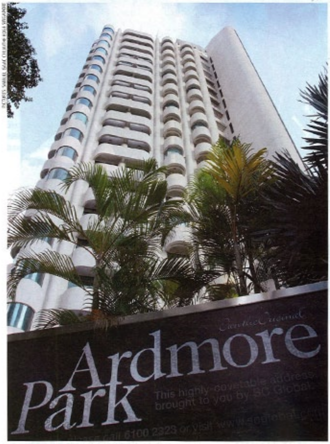
COVER STORY

BS Capital rides the market

Demand is soft but the boutique developer's new project in the prestigious Draycott Drive enclave sets a new benchmark in terms of smallish apartments with luxury fittings

Chin: The market is a bit soft and quiet because everybody is watching how the financial problems in the US are affecting the rest of the world



SC Global's The Ardmore collective sale site located directly across the street from BS Capital's The Arc at Draycott

| BY CECILIA CHOW |

A fortnight ago, boutique developer BS Capital held a cocktail reception to celebrate the completion of its maiden residential project, The Arc at Draycott. With just 58 apartments in a slender streamlined 36-storey tower, the development is the latest of a new generation of smallish luxury apartments to spring up in the choicest residential enclaves in Singapore — the Ardmore Park, Draycott and Claymore Road neighbourhood, just off Orchard Road.

"Given the current market environment, we are likely to see more small and mid-sized developers adopting smaller-sized apartments in their projects, but with the same luxury finishes," says Shaun Poh, senior director of investment advisory services and auction at property consulting firm, DTZ. "This will help make the overall quantum price more palatable to buyers."

The Arc held private previews in October 2005, followed by an official launch in March of the following year, and all the units (except one) were sold in a matter of months. In hindsight, BS Capital's purchase of the former Falcon Crest site (now The Arc) in a collective sale for $40 million or $671 psf per plot ratio (psf ppr) in 2004 was an opportune buy. Back then, property consultant CB Richard Ellis (CBRE) had considered it "the first luxury development site sold since 2001". Recalls BS Capital's CEO, Chin Teck Chuan, "When we first bought Falcon Crest, we actually paid the highest land price in the preceding five years. But of course, the market has since run up."

Subsequent collective sales in the neighbourhood have topped that of Falcon Crest. They include Wheelock Properties' acquisition of Habitat One in 2005 for $180 million ($1,228 psf ppr), Pontiac Land Group's purchase of Pin Tjoe Court for $201 million ($1,358 psf ppr) in September 2006, Wing Tai Holdings' acquisition of Ardmore Point next door for around the same price in March 2007, and of course SC Global Developments' purchase of The Ardmore for $2,338 psf ppr three months later.

Prices softening in latest sub-sale transactions

Like the rest of the top-end market in Singapore, the Ardmore Park-Draycott-Claymore Road neighbourhood has not been immune to the global credit crunch and market slowdown. And some of the latest transactions are starting to reflect that. So far this year, there has only been one transaction at The Arc, and it was a sub-sale in July of a 1,270 sq ft unit on the 17th floor that changed hands for $2.48 million ($1,950 psf). At that price, it is just under 2% higher than the purchase price of $2.43 million ($1,912 psf) that the owner had paid in April 2006, according to caveats lodged with URA Realis.

Two doors away from The Arc is Hong Leong Group's 85-unit The Tate Residences. Construction of the two 36-storey towers is well underway and they look set to be completed by year-end, its targeted completion date. According to URA Realis, the most recent transaction at Tate Residences was the sub-sale of a 1,895 sq ft apartment in May this year for $4.73 million ($2,499 psf), which is marginally higher (9%) than the $4.34 million ($2,290 psf) that the owner had paid in September 2006.

Meanwhile, at Wheelock Properties' Ardmore II at Ardmore Park, a 2,024 sq ft unit changed hands in the sub-sale market for $5.42 million ($2,679 psf) according to a caveat lodged on May 28 in URA Realis. The owner had paid $5.02 million ($2,481 psf) for the apartment in November 2006. This means a capital appreciation of just under 8%.

