



Surveying

news



Stephen Liu



Message from the President

The Chief Executive delivered his Policy Address on 10 October 2001 and said that Hong Kong is facing an accelerated economic downturn, a rise in unemployment, an increase in the fiscal deficit and a delay in economic recovery. Mr. Tung warned that the outlook was gloomy and said the community should brace itself for worse to come.

The market for property and building industry in Hong Kong is obviously shrinking in comparison with the past good years. The Government is urging professionals to export our services to overseas and the Mainland. In support of this initiative, the Government is setting up a fund of \$100 million for professionals to apply as a matching grant for the promotion of professional services in Hong Kong and in the Mainland. Further details will be announced when the scheme is finalized.

PIONEER IN THE MAINLAND PROPERTY MARKET

Seven years ago, Mr. Liu Sing-Cheong (S.C.), a general practice surveyor in Hong Kong, anticipated that the real estate market in Hong Kong would be up against its limit of expansion. He envisioned that China was his future. S.C. started to build a surveying and consulting business in Guangzhou for the real estate market.

At the beginning, it was very difficult for him to work in China due to its tough operating environment. Through his persistence and energy, plus innovative ideas and strong interpersonal skills, his company is now one of the leading consultancy firms in the Guangzhou's real estate property market. Additionally, he also operates an inter-net website and newspaper to report the Mainland property news. This year, he has been awarded the Honorary Fellowship by the Hong Kong University of Science and Technology for his innovations and creative business management.

S.C.'s success story in the business development in the Mainland has been screened by the Radio Television Hong Kong and will be shown on television in November.

Continued on Page 2

1	Message from the President	8	Quantity Surveying Division
4	News from the Divisions	8	News from the Secretariat
4	Building Surveying Division	10	Surveyors in Action
5	General Practice Division	12	Features
6	Land Surveying Division	26	Surveyor's Surf

SURVEYING is the newsletter of the HKIS. It is distributed to members, students and friends of the surveying profession free of charge. Anyone wishing to receive a copy may contact the office of the Institute.

HKIS EXECUTIVE COMMITTEE 2000/2001

President	Stephen Liu - 廖凌康 FHKIS, FRICS, ACIArb, RPS(QS)
Senior Vice-President	Hak Chan - 陳克 FHKIS, FRICS, RPS(LS)
Junior Vice-President	Kenneth Chan - 陳佐堅 BSc, FHKIS, FRICS, FBEng, MCIArb, AP, RPS(BS), CFM, E, FPFM
Honorary Secretary	Albert So - 蘇振鏗 BSc, FHKIS, FRICS, FCIH, FHKIH, RPS(GP)
Honorary Treasurer	T. T. Cheung - 張達棠 BSc(Hon), MSc(Arch), FHKIS, FRICS, RPS(QS)
Immediate Past President	Francis Ng - 吳伍廣 FHKIS, FRICS, ACIArb, RPS(GP)
Chairman, Building Surveying Division	Richard K. H. Cheung - 張國豪 FHKIS, MRICS, ACIArb, RPS(BS)
Chairman, General Practice Division	Tony Tse - 謝偉銓 FHKIS, FRICS, RPS(GP)
Chairman, Land Surveying Division	C. H. Wong - 黃仲衡 FHKIS, FRICS, ACIArb, AMBCS
Chairman, Quantity Surveying Division	Nelson Cheng - 鄭偉雄 FHKIS, MRICS, AAIS, ACIArb, RPS(QS)
Chairman, Junior Organisation	David Wan - 尹子威 MBA, MSc, AHKIS, MRICS, MCIArb, RPS(GP)

SECRETARIAT	
Secretary-General	Gordon M. Y. Ng - 吳文仁 AHKIS, MRICS, RPS(GP)

EDITORIAL BOARD 2000/2001

Hon. Editor	Gilbert Kwok - 郭靖華
BSD rep.	Andrew Ip - 葉志基
GPD rep.	Tam Shiu Hong - 譚紹匡
LSD rep.	Chau Ming, Marvin - 周明
QSD rep.	Stephen Chung - 鍾維傑
	Francis Leung - 梁志基
JO rep.	Jim Yip - 葉建成

EDITORIAL CONTRIBUTIONS

Surveying encourages article queries and submissions. Article submissions should include both hard (printed) copy and a diskette in Word format. Contributions should reach the Hon. Editor at the office of the Institute before the 10th of each month.

Information & Contents

No part of this newsletter may be reproduced without the permission of the Institute. Contents of the newsletter do not necessarily reflect the views or opinions of the Hong Kong Institute of Surveyors and no liability is accepted in relation thereto.

Advertising

All advertisements and small ads are welcome. SURVEYING is reaching over 5,500 readers. For detailed information and advertising rates, please contact Ms Margaret Yung of the Secretariat office at 2526 3679.



The Hong Kong Institute of Surveyors
香港測量師學會

Suite 801, Jardine House, Central, Hong Kong.
Tel: 2526 3679 Fax: 2868 4612
http://www.hkis.org.hk

Office Hours:
Monday to Thursday 9:00am - 5:30pm
Friday 9:00am - 5:00pm
Saturday 9:30am - 12:30pm

REGISTERED PROFESSIONAL HOUSING MANAGERS (RPHM)

The Chairman of the Housing Managers Registration Board wrote to the Institute on 22 August 2001, offering our members concession to "the rules of registration" as a RPHM. The Institute does not agree to the view expressed by the Board that HKIS members do not possess relevant professional experience and knowledge equivalent to the standard of the members of the Hong Kong Institute of Housing.

HKIS has written to the Chairman of the Board and raised our objection to this proposal. Both of their letter and our reply letters are appended to this newsletter for members' information (see page 3). The Institute will continue to lobby the support from the Government for the recognition of our members' professional knowledge in housing and property management.

SURVEYORS LUNCH

The Surveyors Lunch on 9 October 2001 was well attended by over 40 members. Our guest of honour was Mr. Leung Chin Man, the Director of Buildings. He gave a talk on "Hong Kong Building - How to build it faster, greener and cheaper". He had given a lot of insights on the Building Department's plan and vision. He also informed members of the good news that more works would be outsourced by BD to private consultants.



▲ The President, Mr. Stephen Liu, presenting a souvenir to the Director of Buildings, Mr. Leung Chin Man.

ANNUAL DINNER

Members are reminded of the annual Surveyors Dinner to be held on 16 November 2001. The guest of honour will be Mr. John Tsang, the Secretary for Planning and Lands.

CONFERENCE IN KUNMING AND IN CHONGQING

The annual conference organized by the Works Bureau and the Ministry of Construction was held on 20-21 September 2001 in Kunming. There were about 140 Hong Kong delegates and a similar number from the Mainland attending the conference. The theme of the conference was "Development and Co-operation of the Construction Industry of the Mainland and Hong Kong and Exploration of the International Market".

The President, as one of the co-organizers of the conference, attended the conference as a representative for the Institute. Conference materials and papers are kept in the Institute's library. Members are welcome to borrow them for reference.

The Hong Kong Government will organize a "Hong Kong Week" in Chongqing from 28-30 November 2001. The purpose of the exhibition conference is to promote various business and professional services from Hong Kong.

The last day of the conference (30 November) will be reserved for the ten Professional Coalition to promote their services to the local companies and professional institutes. Members are strongly encouraged to participate in this conference and exhibition to explore business opportunities in Chongqing and the western part of the Mainland. ☑

LETTER FROM HOUSING MANAGERS REGISTRATION BOARD TO HKIS (DATED 22 AUGUST 2001)

President
Hong Kong Institute of Surveyors

Dear Mr. Liu,

Re: Registration of HKIS members as Registered Professional Housing Managers (RPHM)

We are pleased to note your members' interest in registering as RPHM and are pleased to inform you that procedures have now been finalized for their registration.

You will realize that since the establishment of the Housing Managers Registration Board on 1st April 2000, we have conducted reviews on the criteria for the applicants without membership of The Hong Kong Institute of Housing (HKIH) to apply for registration as a Registered Professional Housing Manager (RPHM). In particular, special consideration has been made in relation to the registration of your members.

The Registration Board is of the view that the professional education leading to membership of the housing management and surveying professional bodies is different. In accepting the professional qualification for membership of the HKIH, the emphasis is on housing management and other related subjects. In this connection, the Board has to be satisfied that an applicant for registration has already passed the required professional examination and possesses relevant professional experience of a standard not less than that for a member of the HKIH.

The Housing Managers Registration Board has now formulated a set of rules for dealing with the applications for registration from surveyors as follows:

- i) The applicant should have at least three years professional experience in housing management of which one year should be in Hong Kong and immediately prior to application for registration;
- ii) The applicant should write three papers with one compulsory paper on housing management and two other papers on legal financial or social aspects in relation to housing management;
- iii) The applicant should go through an assessment interview.

The Housing Managers Registration Board also agreed that Surveyors (GP) Division who apply for registration before 28 February 2002 will only be required to write a paper on housing management instead of three papers as indicated in (ii) above.

We hope that you will be able to convey to your members our decision so that those who are interested can apply at their convenience.

Should you need further assistance from us you are most welcome to contact the undersigned on 2839 7333 or the Registrar, Mrs. Julia Wong on telephone no. 2544 3002.

Victor So
Chairman

REPLY BY HKIS TO HOUSING MANAGERS REGISTRATION BOARD (DATED 19 OCTOBER 2001)

Mr. Victor So
Chairman

Dear Mr. So

Registration of HKIS members as Registered Professional Housing Manager (RPHM)

Thank you for your letter of 22 August 2001 informing us the view of the Housing Managers Registration Board (HMRB) and the rules on registration for surveyors.

Whilst The Hong Kong Institute of Surveyors (HKIS) is pleased to know the view of HMRB and appreciates the HMRB in its consideration and recognition of our member surveyors in housing management practices, HKIS has reservation on the suggested rules. HKIS takes the view that the standard of its membership, having regard to the academic requirements and rigorous training and assessments for admission, will meet the qualifications for registration under Section 12(1)(a)(ii) of the Housing Managers Registration Ordinance (HMRO), i.e. a member of a housing management body the membership of which is accepted by the Board (HMRB) is being of a standard not less than that of a member of the Institute (Hong Kong Institute of Housing). Furthermore, HKIS members, like all other applicants applying for registration, will have to satisfy the HMRB in respect of experience requirement under Section 12(1)(b) of the HMRO for having not less than 1 year's relevant professional experience in Hong Kong immediately before the date of his application for registration.

I shall be happy to meet with you and the HMRB to provide further details for the HMRB to review its rules referred to in your letter.

Stephen Liu
President

Building Surveying Division

In September, the council had compiled a reply to the CIRC report and had endorsed a paper by Mr. Eddie Lee for the study of establishing a system for "Classification of Buildings".

Mr. K.K. Choi presented a CPD event for "Site Supervision System for Building Works in the Private Sector" on 28 September.




Presentation of souvenir by Prof. Barnabas Chung to Mr. K.K. Choi (on the left)

An APC workshop was held on 27 October 2001 to prepare candidates for the APC examination in November.

The BS Conference 2001 was held successfully on 20 October at J.W. Marriott Hotel. See the photos for the day's event.



Our AGM and Annual Dinner will be held on 30 November 2001 at 7:00 p.m. at the Hong Kong Football Club. Please mark your diary and encourage your friends and students to join. Notice of the AGM and Annual Dinner has already been sent to members. 

STUDY TOUR

Japan Building Control System / Facility Management (TBC)

Tokyo, Japan

4 - 7 February 2002

Organised by HKIS, BSD and WOBO (HK Committee)

Please see attached reservation form for further details.

Closing date for applications is 30 November 2001.

