regent Hotel (with 514 rooms) was recently sold to Inter-Continental Group at a price of HK\$2,340 million (i.e. \$4.55 mil per room)..

Opinion on Value

Capital value of the hotel (average) HK\$5,000,000 per room

Accommodation value (i.e. land value per sq.ft. of gross floor area) HK\$2,100 per sq.ft. (HK\$22,604 per sq.m.)

(D) OFFICE

- ◆ Office rent and price in Tsim Sha Tsui, although the highest in Kowloon, are considerably below Central District. This lies to the fact that most banks and financial institutions cannot accept Kowloon as locations for their headquarters. However, it also ends up in that the rent and price in Tsim Sha Tsui are not as volatile as the Central area.

- ◆ Grade A offices in Tsim Sha Tsui are found mainly along the waterfront at Canton Road stretching north from the Tsim Sha Tsui Ferry Pier.

Ocean Terminal	929 sq.m.
Ocean Centre	62,895 sq.m.
New T&T Centre	23,875 sq.m.
World Commerce Centre	23,875 sq.m.
World Finance Centre	47,566 sq.m.
Gateway I	104,793 sq.m.
Gateway II	145,856 sq.m.
	<u>409,789 sq.m.</u>

- ◆ The proposed supply of office space is about 208,000 sq.m.. It is quite substantial when compared with the total stock of 1,360,900 sq.m. in the whole Tsim Sha Tsui area as at the end of 2000 (representing about 15%).
- ◆ The current rent of offices in Gateway is about \$21-\$25 per sq.ft. gross.
- ◆ The proposed office development will offer significant attractions in terms of more spacious layout and better planning of the area, waterfront location ensuring unobstructed panoramic seaview and good accessibility to Central.
- ◆ Therefore, although the supply is large, it may be able to capture tenants from other office developments in Tsim Sha Tsui and even Central District.
- ◆ There is a recent auction of government land at Hung Hom waterfront for commercial development. It was sold for \$1,090 million and is restricted to a maximum gross floor area of 107,444 sq.m.. The sale is slightly below market expectation. The price equals to an accommodation value of \$10,144.8 per sq.m. (\$942 p.s.f.).

Opinion on Value

Capital value of the office	HK\$4,000 per sq.ft. (HK\$43,056 per sq.m.)
Accommodation value (i.e. land value per sq.ft. of gross floor area)	HK\$1,050 per sq.ft. (HK\$11,302 per sq.m.)

Land Sale Revenue

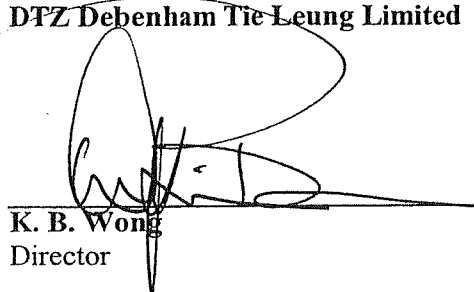
If the parcels of land (sites) planned for the abovesaid retail, residential, hotel and office developments are to be sold off as separate lots to private developers for development after due land formation, our estimation of land revenue derived from the sale of those sites is:-

Use	Proposed Floor Area	Accommodation Value	Land Premium
Retail	186,900 sq.m.	HK\$16,684 per sq.m.	HK\$3,118,239,600
Residential	144,000 sq.m.	HK\$18,837 per sq.m.	HK\$2,712,528,000
Hotel	133,500 sq.m.	HK\$22,604 per sq.m.	HK\$3,017,634,000
Office	208,000 sq.m.	HK\$11,302 per sq.m.	HK\$2,350,816,000
		Total:	HK\$11,199,217,600

The estimations are however rough ball-park indications and are subject to the terms of sale and other development conditions. They are based on current market prices. It is also important to note that the factor of time value (i.e. the effect of discounting the future land sale revenue to present day value) has not been reflected in the above calculation.

If you have any enquiry, please feel free to contact us.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited


K. B. Wong
Director

c.c. Davis Langdon & Seah Hong Kng Limited – Mr. Kenneth Poon

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