"We're starting to see such sub-sales in the market by people who can afford to hold, but want to get out as they feel that things could get worse, and they would rather unload their units now," says DTZ's Poh. "It's all related to poor sentiment."

The show unit of a typical 1,270 sq ft, three bedroom apartment at the 58-unit The Arc at Draycott

Incidentally, The Ardmore sits directly across the street from The Arc. SC Global Developments' acquisition of the site last June for $262 million or $2,338 psf ppr is still the highest price psf paid for a collective sale site in that neighbourhood. Malaysian group YTL Corp, however, still holds the record for the highest price psf paid for a collective sale site in Singapore — it acquired Westwood Apartments on Orchard Boulevard, for $435 million ($2,525 psf ppr) last November. Although SC Global's hoarding is up around The Ardmore, the existing development has yet to be torn down.

Directly facing SC Global's The Ardmore site is Wheelock Properties' 330-unit Ardmore Park, the epitome of luxury and the excesses of the property boom of a decade ago. It is still the yardstick by which property consultants measure other luxury apartments today. Even in a soft market, in the nine months from August 2007 to April 2008, eight units in the seven-year-old project changed hands at above $3,000 psf, according to the URA Realis database of caveats. The highest price psf recorded was for a 28th floor four-bedroom apartment in one of the three 30-storey towers that changed hands for $10.1 million ($3,501 psf) last October.

But even the volume of transactions at Ardmore Park has slowed considerably this year. In June 2007, a total of 10 apartments changed hands in the secondary market. In contrast, there was only one transaction this June. Similarly, last July, six apartments were sold in the resale market, but only one this July when a four-bedroom apartment changed hands for $8.05 million ($2,791 psf).

In the immediate neighbourhood of The Arc is the 146-unit luxury condo, The Claymore. Even though it was built two decades ago, it is still regarded as one of the most prestigious condominiums in the location. The most recent transaction in the project was in May when a 2,680 sq ft three-bedroom apartment on the 17th floor of one of the two blocks fetched $6.8 million ($2,537 psf). In July 2007, a similarly sized apartment on the 13th floor of the neighbouring block changed hands for $8.55 million ($3,190 psf), an all-time high for the project.

High construction costs shifting market dynamics

Being an early mover this time round also gives the company an added advantage, notes BS Capital's Chin, and it is that construction costs were locked in at a much cheaper rate. For instance, The Arc's construction cost came up to around $380 psf. He estimates it would cost $600 psf to achieve the same quality of finishes and materials used in the project today, which is 60% higher than what BS Capital paid. Hence, the breakeven cost for The Arc is only around $1,100 psf.

Therefore, in the prime luxury market, although prices are softening, "it's still at a very profitable level for most developers", argues Chin. "Even if you pick the record price for a collective sale site in Ardmore Park — $2,338 psf for the land — and you add on the construction cost of $600 psf today, breakeven is probably at around $3,000 psf. Given the premium address, the [developer] can still sell the units at prices well above $3,000 psf."

If construction costs were to increase by another 10%, it would still be below land cost in the case of prime projects, notes Chin. This is in contrast with suburban sites, where construction costs have already surpassed land prices, he adds. "And rising construction costs are eating into developers' margins."

Just last week, the residential development site at the junction of Tampines Avenue 1/Avenue 10 drew only one bid at the close of the tender in the URA's government land sales programme. The sole bidder was Boon Keng Development Pte Ltd, said to be linked to Midview Group, which is a property construction and development player in the industrial and high-tech space. The bid was $84.63 million or $118 psf ppr based on gross floor area. Meanwhile, at the end of June, URA awarded a 115,970 sq ft residential-development site at Woodleigh Close to Frasers Centrepoint Ltd, which had bid $87.68 million ($270 psf ppr) for the site. In May, Far East Organization was awarded the residential development site at Choa Chu Kang Drive with a bid of $116 million ($203 psf ppr).

