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Our Ref.:

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)

Dear Sirs,

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

We refer to the captioned paper ("Consultation Paper") published by the Securities and Futures Commission ("SFC") on 27 January 2014. Jones Lang LaSalle Limited, hereby submit our comments on the proposals set out in the Consultation Paper.

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 in the Hong Kong market. By allowing REITs to develop their own properties would facilitate the expansion of their property portfolios in particular in Hong Kong.

As buildings become older and with changing market trends, these could be factors negatively impact on the property values over time. With redevelopment, buildings can be put into their best uses compatible with market requirements.

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

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

The GAV of the REITs listed in the Stock Exchange in Hong Kong vary significantly. According to the available figures in 2013, 10% of such GAV could range from about 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.

For uncompleted non-residential properties, the purchase payment terms in Hong Kong would normally be on stage payment arrangement and the majority of the purchase price would be paid upon the completion of the purchase. This would put the uncompleted properties to be similar to vacant completed properties in terms of purchase payment. 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.



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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.

For the assessment of the construction costs, this could be done by professional quantity surveyors 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 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.

Should you have any queries, please feel free to contact

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Limited