

**Business Facilitation Advisory Committee
Pre-construction Task Force**

***Report on the work of the
Working Group on Review of Premium Valuation Process***

Purpose

This paper provides background of the Working Group on Review of Premium Valuation Process (WG) and reports on the progress of the work undertaken by the WG.

Background

2. The Real Estate Developers Association of Hong Kong (REDA) considered the existing premium assessment process a major cause of delay to development projects. Many projects did not proceed either due to high premium or delays throughout the valuation process. The consequential loss of economic development and job opportunities are often not taken into consideration by Government.

3. In this regard, the REDA has proposed some suggestions to the Chairman of the Business Facilitation Advisory Committee on 28 May 2007. Major ones are:

- a) LandsD to disclose the valuation component on all premium offers;
- b) LandsD to centralise the valuation work at Headquarters;
- c) LandsD to strictly adhere to performance pledges; and
- d) Government to establish an independent expert determination mechanism to adjudicate on cases where premium cannot be agreed.

4. At its meeting on 30 May 2007, the PCTF agreed to set up a working group to look into the issues and the REDA's suggestions with a view to recommending improvement measures to the premium valuation process in order to speed up implementation of development projects.

Terms of reference

5. The terms of reference of the WG are:
- a) to examine the issues of the existing premium valuation process;
 - b) to identify improvement opportunities, including the REDA's suggestions, and assess the feasibility; and
 - c) to report to the Pre-construction Task Force (PCTF) on the work progress.

Composition

6. The WG is led by Mr K L Leung, Convenor of the PCTF. It comprises representatives from the REDA, Hong Kong Institute of Surveyors (HKIS), PCTF, LandsD and Economic Analysis and Business Facilitation Unit of the Financial Secretary's Office.

Work Progress

7. The WG has met thrice since 1 August 2007. Contributory factors, including system constraints and procedural issues, were thoroughly discussed in the meetings. Representatives of the REDA and HKIS believed that a more transparent valuation system coupled with meaningful and two-way communications between applicants and the LandsD would effectively expedite the valuation process and reduce the number of appeal cases. Key recommendations of the WG are depicted in Annexes 1 & 2 and highlighted below:

Procedural changes

- (a) Centralisation of valuation at LandsD Headquarters;
- (b) Establish performance pledges or provide indicative timeframe for issue of premium offers after acceptance of the provisional basic term offers to facilitate the industry's planning;
- (c) Allow an applicant to present the key issues at the Valuation Conference / Valuation Committee (VC) prior to the VC's decision on all premium value;

- (d) Allow an applicant to produce a “counter-offer” after the decision of the VC;
- (e) LandsD to propose a “revised premium offer” upon receipt of the applicant’s “counter-offer”;

Valuation parameters

- (f) Regularly review the valuation parameters, e.g. development profits, development costs, etc, to truly reflect the market situation and consult the industry accordingly; and

Expert determination

- (g) Establish an independent expert determination mechanism to break the occasional impasse during lease modification.

Items (c) - (f) aimed at reducing the number of appeal cases through revised / counter offers.

Initial response from the Administration

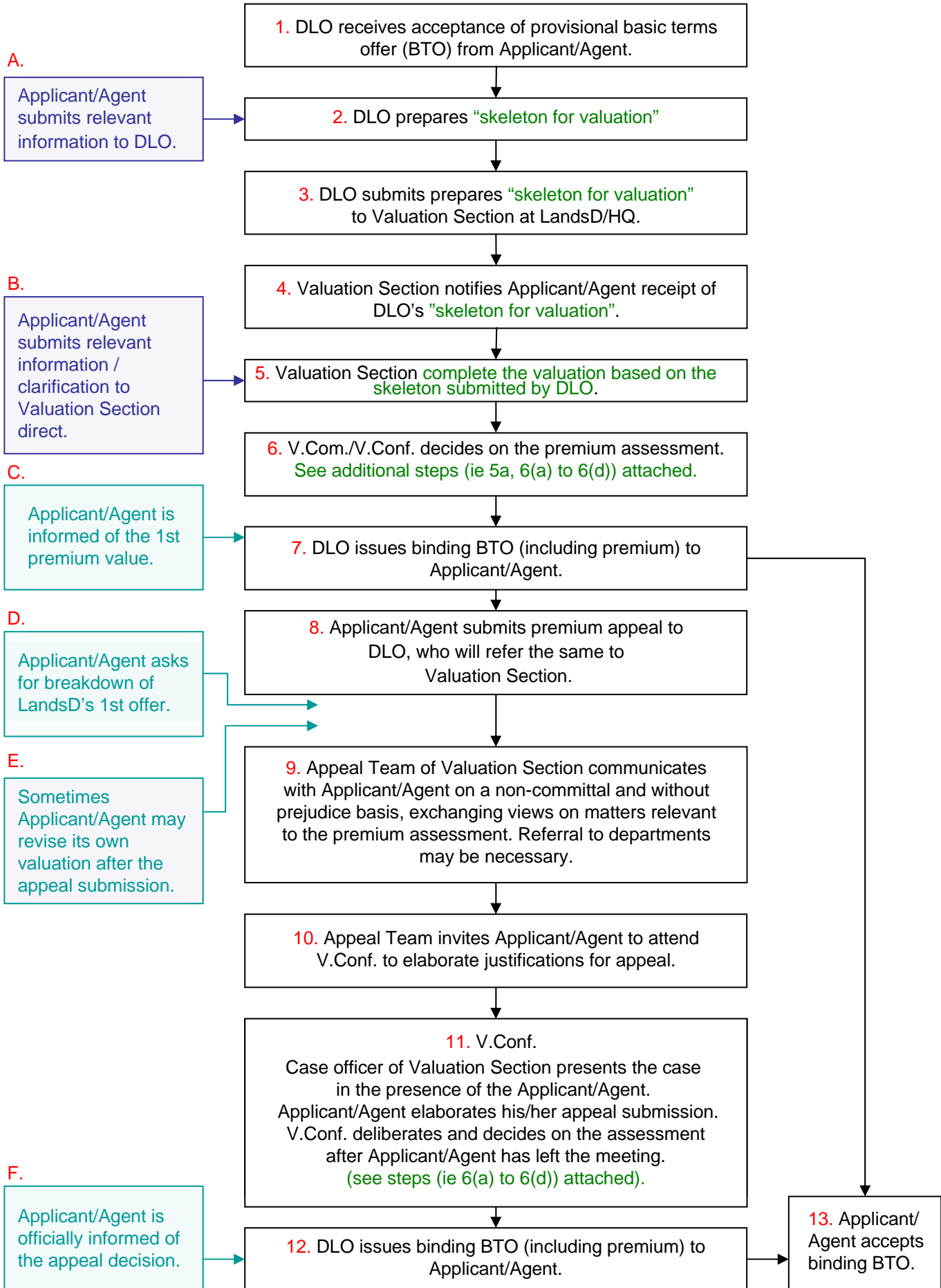
8. When considering the proposed procedural changes, the LandsD has to assess the impact of the possible prolonged process due to (c), (d) and (e) together with the ICAC’s concerns on negotiation process embedded in (d) and (e).

9. Regarding the Expert Determination Mechanism, it has been discussed by the PCTF in 2005. At that time, the then Housing, Planning and Lands Bureau has raised a number of issues, inter alia, on impartiality, confidentiality and implications on public revenue that had to be addressed before the Expert Determination Mechanism could be further explored.

Views sought

10. Members are invited to express their views on the work and proposed recommendations of the WG.

Flow chart of premium assessment procedure- (Proposed by the HKIS)



Proposed process for premium assessment (Proposed by the HKIS)

