

# City & Country

## Renewed interest in older, freehold condos on Scotts Road

Units at Scotts 28 and Scotts Highpark sold at psf prices not seen since 2009

## V10 at Balestier to launch at \$1,450 psf

A new boutique mixed-use development is coming up next to Zhongshan Park

# Co-investing in development opportunities in the UK

As the UK government tightens regulations and introduces more cooling measures and additional taxes, some realtors are offering Singaporean individual investors the chance to co-invest in development projects there



Realtors turned developers, such as Saffron Homes and Strawberry Star Group, are offering alternative opportunities for investors in Asia



# Co-investing in development opportunities in the UK

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| BY CECILIA CHOW |

An inevitable outcome of greater government intervention in the form of higher taxes and tighter regulations is more creative alternative investment schemes targeted at cash-rich investors. The primary target? Singaporeans.

Owing to the series of property cooling measures in both Singapore and the UK, launches of London projects have lost some of their lustre. In 2009, there were 30 exhibitions with sales of £100 million. By 2011, there were 80 exhibitions with total sales of £450 million. At the height of the market in 2012, there were 100 UK property exhibitions in town, with sales of £650 million. By 2014, the number of exhibitions had slowed to 70, and last year, it whittled down to 50, according to data compiled by CBRE. The projection is that the figure could be even lower this year.

In good times, developers' budgets for overseas project launches are typically in the seven-figure range. "In 2012, I was involved in the marketing of a London project across five cities in Asia, including Singapore," says a veteran in overseas property marketing. "The developer spent about £1 million." An overseas property launch with all the bells and whistles — five-star hotel venue with wine and canapes; smartly suited representatives from the developer flown in for the occasion; marketing materials, including advertisements — can amount to \$200,000 for just one weekend.

Some niche players who have focused on marketing London projects to overseas buyers in Asia have since repositioned themselves as

property developers and are offering Singapore investors co-investment opportunities.

## Thinking out of the box

"The off-plan sales exhibitions have taken a hit," says London-based Naoufal Dhimi, co-founder and director of Saffron Homes, who was in Singapore last week. "So, we have to think out of the box and [come up with] ways to move the business forward. Our investors and clients always tell us that deep down, they want to be developers. And, it can be a successful strategy."

Another co-founder of Saffron Homes is Monty Nawaz, who set up Saffron International as a London broker with an office in Singapore in 2005. Saffron was established in London in 1997 and specialises in lettings and identifying resale or undervalued investment opportunities in London for overseas clients.

"Saffron Homes was launched as a property investment and development arm with opportunities exclusively for investors in Asia," says Nawaz. "We look out for undervalued or overlooked projects, and structure tax-efficient investment schemes for Asian investors to co-invest in."

A third co-founder is Singaporean architect Patrick Ng, who has practised in London for the past 15 years, previously with award-winning London architectural firms Tate Hindle and Sheppard Robson.

## Club deals

Some of the projects in London offered by Saffron Homes to Singaporean investors are in the form of club deals, with a minimum entry of £200,000 (\$384,908). One example is

a 10,000 sq ft commercial site at Leyton High Road, currently an investment hotspot in the London borough of Waltham Forest. The site was secured by Saffron for £1.6 million; it can be torn down and redeveloped into a residential scheme.

In February, the group obtained planning permission for the development of a three-storey building with retail space on the first level and nine apartments on the upper levels. Construction is expected to cost £1.2 million. Upon completion, the total gross development value of the project is estimated to be £4 million.

Saffron is not new to the area. In June 2014, it acquired the Oliver Twist Pub, which already had planning permission to renovate internal-

ly and add another floor for conversion into nine apartments. The acquisition price was £900,000, and another £650,000 was spent on renovations. Saffron gutted the property and rebuilt it as planned. By February 2015, all nine apartments were sold, for a total of £2.7 million.

Another example of redevelopment with change-of-use opportunity is a 10,000 sq ft freehold site on Coopers Lane. Currently, there is a vacant metal pipe workshop on the site, but planning approval has been secured for it to be redeveloped into a gated residence with six townhouses, Ng says.

In the prestigious Knightsbridge area, Saffron Homes recently completed the acquisition of



Niche developer Saffron Homes' founders (from left): Ng, Dhimi and Nawaz





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**Tan:** We're not targeting the man in the street. The investors must have experience investing in London. If they do not but are prepared to provide funding, they can enjoy the returns.



The 999-year leasehold Sky Gardens contains 204 one- and two-bedroom apartments and is scheduled to be completed by end-2016 or early 2017



Hoola, a 360-unit residential development developed by Strawberry Star in partnership with HUB, is located at the Royal Victoria Dock in London

two freehold houses at Draycott Place, located just 800m from Harrods. The acquisition was made with equity participation from a Middle Eastern bank. The vendors have already obtained planning approval and Saffron just needs to take care of the additions and alterations to the interior of the building.

Plans are underway to turn the property into 10 apartments with sizes starting from 1,600 sq ft, says Ng. The level of quality and finishing of the apartments are expected to be comparable to those at the ultra luxury One Hyde Park. There is space to add two studio apartments. Given the project's prestigious location, the market price of the apartments is in the range of £3,500 to £4,000 psf. That translates to asking prices of £6 million to £25 million per unit.

"If we were to put it on the market today, the apartments will sell out in a very short time as there are a lot of people who would love to live in [them]," says Dhimi.

