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<b>Other Contributor(s)</b>	<b>University of Hong Kong</b>
<b>Author(s)</b>	<b>Yip, Pak-hei; 葉柏禧</b>
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**THE UNIVERSITY OF HONG KONG**

**A STUDY OF THE ASSET SPECIFICITY OF GRADE A OFFICES IN HONG  
KONG**

**A DISSERTATION SUBMITTED TO THE FACULTY OF ARCHITECTURE  
IN CANDIDACY FOR THE DEGREE OF BACHLOR OF SCIENCE  
(SURVEYING)**

**DEPARTMENT OF REAL ESTATE AND CONSTRUCTION**

**BY  
YIP PAK HEI, IVAN**

**HONG KONG  
APRIL, 2008**

## **DECLARATION**

I declare that this dissertation represents my own work, except where due  
acknowledge is made, and that it had not been previously included in a dissertation,  
thesis or report submitted to this University or to any other institution for a degree,  
diploma or other qualification.

**Signed:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_

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Dr. Pretorius F.I.H. is not only my dissertation supervisor, but also an associate professor with the Department of Real Estate and Construction, the University of Hong Kong.

## **ABSTRACT**

Every company needs assets of many kinds to operate and to run its business. Assets can be soft or hard in nature. Human resources, management systems, and goodwill belong to the former, whereas machines, fuel and real estate belong to the latter. Soft asset can be acquired by hiring talents or building up of good track record. The way of obtaining hard asset is somehow more direct as it is either by rent or purchase. The decision to purchase or to rent a particular asset has caught attention in academia that has done a lot of research aimed at finding the reasons behind renting. We can see that different approaches including corporate real estate, finance and economics have been adopted on this regard. With corporate real estate, the nature of the business, a company's goals and cooperation with other departments within the company are key things that have to be considered. From the perspective of finance, light is shed on time value of money, resale value and tax calculations. In the economics' point of view, the determinants are transaction cost, nature of the asset, residual value expropriation and bilateral monopolistic exploitation.

The theme of this dissertation is to assess whether the usually practice of renting Grade A offices in Hong Kong is due to a economic concept called 'asset specificity', following Williamson (1985). If an asset is specific, it will increase the chance of opportunistic behavior namely bilateral monopoly exploitation by the owner. To protect itself, company is likely to purchase it. This lead to the following overall hypothesis: if Grade A offices is proven to be a general asset, the concept of asset specificity explains the phenomenon of widespread renting of offices in Hong Kong. Two tests were carried out to test the hypothesis. Firstly, provisions in twenty leases

of grade A office were extracted into a metric in where their frequency is observed. The original expectation of the test is that the leases which bear the information about the commodity in the transaction will be similar, thus showing Grade A office to be general in nature. Although the result shows that the leases are not similar, subsequent analysis reveals it can not be strong support to conclude that Grade A offices is a specific asset. The second test is an investigation about the diversity of companies that rent Grade A office. The expected outcome is that the types of business run by the tenants are versatile, thus proving Grade A offices are similar, if not identical assets, in the eyes of different users. The result falls within the ambit of the expectation. In summary, only test 2 supports the hypothesis. Nevertheless, test 1 still proved a useful tool for testing the degree of specificity of grade A offices, provided that the recommendations about refinement of provisions and incorporation of House Rules is followed.

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## **CHAPTER ONE**

### **INTRODUCTORY CHAPTER**

#### **1.1 Introduction**

It is common that grade A office are rented instead of being purchased. Indeed, the options of rent and purchase of real estate asset have their own merits and demerits. In regard of business strategy, renting a real estate asset gives the tenant a freedom to change the location from time to time, a flexibility of the area they rent and an opportunity to test the suitability of a location without a long term commitment. Buying, on the other hand, provides a security against being kicked out by the landlord, a freedom of choice over property management, a safeguard of location for a plant that can not be moved and etc. In the monetary point of view, renting demands less capital, limit the size of non-liquid asset and a freedom to choose locations with different costs, while buying protects the owner from rises in rent, secures a potential for long term development and etc. The merits of buy and rent are opposite to each other. Choosing rent will lose those of buy, and vice versa. Neither one is better than the other.

However, in the fast-changing world and under the business golden rule of shareholders' value maximization, flexibility as well as continual profit making through capital investment should stand out in the companies' consideration. Thus, one may think that renting seems to be a more sensible choice. In fact there is an

influential determinant that has not been mentioned. It is asset specificity, a factor that makes buying a must however attractive the reasons to rent are. Thus investigation about the asset specificity of grade A office is critical in proving the fact that it is usually rented rather than brought.

Asset specificity, frequency and uncertainty are the three dimensions of transaction mentioned by Williamson (1985). It is important to note that the importance of asset specificity become more significant under the presence of opportunism (Williamson, 1985). The transaction cost of a particular transaction depends on these dimensions. Put it simple, asset specificity influences transaction cost. Considering lease is a transaction-cost-economizing governance structure and it contains the commodity-related information agreed by both parties, it is chosen to be the source of data in this dissertation.

## **1.2 Objective of the study**

From the academic literature, it appears if research about the rationale behind renting grade A office in Hong Kong is absent. The overall objective of this study is therefore to identify and explore the reasons behind the apparently widespread practice of renting Grade A offices in Hong Kong. Generally, the following approach was adopted to achieve this objective. The first step is to study theoretical literature so as to identify theoretical explanations for renting, no matter what asset is the subject of the study. After going through substantial literature about decisions in relation to renting versus buying of assets, it seemed apparent that asset specificity is most likely to be the explanation. Also, from the literature it was identified that leases are concerned with the information about how the parties to a transaction view the asset,

and the content of office leases were therefore manipulated to test the asset specificity characteristic of grade A office

### **1.3 Methodology**

#### ***1.3.1 Methodology and rationale***

According to the definition stated in the Palgrave Dictionary of Economics and Law, asset specificity exists when there is a significant reduction in value of the asset upon redeployment to other use. However, in real world, it is impossible to do trial and error experimental redeployments, especially in large number, to access the reduction in value in each case. First, the value of the asset may be viewed differently by alternative users. Second, the search of alternative user who is willing to pay the largest sum of money may be impossible or be costly if possible. Third, it is hard to define a clear-cut alternative use. Does a redeployment by a user who carries out the same kind of business as the previous did counted as an alternative use? The asset is more specific to the new user as such than to the user not in the same industry and hence the reduction in value varies. In view of such difficulties, the methodology is generated through thinking the other way round. Under the condition that assets having a low level of asset specificity, to any users, their value in use and the rent bided in the market should vary very slightly with a minimal value reduction upon redeployment. The key point is that they are similar, not specific to almost all users.

The offices studied in this dissertation are confined to Grade A because it is not necessary to study two or three Grade of office at the same time. It is so obvious that the three grades of office are indeed different in nature told by their own definitions. It

would be absurd to investigate whether two or three groups of different subject are similar. Although the provisions in their lease contracts may show resemblances to some extent as they are all office, the discrepancy is expected to be significant. In addition, Grade A, instead of Grade B or Grade C, is chosen is due to personal preference.

To determine the asset specificity of the Grade A offices in Hong Kong, two tests are to be carried out.

#### ***1.3.1.1 Test 1***

In the first place, the information acknowledged and exchanged by parties, the landlords and the lessees, to the lease contract is so important in terms of its representation about the characters of the asset, including asset specificity, that it plays a indispensable role in the test regarding the degree of specificity of the Grade A office. Information of such kind is taken from the lease contract because, as mentioned in the literature review, the asset conferred through a lease is the right to possess a particular property for a certain period of time in an exchange for a sum of money usually paid periodically.

The Grade A offices can be regarded as not asset-specific if they are in nature similar. Put it differently, the information extracted from a sample of contracts that concerns different tenants and office premises will be more or less identical showing a certain degree of similarity.

Besides, the provisions in the contracts are chosen as the proxy for the office units

because the contracts are readily available and published information source from the Land Registry. On the contrary, direct visit to a number of office units one by one is not feasible. Nor will it be effective and efficient to gather relevant information from the lessees through interviews or questionnaires. Firstly, the lessees invited are unlikely to arrange visits or interviews as it will affect their operation. Secondly, it is not possible to get meaningful number of positive replies within a short time.

Should a particular provision be written on many other contracts, it is no longer 'specific' in the presence of substitutes. Therefore, the investigation involves offices locating in different blocks of building and tenants conducting different kinds of business. The information are studied in a comparative approach whereby provisions which stipulate the same kind of information, the detail may not necessarily be indifferent, is grouped, whereas those appear to be specifically drafted to suit the requirements of the lessee or the properties are sorted out. In other words, provisions will be categorized into two types: general and specific. Then the occurring frequency of various groups of similar traits and unique traits when be counted and then presented in a statistical and orderly manner. If the number of similar traits over the number of similar plus unique traits is equal to or larger than 70%, Grade A offices can be regarded as specific asset, where the value of 70 % is merely a subjective arbitrary standard of measurement set by the writer.

### ***1.3.1.2 About the samples***

The samples are chosen based on two principles. Firstly, the number of districts where



these units are located should be as larger as possible and the number of units in each district be similar or equivalent, in order to eliminate the effect of location on the measure of specificity. After all, the subject in this study is Grade A office rather than Grade A office concentrated in certain districts. Secondly, the total number of sample is preferred to be as many as possible preventing the irregular/specific traits, if any, of certain units from dominating the observation. On the contrary, it has to be delimited meticulously under the constraint of time allowed for this dissertation. Thus, the target is compromised as 20.

#### ***1.3.1.3 Test 2***

The aim of conducting this test is to prove the proposition more accurate and reliable by analyzing it from one more angle. This test is trying to testify, from a technical point of view, the preposition that Grade A office is not a specific asset because of their similarity.

The idea of 'technical' here refers to how the units in Grade A office buildings are used by the tenants. It goes without mentioning that entering into offices and conducting survey on the usage one by one is not possible because of the difficulty in getting entrance permission same as that mentioned in test 1. Nevertheless, the preposition of this dissertation is that Grade A office have low asset specificity, so clear delineation of usage of every tenants is not so critical that the lack of which will render the test not feasible. Alternatively, it is possible to show that Grade A office is not asset-specific by demonstrating that it is fond of by various type of users to whom

the office are very likely to have different weight or functions in their business operation.

Originally, this test was supposed to be carried out by paying a visit to a sample of buildings and taking note of the directory board at the ground floor which shows all the tenants within each building. Yet, the writer was rejected from taking any photos at the directory board or taking note on the board's information by the security guard. Therefore, some changes were made in relation to how the business natures of the users were to be collected. The tenants' names marked on the leases may tell what sort of business they are running. When the information is suspicious or even unknown, the writer will search their business through the internet.

Then the types of user are sorted and classified to form a table that tells their relative appearing frequency. The more versatile the usages, the more homogeneous the Grade A office buildings. What is noteworthy is that the blocks of building studied should be located in different districts and spread far apart. The aim is to avoid the disruptive effects to the test result due to the fact that buildings in the same or nearby district may be subject to identical or similar use to suit the location's features. An obvious case in point is concentration of financial companies operating in Central.

Furthermore, the leases went through in test 1 in included here so that the aim of carrying out 2 tests can be reached. The number of leases read is 63, all of which are signed in between 1992 to 1997.

If there are a considerably wide variety of users who runs different kind of businesses

in disperse office units, we can concluded that Grade A office is not asset-specific in the technical aspect.

#### **1.4 Scope of the study**

The lease samples studied herein came from the Land Registry of Hong Kong and had their own memorial number. They came into legal effect in the year of 1992 to 1997. The reason of not using the most updated leases is that obtaining them needs a large sum of money and takes much time. Fortunately, leases within the period aforesaid are already available from my supervisor, and most importantly, the fundamental characters that govern the asset specificity of grade A office is hardly to have changed dramatically in 15 years of time.

##### ***1.4.1 Definition of Grade A office units***

The asset studied here are leased Grade A office units in Hong Kong. All the definitions of office and grades adopted here are authorized in the sense that they come from the Rating and Valuation Department of the HKSAR. With reference to the technical notes released from the Rating and Valuation Department, 'Private Office premises comprise premises situated in buildings designed for commercial/business purposes. Excluded are non-domestic floors in composite buildings.' Offices in Hong Kong are classified into three grades which are Grade A, Grade B and Grade C. Grade A office has a definition as follows: 'modern with high quality finishes; flexible layout; large floor plates; spacious, well decorated lobbies and circulation areas;

effective central air-conditioning; good lift services zoned for passengers and goods deliveries; professional management; parking facilities normally available.’ (Rating and Valuation Department, 2008)

### **1.5 Structure of the study**

This dissertation is divided into 4 chapters. Chapter 1 is the introductory chapter that gives the objective, theme and methodology of this dissertation.

Chapter 2 is a literature review beginning with the definition and characteristics of leases.

In section 2.1, it is revealed that leases can be a contract, a financing mechanism and a governance structure. Plus, leases are classified into various types in accordance with the lifespan of the asset being transacted and the flexibility of terms within the lease.

Section 2.2 is review over study of contract by Williamson (1985). This review is vital in the sense that lease is a contract, the study of which deepens the readers’ understanding about lease.

Section 2.3 is the transaction cost view of leasing. In this chapter, definitions of transaction cost said by various academics are included. Then, there is a review of the transaction cost economies of Williamson (1985) and its assumption of bound

rationality, followed by ex ante and ex post transaction cost. The last part is the transaction cost in a lease.

Section 2.4 is an overview of the dimensions of transaction, 3 proposed by William (1985) and 2 by Milgrom (1948). They are asset specificity, frequency, uncertainty, performance of measurement and correctness of other transactions.

Section 2.5 is about opportunism. This section is fivefold. Firstly, it comes with a discussion over what is opportunism. Secondly, there is the solution to opportunism. Thirdly, opportunism in the agency theory's point of view is included. The last two parts are example of opportunistic behavior namely, bilateral monopolistic exploitation and residual value expropriation.

Section 2.6 is a rent versus buy in the corporations' decision. Reasons from the perspectives of corporate real estate and finance are summarized. At the end of this chapter is Pozdena's (1988) rental price equilibrium which also gives a profound view of rent and buy decision.

Chapter 3 is the hypothesis and the result of test 1 and test 2. Afterwards, there is an analysis of the results to see if the hypothesis is correct.

Chapter 4, the last chapter, is conclusion about the findings and recommendation of further researches.

## CHAPTER TWO

### LITERATURE REVIEW

This chapter is a review about all the literature the writer went through then writing this dissertation. It contains information searched from various sources, including but not limited to books and journals. It is of great significance because it concerns with the central theme of 'a study of asset specificity'. It helps presenting to the readers a whole picture of this dissertation by telling the theories behind the two tests conducted.

The first two sections give a comprehensive elaboration as to what leases are.

Knowing the nature of leases is a must without question since they are the chief data source adopted in the tests. Then in the subsequent sections, light are shed on the economic theories related. For example, transaction costs, asset specificity which is the key thing of the theme, other dimensions of transaction and opportunism occurred before and after the formation of leases. The last section is about how the decision of renting versus buying are governed, supplemented with a study of rent and buy equilibrium.

#### 2.1 THE DEFINITION AND CHARACTERISTICS OF LEASES

The nature of leases will be gone through from three perspectives in this section.

##### 2.1.1 Leases as contracts

The Dictionary of Banking Terms (2006) published by Barron's educational series,

Inc. defines lease as 'Contract' giving the right of possession and use of an asset for a specified period in exchange for payments. The schedule of payments is agreed upon the formation of the contract. The party owning the leased property is the lessor, the party using it is the lessee, and the lease payments are rentals. A lease contract may be written for a single piece of equipment, or it may be a master lease governing a continuing arrangement, regardless of the equipment leased. In the context of real estate, the definition is indifferent with a view to the Dictionary of Real Estate Terms (2004) published by Barron's educational series, Inc. which also defines lease as a contract in which, for a payment called rent, the one entitled to the possession of real property (lessor) transfers those rights to another (lessee) for a specified period of time.

### **2.1.2 Lease as a financing mechanism**

Apart from being a contract, lease is a financing mechanism and perceived as a substitute for debt (Grenadier, 1996). From the lessor's perspective, the asset lent out resembles a sum of capital and he receives his interest payment in form of rent, whereas the lessee perceives the property borrowed and paid back as capital or a loan and interest paid as rent.

### **2.1.3 Lease as a governance structure**

Lease is a structure that governs the transaction with a function of economizing the transaction cost and increasing efficiency. More in-depth discussion is in section 2.2(b).

#### **2.1.4 Various characteristic of lease and its classification**

Lease can be categorized based on its typical characteristics (Pretorius, F, Walker A., & Chau, K.W., 2003). The first characteristic is the term of the contract and variables associated with the term. The economic life of the asset can be compared with the term of the contract. The lease belongs to finance leases if three conditions are true, which are: The term of the lease is more or less the same as the economic lifespan of the asset; the sum of present value of the leases payments approximates the purchase price of the asset; the ownership of the asset is transferred to the lessee at a favorable consideration upon termination of the lease. Another category is called operating leases having characteristics opposite to that of finance leases. Leases fall into this category if the economic life of the assets is longer than the term and the present values of lease payments are less than the purchase price. Something interesting to notice is that finance lease are almost always treated as debt liabilities for purpose of financial reporting, with a corresponding asset to be declared on the balance sheet, whereas operating leases are apt to be treated as off-balance sheet items. On top of the comparative consideration with the economic lifespan of assets, the flexibility and variability of the term of the leases, a fundamental characteristic of lease as well, is another dimension to look at. Flexibility as such is due to the presence of the options that may be contained in the leases to continue the lease upon maturity of the term stipulated or to cancel the lease relationship. Some lease may not be cancelable, while some may imposed a penalty even though either side to the contract has the right to exercise the option to cancel. Typically speaking, financial leases are non cancelable during the term, as opposed to operating leases. However, commercial



real estate leases, which are always leased with the operating leases, are exception. The ownership of the assets may not necessarily return to the lessor if the option to purchase is termed in the contract. The price is determined by a mutually agreed method chosen in the pre-contract stage.

The leases can also be categorized as service leases or net leases when the responsibility of for maintenance, repairs, insurance and taxes related to asset ownership are taken into account. When all of these obligations fall on the owner, it is called service lease. On the other hand, a lease becomes net lease when the lessee bears these obligations.

## **2.2 STUDY OF CONTRACT**

As mentioned before, one of the definitions of leases is contract. The relationship between the theme of this dissertation and leases is so close that review on literature about the nature of contract in the legal point of view is entailed to be included. From the legal point of view, Macneil (1974; 1978) classified contract in three ways.

### **2.2.1 Classical contract law**

The classical contract law is one of them that focuses on the implementation of discreteness and ‘presentation’, where presentation means efforts to ‘make or render present in place or time; to cause to be perceived or realized at present’ Macneil (1978). This implementation is attempted to be achieved by treating the identity of the parties to a transaction irrelevant, carefully delimiting the nature of agreement according to its formality and discouraging third-party engagement (Macneil, 1978).

