Part One

UDC's Divestment of Oceana Hotel Complex

Executive Summary

The Urban Development Corporation (UDC) was established by the UDC Act (1968), to plan orderly development in designated areas across the island. The Act also empowers UDC to acquire, manage and dispose of lands; construct and maintain roads and buildings; provide and maintain car parks, piers, public parks and gardens.

We conducted a special audit to determine whether UDC's disposal of the Oceana Hotel Complex and the lease of the Jamaica Conference Centre Multi-Storey Car Park (JCC-MSCP) accorded with UDC's Estate Management Policy and Guidelines.

The key findings of the audit are summarized below.

Key Findings

Breaches of divestment procedures in disposal of Oceana Hotel Complex

1. **UDC used a valuation dated August 2011 as a basis to assess offers in September 2013 during the divestment process of the Oceana Hotel Complex.** Section 5.2.6(c) of UDC's Estate Management Policy and Guideline (January 10, 2012)[1] stipulated that UDC shall obtain two (2) market valuations before the sale/lease of any asset[2]. The valuations should at the date of advertisement and/or sale, not to be older than twelve months. Whereas the Hotel Complex was advertised for sale on August 18, 2013[3], the latest valuation UDC had in its possession was two years old.

   In September 2016, UDC responded that:

   > A valuation at this stage in 2013 would not be feasible as there was further deterioration including compromised air quality and mould growing throughout the building. To obtain valuation in light of further and clear depreciation would not be feasible as this was not sought after or prime real estate.
   >
   > ***Source: UDC's letter to AuGD dated September 14, 2016 in response to draft report.***

[1] Prepared by UDC's DGM- Legal Services, authorized by the General Manager and approved by the Board of Directors

[2] Section 3.2 of the Estate Management Policy and Guideline define assets as property including building, land, equipment and tools owned by the Urban Development Corporation and/or its subsidiaries.

[3] Subsequent advertisements were placed on August 21, 23 & 28, 2013

We were unable to determine how UDC satisfied itself as to the current market price, given the fact that the last valuation was conducted in August 2011.

2. **UDC breached the terms of divestment as outlined in the Requests for Proposals (RFP) by considering bids that did not provide all the mandatory information; this casted doubt on the objectivity of the decision making process .** The RFP stated that interested purchasers/developers must provide the following information to the UDC: offer price, schematic development of proposed development plans, projected timeframe for the completion of the development (within 3-5 years), and evidence of financial capability to acquire the property and adequately fund the proposed redevelopment. None of the four bidders met the criteria to provide all the requested mandatory information. Bidder No.4 in particular proposed a partnership arrangement -in keeping with UDC's advertisement- setting out the financial contribution of the prospective investors, which would involve a mix of equity and debt financing. UDC deemed this bid non-responsive as the bid document did not include a specific offer price. Conversely, UDC commenced negotiations with Bidder No. 1 although the bid documents provided no evidence of the bidder's financial capacity and proposed development plans, as evidenced by the non-presentation of schematic drawings.

No.	Bidder	Bid Information NOT provided in Proposal
1	Bidder No. 1	i. Demonstration of financial capacity provided ii. Schematic Drawings
2	Bidder No. 2	iii. Demonstration of financial capacity provided
3	Bidder No. 3	iv. Schematic Drawings
4	Bidder No. 4	i. Offer price ii. Schematic Drawings

Source: AuGD's review of bid documents

3. **Evidence of UDC's evaluation of proposals against the criteria outlined in the Request for Proposals (RFP) was not presented for audit scrutiny.** UDC informed prospective bidders that their proposals would be evaluated based on six criteria, namely: completeness of proposal, project feasibility and marketability, capability and the track record of the Developer, appropriateness of proposed use, community benefit and net return to the UDC. UDC indicated that they were unable to locate the minutes and evaluation sheet to support the analysis done by the Planning and Development Committee. Consequently, we could not assess the due diligence undertaken.

