



International Property Consultants

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The Board of Directors  
The Link Management Limited  
(for itself as manager of The Link Real Estate Investment Trust ("The Link REIT")  
and for and on behalf of The Link REIT)

Goldman Sachs (Asia) L.L.C.  
The Hongkong and Shanghai Banking Corporation Limited  
UBS AG acting through its business entity UBS Investment Bank

Dear Sirs,

### **Retail Asset Enhancement Assessment**

Terms defined in the offering circular in relation to the Link Real Estate Investment Trust of which this letter forms part have the same meaning in this letter.

#### **1.0 Introduction**

Chesterton Petty Limited was appointed as the Property Consultant to conduct property related reviews including an Asset Enhancement Assessment examining the opportunities for enhancing the commercial performance of eight shopping centres (the "Selected Facilities") within the Retail Facilities, as listed below:

1. Hau Tak Centre
2. Tsz Wan Shan Centre
3. Chung On Centre
4. Stanley Plaza
5. Lung Cheung Mall
6. Tai Wo Centre
7. Choi Ming Centre (including the recent extension within the Kin Ming estate)
8. Lok Fu Centre

The Selected Facilities represent the higher value shopping centres and are mostly ranked within the top 30 Retail Facilities in terms of their total annual revenue generation. As such, the Selected Facilities are generally among the larger shopping centres within the Retail Facilities. Notwithstanding

this, the Selected Facilities have a wide distribution geographically from Hong Kong Island South (Stanley Plaza) to the North East New Territories (Tai Wo Centre) and represent a broad cross section of age, with completion dates ranging from 1985 (Lok Fu Centre) to 2003 (Choi Ming Extension).

All are List 2 properties (without a lease and deed of mutual covenant in place) with the exception of the Tai Wo Centre and the first phase of the Choi Ming Centre.

The review of the Selected Facilities for the Asset Enhancement Assessment focused only upon the shopping centres and did not include any non-core retail or commercial elements located outside the centre. The Selected Facilities were chosen because, in our opinion, they were able to demonstrate the broad types of asset enhancement opportunities that exist. These opportunities are not applicable to the shopping centres in all the Retail Facilities, and not all opportunities are applicable to any one shopping centre.

## 2.0 Conclusion

Based on our assessment, we identified four main areas of asset enhancement opportunities:

- a) **Trade and tenant mix** — opportunities to improve the configuration of the trades and tenants in the current mix as well as the opportunities to introduce new trades and tenants to widen the retail offer.
- b) **Design and Layout** — opportunities to improve the internal space planning of the Selected Facilities.
- c) **Catchment Area Opportunities** — opportunities that responded to developments taking place in the surrounding district.
- d) **Branding Opportunities** — opportunities to brand the centres by defining personality platforms that can then inform potential name and visual identities.

All four of these broad opportunities were considered simultaneously to maximize the commercial value of the Selected Facilities.

## 3.0 Trade and Tenant Mix Opportunities

**Defined Trade Mix:** Many of the shopping centres within the Retail Facilities would benefit from a more defined trade mix. It is preferable to place similar types of trade within the same general location, which helps to give structure and clarity to the retail offer. Destination trades should be re-positioned to less prominent positions in the shopping centre, typically on the higher floors. Food and beverage trades require careful positioning and can be used to draw shoppers to quiet parts of the shopping centre as well as promote activity in atriums, entrances or adjacent open space areas.

**Theming:** In specific locations, it is recommended to introduce theming to provide a distinction from the surrounding retail. Any potential theming needs to take account of the composition of the catchment and the market position of competing centres to ensure it meets its target market.

**Brand Names:** Many of the existing tenants in the shopping centres within the Selected Facilities represent family-run stores and whilst a number of new brand name retailers have recently opened outlets, there are opportunities to attract other brand name retailers to these shopping centres. To date it is believed that these retailers have been put off by the perceived low quality image of public sector retailing and certain constraints encountered during the leasing process. As brand name retailers generally have a higher investment capacity compared to family-run stores, an increase in their representation will lead to better shop frontages and an improvement in the overall retail ambience.