### **2.2.2 Neoclassical contract law**

Another way whereby contracts are classified is the neoclassical contract law. Transactions that fall within this category cannot match the classical contracting scheme, for instance, ‘long term contract under conditions of uncertainty’ (Williamson, 1985). The design of neoclassical contract law is to leave gaps for flexibility and to introduce assistance from third parties such as arbitrators to create confidence of both parties, so as to create a continuity of contractual relationship (Williamson, 1985). The reasons that give rise to this contractual arrangement are the ambiguous future, incomplete agreement, inaccurate anticipation as to the effect of adaptations and

opportunism (Williamson, 1985).

### **2.2.3 Relational contracting**

The last way is named as relational contracting with a characteristic that the contracts are more 'transaction specific', 'ongoing administrative' and norms within a group of people prevails (Williamson, 1985). The reference point for effecting adaptations is the 'relation developed over time' Macneil (1978), as opposed to the original agreement in neoclassical contracting (Williamson, 1985).

### **2.2.4 Application of the contract in various types of transaction and governance structures**

As discussed by Williamson (1985) who correlated, with assumptions, various frequency and asset specificity classes to the above three types of contracting relationship, classical contracting applies to all standardized transactions; neoclassical contracting to occasional, non-standardized transaction; relational contracting to transactions of a recurring and non-standardized kind.

Each of the above three contracting relations are organized in their corresponding governance structures that are discussed now. Market governance is the main governance structure for 'nonspecific transaction of both occasional and recurrent contracting' (Williamson, 1985). Since the goods transacted frequently are standardized, both parties can easily turn to other market participants with the incurrance of little cost. Nevertheless, when the transactions of such kind of goods are

occasional in nature, Williamson (1985) stated that buyers can not rely on their own past experience, unlike the frequently happened transaction, but ‘on rating services and on the experience of other buyers’. The transactions are so discrete that parties’ identities are negligible, content of transactions are ‘determined by reference to formal terms of the contract and legal rules apply’ (Williamson, 1985).

The trilateral governance is suitable for occasional transactions of the non-standardized good with medium of highly specific traits (Williamson, 1985). The contractual relationship is intended to be kept intact, at least upon the termination of the contract, as the investment put in place has a high economic rent (Williamson, 1985). Specific governance structure is too expensive for occasional transaction, while the design of the market governance does not value the continuation of a relationship (Williamson, 1985). Williamson (1985) said trilateral governance is an ‘intermediate institutional form’ for neoclassical contracting in which ‘third part assistance in resolving disputes and evaluating performance is employed’.

With respect to the specialized governance structure for recurring transaction regarding specific investment and goods, Williamson (1985) suggested two: ‘bilateral structures, where the autonomy of parties is maintained; and unified structures, where the transaction is removed from the market and organized within the firm subject to an authority relation.’ The content of unified governance is not specified here because it is beyond the scope of this dissertation’s investigation. For goods which require extremely specialized human and physical assets, economical of scale is not able to be realized, but the likelihood of scale of economy increase with the decrease in specificity. In the case of market procurement, adaptations have to be effected across a

market interface only by mutual, follow-on agreement (Williamson, 1985) as not all adaptations can be possibly or cheaply formulated in the ex ante stage. Williamson (1985) also discussed about the effect of thoughts of parties to the form of transaction governance. He said both parties may become the source of behavioral uncertainty, aiming to pursue his own interest in the adaptation proposals while having an incentive to sustain the relationship for the sake of the benefit brought forth by the transaction undertaken. Thus Williamson (1985) mentioned two necessary measures whereby 'flexibility is provided under terms both parties have confidence': What type and degree of hazard of opportunism have to be recognized in different proposals and the adjustment should minimize the hazards.

## **2.3 TRANSACTION COST AND LEASES**

### **2.3.1 What is transaction cost**

Leasing can be viewed as ways of transaction. They are not cost equivalent amid the imperfect capital market (Pretorius, 2003). Besides, the transaction cost is usually too small to be neglected, notably in the context of this dissertation about leases, because Williamson (1985) mentioned in his book 'The Economic Institution of Capitalism' that 'any issue that can be formulated as a contracting problem can be investigated to advantage in transaction cost economizing terms'. Ronald Coase gave an insight to transaction costs as the costs of carrying out the transaction, which is dependent on the nature of transaction and on the way the transaction is organized. Milgrom (1948) said this concept is enriched by subsequent research in the economics of organization to have a more explicit definition: cost of coordinating and motivating.

Milgrom (1948) illustrated that the coordination costs arise from different sources in different type of organizational form. In a market system, determination of prices and details of transaction, making the existence and location of potential buyers and sellers known to each other and bring them to together to transact are sources of coordination costs. The costs may be spent on advanced technological system for communication, people who acts as intermediate or facilitator to the transaction, space to accommodate these people and etc. In other markets, examples of coordination costs includes research to find out buyer's taste, marketing expenditure to promote the products, managerial decision to set the prices, time spent searching for the suppliers and best price and, interestingly, the lost unrealized benefits in nonsexist transaction

due to the imperfect matching of buyers and sellers. The costs appear in different forms through hierarchies, but it is not worthwhile to be discussed here with a view to the theme of this dissertation.

The motivation costs are of two types. The first come into sight is that due to informational incompleteness and asymmetries whereby the parties to a potential or actual transaction do not have all the relevant information needed to determine if the terms of an agreement are mutually acceptable and if these terms are actually being met (Milgrom, 1948). This is at the same pitch with the bounded rationality assumption appeared later in this dissertation, which is another angle to view the origins of transaction costs. Because of the difficulty in collection of information, the parties may come to costly arrangements to guard themselves against the opportunistic behavior which is another assumption in the transaction cost economic.

The second type arises from imperfect commitment which means the inability of parties to bind themselves to follow through on the threats and promises that they would like to make, but having made, they would later like to renounce (Milgrom, 1948) Thus resources have to be spent to assurance of commitment and protection against opportunism. The concept behind the motivation costs are just the same thing as the behavioral assumptions, namely bounded rationality and opportunism, in the Williamson's (1985) transaction cost economies which is scrutinized hereafter to deliver a more profound and comprehensive presentation about the theoretic nature of leases.

### **2.3.2 Transaction cost economics**

Williamson (1985) depicted that transaction cost economics is part of the New Institutional Economics research tradition with six characteristics: compared with other approach to the study of economic organization, it is more microanalytic; more self-conscious about its behavioral assumptions; introduces and develops the economic importance of asset specificity; relies more on comparative institutional analysis; regards the business firm as a governance structure rather than a production function; and place greater weight on the ex post institution of contract, with special emphasis on private ordering. The basic unit of analysis is transaction. He also introduced a viewpoint relying on which we can say that lease is a device governing the 'structure' assigned to a transaction. It is 'Transaction costs are economized by assigning transactions (which differ in their attributes) to governance structures (the adaptive capacities and associated costs of which differ) in a discriminating way. Without contradiction with the ramification of Milgrom (1948) about transaction cost, Kenneth Arrow (1969) defined transaction cost as the 'costs of running the economic system' which is different from production cost in neoclassical analysis.

### **2.3.3 Bounded rationality**

Bounded rationality is a underpinning assumption of the transaction cost economics, which tells the limited capacity of human beings to formulate and solve complex problems and to evaluate the consequences of all possible decisions (Douma, 2002), so people involved in the transactions are 'intendedly rational, but only limitedly so' (Simon, 1961). Bounded rationality become problematic only and make the



transaction costly in environment of uncertainty according to Douma (2002).

#### **2.3.4 Ex ante and ex post transaction cost**

In Williamson's (1985) ramification, transaction costs are viewed as ex ante and ex post types that are interdependent. The first is quite contract-related, which composes of drafting, negotiating, and safeguarding an agreement. This type deserves care and caution when complex contract is draft for a transaction. The contract may either stipulates a large number of contingencies and appropriate adaptations that both parties are recognized and agreed before signing or be in a incomplete and ambiguous form deciding contingencies solution when something unexpected happens. Safeguards, although is a cost, it signal credible commitments and restore integrity to transactions (Williamson, 1985).

The ex post costs consists of four forms in accordance with the work of Williamson (1985), and they are: 1) the maladaptation costs incurred when transactions drift out of alignment; 2) the haggling costs incurred if bilateral efforts are made to correct ex post misalignment; 3) the setup and running costs associated with the governance structures (often not the courts) to which disputes are referred, and 4) the bonding costs of effecting secure commitment. The fourth form corresponds to the motivation costs arising from imperfect commitment by Milgrom (1948). To elaborate his idea, Williamson (1985) mentioned that redressing misalignments or adopting adaptations to new circumstances 'give rise to intensive and self-interested bargaining [and] complex, strategic behaviors are elicited'. Incomplete adaptation will be resulted if the outcome deviates from the target because of such bargaining.

### **2.3.5 Transaction cost in the lease**

Both of the lessee and lessor can be viewed as agents who maximize their utility at the expense of the counterparty. To manage the counterparty incentive conflicts in agency relationships, several types of costs are incurred. Klein, Crawford and Alchian (1978) and Pretorius, Walker, & Chau (2003) have similar ideas about that, please see the table on next page.

<b>Klein, Crawford and Alchian</b>	<b>Pretorius, Walker, &amp; Chau</b>
Transaction and information costs of reaching an agreement	Identifying the nature of incentive conflicts in a particular type of transaction, including the resources applied to predict agent's opportunistic behavior arising from asymmetrical information
Contracting costs	Crafting complex, but incomplete contracts to align the incentive conflicts
Cost to improve post contract bargaining position;  Cost of premium [due to future continuation of business relationship and has a value larger than the gain from exploitation] that prevent cheating behaviors	Bonding and monitoring mechanisms negotiated and implemented to manage incentive conflict and expected counterparty opportunism
Enforcement costs involved in assuring compliance with an agreement	Resources spent on managing the post-contract counterparty behaviors

**Table 2.3.1 Transaction cost in the lease**

## **2.4 DIMENSIONS OF TRANSACTION**

The amount of transaction cost for a particular transaction varies with respect to the critical dimensions of that transaction. They are asset specificity, uncertainty/complexity and frequency.

### **2.4.1 Asset Specificity**

To answer the question of what asset specificity is, The New Palgrave dictionary of economics and the law (1998) noted that 'Relationship-specific investment is an investment which, once made by one or both parties to an ongoing trading relationship, has a lower value in alternative uses than it has in the intended use supporting this specific bilateral trading relationship. More generally, we can think of specific investments as have significantly lower gains from trade, when employed other than in supporting the intended relationship with a particular customer or supplier'. Investment in specific assets often permits cost savings to be realized if the contract goes to completion (Williamson, 1985), but there is a risk over premature termination of the contract and weaker bargaining power in the contract renewal interval, which may be contrived by opportunism, since the economic rent increases with the specificity. Thus there is a trade off which 'varies systematically with the governance structure to which the transaction is assigned', so a comparative study of the contractual governing/ organizational structure (Williamson, 1985) is imperative in order to retain the benefit of the asset- specific transaction while attenuating the risks associated and opportunism.

Furthermore, as the New Palgrave dictionary of economic and law, there are five principle types of asset specificity. First, site specificity occurs when buyers and sellers locate fixed assets in close proximity to minimize transportation and inventory cost. Second, technical specificity which occurs when one or both parties to a transaction invest in equipment that can only be used by one or both parties and that has low value in alternative uses. Third, human capital specificity occurs when employees develops skill that are specific to a particular buyer or customer relationship (Stuckey and White, 1993; cited by Douma, 2002). The fourth is dedicated assets which is 'General investment ...that would not be otherwise made but for the prospect of selling a significant amount of product to a particular customer' and lastly, it is intangible assets such as brand name loyalty (The New Palgrave dictionary of economic and law, 1998). The specific identity of the parties to a transaction notably matters (Williamson, 1985) because the continuity of the relationship is valued so that the specific assets deployed can be used to its capacity.

Regarding its significance, Williamson (1985) further assured that asset specificity takes on importance only in conjunction with the bound rationality/opportunism in the presence of uncertainty.

#### **2.4.2 Frequency**

In the respect of the frequency of transaction, Milgrom (1948) mentioned two cases, one-time transaction and frequently repeating transaction. In the former, the parties are likely to use general mechanism such as a standard form contract readily available in the community resolving disputes in the courts, whereas in the latter, special

mechanism that tailored to the relationship and circumstances prevails. It is worthwhile to set up low-cost and continually improving practice to repeating similar transactions between the same parties or parties with little difference in nature. Plus, frequency may to a certain extent mitigate opportunism as the opportunities to provide future benefits as a reward to faithful partner is more. On the contrary, failure to realize benefit of this kind is a way of penalty. In light of the frequent cooperation between both parties, they can have a better and more accurate expectation on each other and hence reduction the cost in relation to coordinating the actions and detail listing of their understandings. The cost of setting up that governance structure has to be considered in conjunction with frequency of transaction so as to see if the structure is utilized to its capacity and cost related is recovered. The ultimate concern is 'to economize in both transaction and neoclassical production cost respects' (Williamson, 1985).

### **2.4.3 Uncertainty/ complexity**

The uncertainty factor can be divided into primary and secondary: The first is of 'state-contingent kind' arising from 'random acts of nature', while the second arise from 'lack of communication, that is from one decision maker having no way of finding out the concurrent decisions and plans made by others' (Koopmans, 1957; cited by Williamson, 1985). As mentioned before in the paragraph about opportunism, uncertainty can be behavioral in nature. Williamson (1985) said it is similar to 'case probability' which is a 'peculiar feature of our dealing with problems of human action. Our statements always deal with unique events (Mises, 1949).' The primary, secondary and behavioral uncertainty as well as the complexity of the objects

transacted make it uneconomical, if not impossible, to determine in advance what should be done in every contingency Milgrom (1948). This is an example of bounded rationality. Contracting become more complex, specifying rights, obligations and procedures instead of actual performance standard to allow for certain degree of flexibility. Last but not least in this paragraph, behavioral uncertainties is not a problem if transactions were known to be free from primary uncertainties as any adaptation and unilateral efforts to alter the contract are voided by court or third party (Williamson, 1985), depending on the contractual structure chosen.

#### **2.4.4 Performance of measurement**

Apart from these three dimensions in Williamson's (1985) and Douma's (2002) work, Milgrom (1948) proposed another two which are difficulty of performance measurement and connectedness to other transactions. In light of the feasibility and hardship in accurate measurement, effective incentive is unlikely to be seen and people apt to arrange their affairs to make measurement easier or to reduce the importance of accurate measurement as solutions. However, they are not without costs. This dimension gives cues to examine the second proposition regarding detection of abuse as absence of abuse represents good performance.

#### **2.4.5 Connectedness of other transactions**

Connectedness of other transactions refers to the degree of connection of a particular transaction to other transactions. One transaction's success depends on a well coordination of many other transactions and people involved when the connectedness

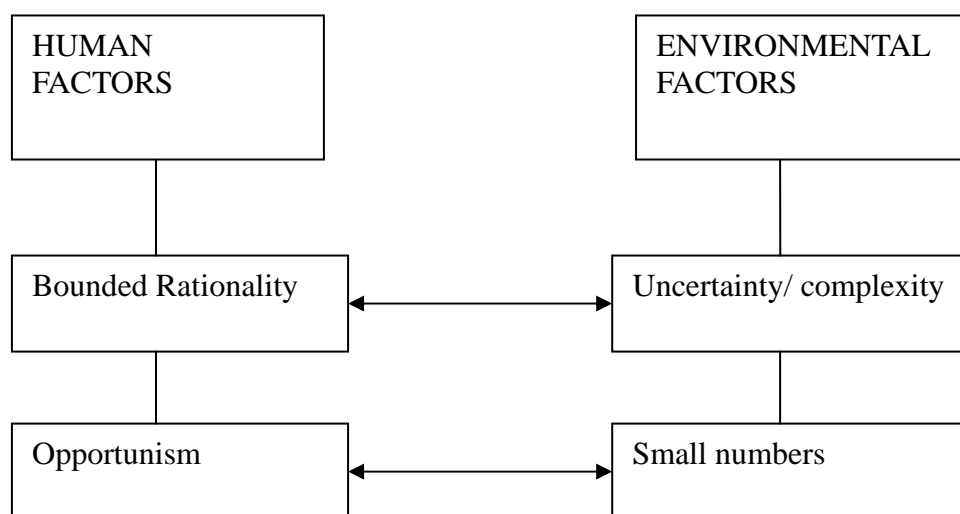
is significant. Central coordination whereby meetings or supervision are adopted or reduction in number of people involved is possible solutions. After all, the way that governs a transaction is set with a view to the interactions of the connected transactions. What I can say regarding this dimension is that it is not meaningful to this dissertation as real estate commercial lease is not so 'connected'.



## 2.5 OPPORTUNISM

### 2.5.1 What is opportunism

Opportunism is also an underpinning assumption of the transaction cost economic. It is described as ‘self interest seeking with guile’, ‘[it] involves subtle deceit’. Both active and passive forms and both ex ante and ex post types are included’ and in general, it ‘refers to incomplete or disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse’ (Williamson, 1985). Such assumption is not for everyone but some people. In addition, it is difficult, costly or impossible to tell ex ante if a party to a transaction will demonstrate opportunism. This behavior is a problem only in small numbers exchange in where there are little sellers because reputation becomes vital when the buyers can opt for the same goods or services from other sellers (Douma, 2002). Transaction cost is resulted from the above human factors and environmental factors and their relationship are shown in the ‘Transaction cost framework’, in which the factor about atmosphere is omitted here for simplicity, by Douma (2002) below.



**Figure 2.5.1 Factors in relation to opportunism**

Regarding the classification of uncertainty as environmental factor in the framework, I herein made a supplement: opportunism leads to 'behavior uncertainty in economic transaction' (Williamson, 1985). This 'behavioral uncertainty', however is not stressed in the critical dimension of transaction about uncertainty. Were opportunism not exist, people will honestly disclose their information and the transactions will be subject to environmental uncertainty only. Unanticipated events can be handled by general rules that maximize the joint-benefits and the profit shared by the way agreed in the contract (Williamson, 1985).

The assumption of opportunism was criticized, because in real world people trust and co-operate with each other (Douma, 2002). The likelihood of a party display opportunistic behavior depends on the immediate net benefits of such behavior and 'disposition towards the partner'. The second factor confers that people will not cheat if they like their partners (Douma, 2002). They will feel sinful out of a matter of conscience. But for trust, long term mutually profitable relationship cannot be developed.

### **2.5.2 Solutions to Opportunism**

Under the vulnerability to opportunistic behavior, long term relationship happens for asset-specific transaction when a long term contract offer legal protection against opportunistic behavior; the party can perform opportunistically expects to benefits from future co-operation with the supplier that outweigh any short-term financial gain from opportunistic behavior; reputation is valued by both parties knowing that any

opportunistic behavior will jeopardize the past record; the investment for the fixed assets is shared among both parties; and lastly they trust each other. The above five factors may occur in any combination.

