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New York City (Real Estate) Versus the World

The Big Apple's luxury real estate still a bargain, but gap narrows as the markets in some cities soften



Tiny Monaco, which is occupied almost entirely by Monte Carlo, is home to the most expensive residential real estate in the world.

Can “a real New York bargain” carry a multi-million dollar price tag?

The answer is an emphatic “yes” if the product in question is real estate — and if you’re comparing it to property in other parts of the world.

There are a number of global cities where prices are far higher than they are in the Big Apple. “We’re a bargain, and that’s the way it’s been for a number of years,” said Kevin Brown, an associate broker for Sotheby’s International Realty, who has a long list of clients from Asia. “We’re perceived as value.”

And the prices differentials are pretty astounding in some cases.

For example, in Monaco, the most expensive market in the world, homes average \$6,200 per square foot, according to the most recent Wealth Report from London-based real estate consultancy Knight Frank.

By comparison, the average price in Manhattan was \$2,300 a foot as of March, according to the report. That’s 60 percent less, though appraisal guru Jonathan Miller pegged the Manhattan average at \$2,735 in the second quarter (see related story).

Hong Kong, London and Singapore are also pricier than New York, which ranked sixth on Knight Frank's top 10 list, two notches higher than the year before. The cities were ranked based on the top 5 percent of their sales during all, or part, of 2013.

While the ranking includes several locations in Asia and Europe, Middle Eastern and South American cities are noticeably absent: For all its vast investments in luxury development, for instance, Dubai did not crack the top 10. Neither did Sao Paulo, Brazil, though both were price leaders in their regions, the data show.

And faced with a softening housing market, much of it by governmental design, the four Asian cities on the list may see prices drop soon.

In addition, New York is narrowing the gap with some Asian cities, where values are sliding after a massive multi-year run-up, brokers say.

"Prices are softening," Brown said, adding that government efforts to keep real estate bubbles deflated seem to be working, especially in China.

"The Chinese government works in the same fashion as co-op boards do here in Manhattan," he said. "They are the breaks in the marketplace so as to control runaway speculation."

This month, *The Real Deal* looked at the priciest markets on the planet for residential real estate and at how they stack up against New York.

The priciest global cities for luxury real estate		
RANK	CITY	AVG. PRICE PER SQ FT
1	Monaco	\$6,200
2	Hong Kong	\$4,550
3	London	\$3,700
4	Singapore	\$2,850
5	Geneva	\$2,650
6	New York	\$2,300
7	Sydney	\$2,250
8	Paris	\$2,200
9	Moscow	\$2,150
10	Shanghai	\$2,000
11	Beijing	\$1,750

Source: Knight Frank

Monaco

Residential values seem to know few bounds in this square-mile European country on the Mediterranean.

For the third year in a row, Monaco, which is almost entirely occupied by the famed Monte Carlo quarter, took top honors in Knight Frank's report. And as of March, the average luxury home price of \$6,200 a foot was up 10 percent, from \$5,635 in 2013, according to the report.

Measured another way, \$1 million in Monaco will buy about 162 square feet, or less than half a Manhattan "micro" apartment.

By comparison, \$1 million in New York buys 431 square feet.

Experts say that Monaco's extreme lack of supply propels prices: Not only is the principality tiny, but high-rise construction was mostly banned for three decades starting in the 1980s, until recently.

In addition, residents, who reportedly include Russian billionaire Dmitry Rybolovlev, Beatles' drummer Ringo Starr and actor Roger Moore, who portrayed James Bond in seven films, pay no income tax. That's giving Monaco, which has a full-time population of 38,000, an edge over another tax haven, Switzerland, where laws are tightening (see Geneva, below).

"Those tax laws have allowed it to stay so isolated from any economic upheaval," said Luigi Rosabianca, a New York real estate attorney who has clients from Monaco.

But however incrementally, the supply of homes is increasing. A rare condo tower, the 49-story Tour Odéon from developer Groupe Marzocco, is now being marketed, with 26 of its 70 units sold as of August, according to Bloomberg News. One-bedrooms start at \$7 million, and the five-level 35,000-square-foot penthouse is listed at a stunning \$390 million, which would be the most expensive apartment ever sold in the world if it trades at that price.

Hong Kong

This waterfront Chinese city — where \$1 million buys 222 square feet — saw an average sales price of \$4,550 a foot this year, down from \$4,810 a foot last year, according to Knight Frank.

Like with Monaco, a constrained supply helps to inflate values, analysts say.

The greater Hong Kong region, which has 7 million people living in roughly 400 square miles, is similar in size to the New York area. But much of the city is made up of small, scattered islands and a good portion is covered with steep hills that are difficult to develop.

The government also owns most of the land and can impose strict rules about what goes up on it. And though the city's leaders have, in recent years, suggested taking millions of square feet of unused warehouse space left over from the Hong Kong's manufacturing heyday and converting it to housing, plans have not gotten far.