**Duplication within Selected Facilities:** A number of the Selected Facilities have opened in phases as the Housing Estate has grown in size. This can lead to duplication of the retail, as evidenced by a number of examples where two supermarkets operated within close proximity to one another. Potential improvements can be achieved if these centres are viewed holistically, for example replacing one of the supermarkets by a new type of anchor tenant.

**Market Kiosks:** The introduction of mobile kiosks in key focal points of a shopping centre can help to energize the space and attract activity.

**Widening the retail offer:** The trade mix of the Selected Facilities were generally dominated by convenience, service and food and beverage trades reflecting their current role of catering to the day to day needs of the local population. In some of the larger Selected Facilities, there are opportunities to increase the proportion of comparison and entertainment trades, which will help to draw shoppers from further afield and increase the duration of their visit.

**Flexibility on trade mix:** Generally, most shopping centres within the Selected Facilities have high occupancy levels despite the HKHA's practice of attaching very strict trade mix restrictions to individual units. Whilst these restrictions are in place, any change to the trade mix in response to market needs is, in practice a time-consuming process. The lifting of strict trade mix restrictions and replacing the tendering process with direct negotiations will allow more flexibility in attracting a range of suitable tenants as well as a providing a faster response to the market.

#### 4.0 Design and Layout Opportunities

**Increasing lettable floorspace:** One of the most common traits in the Selected Facilities was the generous proportion of the atriums and their function as conduits to other areas of the shopping centre rather than forming a core to the retail. From a commercial perspective, the effect is to create weak retail activity at key areas of the Selected Facilities. There are opportunities to line atriums with additional retail, which as well as increasing lettable floorspace, also helps to improve retail visibility and exposure.

Overall, the Selected Facilities appear to have very low efficiency rates compared to typical private sector centres. Other than within the atriums, many other opportunities were identified to increase lettable floorspace, including removing excessive circulation space, converting under-utilised promotional venues and rationalizing multiple entrance points.

Most of the shopping centres within the Selected Facilities had occupancy rates above 95%, so relatively modest increases in lettable floorspace should not present any concerns with respect to demand, particularly as the result is to improve the functioning of the existing retail by bringing the shop line closer to the circulation flow. However, retail viability studies may need to be undertaken to verify that additional retail offerings can be supported within centres with existing high vacancy rates or when large increases in lettable floorspace are possible.

**Lease / Planning Considerations:** Most increases in lettable floorspace that were identified resulted in an increase in the internal floor area (IFA) rather than the gross floor area (GFA). However, changes to the retail floor layout should be checked against existing/proposed lease conditions. Opportunities that resulted in an increase to the GFA may also require the existing/proposed government lease to be modified, which can require a premium payment. Any proposed changes to the floor area of a Retail Facility; in particular GFA, as well as layout will need to be checked against the applicable Deed of Mutual Covenant (DMC).

Changes to the retail floorspace also need to be checked against statutory planning requirements. Most of the Selected Facilities are, with only a few exceptions, zoned as Residential (Group A). This zoning generally permits shops and restaurants to be located as of right in the lowest three floors of a building. Planning applications will be required in some of the Selected Facilities if retail and restaurant uses are to be extended above the lowest three floors.

**Unify disparate retail elements:** As the shopping centres in the Selected Facilities have often developed in phases, it is apparent in a number of the centres that different parts of the retail offer work independently from one another. There are opportunities to bring these disparate elements together and establish a more cohesive offer through considered changes to the circulation and trade mix.

**Re-provisioning of non-commercial uses:** Other identified opportunities for design and layout improvements include the re-provisioning of non-commercial uses to "back of house" locations. In a

number of the Selected Facilities, estate management offices and community uses occupied important commercial space whilst paying no or below market rents. As with increases to the lettable floorspace, any changes to the position or size of community facilities need to be checked against prevailing government lease, DMC and planning conditions.

