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Investors braced for tide to turn

Fund managers are prepared for a possible spell of post-peak jitters, reports *Judith Evans*

La Défense: the French capital's business district continues to attract foreign investment interest — Dreamstime

Global real estate has enjoyed two plentiful years — attracting $700bn in direct investment in 2015 and slightly more the year before, not far from the record $758bn achieved in 2007, according to the Chicago-based estate agency JLL.

But 2016 began with equity and bond markets in turmoil, while prices for buildings in key office centres such as London and New York have been coming off record highs. That left the industry with one question to answer: has the market peaked?

"The bloom has come off the rose a bit in terms of real estate valuations," says Jon Zehner, global head of client capital group at LaSalle Investment Management, one of the world's largest real estate fund managers. "The prime market in gateway cities needed to stabilise — it was getting too hot. This could be an appropriate correction. A period of more stable values and maybe a little less passion in the market is what we're envisioning for the year."

Elisabeth Troni, global real estate strategist at Aberdeen Asset Management, says the company's indicators show "late cycle risks" and it predicts that values will fall in 2016, with the UK market "flat to declining". But she adds: "We're not foreseeing a crash."

A crucial question is the direction of investor appetite. A wave of institutional capital has surged into real estate over the past two years, driven by the search for returns.

That capital has increasingly crossed borders and continents: 20 per cent of real estate deals in 2015 were cross-border, according to Savills. It has also helped to push values up for income-generating "alternative" real estate, such as student accommodation.

Yet according to research late last year by Hodes Weill, the real estate advisers, and Cornell University, institutions remain "significantly underinvested" in property, by an average 110 basis points compared to their own targets.

Property investments are still able to offer more income than other asset classes, which is one of their key selling points. Even US offices, one of the most highly priced sectors in the world, offer a 370 basis point premium over yields from 10-year government bonds, according to figures from Green Street Advisors.

Axa Investment Managers has just raised €500m for a new core real estate fund and has ambitions to expand the vehicle to €5bn. Its launch was driven by growing allocations from pension funds, especially in the Nordics and Benelux region, says Isabelle Scemama, global head of real asset finance.

On the other hand, says Mr Zehner at LaSalle, drops in bond and equity values mean some institutions in the UK, US and Australia are reducing their property holdings this year to stay within fixed allocation boundaries.

As the oil price remains low and China's markets weak, an important question is whether the Middle Eastern sovereign wealth funds and Asian corporates that have been snapping up big-ticket assets will remain active.

So far, the signals are mixed. The Abu Dhabi Investment Authority, the world's second-largest sovereign wealth fund, acquired the planned Tour Alto office development in Paris's La Défense business district in February, a sign of continued activity in the market.

However, Walter Boettcher, director of research and forecasting at Colliers, the estate agency, says: "There are clear signs that continued low oil prices will impact oil sovereign strategies, especially when combined with other market events."

Malaysian funds have been selling overseas real estate assets over the past year to repatriate capital as their home country suffers from the oil slump.

Within east Asia, market turmoil does not so far appear to have hurt demand for real estate: investment volumes into Chinese, Hong Kong and Taiwanese property were up 47 per cent, 66 per cent and 18 per cent respectively in 2015 from a year earlier, according to JLL. Chinese investment into Europe meanwhile appears to be on the increase, says Mr Boettcher — though Asian investors are switching their focus to continental Europe from the highly-priced UK.

"A lot of the money coming out of China to invest in real estate is not institutional. It's corporates or ultra-high-net-worth [individuals]," says Mr Zehner. "The volatility and depreciation in the renminbi have actually seemed to encourage them to invest outside of China — they are looking for stability, diversification and more stable currencies, at least for now."

Agents expect significant new flows from Japan. There Japan Post Bank — which has a $500bn investment fund — has said it aims to divert more cash into global risk assets including real estate. At least two other major Japanese institutions are also looking to expand their overseas property holdings, said Richard DiVall, head of cross-border capital markets for Europe, Middle East and Africa at Colliers.

Investors' first concern remains the level of demand for buildings on the ground. In developed markets, banks' unwillingness to lend for speculative development has led to much tighter supply than in the last cycle, say analysts, as well as less financial risk.

They point to a bright spot in Australia, where real estate on the country's east coast has suffered less than expected from the commodities slump. "The office markets and labour markets have surprised repeatedly in recent months. The markets had been preparing for a downturn but they have been positively surprised on net income growth," says Ms Troni of Aberdeen Asset Management.

Private equity investors are meanwhile turning their attention to Italy, where the government is moving to improve private investors' opportunities to profitably access non-performing real estate loans, while economic recovery there has also drawn the attention of sovereign wealth funds, which have been buying up Milan property.