GENERAL PRACTICE DIVISION

Tony Tse, Chairman

RECIPROcity AGREEMENT ON RECOGNITION OF QUALIFICATION

Following an open forum, which was held on 7 September 2001, and having considered the various comments received, the Working Group has revised the basic terms for the proposed reciprocity agreement between HKIS and China Institute of Real Estate Appraisers (CIREA). An EGM will be held on 31 October 2001 at which the proposal will be put to all General Practice members for voting. If it is accepted by the majority, the proposal will be submitted to the General Council of the HKIS for approval thereafter. It is hoped that by the time when this message is published, the matter will have been approved by all parties concerned.

INTERNATIONAL VALUATION STANDARDS COMMITTEE (IVSC)

The Year 2001 AGM of the IVSC, of which HKIS is a member, was held on 1 October in Bangkok. Mr. K.K. Chiu and Mr. Tony Tse represented the HKIS at the meeting. There were also other representatives from more than 20 countries including the United Kingdom, United States, Australia, New Zealand and Singapore, etc. attending the meeting. At the meeting, various matters were discussed and approved and the following are some of the highlights:-

- (1) The 2000 edition International Valuation Standards (IVS) was extremely well received. Sales exceeded all expectations and it is interesting to note that well over half of the sales were outside of valuation professions. IVS 2001 was launched at the end of July and the Committee aims to publish a comprehensive set of high quality standards and guidance by Year 2002. The General Practice Division will study whether the latest IVS could be incorporated in the Asset Valuation Guidance Notes.
- (2) Mr. John Edge of the United Kingdom has been appointed as Chairman-elect and will take office as IVSC Chairman for a 3-year period commencing after the 2002 AGM.

- (3) IVSC will work closely with other international standards setters to ensure that international valuation standards become an integral part of the developing international financial architecture. The Committee, in particular would like to strengthen the relationships with the newly formed International Accounting Standards Board.
- (4) Mr. Peter Faulkner, the President of RICS, UK, informed us that in order to enhance their members' business management skills and technique, it is planned with effect from April next year, that all its newly admitted student members will be required to complete a Business Study Course within 5 years of being qualified as professional members of the RICS.
- (5) The draft IVSC Business Plan for 2003 and 2005 has been distributed to the members of the Committee for comment and discussion.

Following the AGM, the Thai Valuers Association organized a 3-day valuation forum titled "Asset Valuation in Globalized Market". There were a few interesting topics including "Valuation and Development in Real Estate Capital Market", "the Globalization of Real Estate Valuation", "Convergence and Divergence of Valuation and Accounting Standards", "Expert Valuation Witness", "Education and Professional Development for Valuers of the Future", etc. We shall report on some of the topics in further details later.

With the increasing importance of the global market, it is very important for HKIS to have more contacts with other international organizations so as to build up our image and international exposure. The General Practice Division will continue to support members to participate in international forums and to promote the HKIS.

APC AND CPD EVENTS

(1) APC

This year's APC Written Assessment was held on 10 October 2001 and there were about 180 student members attending the Assessment.

With the adoption of some of the suggestions recommended by the Working Group and with the provision of more training courses to student members, it is believed that a better result would be achieved.

(2) VISIT TO SHENZHEN INSTITUTE OF REAL ESTATE APPRAISERS

45 members visited Shenzhen on 27 September 2001. They were received by 孫祖權副秘書長及林小玉秘書長助理 and were introduced to the latest Land Sale and Registration System in Shenzhen. The Shenzhen Institute of Real Estate Appraisers will be visiting Hong Kong on 7-9 November 2001 and a seminar will be organized during their

stay in Hong Kong. Visits to government departments and surveying firms will also be arranged to facilitate their members to have a better understanding of the real estate market and system of Hong Kong.

(3) POST-EXPERIENCE PROGRAM IN REAL ESTATE DEVELOPMENT AND VALUATION

Following the launch of the 2nd Course of the above Program in September 2001, more than 50 applications have been submitted. The successful applicants will be advised of the details of the Program by SPACE shortly. ☐

News from
the Divisions

LAND SURVEYING DIVISION

2000/2001 LSD AGM

Please be reminded that the Annual General Meeting of the Land Surveying Division will be held on:

Tuesday, 20 November 2001, 6:30 pm

Rooms 211-212, Hong Kong Convention and Exhibition Centre,

Wanchai, Hong Kong

We look forward to seeing you in the AGM.

2001 BEIJING-HONG KONG-MACAU GEOMATICS CONFERENCE

The 2001 Beijing-Hong Kong-Macau Geomatics Conference will be held on 17-18 December 2001 at the Hong Kong Polytechnic University. The Beijing Institute of Surveying and Mapping, which hosted the first Beijing-Hong Kong Geomatics Conference two years ago, will be sending a delegation of more than thirty members to the conference. On 4 September 2001, representatives from Hong Kong (HKPU, HKIS, HKIES) and Macau held their first preparation meeting. Papers for the

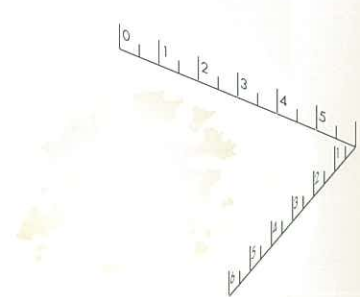
Conference have been called for and will be presented at the Conference. Please mark your diary and look out for registration details.

APPLICATION FOR REGISTRATION AS AN ALS

Land Survey Authority Circular No. 1/2001 titled 'Application for Registration as an ALS' has been issued on 28 September 2001. It is available at the website <http://www.info.gov.hk/landsd/mapping/lso/html/new/lsa200101.htm>

QUESTIONNAIRE ON IMPROVING LAND BOUNDARY SURVEY SYSTEM

Mr. Conrad Tang has devised a questionnaire on the improvement of the Hong Kong land boundary survey system. In the open letter that follows, he invites members to give their views and opinions and complete the questionnaire for his research purpose, and submit via his website.



9 November 2001

Dear fellow land surveyors,

Re: Questionnaire on the improvement of the Hong Kong land boundary survey system

This questionnaire seeks your professional opinion on the future improvement of our land boundary survey system. Part A works on the general performance of our system; this part will also be sent to other related professions. Part B works on survey law and Part C works on systematic survey, both parts refer to land surveyors only.

Part B seeks your opinion on the suitability and applicability of individual registration and survey laws of some other jurisdictions. The list certainly is not a complete set of all survey laws that we can cite from. You are most welcome to quote some other survey laws that we should consider.

Part C seeks your view on the application of systematic survey, whether with or without legal prescription.

Please fill out the questionnaire on the website: <http://www2.lsgi.polyu.edu.hk/Cadastre/quest.asp>

It is an anonymous questionnaire. Should you wish to receive the analysed result, please leave your email address at the end of the questionnaire.

Thank you for the precious time and effort in filling out this questionnaire. I do believe it must be us surveyors to find out a workable future development plan of our industry, then we can sustain our service and our job in the changing future.

Yours faithfully,

Conrad Tang, Assistant Professor, LSGI, HKPolyU

Tel: 2766 5963, Fax: 2330 2994, Email: lstang@polyu.edu.hk

Website: <http://www.lsgi.polyu.edu.hk/staff/Conrad.Tang/index.htm>

LOCAL EXAMINATION ON "LEGAL FRAMEWORK AND LAND BOUNDARY SURVEY SYSTEM IN HONG KONG"

LSD Education Committee

We are pleased to announce that the above local examination has been set up. Thanks are due to the Hong Kong Polytechnic University for their assistance in the preparation of the examination syllabus.

The purpose of this examination is to provide candidates holding academic qualifications that are partially recognised by our Institute with a new avenue to become corporate members of this Institute. In essence, those who obtain a pass in this examination will be eligible to apply to enter the Land Surveying Division's APC scheme.

The first local examination will be held in May 2002. From then on, this examination will be deemed to have replaced the RICS's examination on "Legal Framework, Cadastral Survey and Surveying Management" for the purpose of processing applications to enter our APC. Candidates who wish to sit for this first examination should apply to the Institute before 28 February 2002. ☐

QUANTITY SURVEYING DIVISION

Nelson Cheng, Chairman

FINAL ASSESSMENT OF PROFESSIONAL COMPETENCE

The APC 2001 written assessment was carried out on 14-15 September at the HITEC. Assessment of the papers is now underway. It is expected that interviews will be carried out in early January 2002. Results will be announced before the Chinese New Year.

QS DIVISION ANNUAL GENERAL MEETING 2001

The AGM of the QS Division will be held on 4 December 2001 (Tuesday). Notice of the meeting will be circulated in early November. Please make a note of this date in your diary. Members interested in joining the QSD Council should complete the nomination form.

MAINLAND MATTERS

The QSD visited the Construction Cost Engineering Association (CECA) and the Beijing Construction Project Management Association (BCPMA)

in Beijing on 3-4 November. Details of the visit will be reported in the next issue.

A team of Council members consisting of K C Tang, Stephen Chung and Alfred Ho, and led by our Mainland Sub-Committee Chairman, Jacob Lam, attended a Seminar in Wuhan organized by the Wu Bei Province branch of CECA. Our members gave a half-day seminar on 6 November to the mainland cost engineers, mainly on QS practice in Hong Kong. It is hoped that through such seminars and conferences, the HKIS can promote the role of QS in Mainland China in order that our fellow members would have more employment or business opportunities in the mainland especially after China enters the WTO.

AIQS RECIPROCITY

The HKIS is now discussing a reciprocity agreement with the Australian Institute of Quantity Surveyors. Discussions are now in the final stages and it is hoped that the reciprocity agreement would be finalized by the end of the year. ■



APPOINTMENT OF PROVISIONAL CONSTRUCTION INDUSTRY CO-ORDINATION BOARD

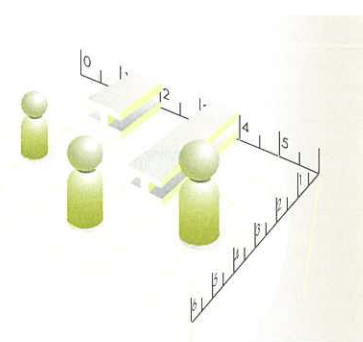
The Government has recently set up the Provisional Construction Industry Co-ordination Board (Provisional CICB) and appointed Mr. Henry Ying-yen Tang, member of the Executive Council, as its chairman.

Twenty-three members of the Provisional CICB were also appointed consisting of major industry stakeholders including construction

clients, professionals, academics, consultants, contractors and workers, as well as independent persons and ex-officio Government representatives.

The chairman and members were all appointed for a term of two years.

The Provisional CICB will advise the Government on the establishment of the statutory industry co-ordinating body, which is one of the major recommendations made by the Construction Industry Review Committee (CIRC) in its report submitted to the Chief Executive in January this year.



As a precursor of the statutory body, the Provisional CICB will serve as the focal point for co-ordinating the industry's efforts in taking forward the vast change programme recommended in the CIRC report. It will be a forum for the stakeholders to deliberate and generate consensus on strategic matters affecting the construction industry, and to communicate the industry's needs and aspirations to the Government. The Provisional CICB will also serve as the main channel for the Government to seek the industry's feedback on policy issues impacting on the local construction industry.

Details of the terms of reference of the Provisional Construction Industry Co-ordination Board are as follows:-

TERMS OF REFERENCE

- To deliberate and generate consensus among different sectors of the construction industry on strategic issues affecting the industry, such as construction technology, research and standardisation, and human resources development;
- To consider and take forward those recommendations of the Construction Industry Review Committee which require co-ordination or input by the industry co-ordinating body, including setting priority and timeframe;
- To maintain close contact and exchange views with Government on all construction related matters;
- To enhance self-regulatory functions for the construction industry through the formulation of codes of conduct;
- To promote sharing of knowledge in industry good practices, innovative construction technologies and sound management techniques;
- To devise performance indicators for the construction industry to measure its improvement;
- To advise Government on the formation and future development of the industry co-ordinating body; and
- To report regularly to the Financial Secretary on the work progress of the Provisional CICB.

