

City & Country

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FINE GRAIN ADDS TO BEACH ROAD BUZZ

With anchor tenant GroupM taking up 35,000 sq ft of space at 700 Beach Road, the private-equity real-estate firm's boutique office building is 75% leased

Fine Grain Property and its CEO
Colin MacDonald are set to
remake Beach Road

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| BY CECILIA CHOW |

It may not have a grand name, but Seven Hundred Beach is the first of several new faces that are changing the landscape of Beach Road into the next 24/7 work-live-play zone located slightly outside the CBD. And the initiative comes courtesy of Irish ex-banker and pub owner turned private-equity real-estate player, Colin MacDonald.

Formerly called InCity Lofts, the eight-storey building at 700 Beach Road was completed in 2002, and was positioned as a Soho (small office, home office) development. MacDonald saw the potential of converting it into a boutique office building with loft-style offices, and attracting tenants the likes of those in the creative and media industries who want to be near the CBD but are unwilling to pay the prime office rents downtown. Architects, interior designers, graphic designers, PR companies, and even professional business services like accounting and law firms are examples of potential occupants.

"The trend in moving into places like this [700 Beach] around the world tends to be among people from the advertising and creative industries,

and also professional services firms that need to be close to their clients but not necessarily in prime office space," notes MacDonald.

The result is like "a breath of fresh air" next door to a relic of the 1970s, the Golden Mile Complex. It's no wonder 700 Beach succeeded in roping in leading advertising and communications giant WPP Group's media arm, GroupM, as anchor tenant. GroupM will lease up to 35,000 sq ft of space over four floors, from the fourth to the seventh levels. It is expected to move into the building sometime early next year. Jones Lang LaSalle is the sole marketing and leasing agent for the building.

The development is now 75% full, with occupants including Denise Wine Co, Hirsch Bedner Associates and GroupM, says Chris Archibald, regional director of Jones Lang LaSalle. The only space remaining are several smaller units and the premium penthouse unit of 11,000 sq ft, he notes.

Boutique development with an edgy design

"This is a boutique development and that means we can command a premium over the rest of the neighbouring properties," explains Mac-

Donald "The fact that we bought at a reasonable price also means that we are not under pressure to drive very high rentals."

However, in light of the current market dynamics, "the landlord is prepared to be flexible on the rental package", adds Archibald of Jones Lang LaSalle.

According to office-space specialists Corporate Locations' December rental guide, asking rents at 700 Beach Road are \$7.50 psf per month. Meanwhile, the new Straits Trading Building at Raffles Place has an asking rent of \$15 psf, 50% higher than that at 700 Beach Road. "By moving [here] companies can enjoy up to 50% to 60% in rental savings, depending on which building they are coming from," observes MacDonald. "Especially in an environment like this, people have an advantage in attracting talent — there's a swimming pool on the roof, plenty of eating places around, and with the upcoming [Nicoll Highway] MRT station, it would be even more accessible."

MacDonald acquired the 99-year-leasehold building at 700 Beach Road from its various owners over January and February this year for a total of \$70 million. He founded Fine Grain Property last year as a private-equity real-estate

firm to specialise in acquiring properties that are overlooked and undervalued by other investors, with the aim of repositioning or enhancing their value. "On a personal level, I really enjoy bringing properties to life," says the CEO. "The Fullerton and the pubs are examples of where you take a property, figure out how to brand it, inject life into it through design and moving space around, and then suddenly you have something very different. And I really enjoy that."

MacDonald took the plunge into real estate when he left his high-flying banker job in HSBC to join Far East Organization in February 1998 to oversee the US\$250 million (\$375.5 million) restoration and conversion of the historic Singapore General Post Office into the Fullerton Hotel at Raffles Place. He started as manager of special projects and was promoted to CFO of Fullerton by the time he left at the end of 2000. It was there that the concept of Fine Grain Property as a business took seed.

The 41-year-old father of three (two girls aged eight and 10, and a five-year-old boy) spent close to 20 years in Asia and the Middle East, working in Hong Kong, Taipei and Bahrain. He settled in Singapore in 1996, and in 1997, with a couple of his fellow bankers

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PICTURES: SAMUEL GOAC / COURTESY EDGE SINGAPORE



The façade of 700 Beach Road, which is close to completing a \$3.5 million makeover

and friends as co-investors, MacDonald set up McCraic Holdings. The company opened Father Flanagan's Irish Pub in Chijmes, Molly Malone's, another Irish pub, in Boat Quay, as well as BQ Bar and The Brasserie. He is still both the managing director and largest shareholder of McCraic Holdings.