### **2.5.3 Opportunism in agency theory's point of view**

The relationship between the lessor and lessee is analyzed in the agency theory's point of view (Douma, 2002), such that the lessor is the principal while the lessee is the agent who makes decisions on behalf on the lesser and affects his property. The agency theory can be discerned into two streams of literature which are positive theory of agency and theory of principle and agent. The positive theory of agency viewed the firm as a nexus of contract with an aim to find out how do contracts affect the behaviors of participants and why central organizational forms existing in the real world. Assuming the existing organizational forms are efficient, it is to explain why organizational forms are as they are. The theory of principal and agent looks at the agency relationship at a 'micro' level where the central theme is how the principal should design the agent's reward structure. Literature on separation of ownership and control is the 'antecedents' of these two streams of literature (Douma, 2002).

The separation of ownership and control poses a problem of 'Negligence and profusion' which is said by Adam Smith in his book *The Wealth of Nations*, Book V. Although the focus of the related context in his book is drawn upon a stock company in which there are managers and shareholders, the fundamental concept can be applied in the relationship between the lessor and lessee because it possess the same element: divergence in interest. The agency will make decision for their interest rather than for

the principal's, similarly in the case of a lease, the lessee may abuse or under-repair the asset to extract maximum quasi- rent of the asset in course of the term of the contract.

In the theory of agency, there are two concepts, monitoring and bonding, about the regulating the behaviors of the agents. 'Bonding means that the manager (agent) takes the initiative to bind himself and to be monitored; monitoring means that the outsiders take the initiative (Douma, 2002). Both regulating mechanisms bear costs. Hiring a third party or outsider to observe the agent is a case in point. Undoubtedly, the same can be applied in the commercial real estate lease, but the correspondence to the theme of this dissertation is not prominent.

Despite the theory of principal and agent having a central theme of how the agent's reward structure should be designed, a crucial question within this theory about how well the principal can observe the agent's behavior is relevant to this dissertation's proposition of how abuse in commercial real assets can be detected. Three cases from Douma (2002) are discussed here.

In the first case, the principal can observe the agent's level of effort. Therefore, the principal can determine which level of effort is optimal as he thought and give the agent a forcing contract that obliges the agent to choose this effort, where the forcing contract stipulates that the agent have to pay an agreed level of effort or he will get nothing. In respect of commercial real estate leasing, the agent's effort corresponds to the level of abuse.

In the second case, the situation of asymmetric information arises because the principal cannot observe the agent's level of effort. The agent's attitude towards risk is momentous here. If the agent is risk-neutral, he is willing to take on risk without the need of risk-premium. A rent contract is the best solution. The agent has a strong incentive to increase effort as he bears all the risk. On the other hand, in a combination of a risk adverse agent and a risk neutral principal, the risk is shared between the two parties. The solution in this respect is to have a portion of payoff being dependent on the payoff and a portion being not. The payoff in Douma's example refers to the value brought by the manager. It can be treated as the amount saved on maintenance in the case of commercial real estate lease.

In the last case, the principal can observe a signal concerning agent's level of effort. The information contained in the signal concerning the agent's level of effort is useless if the agent is risk-neutral, because allocating all risk to the agent provides him with greater incentives without imposition of cost to the principal.

These three cases can not tell how abuse can be detected, but it guides us to see if abuse due to the agents is known or observable to the principal with consideration to the contract form used in the lease.

#### **2.5.4 Bilateral Monopoly Exploitation**

There are two agency problems, bilateral monopoly exploitation and residual value expropriation, both of which appear after the process of fundamental transformation.

Fundamental transformation is a process that take place at the interface between the ex ante and ex post stage. At the beginning of the transaction, there are a large number of bidders, but such condition will not sustain in the ex post stage (Williamson, 1985). The winning bidder has an advantage over the non-wining bidders provided that the investment incurred is specific asset and thereafter the original condition is 'transformed into one of bilateral supply' (Williamson, 1985). The supplier and the buyer want to maintain the relationship because of the economic value in the specific investment. The supplier's investment with be of fare less or even value, while the buyer will turn to other supplier to acquire the service or goods they want at a much higher cost, should the contract terminate prematurely. That's why it is a bilateral relationship. However, the general clauses will be rendered unenforceable in the presence of uncertainty and opportunism. The parties to a transaction haggle over the distribution of quasi rent in the process of determining the adaptation when unexpected events arise.

Pretorius, Walker and Chau (2003) said the bilateral monopoly exploitation is a post-contract agency problem in leasing with rational counterparties and competition in supply of assets. Although asset specificity is not a must for bilateral monopoly exploitation to take place, it is a positive function of the exploitation.

Asset specificity is a catalyst to the bilateral monopoly exploitation, the incentive for such post contract counterparty opportunism is actually resulted from the nature of lease transaction. The degree of materialization of the post contract bilateral monopoly exploitation depends on contract completeness, counterparty opportunism and the effectiveness of the transaction governance mechanisms in the lease contract.

(Pretorius, F, Walker A., & Chau, K.W., 2003)

Considering such exploitation, Pretorius, Walker and Chau (2003) identified some factors influencing the rent/buy decision of assets.

Firstly, the potential increase with the asset specificity in case of a lease. Klein, Crawford and Alchian (1987) identified that assets with high asset specificity are likely to be owned for the risk of lessor exploitation.

Secondly, the term, the length of time the assets is demanded is relevant. If an asset is specific to a company, it will be demanded for its economic life and tend to be owned. On the other hand, the situation of non-specific or less specific assets are opposite. Alchian and Demsetz (1972) also said that the goods to be invested have higher resale values relative to the initial cost and will have longer expected use in a firm relative to the economic life of the good.

Thirdly, the availability of well-functioning second hand markets and cost of transacting affect the incentives to own for a short term.

Fourthly, lessee's asymmetrical information regarding its expectation of the lessor's exploitation behavior is influential to the rent/buy decision and the lease pricing negotiation as well.

Lastly, the lessee expected a high enforcement cost with a view to the exposure to the risk of exploitation. Should the enforcement cost be too high, buy is opted.

### **2.5.5 Residual Value Expropriation**

Under the lease, the lessee have the right to use the asset deriving residual income which is the revenue generated form the use of the asset minus the schedule of payment to the owner who is the claimant of the asset's residual value. By reducing the expense on maintaining the asset, the lessee directly increases the residual income (Pretorius, Walker, & Chau, 2003). Maximization of residual income provides a strong incentive for the lessee to expropriate the lessor in terms of abuse or under maintenance of the asset.

The lessee's incentive is determined by the explicit and effective lease agreements in maintaining residual value of the asset. The amount of rent that the lessors charge is affected by the easiness of detection of abuse and depreciation as well as the asymmetric information about the expectation on the lessee's behavior. Benjamin, De La Torre and Musemeci (1995) suggested that rental rate decreases as the time of the landlord /tenant relationship increase. It is because the information becomes less asymmetric over time. In short, the contract term that manage the lessee incentive and asymmetric information are critical to be considered by the lessor before he enters into a lease (Pretorius, Walker, & Chau, 2003).

In deed, the concept of residual value expropriation had already existed in 70's. Alchian and Demsetz (1972) mentioned the same thing incorporating the nature of asset depreciation, though they did not use the same term:



‘Durable resources generate a marginal production (*residual income*) and depreciation when it is used. Use-induced depreciation is covered by expected payment if it is not detectable. Careless use (*abuse, under maintenance, residual value expropriation*) is more likely if one does not pay for greater depreciation and an absentee owner who does not observe the use of resource is going to charge a higher rental price (*premium*) because it is hard to discover the user cost by inspection (*asymmetric information about the counterparty opportunistic behavior*) of the resource after use.’ [Italic mine]

The high price as such set by the owner is so expensive that the other party will be prohibited from renting. Other minor factors include tax provision and capital risk which affect the cost calculation and financial structure of all company.

## **2.6 RENT AND BUY OF REAL ESTATE AND THE PRICE EQUILIBRIUM**

### **2.6.1 Lease versus buy in the corporations' decision**

As mentioned earlier, lease exists because under particular circumstances, lease serves as a device that governs the transaction in an efficiency manner. Plus, the existence of lease can be explained from the angle of corporate real estate management (CREM). Corporate real estate refers to land and buildings owned and occupied by non-real estate corporations and used for work, space, infrastructure and investment. Real estate is significant to corporations when they account for a considerable portion of the total assets value. It is not as liquid as other assets, carries additional risks and requires an understanding of laws, valuation, financial and real estate markets (Nourse, 1990). The coming paragraphs will be about how the decision, between lease and its opposite-rent, is made from the CREM's perspective. Weatherhead (1997) pointed out the strategic and economic (this economic point of view is different from the theoretical reasons discussed at the beginning of the Literature Review, as it sticks to the real life business needs) reasons.

The analysis below uses the points by Weatherhead (1997) as reference.

<b>BUY</b>	<b>RENT</b>
Security	Freedom to move
Unique location	Flexibility of size of letting
Transport link	Opportunity to test locality without long-term commitment
Safeguarding location for plant that can not be moved	Accommodation included in outsourcing contract
Ensuring space for expansion	Freedom to reduce the size of estate if floor space needs to be reduced
Freedom of choice over property management	
No suitable property available to rent	
Desire to establish community links that will aid business	

**Table 2.6.1: Strategic reasons in the corporate real estates’ perspective in the corporate real estates’ perspective**

Although reasons in both columns serve a common function of lining the real estate up with the corporate business strategies, their nature are opposite to each other. It is obvious that BUY involves long-term commitment, while RENT involves flexibility in organizational space planning by using hedging strategy through an option in the lesase (Pretorius, 2003). Other thing being equal, in a world that changes continually and changes more and more rapidly, and so do the growth factor of the corporation, flexibility is undoubtedly preferred. Thus, the reasons for RENT should outweigh the

reasons of BUY despite they are all sensible. Why there are cases about corporations buying property?

If we think about the issue in conjunction with the concept of 'asset specificity', the picture is clear now. The reasons for BUY are related to property that is specific to the corporation. The buyer wants to acquire security, he do not want to be kicked out of the site or to suffer from unfavorable offers by the land lord when the terms of the lease ends. A specific asset which has lower value in case of redeployment is valuable to a particular user, because it is so unique that it cannot be found elsewhere, not available for rent or a huge sum of money has to be invested in other asset to achieve a level of specificity required. If it is easily replaceable, the corporation will not border buying. He can move to other space providers and stand at a stronger bargaining position in the lease-terms negotiation with the landlord. When a corporation wants to develop comparative advantage by focusing on a particular geographic location, the property is unique for it to achieve its business objective. The cost of renting paid by the lessee will be likely to surpass that of buying as the corporation is forced to pay more for the specific property assuming the lessee's information is know by the lessor, unless the landlord ask for a price which is so high that the corporation give up the property. Nevertheless, giving up a strategic location is not preferred as it renders the corporate strategy unfeasible and business objectives unachieved as well as wastes the resources delivered to generate the strategy. Regarding the purpose for future expansion, the land in proximity to the current site is 'specific' because the corporation has to set up everything again in another location. The degree of specificity increases if the corporation has invested large amount of money in immovable asset attached to the site. Presuming the corporation buys more

space than it needs for future expansion, it will probably let the extra space not in use involving in non-core business.

More freedom on choice of property management is also related to specificity. The corporation will not care for the normal practice of management as long as it is satisfactory. It desires freedom just because it wants to alter it for its own needs. Special management may cause extra expense to the landlord or make it less attractive to future potential leasees. Both parties then pay transaction cost in terms of time and human resources on negotiation. On top of the rent, the corporation may end up paying a premium for extra freedom.

Thinking reverse, the reasons on the BUY column become trivial if the asset wanted is non-specific. The corporation is free to relocate and to test what size and location are suitable for them and is able to adapt to changes in environment by changing the business objectives without any restriction from the real estate commitment. The table on next page shows some economic reasons in the corporate real estate's perspective.

<b>BUY</b>	<b>RENT</b>
Avoidance of rent rises	Demand less capital
Avoidance of long term commitment to lease conditions	Desire limit the size of non-liquid capital asset
Control over management cost	Freedom to choose locations with various costs
Protection of expensive investment in plant	
Potential for long term development opportunity	
Potential for capital gain above level of inflation	
Capital allowance	
Contribution to joint venture programmes	

**Table 2.6.2: Economic reasons in the corporate real estates' perspective**

The above economic reasons tell the merits of BUY and RENT. Taking their nature into account, they are mutually exclusive. They are the trade offs of the alternative choice, owning one side sacrifices the other.

### **2.6.2 Consideration about shareholders' value**

Renting has other demerits other than giving up the merits of buying. It is a known

fact that corporations' fundamental objective is to maximize shareholders' value. Under the principle of separation of ownership and management, managers must carefully consider the opportunity cost of tying up capital (Pretorius, 2003) in real estate asset when bringing highest return on equity to avoid being fired. As buying real estate locks up a huge amount of capital, the shareholders will doubt and request justification for buying rather than paying dividends or investing such a huge sum of money to the core business which generates higher returns. Furthermore, the shareholders can investing real estate on their own through their own real estate portfolio (Pretorius, 2003). Thus it is unwise for the management level to make a buy a rent decision unless the core business and long term development of the corporation jeopardized.

### **2.6.3 The focus of the company's business**

Upon buying the real estate asset, the company is put in a second business which is real estate investing, so the appreciation factor in the property as well as whether the nature of the firm's business provides it experience in property investment are factors to weigh (Pretorius, 2003). Although owning real estate property can hedge against inflation and capture the rise in land and property value, do not forget the tragedy should there be a crash in property market. The decision relies quite heavily on the decision maker's view on the future economic conditions and supply- and-demand factors that governs the changes in price.

#### **2.6.4 The financial status of the company**

With respect to the financial status of the company, there are three factors to consider. They are the concerns on tax, accounting and financial resources for an office down-payment. Pretorius (2003) illustrated in his research on a Hong Kong company that the tax computation will differ with the corporation's decision. The rent paid by the corporation is regarded as expense in full amount because office leases are treated as operating leases. However, the cost of the property will be capitalized on the balance sheet and an annual allowance, a percentage on the cost of construction, is allowed for depreciation in the computation of tax income, provided that the buy decision is made. The expenditure on refurbishments can be deducted over a several years in equal installments. The tax regulations vary from place to place over time, corporations must take them into account when choosing rent or buy. Buying a real asset which worth such as a high value leads to an influential changes to something beyond the balance sheet. The purchase will decrease the current assets and increase the debt on the balance sheet with side effects of increasing the debt to equity ratio and lower liquidity. Such financial status will make additional financing more difficult, thereby limiting capital for growth and profit-generating activities (Pretorius, 2003) and the opportunity cost of buying rises. Financial resources needed at the outset of buying and renting are also different: a deposit of two to three months rent if renting, whereas 10 -30 percent of the price if buying (Pretorius, 2003). This factor carries least weight out of the three related to financial status.

Renting can avoid the demerits of buying mentioned above, but it exposes the corporation to the risk of discontinuation of using the same space. The two choices'



effects on financial status do not tell which choice is better as the circumstances depend on the financial strength and planning. It is the corporations' utility and business strategy that affects the choice. At the end of the day, we have to come back to the economic theory as these two factors are governed by asset specificity.

## **2.6.5 Price and rent of real estate asset and their equilibrium**

### ***2.6.5.1 Appropriateness of applying Pozdena's theory***

Regarding the rent and buy options of real estate asset, the view on housing market developed by Pozdena (1988) gives an instructive angle to look at the rent and price of real estate, the two factors affecting the buy-or-rent decision.

Although the original intent of Pozdena (1988) was to 'clarify the relationship between costs and prices in housing and the distinction between housing price and rental prices' so as to pave a way for discussion of housing with the capital theory, his concept is applicable in general to all real estate classes, including Grade A office. It is because all of them function according to the same economic principle and real estate characteristics.

The concept in relation to user cost, rent and purchase price still holds when all the 'housing' and 'houses' in the paragraphs are replaced by 'office' or any other kind of real estate assets. This is because they are financed in the same manner as houses, using mortgage. Both of them can undergo value appreciation and depreciation. The equation of user cost which will be discussed in detail can likewise be applied. All

real estate are in fact services producing assets For example, houses produce services of privacy, shelter, a security, a feeling of home and etc, whereas offices produce services of place for workers to work together, address of a company, reputable image from their locations and so forth. Their uses are different, but their natures are the same. Plus, the law of supply and demand as well as the tenants' preference to purchase provided user cost lower than market rent will not be invalidated by substituting houses by other real estate classes.

#### ***2.6.5.2 User cost***

In the following paragraphs, what are included will be Ponzdenz's concepts, but I the wordings of 'housing' is replaced by 'real estate' since the theme of this dissertation is not housing and his concepts is transferable.

The emphasis that Pozdena (1988) brought about is the real estate stock and the 'flow of services from that stock'. Real estate stocks can be linked to any other goods as their demand is determined by the purchase price and buyers' income, etc. If we think more deeply, real estate has a quite specific feature of its own. It is a 'durable asset that can be employed by its owners to produce a flow of consumption services many years into the future' (Pozdena, 1988). Therefore, buying a real estate not only concerns consumption, but also concerns investment and production. This confers that the demand of real estate units is 'derived by considering the quality and cost of the housing services that the physical housing asset can produce' (Pozdena, 1988), disregard of the buyers' intention of self-occupancy or of tenancy. Thinking this way, Pozdena (1988) said the tenant of a real estate unit 'pays directly for the real estate

services he consumed' while the owner occupant 'pays the costs of owning and operating the structure'.

The durable real estate units are used over a period of time, probably several decades or even more provided the property is properly managed. Pozdena's(1988) saying about 'implicit price of the housing services produced' is related to the 'expected cost of this use for each period over the owner's planning horizon' is not difficult to understand. Put it differently, the money the tenant makes out of the property for a particular period tells the price of the rent for that period. The expected cost flow is named as 'users' cost of housing capital' by Pozdena (1988).

For the owners, the cost he has to pay is the interest cost of fund borrowed, the interest earning forgone on the equity in real estate, depreciation, drop in capital value, and so forth (Pozdena, 1988). With these two concepts, Pozdena (1988) deduced:

$$\begin{aligned} \text{User cost} &= \text{The interest cost of } \mathbf{real\ estate} \text{ minus and expected capital gains} \\ &= (\text{interest rate}) \times (\text{real estate unit price}) - (\text{expected changes in } \mathbf{real} \\ &\quad \mathbf{estate\ unit\ price}) \end{aligned}$$

,where the interest cost of real estate is the sum of the mortgage interest expense incurred during each period of ownership plus the interest he could have earned if he had put the equity in other investments. Pozdena (1988) demonstrated through this equation that the user costs increase with higher interest rates, higher real estate prices and lower expected capital gains.

In the discussion about the user cost and real estate price at equilibrium, Pozdena (1988) told what happen to a change in a component of the user cost in two situation: with and without fixed supply of real estate units. The supply of land and real estate, including residential and office, are elastic in Hong Kong, considering the government's land policy and large-land-bank-owning developers have no intention to fix the supply, which is proven by record. Thus, only the equilibrium under the elastic supply is discussed here.