For "higher-octane returns", La Salle is looking to the US and Asia, seeing opportunities for bargains driven by distressed sellers bitten by Chinese economic and market turbulence.

On a broader scale, demographics are driving up interest in residential property. This segment's share of overall investment in the property market has almost doubled to 18 per cent since the downturn, according to Savills.

Homes for millennials in developed economies and the middle class in emerging countries are seen as profitable plays on long-term trends, as are the warehouse sites that cater for their online shopping.

In the shorter term, Mr Boettcher argues "it is too soon to declare an end to the bull market" in commercial property. From New York to Shanghai, investors will be hoping he is right.

Elite cities need to cultivate creative spaces

COMMENT
Ben Rogers

Hipster chic: the buzz of post-industrial cities needs nurturing — Christopher Furlong/Getty

The London I grew up in 30 years ago felt like a city on the way down. It had lost an empire and many of its key trades, most obviously shipping and manufacturing, were in decline.

In the 1960s London's docklands had never been busier but by the early 1980s they had collapsed.

London of course was not the only western city struggling with deindustrialisation. Indeed, with its large business sector, its renowned universities, many professions, government institutions and great tourist attractions, the city was more resilient than most.

Slowly London and many other western urban centres learned how to navigate their way to the post-industrial age. While the precise route differed from one place to another, the basic approach was similar. Instead of shoring up declining trades, cities found that their future lay in attracting and retaining the stars of the new service economy — highly skilled young professionals and entrepreneurs, "knowledge workers" and "creatives". This involved city authorities tackling crime and investing in transport, schools, the public realm and culture.

Many post-industrial cities now find themselves in a position almost unimaginable only a couple of decades ago: they risk falling victim to their own success. Their economies and their populations have expanded fast and inequality and living costs have shot up with them. City leaders no longer worry about attracting young talent but how to stop it from being squeezed out.

London is a case in point. The UK's capital has long depended on its appeal to artists and innovators. They have been vital to its success. London's world-conquering creative industries — its music, film, theatre, publishing, gallery, design and advertising activities — are nourished by an endless stream of talented and mainly young people. David Bowie was once a young singer from south London called David Jones.

The capital's strengths in scientific research and digital innovation are fed by academics and tech entrepreneurs in their 20s and 30s. London has a great, if somewhat under-appreciated history of social and civic innovation — this is the city that gave the world Save the Children, Amnesty International and Band Aid — and this too has been fuelled by youthful talent.

That said, London is much less welcoming to the creative class than it once was. The threats to London's sense of buzz are various. They include characterless development, overzealous licensing and policing of nightspots, an increasingly restrictive visa system and cuts to public funding of arts and culture. By far the biggest problem is the sheer price of living in the city. A third of London's music venues have closed since 2007. The 2014 Artists Workplace study predicted that, on present trends, London will lose 30 per cent of artist studios before 2020. Housing is incredibly expensive. According to the office of the city's mayor, most London artists make less than £10,000 a year from their work, when the average house price is £500,000. No wonder newspapers are full of stories of young Londoners moving to Brighton, Bristol, Barcelona and Berlin.

London is not the only city facing this problem. Paris, once a byword for artistic creativity, has suffered from a reputation of being a safe, over-regulated and air-conditioned city for more than a decade. New Yorkers worry about gentrification and the loss of urban vitality in almost exactly the same terms that Londoners do and there has been a much discussed exodus of New York artists to Los Angeles.

Just as it took cities a long time to work out a route out of industrial decline, so it will take a time to come up with a recipe for preserving the buzz and vitality that post-industrial cities need if they are to flourish.

In the past young innovators have flocked to old rundown areas, with lots of character and cheap rents. As they become developed, we will have to find ways of creating new development that works in the same way.

City leaders will have to get a lot more enterprising about protecting and nourishing late night culture — Paris has followed Amsterdam in appointing a night mayor. London is doing the same. Philanthropists and public funding bodies will need to work together to preserve local cultural centres and artists studios.

The best developers are beginning to understand the value they get from investing in the public realm but they will need to learn to see the value of other cultural assets. The most expensive cities will have to explore if and how to extend subsidised housing to creative workers.

Munira Mirza, London's deputy mayor for the arts, puts its nicely. "Culture is to London what the sun is to Spain." Not even the most powerful city leader can do much about the local weather. But our cities will have to learn how to keep culture shining.

