

June 22, 2008

Consortium pledges to build on €27m investment

An Irish investment consortium operating in Singapore plans to buy two to three more commercial properties before the end of the year after completing the €27 million purchase of an office building in one of the city's up and coming business districts.

The Fine Grain Property Consortium, led by Irishman Colin MacDonald, has raised €22.6 million from a combination of Irish and Singapore-based investors. After closing its funding shortly before Christmas, Fine Grain bought its first property at the end of April.

Number 700 Beach Road was acquired at a cost of €27 million, with the consortium raising 70 per cent of the consideration in financing from the German bank Hypo Real Estate.

"What we are doing is taking properties that are difficult to purchase, transforming them and then planning to sell them on to institutional investors," said MacDonald.

The Beach Road building was originally in the hands of five different owners and he said that it took a significant amount of time and "cajoling" to persuade all of them to sell at the same time.

In addition to this, the property market in Singapore operates in a different fashion to Ireland, with no estate agent appointed as the exclusive selling agent. Instead any agent can try to sell the property, a system that can be difficult to negotiate for potential buyers, he said.

MacDonald instead prefers to concentrate on property that isn't already on the market and make a private approach to a building's owners.

For this to work, he said, any buyer would need to know the local market very well. Fine Grain relies on the experience of one of its directors, Wan Fook Kong, a former senior partner with Jones Lang LaSalle and Colliers in Singapore.

Prior to the acquisition, the building was divided into 55 separate units. Fine Grain is now in the process of transforming it into just eight offices.

"It is being refurbished with a very strong design element," he said. Among the potential tenants expressing an interest are several ad agencies and one investment bank, and MacDonald said these firms were typical of the type of market the building is being pitched at.

MacDonald believes that now is a good time to invest in Singapore. While the US and many European economies are suffering a downturn, Singapore grew by 7.7 per cent last year and is forecast to grow by 5.5 per cent this year.

Driving the commercial market, according to MacDonald, is the government's ambitious plan to further develop the country as a financial services hub and occupy the position that Hong Kong once held in South East Asia. It is pouring €13 billion into the city's infrastructure.

Fine Grain is targeting properties in the S\$20 million to S\$100 million price bracket, which MacDonald described as too dear for individual investors and too small for the big institutional investors.

The consortium is concentrating its efforts in three or four areas around the city which it believes have the potential to come on strongly over the coming years. MacDonald said that he hoped to complete the acquisition of two to three more smaller buildings before the end of the year and still has S\$20 million left to invest.

"Now is actually a good time to buy, since investor appetite has pulled back a bit since the credit crunch," he said. "As a result, vendors have become more realistic in their expectations."

He remained confident about raising the debt financing necessary to complete such transactions, especially after securing the backing of Hypo on the first deal.

"Even in Singapore, credit is tight," he said. Getting Hypo on board was mainly down to his brother, fellow director Alastair MacDonald, who is one of the founding partners of MKO Partners and already had a good relationship with the bank.

MacDonald said that Fine Grain's exit strategy anticipated a sale of assets within a five to seven year time frame. The anticipated rate of return for investors was 18 per cent. Roughly two thirds of investors in the firm are Irish, with the remainder coming from Singapore, either from local people or expats living in the city.

He described the typical investor as a high-net-worth individual who already had a track record of investing in property. In most cases, they have already been involved in the Irish and European markets and were now looking further afield for a better rate of return, he said.