Under the condition of elastic supply of real estate and real estate services, using the example of Pozdena (1988), a decline in the interest rate lowers the user cost of real estate and hence, according to the law of supply and demand, the quantity of services needed by the market increases. The next step is rise in real estate demand and so do its price. Given the elastic supply, new units will be built and sold in the market, neutralizing the increase in price and the effect on the user cost. At final equilibrium, the user cost remains lower than it was originally for the newly-added housing service to be cleared in the market.

Such relationship between the movements in the price of real estate units and in the user cost is noteworthy in the sense that the 'user cost is charged as rental prices in the housing rental market' (Pozdena, 1988). Pozdena (1988) explained this by referring to the definition of user cost, which is 'the cost of providing a flow of given amount of housing services'. He also mentioned that the 'rent would be bid down to the level of user cost', because landlords had to compete for tenants and cover the cost of their activities at the same time.

This leads to an enlightening implication regarding the rent or buy decision. Pozenda (1988) said if the market rental supersedes the user cost, ‘tenants on the margin would prefer to buy and occupy their own housing units’. The decrease in demand in rental market hereby created will be restored by lowering the level of rent to user cost.

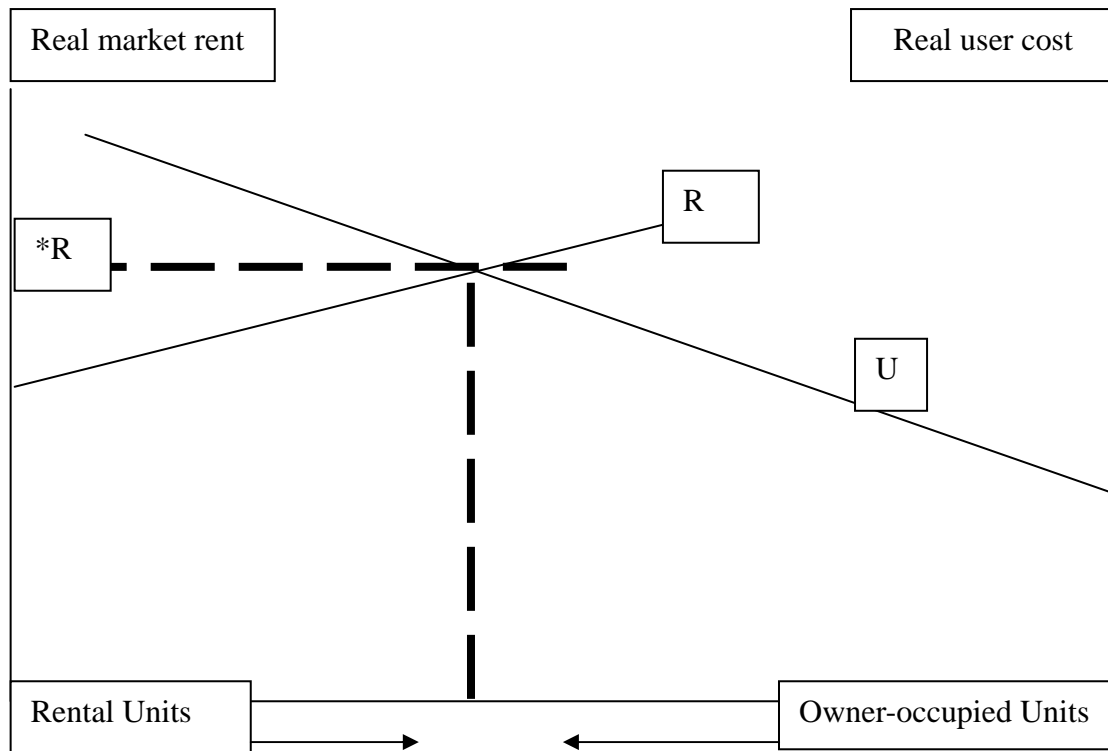
In a nutshell, the user cost perceived by tenants and the prevailing market rent are also determinants of the buy or rent decision.

### ***2.6.5.3 Equilibrium of the price and rent of real estate***

In addition to the user cost concept, Pozenda (1988) demonstrated the equilibrium market rental price and tenure balance by stating three conditions and with the aid of a diagram.

Firstly, assuming the quality of rented and owned real estate is equivalent, ‘the market rental price must equal the user cost of owner occupancy of the margin’ (Pozenda, 1988). Second, the total demand for the real estate stock at that rental price has to be indifferent from the supply. Finally, the user cost of the real estate owned by the landlords has to be the same as the market rental price; otherwise the tenants would find another landlord or decide to own themselves.

When presenting his diagram, Pozenda (1988) made an assumption that the stock of real estate is fixed temporarily. The diagram (graphs about shifting in equilibrium omitted for clarity) is reproduced as follows.



**Figure 2.6.1 Equilibrium Rents and Tenure Balance (Pozenda, 1988)**

The line R represents the relationship between the market rent and supply of real estate units, whereas U shows the relationship between market rent and owner-occupied housing. They are drawn ‘back to back’ because to the assumption of fixed stock (Pozenda, 1988). ‘At the intersection of R and U, the marginal owner occupant user cost equals the market rent, \*R, and the total stock of real estate is allocated between landlord owners and owner occupants’ (Pozenda, 1988). The ratio of rented units and owned units is indicated by the vertical line touching the x-axis, which tells the relative quantity of each type.

### **2.6.6 Conclusions**

Concluding this chapter, it is clear about the following facts:  
Lease can act as a contract in which, for a payment called rent, the one entitled to the

possession of real property (lessor) transfers those rights to another (lessee) for a specified period of time, according to the Dictionary of Real Estate Terms (2004) published by Barron's educational series, Inc. It is also a financing mechanism and perceived as a substitute for debt (Grenadier, 1996). Lastly, it is a structure that governs the transaction with a function of economizing the transaction cost and increasing efficiency. Leases can be classified into several type depending on their characteristics. For example, the lifespan and ownership of the asset and the term of the lease determine if a lease is a finance lease or operating lease. The allocation of obligation of carrying out maintenance distinguishes service lease from net lease.

It is introduced that leases area contracts. Form the legal point of view, lease can be sorted into three types namely, classical contract law, neoclassical contract law and relational contracting. Classical contracting applies to all standardized transactions; neoclassical contracting to occasional, non-standardized transaction; relational contracting to transactions of a recurring and non-standardized kind (Williamson,1985). Governance under which these three contracting relations are organized includes the market structure, trilateral and bilateral structure. Lease is looked at from the transaction cost perspective by firstly going through the definitions of transaction costs given by different academia. It is defined as as the costs of carrying out the transaction, which is dependent on the nature of transaction and on the way the transaction is organized, and the cost of coordinating and motivating. Then the transaction cost economic and its assumption were mentioned to bring forth the concept that lease is a governing structure aiming to economize the transaction cost. Meanwhile, the transaction costs concerning the

leases are spelled out. They are cost of information, reaching an agreement, drafting a contract, post contract bargaining and contract enforcement.

There are five dimensions of transaction. The most relevant of all to the study is asset specificity which defines that an asset is specific if it 'once made by one or both parties to an ongoing trading relationship, has a lower value in alternative uses than it has in the intended use supporting this specific bilateral trading relationship.' (The New Palgrave dictionary of economics and the law, 1998). The other four dimensions are frequency, uncertainty, performance of measurement and connectedness of other transactions.

Opportunism is described as 'self interest seeking with guile' and in general, it 'refers to incomplete or disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse' (Williamson, 1985). There are two agency problems, bilateral monopoly exploitation and residual value expropriation, both of which appear after the process of fundamental transformation. Asset specificity is a catalyst to the bilateral monopoly exploitation, the incentive for such post contract counterparty opportunism is actually resulted from the nature of lease transaction. Klein, Crawford and Alchian (1987) identified that assets with high asset specificity are likely to be owned for the risk of lessor exploitation. To protect the lessor from residual value expropriation, specific provisions are set.

'Rent versus buy' is a vital decision about assets, including office, for any company. From the corporate real estate's angle, the decision has to be accord with the business strategy, the collaboration among different departments and meanwhile to be the most



economic and financial favorable. Pursuant to the maximization of shareholders' value, renting allows freeing up a sum of capital for the sake of concentrating on the growth of the companies' core businesses. On top of this, the renting and buying decision is governed also by the market rent and price equilibrium. With the concept of 'user cost', Pozenda(1988) the disequilibrium in rent and price shifts the users or purchasers choice to either side.

From this chapter, the writer believes that readers of this dissertation have got an understanding about lease, asset specificity and the determinants of 'rent versus buy' decision. Thus, in the coming chapter, there are the hypothesis which links up the concepts aforesaid and results of the tests which verifies the applicability thereof in the case of grade A offices in Hong Kong.

## CHAPTER THREE

### HYPOTHESIS AND THE RESULTS OF TWO TESTS

As clearly shown by the title of this chapter, hypothesis and the results of the tests about the lease provisions and users are put down here. Coming right after the ‘antipasto’ in the previous chapter, I present you here the ‘main course’. The hypothesis, in short, is that Grade A offices are commonly rented because they are not specific asset. The results of the two tests will then be illustrated and analysis, showing whether Grade A offices are general asset or not. Although the results of the two tests diverge, the hypothesis still holds in view of a review over the findings and the fundamentals of test 1.

#### **3.1 Hypothesis**

Based on the economic theory about transaction cost economics, dimensions of transaction and rent-vs.-buy analysis, asset with low asset specificity are subjected to be rented rather than owned. As the rental market of Grade A office in Hong Kong is more active than its sale market, it is possible that such phenomenon is due to the low asset specificity/ homogeneous character of the office. To prove the applicability of the theory concerning asset specificity to the Grade A office in Hong Kong, the results of the two tests described in chapter 1 should show that Grade A office are homogeneous and shows a low asset specificity. If the tests do not support the expectation, the domination in option to rent is governed by other factors. If similar

provisions exist in lease contracts across a wide variety of business uses, Grade A office can be regarded as asset-specific.

### **3.2 Result of test 1**

The result is attached in form of a metric (see APPENDIX I) in the appendix.

#### ***3.2.1 About the metric***

On the very right-hand side of each row in the metric shows the percentage of the sampled leases that have the corresponding provision stated on the left-hand side. There are 204 provisions extracted in total. When the writer went through the leases and read the provisions one by one, some facts were observed:

1) The leases contain several parts in general, such as the description of the premise, information about the parties to the agreement, landlord's covenant, tenant's covenants, further provisions to be observed by both parties and schedules attached to the leases.

2) Provisions in the samples leases can be classified into a few areas that concern the premises, landlord and tenant. The content page of lease 7 in appendix I is a good reference, though not every lease has a content page and has the same items as lease 7.

3) The provisions in a lease are indeed more sophisticated as there are much detail,

having more than one keyword that specify for issues with different nature in the sections and subsections under each item. It is not surprising that I put down more than two hundreds of provisions in the metric, and in fact there should have been more if I have just stipulated them all one by one. In view of this, the provisions in the metric are condensed version for fear that it will be too clumsy to list out every key word or issue in each row in the metric to such a large number, which is not necessary. The provisions in the metric were determined by firstly using the provisions of lease 1 as a foundation, followed by addition, amendments or grouping.

a) While reading subsequent leases, provisions that did not encountered previously were added as long as it concerns with the purpose of the test. Provisions not relevant were neglected, for example, adoption of postal rule and the right of using common areas, lift and stair. In addition, Observance of Housing rules or Deed of Mutual Covenants (DMC) are usually included as the obligation of the tenants. However, no DMC are attached to the lease, whereas for leases with provision about House Rule, not all of them are coupled with that particular set of rule. The inadequacy of information rendered comparison meaningless, so the details of the House Rules in some of the attachment were ignored.

b) Another observation is that some sort of key words or issues frequently appeared in the same section. Therefore, they are grouped into the same row in the metric Here are some examples:

Row 36: Prevention of vermin AND hiring of exterminator

Row 38: Landlord's right of viewing the premise's condition AND giving notice for a want of repairing

Row 86: Prohibition of using the premise overnight AND domestic purpose

Row 97: Prohibition of alterations or additions of electrical and communications wiring AND of installing equipment, machinery or cut, maim, injure any doors, windows, walls, structural members or fabric without landlord's consent in writing

c) The third approach adopted in forming the rows is not repeating provisions that have the same intention, despite they are expressed in different wordings. Examples include:

Row 13: Some leases stipulate 'not for purpose other than business office' rather than 'business purpose as office only'.

Row 64: There are usually more than one provision that prohibit actions which creates nuisance, annoyance and damage. These actions are Noise, which was always seen in the leases, vibration from machines and so forth. Their intention in avoiding the nuisance creation is explicitly the same and hence they were summarized as 'all actions'.

Row 100: This row tells that it is not allowed to display within or on the exterior of the premise any writing sign or flag or device whether illuminated or not which is visible from outside of the building. In other lease, this text is missing, but one can

find ‘not to use outer wall for purpose of any public announcement or to exhibit any external indication of business or advertisement’ which is obviously telling the same thing. New row was not added, but a tick to row 102.

Row 180: There are separated provisions for different actions of the landlord during the term without prejudice to the right to proceed to any breach of conditions. The common intention of inequality to waiver is prominent.

4) In some boxes, remarks can be seen and they are counted as ticks. The purpose of writing them down is to tell more exactly what is in a particular lease. They are slightly different from the description in the corresponding provision, but the intention as to obligation, rights and the like are almost the same.

### ***3.2.2 About the finding***

In the metric, ‘percentage i’ varies greatly from 5% to 100%. The following table shows percentage of leases having a particular provision (Percentage i), showing-up frequency of provision for each ‘percentage i’ and ‘Percentage ii’ which is the percentage of provision for each ‘Percentage i’.

Percentage i (no. of ticks/20)	Frequency (f)	Percentage ii (f/204)
5	15	0.073529
10	20	0.098039
15	14	0.068627
20	10	0.04902
25	12	0.058824
30	6	0.029412
35	14	0.068627
40	4	0.019608
45	10	0.04902
50	8	0.039216
55	6	0.029412
60	10	0.04902
65	13	0.063725
70	9	0.044118
75	6	0.029412
80	9	0.044118
85	8	0.039216
90	5	0.02451
95	7	0.034314
100	16	0.078431

**Table 3.2.1 Data about test 1**

From the data above, the number of ‘general provisions’ that have ‘Percentage i’ larger than 70 is sixty. Dividing the total number of provision, 209, by 60, it was found that ‘general provisions’ only account for 29.3% of all provisions in the leases studied. This result is far lower than the requirement of 70% set out in the methodology and accordingly, Grade A office is not general asset from this perspective.

### ***3.2.3 Analysis of the finding***

Despite the fact that the majority of the provisions in the metric are uncommon among the sample, in the writer’s opinion, the grade A office are general asset when recalling the definition of ‘asset specificity’ which tells the reduction in value of an asset upon falling into the hand of alternate user increases with the degree of specificity. So we

assumed that restrictions or specification of use make the premise more specific. However, it is observed that most of the provisions with low 'percentage i' do not concern with the usage of and the physical characteristics of the office as well as the perceived value by alternative users. These provisions still hold for tenants conducting whatever kind of business. The writer envisaged that their intentions are to protect either party, of which the landlord is usually favored, through shifting the risk onto the other side. In this way, the rental value may be influenced by the risk-bearing capacity of the landlord rather than the office itself. Many of them are instructions that spell out which party has to fulfill what obligations. A few even say the preference of parties towards dispute resolution method.

For details please refer to appendix II, in which the writer will go thorough with you the provisions with 'percentage i' lower than 70% to see their rational behind, starting off with the 5% group.

### ***3.2.4 Conclusions***

Adding all the (\*), there are 25 provisions in total in the thirteen groups with 'percentage ii' lower than 70%. Dividing the sum of the provision in these groups by 25, we can see that only 17.6% is related to the use and value of the premises which are the central ideas of asset specificity. This confers that in the lease sample more than 80% of 142/204 of the provisions are irrelevant to this study.

After the analysis of test 1, the writer has the following thoughts:



a) The result of test 1 can not be used as an evidence to rebut the proposition that grade A office is general asset as it is usually rented.

b) The methodology is logical in the sense that it makes use of the fact that information about the asset exchanged is included in the contract. Yet, something is overlooked and defects inherited in the test. The writer found that the methodology is plausible rather than correct as I realized that information exchanged about the asset are more than those concerning the use and value of the asset.

c) For the test to be up to the point, it is better to modify the test. Staying focus on asset specificity, the provisions compared in the metric should only include those related to the use and value of the premise. This can correct the mistake made here, a study 'specificity of grade A office leases' instead of 'asset specificity of grade A office'.

d) Another suggestion for future study of the same kind is that the House Rule set by the manager of the building and D.M.C. can be investigated together with the leases. It is because these two documents may contain regulations about the use. Then companies running different kind of business can be invited to rated the value of the provisions extracted from these documents. Should the values have a low standard deviation or other statistical index, grade A office can be regarded as a general asset.

### **3.3 Result of test 2**

The result is attached in form of a metric (see APPENDIX II). The findings are sorted according to the business of the tenants in alphabetical order. Memorial number, date received by the Land Registry, name of tenants, the name of the buildings and the locations are listed out as well.

#### ***3.3.1 About the finding***

As shown in the table, 37 types of business run by the tenants are identified from 63 lease samples. The nature of business found also spread across a wide range of fields such as construction, trading, law, government office, jewelry, bank, technology and clinic. The locations of the office units are in several districts namely Wan Chai, Causeway Bay, Central, Admiralty and Tsim Sha Tsui. It is reasonable to say that the office units studied do not concentrate within a particular area, despite the fact that these five districts are in close proximity. It is because Grade A office are almost always found in Central Business Districts like them and they are not too close when the size of Hong Kong is taken into account.

#### ***3.3.2 Concluding the analysis***

There are 14 tenants whose business can neither be deduced from their names nor found on the internet. In other words, 37 types of business took place in 49 office units. If 49 office units with 49 different businesses are extremely versatile, the result of this test can be regarded without question as considerably versatile. Grade A office

is a general asset as it is used by many different kinds of tenants.

## **CHAPTER FOUR**

### **FINAL CONCLUSION**

This chapter comprises a comment about the overall achievement of this study as well as a condensed version of the findings of the tests mentioned in the previous chapter.

The aims of having a conclusion as such is to provide the readers a quick glance at the results of the study and to make the structure of this dissertation integral. Right after the summary of findings, there comes a section that suggests recommendation for further study. Test 1 can be of great value if adjustments are made.

#### **4.1 Overall objective of the study**

By reference to different researches about the rent and buy decision and theories in relation to transaction cost economic, I derive the hypothesis in this thesis in order to test if grade A office units in Hong Kong area general asset given the fact that they are acquired by companies most of the time, if not always, through renting. Generally the two tests were done smoothly and the objective of the study has been achieved in half. Although test 1 does not prove the hypothesis, it does not disprove it either, considering the fact that the provisions stipulated in a lease are related not only to the

nature of the assets but also to the risk allocation, contract administration and so forth.

Recommendation about the modification of test 1 to be mentioned in section 4.3 will add weight in achieving the objective. On the other hand, in test 2 the results prove the hypothesis to be true. Taking test 1 as neutral and test 2 positive, the writer think that grade A office is a general asset and it falls within the ambit of the exception.

