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Prime horizon

By Tanya Powley

With economic turmoil taking its toll on new developments, where are the most promising locations for investors in high-end property?

Once upon a time, before the global financial crisis – as the modern-day fairy tale goes – cranes and cement mixers were a common sight on city skylines around the world as developers responded to rising demand and rising prices.

Fast forward a few years and the fairy dust is settling in far fewer places. Former hives of building activity such as Dubai and Spain have seen construction sites fall silent as cash-strapped developers and economies struggle to deal with a huge oversupply of new-build homes. So where are the places that are still attracting development money?

House & Home recently explored the raft of developments on the horizon in London but other locations are perceived as safe havens, namely Paris, New York, Hong Kong, Singapore and Monaco – all centres with long traditions of inward property investment.

Liam Bailey, head of residential research at Knight Frank, says: “The main casualties of the recent economic turmoil have been the emerging locations – those tipped as the ‘next big thing’ in the late 2000s." This trend has been given traction by political unrest in the Middle East and north Africa, with investors moving away from troubled areas.

Knight Frank's 2012 Global Development Review shows strong international demand for high-end property high in established markets. London has the highest proportion of international buyers, ranging from 50 to 70 per cent, while in Paris it is around 50 per cent. In New York, Barbados, Singapore, Bangkok and Geneva, foreigners buy up to 25 per cent of prime new-build.

This surge has given construction activity a kick-start in sought-after locations. According to property consultancy EC Harris, over the next nine years as many as 9,000 new prime residential units are due to be completed in London, of which 4,000 are expected to come on the market in 2014/15.

A similar story is emerging in New York. Steve Rutter of Stribling Marketing Associates, an estate agent, says development activity is more active than it was 12 to 18 months ago: "There have been a significant number of buildings and prime development sites that have traded in the last year. Purchase and construction financing has loosened up for developers that have a strong record."

Some experts question whether this level of demand is likely to continue. There have already been signs that global demand for luxury property is receding, with prices in the third quarter of this year rising at the slowest rate since the financial crisis began.

"There is still something slightly intangible about the strength of the true 'global brand' markets which include London, Paris, New York," says Mark Farmer, head of private residential at EC Harris. He notes that Paris could be one city that might suffer as there may be medium to long-term fears over political stability and currency fluctuations if the euro crisis continues. However, future values will be determined largely by the balance between supply and demand.

"Paris has a scarcity of new prime housing," says James Price, head of international residential development at Knight Frank. "There isn't really any new development going on as space is very restricted."

Figures from Knight Frank support this. It found that completions of prime developments fell by more than 20 per cent in the third quarter of 2011 compared with a year ago, while demand rose between 10 and 20 per cent.

The main high-end project on the cards is by Parisian developers Altarea Cogedim in Paris' fourth arrondissement, Quai Henri IV. Due for completion at the end of 2014, it will offer 73 residences on the Seine, from studios to four-bedroom apartments, priced from €500,000 to

€2.5m. Price says half the homes were sold in the first week of marketing – a sign of the demand in prime parts of Paris.

Hong Kong, where high-end properties, mostly on The Peak, average £6,700 per sq ft, also has an extreme scarcity of supply. This has helped propel values upwards by 83 per cent in the five and a half years to June 2011, according to Savills.

Simon Smith, head of Hong Kong research at Savills, says: "Based on Savills' estimates there will be only 53 houses completed on The Peak between 2011 and 2015." He says that lack of land is the biggest obstacle, rather than financing issues that have hit developers in other countries.

"Government has failed to supply land into the market over the last few years, resulting in a chronic shortage across most property sectors. The government is now addressing this issue but at the top end of the residential market availability is expected to remain tight," he says.

However, there are a number of top-end residential developments coming onto the market in prime locations.

In Hong Kong, The Wings, developed by Sun Hung Kai Properties and managed by the InterContinental Hotels Group, will open next year and consist of six buildings with 1,028 apartments. Most will be three or four-bedroom units from around 1,000 to 1,400 sq ft.

In Monaco, two striking developments are being launched. Due to be completed this year, No 23 Boulevard de Belgique is a development of 21 apartments over 13 storeys. Set for completion in 2014 is Tour Odeon, a 170-metre tall double-skyscraper designed by Alexandre Giraldi. Monaco's first new high-rise building since the 1980s, it will consist of 259 apartments, spanning 49 floors, as well as retail, leisure and office space.

In New York, a renovation in Greenwich Village – 130 West 12th Street – has just launched sales. It comprises 42 apartments of one to four-bedrooms, ranging from 869 to 3,875 sq ft. Prices start from $1.4m, with one penthouse on the market for $12.85m.

Midtown Manhattan projects include One57 on West 57th Street, which will consist of condominiums built above a Park Hyatt with views of Central Park. Two penthouses in the complex are on the market for just under $100m. Property tycoon Harry Macklowe is also building a high-end condominium on Park Avenue and 56th Street at the site of the former Drake Hotel.

Rutter believes these developments will succeed because of a shortage of supply and because buyers feel that property is a relatively safe investment. “A very important factor is that the market is no longer as dependent as it was on the traditional Wall Street buyer,” he says. “We are seeing buyers from small hedge funds, new media, technology and the arts.”

Other cities are also expected to see rising demand for new-build property in the near future. They include Milan, Vienna, Munich, São Paulo, Rio de Janeiro, Montreal and Vancouver.
So for some the big bad wolf may be huffing and puffing on the door – but for others the fairy godmother is hard at work.
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Branded residences

The trend of linking a hotel with a high-end residential development may have started in New York with the Sherry-Netherland back in 1927 but the concept is only just becoming widely adopted across the world.

According to Knight Frank, 18 branded residence projects have either been completed this year or are due to be launched by 2015. This includes the Heron Plaza in London, which will consist of a Four Seasons hotel and 120 branded residences,due to open in 2015.

Smaller projects are now appearing in resort destinations. In the Swiss alpine town of Leukerbad, 51 Degrees Spa Residences will feature a five-star hotel and will offer in-home access to the thermal waters of the local springs for its 10 private residences. Prices will be around SFr22,000 per sq m.

High-end fashion houses are also linking up with new luxury developments. Versace and Century Properties are due to launch The Milano Residences in Manila in 2015.

Similarly, more developers are linking up with famous interior designers. In Mumbai, Lodha Fiorenza, a high-end residential skyscraper set to comprise 452 apartments, has been designed by Jade Jagger for Yoo. The apartments are priced from £210,000 to £2m.

In Moscow’s Golden Mile, Barkli Virgin House will feature the contemporary design style of Kelly Hoppen. Prices start at £2,000 per sq ft or £21,500 per sq m.

“Hotel-like services such as concierge, security and room service provided by a luxury brand will help maximise the value of a development,” says Stephan Miles-Brown, head of residential development at Knight Frank.

He says brands charge a “hefty price” for the use of the name and the provision of services: “The more exclusive the brand, the higher the price, and the bigger the premium.”