BS Capital's 36-storey The Arc at Draycott at 5 Draycott Drive

While the land costs for these suburban sites are in the range of $200 psf to $270 psf, construction costs of mass-market projects now average $350 psf, which is 30% to 75% higher than the land cost, Chin points out.

Not suprisingly, "in an environment of high construction costs, it makes more sense for the contractors-turned-developers rather than boutique developers to bid for such suburban sites", says DTZ's Poh. And that explains Boon Keng Development's opportunistic bid for the Tampines site.

Looking out of the window of his 21st storey office in Clifford Centre, Chin has a bird's eye view of the Marina Bay Sands construction site. "What you can see right now is just the ground works," he says. "The two integrated resorts are only at the beginning of the superstructure stage and this will continue to put pressure on construction costs even as oil prices are levelling off."

Biding its time

With volume of transactions thin as buyers continue to sit on the sidelines, "you [the developer] just have to be prepared to take a longer time to sell", says Chin. "We have completed our first project, and we're ready to move on to the next one. The market is still consolidating and we're in a wait-and-see mode for a suitable development site."

BS Capital's most recent acquisition was in January 2007 when it bought Mount Sophia Apartment in a collective sale for $15.18 million. To date, about half the units have been sold at between $1,600 psf and $1,850 psf at private previews, according to Chin.

The Mount Sophia Suites project is targeted for completion in 2010, around the same time as another BS Capital project, Lumiere, a 168-unit home office tower that is currently under construction. BS Capital acquired the former HMC Building site for $20.5 million in 2005. Units at Lumiere were initially priced around $1,500 psf in December 2006, and hit a high of $2,133 psf in August last year when a 990-sq ft two-bedroom unit changed hands for over $2.11 million. The most recent transaction this year was the sole transaction of another 990-sq ft two-bedroom unit, this time on the 10th floor, for $1.86 million ($1,875 psf). According to Chin, there are only "remnant units" available in the project, and the show suite has since been closed to make way for construction.

In March 2006, the boutique developer also snapped up a 92,664 sq ft vacant freehold industrial site at 8 Tagore Drive for $14.88 million in an auction sale. It was also the first industrial site in its portfolio. The property has a plot ratio of 2.0 and is zoned for "Business 1" use, meaning it could potentially be used for warehouse retail, warehouse and showroom, light industrial, or auto centre purposes. BS Capital is still evaluating its options for the site in the face of soaring construction costs.

Since the acquisition of its Mount Sophia site in January 2007, BS Capital hasn't bought a single site in the last 18 months as "we felt that land prices were just too high and, in retrospect, we were lucky that we were right", says Chin. "But we are now ready, and are starting to look around. However, it remains a big challenge to buy prime land now because collective sale sites are no longer cheap and the more challenging legislation is also a deterrent. Government land sites, on the other hand, are mainly in the suburban areas."

BS Capital debuted in 2003 as a private-property investment company of Raymond Ng, executive chairman of SGX-listed waste recycling company, Enviro-Hub Holdings (formerly publicly-listed construction equipment rental and trading company, Leong Hin Holdings). It has ridden the property cycle all the way up in the last five years. Its name, "BS", was derived from the initials of the name of its maiden acquisition, a large Good Class Bungalow site in the prestigious Bishopsgate neighbourhood, which it paid $69.8 million for back in 2003. BS Capital subsequently subdivided the 276,112 sq ft freehold site into into 16 smaller GCB plots, and packaged and re-sold them.

"The market is a bit soft and quiet because everybody is watching how the financial problems in the US are affecting the rest of the world," says Chin. "As long as these clouds continue to linger, the property market is going to remain this way for the next six to 12 months."

Being a "contrarian", however, Chin says this is still the best time to buy land. His caveat is, "if we find something good". ■