Group managing director Tony Chan with his father, managing chairman Chan Heng Fai of Hong Kong-listed Heng Fai Enterprises. The company has acquired a US firm through which it will enter the recovering US property market to achieve steady and fast-growth business. ST PHOTO NG SOR LUAN

'White knight' looks to US property market to fuel returns

Reit can harness potential for capital appreciation

By RACHEL SCULLY

BUSINESS veteran Chan Heng Fai often earns the epithet "white knight" for his ability to turn around ailing companies.

The chairman of Hong Kong-listed Heng Fai Enterprises, who is now a Singaporean, has saved several businesses, including the former SingXpress Land, a Singapore-listed property player.

With a colourful career spanning more than four decades, Mr Chan, 68, and his son Tony, 39, are now looking to the recovering United States property market to achieve steady and fast-growth business for Heng Fai.

The firm wants to buy hundreds of low-priced homes battered by the sub-prime mortgage crisis that triggered the global financial crisis.

Heng Fai entered the American housing market in June by acquiring a US firm, which it is renaming American Housing Reit (real estate investment trust).

"Asian property cycles have been on an uptrend and are starting to peak, as evident by the cooling measures imposed in many mature economies," said Mr Tony Chan, Heng Fai's managing director, in an interview with The Straits Times.

"Since US property prices fell to an all-time low during the sub-prime crisis, there are still pockets of opportunities for capital appreciation."

The new engine of business is part of Heng Fai's move to reduce the lumpiness in its turnover.

In a statement last Friday, it said its business model of restructuring, developing and selling firms has led to spikes and troughs in its earnings.

A US-based Reit could help mitigate those effects.

It aims to buy 100 freehold landed properties in Texas before the end of the year and 200 more similar houses by March. The properties are about 15 years old.

Each house has a net liveable area of about 2,000 sq ft and costs between US$140,000 and US$150,000 (from S$175,000 to S$187,000).

Heng Fai will finance about half of these acquisitions, and borrow the rest.

> **GOING LOCAL**
>
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>
> – Mr Chan Heng Fai, on the possibility of seeking a secondary listing in Singapore

"We are seeing more Singaporeans and Asians looking to buy US properties," said Mr Chan senior.

"Our Reit will give them exposure to the property market there but with less risk... a good investment option for more conservative investors."

Mr Chan said the company intends to offer unitholders an 8 per cent annual yield, paid out quarterly. This is higher than the average yield on available US housing Reits, which offer unitholders yields of between 4 per cent and 6 per cent.

The duo said it is able to offer this premium because of its strict checks and requirements on the properties acquired and tenants it takes in.

For this first phase, each property will be leased to one family for a two-year tenure.

"Families lease the property for a longer average tenure of about 3.5 years compared to students or multiple individuals," said Mr Tony Chan.

To reduce the strain on its balance sheet, Heng Fai's strategy is for the listed Reit to purchase more properties from capital it raises on its own.

It aims to focus on playing the role of a Reit manager which looks after and maintains the properties in the portfolio.

By taking on the role of property manager, it will be able to expand its management services for other residential Reits, said Mr Tony Chan.

Separately, Heng Fai had said earlier this year that it was seeking a secondary listing.

Mr Chan Heng Fai said he could not disclose further details, only that they have narrowed down the options to the US, London and Singapore.

"I've been a Singaporean for four years now and like it here. So I won't rule out the possibility of having Heng Fai listed on the local bourse."

Heng Fai hopes to conclude the secondary listing before the end of next year, and use the proceeds for further investments in the US property sector.

rjscully@sph.com.sg