Ben Rogers is founder of the Centre for London think-tank

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Image: "The Orrery" by Joseph Wright of Derby, Derby Museum and Art Gallery

E-commerce sheds acquire a seductive allure

Logistics Growth in returns on warehouses have slowed but remain the envy of rival sectors, writes *Aliya Ram*

The steady transformation of distribution warehouses into one of Europe's hottest asset classes is the Cinderella story of investment in the property sector.

The once unglamorous industrial "shed" has been catapulted by e-commerce into a must-have item on property portfolios. Now, as traditional retail and office landlords look on jealously, investors want to know if the shoe will continue to fit.

Between 2009 and 2015, the capital value of distribution warehouses grew at almost double the rate of retail property — at 34.6 per cent over the period, compared with 18.8 per cent, according to MSCI Global. Investors such as Logicor, Tritax Big Box and LondonMetric have flocked to capitalise on the trend by buying up swaths of land for large warehouses.

As motorways choke up with delivery trucks, however, data from last year indicate that demand could moderate. "At the moment [the] economic growth we have in Europe is consumer-led," says Neil Blake, head of European research and forecasting for CBRE, the property advisers. "Logistics space is eating up industrial space and if we have a recession things might look quite different."

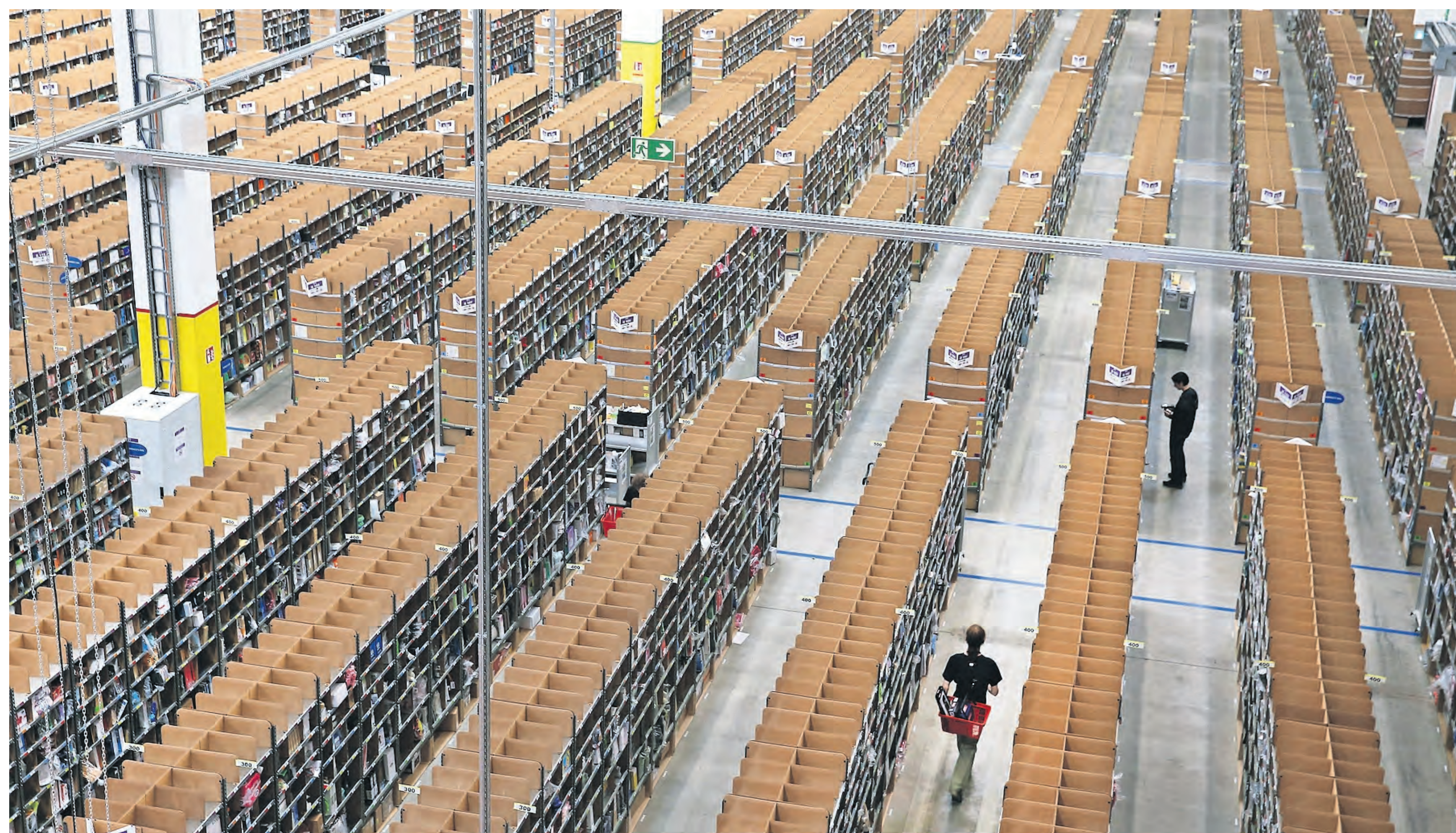
Growth in the capital value of UK warehouses slowed to 25.3 per cent last year according to MSCI, though was still ahead of retail property which grew by 12 per cent.

