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Reminiscences of a SOHO investor

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COVER STORY

The view of Kallang River and Kallang Basin from the SOHO block of Southbank

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A consummate deal maker and self-described aggressive investor, Chan Heng Fai, managing director of listed property group SingXpress Land, is used to making snap decisions, even when it comes to buying property.

When he first laid eyes on The Arcadia, a 99-year leasehold condominium with 163 units that was built in 1983, he loved it. At that time, in late 2005, around 20 units were for sale on the secondary market and prices were hovering in the \$400 to \$500 psf range. "I wanted to buy them all, but one of my Singapore directors advised me not to do it. He said Arcadia prices had not moved for a long time because of the condo's short leasehold tenure," recalls Chan.

The businessman contented himself by buying a penthouse at The Arcadia for \$3 million instead. Prices at The Arcadia rose to \$900 psf by 2007, and have been hovering in the \$900 to \$1,300 psf range since. "I made the mistake of listening to Singaporeans," Chan says. Originally from Hong Kong, he later became a Singapore Permanent Resident and finally obtained his citizenship last year.

After Chan bought the penthouse at The Arcadia, he decided to approach his neighbour to see if he could buy his penthouse as well. His intention was to build a super penthouse of 15,000 sq ft. His neighbour thanked him for the idea, then turned around and offered to buy Chan's penthouse for \$7 million instead. Chan sold his penthouse and bought a few more units in the project, most of which he has since sold.

By early 2006, he was fond of saying, "You Singaporeans, all your properties are wrongly priced." His Singaporean friend, an experienced lawyer who also serves on the board of directors of his Hong Kong listed company, Xpress Group, would say, "Look Mr Chan, it's been like this for a long, long time." Chan says: "I told him that Singapore property prices will really jump next year [2007]. He said, 'Are you sure?' I said, 'Absolutely sure!'"

To prove his point, Chan bought an entire office floor at Suntec City, paying about \$12 million for the unit. A year later, he received an unsolicited call from a buyer who was interested in buying the property from him for close to double what he had paid. Chan said he made \$8 million in profit from the deal. "I told all my friends to jump in. I told them the market was going to be amazing," he says. He also bought five units at The Sail@Marina Bay, which he subsequently sold at double the price he paid. "I wasn't really a serious property investor in those days," admits Chan. "I was just playing the market, based on how I read the economic and property cycles."

However, by mid-2006, he had become a serious player. On a business trip in Singapore, he came across a news article that UOL Group was launching its 257-unit Southbank on North Bridge Road that weekend. A redevelopment of the former Eng Cheong Tower, the new 99-

year leasehold project, would comprise a 197-unit residential tower and another block of 60 small office home office (SOHO) units. At that time, Southbank's residential tower was priced at an average of \$600 psf, while the SOHO units cost an average of \$750 psf.

The lure of purpose-built SOHOs

Chan was bullish on investing in the SOHO units. "There weren't many purpose-built SOHOs on the market at that time," he recalls. When he arrived at the showflat, he found that most of the SOHO units had already been taken up, and only 20% of the units were still available for sale. "I told them to close the showflat as I wanted to buy up all the remaining units," he says. "And I expected them to give me a bulk discount."

He sent his trusted business adviser, the Singaporean lawyer who is also a director of Xpress Group, to negotiate on his behalf. After talking all Saturday morning, the bulk discount offered was still 5%. "My Singaporean director said 'forget it', but I told him 'No, take it'," says Chan.

After taking into consideration the bulk discount for the SOHOs at Southbank, Chan says his purchase price for the 12 units worked out to an average of \$700 psf. Unlike the residential units at Southbank, the SOHOs were zoned commercial, which is ideal for businesses that want to hang their company name on the door. "I instructed my staff to buy any unit that came up for sale," he says.