### Boutique projects

Saffron Homes intends to stick to its niche of boutique developments. "We don't want to go into large-scale developments with a few hundred units," says Nawaz. "Many of the investors we've been talking to are those we have [established a] relationship with over the years, and they understand the London market."

While some of Saffron's offshore structures and special-purpose vehicles are based in the British Virgin Islands (BVI) or Guernsey, Dhimi does not see any cause for concern, even in the wake of greater scrutiny in such offshore vehicles following the recent Panama Papers leak.

Nawaz adds that the only tax that investors in the investment vehicles will be subjected to is a 20% corporate tax. Interest in these schemes has been equally strong among investors in both Singapore and Malaysia. "We don't offer these opportunities as agents on behalf of developers," he adds. "We offer them as a development opportunity in a joint venture (JV) with Saffron Homes."

According to Norman Ho, partner in law firm Rodyk & Davidson's real estate practice,

such offshore companies are often used by parties to minimise tax liabilities. "But being tax efficient does not equate to tax avoidance," he says. "And it cannot be assumed that an offshore vehicle is used for 'improper purposes'."

### Marketing agency turned developer

Like Saffron, another property group that is changing its strategy is Strawberry Star Group, founded in 2006 by its chairman, Santhosh Gowda, and set up in London in 2007. Strawberry Star's maiden investment was in Berkeley Homes' Chelsea Bridge Wharf, where it invested £18 million.

"That was our first acquisition," says Gowda. "We underwrote the project and sold the units to individual investors."

In 2012, Strawberry Star undertook the development of Sky Gardens in Vauxhall, Nine Elms. The project has over 200 units and was developed in partnership with Frasers Property UK, the UK property arm of Singapore-listed property group Frasers Centrepoint Ltd. It will be completed this year.

Another project is Hoola, which Strawberry Star acquired from UK developers Hub in 2014. Located at London's Royal Victoria Dock, the 360-unit development with a mix of studios and one- to three-bedroom apartments is scheduled for completion this year.

Last year, Strawberry Star also invested in the £1 billion Asian Business Port (ABP) project in Royal Albert Dock in East London, jointly with Chinese developer Advanced Business Park. Strawberry Star invested £34 million in the first phase of the project, and is expected to invest up to £98 million in total, making ABP its biggest investment to date.

### Scaling up

To date, Strawberry Star Group has aggregate investments totalling £500 million and a development pipeline of more than 1,000 units, says Gowda. Over the last five years, it has also formed its own development, sales and marketing as well as leasing teams. "We're confident that we can now deliver projects like

mainstream developers, and we want to reach out to people in Asia and the Middle East to join hands with us," he adds.

Besides a presence in London, Strawberry Star now has an office in Hong Kong and Singapore. Gowda had set up his family office and holding company KSD Holdings in Singapore in 2006. Prior to that, he spent 10 years in the Middle East, marketing projects to non-resident Indians working there who wanted to invest in property back home.

The group has a division called Strawberry Star Capital, which focuses on identifying investment opportunities and raising funds to secure the investments. In January, Strawberry Star launched its first property investment fund after securing £25 million. The firm also announced that it has secured a commitment of another £50 million from co-investors in the Middle East, Asia and the US. "We're looking at deploying the fund in a couple of investments," adds Gowda.

### 'New star'

Strawberry Star also announced the appointment of Doris Tan as regional director from the start of 2016. Tan, an international property veteran of more than 30 years, was heading the international residential property team in JLL before this. She had joined JLL after her firm, DST International, which she founded in 1998, was acquired by JLL five years ago.

"A lot of smaller developers from Singapore are keen to enter the London market but they don't know how to get started," says Tan. "Now, we can help them [look] for the right site, raise capital, develop the project, and then sell the units downstream, as well as manage them on behalf of investors after the sale." Tan will be overseeing Strawberry Star's operations in both Singapore and Hong Kong.

According to Gowda, the primary objective of opening offices in Singapore and Hong Kong is "to raise more equity for our invest-

ments in London".

Typically, Strawberry Star will look at development projects of 150 to 250 units. Tan says the minimum investment by investors in Strawberry Star's projects is £5 million to £10 million. "The profile of the investor is very important," she says. "We're not targeting the man in the street. First, the investors must have experience investing in London. If they prefer to be passive investorst but are prepared to provide funding, they can enjoy the returns."

### Joint ventures

The group is also looking at forming JVs with UK government councils to build homes for the local communities, primarily in Zones 3 and 4 in London. According to Gowda, while prices of prime Central London have peaked, there is still a housing shortage in the Greater London area. "In a JV with the councils, we don't have to pay for the land upfront, but we will provide funding for the construction," he adds. "That's where investors from Singapore can invest with Strawberry Star. That's where the demand for housing is."

Tan says she will continue to tap her network of overseas developers and bring projects to Singapore. On April 14, Strawberry Star showcased a project from Berlin. The project offers a mix of one- to two-bedroom units priced from €250,000 (\$381,753) to €500,000. Tan adds that up to 70% bank financing will be provided.

While the heady days of strong sales every weekend at overseas property exhibitions may be over, Saffron's Nawaz sees the rise of new opportunities. "It was a good ride while it lasted," he says. "But the strategy of selling projects off-plan at overseas property exhibitions was always going to be short-lived. As for us, we're the developers and we're offering investors the opportunity to invest alongside us." **E**



Draycott Place at Knightsbridge, which Saffron Homes acquired with equity participation by a Middle Eastern bank, where planning approval has been obtained for 10 apartments and 12 underground parking



When additions and alterations are completed, the project at Draycott Place will have the quality finishing of One Hyde Park