4. **UDC made a decision to lease the adjoining Jamaica Conference Centre Multi-Storey Car Park (JCC-MSCP) to the successful bidder of the Oceana Hotel Complex, without opening up the packaged opportunity to all bidders in breach of its own policy. UDC negotiated**

the lease with the bidder after accepting the bid and included it as a condition of the sale of the Hotel. On May 29, 2014, UDC's Board approved the sale of the Oceana Hotel Complex for $385 million and the lease of the JCC-MSCP for 25 years, with an option to renew for a further 25 years. On August 18, 2014, Cabinet approved the sale of the Oceana Hotel Complex along the terms agreed by the UDC Board. The terms were formalised in the agreement for sale dated December 1, 2014, between Kingston Waterfront Hotel Company Limited (subsidiary of UDC) and the successful bidder. The inclusion of the lease arrangements for the car park subsequent to the deadline for the submission of bids would have denied existing and prospective bidders the opportunity to reflect the value of the packaged opportunity. Consequently, the process lacked transparency and UDC may have denied itself the benefit of obtaining better offers.

Though the request for the use of the car park was made by the successful bidder based on the assessed feasibility of the proposed Hotel and the need for parking space, UDC should have engaged a competitive tender process in keeping with its own Estate Management Policy and Guidelines. Section 5.2.6 (b) of UDC's policy states that any unsolicited proposal received by the Corporation for an asset[4] to be divested which has not yet been advertised, shall be treated as a premature application and shall not be evaluated until the asset has been advertised. The lease agreement requires the payment of $15 million over the first 10 years, with the remaining 15 years, subject to a market rate review. We noted that for the financial year ended March 2015, UDC realised a profit of $9.9 million (16.5 per cent increase over the prior year), therefore if all remains equal, $99 million would have been realised over 10 years, resulting in a possible loss of $84 million ($99M-$15M) in profits on the Lease arrangement.

Further, we noted that in the sub-lease agreement signed between the Sub-Lessor and the Commissioner of Lands on behalf of the AGD, the Sub-Lessor[5] will earn $7.5 million per annum from subletting a part (70 out 552 spaces) of the car park to the AGD. The Sub-Lessor will pay UDC $1.5 million, and realize a surplus of $6 million ($7.5M-$1.5M) per annum from this government entity alone, excluding revenue from other sub-tenants and expenditure to be borne by the Sub-Lessor.

UDC indicated that the Board made a considered decision to forego optimum revenue for the first ten years in exchange for capital improvement to the existing structure and increased cash flow from the 11th year onward based on a review of the lease amount.

Recommendation

The Urban Development Corporation should adhere to Government's guidelines and its Estate Management Policy and Guidelines. UDC should honour the terms of Requests for Proposals (RFP) given to prospective bidders and advise of any material changes in order to ensure fair competition and transparency in its divestment process.

[4] Section 3.2 of the Estate Management Policy and Guideline define assets as property including building, land, equipment and tools owned by the Urban Development Corporation and/or its subsidiaries.
[5] The Lessee becomes the Sub-Lessor in a subletting arrangement.

Background

1.1 On August 18, 2014, Cabinet approved the sale of the Oceana Hotel Complex to a private investor for $385 million and the lease of the Jamaica Conference Centre Multi Storey Car Park (JCC-MSCP) for 25 years, with an option to renew for a further 25 years. The complex, which was formerly owned by the Urban Development Corporation (UDC) through its subsidiary, Kingston Waterfront Hotel Company Limited (KWHCL) is situated in downtown Kingston, adjacent to the Jamaica Conference Centre (JCC). The complex comprises 12 floors with a ground floor of 6,722.4 square metres (72,360 square feet) and operated as a hotel until June 1997, when it was leased to the Ministry of Health (MOH), for office space. During the period of lease, UDC experienced challenges in collecting lease payments, which affected its ability to maintain the building at an acceptable standard.