The President, Mr. Stephen Liu, is one of the 23 members of the Provisional CICB and he would be happy to receive suggestions and comments from fellow members.

CONSTRUCTION INDUSTRY SAFETY TRAINING CERTIFICATE ('GREEN CARD')

Corporate members of The Hong Kong Institute of Surveyors (HKIS) are reminded that they can apply for the Construction Industry Safety Training Certificate through HKIS.

Section 6BA of the Factories and Industrial Undertakings Ordinance (FIUO), Cap. 59, requires every person carrying out construction work or container handling to undergo mandatory basic safety training (MBST) and obtain a valid certificate (generally known as 'Green Card'). The Labour Department has informed HKIS that:

"The primary consideration on the requirement of a 'Green Card' lies on whether that person is carrying out construction work or not. We have to stress it is not the title but the nature of work that counts. If representatives of the owner or developer are not involved in carrying out any kind of construction work or preparation for construction work, those persons are not required to hold 'Green Cards'. If they are only engaged in reporting on work progress and no construction work is carried out, there is no need for them to undergo MBST. The same principle applies to consultants attending site meetings but the nature of carrying out supervisory work must be judged on whether 'construction work' is involved. In the last case, consultant surveyors conducting site monitoring or testing of material require MBST."

HKIS has been authorised by the Labour Department to issue the relevant certificate for the construction industry under section 6BA(4) of FIUO, which will satisfy the safety-training requirement under section 6BA of the Ordinance.

As a corporate member, you may apply for the issue of the certificate from the HKIS office. There is an administration charge of HK\$50 for the application of the certificate. The application forms are processed at the end of each month and are valid for 3 years from the date of issue from the beginning of each month. If you require an application form please contact the office at 2526 3679 for a copy. ■



HORACE COMES WITH THE GOOD NEWS: THE BRICK AND FAITH APPROACH

HE ISN'T JUST AN EVANGELICAL ADVOCATE, HE IS A BUILDING SURVEYOR AND OWNS A THRIVING CONSTRUCTION BUSINESS

Jim Yip, AHKIS, MRICS, JO Editorial Board Representative

They were jumping up and down on the stage, singing, dancing and clapping their hands, in a huge cheerful mood. The audience, initially looking uninterested and bewildered, started to move with the flow. They joined in the joyful parade, handshaking and hugging with each other. An air of gaiety and jubilation erupted in this worship hall, which was converted from a seedy movie house only few years ago.

A tall and slim man, in his late thirties, sprung from the floor to the centre stage and started singing, "Lift up my eyes to the hills, where does my help come from? My help comes from the Lord, the Maker of heaven and earth." (Psalm 121:1-2) His melodious baritone voice had mesmerized many of those who came for the healing of ailments in mind, body and soul on this Sunday's special service.

He is Horace Lam, who together with his team members, hop from church to church to preach the Good News. They all have the evangelical intensity of a man who has just been reborn.

His manner is down-to earth. A boyish grin is permanently etched across a face that belies his hardship of over 10 years' toiling in the summer heat on construction sites, and a twinkle in his eye suggests he has more tales to tell than the narrator of Arabian Nights.

He could talk about his bright and airy house in Fairview Park, which in this time of crisp and pleasant weather, the windows are kept open - a whispering of leaves and perfume of flowers always pervade the rooms; or his last football match with his Vigers Old Boys Team, of which he is a team leader; or his secret to keep a close relationship with his 5-year old son, a trait he picked up from his father whom - despite hardly speaking any words of encouragement to his son - surprised him once by shaking his hands when Horace came second in one class exam...

Horace is a project director with Hong Dau Construction Ltd., a firm specialising in building renovation and facility management works. He, of course, is happy to talk about his career - leapfrogging from a construction laborer to a building surveyor - which, by his account, is full of miracles.

THE PRODIGAL SON

At aged 17, he left college and went to work as a laborer. "My father's small business went broke at that time and he couldn't support my study," recalls Horace. "I took the job of a laborer because it paid good money." He survived the harsh working conditions, thanks to his strong physique, as he was once a member of the school athletic team.

Later, his elder brother who was a foreman referred him to work in a construction site. His job was mainly responsible for setting out the marker line and level for the construction of foundation, wall, column etc.

The work was laborious and monotonous. He slowly became addicted to gambling. He didn't care much about his future so long as there was a poker game - with a month's pay or more at stake - at the end of each workday.

Acting violently was another hallmark of his unsettling youthful days. He regularly fought with other workmen at work. Once, he became embroiled in an ugly street brawl against 10 workmen and he was nearly beaten to death.

His dog's life didn't end until he became a convert to Christianity and met his wife. He changed. He started to go back to school at night.

Spurred on by his brother-in-law, who is an Estate Surveyor, he decided to take a degree course in building surveying at Heriot-Watt University, Edinburgh, in the hope for further career advancement. With only £8,000 in their pockets, which barely covered the first-year tuition fees and traveling expenses, they arrived in Edinburgh, embarking on the three-year study.

"I must thank my wife, Annie. She has done a wonderful job," he says. "My wife was very supportive of my study. At one time she gave up her full-time course and worked in a Chinese Elderly Centre during the day and worked in a Chinese restaurant at night so that we could have enough money to pay for our living expenses."

THE WISE BUILDER

To his surprise, upon his return from Scotland, he had a smooth run for his pre-qualification working experience. He first worked in the Vigers building management department for 3½ years, and then switched to a project manager post for the construction of two large-scale elderly homes and extension project at the Haven of Hope Hospital in Tseung Kwan O.

These projects lasted for 4 years, during which he encountered very little technical problems, a rare phenomenon in construction practice. Despite the hectic work schedule, he was also an active JO committee member.

"Horace showed a great deal of responsibilities towards his works and he was a very good team leader," remarked Victor Choi, deputy project manager at Glorious Sun and his former colleague at Vigers.

In 2000, Horace faced a dilemma of choosing his career path. He had two options: either to work as a building surveyor in the Buildings Department or as a technical director in Hong Dau Construction Ltd. "I had a problem in picking the right job as both options looked excellent to me." He added, "Hong Dau offered a more risky prospect but on the other hand, it was more challenging in nature."

Looking back, he was happy that he had made the right decision. "Since I had worked from the consultant perspective and from the vendor's in the past, Hong Dau has given me new exposure from the contractor's perspective," he says.

Out of his expectations, business at Hong Dau has grown tenfolds since his arrival. "We have a very dedicated team, from marketing to project execution and delivery," he says. "We pay particular attention in selecting our contractor partners and we place top priority on the quality of their works."

"Clients prefer to stay with us, even though in some of the cases our tender bids are not the lowest ones," Horace says firmly. "In this competitive market environment, relationships are indispensable but quality weighs most. At every tender, we submit to clients a detailed proposal and work plans as well as building solutions to help them save time and cost. We focus on providing value-added services."



Horace also believes that taking good care of his staff and providing them with sound on-the-job training is also very important. "We cannot overlook the needs of our staff. I believe if we invest 100% on our staff, we will get back 100% return in performance. You reap as you sow," says Horace.

Despite having more stringent controls in place in the construction practice in recent years, the industry is not immune from corruption scandals. "As a

professional we have to guard against any bad work ethics. If bribes were to be placed, we would simply refrain from taking the contract," he says. Hong Dau's long serving clients include HongKong Land and Hong Yip, both companies who vigorously promote an open and fair tendering system.

SALT AND LIGHT

The terrorist attack in the US has dealt a severe blow to what has already been a flagging local economy. Horace envisages a tough time ahead, and large corporations are succumbed to a budget squeeze, deliberately reducing or postponing unnecessary cost outlays such as refurbishment.

"Of course, I am devastated by the September 11 event. We had held meetings with our partners and mapped out our business actions in the wake of the crisis. We all agreed to cut our prices in order to stay competitive, but this means we will have to sacrifice the profit margin and cut our own salaries. Nevertheless, the last thing we want is a reduction in headcount," says Horace.

Despite the gloomy outlook in the short term, Horace remains upbeat about the industry in the long run. "I think our industry will rebound in one year's time, and in this rebound, we will rebound much stronger than ever, as the market would weed out some of the weak contractors at the current downturn," he says.

Horace Lam has saved many buildings from demolition, giving them a new lease of life and shiny new look. But he thinks helping people with spiritual revival is the happiest thing to do. He also believes the terror attack will bring more people to the Lord. His next grand plan is to set up a Surveyors Christian Fellowship, with an aim to offer support and to spread the Good News amongst surveyors.

"Flush with hope and resolve," he says. "In times of uncertainties and difficulties, we have one source of great help we can rely on and He has never failed us."

Members, who are interested to join the Fellowship, please send an e-mail to Horace at lam_horace@hotmail.com. ✉



NOTICE PROVISIONS - THE SAGA CONTINUES

John B Molloy, LLB(Hons), BSc(Hons), FHKIS, FRICS, FInstCES, MCI Arb, RPS(QS)
Managing Director, James R Knowles (Hong Kong) Limited



The problem with the law and especially with writing articles about legal decisions is that no sooner have you written the article than it can become out of date.

This is definitely the situation at the present time regarding notices, and particularly, the question whether a notice provision in a contract which made the giving of notice a condition precedent to the granting of an extension of time would leave the employer's rights to claim liquidated damages intact in the event that there was a delay caused by the employer but the contractor had failed to serve a notice and thus received no extension of time.

In March 1998, I wrote an article in this journal entitled 'The Importance of Giving Notice' which considered the then recent Australian case of **Turner Corporation Ltd (Receiver and Manager Appointed) v Austotel Pty Ltd (1994)**, where the court concluded that if a contractor is delayed by the employer and/or the architect/engineer, then they must comply with the notice provisions contained in the contract if they are to be entitled to an extension of time. If they do not do so, they will be unable to claim that time is at large and must complete the work by the due date and pay liquidated damages if they do not.

Then last month, in an article entitled 'Notice Provisions - A Change in Attitude' I reported on another Australian case, that of **Gaymark Investments Pty Ltd v Walter Construction Group Ltd (20 December 1999)**, where the court came to the opposite conclusion that if a contractor is delayed by the employer and/or the architect/engineer, then if they fail to apply for an extension of time within the time set out in the notice provisions and are thus prevented from obtaining an extension of time, then time will become at large and the employer can not claim liquidated damages for the delays incurred.

Well, the matter has come before the courts again, this time in the courts of Scotland, in the very recent case of **City Inn Limited v Shepherd Construction Limited (17 July 2001 CA101/00)**, and in view

of the importance of this question, in particular to those working on KCRC West and East Rail projects (where the giving of notice within a strict time period is a condition precedent to the grant of an extension of time), I thought it appropriate to give an update on the comments made in my article last month.

City Inn entered into a contract with Shepherd for the construction of a hotel in Bristol. The contract was an amended version of the Scottish Private Form with Quantities, which I understand is very similar to JCT 1980. I am uncertain why a Scottish form of contract was used for works in Bristol and why the matter came before the Scottish courts rather than the English courts, but it is not relevant to this matter.

The works should have been finished on 25 January 1999, but were late and City Inn took liquidated damages at the rate of £30,000 (approximately HK\$345,000) per day. A dispute arose as to City Inn's entitlement to take such liquidated damages and the matter went to adjudication and then on appeal to the courts.

