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Towards a Quality and Sustainable Built Environment in Hong Kong

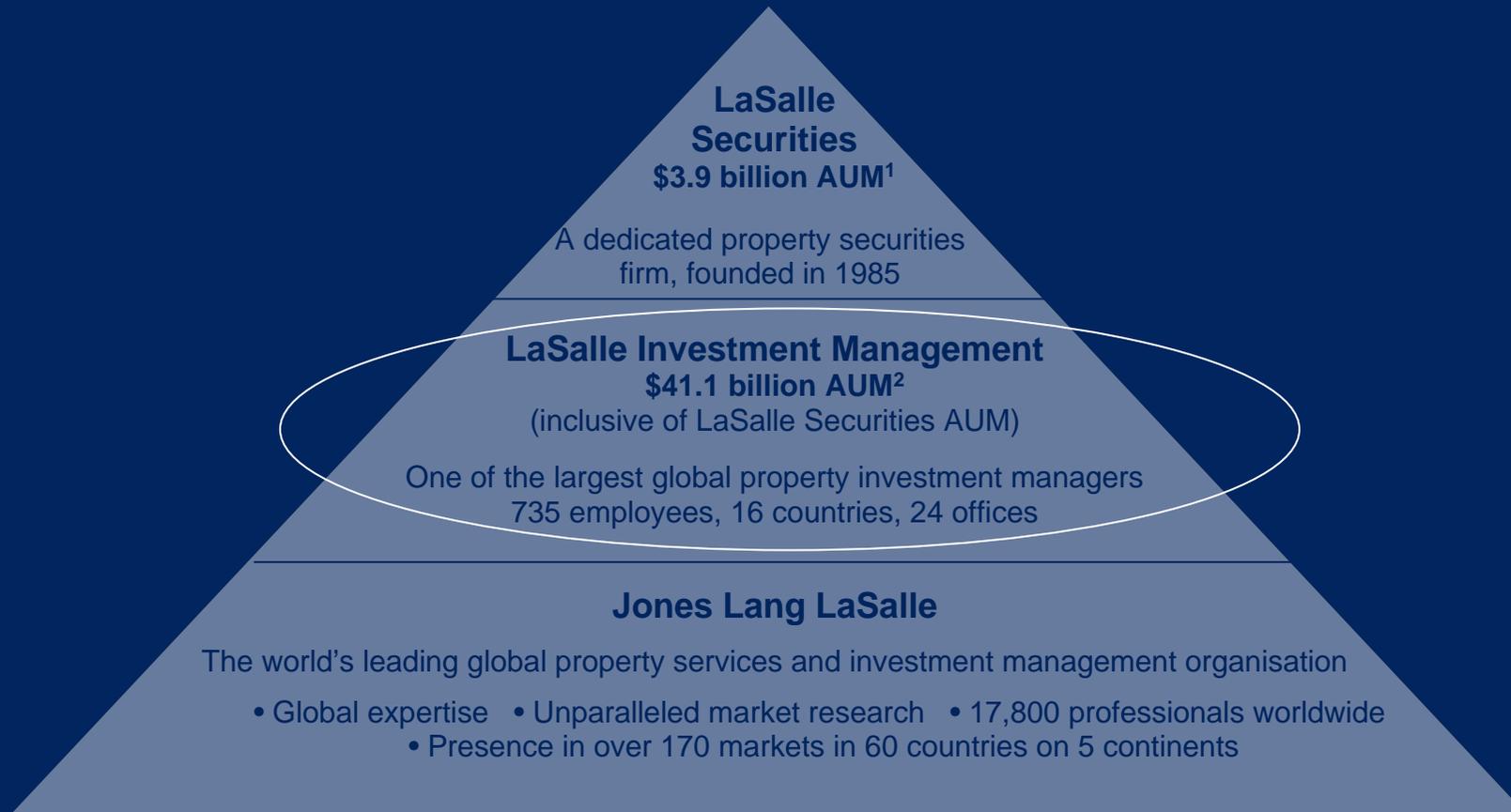
An Investment Fund's Viewpoint

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LaSalle

Expertise in Global Property Investment Management



¹ AUM as of 1/31/00

² AUM as of 4Q08

Sources: LaSalle Investment Management; Jones Lang LaSalle

LIM Investment Management: Our Experience In Asia

- LaSalle Investment Management (“LaSalle”) is one of the foremost real estate investors in Asia Pacific, with a platform boasting a wealth of professional experience and significant on-the-ground resources.
- LaSalle has been established since 2000 and currently has six offices in Singapore, Hong Kong, Seoul, Tokyo, Shanghai and Melbourne.
- 173 real estate professionals – with 207 staff in total
- Responsible for \$8.7bn of assets under management
- The team has transacted more than \$12bn worth of acquisitions and disposals in the past six years

Sustainability - Our Vision and Mission

- A healthy environment is good for business and essential to the well being of everyone on our planet. We recognise that buildings can have a significant impact on the environment. LaSalle Investment Management will play a meaningful role in addressing global environmental challenges through our direct actions and our advice to clients. We are committed to leading the development of best practices and applying these to our clients' real estate across the globe to help them achieve superior investment performance

- **Environmental Goals:**
 - 1. In conjunction with Jones Lang LaSalle, reduce the environmental impacts of our business.
 - 2. Reduce the environmental impacts of our clients' property and protect our clients' properties from the effects of climate change while improving investment performance.
 - 3. Deliver the best solutions to our clients through meeting and/or exceeding the requirements of local country environmental laws and regulations.
 - 4. Drive thought leadership and innovation on sustainable property investments.
 - 5. Collaborate with clients, tenants, property managers and other service providers to ensure the best sustainable solution to the management of properties, whilst maximizing investment performance.