Divestment of the Oceana Hotel Complex

1.2 In May 2008, May 2009 and June 2012, UDC invited proposals for the acquisition of the Complex; however, no bids were received. In November 2012, the National Health Fund (NHF), a portfolio entity of the lessee (MOH), expressed an interest in purchasing the Complex for $350 million. In March 2013, Cabinet approved the offer, subject to completion of negotiations regarding the terms and conditions of the sale between UDC and NHF. A draft Sale Agreement was submitted to the Ministry of Health (MOH) for signature and payment of deposit by May 2013. UDC, by way of correspondence dated Wednesday, August 14, 2013, informed the Legal Officer at MOH that:

In the circumstances we wish to advise that unless we hear from you and receive the signed contract with the required deposit by the close of business at 4:00PM on Friday, August 30, 2013, we will consider that you are no longer interested and deem the offer to purchase withdrawn.

Source: UDC's letter to Ministry of Health dated August 14, 2013.

1.3 In August 2013, UDC took the decision to invite expressions of interest to purchase the Complex and placed a public advertisement on August 18, 2013 in that regard. Prospective investors were given a deadline of 4:00 PM, Friday August 30, 2013, which coincided with the deadline given to the MOH in UDC's letter.

1.4 UDC presented an email dated August 26, 2013, from the UDC chairman indicating that based on discussions with the NHF chairman, the sale would not proceed due to lack of funds.

1.5 By way of correspondence dated January 9, 2017, UDC indicated to us that, "the Oceana Building was a white elephant and a drain on the Corporation's resources, there was the need to re-enter the market as quickly as possible."

UDC did not conduct a timely valuation of Oceana Complex to aid in divestment

1.6 We requested evidence that UDC conducted valuations of the Complex to aid in determining its physical state and market value, prior to requesting offers for proposal in August 2013. UDC presented three valuations from two chartered (valuation) surveyors, however, the latest valuation UDC had in its possession was dated August 2011, which was two years prior to the date of advertisement (**Figure 1**).

Figure 1: Valuation reports (2010-2016)

Date of Valuation Report/Inspection	Valuer	Market Value
August 2011	Valuer 1	$380M - $400M
August 2010/July 2010	Valuer 1	$360M -$380M
September 2010	Valuer 2	$659M

Source: AuGD's Summary of valuations of the Hotel Complex.

1.7 UDC developed an Estate Management Policy and Guidelines to govern all lands and buildings owned by or in control of the Corporation. Section 5.2.6(c) of UDC's Estate Management Policy and Guideline (January 10, 2012)[6] stipulated that UDC:

shall obtain two (2) market valuations before the sale/lease of any asset[7]. The valuations should at the date of advertisement and/or sale, not to be older than twelve months

Source: UDC's Estate Management Policy.

1.8 Accordingly, UDC breached its own policy, as the Complex was later advertised on August 18, 2013[8], and the Sales Agreement was dated December 1, 2014.

1.9 UDC indicated that another valuation would not be feasible, as the Complex had experienced further deterioration, subsequent to the latest valuation. However, we noted that one Valuer, who gave an opinion between 2010 and 2011, reflected an increase in value despite the deterioration of the building (**Figure 1**). We were therefore unable to determine how UDC satisfied itself as to the market value, given the fact that the last valuation was conducted two years ago, in August 2011.

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[6] Prepared by UDC's DGM- Legal Services, authorized by the General Manager and approved by the Board of Directors

[7] Section 3.2 of the Estate Management Policy and Guideline define assets as property including building, land, equipment and tools owned by the Urban Development Corporation and/or its subsidiaries.

