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GETTING AHEAD WITH

THE EDGE™ SINGAPORE

SHARED DESTINY

Kelvin Lim, executive chairman of LHN Group, ventured into the co-living business in 2019. He now owns 12 properties under the Coliwoo brand. Find out why players like lyf, Bespoke Habitat and him are confident about the future of the business amid rising property prices and rents

Read our cover story on Pages 6 and 9

SINGAPORE (INCLUSIVE OF GST)

LHN confident about outlook as it rides co-living boom

Lim: Unlike renting a room in an HDB flat, our rooms here are fully furnished and fully fitted. Photo: Samuel Isaac Chua/ The Edge Singapore

Kelvin Lim, executive chairman, executive director and group managing director of LHN **41O 0.00%** , believes it is important for businesses to adapt and diversify. And that is what LHN has done since it was founded by Lim's father in the early 1990s. The company started off in the sawmill and timber trading business, before shifting to property where it has leased out underutilised spaces from 1991 onwards as the timber business started slowing and more space was freed up as a result.

When Lim joined the company in 1997, the focus then was still on the subleasing of spaces. It was only in early 2000 that the group ventured into space optimisation, logistics services and facilities management. "[This is] where we identify underutilised properties and add value to them by way of redesigning the layout and the look and feel," says Lim in an interview with *The Edge Singapore*.

Lim says that LHN has several types of properties, including industrial, commercial, lifestyle, schools and residential. The diversification is a conscious choice as Lim does not believe in putting all his eggs in one basket. Rather, he is quick to identify new market trends, such as the growing popularity of co-living, and ride along.

LHN first entered the co-living space when it developed a co-living property jointly with Hmlet in Cantonment, which was launched in November 2019. LHN acts as Hmlet's landlord for the Cantonment property and was in charge of refurbishing and fitting up. Hmlet manages the property. LHN has further expanded since then, acquiring properties all around Singapore, refurbishing them and turning them into its Coliwoo brand of co-living spaces.

The first acquisition, back in September 2020, was a four-storey commercial and residential building in Balestier. Today, LHN owns 12 properties under the Coliwoo brand, with a total of 1,673 keys. On top of that, it also has three serviced apartments under its another brand, 85 Soho, to capture shorter-stay guests.

When LHN ventured into co-living, demand growth was a bit slow, as rents of private apartments were relatively affordable. With the delay in construction during the pandemic, coupled with the relocation of many foreigners to Singapore from the likes of Hong Kong, demand for housing increased and rental rates shot up. This has made co-living a more attractive option for many of the renters.

Broadly, Lim sees expats, foreign students and Singaporeans who are in between homes or just looking to be independent, to be his target market. Sure, they can rent flats or apartments, but Lim believes co-living, with its relatively high price tag, is a whole new lifestyle and therefore not a direct comparison. "Unlike renting a room in an HDB flat, our rooms here are fully furnished and fully fitted. You can just bring along your belongings and stay. In the market, not many co-living operators do that — they don't provide essentials like towels, bedding and utensils," he reasons.

Furthermore, similar to serviced apartments, LHN's co-living spaces provide cleaning services. Guests are also able to have their privacy and not have to adhere to odd house rules, such as not being able to cook or bring guests over.

LHN has plans to expand into other segments of the broader accommodation market. "Coliwoo is our co-living brand for expats and Singaporeans, while Coliwoo at Balestier and Lutheran Road cater mainly to students. Next, worker dorms can be a branch out of what we are currently doing. We also intend to look into senior living spaces," says Lim.

Overall, Lim is "looking closely at gaps in the market" to create more property concepts in the future. "They may also not be a co-living concept and may be something in the business space," he says.

Currently, several of the Coliwoo properties also come with shared common areas that double as co-working spaces, providing guests with a conducive environment to work remotely — deemed by the company as its competitive edge versus other co-living brands.

Apart from these features, LHN also owns and operates its co-living properties, giving them better control and longevity, compared to start-ups that function just as co-living operators, which are the majority players in the market. The biggest edge, says Lim, is the company's capital as a listed company, relative to the competition, which are usually start-ups. Just like how Hmlet is subleasing the Cantonment property from LHN, Lim explains that it is more difficult for the start-ups to expand and strike up a long lease with price-sensitive landlords.

"We do this for profit. We are not a start-up. We do things differently from start-ups, because we have the capex to spend. We can rent the whole building or even acquire it. It is more sustainable," says Lim, adding that another player in the market that owns and operates its co-living assets is CapitaLand's Ascott with its lyf brand.