Is there a Conflict between Sustainability Objectives and Investment Performance?

There Can Be!

If the right balance between Regulation , Incentives, and Investment Returns is not achieved

If the correct Balance is Achieved

Sustainability initiatives (both regulatory and voluntary) can lead to better assets and better long term returns for Investors

As always....the devil is in the details !

Investment considerations

- Investment Funds searching for maximization of overall return within defined risk levels
- Increasing the risk level will affect Investment Decisions
- All things being equal (revenue, profitability) Investment funds will flow to projects with lower overall risk
- Funding decisions for LIM in Asia, are not country restricted, and funds will flow to those investments with the optimum combination of risk / return
- Enhancing the long term value of the asset is desirable and proper sustainability features can provide that enhancement

Does the HK plan for Measures to Foster a Quality and Sustainable Built Environment enhance long term value and/or increase/ decrease the HK risk/ reward environment?

Hong Kong's Policy Options for Sustainability of the Built Environment

Our thoughts for consideration....

- The aspirations for this initiative are commendable
- Regulatory changes should both set the minimum sustainability requirements as well as provide good incentives to encourage additional sustainability features
- Do not inadvertently create new regulations that discourage gains made so far in current practice of providing better amenities and quality of life improvements
- Let's not lose sight of the surveys that indicate that generally
 - Respondents like amenities /green features via GFA concessions
 - Though they have concerns about bulk /height of buildings
- Balance sustainability goals with investment issues...don't significantly upset the current major drivers for investment returns!
- Hong Kong must continue to be able to compete for Investment \$\$ with other regional cities
- Careful consideration needs to be given to the transition period between the current regulations and new sustainability regulations to avoid market upsets

The Hong Kong Policy to Improve Built Environment

A few thoughts.....

- Moving toward a more sustainable Hong Kong is the right move
- Sustainability requirements for new construction should recognize some key Hong Kong “Specifics”
 - Vibrancy of the local property market is a valuable asset for future growth and competitiveness
 - Small available land area that needs to be maximized (in an environmentally sound manner) to keep from creating supply restrictions (and increases in prices)
 - Keeping its status and competitiveness as a world class financial and business location.
 - A great Skyline is a valuable asset for Hong Kong.
 - Improving the quality of life of the residents A worthwhile goal!

A few more thoughts ...

*HK Proposed Guidelines on Sustainable Building Design ...
(Building Separation ,Building Setback ,Site Coverage for Greenery)*

- All of these are worthwhile approaches... and the idea of tying these objectives to appropriate GFA concessions has merit (no comment on proposed calculation methods, numerical limits)
- However, Building Separation and Building Setback guidelines (on small streets), must not be coupled with building height restrictions.
- **Goal:** taller, more graceful , but less bulky buildings, with view corridors between them, and sufficient setback from small streets to allow proper pedestrian walkways. (Interesting and dramatic skylines are GOOD!)

A few more thoughts

HK Proposal for Control of GFA Concessions

- **Careful, Careful, Careful**.....reducing the amount of saleable/ leaseable GFA from current levels...directly impacts the value of the land, the building, and long term investment potential, as well as restricting long term future supply.
- Any current GFA Concessions which are being discussed to become mandatory (i.e., countable), should be accompanied by a corresponding one time increase in plot ratios to ensure saleable GFA remains constant.
 - (i.e. if approx 16% of Disregarded GFA is for Carparks, and 4% for plant rooms, etc; then a 20% increase in GFA should be added , (if these disregarded GFA's become countable) furthermore, any new code requirements for these items (carparks, plant-rooms) must be able to be built for the same or less GFA)
- Exempted GFA for green and amenity features should not be reduced, but could be capped (at an appropriately high level) plus should provide extra generous concessions for public access ...(should encourage public spaces/ walkways away from roadside traffic (elevated, and mid-block walkways), etc)

A few more thoughts

HK Proposal for Control of GFA Concessions

- Car Parks...tricky situation... larger policy issue (but keeping a cap on the maximum number of spaces is good for areas served by good public transit). Bulky car parks would be reduced if they become countable ...however...must provide increase in saleable GFA (per above)
- GFA concessions program should be used as a tool to encourage sustainable features, not to control bulk/ height.
 - Bulk can be controlled by building separation Design codes and new car park code requirements,
 - height should be appropriate to the zone where building is located. (and tall is not bad!)

A few more thoughts

HK Proposal for Building Energy Consumption

- Regulatory changes should establish minimum energy performance for building AND actively encourage/ reward buildings that exceed the minimums
- Possible additional GFA concessions for energy saving features is a good approach

Summary

- Long Term Sustainability Path....is good for Hong Kong
- Keep the investment motivation in place
- Keep appropriate mix of regulation and incentives
- Encourage certification through HK BEAM (HK Building Environmental Assessment Method), etc.
- Careful with the transition....
- Keep Hong Kong Growing
- While making it a more pleasant and environmentally sound place