In for the long haul

With a good dose of level-headedness and conservatism, Kishin R K, chief executive of property group RB Capital, is gunning for the big time

By Genevieve Cua

YOUTH is typically associated with a high risk appetite, but Kishin R K, 31, runs property group RB Capital with a level-headedness and conservatism normally associated with businessmen several years his senior.

RB Capital, which owns over S$2 billion in real estate assets, is run on very low leverage of less than 20 per cent. The typical gearing, he says, is around 20-plus per cent.

"Maintaining a low leverage is a key focus of our group. It's important because our model isn't to buy land, build and sell. We have a very long-term view on real estate in Singapore. Therefore we have to expect cycles and be able to weather the ups and downs."

RB Capital's real estate portfolio comprises retail, office and hospitality properties. Its strength lies in a canny eye for redevelopment potential, ultimately tapping a site's potential for enhanced yield. In the office segment, for instance, it acquired and redeveloped two sites on North Bridge Road in 2007 on which the EFG Bank Building now sits. Its office is in the building's penthouse.

In the retail-cum-hospitality space, it is developing the Robertson Quay project, which comprises the redevelopment of the existing Gallery Hotel and the Quayside retail podium at the riverfront district of Robertson Quay. When completed, the project will comprise a 227-room luxury InterContinental Hotel which will also house 63,000 square feet of retail shops on the first three floors. It will be linked to 30,000 sq ft of retail space on the Quayside strip.

But that's not all. Over the past few months, Mr Kishin has unveiled plans to merge his company with his father Raj Kumar's Royal Holdings, creating a sizeable S$4.5 billion portfolio. The merger is part of succession planning and combined holdings are expected to eventually expand to an estimated S$10 billion by 2020.

"By merging, we are able to unlock the potential of Royal Holdings' landbank. From a management point of view, it's timely for us to merge the management and have a single platform. From a succession planning point of view, it's strategic for me to get involved in Royal Holdings.

"There is a lot of experience and grey hair at Royal Holdings, and we at RB Capital are seen as a young, energetic platform. Combining both platforms is timely and strategic as it provides us with the scale and ability to take on the next phase of growth."

While land scarcity in Singapore underpins value for real estate investors, all the segments that RB Capital is exposed to – retail, commercial and hotel – are vulnerable to cycles that can substantially impact capital and rental values. Still, whatever the cycle, Mr Kishin says the group remains on the lookout for promising acquisitions.

"Yes, there are curbs on investments. The market is getting pricey and we have to be a lot more risk averse in our acquisition strategy. Being focused on Singapore, we're able to manage risk a lot better and evaluate downside risks.

"What drives us to buy an asset is the angle that we search for to create value. That's critical. We don't buy a hotel just for the sake of owning a hotel. We buy because we can create a shopping mall out of the inefficiencies, for example. When we have an acquisition in mind, we need to substantiate it internally in terms of the angle by which we can create value, how long will that take us and what are our chances of success.

"When we acquire we are not passive. We ensure there is a value creation process, an asset management plan to unlock its full potential. This is done through a change of use, for instance, and increasing efficiencies; knowing the highest and best use for that location. There has to be an arbitrage so that we fill the gap."

He sees two major risks to real estate in the near and longer term. One is the prospect of higher interest rates. "We believe any interest rate rise will be marginal but it's still a rising curve. We've seen many years of a low rate environment. The biggest risk is that we've gotten comfortable and used to that." Future acquisitions, for instance, will have to take into account a "slightly higher" rate.

VALUE CREATION
Artist impression of the Intercontinental Robertson Quay

PHOTO: RB CAPITAL

"Two, there is a diversion of capital away from Singapore with the measures in place, into areas such as emerging Asia, US and Europe, exciting investors with higher returns and more opportunities."

He says government measures to curb speculation – the additional stamp duty on residential purchases by foreigners and the Total Debt Servicing Ratio (TDSR) rules – are timely. TDSR seeks to ensure that prospective buyers invest within their means and do not take on excessive debt.

"My opinion on this is that in the short term the measures may be slightly uncomfortable. But without the measures we would have been moving into the risk of a bubble."

In the near term he is optimistic about the sectors that RB Capital is exposed to, although there are caveats in the longer term. The office sector, for instance, is "relatively strong" until 2016. "There is a fair amount of new construction. If you look at what's ready in 2015, it is limited. If you need space today, your options are limited, which is the key factor driving up rents. We've seen rents appreciate significantly in recent months. The worry I have is post-2016 when significant supply is expected, coupled with an increasing interest rate environment. Priority for landlords would then have to be on tenant retention."

The next 12 to 18 months, he says, is a "very comfortable zone". "I do see decentralisation as a trend moving forward, as new hubs like Jurong and Paya Lebar present more affordable options. These have attracted global companies and allowed them to have a longer-term solution for their space requirements."

He points out that there is a fair amount of strata space under construction in the city centre and outlying areas. "Capital values of strata office are relatively healthy because of limited supply in the past. Some transactions such as Samsung Hub have crossed the S$3,000 per sq ft mark, but is the general strata market able to benchmark themselves with that? Especially taking into account the new supply of strata offices coming onstream."

Grade B strata offices will face challenges post-2016, he says, particularly those which are not in the best locations.