**Increasing the retail profile:** As the shopping centres have been primarily designed for the estate residents, it is evident that navigation to and around the Selected Facilities relies heavily on local knowledge. However, there are opportunities to extend the appeal of the Selected Facilities to a wider customer base. There are significant opportunities to improve internal signage, which will increase the awareness of the retail among other potential shoppers from outside the area. External signage also needs to be placed at key access points as, too often, there is little or no evidence a major shopping centre exists behind the main entrance. There are other opportunities to improve retail visibility by removing or minimizing the impact of obstacles that block sightlines.

**Other:** A common characteristic in the Selected Facilities was frequent breakages in the shop front due to service corridors, fire escapes or AHU rooms. There are opportunities to maintain retail frontage by recessing these features and installing light boxes, signage or branding opportunities on long blank facades. Other design and layout improvements include the relocation of security booths to less intrusive positions; and where it proved financially cost-effective, improvements to the finishing details such as lighting levels and surface materials to the floors, ceilings and walls.

## 5.0 Catchment Area Opportunities

**Population increases:** A number of the Selected Facilities form part of Housing Estates with on-going redevelopment projects or are located in districts where population growth is anticipated. Future residential development will add to the catchment population, increasing the amount of available expenditure in the area and potentially the number of shoppers attracted to the Selected Facility.

**Transport infrastructure:** A number of the Selected Facilities were in a position to capitalize on planned changes to their surrounding transport infrastructure, for example proposed new footbridges that would improve the access to the Selected Facility by providing convenient links for pedestrians.

**Tourism:** We have also identified opportunities arising from the proximity of Selected Facilities to nearby tourist attractions. Two shopping centres, in particular, stand out as being especially well positioned. Lung Cheung Mall is located next to Wong Tai Sin Temple, which is an extremely popular destination for Mainland Chinese visitors, the largest and fastest growing segment of the tourist market. Stanley Plaza is set to gain from a number of improvements proposed along Stanley waterfront, an area that already receives many visitors. For these Selected Facilities, strategies can be proposed to ensure spending can be captured from tourists either on the way to, or on the way back, from local attractions. These strategies also include trade mix changes that involve reducing the current number of local-orientated trades whilst expanding the range of trades that appeal to tourists.

## 6.0 Branding Opportunities

The Selected Facilities examined represented very distinct branding opportunities. This was because whilst some of the centres were broadly similar in size, they fulfilled different roles and met the needs of different consumers. However, certain centres had enough similar characteristics for a shared generic brand to be appropriate. This included Tsz Wan Shan, Choi Ming and Chung On, which were considered “Community Malls” — that is, whilst the size of these centres and their surrounding catchment populations differed slightly, their shared defining feature was that they catered for the day to day needs of the local communities. These centres were less affected by immediate competition other than from street level shops and there was less need for them to have a distinctive brand identity. For these centres, a generic brand is recommended which appeals to the broad age range of the consumers and reflects the community role that these centres play.

For the other centres, namely Hau Tak, Stanley Plaza, Lung Cheung, Tai Wo and Lok Fo, there was a much greater degree of variety in their shopper profile, competitive context, trade mix offer and other related characteristics. Separate branding opportunities are recommended for these centres.

Both approaches to branding can help unlock the commercial value in the centres by presenting the centres in a way that is distinctive, valued, credible and sustainable in the long term.

## 7.0 Findings

All the proposed improvements identified have been verified to ensure they can comply with statutory regulations within the Building Ordinance such as means of escape, load impacts and discharge values. The exception to this is the Lok Fu Centre where only a very preliminary design concept was outlined and further detailed studies are required.

The enhancements identified in each centre resulted in an increase in the lettable floorspace as shown below:

<u>Centre</u>	<u>Percentage increase on existing IFA<sup>1</sup></u>
Hau Tak .....	12.2%
Tsz Wan Shan.....	7.5%
Chung On.....	16.4%
Stanley Plaza .....	40.1%
Lung Cheung.....	10.3%
Tai Wo.....	12.2%
Choi Ming.....	17%
Lok Fu.....	~16.8%

Notes:

- (1) Gain in floorspace is based on the existing internal floor area of the shopping centre excluding any ancillary retail floorspace. IFA increase also includes some increases in the GFA for the List 2 properties.

Yours faithfully  
For and on behalf of  
**Chesterton Petty Limited**

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