But efforts to tamp down prices in other ways may be having an effect. Worried about a housing bubble, the Chinese government has for the last few years tried to rein in the market by requiring larger down payments, capping how much buyers can borrow to buy homes and slapping taxes on property flippers.

Subsequently, 2013 saw the lowest number of transactions in the city since the 1990s, according news reports.

Plus, in the 12-month period ending in July, overall housing prices dipped, though by less than a percent.

In response, major developers like Sun Hung Kai Properties slashed prices at mega-projects like the Cullinan, a glassy two-tower condo on Victoria Harbor that's the city's tallest residential building. Last fall, the company offered a 70 percent discount on "stamp duty," a type of real estate fee. But even with the price cut, some apartments there still traded at close to \$4,000 a square foot.



London

If there's a global city that New York gets pitted against more than any other, it's London.

At an average of \$3,700 a square foot, residential sales price "across the pond" in England's capital city are higher than they are in New York, data show. Still, that's a 10 percent drop from a year ago, when the average was \$4,095 per foot.

For \$1 million in London, a buyer can pick up 271 square feet.

Though land is not as limited as it is in Manhattan and other island metropolises, strict zoning regulations keep prices high: The city ranks a lowly 45th globally in terms of skyscrapers, Knight Frank reports. Hong Kong and New York are Nos. 1 and 2, respectively.

In terms of major sales, the blockbuster project continues to be One Hyde Park, a modernistic complex of four linked mid-rise towers completed in 2009 in the Knightsbridge area. This spring, a penthouse there sold for a record \$255 million, according to news reports.

And it's not the first record at the condo, an 80-unit project developed by the Candy Brothers' CPC Group and the Qatari firm Waterknight. In 2011, Rinat Akhmetov, a Ukrainian oligarch, paid a combined \$248 million for a penthouse and adjacent apartment, according to published reports.

Critics say that these ultra-big-ticket purchases obscure what's really happening in the market, by artificially inflating average prices. But real estate in the city seems robust all the same. This summer, home prices finally recovered all the value they had lost during the recession and actually surpassed their peaks from the last boom, according to several market reports.

And London is home to more "ultra-high-net-worth individuals" than any other city. That trend is expected to continue for at least the coming decade, Knight Frank reported.

Singapore

Clocking in at No. 4 on Knight Frank's ranking is Singapore, another enclave where land is scarce. With a population of about 5 million across 277 square miles, the city has an average sale price of \$2,850 a square foot for its super-luxury properties. That's down slightly from the average of \$2,865 in 2013.

But far greater plunges are expected.

Overall home prices were down 3.7 percent in July from last summer, and prices are expected to tumble by as much as 20 percent by 2015, analysts say.

Those drops reflect policy changes aimed at staving off a bubble. Like with Hong Kong, fears of over-speculation by investors have prompted Singapore's government to put in place rules to avoid a collapse. For example, foreign buyers are slapped with levies of up to 15 percent for some home purchases, though residents of the U.S., Norway and Iceland, among a few other countries, are exempt from those fees under the terms of a decade-old trade pact. Also, buyers can't finance more than 60 percent of any home purchase.

Analysts say the market will soon reveal whether those curbs have gone too far, as about 80,000 new apartments are reportedly coming online by 2018. Among those new properties is a blue-chip, 52-unit condo called Cluny Park Residence. Developed by Tuan Sing Holdings, the property, which in addition to other amenities will have a rooftop pool, is supposed to open in 2016. Sales have not started yet and prices have not been publicly released.

Geneva

Geneva, the six-square-mile, high-altitude European financial hub in Switzerland, edged out New York by just a hair. Average sale prices there are \$2,650, the data show. And in *TRD*'s carton-of-milk economic shorthand, \$1 million get buyers 374 square feet.

Prices rose through the recession there and may climb higher, according to several brokers who've been publicly quoted on the topic.

But a series of controversial recent rules designed to stem overdevelopment have taken aim at this second-home market — which may limit the stock of those dwellings, particularly for foreigners. Second homes can now only be built in certain areas, and for the most part, not be super-large.

As a result, Geneva, and Switzerland in general, which have long been trendy with British, German and Italian buyers, may be losing some of its appeal, brokers say. In addition, regulatory changes are tempering its lure as a tax haven for foreigners.

However, even if sellers are now required to pay capital gains taxes locally when they sell Geneva homes, those sales can be tax-free on a national level, so investors might not packs their bags for good.

Sydney

Homes in the top 5 percent of this Australian city average \$2,250 a square foot, just a bit less than New York's figure when Knight Frank collected its data.

And unlike some other cities on the list, Sydney continues to show strong growth; its sales price per square foot average was up from \$2,125 in 2013, the data show.

A single demographic may explain the booming home market: Chinese buyers spent a staggering \$23 billion on real estate in the country from 2007 to 2014, according to a Credit Suisse report. (By comparison, Chinese spent \$22 billion on residential real estate in the much larger U.S. from just April 2013 to March 2014; most of that was directed to a few cities, including New York.)

