

## PROPERTY & CONSTRUCTION

# Royal Brothers' bet on Aussie hotels paying off

Florence Chong talks to the Kumars about their ventures Down Under

**S**INCE 1990, Singapore investors — Raj and Ashok Kumar — have been going to Australia researching the tourism industry. It took them three years before they made their first purchase in the third quarter of 1993. They then moved very quickly to build up a chain of eight hotels, costing about A\$250 million (S\$275 million) — six in Australia and two in New Zealand.

The brothers are currently negotiating to buy another four hotels in Australia. If these deals are concluded, they will become possibly the largest private offshore investors in Australia.

"We were known as the 'Royal Runarounds'," Raj Kumar told BT in an exclusive interview in Sydney, referring to the days when they were assessing the Australian market.

The Kumars run Royal Brothers Pte Ltd, one of Singapore's wealthiest private companies specialising in retail and property investment.

Their first purchases were in Perth when they acquired Perth International and Quality Princes. The latest purchase was three hotels, owned by Rydges Hotel Group, for A\$107 million.

"We have done well with our deals. We bought when prices were close to the floor," says Ashok Kumar. His older brother says the hotels now carry a premium of 20 per cent since the exchange of the contracts.

They recalled that they were offered the Southern Cross Hotel in Melbourne for which



More acquisitions: Ashok (left) and Raj Kumar are currently negotiating to buy another four hotels in Australia

they made a half-hearted offer of A\$70 million. It was sold subsequently to an Australian investor for A\$35 million. On average, Royal Brothers purchased its hotels at an average per-room cost of A\$100,000, well below their replacement cost.

"If we were to build the hotels in Singapore, it would cost S\$600,000-S\$700,000 a room. And that is not in a prime location," says Raj Kumar. Ashok Kumar adds: "In Singapore, just the land alone will cost S\$400,000 per room."

Cost aside, he says, the most significant thing is that the potential for growth and returns is greater in Australia. Indeed, to extract returns comparable to what they are getting in Australia, hotel owners would have to charge S\$500 a night for rooms, instead of the average of S\$200 per night in Singapore.

The brothers spent four years researching Australia as an investment destination and

concluded that the fundamentals could not have been better. They homed in on the tourism sector which they perceived as being the industry with the best upside — as the sector is not necessarily tied to the well-being of the Australian economy.

"Over the next five years, we believe that it will be the highest earning sector in Australia," says Ashok Kumar. "Australia has many things going for it."

They list as its attractions natural beauty and a low Australian dollar which makes shopping, especially for branded goods, much cheaper than in Singapore or Hongkong.

"Some 3.5 million people are coming to Sydney each year and the number will climb. In two years from now, we expect to see a shortage of accommodation in this city," says Ashok Kumar.

The occupancy rates of the six Australian hotels the brothers have bought have risen to

beyond 90 per cent.

Raj Kumar told BT: "We are a retail oriented group and we want to diversify into hotels."

In Singapore, he says, the group is evaluating the possibility of converting Asia Radio Building in Bras Basah Road into a hotel. It is also looking at other hotel deals.

Royal Brothers was founded in 1947 when textile merchant Naraindas Kumar left Pakistan, following the split of India and Pakistan, to start afresh in Singapore. His first store was Royal Silk Store. Today, it has 27 stores operating under different company names.

Ashok Kumar says Royal Brothers moved into property in the mid-1970s when they bought out their landlords. They quickly found that returns from property appreciation were far more superior to returns from retailing.

Ever since, they had been investing in property. Their latest acquisition was the Promenade shopping complex in Orchard road for S\$159 million about 18 months ago.

"Our group's assets were worth S\$200 million-S\$220 million 10 years ago. Today the value has risen four-fold. We recently sold 10 per cent of our holding to provide us with the equity (about A\$80 million) to invest in Australia," says Ashok Kumar.

After Australia, the brothers are looking closely at India where they are negotiating two deals in Bombay and Bangalore.

● The writer is BT's Sydney correspondent