Over the last four years, through his companies, Chan has accumulated 32 SOHO units and one shop at Southbank. The most recent purchase of a SOHO unit was two years ago, at around \$1,450 psf. The units make up 53% of the SOHO tower, making the group the single-largest owner in the building. Of the 32 SOHO units, SingXpress Land owns five, while Chan's investment holding company, the Hong Kong-listed Xpress Group, holds the rest. The properties comprise 29 duplexes and three simplexes. They are a mix of one- and two-bedroom loft units with high ceilings.

Southbank was completed in 2010,

and all the units owned by Chan's companies have been leased, except for the three units currently used as an office. However, Chan says SingXpress has outgrown the premises at Southbank and the units will be let out when the company moves out.

The latest resale of a SOHO unit at Southbank was in May, when a 527 sq ft unit on the second floor changed hands for \$950,000, or \$1,801 psf. Two years ago, the same unit was sold in the secondary market at \$1,517 psf. In 2006, it was purchased for just \$857 psf. "If you take a longer-term view, it's still a good buy," reckons Chan.

Capitalising on price and rental disparity

Chan is convinced that the SOHO units at Southbank are likely to see further price and rental upside, and that there is still a huge disparity in both rents and prices at Southbank and at The Central on Eu Tong Sen Street. He reveals that he also has some SOHO units at The Central, which he also bought for investment.

Completed in 2007, The Central is a mixed-use project, with two SOHO blocks, two office towers and a 200,000 sq ft shopping mall. The development is linked underground to the Clarke Quay MRT station. The developer of The Central is privately held giant developer Far East Organization.

Like Southbank, the SOHOs at The Central are also 99-year leasehold and zoned commercial. In 2006, when the SOHO units at Southbank were launched at around \$750 psf, those at The Central were already priced at \$1,000 to \$1,200 psf, and units were changing hands in sub-sales at around \$1,500 psf. The highest psf price achieved for a SOHO unit at Clarke Quay was just last month, when a 603 sq ft unit on the 10th floor changed hands for \$1.45 million (\$2,406 psf), according to a caveat lodged with URA Realis.

Average rents achieved at SingXpress' SOHO units are about \$5 psf per month. At The Central, asking rents for the SOHO units are more than double, at \$10.80 psf per month, with achieved rents at an average of \$10 psf per month, notes Sammi Lim, senior manager of investment properties at CB Richard Ellis (CBRE).



The 60-unit SOHO tower (forefront) at Southbank with the residential tower behind

Maverick developer

Last year, Chan Heng Fai, managing director of SingXpress Land, realised he could no longer start his sentence with "You Singaporeans". He had become one himself.

The 67-year-old Chan gave up three passports — Hong Kong, British and Canadian — in order to become a Singapore citizen. The reason for that? "I was trying to buy a Good Class Bungalow [GCB] in Maryland Drive," he confesses. The asking price for the house at that time was \$24 million.

As a Permanent Resident in late 2010, Chan found it a challenge getting approval from the Land Dealings (Approval) Unit, or LDU, for the purchase of a GCB. So, he quickly applied for citizenship. By the time he received his new passport and was able to buy the property, the asking price for the house had shot up to \$29 million. "So, I became \$5 million poorer because I wasn't a Singaporean," he points out.

However, he sees "extremely good value" in the luxury bungalow segment in Singapore. "I feel that in time to come, GCB prices will hit \$3,000 psf," he predicts. He's also in the midst of negotiating to buy 10 houses at Sentosa Cove. "It will be a long-term investment. Sentosa Cove is unique as it's the only place in Singapore where foreigners can buy landed homes."

SingXpress Land broke into the local property development scene less than two years ago. "I fancied going into property development and investment because I was the head of research for my own investment banking company and wrote reports on economic and property cycles," says Chan. "I developed a feel for market cycles, so I thought I should capitalise on it myself. That's why we started SingXpress 20 months ago."

Chan had spent the past four decades restructuring more than 30 companies, some of which he subsequently sold and others he listed. The deal that he's proudest of is the turnaround of American Pacific Bank, a US commercial bank that was on the verge of bankruptcy when he first purchased it in 1987. He recapitalised the bank, expanded its business and turned it from loss-

making to zero-loan losses for five consecutive years. The Portland, Oregon-based bank was listed on the Nasdaq from 1988 to 2005 and subsequently merged with Vancouver, Washington-based Riverview Bancorp Inc.