Sotheby's Brown estimates that a quarter of all buyers of new condos in the city this year have been Asian. Other analysts add that a two-year-old program that offers Australian visas in exchange for \$5 million in real estate investment is also playing a part in fueling the residential market.

Brokers say Chinese buyers prefer homes with views of Sydney icons like the Harbour Bridge and Opera House.

In May, a Mediterranean-style waterside mansion called Altona sold to a Chinese buyer for \$53 million, setting a record for the priciest home ever sold in the country.

"I haven't seen a trend like this in my 30 years in real estate, in terms of a brand-new demographic entering the Australian market with such impact," John McGrath, chief executive of Sydney's McGrath Estate Agents, told the New York Times earlier this year.

Paris

In France's capital, where Knight Frank said prices average \$2,200 a foot, demand has seemed unstoppable.

Property values have jumped by double digits in the last five years alone, according to news reports. In other words, the city made serious gains through the recession and Europe's sovereign debt crisis.

For many, the most coveted homes in a city with little major residential construction are found behind 300-year-old limestone walls in the center of Paris, on Ile Saint-Louis, said Sofia Falleroni, a broker with Town Residential, who works with buyers from France.

Other popular destinations for foreign buyers include the Golden Triangle area by the Champs-Elysees and Avenue George V, a major retail area, sources say.

"Paris never really seems to go down when the market fluctuates," Falleroni said. But some critics say that new tax laws passed in 2013, which increased the rate residents pay on incomes above \$1 million to 75 percent, from 48 percent, may discourage new, wealthy arrivals from overseas.

Moscow

Russian oligarchs, many rich from oil, are driving the record-setting purchases outside their country. But brokers say some are buying closer to home as well.

That explains average prices of \$2,150 a square foot in Moscow, where \$1 million purchases 463 square feet.

Investment targets include the "Golden Mile," or Ostozhenka Street, by the Moscow River, which is lined with landmarked Art Nouveau mansions from the late 19th and early 20th centuries. But wealthy buyers also like mixed-use high-rises — which usually have offices on lower floors and full-service condos above.

Those towers are sprouting in the Moscow City Development, a former factory district that's being converted into a high-density city-from-scratch. The \$15 billion project, which has been likened to the high-density Canary Wharf financial district in London, has been underway for 20 years and contains some of Europe's tallest buildings, which are more geared for investment than for primary residences. It will take at least another decade before the district is completed.

Gleaming towers are "a relatively new model for Moscow, which is an older city," said Angela Rapoport, a Corcoran Group broker who was educated in Moscow and is from the former Soviet republic of Estonia. About half her clients today are Russian.

But the recent turmoil in Ukraine, where separatists that appear to be backed by Russia are battling pro-government forces, has led to tough sanctions by Western countries. That, Rapoport said, has frozen the luxury market.

"Multi-millionaires depend on Western capital," she said, "so they can't make a move without knowing if their business is okay."

Shanghai

"It's on fire," said Sotheby's Brown of this fast-growing coastal metropolis, where prices average \$2,000 a square foot.

Some of the residential activity is being driven by investors, who are buying up newly constructed units, sometimes sight unseen, and then renting them out, said Brown, who compared the situation to Miami during the last boom.

Once the units are rented, their owners usually just continue leasing them out. Brown, whose client list is 40 percent Asian, and other sources said these speculative investments are helping to create a housing bubble. The affluent Jing'an district offers several flashy examples of apartment towers that are popular with investors.

On the other hand, ultra-wealthy residents who maintain their primary residences in Shanghai usually gravitate toward standalone villas, according to Daniel Chang, another Sotheby's agent who is originally from Taiwan, but is now based in New York. Chang said these homes are almost suburban by Western standards, situated in massive developments like Pudong, on the eastern side of the Huangpu River, a burgeoning area away from the city center.

While the Chinese home market has significantly cooled in recent months, analysts say established cities with mixed, global economies like Shanghai are better prepared to stave off a downturn.

Beijing

This city of 22 million, meanwhile, is seeing prices of \$1,750 a square foot on average. But with the Chinese home market's softening, Knight Frank's data, which was collected last year, may be a bit outdated.

Still, luxury high-rise housing construction is proceeding. For example, China Zun, a sloping 118-story mixed-use tower designed by U.S. architecture firm KPF will feature offices, hotels and apartments. It's slated for completion in 2016.

In addition, the Park Hyatt Beijing, a 66-story building with 21 penthouses on the top nine floors, is also under construction nearby.

Aware that buyers are on the hunt, Sotheby's recently opened an office in the city; Century 21 has a beachhead, too.

"There is a real sense that something is happening there," said Christian Rogers, a broker with the Manhattan-based residential brokerage CORE, who works with many foreign buyers and travels to China frequently. "The sense of potential there is so huge."