The contract contained an additional Clause 13.8. Sub-clause 1 provided, that if the Architect issued an instruction that the Contractor considered would require, inter alia, an extension of time, the Contractor must within 10 working days submit in writing to the Architect an estimate of the length of the extension of time to which he considers himself entitled under Clause 25 and the new completion date.

Then, and importantly, sub-clause 8 provided:

"If the Contractor fails to comply with one or more of the provisions of Clause 13.8.1.....the Contractor shall not be entitled to an extension of time"

i.e. making the giving of the details a condition precedent to the grant of an extension of time.

Shepherd argued that the clause amounted to a penalty clause and as

such was unenforceable. In doing so they raised an interesting argument.

Shepherd's argument was simply that had they served notice on time they would have been entitled to an extension of time and the employer would not be entitled to take liquidated damages for the period of the extension of time. As they had failed to serve notice, they were in effect being charged liquidated damages not for the delay in completion but for their breach of the requirement to serve notice in accordance with Clause 13.8.1. They argued that £30,000.00 per day was City Inn's genuine pre-estimate of the loss that they would suffer due to delayed completion, not a breach of Clause 13.8.1. On this basis they claimed that the liquidated damages were a penalty and unenforceable.

City Inn argued that the figure of £30,000 per week for liquidated damages was a genuine pre-estimate of the loss the Employer would suffer in the event of completion being delayed, completion had been delayed and they were thus entitled to claim damages in respect thereof.

The court held in favour of the Employer, City Inn, and concluded that the effect of Clause 13.8.1 making the giving of notice a condition precedent to the grant of an extension of time did not have the effect of making the liquidated damages a penalty in the event that the Contractor failed to serve notice as required by the clause.

In arriving at this decision the judge carried out a very detailed examination of the authorities that defined the differences between liquidated damages and penalties, including the famous cases of **Dunlop Pneumatic Tyre Co Ltd v New Garage & Motor Co** and **Clydebank Engineering and Shipbuilding C v Castenada**.

The judge stated that it was no doubt correct that, firstly, the contractor will bear liability for the sum of £30,000 for each week of delay attributable to the Architect's instructions if he fails to comply with clause 13.8.1 and so fails to obtain an extension of time. Secondly, that he will not bear that liability if, on the contrary, he complies with clause 13.8.1 and obtains an extension of time, and thirdly, that that liability, if it is incurred, is not a genuine pre-estimate of any loss suffered as a result of the Contractor's failure to comply with clause 13.8.1.

However, what the above overlooks is that the delay in question, caused by the Architect's instruction, is delay of a sort that the parties have agreed is likely to cause the Employer loss, which is pre-estimated at £30,000 per week. The fact that the cause of the delay is compliance with an Architect's instruction does not alter the fact that the Employer will suffer loss as a result of it. The fact that the contract provides that delay of that sort is one example of the categories of delay in respect of which the Contractor may ask for, and the Architect may grant, an extension of time, means that the Contractor may follow a procedure which procures the result that the delay in completion of the works is not a delay which places him in breach of his obligation under clause 23.1.1 (the extension of time clause), but does not alter the fact that the Employer will suffer loss.

The judge concluded:

If the contract adds a further provision that, if he fails to take certain additional steps, the contractor will not be entitled to an extension of time, that preserves for the employer, in the event of such failure, the entitlement to pre-estimated damages for delay that might have been taken away by the award of an extension of time. In the event, the employer remains in the position that he receives damages, at the pre-estimated rate agreed upon, for the loss consequent upon delay in completion of the contract works. It seems to me, therefore, that the sum of £30,000 remains payable by the contractor on the basis that it is a genuine pre-estimate of the loss suffered by the employer as a result of the delay in completion, and is not converted, by the fact that the contractor might have avoided that liability by taking certain steps which the contract obliged him to take, but failed to do so, into a penalty for failing to take those steps.

This decision is of course entirely contrary to the decision in the Australian case reported last month. However, many members of the local legal profession, who I spoke to, were highly critical of that case, and it does appear to me that the decision in this most recent Scottish case may be the one favoured should the matter ever reach the courts in Hong Kong. ■



DEFECTIVE WORK - MINIMISING THE PROBLEMS

James B. Longbottom, Brian E. Rawling & Associates (BERA)



Defective work and poor workmanship are problems which have been around for a long time and for which standard forms of building contract should be well versed - but are they? This article examines some of the typical standard provisions which deal with what is commonly called "making good defects" and why such standard provisions do not always achieve their aims.

GENERAL OBLIGATIONS

Contractors usually have a general obligation under most standard forms of contract to construct and complete the works to a predetermined specification and sometimes a dual standard by adding that the works should also be to the reasonable satisfaction of the architect. Inherent in such obligations is a duty for the contractor to replace defective work with work, which is in accordance with the contract. For example, clause 1(1) of the HKIA Standard Form of Building Contract (With Quantities) provides that:-

"The Main Contractor shall upon and subject to these Conditions carry out, take full responsibility for the care of, and complete the Works shown upon the Contract Drawings and described by or referred to in the Contract Bills and in these Conditions in every respect to the reasonable satisfaction of the Architect."

Clause 6(1) of the HKIA Form states that:-

"All materials, goods and workmanship shall so far as procurable be of the respective kinds and standards described in the Contract Bills."

There are then implied terms which, although not expressly written in standard forms of contract, the courts will impute or presume to be the intention of the parties, e.g.

"The contractor must do the work in a good and workmanlike manner."

It is evident from clauses 1(1) and 6(1) that the main contractor's obligations under the HKIA Form are twofold: to "carry out" and "complete" the works, in all respects, whether express or implied, in accordance with the contract. The main contractor will therefore be in

breach of the contract whenever his works fail to comply with the requirements stated in the contract.

DEFECTS IN THE CONSTRUCTION PERIOD

The status of any non-conformity during the construction period is open to two views:-

- One view is that the non-conformity does not become an actionable breach of contract provided that the main contractor puts the non-conformity right timeously before it completes the works.
- The alternative view is that the non-conformity is immediately a breach of contract.

BERA believe that a practical and sensible approach is to determine whether the non-conformity can be replaced easily, at some convenient time before completion of the contract, and without affecting the quality of the remaining works, i.e. replacement of defective work is usually more difficult, time consuming and costly if it is carried out later rather than earlier. For example, if replacement of a defective window frame is deferred until after completion of other trades which follow the installation of the window frame (e.g. glazing, external tiling and internal finishes), there will be inevitable additional costs in replacing the window frame once such other trades have been completed. There may be further additional costs if the external scaffold has since been dismantled and needs to be re-erected. There can therefore be good reason for contractors to ensure that defective materials and goods are either:-

- replaced prior to installation; and/or
- made good in a timely manner.

However, it appears to be a ploy by many contractors to carry on regardless in the hope that an employer will eventually accept some defective work in order to avoid the disruption, which would be created by its rectification or replacement.

TIMELY INSPECTIONS

To protect an employer's interests (time, quality and money) inspections of work in progress should be made in a timely manner. This allows for defective goods or materials and poor workmanship to

be identified at an early stage and to be replaced or rectified before large areas of the defective work are carried out in such a defective manner.

There is no substitute for an experienced and diligent clerk of works carrying out such timely inspections and notifying the architect / contractor of deficient work as each activity commences. If a clerk of works or architect knowingly allows defective work to continue then they are not serving the best interests of their employer and the resultant mess will have to be resolved, sometimes at considerable expense to their employer.

POWERS TO INSTRUCT

Accordingly, there are mechanisms in most standard forms of contract for architects to ensure the timely making good of defects. Under the HKIA Form, the architect may instruct the main contractor to:-

- open up for inspection or tests any work covered up [clause 6(3)]; and
- remove from site any work, materials or goods which are not in accordance with the contract [clause 6(4)].

However, the power to "remove" defective work is not always a practical solution. For example, if window openings in a concrete wall are formed out of tolerance and as a result can no longer accommodate the window frames, there is little point in the architect instructing the "removal" of the wall when *modification* to the openings would achieve the same end. It would seem that the best the architect can do in such circumstances is:-

- issue a notice of non-conformance to record his dissatisfaction; and
- rely on the main contractor's general obligations to "complete" the works in accordance with the contract [clause 1(1) of the HKIA Form].

The Swire Properties Ltd's Standard Form of Building Contract has similar provisions to clause 6(4) of the HKIA Form but with the added protection of the words "rectification, replacement, modification or removal" to cater for such circumstances.

REMEDIES

If the main contractor fails to make good defective work, having been instructed to do so, then the architect has a number of options under the HKIA and Swire Forms:-

- if the main contractor "refuses or persistently neglects" to comply with a notice to remove defective work, then provided that the works are "materially affected" by the refusal or neglect, the employer may terminate the main contractor's employment [clause 25(1)(c) of the HKIA and Swire Forms]; or
- alternatively, without going to the extreme length of terminating the main contractor's employment, the employer may employ and pay others to carry out the work and recover the cost from the main contractor [clause 2(1) of the HKIA Form and clause 2(5) of the Swire Form].

In any event, an interim payment certificate should only include for "work properly executed", therefore, any defective work that has been detected by the Architect should be excluded from the estimated value of the work [clause 30(2) of the HKIA and Swire Forms].

DEFECTS LIABILITY CLAUSE

Upon completion of the works, the architect will usually issue a certificate of practical completion (PCC) to certify that the works have been completed in accordance with the contract. There are several views upon what constitutes practical completion but they are not covered in this article.

Should further defects appear within the statutory limitation period, the employer will normally have a common law right to make a claim in damages against the contractor.

However, rather than the employer making good the defects and suing for damages, it is usually more cost effective and efficient for the contractor responsible for the original work to make good the defects. Therefore, most standard forms of contract will include a defects liability clause which provides that the contractor will make good defects which appear within a pre-defined period following practical completion. This period, known as the defects liability period (DLP), normally runs for a period of 12 months after the issue of the PCC.

Under clause 15 of the HKIA Form, the main contractor is obliged to make good such defects, within a reasonable time of expiry of the DLP, at his own cost. The architect may also instruct the main contractor to make good defective work prior to expiry of the DLP.

After the expiry of the DLP, the employers recourse if further defects are found is at common law.

COMMON FAILURES

Listed below are just a few reasons why standard contractual mechanisms for dealing with defects may not always achieve their aims:-

- **The liability factor.** The contractor may dispute liability for the defective work and instead blame some other factor such as the architect's design. The contractor may believe there is good negotiating advantage to be had in not expeditiously making good such work until liability has been resolved.
- **The 'you get what you pay for' factor.** Competitive tendering can result in prices that are not sufficient to procure and/or construct what is specified in the contract documents. This can result in sub-contractors cutting corners to regain a profitable situation (e.g. the use of marble from Egypt instead of Italy). The sub-contractor will be reluctant to replace such work if rectification or replacement costs are substantial.

- **The common standards factor.** Contractors argue that the standards which they are achieving are the standards usually found in the industry. Employers who require better than such standards should ensure that the contract refers to “high quality” and “the best achievable standards” and be prepared to pay for it.
- **The interpretation factor.** Many specifications are open to interpretation on such things as shade variations, smoothness, evenness, texture and the like where precise measurements cannot be taken and compliance or non-compliance is a matter of opinion.
- **The money factor.** It is not uncommon, on projects in delay for an employer to begin levying liquidated damages around the time of the Occupation Permit. Starving the project of funds in its final few weeks, will lead to all sorts of repercussions in terms of payments to suppliers and sub-contractors. As soon as cash stops flowing from employer to contractor to sub-contractor to sub-sub-contractor to worker then, usually, making good defects slows and even stops.
- **The supervisory factor.** The architect’s competence and resolve will form a key part in making good defects. Yet, how often on residential developments, do architects leave the identification of defects until after the sale and purchase agreement? The developer of my Hong Kong property issued to me a blank defects schedule (with carbon copies) and stickers for me to identify the defects. BERA believe that this is blatantly wrong, as defects should and could have been identified by the architect before, or at the latest, the practical completion inspections. Such practices can only instill a mentality in some contractors of “let’s see what we can get away with”.
- **The time factor.** Unrealistic contract periods set by the employer are neither conducive to good quality nor the timely making good of defects during the construction period.
- **The sub-contracting factor.** The multi-layered sub-contracting regime found in Hong Kong is synonymous with poor workmanship and quality. Measures needed to make good defects are often diluted or varied, like a game of Chinese whispers, by the time the requisite instructions filter down to the worker on site.