[8] Subsequent advertisements were done on August 21, 23 & 28, 2013

1.10 Consistent with Section 5.3.5 of UDC's Estate Management Policy and Guidelines, UDC prepared an Information Memorandum as part of the package for prospective investors to aid in submitting their proposal. Background to the RFP states that:

> The Urban Development Corporation seeks to engage investors for the sale of the Oceana Hotel Complex with the objective of facilitating the redevelopment of the property within the current scope of works for the redevelopment of the Kingston Waterfront.
>
> Special consideration will be given to investors with the objective of rehabilitating the building to its original use as a hotel. This is synonymous with our conceptual development plan, which would integrate the property within the proposed conference, financial, leisure and diplomatic district within the downtown Kingston area.
>
> ***Source: UDC's Information Memorandum dated August 2013.***

1.11 We saw no evidence that MOH communicated with UDC, subsequent to the receipt of the demand letter dated August 14, 2013. However, email correspondence dated August 26, 2013 from UDC's Chairman indicated that the Chairman of NHF had advised that the purchase was being cancelled for lack of funds.

1.12 Following the closure of the offer, UDC received four bids **(Figure 2).**

Figure 2 – Summary of Proposals Received – August 2013

Proposer	Terms of Offer	Details of Offer
Proposal 1	Purchase	US$4 million (JMD $407.8 million)[9]
Proposal 2 • Option 1 • Option 2	 Purchase with limited joint venture Purchase with limited joint venture	 $385 million plus 20% profits $360 million plus 10% profits
Proposal 3	Purchase	$320 million
Proposal 4	Public Private Partnership	Raise capital of US$100M Shareholding as follows: GoJ (UDC) Equity – US$6M (properties) PSWG – US$6M Private/International – US$6M IPO – US$22M

Source: AuGD's Summary of Proposals for purchase of the Hotel Complex.

Proposal 1 – Bidder 1

1.13 The investor offered to purchase the Complex for US$4 million to develop a *first class* business hotel with approximately 236 rooms, 38 serviced apartments, and up to 65 offices. In addition, the Investor offered an unsolicited bid for the Forum Hotel, without detailing consideration. Review of the Board Minutes of September 18, 2013, showed that

[9] Using weighted average BOJ selling rate for August 2013 USD$ - JMD$101.95

UDC endorsed the recommendation from the Planning and Development Committee that the Complex be sold to Bidder 1 for US$4 million.

Proposal 2 – Bidder 2

1.14 This investor proposed the purchase of 100 per cent interest in the Complex along with a minimum of 150 parking spaces. The Investor proposed two options for joint venture arrangement with UDC to convert the existing hotel complex into condominium apartments[10] along with the provision of commercial space on the lower floors, for sale. Option 1 would require UDC to agree to the development of the proposed project by selling the complex for $385 million, plus 20 per cent of profits from the proposed project.

Figure 3 – Option 1 (Step by Step)

Consideration	Details
Purchase Price of $385 million	1. Deposit of $38.5 million paid on the signing of the purchase and sales agreement 2. Once the project is considered viable and the investors are willing to proceed, UDC would register a first mortgage on the title of the Complex equal to the purchase price less the deposit 3. Proposed development will be secured by the mortgage until the remainder of the purchase price has been repaid out of the sales proceeds 4. Investors would form a company with a minimum capital of $50 million, with some of the initial capital used for preliminary design approvals and marketing of the project 5. Develop a marketing programme to pre-sell a minimum 60 per cent of the condominium apartments 6. Upon attaining the sales target, financing would be arranged using interim bank financing to finance the construction 7. Prior to the advance from the construction lender, UDC shall postpone and subordinate its first mortgage to the construction lenders security
20 per cent of the profits from the limited joint venture	1. In order to repay the mortgage, UDC will receive an agreed percentage of the sales price of each apartment and commercial space when the transfer of strata titles to purchasers occur

Source: AuGD's Summary of Proposals for purchase of the Hotel Complex.

1.15 Option 2 would require UDC to agree to the development of the proposed project by selling the complex for $360 million, plus 10 per cent of profits realised from the proposed project.