Staying profitable

As Lim has mentioned that the co-living business is one that is capital-extensive, the group's gearing will naturally be high.

While LHN's business is by definition not a REIT, its co-living business is a capital-intensive one where the company purchases properties, refurbishes them and subsequently leases them out as co-living units. This is akin to the asset-heavy model of REITs.

Hence, the group finds that a gearing ratio calculated using the formula of "interest-bearing debt divided by total capital" is a more appropriate gearing ratio, representative of its asset-heavy business model. Interest-bearing debt is the sum of bank borrowings and lease liabilities. Total capital is calculated as interest-bearing debt plus total equity.

For reference, Singapore REITs' gearing ratio is typically calculated as interest-bearing debt divided by total assets.

Hence, the group's calculated gearing ratio as at Sept 30, 2022 is 54.4%.

However, Bloomberg calculates the group's gearing (by way of total debt divided by total shareholder equity) as at Sept 30, 2022, to be 123.5%.

When asked about LHN's debt, Lim explains that the properties bought over the past two years have appreciated greatly, with some seeing close to 100% rise in valuation. Recently, LHN, through its 50%-owned joint-venture company, disposed of its Coliwoo Hotel Amber asset for a consideration of $46.6 million. The property was purchased in May 2021 at $27 million.

While the disposal will pare down some of its debt, Lim is not averse to taking more debt to grow, as "using cash to grow is slow". "Gearing up is not that dangerous, we look at our cash flow tightly and we have been in the master-leasing business for a very long time. We make sure that every M&A we perform is at least cash flow-neutral," says Lim, adding that LHN is comfortable to take on more debt and unlikely to raise funds through equity. Besides listing on the Singapore Exchange since April 2015, LHN has a dual-listing in Hong Kong back in December 2017.

Overall, LHN has ambitious expansion plans across all its business segments. Already, LHN has launched its largest co-living residence and flagship Coliwoo property in Orchard, in February. It also acquired the GSM Building in a collective sale for $80 million in the same month. The property, located in Middle Road, is to be redeveloped into a mixed development, comprising retail and serviced apartment portions.

"We intend to convert levels one and two into commercial space, while levels three to six will be service apartments. We like the location in Middle Road because of its proximity to Bugis, which is currently in a rejuvenation mode," says Lim.

Apart from its space optimisation segment, LHN has a facilities management business too, where it manages car parks and maintains property. The company is actively seeking more contracts by providing integrated facilities management services covering estate and building management, repair, maintenance and cleaning, pest control, and fumigation of buildings and offices to its customers.

With sustainability a long-term trend, LHN is expanding its renewable energy solutions offerings to enterprises in Singapore. "We are now looking to sell clean and sustainable energy to third parties by installing solar panels on the buildings' roofs and signing a long-term power purchase agreement with them," explains Lim.

Via LHN Logistics **GIH 0.00%** , the logistics arm listed separately in April last year, LHN has plans to expand its transportation and container depot services in Singapore and the Asean region.

In its latest FY2022 ended September 2022, LHN reported earnings of $45.8 million, up 63.3% y-o-y. The company attributes the gain to contributions from its commercial properties and residential co-living properties. Revenue, however, was 7.6% lower y-o-y at $111.8 million, due to lower contribution from the facilities management business. The overall earnings growth was thanks to fair-value gain on investment properties.

Shares in LHN closed at 27.5 cents on May 9, about 14.1% lower year-to-date, giving it a market capitalisation of $112.5 million and a P/E of 2.45x.

Moving forward, Lim is confident in achieving healthy results across its three main business segments in the year ahead. LHN's positive outlook is shared by Phillip Capital analyst Paul Chew, who has identified the expansion of Coliwoo across Singapore and the completion of LHN Logistics' new depot to be two major earnings drivers.

Following a visit to Coliwoo Orchard, Chew, who has a "buy" call and 47 cents price target on LHN, notes that the new project will raise LHN's co-living capacity by about 40%. The 411-key property also has healthy demand and already has a waiting list. Rental per month is over $3,000, which is lower than the apartments in the surrounding area with rents of around $5,000 a month with longer commitments of one to two years.

"Another advantage of co-living over rental apartments is the ability to occupy immediately with all available utilities including internet," says Chew, adding that LHN is trading at 38% discount to book value, while valuations are attractive at 4x P/E with a dividend yield of about 6%.