"I was very proud when the newspapers published what the bank commissioner said in 1989: 'This Chinese man is very good in banking, I thought he was only good in running Chinese restaurants,'" recounts Chan. He was 42 years old when he bought the bank.

Another turnaround story is Hong Kong-listed China Gas Holdings, which was formerly a failing fashion retail company. Under Chan's guidance, China Gas is now one of the largest players in city gas infrastructure and the distribution of natural gas and LPG in China. Even his investment holding company, the Hong Kong-listed Xpress Group, was formerly Heng Fung Holdings, which he bought into in 1992.

SingXpress Land is also the result of one of Chan's restructuring exercises. It was one of his subsidiary companies, formerly called Futuristic Group, which specialised in fitting out retail stores. It morphed into a travel company, and then, in 2008, with the onslaught of the global financial crisis, Chan restructured it and it became SingXpress Land, with property as its core business.

The property group has four developments in its Singapore portfolio currently. The first is the fully sold 21-unit strata landed housing project Charlton Residences, where Chan played an active part in creating the concept. Launched last November, the development is located on the site of the former Foh Pin Mansion at Charlton Road and is a joint venture between SingXpress Land, which holds an 80% stake, and ACT Holdings.

SingXpress also purchased the former Waldorf Mansions at Balestier Road in an en-bloc deal, following the purchase of the Charlton Road site. The site will be jointly developed by Xpress Group and SingXpress, with the former holding a 10% stake and the latter the remainder. The 20-storey boutique development comprising 50 units is



The 447-unit DBSS, Pasir Ris One, located at Pasir Ris Central, was launched at end-April

currently called SingXpress Mansions, but Chan is considering changing the name. "It's too small a site to hang my company name there," he says. The project has yet to be launched.

Towards the end of April, Pasir Ris One, a 477-unit public housing project under the Design, Build and Sell Scheme (DBSS), was launched at an average price of \$637 psf. The project is located in Pasir Ris Central, next to the Pasir Ris MRT station. It is a joint venture between SingXpress, which holds an 80% stake, and construction company Kay Lim Holdings, with 20%.

In May, SingXpress teamed up with Kay Lim and Amara Holdings to bid for the executive condo (EC) site at Tampines. The joint-venture partners won the tender with their \$233.5 million bid. Amara Holdings will take up 40% stake, while Kay Lim and SingXpress will each hold 30% stake in the joint venture.

As a company, SingXpress has committed \$405 million in Singapore, says Chan. According to the

company's latest annual report, SingXpress also owns 35 apartments in Hong Kong for investment.

Chan believes in pre-designing "the perfect building", and then looking for a suitable site to build it on. "Otherwise, if your building is constrained by the site, it's like having to chop off your toes to fit into the shoes," he declares.

That explains why he is still "seeking a suitable land parcel" for the company's future projects, such as The Tree Tower, a 50-storey 200-unit development; the Chinese Courtyard, which is to be Chinese courtyard-house GCB; and SingXpress Tower, a 50-storey office block.

Chan is actively looking for more development sites in Singapore. His focus is on the mass-market segment, where he sees more growth opportunities given that it is a bigger market than the luxury segment. His vision is to build "luxury homes" for the mass market. "I'm very bullish on the Singapore property market; I think it should be good for the next five to 10 years," he says.

"There's been a lot of interest in strata-titled commercial units, and the attraction is that Southbank also offers the work-live-play lifestyle," she says. The fact that the SOHO units are zoned commercial is also an attraction as buyers are not subject to Additional Buyer's Stamp Duty (ABSD) or Seller's Stamp Duty (SSD). "It's a rare opportunity to own a stack of such well-appointed commercial SOHO units."

The SOHO units at Southbank also enjoy unobstructed 270° views of the Kallang River and Kallang Basin, according to Lim. The project is located within a five-minute walk to Lavender MRT station.