Figure 4 – Option 2 (Step by Step)

Consideration	Details
Purchase Price of $360 million	1. Deposit of $36 million paid on the signing of the purchase and sales agreement 2. Second deposit of $324 million within 30 days following a notice from UDC that vacant possession of the Complex is available
10 per of the profits from the proposed development	1. Final payment of the purchase price , 10 per cent of the profits realised from the project would be paid once the auditors of the company confirm that the project is 95 per cent complete

Source: AuGD's Summary of Proposals for purchase of the Hotel Complex.

[10] One-bedroom, two-bedroom and three-bedroom units on floors 3 to 12

Proposal 3 – Bidder 3

1.16 The investor offered to purchase the Complex for $320 million to establish a National Centre for Animation, Gaming and Visual effects. The Centre would occupy office space on two floors, residential units on another two floors, and the remaining floors occupied by the Ministry of Health (MOH). The Investors estimated that total project would cost of $456 million (US$4.47M), which includes construction cost ($120M) and 5 per cent transaction cost ($16M) to acquire the building. Funding for the renovated Complex would be obtained by the issuance of $387.6 million in urban renewal bonds and $68.4 million in equity from the investors. The proposal indicated that the Investor's interest was subject to the findings of a due diligence exercise[11], surveyors' report, the Ministry of Health remaining as a long term tenant and the final approval of the investors and Board of Directors.

Proposal 4 – Bidder 4

1.17 The investor submitted a proposal for the establishment of a public private partnership for the regeneration of Kingston. This involved the development of various UDC properties, including Oceana Hotel, Victoria Pier, Kingston Mall Shops, Port Royal and New Parking Garages[12]. The Investor proposed that GoJ/UDC enter into a memorandum of understanding leading to a public private partnership, wherein various government owned properties in Downtown Kingston would be sold in return for equity in the partnership (to the value of its real estate US$6 million). The proposal would require the GoJ to:

i. facilitate the construction of a cruise ship pier on the Kingston side of the harbour;
ii. plan for development of Port Royal as an attraction will be developed along with long term lease of the required building to allow for the agreed renovation/restoration to proceed;
iii. an application for a casino license for Kingston and Port Royal approved

1.18 The Investors proposed to fund the project through a mix of equity and debt valued at US$100 million (**Figure 5**). The proposal also projected direct employment of 7,633 over a ten-year period.

[11] UDC allow the purchaser to enter the property for purposes of making such investigations, inspections, surveys and studies as purchaser deems necessary or desirable to evaluate the property.
[12] Comprised various companies and civic organizations.

Figure 5 – Proposal 4

Consideration	Share		Project	Breakout
UDC – real estate	15%	US$6M	Construction of the Victoria Cruise Ship Pier – Kingston side of the harbour	US$15M
PSWG	15%	US$6M	Restoration of Oceana Hotel – renovate the second floor to accommodate reception/immigration zone for cruise ship passengers	US$30M
Private Sector and international Agencies	15%	US$6M	Renovation of the Kingston Mall Shops	US$15M
IPO subscribers	55%	US$22M	Develop a multi-storey Parking Garage	US$15M
TOTAL EQUITY	**100%**	**US$40M**	Develop Port Royal as an attraction	US$10M
DEBT				
Loan financing		US$60M		
			Other	US$15M[13]
Total Proposed Equity and Loans		**US$100M**		**US$100M**

Source: AuGD's summary of Proposal 4

1.20 Evidence of UDC's evaluation of proposals against the criteria outlined in the Request for Proposals (RFP) was not presented for audit scrutiny**.** UDC indicated that they were unable to locate the minutes and evaluation sheet to support the analysis done by the Planning and Development Committee. Consequently, we could not assess the due diligence undertaken.

1.21 The Terms of Divestment as outlined in the Requests for Proposals (RFP) had stated that interested purchasers/developers **must**[14] provide the following information to the UDC: offer price, schematic development of proposed development plans, projected timeline for the completion of the development (within 3-5 years), and evidence of financial capability to acquire the property and adequately fund the proposed development. As shown in the table below, the four bidders did not provide all the requested mandatory information, such as the demonstration of financial capacity and schematic drawings.

