Valuation of IFC ONE

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Agenda

1. Background of the Subject Building
2. Valuation Methods
3. Comparison Method and Investment Method
4. Conclusion and Recommendation

Background of the Subject Property

IFC ONE

Background Introduction

Address:1 Harbor View Street, Central

Floors: 39 floors and 4 underground floors

Height: 210 meters

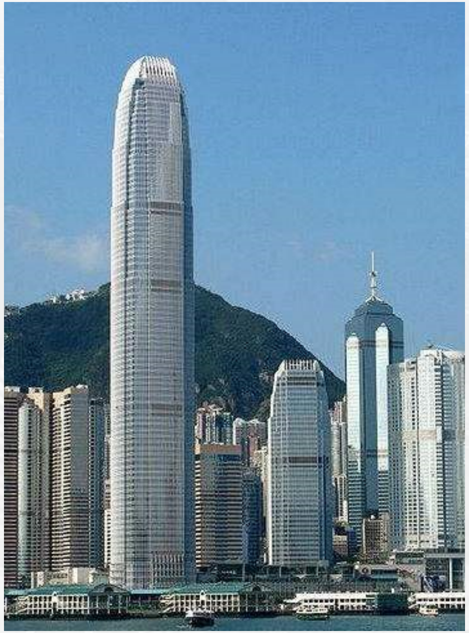
Completed time: 1998

Total Internal Area: 780,000 square feet

Supporting Facilities: 18 passenger lifts and 2 cargo lift; high ceilings; state of art technology and exclusive facilities;

Management : International Finance Center Management Co., Ltd.

Tenants: Hong Kong Stock Exchange, the Mandatory Provident Fund Schemes Authority and Fu Cheong Financial Group etc.



Valuation Methods

Two Valuation Methods

Comparison Method

- A property may be valued by comparing it to similar properties for which recent price information is available
- reliable: active market where recent evidence is available

Investment Method

- Discounted cash flow (DCF) method finds the present value of expected future cash flows using a discount rate. A present value estimate is then used to eval uate a potential investment.
- Easy to calculate; reliable outcome

Comparison Method

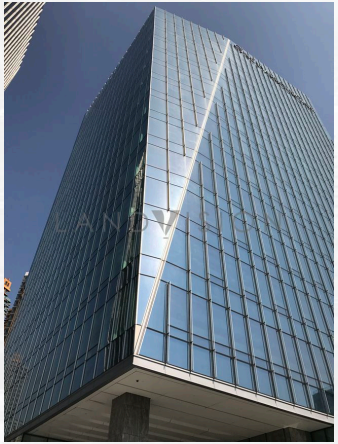
Comparable Properties

Criteria: recent transaction；nearby；similar use；similar condition

	Sale day	Price/SF	Location	Developer	Floor	Internal floor are a	completed tim e
International Finance Centre	N/A	N/A	Central	Sun Hung Kai Properties and Henderson Lan d Development	39	780,000	1998
China Evergrande Center	2016/12	50,000	Wan Chai	Chinese Estate s Holdings Limi ted	25	250,000	1985
Cheung Kei Center	2016/7	16,071	Hong Hom	Wheelock	17	280,000	2011
Agricultural Bank of China Tower	2012/5	27,809	Central	Glorious Sun	28	175,481	2011