SWIRE PROPERTIES’ APPROACH

The Swire Form has similar provisions to the HKIA Form but with a few extra safeguards for the employer to minimize potential problems:-

- **Written undertaking.** Clause 15(1) of the Swire Form provides that, prior to the architect issuing the PCC, a written undertaking to finish any outstanding works, within an agreed period should be provided by the main contractor. Therefore, if the architect is to allow the main contractor to ‘carry over’ incomplete minor defects apparent at practical completion into the DLP, the completion obligations

for such work should be clearly stated in the written undertaking.

- **Employ others.** Generally it is believed that a defects liability clause will confer a right on the main contractor to have the opportunity of making good defects. However, there are some circumstances where this right may not be in the employer’s best interest. For example, the employer may have lost all confidence in the main contractor’s ability to make good the defects. Accordingly, clause 15(8) of the Swire Form provides that if, in the opinion of the architect, it is more “suitable and beneficial” that remedial work is rectified by others, then the employer may employ others to rectify the defective work and recover the cost from the main contractor.
- **Accept the defective work.** Clause 15(9) of the Swire Form states that the architect may accept the defective work and omit the value of the defective work as a variation with an amount to “reflect the reduction in the value of the work to the Employer resulting in the presence therein of the said defective [work]”. Suppose, for example, the main contractor had installed grade B maple flooring but the specification called for grade A. If the architect so desired he could accept the inferior grade of flooring, and compensate the employer by:-
 - an omission from the contract sum for the difference in value between grade A and grade B maple flooring; and
 - omit an amount to reflect the reduced amenity value of the flooring.
- **QAQC Procedures.** The Swire Form is backed up by a comprehensive schedule of QAQC procedures.
- **Performance bond.** The performance bond required under clause 31 of the Swire Form is not released until the issue of the final certificate, thereby, giving the employer added financial security throughout the DLP, should the main contractor subsequently default in his obligations to make good any defects.

A WORD ABOUT QAQC

In the early 80’s, QAQC procedures became the answer for the quality control deficiencies of the industry. QAQC continued into the 90’s and is still found in contracts today, such as the Swire contracts.

Do such procedures work? Well they are certainly designed to work and the procedures, if followed, would improve quality by identifying and rectifying or eliminating defects at an early stage.

However, QAQC has a price tag, not only in the cost of persons to operate it, but observance in terms of design, manufacture and construction. Contractors, sub-contractors and architects incur additional cost in operating a rigorous QAQC regime. When times inevitably became tougher, and prices declined (both contractor’s tenders and architect’s fees), observance of QAQC procedures waned and the industry again suffered from quality problems.

As poor quality is one of the ailments of the industry today, it shows that 20+ years of QAQC have not been successful. The procedures are there, they are not difficult to understand, or operate, but they are neglected and quality suffers as a result.

CONCLUSIONS

The success or otherwise of defect control and making good defects can be linked to a variety of factors, however, the underlying factor is nearly always ‘\$’ related. The seriousness of the ‘\$’ implications will likely govern a contractor’s / sub-contractor’s willingness to carry out and complete his obligations under the contract.

If a defaulting contractor (or sub-contractor) has insufficient funds and/ or is not prepared to sustain further losses, then the HKIA Form, unamended, may not always provide employers with the protection

that they should have. Experience shows that such contract provisions should be drafted (or amended) to give employers sufficient flexibility to minimise any such eventual problems that may arise.

In the most serious cases, this will mean giving the employer the choice of employing others to rectify the defects and, in the least serious, the choice of accepting the defective work with an appropriate financial adjustment to the final contract sum.

For further information contact bera@netvigator.com 

Feature

Feature

MERGER AND ACQUISITION ACTIVITIES IN PROPERTY SECTOR

AT CURRENT MARKET DOWNTURN, ACQUIRING A PROPERTY COMPANY MAY PROVE CHEAPER THAN BUYING ALL ITS ASSETS. MARK DOWIE, CO-HEAD OF CORPORATE FINANCE AT UBS WARBURG, EXPLAINS WHY M&A ACTIVITIES IN THE HONG KONG PROPERTY SECTOR DO NOT FLOURISH

Jim Yip, MRICS, AHKIS

Traditionally, deep NAV discounts (i.e. stock price below the underlying net asset value) and ample banking liquidities provide favourable grounds for M&As. In today’s market we have both, but we still see a dearth of M&A deals amongst developers in Hong Kong.

In August, Kowloon Development, a developer with its flagship development, Pioneer Centre at Mongkok, was at the brink of being acquired at a reported price of HK\$2.0 - \$2.3bn. The offer price of HK\$4.83 per share valued the company at 50% discount to its NAV of \$8.83 per share. It looked attractive, however, the deal collapsed at the eleventh hour.

We talk to Mark Dowie, managing director of UBS Warburg and a guru in M&A who last year advised on the largest M&A deal in Asia - the US\$35bn merger of Cable and Wireless (HKT) and the Internet investment company Pacific Century CyberWorks (PCCW), for his view on M&As in property sector.

WHAT ARE THE TRIGGERING FACTORS FOR M&A ACTIVITY IN THE PROPERTY MARKET? HOW ARE THE MARKETS PERFORMING SO FAR IN THIS AREA, SUCH AS THE UK AND US MARKETS?

M&A activities of property entities are driven by: 1) discounts to NAV; 2) net rental yield relative to cost of debt; and 3) prospects for the development business and the residential market generally.

Very similar fundamentals drive property M&As in other countries, for example, UK has witnessed a significant amount of public to private; US REITs have undergone consolidation, as have Australian LPTs.

WHY IS THE HK PROPERTY MARKET SO LACKING IN M&A ACTIVITIES? IN YOUR VIEW, WHAT ARE THE MAIN OBSTACLES?

We think there are four main reasons accounting for it here:

- (1) Control and cartel issues. There is a reluctance to launch hostile takeovers as relationships with controlling families may be affected;
- (2) The Hong Kong residential development outlook is uncertain and hence cashflows are unpredictable, which makes debt-servicing ability uncertain;
- (3) It is expensive for the acquirer to raise M&A funding when its discount to NAV is wide. There are only two or three Hong Kong property companies trading at NAV with the majority trading at

discounts of 30% plus. However, most companies seem more interested in acquiring new land banks rather than existing companies that own land. Additionally, they remain interested in non-property businesses, as evidenced by their venturing into the dotcom sphere in 1999 and 2000; and

- (4) Whilst there is ample bank liquidity and interest rates are low, most property companies utilise floating interest rates. To fix them would mean that the cost of debt is likely to be above 6% (for 3 year fixed paper), which could be higher than net rental yields thus making leveraged buy-outs more difficult.

IF THE PRESENT MARKET CONDITIONS, SUCH AS LARGE NAV DISCOUNT AND BANK'S AMPLE LIQUIDITY HAVE NOT SET THE STAGE FOR M&A IN PROPERTY, WHEN WILL YOU THINK THE MARKET WILL BE MORE RIPE FOR THIS KIND OF ACTIVITY?

Generally, M&A activity could pick up if interest rates rise before the residential market turns around. In such a situation, the weaker property companies (those with relatively more non-income producing land-bank than income yielding properties) will be unable to service their debt, and are likely to be forced into selling out/merging with a stronger partner, or could be foreclosed.

WHAT WILL BE THE KEY BENEFITS AND STRATEGIC REASONS TO PULL OFF AN M&A TRANSACTION?

You can:-

- (1) Do asset stripping - selling assets in the private market (assuming you can) after taking over a public property company so as to monetise the NAV discount spread.
- (2) To control the acquiree's land bank, if it is of good quality.
- (3) In the case of foreign acquirers, to obtain a backdoor listing in Hong Kong.
- (4) Size does narrow the NAV discount (due to a more diversified portfolio).
- (5) LBO - if the cost of debt is low (either because monetary conditions do not tighten, or the acquirer is able to lock in a low cost of debt) relative to the earnings yield, and debt-servicing is relatively certain, i.e. there is little need to rely on unpredictable development income.

WHICH TYPE OF PROPERTIES COMPANIES DO YOU EXPECT TO BE THE ONES MOST SOUGHT-AFTER? WHAT ARE THEIR CHARACTERISTICS?

The most sought-after companies would have 1) Good quality completed property portfolios or land-bank; 2) Relatively large discount to NAV; and 3) Loose shareholder register (if hostile takeover).

WOULD YOU BE ABLE TO GIVE SOME EXAMPLES ON RECENT M&A DEALS DONE IN THE ASIAN PROPERTY MARKET? WHAT ARE THE CRITICAL FACTORS IN MAKING THESE DEALS?

Two major deals in Singapore: DBS Land - Pidemco (where the critical factor was to gain size) and Somerset-Scott Holdings mergers (subsidiaries of DBS Land/Pidemco). The merger of DBS Land and Pidemco to form CapitalLand last year has created the largest property group in Singapore.

Others are basically strategic investors buying into property companies, like GIC RE buying into Land and Houses, Filinvest Land and Sunway City (where the driving motivation was to invest in undervalued companies and to gain exposure to local property development opportunities). Another example is Grosvenor Land and Ayala Land buying a stake in Asia Standard.

HOW MANY TYPES OF ACQUISITION TECHNIQUES ARE EMPLOYED? WHAT ARE THE RATIONALES BEHIND SUCH TYPES OF ACTIVITIES? HOW ARE THEY DIFFERENT FROM EACH OTHER?

- (1) Hostile acquisition: Tender/general offer is made usually at above market price and below NAV. The rationale is to gain as large a stake (from minority shareholders) as possible to gain control of the company, assuming the controlling shareholder has less than a majority (50%). At 50% the offer is normally unconditional.
- (2) Friendly merger: In a friendly merger, the two companies come together and agree to merge and share in the new merged entity, whereas in a hostile takeover, the acquirer tries to gain control by buying as many shares from the acquirees' minority shareholders as possible.

DO YOU THINK THERE IS A MORE EFFICIENT WAY FOR HONG KONG DEVELOPERS TO EXPAND OUTSIDE HONG KONG OF M&A? WHAT DO YOU THINK OF THE TREND FOR CHINA MARKET?

Where Hong Kong property developers are not familiar with overseas markets, they have sometimes entered into joint ventures with local partners (i.e. Cheung Kong, HongKong Land and Keppel Land acquisition of White Site in Singapore). The regulatory environment for M&A in China is still in its embryonic stage making it difficult for foreign entities to takeover local companies. The historic trend has been for Hong Kong based developers to spin off their China divisions.

HOW CAN BANKS OR INVESTMENT BANKS HELP? WHAT ROLES ARE YOU PLAYING?

We identify potential M&A targets, and then lead discussions with the candidate's majority shareholder if a merger is appropriate. We then go on to execute the takeover, if a takeover is appropriate. We also arrange capital markets funding. ■



REMARKS ON ESTATE AGENTS ORDINANCE

Ronald Y. F. Cheung
BSc (Hons), AHKIS, MRICS, RPS(GP)
Director of Midland Surveyors Limited



BACKGROUND

I guess everyone must have heard of estate agents' malpractice in the past. Some might even have experienced one. It was a time when almost everyone could become an estate agent, and almost every type of complaint was voiced.