"My concern is that there may be a coupling of interest rates rising and new supply of offices coming on-stream at the same time post-2016. I don't think financial institutions are expanding the way they used to. The employment scenario is getting challenging. In summary, 2016 and 2017 are a big question mark for the office sector."

Savills has said that limited supply of new space in the office segment is likely to have pushed 2014's average rental increase to as high as 14 per cent. It expects the tight supply to prevail in 2015 as well.

The hospitality sector is relatively more straightforward as its outlook is underpinned by the limited supply of hotels. Says Mr Kishin: "If you look at the supply of hotel sites in Government Land Sale programmes, there is none. DC (development charge) rates have risen for hotels. This makes it less lucrative to build hotels in the future. With that lack of supply and healthy demand, hotels will benefit from a capital value point of view."

As for retail, its share of challenges is fairly well known, particularly as the ubiquity of online shopping eats into margins. Mr Kishin, however, remains upbeat. The key, he says, is to position retail in a manner that does not compete with online offerings.

"It's extremely important for the sector to have a cache, like a lifestyle angle, for instance, where it will not compete with the online world. If you look at the efficiencies of online platforms today, it poses a threat to some retailers like bookstores and CD shops."

The silver lining is that Singapore's positioning as an attractive destination for the wealthy to live and play makes it imperative for luxury brands to have a presence.

"It's difficult not to have Singapore in your plans. We've seen new names come into the market, mainly in the lifestyle space. F&B is doing well from a space demand point of view, as we witness many new entrants in the food sector despite the manpower issues. Over time businesses will get more productive with the efforts invested by the government; they'll get used to the new way of doing business, so it's a short-term discomfort." W

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PHOTO: ARTHUR LEE

Young and driven

PHOTO: ARTHUR LEE

AS RB Capital chief Kishin RK sees it, the biggest challenge for Singapore's young generation is that of maintaining "fire in the belly" and the hunger for success.

As the son of billionaire Raj Kumar, he himself has that fire in spades, even though he says his conservatism has caused him to lose out on deals.

"It's one of the biggest challenges in my generation – Singapore is a really comfortable place. The government provides everything we need. I think it's difficult to have that fire and hunger in such a comfortable environment. At the back of my mind I have to be aware that today we compete with the world, and not just Singaporeans. The world doesn't have the luxury and comfort we enjoy here.

"We need to have a competitive spirit not just to survive but to thrive. As long as we are aware that we're a global city today, we compare ourselves with London, New York, Paris, Tokyo and Hong Kong."

Mr Kishin himself grew up steeped in his father's real estate business, starting from a very young age. "I was a very cheap intern, always interning in the family business. I wouldn't even call myself an intern. I was there. An intern contributes to the firm. I was absorbing from the firm. I continue to absorb and I don't think I'll stop. I was exposed to everything, every business decision. It started becoming more familiar over time."

The early exposure has clearly paid off. Mr Kishin started off in real estate with a Meyer Road apartment, given to him by his parents. He sold that and used the capital to invest in a retail podium of 6,000 square feet on the ground floor of the Malacca Centre in 2006. Today, RB Capital has assets in the hotel, commercial and retail space, valued at about S$2.5 billion. When the merger with his father's real estate group Royal Holdings is complete, the enlarged entity will hold some S$4.5 billion in assets.

Mr Kishin says the family business was his "real school", which honed a passion for real estate. He obtained a real estate degree from the National University of Singapore. "It was real estate through and through. It was the only thing I knew. I was diving into familiar ground."

Still, he cites his schooling in Anglo Chinese School (ACS) as among the most formative. "I always give tribute to ACS. That experience really shaped me, from primary school to junior college… Being at ACS is something I'd never trade. It shapes you as a person, I think for the best."

He says his conservative nature is partly thanks to upbringing. "My dad holds assets for the long term; that's what he is known for. When you hold with a long-term gestation period, it's important to be a little more risk averse. If I have a three-year turnaround I can take leverage as a short-term bet.

"I've lost out on opportunities that turned out well, because of my conservative nature. The one thing about being brought up in a comfortable background is that your appetite for risk taking is less. You ask yourself – do you really need it? … There is risk in every transaction. Do I want to change my nature? No. I have made some mistakes, but for the longevity of the business, I do not need to take on substantial risk at this point. It wouldn't be sensible."

He notes that a substantial amount of high-net-worth investors' capital has flowed into strata commercial and retail properties, as the government's measures to curb prices in the residential market begin to bite. "I think the next few years will be interesting."

He lauds the government's dampening measures as "savvy". "The measures would over the long term steer Singapore away from a potential crash. Yes, there is discomfort in the short term, but the measures are important for the long-term sustainability of the market." W

Development projects for RB Capital/ Royal Holdings
Expected completion Q4, 2016

Farrer Park Medical Suites
- 42 medical suites over seven floors
- 18 units sold at S$3,800 psf; 18 units leased out for 18 years

Park Hotel Farrer Park
- 300 room 5-star hotel under Park Hotel Group management

Intercontinental Robertson Quay
- 227-key luxury Intercontinental hotel
- 63,000 sq ft of lifestyle retail

The Quayside Robertson Quay
- 33,000 sq ft of ground floor retail consisting of lifestyle F&B

PHOTOS: RB CAPITAL