Major findings and conclusion thereof are in the subsequent sections.

#### **4.2 Summary of findings**

From doing test 1, the writer gained a thorough understanding about the structure and content of grade A office lease. It is found that the sample leases contain several parts in general, such as the description of the premise, information about the parties to the agreement, landlord's covenant, tenant's covenants, further provisions to be observed by both parties and schedules attached to the leases. Besides, provisions in the samples leases can be classified into a few areas that concern the premises, landlord and tenant.

The provisions in a lease are very sophisticated, having more than one keyword in every section and their corresponding subsections for specification of issues with different nature. The number of provisions written down in the metrics is controlled at

around two hundreds lest the presentation will be too clumsy. Terms, phrases or wordings that appear frequently together or infer the same intention are grouped. In the metric, percentage of leases having a particular provision (Percentage i) varies greatly from 5% to 100%. The showing-up frequency of provision for each 'percentage i' and 'Percentage ii' which is the percentage of provision for each 'Percentage i' are also calculated, for the sake of the study.

Provisions that appears in more than 14 samples or have a 'percentage i' no less than 70% is referred to as 'general provisions'. Provisions of such kind only account for 29.3% of all provisions in the leases studied. This result is far lower than the requirement of 70% set out in the methodology and accordingly, Grade A office is not general asset from this perspective.

Although the result is in conflict with the hypothesis, in the writer's opinion, the grade A office are general asset when we go back to the definition of 'asset specificity'.

The writer come to this conclusion because I discovered, from a subsequent review of the provision, that most of the provisions with low 'percentage i' do not concern with the usage of and the physical characteristics of the office as well as the value perceived by alternative users. These provisions are universally true for tenants

conducting whatever kind of business. For example, some of them are set to protect either party through shifting the risk onto the other side, some are instructions that spell out which party has to fulfill what obligations and few even say the preference of parties towards dispute resolution method. In this way, the rental value may be influenced by the risk-bearing capacity of the parties, satisfaction over the contract administration rather than the office itself. (See appendix for details)

In test 2, 37 types of business run by the tenants are identified from 63 lease samples.

The nature of business found also spread across a wide range of fields such as construction, trading, law, government office, jewelry, bank, technology and clinic.

The locations of the office units are in several districts namely Wan Chai, Causeway Bay, Central, Admiralty and Tsim Sha Tsui. Deducting the leases with unknown business type, 37 types of business took place in 49 office units. The outcome is that the types of business run by the tenants are versatile proving grade A office is similar, if not identical, in the eyes of different users. Hence, Grade A office is general asset.

In a nutshell, the hypothesis is proven to be true by test 2 only. Although test 1 resulted in finding as oppose to test 2, the outcome is acceptable as there is a little defect in its design. It will still be a useful tool for testing the degree of specificity of

grade A office provided that the recommendations in the coming paragraphs are followed.

### **4.3 Recommendation for further study**

Recommendation made hereby aims to modify test 1 to be more accurate in testing the hypothesis. Staying focus on asset specificity, the provisions compared in the metric should only include those related to the use and value of the premise. This can avoid studying ‘specificity of grade A office leases’ instead of ‘asset specificity of grade A office’.

Another suggestion for future study of the same kind is that the House Rule set by the manager of the building and D.M.C. can be investigated together with the leases. It is because these two documents may contain regulations about the use. Then companies running different kind of business can be invited to rated the value of the provisions extracted from these documents. Should the values have a low standard deviation or other statistical index, grade A office can be regarded as a general asset.

In this study, only asset specificity is investigated. As mentioned in the literature



review, there are other factors governing the rent-vs.-buy decision. Studies about the relative significance of these factors and asset specificity will be equally interesting and will reveal more the driving force of renting grade A office in Hong Kong.

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**APPENDIX I**

**CONTENT PAGE OF LEASE 7**

	<b>Parties to the Agreement</b>
1 .	Letting Location
2 .	Term
3 .	Rent
4 .	Air conditioning
5 .	Lighting and power and janitorial services and cleaning
6 .	Adjustment of management fees and air conditioning charges
7 .	Tenant's Obligations
a	Pay rent, charges and operation costs
b	Pay rates, etc
c	Prohibition of alteration
d	Repairs
e	Floor Load
f	Vermin
g	Sanitary apparatus and drains
h	Observance of law and terms of the Crown Lease
i	Tenant not to increase fire risk
j	Loss or damage
k	Landlord's consent of movement of safes etc. required

l	No assignment, underletting
m	Access to premises
o	Water Charges
p	Replacement of broken glass
q	Adjacent excavation or shoring
r	Rules and Regulations
s	Overflow of water
t	Contractors Employees Invitees and Licensees
8	Landlord' Obligations
a	Quiet enjoyment
b	Maintain roof, main wall, etc
c	Pay Crown Rent and Property Tan
9 a	Re-entry by Landlord
b	Landlord not bounded by representations
c	Security
d	No waiver
e	Landlord's inability to perform an agreement not to excuse non-payment of rent
f	Bills and Notices

g	Deposit
h	Damage by fire or other cause
i	Re-building or improvement
j	No actual or constructive eviction in certain events
k	No consideration other than herein stated
l	Waiver of protection
m	Stamp Duty and Legal Costs
n	Captions
1 0	Reinstatement
1 1	Notice of termination of tenancy
1 2	Sale and Redevelopment
	<b>Rules and Regulations</b>
	<b>Appendix</b>



## **APPENDIX II**

### **Metric of the findings in test 1**

	Lease No.																				No. of ticks over 20	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20		
1	Term of not more than 3 years	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
2	Rent paid monthly without deduction in advance	√	√	√	√	√	√	√	√	√		√	√	√	√	√	√	√	√	√	√	95
3	Rent exclusive of Rates payable	√	√	√	√	√		√		√	√	√	√	√	√	√	√	√		√		85
4	No excuse for non-payment of rent when landlord is unable to perform agreement due to situation beyond his control such as strike and Regulation of any government department							√		√												10
5	Tenant pays all Rates, Taxes, assessments, duties, impositions on the premise or the landlord	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√			√	√	√	95

6	A/C provided by landlord for specific hours and tenant paid additional charges for any use outside these hours					√		√		√		√		√	√	√	√	√				50
7	Tenant pays all outgoings, other than of capital nature, charged on the owner or occupier by government or lawful authorities	√		√				√				√				√						25
8	➤ Management fee and A/C fee abate for failure in supply in excess of 48 hours							√														5
9	Tenant make arrangement with HK Telephone Company to the Installation of telephones in the Premise													√	√							10
10	Tenant pays all outgoings, annual or recurring in nature, charged on the owner or occupier by government or lawful authorities, or Manager	√	√	√									√		√							25

	of the Building																					
11	Tenant pays all electricity, gas and water charges, telephone rentals, maintenance fee and other outgoings payable in respect of the premises	√	√	√	√	√	√	water only	√	√	√	√	√	√	√	√	√	√	√	√	√	100
12	Payment of management and maintenance/service charges (including A/C) by tenant	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	90
13	User: lawful business purpose as office ONLY (no other use)	√	√	√	Of fic e of Ba nk in g Bu sin ess	√	Law ful busi ness of Ten ant only	√	√	Only Lawf ul busin ess	√	Com merci al busin ess of Tena nt only	√	√	√	√	√	√	√	√	√	100

1 4	Window shall remain closed except fire or A/C breaks down							√		√					√						35
1 5	Canvass and peddling is not allowed							√		√				√		√					35
1 6	Tenant can use the name of premise designated by landlord and use it for business address only							√					No building name in company name		No building name in company name		√				25
1 7	Not to carry on any trade that now or hereafter be declared to be offensive trade under the public Health and Urban Services Ordinance																	√		√	10
1 8	Not to have advertisement that impair the reputation of the							√											All means		10



2 2	No preparation or delivery of food, except light drink and snack OR use service lift to deliver				√	√		√	√		√		√	√	√	√	√	√	√	√	70
2 3	Business conducted by tenant shall not prejudice the goodwill of the building	√																			5
2 4	The service charges or other charges e.g. A/C is subjected to increase by Manager of the Building	√		√	√				√		A/ C on ly		√	√	√	√	√				40
2 5	No restriction on number of times for which the service charges are called on for an increase	√		√	√						√		√			√					30
2 6	Tenant shall not install any form of room A/C						√									√					10
2 7	Tenant shall not install any wire, cable, services without submission of detailed plan and diagram and permission of landlord														√						5

28	Tenant repair, maintain and keep in good condition the interior, fear wear and tear expected, including fixtures	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	95
29	Tenant paint and whitewash the interior of the premise whenever required by the Government Authority											√								√	10
30	All doors, windows, electrical installations and wiring and fire alarm and fire fighting installation in good tenable and proper repair condition and/or <i>painted</i> by tenant (may or may not be required by relevant government authority)	√		√	√	√	√	√	√	wind ow only	√	√	√	√	√	√	√	√	√		17
31	Repaint and decorate the interior during the last year of the term by tenant												√					√			10
32	Tenant shall repair, restore, replace the damage or injury to the						√							√							10



	Premise, fixtures, installations, building etc, by contractor approved by the landlord , in equal quality to the original work																				
33	Tenant reimburses to the landlord all broken window glass irrespective of the cause as long as it is not caused by landlord	√		√	√	√	√	√	√	√		√	√	√	only caused by tenant	√	√			only caused by tenant	80
34	Tenant repairs or replaces all electrical wiring and installations required by Authority to comply relevant Ordinance or Regulations or by landlord or by utility company	√		√	√			√	√		√	√	√	by approved contractor	√						55
35	Tenant repairs or replaces all piping and gas installations required by Authority to comply relevant Ordinance or			√																	5

	Regulations or by landlord or by utility company																						
36	Tenant shall prevent the infection of vermin and pay for extermination approved by landlord and give full access to the exterminator							√	√	√	√	√			√	√	√	√		√	Extermination not included	√	65
37	Tenant pays all drainage and sewage matter they caused	√	√	√	√	√	√	√	√	√				√	√	√	√	√	√			√	85
38	Right of viewing condition (with previous notice, saved in emergency) by the owner or his authorized person and/or giving order for repair	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
39	Entry to take inventories of the landlord's fixture and fittings		√		√	√	√		√	√				√	√	√	√	√	√				65
40	The tenant shall within 2 weeks make good the defects as ordered by the notice	√	√	√	1 Mon	1 Mon		1 Mon	reas onable	speci fied time	1 Mon	1 week	no time	1Mon	1 Mon	no time	1Mon	no time		1	√		95

									time											
4 1	Landlord is lawful to enter the premise and execute the repairs if the tenant can not execute the order in the notice after its service commence, the all types of expense are on the side of tenant	√	√	√	√	√	√	√	√	√	√	√	2Mon	√	√	√	√	√	√	75
4 2	Landlord is lawful to enter the premise and do decoration, repairs restoration and improvement as he deem necessary without constituting eviction of tenant, and not liable to loss or interruption of business to tenant					√	√					√	√			√				25
4 3	In case of adjacent excavation or shoring, tenant has to permit the entry of landlord to so such work			√		√	√													15
4 4	Any duly authorized persons of the landlord is permitted to																			

	enter at all reasonable time upon prior appointment for:																			
4 5	➤ purpose of security, fire fighting	√		√	√			√								√				25
4 6	➤ carry out routine or essential or emergency repairs	√	√	√	√			√				√		√	√	√	√		√	55
4 7	➤ alterations or additions	√		√	√			√				√		√		√	√		√	45
4 8	➤ renewal or maintenance of the building and common services and fixtures and fittings within the building	√		√	√			√	√			√		√		√	√		√	55
4 9	➤ Use, maintain an erect any conduits and pipe				√			√						√			√			20
5 0	Landlord endeavor to minimize disturbance or inconvenience to tenant when making good all defects and damage and repair caused by landlord and at his expense	√										√				√				15
5 1	Tenant ensure his own security system within the premise link												√	√				√		15

	up to the security system for the building provided by the landlord																				
5 2	Landlord not liable to security and safe keeping of the premise						√	√			√		√	√		√		√		√	40
5 3	Compliance with the Crown Lease (e.g. Condition and restrictive covenant) or Conditions of Sale	√	√	√	√	√		√	√	√		Both parties	√	√	√	√	√	√			90
5 4	Tenant responsible for the consequence of breach of any Ordinance, Regulations by occupier of the Premise		√		√		√	√	√		√				√	√	√	√	√	√	60
5 5	No storage or bring upon of ammunition arms, gun powders or saltpeter	√	√	√	√	√		√			√	√		√	√	√		√	√		70
5 6	Ammunition or arms can be stored with landlord's consent and the tenant shall prove compliance of ordinance, enactment for the time being		√		√	√		√								√					25

	in force, getting authority's permission																					
57	Tenant shall indemnify landlord for all actions, proceedings, claims in respect of any loss, damage, injury to any body as a result of any arms being stored	√			√				√								√				20	
58	No storage or bring upon of flammable or combustible articles	√	√	√	√			√		√						√	√		√		50	
59	No storage of goods within the Dangerous Goods Ordinance	√			√	√		√			√		√	√	√				√		√	50
60	No bicycle, vehicle or animals							√		√			√	√	√	√			√		√	45
61	No burning of incense or anything that causes a fire risk																					5
62	No unusual or objectionable odors/gas/smoke							√	√	√		√		√		√	√		√	√	√	50
63	No storage of goods other than in normal quantities consistent with the nature of the tenant's	√			√			√		√					√	√	√		√		√	50

	trade																					
64	Prohibition of any action or making of noise that will be a nuisance, annoyance and damage to landlord and other occupiers in the building	√	√	√	√	√	√	√	√		√	√	√	√	√	√	√	√	√	√		100
65	Observance of the DMC (indemnify for breach, if stated)	√	√	√	√		√		√	√	√		Both parties	√		√	√	√	√	√		80
66	Compliance of Building Rules and Houses Rules or Regulations		√		√					√	√	√		√	√	√	√	√	√	√		60
67	Unless there is written consent from the landlord, the agreement is PERSONAL to the tenant, otherwise it is a breach, in the sense that there will be:																					
68	➤ no subletting	√	√	√	√			√	√	√	√	√	√	√	√	√	√	√	√	√		85
69	➤ no transfer of the premise	√	√	√	√	√		√	√			√	√	√	√	√	√	√				70

70	➤ no 'part with possession'	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
71	➤ no assignment	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
72	➤ no underletting		√	√	√		√	√	√	√		√	√	√	√	√	√	√	√	√	√	85
73	➤ no sharing		√	√	√			√	√			√		√	√	√	√	√	√	√	√	70
74	➤ no licensing		√	√	√			√	√							√	√	√	√			45
75	➤ no new partners in regard of partnership	√	√	√	√				√			√	√	√	√	√	√	√		√		65
76	➤ no executors, next of kin, trustee and personal representatives of the 'individual' tenant can use, occupy and possess the property	√	√	√	√				√			√	√	√	√	√	√	√		√		65
77	➤ merger, liquidation, amalgamation and reconstruction or change in person who	√	√	√	√				√			√	√	√	√	√	√	√	√	√	√	80



	control for 'corporation' tenant																				
7 8	➤ No change in business name without previous consent of landlord	√		√	√				√	√			√		√	√	√	√			65
7 9	➤ No giving of Power of attorney or similar authority for transfer the right to use, processes, occupy and enjoy the premise	√	√	√	√				√			√	√	√	√	√	√	√	√		75
8 0	➤ OR the landlord has the option to absolutely determine and the tenant shall surrender the premise			√	√		√	√	√			√	√	√	√		√		√		60
8 1	Subletting is allowed to specified/subsidiary companies that the tenant own shares OR related company with common shareholder	√				√		√	√					√		√				Maybe	35
8 2	Not to use, allow and permit illegal, improper and immoral uses	√	√	√	√	√	√	√	√			√	√	√	√		√	√	√	√	100

83	Not to place, expose or left for display, sale any goods in common area including but not limited to area over the ground outside the premise														√	√				√	15
84	Take delivery of or load/unload, goods, furniture, equipment and bulky item at specific time, approved by landlord or manager, and not to use passenger lift for such purpose		√		√	√			√		√			√	√	√	√	√	√		60
85	Not to place anything that exceed the loads of any lifts				√								√		√				√		20
86	No people remain in the premise overnight, e.g. for sleeping or domestic purpose, without landlord's permission and such permission is ONLY for guards or/and operation of business		√	√	√	√	√	√	√		√		√	√	√	√	√	√	√	√	85
8	Prohibition of alterations or	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√		√		90

7	additions or removal of fittings (e.g.bolts), fixtures and partitions without landlord's consent in writing																				
8 8	Prohibition of alteration of the standard entrance door (locks included)							√		√				√				√		√	25
8 9	Prohibition of installation blind/curtains visible from outside the building without landlord's consent in writing							√					√	√							15
9 0	Prohibition of fitting out works without submission of plans and specification and landlord's consent in writing				√	√				√		√	√	√	√	√	√	√	√	√	60
9 1	Alteration to false-ceiling must get landlord consent and done by approved contractors and tenant pay the cost of reinstating to original state upon expiration																			√	5



	cause them to comply with all instructions given by the landlord or authorized representative																			
95	License or permits from government authority or Manager are needed before commencing any fitting out work			√									√				any work			15
96	Tenant has to pay the cost of consultant or else incurred by the landlord for giving consent from the landlord for variation/work			√	√		√	√		√		√	√	√		√	√			50
97	Prohibition of alterations or additions of electrical and communications wiring or install equipment, machinery or cut, maim, injure any doors, windows, walls, structural members or fabric without landlord's consent in writing	√	√	√	√		√	√	√		√		√	√	√		√	√		75

98	Lanlord and manager entitled to prescribe locations for heavy equipment AND/OR tenant should get consent before installing anything that may exceed the floor loading or a prescribed amount	√		√	√	√	√	√	√	√	√	√	√	√	√	√	√	Prescription not mentioned	√	80
99	Any A/C equipment or mechanical apparatus of any kind or heavy items can be installed only with the permission of landlord and tenant responsible for repair of wiring, damage caused by installation, operation or removal or movement of such machinery			√		√	√	√		√				√			√		Maintain and prevent noise only	45
100	Not to display within or on the exterior of the premise any writing sign or flag or device whether illuminated or not which is visible from outside	√	√	√	√		√	√	√	√	√	√	√	√	√	√	√	√		85

	of the building (except the name-plates or signboards which has lawful size and position approved by landlord or relevant authority, if mentioned)																					
101	Not to affix anything, repaint or make alteration to exterior										√		√	√	√				√			25
102	No action whereby the police of insurance against fire void and repay landlord all expense incurred for renewal of policy	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
103	No action whereby the police of insurance against liability to Third Parties void and repay landlord all expense incurred for renewal of policy					√					√	√	√	√	√	√	√					45
104	No action whereby the rate of premium increase and the tenant repay all sums paid by	√	√		√	√	√	√		√	√		√	√	√	√	√	√		√		80

	ways of increased premium																					
105	Fully indemnify the landlord against all claims, legal proceedings, demand action in respect of damage loss to any property or person, disregard of the reason, raised by the employee, agents, or visitor of Tenant												√									5
106	Fully indemnify the landlord against all claims, legal proceedings, demand action in respect of damage to any property or injury to any person due to overflow of water, outbreak of fire and leakage of gas or whatsoever caused by tenant's negligence	√	√	√			√	Overflow of water only	√	√	√	√	√	√	√	√		√		√		80
107	Tenant is wholly responsible for damage caused to anyone or any property directly or indirectly through damaged	√	√	√		√			√	√	√	√	√	√	√	√						70



	condition of the of the premise or its <b>interior</b> ( make good and claim) and indemnify the landlord against any claims and legal liability																				
1 0 8	Tenant has to effect insurance cover in respect of risk in above two provisions with a reputable company to the satisfaction of landlord (evidence may required)	√					√				√	√	√	√			√				35
1 0 9	Tenant has to effect an insurance to cover injury or damage to third part (people and property)caused by act, default or neglect of the tenant, to cover glass for its full replacement value, water damage, fire and extraneous peril to stock, fixtures and fitting,											√	√		Property /Con-te nt only and for all risk		√				20