Corrective measures, belated but much needed, have been taken by the Government to control the practice of tens of thousands of estate agents. The most significant of these measures is the passing of the Estate Agents Ordinance in 1997 (the "Ordinance"). Since then, estate agents must obtain a licence from the Estate Agents Authority (the "Authority") before they can practise.



Generally, estate agents have since displayed a greater sense of professionalism in discharging their duties. Their image has been enhanced and complaints against them reduced.

However, the Ordinance, despite its intention and careful enactment, is still in its early stages. Being new, it certainly has imperfections and contains ambiguities, which leave estate agents perplexed. Here, I attempt to illustrate some obvious ones.

DIFFICULT AND IRRELEVANT FORMS

What puzzles estate agents most is the nature and requirement of some prescribed forms they now need to fill in. Section 45(2) of the Ordinance specifies that they have no cause of action to recover commission unless prescribed forms of estate agency agreements are used and executed.

It is precisely in completing these forms that the estate agents face difficulties. In general, some forms require impractical and trivial information. Some of their contents do not quite match the intention of the Ordinance. It seems that they sometimes create more problems than solutions. The following are examples.

Firstly, Section 36(2)(f) of the Ordinance requires the information of the term of the proposed lease if a lease of the relevant property is to be granted. However, the information required in Forms 1 of the prescribed forms reads "If a Government lease is to be granted, state

the term of the proposed lease." It is interesting to note that if a Government lease has not been granted, there is no property at all for sale! The Ordinance has only referred to a "lease" but not a "Government lease". A better view seems to be that the "lease" in the Ordinance refers to an "ordinary lease" of a property and that an estate agent has to ascertain from the landlord the term of such proposed ordinary lease, which is usually 2 to 3 years.

Secondly, one of the purposes of the Ordinance is to require the estate agent to procure from the vendor as much information as possible. However, "yes" and "no" boxes are put against the items of information to be collected. In practice, estate agents can persuade their clients to waive the duty to procure or the right to know the information, particularly in the initial stage before inspection of the properties. Such discretion seems contradictory to the purpose of the Ordinance.

Thirdly, Section 36(2)(g) of the Ordinance requires an estate agent to obtain a statement "made by the vendor" specifying the property's information as to repair and maintenance and additions and alteration etc. The idea is good. But in practice it is difficult to secure such statement from vendors. The vendors would prefer to explain and describe the situation face-to-face to purchasers during inspections. Realizing the difficulty in obtaining the vendor's signature on such statement, the Authority has mended fences by modifying the contents of Form 1 by asking the vendor to sign OR, if the vendor refuses to sign, the estate agent to sign and state the fact of the vendor's refusal to give such statement. This requirement seems to be contrary to the spirit of Section 36(2)(g) which has never intended to have a statement signed "by an estate agent"!

Lastly, there is a requirement, under Sections 47 and 48 of the Ordinance, for an estate agent to supply copies of both the unexecuted and executed estate agency agreement and any amendments thereto to his client. Important as it is, unfortunately, it is not emphasized in the prescribed form of the estate agency agreement for the estate agent to deliver a copy of the unexecuted agreement before signature as well.



The above cases can either be overlooked, ignored or violated by estate agents which may undermine their commission or simply lead to possible disputes.

EXTRA REQUIREMENT

So much for the unsatisfactory forms. There is also a case of the Authority enforcing extra requirement of the estate agents.

In addition to an estate agent's licence, each estate agent must also apply for a "Statement of Particulars of Business" for a particular place of business and a particular business name and to pay an extra fee.

There seems to be no specific reference in the Ordinance to empower the Authority to require estate agents to observe the above. Nor does it require an estate agent to operate in a "particular place of business". It raises the question that the Authority may be acting ultra vires.

INADEQUATE APPLICATION


At present, the Ordinance is applicable to dealings in residential properties only. Generally, residential deals, despite their greater market share, are relatively less complicated. Yet they are the only ones which

require estate agents to have licence and to abide by the Ordinance.

Estate agents dealing with land transactions need to be conversant in development restrictions, planning and market potentials. Commercial premises often require a variety of licences to operate and estate agents need to fully understand the buildings' characteristics and deeds of mutual covenants before they can advise and approach clients. Similarly, estate agents dealing in offices, factories and godowns need to know the buildings' services capacities, floor loading, headroom and various specific features. Professionalism and technical knowledge are more important in these cases. Yet they have not been regulated by the Ordinance. Not yet anyway.

REMARKS

The above are merely observations on an enactment still in its early stages. By drawing them up, I hope the people concerned can make an effort to improve them. A comprehensive review of the ordinance is needed.

For a Chinese version, please visit our website at: <http://surveyors.midland.com.hk>. 

Feature

ECONOMIC SCENARIO AFTER THE TERRORIST ATTACKS ON 11 SEPTEMBER 2001

Peter Reichenbach
Chief Investment Officer, Gattardo Asset Management (HK) Ltd



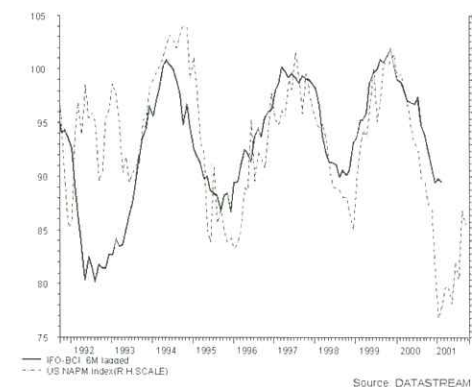
EFFECTS ON THE WORLD ECONOMY

After the terrorist attacks of 11 September, we can no longer isolate the global economic developments from those in the geopolitical sphere. Below we will take a look at the implications of the scenario that we believe is the most likely to occur. This scenario encompasses a clear-cut and limited military intervention by the United States, an on-going struggle with terrorism using other means (intelligence agencies, special forces), and excludes any new, spectacular terror attacks as well as any broader military engagement. The events of 11 September will have at the very least indirect consequences for the entire world economy, while the United States has been hit the hardest,

both directly and indirectly. The direct effects, which resulted from the contraction or reduction in business activity in a number of sectors, should have the most depressing effect on the third quarter GDP. The indirect effects, on the other hand, can be attributed to the increase in uncertainty that is having a negative effect on consumer confidence and the business climate, both of which are expected in turn to weigh on consumption and investment. In the past, in similar situations, decline in confidence have lasted six months and been accompanied by a 3 percentage-point slowdown in personal consumption. If, in addition we consider that, previous to these events, US consumers

were faced with high levels of debt, a considerable increase in the savings rate appears very likely. The deterioration in business climate inhibits corporate propensity to invest, particularly for technology companies where over-capacity persists. Although a low capacity utilisation rate does not exclude a pick-up in investments, under current circumstances, we should expect a recovery in stages and by sector.

Fig. 1 IFO Business Climate Index (Germany, 6 month-lag) and NAPM Index (USA)



The IFO-Business Climate leading index, is expected to show negative readings for the coming months.

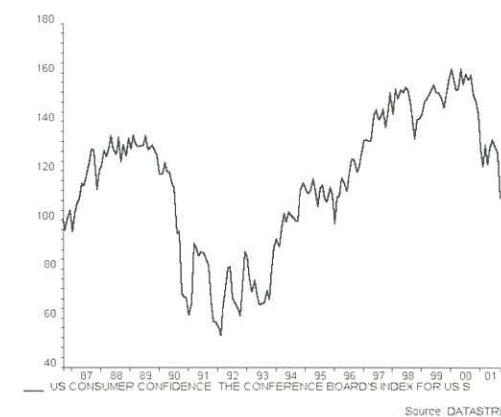
GDP FORECASTS

On the other hand, it should be kept in mind that the aggressive short-term rate cutting that has been going on since the start of the year, the high level of liquidity, and government fiscal measures (extraordinary spending is already equal to 1.5% of GDP and new tax cuts are in sight) together constitute an indispensable framework for a recovery in the economy. In the third and fourth quarters we expect the US economy to experience a contraction in productive activity (Q3 -0.5% to -1% and Q4 -0.5% to +0.5%), while in 2002, a recovery is expected to begin, that over the entire year should enable growth of between 2 and 2.5%. In all the other major economies, we are likely to see similar trends.

WEAKENING OF CONSUMER CONFIDENCE

Assuming that the attacks on New York and Washington represent a similar shock, we can compare the current situation with those in 1973, 1980, and 1990. Then, the decline in confidence lasted on average roughly 6 months and was accompanied by a 3 percentage-point slowdown in personal consumption. The University of Michigan said late last month its consumer sentiment index fell sharply in September to 81.8, its lowest level in nearly eight years, from 91.5 in August. The September reading was cut from a mid-month estimate of 83.6. The drop in sentiment between September and August was the largest one-month plunge since August 1990, when the Gulf crisis began (see second half of 1990 in Fig. 2). The survey showed that the second week after the attacks was when American sentiment was the weakest. We expect consumer confidence to deteriorate further in the coming months.

Fig. 2 US Consumer Confidence



FED CUTS

In the absence of any signs of inflation and to simulate both corporate and consumer spending, the Fed so far has cut rates nine times this year. After the ninth cut four weeks ago, the key Fed fund rate, which influences borrowing costs throughout the economy, is now at 2.5%, its lowest level since 1962. The Fed has knocked a full percentage point off the fed fund rate since 17 September. These interest rate cuts will undoubtedly provide a much-needed boost for the economy, working with a tax cut passed earlier this year and an economic stimulus package of tens of billions of dollars in further tax cuts and spending. Both the Fed and the ECB are expected, over the coming months, to lower official rates again by another 50 bp.

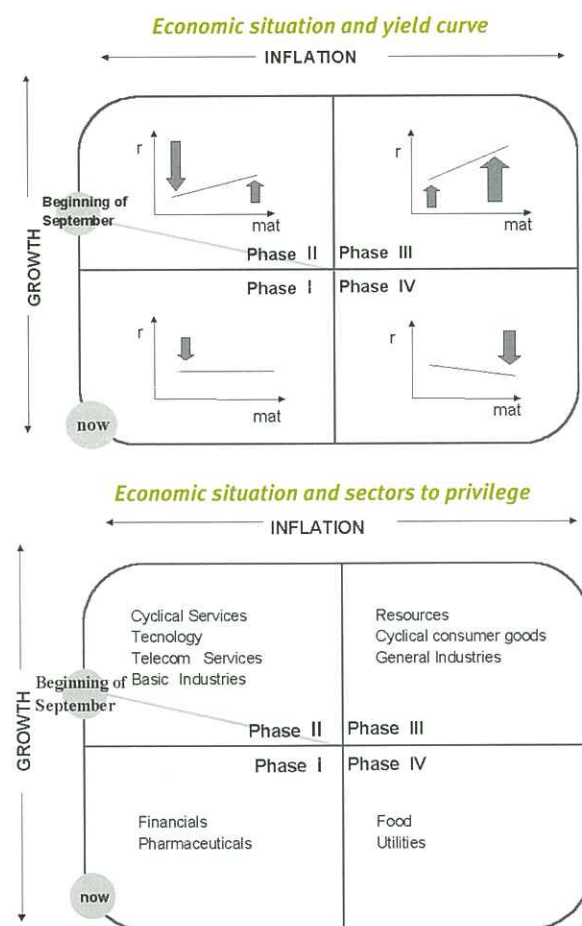
The forecast economic recovery and in particular, the fund raising by the various governments are expected to weigh on the bond market. Bond markets are expected to undergo two distinct phases: thanks to the absence of any inflationary pressure, bond prices should in the short term enjoy further upside potential. In the medium term, however, this potential is expected to disappear due to the changing demand and supply situation for government issues caused by an increase in public debt (economic stimulus packages).