Adjustment Factors

International Finance Centre



Cheung Kei Center

Condition Factor

Time Factor

Property Management Level Factor

Location Factor

China Evergrande Center

Agricultural Bank of China Tower

Condition Factor

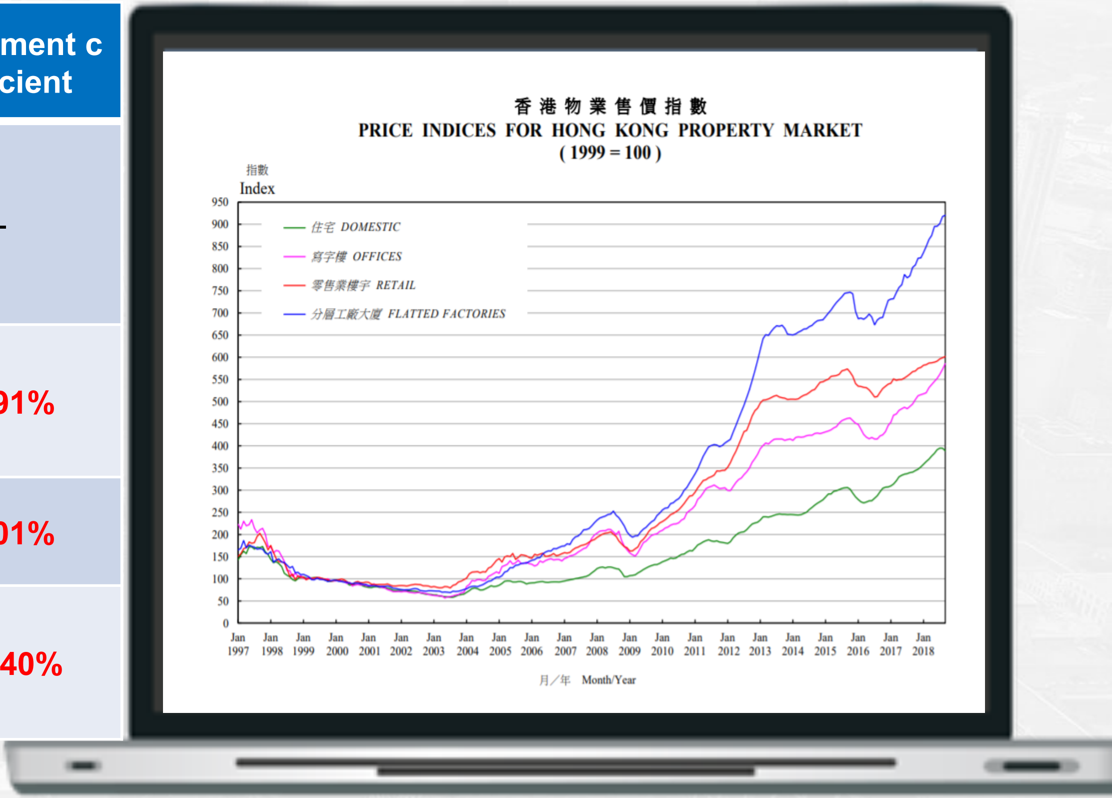
$$\text{\textit{Adjustment} coefficient} = \frac{Mark_{SB} - Mark_{CA}}{Index_{CA}} * 30\%$$

	View (10%)	Brand image (10%)	Architectural time (30%)	Facilities & equipment (30%)	Decoration (20%)	Total	Adjustment coefficient
International Finance Centre	8	9	20	23	17	77	-
China Evergrande Center	9	9	21	25	19	83	-2%
Cheung Kei Center	6	6	18	14	10	54	13%
Agricultural Bank of China Tower	5	6	13	10	10	44	23%

Time Factor

$$Adjustment\ \text{coefficient} = \frac{Sale\ price_{Nov-18} - Sale\ price_{Sale\ day}}{Sale\ price_{Sale\ day}} * 100\%$$

	Sale day	Average sale price ($/㎡)	Adjustment coefficient
International Finance Centre	Nov-18	688,610	-
China Evergrande Center	Dec-16	478,516	43.91%
Cheung Kei Center	Jul-16	346,019	99.01%
Agricultural Bank of China Tower	May-12	322,680	113.40%



Source: https://www.rvd.gov.hk/sc/publications/hkpr.html

Location Factor

	Location	Adjustment coeffici ent
Internation al Finance Centre	Central, Close to MT R, Victoria Harbor	-
China Ever grande Cen ter	Wan Chai, Close to Gl oucester Rd	+38%
Cheung Kei Center	Hong Hom, Close to Victoria Harbor	+218%
Agricultural Bank of Chi na Tower	Central, Close to MTR	+34%

Average price for Grade A office building

級 別 Grade	甲 A						
年 Year	上環 Sheung Wan	中區 Central	灣仔/銅鑼灣 Wan Chai/ Causeway Bay	北角/魚涌 North Point/ Quarry Bay	尖沙咀 Tsim Sha Tsui	油麻地/旺角 Yau Ma Tei/ Mong Kok	九龍灣/觀塘# Kowloon Bay/ Kwun Tong#
2010	149 053	221 386	145 639	95 278	134 132	(193 697)	n/a
2011	163 877	299 642	180 338	115 148	161 264	-	n/a
2012	171 034	330 708	196 326	153 619	164 271	-	n/a
2013	(189 940)	356 517	203 598	(154 809)	180 841	-	128 348
2014	(171 027)	353 514	(264 596)	(163 290)	194 712	-	123 051
2015	(162 989)	354 300	292 141	-	196 338	-	141 364
2016	221 386	401 674	262 387	-	195 282	-	135 339
2017	(200 155)	468 426	264 440	236 771	216 390	-	157 011

Source: https://www.rvd.gov.hk/sc/property_market_statistics/index.html

Property Management Level Factor

	Property management level	Adjustment coefficient
International Finance Centre	A+	-
China Evergrande Center	A+	+2%
Cheung Kei Center	A	+15%
Agricultural Bank of China Tower	A	+17%

IFC ONE

China Evergrande Centre

Cheung Kei Center

Agricultural Bank of China Tower

Estimated value

	Comparable1	Comparable2	Comparable3
Price ($)	12,500,000,000	4,500,000,000	4,880,000,000
Size (SF)	250,000	280,000	175,481
Price/SF ($/SF)	50000	16071	27809
Sale Date	+43.91%	+99.01%	+113.40%
Location	+38%	+218%	+34%
Management Level	+2%	+15%	+17%
Condition	-2%	+13%	+23%
Adjust Percentage	+82%	+345%	+187%
Adjusted Price/SF ($/SF)	90,955	71,518	79,923

After the adjustment are made, the estimated value of subject property is (90955+71518+79923)/3 = $80799/SF. With the size of 780,000 square feet, IFC One is around HK$ 63,022,862,006.