1 1 0	Upon or sooner before Expiration, the premise has to yield up vacant possession punctually with good condition of repair, fair wear and tear expected, with no compensation for alteration or improvement made	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	95
1 1 1	Tenant follow the request, if any or stated in contract, of reinstating the premise to original condition upon expiration from landlord and make good any damage caused by the process	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	85
1 1 2	Tenant has an option to remove at his expense all alterations, additions, partitions, fittings, etc and make good any damage caused by such removal or leave them behind	√	√																		10



1 1 6	Landlord, may or may not requires Manager under the DMC, keeps good condition of the common area and facilities(lift, A/C, fire, security) or main structure in and out of the buildings, while tenant bear the responsibility of notifying the landlord want of repair	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	85
1 1 7	Landlord is not required to repaint or whitewash any external part of the premise										√							√	√	15
1 1 8	Landlord pay the crown rent and property tax	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
1 1 9	Landlord responsible for repairs and maintenance of a capital nature such as escalators, lifts, A/C, ducts, electrical wiring concealed in wall, etc.	√	√			√	√				√					√		√		35



	and keep for the designated use (in accordance with the regulation of Public Health or other relevant Authority, if stated)																				
1 2 3	Tenant take all precautions to protect the interior of the Premise from damage threatened by an approaching storm gale or typhoon			√	√	√	√	√	√	√		√	√	√	√	√	√				70
1 2 4	Tenant employs cleaning contractor approved by landlord for interior of premise within permitted hours to keep it in clean and sanitary condition	√						√					√	√	√	landlord employ	√				35
1 2 5	Tenant employs cleaning contractor nominated by landlord for external window and light				Landlord employ							√	√			√					20
1 2	Tenant pay a sum of deposit	√	√	√	√	√	√	√		√	√	√	√	√	√	√	√	√	√	√	100

6																						
1 2 7	Forfeiture or deduction of deposit if breach of conditions and non-payment of rent and other charges payable	√	√	√	√	√	√	√			√	√		√	√	√	√	√	√			80
1 2 8	Deposit duly paid to tenant within 14 days without interest should the conditions performed and observed and vacancy possession given to the landlord	√	30 days	30 days	30 days	30 days	30 days	no day	30	no day	√	no day	no day	30	30	30	21	√	√	√		100
1 2 9	When service charge or rent increase, the tenant has to pay a money equals certain months' new value of these two payment minus the original deposit		√		√	√							√	√	√	√	√					40
1 3 0	If landlord sell or assign the premise to a New Owner during the term of the tenancy, he is released from liability to refund and the deposit is		√		√											√						15

	transfer to the New Owner and the tenant can only claim for the refund of the deposit from the New Owner																						
1 3 1	Right of Reentry and determination, if:																						
1 3 2	➤ any part of the rent is in arrear of 15 days	√	√	√	√	7	√	√	14	√	√	7	√	√	√	√	√	√	√	√	√	100	
1 3 3	➤ breach or non-observance of conditions	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100	
1 3 4	➤ Tenant goes bankruptcy or liquidation	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100	
1 3 5	➤ Petition/order for bankruptcy or winding up	√		√		√		√		√				√	√	√	√			√		60	
1 3 6	➤ tenant enter any composition of Arrangement with creditor, distress or	√		√		√		√		√		√		√	√	√	√			√	√	√	75



	execution to be levied on his goods																					
137	➤ Failure to make a further deposit requested by the landlord, when any portion of deduction is made from the deposit, the landlord can determine the agreement	√	√	√			√					√		√	√	√	√	√		Reentry and determination not mentioned	50	
138	➤ Not persistently close the door and window when A/C is on														√							5
139	➤ Suspend business without landlord's consent							√				√	√									15
140	Deposit is forfeited as L.D. in case of any of the cases aforesaid									√	√	√		√			√	√	√			35
141	Written notice for reentry to the tenant effects that the power of reentry is exercised	√	√					√	√	√	√	√	√	√	√	√	√	√	√			65

1 4 2	Interest counted as L.D. on the rent and charges payable which are in arrear (specific period may be stated)			√	√				√	√		√		√	√	√				√	45
1 4 3	Right to discount supply of electricity or water without compensation when rent and outgoings are in arrear												√								5
1 4 4	Right to discount supply of A/C without compensation when rent and outgoings are in arrear								√												5
1 4 5	Notice in writing should be sufficiently served to registered or last known address for both parties or the premise to tenant	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	90
1 4 6	If the premise is damage by fire which the tenant is not responsible, force majeure or any calamity, making it uninhabitable or unfit for use:																				

1 4 7	➤ *Closure order under Building Ordinance and Land Resumption under Crown Land Resumption Ordinance are mentioned											√	√	√	√	√			√	35	
1 4 8	➤ Policies of insurance not vitiated or payment of policy money refused in consequence of any act or default by tenant		√		√									√	√	√			√	30	
1 4 9	➤ The rent or a portion accessed according to the nature and extend to the damage or inaccessibility shall be suspended, the amount is determined by agreement or arbitrator, until the premise can be used as before*		√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	95
1 5 0	➤ Dispute over * determined by arbitration			√										√							10
1	➤ Rent paid after the		√												√						10

5	calamity shall be refunded to																				
1	tenant																				
1	➤ Rent cease to be	√			√		√	√	√	√	√	√	√	√		√	√	√	√		75
5	payable until damage repaired																				
2																					
1	➤ landlord no	√		√			√	√	√	√					√			√	√	√	75
5	obligation to repair or reinstate																				
3	the premise																				
	at his expense																				
	➤ landlord or tenant																				
	have the right of																				
	determination, provided the																				
1	premises has not been																				
5	reinstated after certain months	√		√			√	√			√	√	√	√	√		√	√	√		65
4	from the calamity, but this																				
	shall not prejudice the																				
	landlord's rights and remedies																				
	in respect of arrears of rent																				

	and outstanding breaches of covenant																			
1 5 5	➤ landlord reserve the right to determination, if he decide not to reinstate the premise but this shall not prejudice the landlord's rights and remedies in respect of arrears of rent and outstanding beaches of covenant	√						√												10
1 5 6	➤ Tenant reserve the right to determination with prior written notice, if landlord consider it uneconomical to replace, rebuild the premise or the authority concerned refuse these action				√					√							√			15
1 5 7	The landlord bears no warranty for the use therein stated in the agreement to be	√	√	√	√	√			√								√			35

	lawful, upon government prohibition:																					
158	➤ Land lord can determine the agreement at any time by giving one month's notice	√																				5
159	➤ No compensation for goodwill or trade or damage	√																				5
160	➤ Tenant satisfy itself that they are suitable for the purpose for which they are to be used	√		√	√			√								√						25
161	➤ Tenant at its expense apply for license or permission from government in respect of carrying out its business	√	√	√	√			√			√	√	√			√	√			√		55
162	➤ Tenant have to comply with all the laws, regulations and rule,etc in relation to the business made	√		√	√			√			√	√	√	√	√	√	√			√		60

by government or authorities and indemnify the landlord for any breaches																						
➤ Tenant shall 1 continue to pay the rent 6 despite he can not use the 3 premise as specified in the contract				√																		5
Landlord not liable to injury to whomsoever related to the 1 tenant 6 due to defects and negligent 4 working of any lifts and tenant indemnify Landlord for claims related to such injuries	√				√	√		√	√	√		Indemnify not mentioned	√		√		√		√			55
Not to hold landlord liable to tenant and anyone in respect of 1 injury, damage, loss of 6 business or other liability 5 suffered by tenant or by anyone or by any property(e.g chattel), caused by:																						

166	➤ interruption of services due to repair or maintenance of any apparatus	√	√	√	√	√	Lift and A/C	√	√	reason not mentioned	√	√	√	√	√	√	√	√	reason not mentioned	70
167	➤ fire, water, act of god, whatever out of landlord's control	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	65
168	➤ mechanical, electrical breakdown or unavoidable shortage of fuel, materials or water or labour, etc	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	60
169	➤ act, neglect or default of the tenants of any other part of the building and their agents, invitees, licensees	√	√	indemnify	√	√	√	√	√	√	indemnify	√	indemnify	indemnify	√	√	√	√	√	70
170	➤ defect in supply of electricity/water	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	45
171	➤ electric current from ducts, pipes or cables	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	30



1																						
1 7 2	➤fall of article, object, material, e.g. tiles, cigarette ends	√		√				√									√					20
1 7 3	➤damaged condition of the premise or landlord's fixture	√		√				√	√				√				√		√	√		40
1 7 4	➤Whatever not due to landlords negligence							√		√			√				√					20
1 7 5	Act default or omission of whomsoever related to the tenant deems to be that of the tenant	√		√	√			√	√		√	√	√	√	√			√	√	√		65
1 7 6	Agreement over content in Landlord and Tenant Ordinance	√					√		√		√	√							√	√		45
1 7 7	Tenant has the right to terminate the contract with 3 month's notice																After 1 year					10

178	The tenant is protected form ejection after determination provided any enactment or ordinance being in force for the time being or from time to time apply to the premise and that contracting out is expressly prohibited	√																			10	
179	The tenant declare not to seek protected form ejection after determination provided any enactment or ordinance being in force for the time being or from time to time apply to the premise and that contracting out is expressly prohibited			√			√			√									√			20
180	[Acceptance of rent/ overlooking of default, breaches/Consent] shall not be deemed to operate as a waiver by the landlord of any right to proceed to any breach of	√	√	√	√	√	√	√	√	√	√	√	√	√	√			√	√	√		95

	conditions																					
1 8 1	Acceptance of rent on or after expiration not create any new tenancy or renewal of agreement										√								√			10
1 8 2	Tenancy agreement subject to consent of mortgagee	√									√											10
1 8 3	Option to renewal upon expiration:	√	√	√	√	√	√	√	√	√	√							√	√		√	65
1 8 4	➤ six month notice	√	√	√	√	√			3	√								3	3			60
1 8 5	➤ at market rent	√	√	√	√	√	√	√										√	√		√	65
										OR fixed whic hever is highe r												

1 8 6	➤ no unremedied breach	√		√	√	√			√	√						√	√		√	45	
1 8 7	➤ Arbitrator in case of argument over rent value	√						√		√						√	√		√	30	
1 8 8	➤ Valuer appointed by RICS determines the rent in case of argument and he should act as expert not arbitrator		√	√	√	√	√	√		√										35	
1 8 9	No key money, construction money or other premium has been paid by the tenant	√		√					√	√	√	√	√	√	√			√	√	√	65
1 9 0	The expression of 'tenant' means parties specifically named and not include executors or administrator of such parties		√	√	√	√			√		√					√				35	
1 9 1	The expression of 'tenant' shall not include successor in title or liquidators if the tenant is a		√		√							√								15	

corporation																						
1 9 2 If the Tenant comprise more than one individuals or corporations, the agreement is deemed to be made jointly and severally		√		√							√		√									20
1 9 3 Each party bear its own Legal costs of preparing the agreement	√	√	√	√	√		√		√	Tenant	√	√	√	√	√	√	√	√	√	√	share	90
1 9 4 Stamp duty and registration fee are equally shared	√	√	√	√	√	√	√	√	√	Tenant	√	√	√	√	√	√	√	√	√	√	√	100
1 9 5 All representation and rights, including those in Conveyancing and Property Ordinance (if mentioned), in relation to the landlord, tenant and building, made outside the contract (e.g.oral) are waived		√		√	√		√	√	√		√		√	√	√	√	√	√	√	√		70
1 9 6 Landlord is free to affix notice for reletting certain months before expiration			√	√		√	√		√	√			√	√	√	√			√	√		60

1 9 7	Tenant permit person authorized or prospective tenants buyer or landlord's mortgagee to view the premise at reasonable time during the last few month before expiration			√		√	√	√	√	√	√		√	√		√	√	√		65
1 9 8	Inform the landlord any damage suffered to the premise or accident or defect in water, gas pipes, electrical wiring, or fitting fixtures or other service within the premise												√	√	√	√		√		25
1 9 9	Notify the landlord any notice received by the tenant from authority concerning the Premise or Service			√									√		√		√			20
2 0 0	Tenant responsible for removal of garbage from premise to location specified by			√			√						√	√	√	√	√	√		35

	Manager or Landlord																					
201	Not to place anything that blocks the passage of common area such as corridor, stairs, entrance, etc	√	√	√	√	√	√	√	√		√		√	√	√	√	√	√	√	√	√	80
202	The landlord shall change the name of the building and not to be liable to any costs incurred by tenant			√	√		√			√		√		√	√	√	√					45
203	The land can change without liability for compensation, damage, without constituting an actual eviction, layout of the building, the location of the doorways, staircases, lift and other public parts of the building or any services serving the building						√		√			√	√	√				√				30
204	Tenant shall take the premise on an 'as is' basis and Landlord gives no warranty as regards					√				√												10

	the physical conditions of the same																			
205	Rebuilding, demolition or improvement due to inherent construction fault, when landlord get government consent for such work, he can require the tenant to vacate. (no compensation) Tenant can terminate the agreement or resume the tenancy after completion. For partial resumption, rent abated pro rata				no rent abate	√			the tenancy cease when the work commence											15
206	Landlord shall resolve to sell or re-develop the premise at any time of the tenancy and get the possession back with 6 months notice. The agreement is determined and tenant is not entitled to any compensation or claim, disregard of				Compen sation not menti oned	√														10



	whatever in the agreement																					
2 0 7	Landlord has the right to remove/exclude without prior notice properties of the tenant, which is placed or affixed in a manner that contravene this agreement, such as sign, objects in common area						√		√				√	√		√			√			30
2 0 8	Not to permit to held upon the premise any sales by auction, fire, bankruptcy, closing-sown, or any discount-type of retail business or any form or unethical business operation								√		√		√	√	√	√			√			35
2 0 9	The tenant keep the premise open for business at all times of year during normal business hours of the building																		√			5

## **APPENDIX III**

### **Analysis of the provisions in the leases for test 1**

1) Provisions with 5%

8	<i>Management fee and A/C fee abate for failure in supply in excess of 48 hours</i>
	It is set to protect the tenant from the failure of A/C supply due to whatever reason with risk and obligation shifted to landlord.
19	<i>Not to pay employees other than those actually working for the tenant, nor advertise for laborers of ships' crew giving an address at the premise</i>
	Intention beyond writer's understanding
23	<i>Business conducted by tenant shall not prejudice the goodwill of the building</i>
	* This is a provision that add more restriction on the use as an office.
27	<i>Tenant shall not install any wire, cable, services without submission of detailed plan and diagram and permission of landlord</i>
	* It is set to ensure that the services installed are under control of the landlord. * This is a provision some how restricting the use of the premise.
35	<i>Tenant repairs or replaces all piping and gas installations required by Authority to comply relevant Ordinance or Regulations or by landlord or by utility company</i>
	This is to put the financial burden on the tenant and to comply with the Ordinance concerned. Indeed, Ordinance has to been observed regardless of the identity of the user.
61	<i>No burning of incense or anything that causes a fire risk</i>
	It is a provision further protecting the premise from fire. As far as office use is concerned, removing this provision or letting the premise exposing to fire risk will not result in a higher rental value.
91	<i>Alteration to false-ceiling must get landlord consent and done by approved contractor and tenant pay the cost of reinstating to original state upon expiration</i>
	It is not a restriction at all as long as the tenant pays money and keeps the landlord informed, regardless of the use.
105	<i>Fully indemnify the landlord against all claims, legal proceedings, demand action in respect of damage loss to any property or person, disregard of the reason, raised by the employee, agents, or visitor of Tenant</i>

	This clearly is a provision favoring the landlord against risk in compensating damage.
138	<i>Right of Reentry and determination, if : Not persistently close the door and window when A/C is on</i>
	It forces the tenant to use A/C rather than the natural air. Yet, the writer view this as a device to safe the electricity consumption, because any reasonable person will assume that Grade A office in which business carrying out has it's A/C on.
143	<i>Right to discount supply of electricity or water without compensation when rent and outgoings are in arrear</i>
	This is to thread the tenant to pay rent on time and independent of how the premise is used.
144	<i>Right to discount supply of A/C without compensation when rent and outgoings are in arrear</i>
	This is to thread the tenant to pay rent on time and independent of how the premise is used.
158	<i>If the premise is damage by fire which the tenant is not responsible, force majeure or any calamity, making it uninhabitable or unfit for use, land lord can determine the agreement at any time by giving one month's notice.</i>
	This gives the landlord more flexibility in making decision under the risk of force majeure.
159	<i>If the premise is damage by fire which the tenant is not responsible, force majeure or any calamity, making it uninhabitable or unfit for use, <u>no compensation for goodwill or trade or damage</u></i>
	The tenant bears the loss under the risk of force majeure.
163	<i>If the premise is damage by fire which the tenant is not responsible, force majeure or any calamity, making it uninhabitable or unfit for use, <u>Tenant shall continue to pay the rent despite he can not use the premise as specified in the contract</u></i>
	This gives the landlord a stable cash flow under the risk of force majeure.
208	<i>The tenant keep the premise open for business at all times of year during normal business hours of the building</i>
*	This is a provision that add more restriction on the use as an office.

Only three out of fifteen, which are marked by (\*) is related to the usage and value

of the premise.