1.22 For example, UDC commenced negotiations with the highest ranked bidder (US$4 million).

Rank	Bidder	Bid Information NOT provided in Proposal
1st	Bidder No. 1	i. Demonstration of financial capacity ii. Schematic Drawings not provided
2nd	Bidder No. 2	i. Demonstration of financial capacity
3rd	Bidder No. 3	i. Schematic Drawings
4	Bidder No. 4[15]	i. Offer price ii. Schematic Drawings

Source: AuGD's review of bid documents

[13] The remaining US$15M comprise value of UDC properties (US$6M), management and promotional fees (US$4M) and loan interest (year 1-2) of US$5M.

[14] AuGD emphasis

[15] UDC informed bidder that the proposal did not include an offer price for consideration and will be considered pending the outcome of evaluations on the other proposals received.

1.23 Bidder No.4 in particular proposed a partnership arrangement -in keeping with UDC's advertisement- setting out the financial contribution of the prospective investors, which would involve a mix of equity and debt financing. UDC deemed this bid non-responsive as the bid document did not include a specific offer price.

1.24 The bid documents provided by Bidder No. 1 had no evidence of the bidders' financial capacity and proposed developed plans as evidenced by the non-presentation of schematic drawings. Nonetheless, UDC management recommended that the proposal from Bidder No. 1 be accepted, as the purchase price was the highest received and the proposed development concept was in line with UDC's intent for the building to return to its original use as a hotel. By way of correspondence dated October 8, 2013, the bidder subsequently withdrew the proposal, citing funding challenges.

1.25 Following the withdrawal of the proposal by the highest bidder, UDC informed the second highest bidder by way of letter dated October 8, 2013, that the proposal was being reviewed. Based on Board submission[16], UDC's management indicated preference had been given to Option 2 as it represented a direct sale and would reduce UDC's risk exposure. On November 20, 2013, UDC's Board approved the sale for $360 million and for the Complex to be redeveloped into condominiums and commercial space.

The Board directed that the Legal Department should review the conditions of the sale as they were deemed to be stringent. The Board also directed that the Chairman should close off on the negotiations. It was also agreed that in the event that negotiations fail, the next highest bidder should be offered the sale at $320 million.

Source: UDC's Board Minutes dated November 20, 2013.

1.26 Subsequent to the communication of the Board's decision, the approved Bidder sought to modify the proposal by increasing the purchase price by $25 million to $385 million, and removing the 10 per cent profit participation. On December 18, 2013, UDC's Board accepted the increased offer of $385 million.

UDC's Decision to Lease the JCC-MSCP as a condition of the Sale of the Hotel

1.27 The successful bidder acknowledged the value of the Car Park to the proposed operation of Complex as per letter dated November 22, 2013 to UDC. The Bidder stated that: *"The car park is an integral and essential part of the acquisition of the property. It is inconceivable that anyone could operate the building or gain approval from the KSAC without the parking. No one can operate a 220,000 square feet facility without appropriate infrastructure, which most critically is parking. It must be considered a part of the Oceana Property".* By way of letter dated March 19, 2014, UDC in seeking the portfolio Minister's non-objection to the lease of the JCC-MSCP and the sale of the Oceana Hotel Complex as a single transaction, stated that:

[16] dated November 10, 2013

It is essential that the Oceana Hotel is sold with confirmed arrangements for the parking garage as the re-development of the hotel is **not**[17] feasible without this arrangement.

Source: UDC's letter to the Office of the Prime Minister dated March 19, 2014.

1.28 On May 29, 2014, UDC Board approved the sale of Oceana Hotel Complex for $385 million and the lease of the 552 space JCC Multi Storey Car Park for 25 years, with an option to renew for a further 25 years. On August 18, 2014, Cabinet approved the sale of the Oceana Hotel Complex along the terms agreed by the UDC Board.