HKD 63,022,862,006

Investment Method

DCF method

Assumptions

- **Rent review** = 5 years
- **Target rate of return =** interest rate of 10-year government bond + market risk premium = 2.33% + 7.6% = 9.93%
- **Initial yield** = 2.33%
- **Growth rate**

$$g = \left(\frac{(r-y)(1+r)^p + y}{r} \right)^{\frac{1}{p}} - 1 = 7.91\%$$

- **Exit rate** = initial yield + 100 basis points = 3.33%

Source: Fernandez, P., Ortiz Pizarro, A., & Fernandez Acln, I. (2016). Market Risk Premium Used In 71 Countries In 2016: A Survey With 6,932 Answers. Retrieved from https://www.valuewalk.com/2016/05/market-risk-premium-used-71-countries-2016-survey-6932-answers/
Trading Economics. (2018). Hong Kong Government Bond 10Y. Retrieved from https://tradingeconomics.com/hong-kong/government-bond-yield

Assumptions

- We assume that rents are different among different levels of floors.

Level	Floor	Current Market Rent per sq.ft. (Monthly)	Current Market Rent per sq.ft. (Annually)
Low	1/F-14/F	180	2,160
Middle	15/F-29/F	200	2,400
High	30/F+	225	2,700

- We assume that on valuation day, there are already 5 tenants. Rent review is every 5 years.

Tenant	Floor	Date lease commence	Next rent review	Term	Area (sq.ft.)	Current Market Rent (per sq.ft.)	Current Market rent $
A	1/F-5/F	2015	2020	2	100,000	2160	216,000,000
B	6/F-14/F	2016	2021	3	180,000	2160	388,800,000
C	15/F-22/F	2015	2020	2	160,000	2400	384,000,000
D	23/F-29/F	2016	2021	3	140,000	2400	336,000,000
E	30/F+	2014	2019	1	200,000	2700	540,000,000

Source: Midland (n.d.). Office transactions. Retrieved from https://www.midlandici.com.hk/ics/property/office
Primeoffice (n.d.). Office for lease. Retrieved from http://www.primeoffice.com.hk/

Contract rent

Tenant	Floor	Price indices of Sep. 2018	Price indices on date leas e commence	Current Market rent $	Contract rent $
A	1/F-5/F	342.2	282.4	216,000,000	178,253,653
B	6/F-14/F	342.2	297.6	388,800,000	338,126,476
C	15/F-22/F	342.2	282.4	384,000,000	316,895,383
D	23/F-29/F	342.2	297.6	336,000,000	292,208,065
E	30/F+	342.2	270.6	540,000,000	427,013,442

Calculation:

Contract rent=Market rent*(Price indices on date lease commence / Price indices of Sep. 2018)

Source: from https://www.rvd.gov.hk/sc/property_market_statistics/

Tenant A

Valuation of Tenants

Year	Rent $	Growth @ 7.91 % p.a.	Projected rent $	PV $1 @ 9.93 %	YP in per petuity	PV $
1	178253653	1.000	178253652.835	0.910		162151962.9
2	178253653	1.000	178253652.835	0.827		147504742
3	216000000	1.164	251522670.960	0.753		189333931.2
4	216000000	1.164	251531290.755	0.685		172237259.8
5	216000000	1.164	251531290.755	0.623		156679032
6	216000000	1.164	251531290.755	0.567		142526182.1
7	216000000	1.164	251531290.755	0.515		129651762.1
8	216000000	1.704	368032014.532	0.469		172566215.6
9	216000000	1.704	368032014.532	0.427		156978273.1
10	216000000	1.704	368032014.532	0.388		142798392.7
11	216000000	1.704	368032014.532	0.353		129899383.9
12	216000000	1.704	368032014.532	0.321		118165545.3
12+	216000000	2.493	538510358.545	0.321	30.030	5192243992
					Total value	7,012,736,675