2) Provisions with 10%

4	<i>No excuse for non-payment of rent when landlord is unable to perform agreement due to situation beyond his control such as strike and Regulation of any government department</i>
	This is only related to the payment of rent under certain ex ante stipulated situations.
9	<i>Tenant make arrangement with HK Telephone Company to the Installation of telephones in the Premise</i>
	The cost in terms of money and time falls on the tenant.
17	<i>Not to carry on any trade that now or hereafter be declared to be offensive trade under the Public Health and Urban Services Ordinance</i>
	It poses more restrictions, but the Ordinance stipulated has to be observed by all tenants disregard of their business.
18	<i>Not to have advertisement that impair the reputation of the use designated (grade A office or multi-purpose) for the building</i>
*	It sort of poses restriction on using the premise in advertising the company or its business.
21	<i>All curtain 's design has to be standardized or approved by landlord and/or no window shall be obstructed</i>
	The writer do not think that this is will reduce the value of the office in alternative use, as the curtain design hardly affect the 'Service of the building (Pozenda, 1988)'
26	<i>Tenant shall not install any form of room A/C</i>
	It is known that grade A office is supplied with A/C. This is to prevent the electricity voltage from overloading.
29	<i>Tenant paint and whitewash the interior of the premise whenever required by the Government Authority</i>
	It clearly specifies the responsibility of painting whenever required by the Government and gets nothing to do with the use and value.
31	<i>Repaint and decorate the interior during the last year of the term by tenant</i>
	It gets nothing to do with the use and value.

32	<i>Tenant shall repair, restore, replace the damage or injury to the Premise, fixtures, installations, building etc, by contractor approved by the landlord , in equal quality to the original work</i>
	Repairing damage to the original standard is a liability on tenant and a device to regulate the tenant to use the office properly. Uses that cause damage can be carried out provided the tenant restore the premise back to the old state. Thus, it is not a restriction on use.
112	<i>Tenant has an option to remove at his expense all alterations, additions, partitions, fittings, etc and make good any damage caused by such removal or leave them behind</i>
	It is after the term, not related to the use and value.
114	<i>Notice of termination is needed for the tenancy to cease or it will not determine at the end of the term created by the agreement. It is served by either party and come into effect after certain months as stated in contract</i>
	It is after the term regarding the method of determination, not related to the use and value.
150	<i>If the premise is damage by fire which the tenant is not responsible, force majeure or any calamity, making it uninhabitable or unfit for use ,the rent or a portion accessed according to the nature and extend to the damage or inaccessibility shall be suspended, the amount is determined by agreement or arbitrator, until the premise can be used as before. <u>Dispute over the amount is determined by arbitration</u></i>
	The focus is on how dispute is resolved.
151	<i>If the premise is damage by fire which the tenant is not responsible, force majeure or any calamity, making it uninhabitable or unfit for use, <u>rent paid after the calamity shall be refunded to tenant</u></i>
	It is about money and risk only.
155	<i>If the premise is damage by fire which the tenant is not responsible, force majeure or any calamity, making it uninhabitable or unfit for use, <u>landlord reserve the right to determination, if he decide not to reinstate the premise but this shall not prejudice the landlord's rights and remedies in respect of arrears of rent and outstanding beaches of covenant</u></i>
	This gives the landlord more flexibility in making self-favoring decision under the risk of force majeure.

177	<i>Tenant has the right to terminate the contract with 3 month's notice</i>
*	It can be regards as the characters of the asset in terms of the length of term.
178	<i>The tenant is protected form ejection after determination provided any enactment or ordinance being in force for the time being or from time to time apply to the premise and that contracting out is expressly prohibited</i>
	It is hard to say if it concerns the value and use, as it after all depends on the enactment and the premise.
181	<i>Acceptance of rent on or after expiration not create any new tenancy or renewal of agreement</i>
	It is about rent receiving and termination of tenancy.
182	<i>Tenancy agreement subject to consent of mortgagee</i>
	It is not related to the use and value.
204	<i>Tenant shall take the premise on an 'as is' basis and Landlord gives no warranty as regards the physical conditions of the same</i>
	The state of premise when it is passed to the tenant on the first day of tenancy does not affect its value when it is put into alternative use
206	<i>Landlord shall be resolved to sell or re-develop the premise at any time of the tenancy and get the possession back with 6 months notice. The agreement is determined and tenant is not entitled to any compensation or claim, disregard of whatever in the agreement</i>
*	This sudden termination of tenancy may be imperative to some form of users.

Only three out of twenty, which are marked by (\*) is related to the usage and value of the premise.

### 3) Provisions with 15%

43	<i>In case of adjacent excavation or shoring, tenant has to permit the entry of landlord to so such work</i>
*	The reduction in space and negative effects on the business may vary with the business of the users.
50	<i>Landlord endeavor to minimize disturbance or inconvenience to tenant when making good all defects and damage and repair caused by landlord and at his expense</i>
	It is good for and welcomed by all tenants.

51	<i>Tenant ensure his own security system within the premise link up to the security system for the building provided by the landlord</i>
	It is a shift of liability about security system which is necessary for all type of use, onto the tenant.
83	<i>Not to place, expose or left for display, sale any goods in common area including but not limited to area over the ground outside the premise</i>
	Common area is for common use. Even if this is not spelled out in the lease, the manager of the building will prohibit the tenant from doing so. Hence, it shows little significance to the study here.
89	<i>Prohibition of installation of blind/curtains visible from outside the building without landlord's consent in writing</i>
	The writer guess the intention is to forbid using blind that promote the tenant at the expense of the aesthetical appearance of the office building. This, similar to provision 21, hardly affects the ‘Service of the building (Pozenia, 1988)’, unless the tenant rent the premise mainly or solely for advertisement.
94	<i>In carrying out works that affect the premise or part of the premise, the tenant shall cause his agents contractors to cooperate with the Landlord and with other tenants or contractors carrying out any work in the building. AND cause them to comply with all instructions given by the landlord or authorized representative</i>
	It gets nothing to do with the use and value.
95	<i>License or permits from government authority or Manager are needed before commencing any fitting out work</i>
	Its relationship to use and value is beyond writer’s understanding.
113	<i>Either party can determine the agreement at any time during the term by serving not less than 6 month's prior written notice, without prejudice to the Lessor's right to claim damages</i>
	* It can be regards as the characters of the asset in terms of the length of term.
117	<i>Landlord is not required to repaint or whitewash any external part of the premise</i>
	It helps the landlord free from obligation of the paint of the premise.



130	<i>If landlord sell or assign the premise to a New Owner during the term of the tenancy, he is released from liability to refund and the deposit is transfer to the New Owner and the tenant can only claim for the refund of the deposit from the New Owner</i>
	It is about the arrangement of deposit.
139	<i>Right of Reentry and determination, if Suspend business without landlord's consent</i>
	* It is about when the premise is used during the term.
156	<i>If the premise is damage by fire which the tenant is not responsible, force majeure or any calamity, making it uninhabitable or unfit for use, Tenant reserve the right to determination with prior written notice, if landlord consider it uneconomical to replace, rebuild the premise or the authority concerned refuse these action</i>
	It delineates the risk and right in case of force majeure.
191	<i>The expression of 'tenant' shall not include successor in title or liquidators if the tenant is a corporation</i>
	It defines who is tenant.
205	<i>Rebuilding, demolition or improvement due to inherent construction fault, when landlord get government consent for such work, he can require the tenant to vacate. (no compensation) Tenant can terminate the agreement or resume the tenancy after completion. For partial resumption, rent abated pro rata</i>
	This 'without-compensation' provision gets nothing to do with the use, but the risk-accepting ability of the tenant.

Only three out of fourteen, which are marked by (\*) is related to the usage and value of the premise.

#### 4) Provisions with 20%

49	<i>Any duly authorized persons of the landlord is permitted to enter at all reasonable time upon prior appointment for <u>Use, maintain an erect any conduits and pipe</u></i>
	The effects to the business of tenant are minimal.
57	<i>Tenant shall indemnify landlord for all actions, proceedings, claims in respect of any loss, damage, injury to any body as a result of any arms being stored</i>

	Arms are not allowed to be stored in the office, except with permission this provision further protects the landlord if the tenant stores any.
85	<i>Not to place anything that exceed the loads of any lifts</i>
	The landlord can not place any thing that can not be transported by the lift. Its relationship to use and value is beyond writer's understanding.
109	<i>Tenant has to effect an insurance to cover injury or damage to third part (people and property) caused by act, default or neglect of the tenant, to cover glass for its full replacement value, water damage, fire and extraneous peril to stock, fixtures and fitting,</i>
	It gets nothing to do with the use and the premise, but the risk sharing arrangement between the tenant and landlord.
125	<i>Tenant employs cleaning contractor nominated by landlord for external window and light</i>
	This ensures the window is clean with satisfaction of landlord.
172	<i>Not to hold landlord liable to tenant and anyone in respect of injury, damage, loss of business or other liability suffered by tenant or by anyone or by any property(e.g chattel), caused by <u>fall of article, object, material, e.g. tiles, cigarette ends</u></i>
	It is about liability and is independent from the use or value of the premise.
174	<i>Not to hold landlord liable to tenant and anyone in respect of injury, damage, loss of business or other liability suffered by tenant or by anyone or by any property( e.g chattel), caused by <u>whatever not due to landlords negligence</u></i>
	It is about liability and is independent from the use or value of the premise.
179	<i>The tenant declare not to seek protected form ejection after determination provided any enactment or ordinance being in force for the time being or from time to time apply to the premise and that contracting out is expressly prohibited</i>
	It is hard to say if it concerns the value and use, as it after all depends on the enactment and the premise.
192	<i>If the Tenant comprise more than one individuals or corporations, the agreement is deem to be made jointly and severally</i>
	It is about legal issue.
199	<i>Notify the landlord any notice received by the tenant from authority concerning the Premise or Service</i>

	It gets nothing to do with the use and value.
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None is related to the usage and value of the premise.

5) Provisions with 25%

7	<i>Tenant pays all outgoings, other than of capital nature, charged on the owner or occupier by government or lawful authorities</i>
	It is related to payment of outgoings and gets nothing to do with the use and value.
10	<i>Tenant pays all outgoings, annual or recurring in nature, charged on the owner or occupier by government or lawful authorities, or Manager of the Building</i>
	Same as above.
16	<i>Tenant can use the name of premise designated by landlord and use it for business address only</i>
	* It restricts the use of the name of premise, a part of the asset.
20	<i>Not used for manufacturing or storage of merchandise other than required in connection with the tenant's business and for purpose for which the premise has been let</i>
	* It links the storage activities to the intended use of the business. Space sometimes is valuable to a company.
42	<i>Landlord is lawful to enter the premise and do decoration, repairs restoration and improvement as he deem necessary without constituting eviction of tenant, and not liable to loss or interruption of business to tenant</i>
	This may interrupt the tenant, yet temporary in nature. Most importantly, it does not significantly affect the value and use of the premise.
45	<i>Any duly authorized persons of the landlord is permitted to enter at all reasonable time for purpose of security, fire fighting</i>
	It gets nothing to do with the use and value.
56	<i>Ammunition or arms can be stored with landlord's consent and the tenant shall prove compliance of ordinance, enactment for the time being in force, getting authority's permission</i>

	* It provides freedom in arms storage.
88	<i>Prohibition of alteration of the standard entrance door (locks included)</i>
	A door probably does not affect how the premise is use and its value to a particular user.
101	<i>Not to affix anything, repaint or make alteration to exterior</i>
	Similar to provision 89, the writer guess the intention is to forbid using the exterior to advertise the tenant's business at the expense of the aesthetical appearance of the office building. This hardly affects the 'Service of the building (Pozenia, 1988)', unless the tenant rent the premise mainly or solely for advertisement.
120	<i>Tenant reimburse the landlord the cost of any damage caused to any part of the common areas occasioned by the Tenant, his licensees, employees or contractors</i>
	It only concerns to indemnity in case damages are made.
160	<i>The landlord bears no warranty for the use therein stated in the agreement to be lawful, tenants satisfy itself that they are suitable for the purpose for which they are to be used</i>
	It will not be a problem if the tenant makes out the information beforehand.
198	<i>Inform the landlord any damage suffered to the premise or accident or defect in water, gas pipes, electrical wiring, or fitting fixtures or other service within the premise</i>
	It gets nothing to do with the use and value.

Only three out of twelve, which are marked by (\*) is related to the usage and value of the premise.

#### 6) Provisions with 30%

25	<i>No restriction on number of times for which the service charges are called on for an increase</i>
	It does not affect the use and 'service of the office', as it is a risk of increasing cost to be bore by the tenant.
148	<i>If the premise is damage by fire which the tenant is not responsible, force majeure or any calamity, making it uninhabitable or unfit for use, policies of</i>

	<i>insurance not vitiated or payment of policy money refused in consequence of any act or default by tenant</i>
	It is merely about risk.
171	<i>Not to hold landlord liable to tenant and anyone in respect of injury, damage, loss of business or other liability suffered by tenant or by anyone or by any property(e.g chattel), caused by <u>electric current from ducts, pipes or cables</u></i>
	It only concerns the indemnity in case damages are made, being risk-related.
187	<i>Arbitrator in case of argument over rent value when option to renewal is exercised</i>
	It is the preference of the parties to the contract over dispute resolution.
203	<i>The land can change without liability for compensation, damage, without constituting an actual eviction, layout of the building, the location of the doorways, staircases, lift and other public parts of the building or any services serving the building</i>
	Its relationship to use and value is beyond writer's understanding.
207	<i>Landlord has the right to remove/exclude without prior notice properties of the tenant, which is placed or affixed in a manner that contravene this agreement, such as sign, objects in common area</i>
	It is an enforcement tool that threatens the tenant not to misuse the premise.

Only one out of six, which are marked by (\*) is related to the usage and value of the premise.

#### 7) Provisions with 35%

14	<i>Window shall remain closed except fire or A/C breaks down</i>
	It gets nothing to do with the use and value.
15	<i>Canvass and peddling is not allowed</i>
*	Though it restrict the use, but the value to the user by canvass in a office is questionable.
81	<i>Subletting is allowed to specified/subsidiary companies that the tenant own shares OR related company with common shareholder</i>
*	The relaxation in the identity of tenant may be valuable to the tenant.

93	<i>Work for any alteration or addition regarding the electrical works, and/or fire services and/or A/C system and/or plumbing and drainage must carried out by landlord's nominated contractor</i>
	It gets nothing to do with the use and value.
108	<i>Tenant has to effect insurance cover in respect of risk in above two provisions with a reputable company to the satisfaction of landlord (evidence may be required)</i>
	It is about risk sharing.
119	<i>Landlord responsible for repairs and maintenance of a capital nature such as escalators, lifts, A/C, ducts, electrical wiring concealed in wall, etc.</i>
	It tells who pay what.
124	<i>Tenant employs cleaning contractor approved by landlord for interior of premise within permitted hours to keep it in clean and sanitary condition</i>
	This ensures the premise is clean with satisfaction of landlord.
140	<i>Deposit is forfeited as L.D. in case of any of the cases that triggers re-entry</i>
	It is a protection to the landlord.
147	<i><u>Closure order under Building Ordinance and Land Resumption under Crown Land Resumption Ordinance</u> are mentioned together with 'If the premise is damage by fire which the tenant is not responsible, force majeure or any calamity, making it uninhabitable or unfit for use'</i>
	It delineates more clearly about the unexpected even.
157	<i>The landlord bears no warranty for the use therein stated in the agreement to be lawful, upon government prohibition.</i>
	It poses a risk to the tenant, but it will not be a problem if the tenant makes out the information beforehand.
188	<i>Valuer appointed by RICS determines the rent in case of argument and he should act as expert not arbitrator when option to renewal is exercised</i>
	It is the preference of the parties to the contract over dispute resolution.
190	<i>The expression of 'tenant' means parties specifically named and not include executors or administrator of such parties</i>

	It defines who is tenant, like provision 191.
200	<i>Tenant responsible for removal of garbage from premise to location specified by Manager or Landlord</i>
	It gets nothing to do with the use and value.
208	<i>Not to permit to held upon the premise any sales by auction, fire, bankruptcy, closing-sown, or any discount-type of retail business or any form or unethical business operation</i>
*	It is a restrictive covenant about activities allowed to be held in the premise.

Only three out of fourteen, which are marked by (\*) is related to the usage and value of the premise.

#### 8) Provisions with 40%

24	<i>The service charges or other charges e.g. A/C is subjected to increase by Manager of the Building</i>
	It does not affect the use and 'service of the office', as it is a risk of increasing cost to be bore by the tenant.
52	<i>Landlord not liable to security and safe keeping of the premise</i>
	It is about liability of safety.
129	<i>When service charge or rent increase, the tenant has to pay a money equals certain months' new value of these two payment minus the original deposit</i>
	It is about deposit.
173	<i>Not to hold landlord liable to tenant and anyone in respect of injury, damage, loss of business or other liability suffered by tenant or by anyone or by any property(e.g chattel), caused by <u>damaged condition of the premise or landlord's fixture</u></i>
	It is about liability and is independent from the use or value of the premise.

None is related to the usage and value of the premise.

#### 9) Provisions with 45%

47	<i>Any duly authorized persons of the landlord is permitted to enter at all reasonable time upon prior appointment for <u>alterations or additions</u></i>
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	The alteration may affect the tenant, but the fundamental thing, the use allowed remains unchanged.
60	<i>No bicycle, vehicle or animals</i>
	It gets nothing to do with the use and value.
74	<i>Unless there is written consent from the landlord, the agreement is PERSONAL to the tenant, otherwise it is a breach, in the sense that there will be <u>no licensing</u></i>
	It specifies more clearly about the identity of users
99	<i>Any A/C equipment or mechanical apparatus of any kind or heavy items can be installed only with the permission of landlord and tenant responsible for repair of wiring, damage caused by installation, operation or removal or movement of such machinery</i>
	* It restricts equipments installation and hence the service generated in the office
103	<i>No action whereby the police of insurance against liability to Third Parties void and repay landlord all expense incurred for renewal of policy</i>
	* It restricts activities that may invalidate the insurance.
142	<i>Interest counted as L.D .on the rent and charges payable which are in arrear (specific period may be stated)</i>
	It is a protection to the landlord.
170	<i>Not to hold landlord liable to tenant and anyone in respect of injury, damage, loss of business or other liability suffered by tenant or by anyone or by any property(e.g chattel), caused <u>by defect in supply of electricity/water</u></i>
	It is about liability and is independent from the use or value of the premise.
176	<i>Agreement over content in Landlord and Tenant Ordinance</i>
	It binds both parties to more regulations.
186	<i>Option to renewal upon expiration if <u>there is no unremiedied breach</u></i>
	It gets nothing to do with the use and value.
202	<i>The landlord shall change the name of the building and not to be liable to any costs incurred by tenant</i>
	Use is unchanged but effect on value to the user is beyond writer's understanding.

Only two out of ten, which are marked by (\*) is related to the usage and value of the



premise.

10) Provisions with 50%

6	<i>A/C provided by landlord for specific hours and tenant paid additional charges for any use outside these hours</i>
	It tells who pay the A/C fee.
58	<i>No storage or bring upon of flammable or combustibile articles</i>
	* It reduces storage function of the office.
59	<i>No storage of goods within the Dangerous Goods Ordinance</i>
	* It reduces storage function of the office.
62	<i>No unusual or objectionable odors/gas/smoke</i>
	* It bans activities of the produce unusual smell.
63	<i>No storage of goods other than in normal quantities consistent with the nature of the tenant's trade</i>
	If the tenant acts morally, it is ignorable.
92	<i>The alteration and addition regarding the fittings shall be in a workmanlike fashion and in a style appropriate to the use of the building and to maintain the same in good condition</i>
	It gets nothing to do with the use and value.
96	<i>Tenant has to pay the cost of consultant or else incurred by the landlord for giving consent from the landlord for variation/work</i>
	It tells who pay the money.
137	<i>Failure to make a further deposit requested by the landlord, when any portion of deduction is made from the deposit, the landlord can determine the agreement</i>
	It is a protection to the landlord.