In its 2008 Master Plan, URA plans to rejuvenate the Kallang area and make it a lifestyle hub with offices and waterfront residences. Given Southbank's location, it is likely to benefit from those plans, says Lim.

Nearby, at the junction of Beach Road, a joint venture between listed developer Fragrance Group

and Aspiat Corp's World Class Land purchased the Keypoint commercial building for \$360 million. There are plans to redevelop the site into a mixed-use project comprising strata-titled shops and offices, or even residential units.

Lim reckons that Southbank will also benefit from the Beach Road rejuvenation that is going to take place. Besides the redevelopment of Keypoint, the area will also have several new projects: the upcoming multi-billion-dollar Southbeach mixed-use development by City Developments and Malaysia's IOI Corp, and a large-scale mixed-use project by M+S, a 60:40 joint venture between Malaysia's Khazanah Nasional and Singapore's Temasek Holdings to develop two parcels at Ophir Road.

Chan is now looking to divest the SOHO units at Southbank. The bulk sale, which is expected to be officially launched at end-July, has an indicative price tag of \$63 million. It will be sold by expressions of interest, with CBRE as the appointed marketing agent. The SOHO units at Southbank are likely to attract private-equity and property funds, family offices and high-net-worth individuals who want to hold the properties for the long term. There is potential for rental income and capital values to appreciate in the medium to long term, notes Lim.

According to Chan, the reason for selling his SOHO units at Southbank is simple. "We want to use the proceeds to bid for an existing building or a development site to build SingXpress Tower," he says. "It's good to have our company's branding on our own building. We see a lot of foreign companies setting up in Singapore, so the commercial space should continue to do well."

Strata commercial units in hot demand

In March this year, CBRE had brokered the sale of the office tower at Burlington Square that contained 66 strata-titled office units. The purchase price was \$89.3 million, or \$1,318 psf, and the buyers were Guthrie GTS and Sun Venture Property, who had entered into a 50:50 joint venture. Burlington Square is a 99-year leasehold development comprising a 12-storey office tower, a 20-storey residential tower with 179 units, and shop units on the ground floor. The project is located along Bencoolen Street and a five-minute walk to the upcoming Rochor MRT station.

Guthrie GTS and Sun Venture had also jointly purchased 86 strata-titled office units and 77 strata-titled shop units at The Adelphi in late 2010 for more than \$218.1 million. They had sold the strata units in phases since last year, with CBRE as the appointed marketing agent. To date, all the office units have been sold, at prices averaging \$2,000 psf. Meanwhile, the strata shop units were sold at prices ranging from \$2,000 to \$3,585 psf. To date, only 40% of the shop units are available.

According to Knight Frank in a July 18 report, a total of 1,433 commercial units were sold in 1H2012, with sales totalling \$2.9 billion. The commercial units included shophouses, strata shops and offices. With 638 units sold in 1Q2012 and 795 units in 2Q2012, the first half of the year has

seen the highest number of transactions in a six-month period since January 1995, when records were made available.

In 1H2012, projects offering strata office units for sale included PS100, a business small office home office (SOHO) development in Tanjong Pagar. The project was fully sold in two days at an average price of \$3,000 psf when it was launched in early March. Developed by Far East Organization, the PS100 SOHO units will be integrated with the Oasia Downtown Hotel. Other projects in the CBD launched in 1H2012 offering strata commercial units for sale included Oxley Tower in Robinson Road and EON Shenton in Tanjong Pagar. The average transacted price for new units sold in the CBD was \$2,950 psf, which is 39% higher than in 1H2011, according to May Sai, Knight Frank's executive director of commercial sales.

Strata shop units have been particularly "hot", according to Sai. For instance, Bugis Cube, which has a total of 91 units of 999-year leasehold tenure, was launched for sale at \$5,000 psf last month. Around 89% of the units were sold within a fortnight.

World Class Land's East Village located at Upper Changi Road, a mixed-use project comprising 90 apartments and 108 commercial units, saw strong interest. Launched in March, all except five strata commercial units have been snapped up at an average of \$5,200 psf.



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