As for Fine Grain, it is 35% owned by Singapore-based investors led by MacDonald and executive director, Wan Fook Kong, a former senior partner with Jones Lang LaSalle and Colliers International in Singapore, who specialised in investment sales and had done many collective sales in the last couple of years. Meanwhile, Ireland-based investors led by Ronald Bolger, Singapore's honorary consul general to Ireland, own the remaining 65% stake in the real estate firm. A former managing partner of KPMG Ireland, Bolger is also the chairman of Fine Grain.

MacDonald's brother, Alastair, who is based in Dublin, is also a director of Fine Grain, and a managing partner of a Dublin-based boutique accounting firm, MKO Partners, which specialises in property and financing.

It was MKO Partners that acted as corporate-finance advisers to Fine Grain in the 700 Beach

Road transaction. Hypo Real Estate financed 70% of the acquisition cost. Hypo Real Estate Capital Singapore Corp Pte Ltd, a member of the Munich-based Hypo Real Estate Group, the second largest commercial-property lender in Germany, announced in a statement that it had provided a \$46.1 million investment and \$3.5 million GST financing facility to Fine Grain, and that the transaction was completed on April 17. The facility was granted for Fine Grain's portion of the building, which worked out to be 82% of the total strata area.

The remaining 18% of the strata area (12,000 sq ft) was acquired by the renowned interior design firm, Hirsch Bedner, which bought the space for its own use and moved in recently. MacDonald had worked with Hirsch Bedner while at Fullerton, as it was the interior-design firm for the hotel. In addition to taking a stake in the building, the design firm also committed to investing alongside Fine Grain, an

additional \$3.5 million in the repositioning and upgrading of the building. It is being spruced up with a new façade, sleek new marble-clad lobby, a smart entrance and driveway landscaped by Belt Collins, a rooftop gym and lap pool as well as a spacious outdoor deck that can hold corporate events for up to 200.

Previously, the different floors were partitioned off into 55 small Soho-type units, each with its own strata title, explains MacDonald. The new owners streamlined it into just eight strata-titles, one for each floor. With the tearing down of partition walls and removal of common corridors, MacDonald also managed to increase the overall net lettable area to 67,000 sq ft, and create loft offices with spacious floor plates ranging from 8,500 sq ft to 12,000 sq ft. Ceiling heights are also high, from 4.5m to 6m.

Opportunities in uncertain times

September was a traumatic month for major financial institutions. Lehman Brothers filed for Chapter 11 bankruptcy protection, AIG had to be bailed out and Hypo Real Estate Group was on the brink of collapse. Hypo Real Estate was

bailed out in October, and last Wednesday, the German Financial Markets Stabilization Fund announced it had increased a guarantee to the company by 50% to €30 billion (\$58.4 billion) at unchanged terms and maturity.

Fortunately for Fine Grain, it has not been sideswiped by the events at Hypo Real Estate. As far as Fine Grain is concerned, the debt financing of 700 Beach Road done earlier this year is still in place, says MacDonald. "We have a great relationship with them and the team here in Asia is very experienced," he adds.

What's more, Fine Grain has only invested 40% of its total equity, he adds. "So we are still on the lookout for opportunities to buy, and we think, over the next year or so, some opportunity will present itself."

MacDonald acknowledges that "in the immediate future, it's too volatile to tell where the opportunities are. Clearly, there will be opportunities over the next 12 to 18 months."

Earlier this year, he had announced plans to acquire another two to three buildings within the next six months, "but that's under review", he says, given the current market uncertainty.

Apart from the global financial crisis, which has caused credit to dry up, there is also the matter of finding the right asset at the right price, says MacDonald. "There's still a gap between what people are prepared to pay and what owners are asking for," he admits. "It's not just us, but there have been very, very few transactions in the last six months."

He's sticking to his five- to seven-year investment horizon. On his exit strategy of eventually selling the building to an institutional investor or an owner occupier, he would only say he would like to keep his options open. "From my point of view, allowing ourselves options is something that we always need to do," explains MacDonald. "The day that you buy [a property] is the day you plan your exit. And for us, in planning our exit, we would have made sure we had a certain amount of flexibility going forward."

What's certain is that the private-equity real-estate firm is going to stick to Singapore, a market he and Wan know well, and where he understands the workings of the URA and Building and Construction Authority. As such, he intends to invest in properties in which he sees the potential for restoration, enhancement or repositioning — the "fine grains" of real estate that fall through the cracks of the URA's mega-developments.

In the current perilous financial and property markets, his experience as a banker will serve him well. "A lot of people in real estate are into location and design," he says. "But to me, it's [also] about cash flow and building a robust financial model around the property." ■



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