1.29 The lease agreement requires an initial payment of $15 million for the first ten years, with the remaining 15 years, subject to review based on an agreed economic model. UDC received the amount as an upfront payment in January 2015. Section 12 of the lease agreement also states that the Lessee would make capital improvement to the existing structure in lighting, elevators, signage and security facilities.

1.30 Kingston Waterfront Hotel Company Limited (subsidiary of the UDC) and the successful bidder agreed that the signing of the lease of the Parking Facility, JCC-MSCP, would be contemporaneous with the signing of the sale agreement (dated December 1, 2014) of the Oceana Hotel Complex. However, UDC did not consider the improved value of the Hotel Complex, given the inclusion of the lease agreement, which was contingent upon agreeing to acquire the Complex. We noted that valuation reports received by UDC made reference to the fact that the building provides on-site parking for approximately 10 vehicles and this was considered in arriving at a value.

1.31 UDC indicated that the agreed lease payment of $1.5 million per annum for ten years represented 6 per cent of the **estimated** gross annualised base revenue of $25 million during the negotiation process. This was based on its analysis of the revenue up to 2012/13 and the existing contractual arrangements for parking. However, we noted that the parking facility's performance when comparing the net profit to the annual Revenue for the 2012/13 and 2014/15 financial years was 46 per cent. In 2015, UDC realised a profit of $9.9 million, therefore if all remains equal, $99 million would have been realised over 10 years, resulting in a possible loss of $84 million ($99M-$15M) in profits on the Lease arrangement (**Figure 7**).

Figure 7 – AuGD's Financial Analysis of the JCC Car Park Lease

Net Profit from the JCC Car Park	Ten year Projection ($)	Lease amount ($)	Estimated Profits Foregone ($)
Financial Year 2014			
8.5 million	85 million	15 million	70 million
Financial Year 2015			
9.9 million[18]	99 million	15 million	84 million

[17] UDC emphasis
[18] This represent 10 months of income for Financial Year ended March 31, 2015. Possession was transferred to KPHL on February 1, 2015.

Source: AuGD's analysis of UDC's accounts and Lease Agreement.

1.32 The lease arrangement with adjoining JCC-MSCP was not subjected to competitive tender in contravention of UDC's Estate Management Policy and Guideline. Section 5.2.6 (b) of UDC's policy states that any unsolicited proposal received by the Corporation for an asset[19] to be divested which has not yet been advertised, shall be treated as a premature application and shall not be evaluated until the asset has been advertised. The inclusion of the lease arrangements for the car park subsequent to the deadline for the submission of bids would have denied existing and prospective bidders the opportunity to reflect the value of the packaged opportunity. UDC's Estate Management Policy stipulates that the selection of assets for privatization must be announced to the public by way of advertisements. Also, UDC did not conduct any assessment, whether in-house or independent, of the market or lease value for the JCC-MSCP.

1.33 Further, UDC indicated that the Board made a considered decision to forego optimum revenue for the first ten years in exchange for capital improvement to the existing structure and increased cash flow from the 11th year onward based on a review of the lease amount.

1.34 We also noted that in the sub-lease agreement signed between the Sub-Lessor and the Commissioner of Lands on behalf of the AGD, The Sub-Lessor[20] will earn $7.5 million per annum from subletting a part (70 out of 552 spaces) of the car park to AGD. The Sub-Lessor will pay UDC $1.5 million for the entire parking lot, and realize a surplus of $6 million ($7.5-$1.5M) per annum from this government entity alone, excluding revenue from other sub-tenants and expenditure to be borne by the Sub-Lessor. Further, UDC may also have a challenge in regaining control of the Parking Facility after the effluxion of 25 or 50 years on the lease, considering that the purchase and operation of the Complex is dependent on the simultaneous lease of the Parking Facility.

[19] Section 3.2 of the Estate Management Policy and Guideline define assets as property including building, land, equipment and tools owned by the Urban Development Corporation and/or its subsidiaries.
[20] The Lessee becomes the Sub-Lessor in a subletting arrangement.