From 'white knight' to Reit grower

Heng Fai Enterprises is seeing results from its first two Reits

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THE days of swooping in to rescue and turn around troubled companies through drastic corporate restructuring are over for Hong Kong-listed Heng Fai Enterprises.

The company, which most recently washed its hands of Singapore-listed SingHaiyi by selling it to low-profile Chinese tycoon Gordon Tang, told *The Business Times* that its transformation from a compulsive "white knight" to a dedicated real estate investment trust (Reit) manager has already borne its first fruit.

Its first two Reits, American Housing Reit (AHR) and Global Medical Reit (GMR), with US single-family homes and healthcare facilities as their respective assets, have both taken off; by FY15, they will migrate from the over-the-counter bulletin board to the Nasdaq mainboard.

Not only that, AHR has distributed its first quarterly dividend, which translates to an annualised yield of a whopping 8.39 per cent.

GMR, which pays its dividends monthly and is a main draw for US pensioners, is right on track to deliver its June dividend – also in excess of 8 per cent – next month.

Heng Fai Enterprises is looking to expand itself and its Reits aggressively. The company has appointed Allenby Capital as adviser for its secondary potential listing on London's junior stock exchange, AIM. It also hopes to list on the Singapore Exchange within the next 12 to 24 months.

As for its two Reits, regulations willing, the plan is for them to be listed in as many countries as possible.

Tony Chan, the group managing director and elder son of Chan Heng Fai, who controls the company, said: "So long as we can get the structure right, and the regulations allow for manageable compliance of listing in various stock exchanges, which can be quite cumbersome – if we can navigate that – we can look even beyond the usual markets."

The younger Mr Chan has no problems with equity dilution: "We want dilution. We want our ownership in the Reits to drop because the Reits are growing. We are looking at doing substantial fund-raising at the Reit level.

"But if you can understand the model, we want unlimited growth for the Reits. We don't mind that our ownership drops (from the current over 90 per cent) to 10 per cent, and then five, and then one, and then half a per cent, because the larger the Reits are, the more substantial our management fee becomes."

Fear of dilution often cripples the growth potential of listed companies in which a majority shareholder is bent on maintaining his stake.

He said: "If all we did was issue shares at the parent company's level, ultimately we would no longer be in control of the business. With this model, it doesn't happen. We are only looking at very limited fund-raising on the Heng Fai level – enough to get an interest on the AIM board and a presence in Singapore.

"By limiting our dilution at the parent company's – the Reit manager's – level, the contribution towards each shareholder grows as well, creating value for them. That's the beauty behind the business model."

Single-family home Reits such as AHR, a fairly recent post-financial crisis phenomenon in the US, came about after the government started rolling out programmes to sell foreclosed homes in bundles for cheap to investors and property prices plunged to levels that made rent yields alluring.

AHR has acquired more than 100 suburban homes from families which have become disenchanted with home ownership or have had their credit damaged in the financial crisis. The Reit derives its income from regular rent payments. It targets a portfolio of 1,000 such homes worth US$130 million by FY15 and is focusing its efforts in "landlord friendly" states such as Texas, Georgia, Florida and North Carolina.

GMR, the medical Reit, seeks out developers and medical practitioners looking to unlock capital from the healthcare facilities they own. It completed its first acquisition in Omaha in the state of Nebraska for US$22 million in April, and aims to achieve a net asset value of US$400 million by FY15.

Two more Reits are in the pipeline: a global property Reit with assets across sectors in the US, China, Spain and Japan, and a "Reit of Reits" (a Reit owning other Reits) focusing on single-purpose properties such as data centres.

Asset acquisitions require money – which a Nasdaq listing and subsequent secondary listings can raise.

Mr Chan said: "In the next 12 months, we hope our Reits will raise several hundred millions of US dollars and grow to be in the billion-dollar range the following year."

With a single Reit manager running all its Reits, Heng Fai stands to save on operational costs through economies of scale.

Interestingly, Heng Fai Enterprises used to be a troubled property construction firm owned by a family whose infighting ran the business to the ground.

Mr Chan's father, who spent eight years buying its shares in the open market, was given a seat on the board and appointed executive director in 1992. He was later asked to take over the company when another party attempted a hostile takeover.

Today, it is still a family business, with him as the visionary setting the company's macro direction, his son Tony executing these ideas, and a younger son, Moe Chan, serving as the group's chief operating officer and chief investment officer.

Ego was not why the senior Mr Chan renamed the company after himself last year. He found himself getting too attached to restructuring companies and timing the market to sell them, but this one – his "last miracle company" – is not for sale.

"Even if the price is right, I cannot sell myself," he said.

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The company is still a family business, with the senior Mr Chan setting the company's macro direction, his son Tony (left) executing these ideas, and a younger son serving as COO and CIO. PHOTO: YEN MENG JIN

SingHaiyi eyeing more distressed US property

HONG KONG-listed Heng Fai Enterprises may have guided SingHaiyi, previously a struggling interior fit-out firm, into Singapore's property development scene in 2006 and helped its market cap to grow hundred-fold to about $400 million in the immediate years that followed, but Heng Fai's exit last year also left it in the lurch, saddled with a portfolio of residential projects amid government measures to quell property speculation.

Although three of its four projects have sold well, sales at one – the 56-unit freehold CosmoLoft in Balestier – have been slow with only 10 per cent sold. This led SingHaiyi to record an impairment of $10.5 million for FY2014 after the company compared its sales and selling prices to other projects in the vicinity.

In a recent interview, SingHaiyi's management told *The Business Times* that more than just diversifying out of residential projects into the more resilient commercial space – evident from its taking of a 20 per cent stake in TripleOne Somerset earlier this year – the Catalist-quoted real estate firm is increasingly focusing on purchasing distressed properties in the US.

For FY2014, SingHaiyi's US operations accounted for $11.8 million (versus nothing for FY2013) or one-fifth of the group's revenue, mainly from the sale of units at its Vietnam Town commercial condominium in San Jose, California, as well as rental revenue from its Tri-County Mall in Cincinnati, Ohio.

Both of these are troubled assets acquired at huge discounts to their net book values through a sister company, American Pacific International Capital (Apic), which is owned by the controlling shareholders of SingHaiyi, Gordon Tang and his wife, Serena Chen.

The third and latest acquisition is the one the team is most excited about: a half-occupied office building sitting on 4.7 acres (204,300 square feet) of prime waterfront land along San Francisco Bay that will be demolished to make way for a high-end community for seniors.

Chairman Neil Bush, son and brother to two former US presidents, said: "There is a very clear trend for the continuing care retirement community concept in the US. I'm really excited about the low supply and high demand as the senior population from the baby-boomer generation grows in size. It's very affordable for people who have homes to sell their homes and buy this concept, so we get the benefit of the upfront entrance fee plus recurring income from their stay."

This housing concept for the elderly, although not common in Singapore, is a mature one in the US, having been around since the 1970s. Residents pay US$3,500 to US$7,500 monthly to live in a unit there, depending on the level of care they need.

Asked if troubled assets make wise acquisition targets given the effort needed to clean them up, Ms Chen, who is also group managing director, replied in Mandarin: "We are picking them up cheap, but these are not rubbish, these are projects with potential. We're very careful in our selection, that's why we've only picked three so far, despite having looked at 40 projects."

It will take some time but stable recurring income from these new acquisitions are expected to shake up the current US-to-Singapore's 20:80 revenue ratio over the next few years.

Of the US$180 million SingHaiyi raised last June to grow its US real estate portfolio, it still has about US$80 million left to deploy.