Tenant B

Valuation of Tenants

Year	Rent $	Growth @ 7.91 % p.a.	Projected rent $	PV $1 @ 9.93 %	YP in perpetuity	PV $
1	338126476	1.000	338126475.745	0.910		307583440.1
2	338126476	1.000	338126475.745	0.827		279799363.4
3	338126476	1.000	338126475.745	0.753		254525028.1
4	388800000	1.257	488552605.619	0.685		334538744
5	388800000	1.257	488552605.619	0.623		304319788.9
6	388800000	1.257	488552605.619	0.567		276830518.4
7	388800000	1.257	488552605.619	0.515		251824359.5
8	388800000	1.257	488552605.619	0.469		229077012.2
9	388800000	1.839	714858024.387	0.427		304911458.1
10	388800000	1.839	714858024.387	0.388		277368742
11	388800000	1.839	714858024.387	0.353		252313965.3
12	388800000	1.839	714858024.387	0.321		229522391.8
13	388800000	1.839	714858024.387	0.292		208789585.9
13+	388800000	2.690	1045991750.230	0.292	30.030	9174302633
					Total value	12,685,707,031

Tenant C

Valuation of Tenants

	Rent $	Growth @ 7.91% p.a.	Projected rent $	PV $1 @ 9.93 %	YP in perpe tuity	PV $
1	316895383	1.000	316895382.817	0.910		288270156.3
2	316895383	1.000	316895382.817	0.827		262230652.5
3	384000000	1.164	447151415.040	0.753		336593655.4
4	384000000	1.164	447166739.120	0.685		306199573
5	384000000	1.164	447166739.120	0.623		278540501.3
6	384000000	1.164	447166739.120	0.567		253379879.2
7	384000000	1.164	447166739.120	0.515		230492021.5
8	384000000	1.704	654279136.947	0.469		306784383.4
9	384000000	1.704	654279136.947	0.427		279072485.5
10	384000000	1.704	654279136.947	0.388		253863809.3
11	384000000	1.704	654279136.947	0.353		230932238
12	384000000	1.704	654279136.947	0.321		210072080.5
12+	384000000	2.493	957351748.524	0.321	30.030	9230655986
					Total value	12,467,087,422

Tenant D

Valuation of Tenants

Year	Rent $	Growth @ 7.91 % p.a.	Projected rent $	PV $1 @ 9.93 %	YP in perpetuity	PV $
1	292208065	1.000	292208065.459	0.910		265812849.5
2	292208065	1.000	292208065.459	0.827		241801919
3	292208065	1.000	292208065.459	0.753		219959900.8
4	336000000	1.257	422205955.473	0.685		289107556.5
5	336000000	1.257	422205955.473	0.623		262992410.2
6	336000000	1.257	422205955.473	0.567		239236250.5
7	336000000	1.257	422205955.473	0.515		217625989.7
8	336000000	1.257	422205955.473	0.469		197967788.3
9	336000000	1.839	617778539.594	0.427		263503729.3
10	336000000	1.839	617778539.594	0.388		239701382
11	336000000	1.839	617778539.594	0.353		218049105.8
12	336000000	1.839	617778539.594	0.321		198352684.3
13	336000000	1.839	617778539.594	0.292		180435444.6
13+	336000000	2.690	903943487.853	0.292	30.030	7928409683
					Total value	10,962,956,694

Tenant E

Valuation of Tenants

Year	Rent $	Growth @ 7.91 % p.a.	Projected rent $	PV $1 @ 9.93 %	YP in per petuity	PV $
1	427013442	1.000	427013442.431	0.910		388441228.4
2	540000000	1.079	582714000.000	0.827		482195326.1
3	540000000	1.079	582714000.000	0.753		438638520.9
4	540000000	1.079	582714000.000	0.685		399016211.2
5	540000000	1.079	582714000.000	0.623		362972993
6	540000000	1.079	582714000.000	0.567		330185566.2
7	540000000	1.579	852636489.974	0.515		439491337.3
8	540000000	1.579	852636489.974	0.469		399791992.5
9	540000000	1.579	852636489.974	0.427		363678697.8
10	540000000	1.579	852636489.974	0.388		330827524.6
11	540000000	1.579	852636489.974	0.353		300943804.8
11+	540000000	2.310	1247591415.403	0.353	30.030	13223597953
					Total value	17,459,781,155

Total value

Total Value= Total Value of Tenant A + Total Value of Tenant B + Total Value of Tenant C + Total Value of Tenant D + Total Value of Tenant E = 7,012,736,675+12,685,707,031 +12,467,087,422+10,962,956,694+17,459,781,155

HKD 60,588,268,977

Conclusion & Recommendation

Conclusion

Conclusion:

IFC ONE has the very unique location and a good value for investment as well.

The investment value which is about 60.6b is lower than the market value which is about 63b.

Recommendation:

As referred to lecture 6 of Dr. Ervi' slides, *the investment method is used to value properties held as investment*.

The investment value is more accurate intrinsic value of IFC ONE.

We would like to advise our client to buy the property with a price no more than 60.6 billion.

References

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Thank you
Q&A