Three out of eight, which are marked by (\*) is related to the usage and value of the premise.

11) Provisions with 55%

34	<i>Tenant repairs or replaces all electrical wiring and installations required by Authority to comply relevant Ordinance or Regulations or by landlord or by utility company</i>
	This is to put the financial burden on the tenant and to comply with the Ordinance concerned. Indeed, Ordinance has to be observed regardless of the identity of the user.
46	<i>Any duly authorized persons of the landlord is permitted to enter at all reasonable time upon prior appointment for <u>carrying out routine or essential or emergency repairs</u></i>
	Such interruption will not change the use and value perceived by the tenant.
48	<i>Any duly authorized persons of the landlord is permitted to enter at all reasonable time upon prior appointment for <u>renewal or maintenance of the building and common services and fixtures and fittings within the building</u></i>
	Such interruption will not change the use and value perceived by the tenant.
121	<i>Tenant keep in good clean repair and condition all drains, pipes, cables, wires, ducts, and apparatus associated and fitting ancillary solely serve or belong to the Premise and indemnify Landlord any claims and liability, etc in respect of breach of this condition</i>
	It states the obligation of the tenant.
161	<i>The landlord bears no warranty for the use therein stated in the agreement to be lawful, upon government prohibition: <u>Tenant at its expense apply for license or permission from government in respect of carrying out its business</u></i>
	It will not be a problem if the tenant makes out the information beforehand.
164	<i>Landlord not liable to injury to whomsoever related to the tenant due to defects and negligent working of any lifts and tenant indemnify Landlord for claims related to such injuries</i>
	It is about liability and risk of compensating injury.

None is related to the usage and value of the premise.

## 12) Provisions with 60%

54	<i>Tenant responsible for the consequence of breach of any Ordinance, Regulations by occupier of the Premise</i>
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	It gets nothing to do with the use and value.
66	<i>Compliance of Building Rules and Houses Rules or Regulations</i>
*	Although these rules are not attached with the leases, the writer believe that they may include instruction of what to and not to do
80	<i>Unless there is written consent from the landlord, the agreement is PERSONAL to the tenant, otherwise it is a breach, and the landlord has the option to absolutely determine and the tenant shall surrender the premise</i>
	It is an enforcement tool that threatens the tenant not to let the premise used by others.
84	<i>Take, delivery of or load/unload, goods, furniture, equipment and bulky item at specific time, approved by landlord or manager, and not to use passenger lift for such purpose</i>
	It is not related to the business of the tenant.
90	<i>Prohibition of fitting out works without submission of plans and specification and landlord's consent in writing</i>
	Its relationship to use and value is beyond writer's understanding.
135	<i>Right of Reentry and determination, if there is Petition/order for bankruptcy or winding up</i>
	It gets nothing to do with the use and value.
162	<i>The landlord bears no warranty for the use therein stated in the agreement to be lawful, upon government prohibition: Tenant have to comply with all the laws, regulations and rule, etc in relation to the business made by government or authorities and indemnify the landlord for any breaches</i>
	It is not related to the premise.
168	<i>Not to hold landlord liable to tenant and anyone in respect of injury, damage, loss of business or other liability suffered by tenant or by anyone or by any property(e.g chattel), caused by mechanical, electrical breakdown or unavoidable shortage of fuel, materials or water or labour, etc</i>
	It is about liability and is independent from the use or value of the premise.
184	<i>Six month notice is needed for option of renewal to be exercised</i>
	It gets nothing to do with the use and value.

196	<i>Landlord is free to affix notice for reletting certain months before expiration</i>
	It gets nothing to do with the use and value.

One out of ten, which are marked by (\*) is related to the usage and value of the premise.

13) Provisions with 65%

36	<i>Tenant shall prevent the infection of vermin and pay for extermination approved by landlord and give full access to the exterminator</i>
	Vermin is harmful to all sort of business and this provision tells who pay the money for extermination.
39	<i>Entry to take inventories of the landlord's fixture and fittings</i>
	It gets nothing to do with the use and value.
75	<i>Unless there is written consent from the landlord, the agreement is PERSONAL to the tenant, otherwise it is a breach, in the sense that there will be <u>no new partners in regard of partnership</u></i>
*	Transfer or giving the right to use the premise may be valuable to the tenant.
76	<i>Unless there is written consent from the landlord, the agreement is PERSONAL to the tenant, otherwise it is a breach, in the sense that there will be <u>no executors, next of kin, trustee and personal, representatives of the 'individual' tenant can use, occupy and possess the property</u></i>
	Transfer or giving the right to use the premise may be valuable to the tenant.
78	<i>Unless there is written consent from the landlord, the agreement is PERSONAL to the tenant, otherwise it is a breach, in the sense that there will be <u>No change in business name without previous consent of landlord</u></i>
*	The business name may has value, but it depends.
141	<i>Written notice for reentry to the tenant effects that the power of reentry is exercised</i>
	It gets nothing to do with the use and value.

154	<i>If the premise is damage by fire which the tenant is no responsible, force majeure or any calamity, making it uninhabitable or unfit for use: <u>landlord or tenant have the right of determination, provided the premises has not been reinstated after certain months from the calamity, but this shall not prejudice the landlord's rights and remedies in respect of arrears of rent and outstanding breaches of covenant</u></i>
	It is an adjustment that delineates the right and risk when certain emergency arise.
167	<i>Not to hold landlord liable to tenant and anyone in respect of injury, damage, loss of business or other liability suffered by tenant or by anyone or by any property(e.g chattel), caused by <u>fire, water, act of god, whatever out of landlord's control</u></i>
	It is about liability and is independent from the use or value of the premise.
175	<i>Act default or omission of whomsoever related to the tenant deems to be that of the tenant</i>
	It is about liability.
183	<i>Option to renewal upon expiration.</i>
	* The option may be valuable to the tenant.
185	<i>The premise will be let at market rent when option to renewal is exercised</i>
	This is about the how the rent is assessed.
189	<i>No key money, construction money or other premium has been paid by the tenant</i>
	It gets nothing to do with the use and value.
197	<i>Tenant permit person authorized or prospective tenants buyer or landlord's mortgagee to view the premise at reasonable time during the last few month before expiration</i>
	It will cause negligible interruption.

Three out of thirteen, which are marked by (\*) is related to the usage and value of the premise.

## **APPENDIX IV**

### **Metrics of findings in test 2**

<b>Memorial number</b>	<b>Delivered date</b>	<b>Name of tenant</b>	<b>Name of building and location</b>	<b>Business</b>
6442609	10/11/1995	IE SIU & CHUNG ARCHITECTS LTD.	Fook Lee Commercial Centre, Town Place, No.33 Lockhart Rd, Wanchai	Architectural firm
5953108	22/3/1994	STANDARD CHARTERED BANK	United Center, No. 95 Queensway, Admiralty	Bank
58933133	15/1/1994	THE BANK OF NOVA SCOTTA	United Center, No. 95 Queensway, Admiralty	Bank
5870473	17/12/1993	EMIRATES BANK INTERNATIONAL LIMITED	Admiralty Centre, Tower I, 18 Harcourt Road.	Bank
5831678	28/10/1993	OVERSEAS-CHINESE BANKING CORPORATION LIMITED	Edinbyrgh Tower, 15 Queen's Rd Central	Bank
5899831	22/1/1994	PRESIDENT CATERING SERVICES INTERNATIONAL LIMITED	Sino Plaza, 255-257 Gloucester road, Hong Kong	Catering
6126072	30/9/1994	DR. MARYSE BADAWY	Prince's Building, No. 10 Chater Road and No.3 Des Voeux Road Central	Clinic
5949279	17/3/1994	SOLID CONSTRUCTION MATERIALS CO.LIMITED	Vicwood Plaza, 199 Des Voeux Road Central	Construction material
5897780	21/1/1994	RAY CHAN CONSTRUCTION LIMITED	Fortress Tower, King's Road, H.K.	Construction project management
5893236	15/1/1994	MANHATTAN CARD LIMITED	Sino Plaza, 255-257 Gloucester road, Hong Kong	Credit card
5966681	4/8/1994	RICHMOND DESIGNS HONG KONG LIMITED trading as RICHMOND INTERNATIONAL AND SIDRA TRADING LIMITED	Sino Plaza, 255-257 Gloucester road, Hong Kong	Design

5973679	15/4/1994	HAPPY TOP DEVELOPMENT LIMITED	Peregrine Tower, Lippo Center, No. 89 Queensway, Hong Kong	Development
5916103	2/9/1994	SCHINDLER MANAGEMENT ASIA/PACIFIC LIMITED	Top Glory Tower, No. 262 Gloucester road, Hong Kong	Elevators & Escalators
5892127	14/1/1994	CREDIT LYONNAIS HONGKONG (FINANCE) LIMITED	Three Exchange Square, 8 Connaught Place, Hong Kong	Finance
6059565	7/5/1994	GUI JIANG FOODSTUFFS TRADING COMPANY LIMITED	West Tower, Shun Tak Center, Nos 200 Connaught Road Central	Food
6104748	9/1/1994	OFICIA COMERCIAL DE ESPANA	Lippo Tower of Lippo Center, No. 89 Queensway, Hong Kong	Foreign Government
6155951	11/9/1994	HER MAJESTY THE QUEEN IN RIGHT OF CANADA as represented by THE COMMISSIONER FOR CANADA	One Exchange Square, 8 Connaught Place, Hong Kong	Foreign Government
6525219	8/2/1996	SHINUNG WELL & WELL FOREX COMPANY LIMITED	The Bank of American Tower, 12 Harcourt Rd.	Forex exchange
5958688	25/3/1994	AUSTINS MARMON LIMITED	Shun Tak Tower, Nos 200 Connaught Road Central	Gloves
6107718	24/8/1994	THE FINANCIAL SECRETARY INCORPORATED	Empire Centre, 68 Mody Road, Tsim Sha Tsui East, Kowloon	Government office
6571002	30/3/1996	MANULIFE INTERNATIONAL LIMITED	Causeway Bay plaza I, 489 Hennessy Rd, HK	Insurance
6649547	22/6/1996	WINTERTHUR LIFE INSURANCE COMPANY	Luk kowk Centre, no.72 Gloucester Rd, HK	Insurance
5928832	25/2/1994	INFAST INVESTMENT LIMITED	Vicwood Plaza, 199 Des Voeux Road Central	Investment



6567070	26/3/1996	SHOUGANG CONCORD SERVICES LIMITED	First Pacific Bank Centre, 51-57 Gloucester Rd and 77-91 Jaffe Rd	Investment
6030339	6/2/1994	TOP GOLD INTERNATIONAL LIMITED	Buttonjee Center, Nos. 3-11 Duddell Street, Hong Kong	Jewelry
5627019	1/5/1993	GOLAY, BUCHEL & CO., LIMITED	Admiralty Center, Harcourt road, H.K.	Jewelry
6065890	7/12/1994	NG & SHUM, SOLICITORS	Euro Trade Center, Nos 13-14 Connaught Road Central	Law firm
6117558	17/9/1994	MESSRS. CHUNG & KWAN	Asia Pacific Tower, Nos. 308, Des Voeux Road Central, Hong Kong	Law firm
5928833	25/2/1994	EDWARD C.T. WONG & COMPANY	Vicwood Plaza, 199 Des Voeux Road Central	Law firm
6544959	28/2/1996	B&McK . SERVICES LIMITED	Hutchison House, 10 Harcourt Rd, HK	Law firm
5896390	20/1/1994	McKINSEY & COMPANY, INC. HONG KONG	Citibank Tower, 3 Garden Road, Hong Kong	Management consultancy
5938568	3/5/1994	L & F MANAGEMENT SERVICES LIMITED	China Building, No. 29 Queens Road Central, Hong Kong	Management service
6178251	12/7/1994	SHOWA BUSSAN(H.K.) COMPANY LIMITED	Nine Queen's Road, Hong Kong	Marketing of food product
5966349	4/8/1994	WAH HING OFFICE SYSTEMS LIMITED	Top Glory Tower, No. 262 Gloucester road, Hong Kong	Office system
5967945	4/9/1994	SHELL HONG KONG LIMITED	Tower B of Times Square, Matheson Street	Petroleum
6113594	9/9/1994	KABI PHARMACIA FAR EAST LIMITED	Allied Kijima Building, Gloucester Rd, Wanchai, HK	Pharmaceuticals
6055331	30/6/1994	SAMSON WONG AND ASSOCIATES	Lippo Leighton, No. 103 Leighton Road, Hong Kong	Property consultancy

		PROPERTY CONSULTANCY LIMITED		
6082492	30/7/1994	CHEUNG KONG (HOLIDNGS) LIMITED	China Building, No. 29 Queens Road Central, Hong Kong	Property development
6446190	15/11/1995	NATIONAL PROPERTIES HOLDINGS LIMITED	Admiralty Center, Harcourt road, H.K.	Property development
5604165	8/4/1993	HENDERSON REAL ESTATE AGENCY LIMITED	World Wide House, 19, Des Voeux Rd, Central	Real estate agency
5237304	23/4/1992	C.P. STANDARD RESOURCES LIMITED	Far East Finance Centre, No. 16 Harcourt Rd, HK	Resources
5656127	Missing	PACIFIC ACE MANAGEMENT LIMITED	Sing Pao Centre, No. 8 Queen's Road Central,	Service for filipino
5996316	5/4/1994	INTERNATIONLA MANAGEMENT GROUP (OVERSEEAS) INC.	Sunning Plaza, 10 Hysan Avenue, Hong Kong	Sports, entertainment and media
6018781	25/5/1994	MOTOROLA ASIA PACIFIC LIMITED	Tower A of Times Square, Matheson Street	Technology
5941191	5/9/1994	MITEL (FAR EAST) LIMITED	Allied Kajima Building, Gloucseter Road, Wan Chai, Hong Kong	Telecommunication
5899832	22/1/1994	EVERSMART TRADING LIMTIED	Sino Plaza, 255-257 Gloucester road, Hong Kong	Trading
6522864	5/2/1996	INCORN TRADING COMPANY	Dah Sing Financial Centre, 108 Gloucester Road, Wan Chai	Trading
5818031	15/10/1993	HARPAN TRADING (HK) CO. LTD.	Admiralty Center, Harcourt road, H.K.	Trading
5885602	7/1/1994	LOKLEY INTERNATIONAL LIMITED	No. 9 Queens Rd Central	Wine trading
5941380	3/9/1994	DN ACORN LIMITED	Eton Tower, No.8 Hysan Avenue, Hong Kong	Unknown
6008086	17/5/1996	THE CAPITA CORPORATION HONG KONG	Hennessy Centre, No.500 Hennessy Road, Causeway	Unknown

		LIMITED	Bay	
5967361	4/8/1994	JIAN NAN HOLDING LIMITED	World Wide House, 19 Des Voeux Road Central, Hong Kong	Unknown
5975145	16/4/1994	GULF EGALE INTERNATIONAL LIMITED	Lippo Tower of Lippo Center, No. 89 Queensway, Hong Kong	Unknown
6131454	10/8/1994	TEMPLE SERVICES LIMITED	One Pacific Place, 88 Queensway, Hong Kong	Unknown
6126069	30/9/1994	BENFLEET COMPANY LIMITED	Swire House, No.11 Chater Road, Hong Kong	Unknown
5784014	14/9/1993	PAINEWERRER INTERNATIONAL (ASIA) LIMITED	CitiBank Tower, 3 Garden Road, Hong Kong	Unknown
5924251	22/2/1994	SOL LIMITED	CitiGroup Center, No. 18 Whitfield Road, Hong Kong	Unknown
59499093	3/8/1994	TIME INTERNATIONAL INC.	CitiGroup Center, No. 18 Whitfield Road, Hong Kong	Unknown
5520588	29/12/1992	CHOW WAI KAM ANNIE	Unistock Finance building (now Cindic Tower), 128 Gloucester Rd, HK	Unknown
5710850	16/7/1993	IP YUM KEUNG	Island Centre, No. 1 Great George Street and No, 22 East Point Road	Unknown
6591938	Missing	CROWNLUX COMPANY LIMITED	Tower 1 of Silvercord No. 30 Canton Rd, Kowloon	Unknown
5646132	15/5/1993	KEDAUNG INTERNATIONAL LIMITED	Fortress Tower, King's Road, H.K.	Unknown
6019458	26/5/1994	FRANKWELL HOLDINGS LIMITED	Central Plaza, 18 Harbour Rd, H.K.	Unknown

## **APPENDIX V**

### **The 20 samples for test 1**

<b>Lease</b>	<b>Memorial No.</b>	<b>Address</b>
1	5520558	Unit A to D, 18/F, Unistock Finance building (now Cindic Tower), 128 Gloucester Rd, Hk
2	5870473	26/F, Unit 2604-4, Admiralty Centre, Tower I, 18 Harcourt road.
3	5975145	22/F, Lippo Tower of Lippo Centre, 89 Queensway, HK
4	5953108	Portions of 6/F, United Centre, No.95 Queensway
5	5831678	Rm 602-4, 6/F, Edinbyrgh Tower, 15 Queen's Rd Central
6	5604165	501-4, 5/F, World Wide House, 19, Des Voeux Rd, Central
7	6544959	Rm 817-9, 8/F, Hutchison Rd, 10 Harcourt Rd, HK
8	6567070	All that Portion of the Seventh Floor of First Pacific Bank Centre, 51-57 Gloucester Rd and 77-91 Jaffe Rd
9	6107718	Second Floor Portion, Empire Centre, 68 Mody Road, Tsim Sha Tsui East, Kowloon, HK
10	5710850	Office No. 1603 on the 16/F of Island Centre, No. 1 Great George Street and No, 22 East Point Road.
11	5656127	8/F and 9/F, Sing Pao Centre, No. 8 Queen's Road Central, HK
12	6591938	Office No. 1601 on 16th Floor of Tower 1 of Silvercord No. 30 Canton Rd, Kowloon
13	6522864	Suites 2407-8 on 24/F of Dah Sing Financial Centre, 108 Gloucester Road, Wan Chai
14	6571002	23/F Causeway Bay plaza I, 489 Hennessy Rd, HK
15	6113594	Rm 1102, 11/F, Allied Kijima Building, Gloucester Rd, Wanchai, HK
16	6030339	17/F, Ruttonjee House, Ruttonjee Centre, Nos. 3-11 Duddell Street, HK
17	5237304	Unit 1701, 17/F, Far East Finance Centre, No. 16 Harcourt Rd, HK
18	6442609	16/F, fook Lee Commercial Centre, Town Place, No.33 Lockhart Rd, Wanchai
19	5646132	Unit 1901, 1909, 1910, 19/F of Fortress Tower at no. 250 King's Rd, HK
20	6525219	29/F, and 4 carparking units on 4/F, The Bank of American Tower, 12 Harcourt Rd.