TRENDS IN CORPORATE EARNINGS

Stock markets are benefiting from the support of a number of fundamental factors including liquidity, interest rates and valuations (with the exception of the United States, all other countries have very low valuations). However, the outlook for earnings is still negative and has even worsened. Nevertheless, the biggest unknown remains risk premium - the incentive investors require to put money into higher risk assets. Although risk premiums are currently high from a historic point of view (risk premiums were lower during the Gulf War), it cannot be ruled out that investors will insist on higher valuations and price-earnings multiples are thus bound to decline further.

Before the September 11 events we were suggesting to reduce financials and pharmaceuticals and to start building up positions in cyclical services, telecom and technology (Phase II of the investment cycle).

Fig. 3 Investment Cycle



However, in light of the new macroeconomic scenario we are returning back to Phase I in the investment cycle, which has also been confirmed by recent market action (relative strength of defensive shares versus more cyclical counters, such as consumer goods, cyclical services, information technology, and general industries). We are convinced that, although it will be more difficult than anticipated, the shift towards Phase II, albeit not imminent, will be the next direction the market will take. Volatility is expected to continue, and might reach again the levels recorded recently, before a clear trend is defined. For the moment, fears of a recession have caused long-term bond yields to decline and we have been recommending investors to slightly increase holdings in defensive issues (pharmaceuticals, food and utilities).

Nonetheless, we do not recommend, at this point in time, increasing cash holdings substantially. One should not forget that economic recovery remains a medium-term target, although it is difficult to achieve, and that after the recent sharp corrections much negativism is already factored into the share prices. Only a clear deterioration in the international political situation would convince us to adopt a more defensive approach. For the eventual big liquidity driven rebound, we recommend investors to position themselves in major good quality companies, which normally, are the first to benefit from any growing market confidence.

For further information please contact Peter Reichenbach at 2248 6860 or email peter.reichenbach@gottardo.com

Feature

THE IMPACT OF THE OLYMPIC GAMES ON BEIJING'S REAL ESTATE MARKET

Jones Lang LaSalle - Research and Valuation Advisory Services

INTRODUCTION

As globalization intensifies, competition between the world's major cities increases. Nowhere is this competition revealed more dramatically than in the selection contest for the Olympic Games and other major world sporting events.

The level of interest in securing the 2008 Games suggests a common theme: city governments around the world believe that hosting the Olympics will produce short and long-term benefits for their city.

In July 2001, the International Olympic Committee's (IOC) announcement of the 2008 host city - Beijing - has given the Chinese a golden opportunity to realize these benefits. Jobs and revenue will be created in the short-term; and long-term changes in Beijing's urban form and governance will also be seen.

This paper examines the legacies for four recent Olympics hosts - Seoul (1988), Barcelona (1992), Atlanta (1996) and Sydney (2000) - and anticipates potential impacts for Beijing. By considering the long-term effects, the property market in particular is assessed.

DIFFERENT CITIES, DIFFERENT CONTEXTS

Major implications that can be drawn from the experiences of the post four Olympic host cities are:

- Significant and varied impact on the real estate market.
- The motivation for hosting the Olympics clearly varies between cities.
- The direct real estate implications of hosting major events depend upon the size and relative maturity of the local property market.
- The key to the success (or otherwise) of hosting major events such as the Olympics is largely dependent upon the ability of the city to leverage off the images and perceptions created during the event itself and to continue delivering on the dream long after the circus has left town.
- A major long-term impact of hosting the Olympics is the opportunity it provides to influence the pattern of urban development through investment in infrastructure and environmental improvements.

For the above complications, context is important. Differences in geography, time, technology, size and nature of the host country's economy render direct comparisons erroneous. It is therefore important to understand the overall circumstances that constitute the backdrop against which to assess the impact of the Olympics on the local property market. Because of the differences between host cities, the likely impacts on their property markets are different. This paper gives a more detailed picture in this connection in the later sections.

LONG TERM (INDIRECT) INFLUENCES ON REAL ESTATE MARKETS

One of the common arguments raised by cities bidding to host the Olympics is that the benefits will be both far-reaching and long-term. It is therefore important to consider the nature of these indirect influences on the real estate market before examining the more direct and immediate impacts on specific market sectors.

1. Economic Impacts

While it is certainly possible to quantify the direct cost and revenue streams, identifying all of the indirect spin-offs and isolating the specific impact of the Olympics on regional economies is at best an imprecise exercise and not the intention of this paper. A review of the various economic impact studies prepared on the Seoul, Barcelona, Atlanta and Sydney Games does however, reveal three common themes.

(a) The scale of the numbers is huge

It is estimated that the Sydney Olympics will add approximately US\$4.3 billion to the Australian GDP and create as many as 100,000 full time jobs over the twelve-year period from 1994 to 2006. Equally impressive figures have been cited for the Seoul, Barcelona and Atlanta Games.

(b) Positive net economic impact

The revenue generated by the Olympics tends to exceed the direct

Qualify by Distance Learning with



Internationally recognised qualifications from a leading British Institution providing distance learning education and training services to the property professions and construction industry. Course seminars are held in Hong Kong.

CEM Postgraduate Diploma in Arbitration by distance learning - Registration no. 250295 (3)

This high level course has been designed for those who wish to practise as arbitrators. It is also highly relevant for those who wish to undertake expert witness work.

- 2 year distance learning course.
- Year 1 provides exemption from the **Membership** examinations of the Chartered Institute of Arbitrators
- Year 2 provides exemption from the **Fellowship** examinations.
- Meets the academic requirements for membership of the **RICS**.
- Course starts March 2002. Applications due by 15 January.

Web based resources have now been developed to support our existing distance learning materials.

For further information, please contact:

The British Council - Distance Learning Programmes, 3 Supreme Court Road, Admiralty, Hong Kong
Tel: 2913 5110 Fax: 2913 5115 Email: distance.learning@britishcouncil.org.hk Website: www.britishcouncil.org.hk/distancelearning/

It is a matter of discretion for individual employers to recognise any qualification to which these courses may lead.

Registered in England as a charity no. 209131



cost of hosting the Games. The extent of any such positive net impact is, however, heavily dependent upon the level of new infrastructure required and how this spending is treated within the financial appraisal.

(c) *While positive, the direct net benefit is relatively insignificant*

The US\$4.3 billion that the Olympics are estimated to have injected into the Australian economy between 1994 and 2006 is equivalent to just 1% of the National GDP in 2000. Similarly, the contribution of the Sydney Games equates to less than 0.15% of total Australian GDP between 1994 and 2006. Not only is the economic impact relatively insignificant, it is also heavily focused in the host city itself. In fact, other regions of the host nation have actually experienced a net reduction in economic activity as a result of "expenditure switching" associated with the Games, particularly in relation to travel and tourism.

The Barcelona Games are estimated to have generated the greatest economic benefit, adding US\$16.6 billion to the Spanish economy between 1986 and 1993. Even so, this equates to just 2.9% of the Spanish GDP in 1992. As would be expected, the Atlanta Games had the least significant economic impact, given the massive size of the US economy.

2. Economic Implications for Beijing

Given the size (US\$1.1 trillion in 2000) and growth rate (8% in 2000) of the Chinese economy, the direct impact of hosting the Olympics will be negligible on the national economy, but it would have an impact on the local Beijing economy. In spite of the huge population (about 13.8 million), Beijing is economically smaller than any of the past four host nations, with a GDP of approximately US\$37 billion in 2000. As such it is likely that hosting the 2008 Olympics will have a relatively large impact on the overall economy. The approved budget for Olympics related government expenditure (2001-2008) is US\$14 billion, which is itself equivalent to 37.8% of the current annual GDP. The overall impact on the economy will be significantly in excess of this figure.

According to the study by the PRC Government, the National GDP will increase by 0.5-0.6% p.a. to reflect the Olympics implications whilst the positive impact on Beijing will be much higher.

3. Olympic Legacies

Arguably the greatest impact of the Olympics is not on the local economy, but on the urban form and governance of the host city. In the short-term, there are certainly benefits to the local economy and the city's social landscape, with a carnival-style atmosphere present in the lead-up and during the Games. However, the real benefits are measured in the long-term.

Five of these major long-term legacies are:

(a) *Urban Regeneration*

Capitalizing on the Olympics to revitalize run down urban areas is a theme common to all four recent host cities.

Within Beijing, the Olympic program features a number of bold urban regeneration projects, which aim to enhance the cultural and environmental elements of the city.

(b) *Olympic Villages*

One of the specific means by which Olympic Games impact on urban development is through the design, location, form and size of the Olympic Village.

To prepare for the 2008 Olympic Games, Beijing has decided to build a strategically planned Olympic Park in the North side of the city.

The Olympic Park has been designed to cover an area of 1,215 hectares (total gross floor area of about 2 million m²). Within which, there will be 760 hectares for green area, 50 hectares for cultural museums, 450 hectares for exhibition centres, stadiums and Olympic Village. The Olympic Village will comprise of 80 hectares of land, having a total gross floor area of about 470,000 m².

(c) *Improvements to Urban Infrastructure*

Another major benefit of hosting the Olympics is the chance it offers to develop new infrastructure projects, or at the very least bring forward the construction of planned projects, from which the host city benefits long after the Games have moved on.

Before 2008, Beijing will implement the construction of large-scale infrastructures. They include over 100-km mass transit railways and major highways system. The budget for the next 5 years on projects of urban renewal, telecom, traffic, environmental improvement and other public investments is estimated to be about US\$23 billion.

(d) *Greening the Games*

Environmental considerations are becoming a major issue in the selection of cities to host the Olympics. The International Olympic Committee added "Environment" to "Sport" and "Culture" as the third principal of the Olympic movement in 1994.

Beijing has a significant opportunity to use the Olympics as a catalyst to improve the city's current pollution problems. Greenpeace classifies Beijing as one of the heavily air polluted city in the world and is dubbing Beijing the "Brown Olympics". The organisers of the Beijing Olympic Games have recognised the seriousness of the challenges they face and have identified the need to make significant environment improvements as an integral objective of its overall Olympic program.

20 major environmental projects have been suggested and implemented. They include "Replacement of Charcoal by Gas", "Control on Car Exhaust", "Greenery of City", "Garbage Recycling", "Sewage Treatment" and "Relocation of Contaminated Industry", etc.

(e) *Tourism Promotion and the Convention Sector*

The long-term payback of hosting the Olympic Games for a host city's tourism and convention industries is potentially profound.

As the capital city of the PRC coupled with over 5,000 years historical and cultural background, Beijing has long been the most important tourist city of the Country. Since the open door policy from 1979, a relatively well developed international hotel sector has been established, however the Olympics would likely induce further construction of 4-5 star properties in the years leading up to the Games.

Regarding the convention market, Beijing is relatively undeveloped. A key objective of hosting the event is to spur the development of new convention facilities.

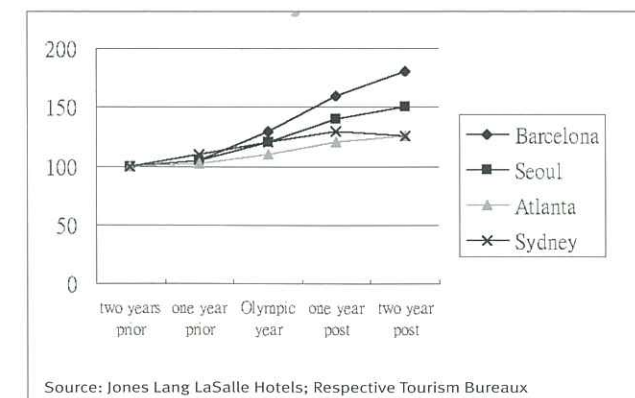
THE OLYMPIC EFFECT BY REAL ESTATE MARKET

The major impacts of the Olympics on real estate markets are reflected in the legacies outlined above. There will also, nevertheless, be more direct and short-term impacts on property market as reflected by indicators such as construction activity, take-up levels, occupancy rates, rentals and prices.

