

26 February 2014

The Securities and Futures Commission  
35/F Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

**By Post & By Email**  
(Email: [reitsconsultation@sfc.hk](mailto:reitsconsultation@sfc.hk))

Dear Sirs,

**Re: Consultation Paper on Amendments to the Code on Real Estate Investment Trusts**

With reference to the captioned paper ("Consultation Paper") published by the Securities and Futures Commission ("SFC") on 27 January 2014, the Hong Kong Institute of Surveyors submits our comments on the proposals discussed in the Consultation Paper for your consideration.

**1. Introduction of flexibility in respect of property development investment and related activities to REITs**

To allow REITs to engage in property development investment and related activities would promote the growth of the REIT market in Hong Kong. Investment grade properties are not always readily available for acquisition and by allowing REITs to develop their own properties would facilitate the expansion of their property portfolios.

The growing age of buildings and changing market trends may negatively impact on the property values over time. With redevelopment, buildings can be put into their best uses compatible with modern standards, and this will benefit the investors in REITs.

**2. 10% Gross Asset Value ("GAV") Cap on property development investment and related activities**

We suggest that the caps of values for property development activities and acquisition of uncompleted units could be considered separately.

According to the available figures in 2013, 10% of the GAV of the REITs listed in the Stock Exchange in Hong Kong ranged from approximately HK\$0.4 Billion to HK\$9.9 Billion. The lower end of the range suggests that the scale of the property development could be limited.

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For uncompleted non residential properties in Hong Kong, the payment terms for such purchases would usually be on stage payment terms. A deposit (normally in the order of say 10% to 30%) would be paid upon the agreement for sale and purchase whilst the majority of the purchase price would be paid upon the completion of the purchase. Bearing in mind such payment practice, the purchase of uncompleted properties would be similar to properties without tenants. By treating the uncompleted properties as a separate category with an appropriate value cap thereon would further allow flexibility to the REITs in pursuing suitable investment opportunities.

### **3. Calculation of Property Development Costs (“PDC”)**

The calculation of the PDC has been proposed in Notes 1 to 7.2A in the Consultation Paper. The upfront calculation of the PDC should be based on a fair estimate made by the management company in good faith and supported by the opinion of an independent expert acceptable to the SFC.

There is no elaboration on what compose of the PDC and who these independent experts should be and what qualifications these independent experts should possess. We suggest that apart from land acquisition cost and construction cost (including fit-out costs), PDC could be defined to include cost items including stamp duty, professional fees, capitalized interests, marketing costs, agency fees.

The Consultation Paper mentioned that any opinion on PDC would be accepted when prepared by professional valuers who are fellow or associate members of Hong Kong Institute of Surveyors (“HKIS”) following the valuation standards published by the HKIS as well as the International Valuation Standards Committee (“IVSC”). We would like to advise that the name “associate members” of HKIS would now be known as “members”. The full name of IVSC is “International Valuation Standards Council”.

We would also like to advise that in the existing valuation standards published by the HKIS, a qualified valuer in conducting property valuations for listed entities in the Stock Exchange of Hong Kong must be on the HKIS List of the Property Valuers as published by the HKIS from time to time.

For the assessment of the construction costs, this could be done by a professional quantity surveyor or a firm of professional quantity surveyors in Hong Kong and their report be incorporated in the opinion of the valuation expert, where available. Where no such quantity surveyor report is available, then the valuation expert can make reference to published cost index by a firm of professional quantity surveyors.



**4. Frequency of periodic updates to unit holders on the status of property development investments and related activities**

The suggested updates of the property development activities in the interim and annual reports are sufficient, while REIT managers are encouraged to provide updates as they consider appropriate to inform any material changes to the PDC.

Yours faithfully,

Sr Simon Kwok  
President