1. Hotel Market

The hotel sector is clearly the most affected by the Olympic Games due to the direct impact of Olympic related visitor arrivals and the resulting demand for short-term accommodation.

The Olympics also appear to have a major impact on a city's hotel room stock. All four host cities experienced growth in room supply in the two years leading up to the Games and the Olympic year itself, with much of this concentrated in the international standard segment i.e. Four-star and above. A comparison of changes in total hotel supply over the five years surrounding the Olympics (as shown below) underscores this dramatic growth. Room supply almost doubled in Barcelona, while it increased by an average of 35% in Atlanta, Seoul and Sydney. In many cases, construction was brought forward for completion within the "Olympic window". While this increase in room capacity provides a strategic advantage for a city in terms of its ability to attract and host major events, it may result in a short-term oversupply (as was the case for Barcelona).



The combined effect of supply and demand resulted in some interesting occupancy movements. All host cities suffered a decline in average

occupancies during the Olympic year, largely due to the increased level of room supply. Occupancy levels have typically recovered in the years following the Games.

While occupancy levels have fallen in all markets in the Olympic year, all host cities have experienced a substantial increase in average daily rate (ADR) during the Olympic year. The average increase in ADR has been 22.6%, with Sydney recording a below average increase of 11.1%. Not surprisingly, all host cities recorded a decline in ADR in the year after the Olympics, with Barcelona registering an extremely sharp fall.

The increased room rates have generally been sufficient to offset lower occupancies (the result of increases in supply), as a result, all recent host cities have recorded an increase in hotel performances as measured by revenue per available room (RevPAR) during the Olympic year. Movements in hotel performance in the post-Games period have varied significantly as the markets have resumed their normal cycle.

It is believed that the 2008 Olympics would provide massive and far-reaching implications for the advancement of the city's merge into globalization. So, Beijing is confident of leveraging the Olympics to the benefit of its tourism industry.

2. Residential Market

There are two potential impacts of the Olympics on the residential market. A short-term boost to rentals and prices in certain localities and a longer-term impact in terms of new centres and the upgrading of housing stock.

The extent of any short-term impact on rents and prices appears to be dependent upon the size and maturity of the housing market in the host city. Comparing with Sydney and Atlanta, Beijing has a relatively immature housing market. Originally, all the land (including buildings) in the PRC was centrally owned. However, in line with the open door policy and by virtue of the introduction of Real Estate Innovation Policies (see my previous article: "Overview of the PRC Land System"), the City has been undergoing a movement towards privately owned real estate interests and residential housing market has been formed accordingly.

I anticipate that average house prices in Beijing would increase sharply from 2001 to 2008, but this would be also a combined reflection to other factors such as WTO and general economic growth.

However, the major impact of the Olympics on the residential sector is not on prices or rents, but in the development of new districts around the Olympic corridor. I expect this impact would be quite pronounced in Beijing where residential construction would increase substantially.

3. Office Market

As with the residential markets, the impact of the Olympics on the office market in recent host cities has been mixed. The impact is greatest in smaller, less mature markets. The Olympics serve as a major city

promotion campaign, but unless there are sufficient sound business reasons to support it e.g. infrastructure, business environment, skilled labour, this is unlikely to result in the attraction of significant international capital.

In Beijing, a more direct and long-term benefit to the office market is the major improvement in transport and telecommunications infrastructure. These factors would certainly help in attracting office occupiers subsequent to the Games.

Beijing is a growing international office location (or more appropriate, a growing PRC regional office location) and is therefore likely to attract new office users. However, the impact is considered little in direct, but will stimulate further demand as part of the opening of the economy to overseas corporates.

4. Retail Market

Of all the sectors studied, the Olympics probably have the least lasting impact on the retail market. The most direct impact has been a short-term boost to retail spending resulting from increased tourism.

Despite the limited effect on the retail market as a whole, the Olympics probably has resulted in major changes in the pattern of spending between different sectors of the retail market. The major beneficiaries in Sydney were the clothing and soft-goods sector (souvenirs) and the

hospitality and services sector (take-away food). These sectors saw turnover increase by US\$88 million in New South Wales for the month of September 2000. Other sectors of the market saw a decline in turnover due to switching of expenditure e.g. from fresh food to fast food and restaurant. Would this switch happen again in Beijing? Given the rapid change of spending culture, I expect the western style retail outlets would benefit most.

Another clear trend from analysis of the four hosting cities was that the Olympics related retail boost was focused on regional centres which were more strategically located, with spending being more concentrated. In Beijing, it is believed that the Olympics effect would put some Olympics related locations becoming more popular.

CONCLUSION

Much of the above applies not just to the Olympics, but is equally relevant to cities hosting other major events such as the Winter Olympics, the World Expos, the soccer World Cup and the Asian Games. As with the Olympics, these major events can have a sizeable short-term impact on the property market, with the potential for more significant long-term benefits being largely dependent on the city's ability to leverage off the event. ■

Surveyor's
Surf



SURVEYOR'S SURF

Stephen Chung, Zeppelin Real Estate Analysis Limited



3G is hot! Touted the media, the promoters and the providers. Not only can you gain access to information on the net much faster, you can also see the people you are talking to on your mobile video phone much clearer and so on. Life or lifestyle will be very different and exciting from now on, so they say. While basically being a supporter of new technological applications, the author harbors a few questions in this instance. Do we really wish to be seen by clients, customers, relatives, friends etc. who call us up at 3.00 am in the morning while we are in bed? Do you really wish to let your boss, who is waiting for you to show up at a meeting know, that you are still in a taxi when you are

telling him or her that you are already downstairs at the lobby? Worse still, do you wish your colleagues to know that you are actually attending an interview at the competitor's office when you tell them that you are just going out for a stroll during lunch? Switching off the screen will just add more suspicions and life will get very exciting (nerve-racking?) indeed. This also means business opportunities, and it is just a matter of time before some IT genius would come up with some software or virtual reality graphics for mobile phones that would enable you to look better than you really are (e.g. masking all your pimples), be seen at any place other than the one you are actually at,

or be seen smiling all the time when in fact you are up to your 'x@#&yzxx' neck answering some stupid questions being thrown at you by prospective real estate purchasers such as "Is the place spooked?". What do they expect the agent to say? "Yes sir / madam, Casper [the friendly ghost] lives here"?

Anyhow, the following websites need no masking, touching up, or beefing up, as they are knowledgeable and content-rich:

a) <http://www.botspot.com/>

Do you know what a "bot" is? According to an article in the SCMP, a "bot" is a software tool that harnesses the power of computer algorithms for the purpose of digging through data. In simple language, it helps you find things on the web. This website deals in bots. Not only can you learn more about them, it has a list of bots under various classifications such as news bots, fun bots, government bots, email bots and stock (equities) bots.

b) <http://www.callan.com/resource/periodicals/>

This is a commercial website and is operated by a company called Callan Associates Inc. Apart from company introduction, the website also contains various periodicals and researches on the USA capital and investment markets. Thus, it is useful to those who wish to monitor the investment environment in North America.

c) http://www.gsu.edu/~wwwrwr/Annotated/Service_Providers/Advisors.htm

This webpage is part of the Georgia State University's website and contains a categorized list of real estate service providers ranging from fund managers, ratings agencies, advisors to brokers, institutional consultants and the like. You can also click on the links of these companies to enter their websites where applicable. The list in some ways gives you an idea of how the American real estate 'market' has grown in complexity, scale and coverage, especially toward the finance side of things.

d) http://www.gsu.edu/~wwwrwr/Annotated/Information_Sources/Publications.htm

Again, this webpage is also part of the Georgia State University's website and contains a categorized list of economic and real estate market data and information sources. It should be useful for those in research studies and / or seeking data and information to better gauge the global and North American economies.

e) <http://www.jimrogers.com>

Mr. Jim Rogers is an investor and has traveled all over the world, from west to east passing through Russia and China and numerous smaller

countries, and north and south through the Americas, on his motorbike (nowadays he drives a car) with friends. Prior to this, he had worked for / with Mr. George Soros (in the unlikely case that you had not heard of Mr. Soros, he was the guy that betted against the sterling and won a decade ago, or more recently, as the mastermind behind the Asian Financial Crisis). The site is interesting and useful because apart from the sight-seeing, Jim also describes the cultures, the administrations, the markets, and the like, giving you his opinions and reasons why he will or will not invest in a particular place. Aspiring for those who wish to become a global investor.

f) <http://www.stat.go.jp/english/1.htm>

This site contains the statistics of Japan ranging from economics, demographical aspects to housing conditions. It is not easy to search and digest but with patience, it should be useful and enlightening, especially on some long-held but probably out-dated beliefs or impressions of Japan. Investors and consultants with an eye for Japan may find the site of particular application (though the author must confess he likes holidaying more than investing in Japan).

g) <http://www.mytophome.com/>

This site focuses on the Guangzhou real estate market and is actually a creation of our fellow surveyor Mr. S. C. Liu. The site offers a range of services such as marketing, buying and selling, interiors and so on and contains information on the residential sector and projects. It also offers a platform for mortgages. It is written in simplified Chinese.

Ever wonder why there are only 2 sexes (male and female) in the world we live in? This was what the author and a few friends pondered the other day and our conclusion was that this was purely a mathematical phenomenon. In a 2-sex world, A needs to like B and vice versa, a 2-way communication (naturally, we are talking about the modern civilized society where marriage is not coerced) before anything happens. This is tough enough and it usually uses up a lot of time, effort and money. For the 3-sex 'beings' (if they ever existed), A needs to like B and C, B needs to like A and C, and likewise for C with A and B, a 6-way communication. Now imagine the complexity for 4-sex, 5-sex, 6-sex beings and so on. They might have existed before, but surely not for long.

Please send suggestions and comments to stephenchung@real-estate-tech.com ■



DIPLOMA PRESENTATION

A diploma presentation was held on 27 September 2001 in the HKIS Secretariat Office. The President with the Chairmen of the Building Surveying Division, General Practice Division and Land Surveying Division presented diplomas to Fellow and Associate members elected on 14 June 2001.



The President, Chairman of the Building Surveying Division, Mr. Richard Cheung (3rd from right) with newly elected BSD members.



The President, Hon. Secretary, Mr. Albert So (1st left), Chairman of the General Practice Division, Mr. Tony Tse (1st right) with newly elected GPD members.



The President, Senior Vice President, Mr. Chan Hak (1st left), Chairman of the Land Surveying Division, Mr. Wong Chung Hang with newly elected LSD members.

"THE HONG KONG SURVEYOR" CALL FOR CONTRIBUTIONS

The third issue of "The Hong Kong Surveyor", the journal of the Hong Kong Institute of Surveyors, is expected to be published in December 2001. We invite you to submit articles to us.

You may either send your articles by e-mail to the Hon. Editor at editor@hkis.org.hk. or let us have a hard copy of the article plus a diskette in Word format **on or before 30 November 2001**. Our address is Suite 801, Jardine House, Central, Hong Kong.

Your submissions should include a short description of yourselves in not more than 50 words and a colour photograph of yourselves.

Please note that the Editorial Board reserves its right to reject and edit any submissions.



HKIS TIES

The HKIS tie has undergone a new transformation. The latest design comes in two colours, blue with purple stripes and burgundy with grey stripes. They are on sale at HK\$80 each from the HKIS Secretariat Office while stocks lasts.