Guy Gueirard, director of logistics at property advisers JLL, says take-up from warehouse tenants also fell 12 per cent in 2015 to 19.5m sq ft after exceptionally strong demand in 2014.

He says certain sites such as smaller warehouses on the edges of cities continue to benefit from high demand from retailers determined to improve the distributive efficiency of their online and bricks-and-mortar retailing operations. "If there is one thing that we are spending a lot of time on it is city logistics," says Mr Gueirard.

Data from Gerald Eve, the property consultants, show that the average size of sheds built speculatively across Britain — namely, without particular tenants in mind — fell to 155,396 sq ft in 2015. That compares with 197,000 sq ft in 2007 ahead of the global financial crash. The company predicts that the gap between supply and demand for lower quality warehouses will continue to attract institutional investors. It warns, however, that the lower end of the market could soften.

George Underwood, partner at Gerald Eve, adds that warehouses with existing tenancy arrangements will be more attractive to investors than unoccupied, speculative developments.



Retail jungle: Amazon staff walking the floors at a warehouse in Germany
Sean Gallup/Getty Images

"Online retail is driving demand for high-quality space to ever-higher levels and, put simply, there's not enough supply to go around," he says.

"There's also anecdotal evidence that the investment committees of institutional buyers are increasingly comfortable with — indeed, have a growing preference for — occupiers who are taking space to service e-commerce operations specifically . . . and are targeting assets with such occupiers in place."

Last year Tritax, the most acquisitive investor logistics property in the UK of 2015, let properties to such online stalwarts as Ocado, the grocery group which took a 30 year lease on a warehouse in Erith, and B&Q which took a 16.5 year lease in Worksop.

The sector is also attracting the attention of equity investors. When Tritax issued shares last month, demand exceeded expectations and its board of directors expanded the issue from £100m to £200m.

> 'This asset class generates predictable cash flows without recurring capital expenditure'

James Dunlop, partner at Tritax, says the profile of investors in the largest warehousing units differs from those that buy smaller out-of-town warehouses because of the high valuations involved. "You need quite deep pockets to invest in big boxes so they're mostly owned by the institutions. Big box costs everything from £30m to £130m . . . a lot of foreign investors find that type of investment attractive."

Mr Dunlop adds that institutional investors from Malaysia, Singapore, South Korea and Norway have shown particular interest in large UK warehouses, which allow retailers to make distribution more efficient.

In 2013, Tritax Big Box Reit bought Marks and Spencer's Castle Donnington distribution centre for £82.7m, but Mr Dunlop says the landscape is changing as pure-play online retailers enter the scene.

Last year, Amazon rented more than 5 per cent of all new logistics space in the UK, according to estimates from Gerald Eve. For every £1bn spent online, retailers require 930,000 sq ft of warehouse space. With Britons estimated to spend more than £18bn online by 2019, this could mean almost 17m sq ft of warehouse space will spring up around the country.

Andrew Jones, chief executive of LondonMetric, which buys both retail and warehouse property, says Amazon's arrival was very significant for online delivery. He says retailers have realised they have to rebalance their real estate portfolios to take account of the shift to e-commerce, which will mean "less shops and more sheds" and enhance the appeal of assets in the logistics sector.

Mo Barzegar, chief executive of rival Logicor, which has been backed by private equity group Blackstone, agrees. Amazon's speed of delivery has put pressure on other retailers to rent warehouses on the fringes of cities in order to reach customers more quickly. "People have realised that this asset class generates predictable, recurring cash flows without recurring capital expenditure," Mr Barzegar says. "With retail [property] you have to gut and refit the space but with warehouses you just clean the floor and rent it out."

However, with leases that usually last more than a decade, investments have to be made carefully so that properties are still able to be let in the distant future. "There is a lot of opportunity for us to grow but it has to be very careful and strategic and accretive to our current portfolio," Mr Barzegar says.

About 20 per cent of Logicor's portfolio last year was occupied for e-commerce reasons, compared with a portfolio average of 12 per cent, according to Gerald Eve.

Logicor is looking further afield to mainland Europe, where online shopping is growing in large economies such as France and Germany. Logicor estimates, however, that Europe still only has 9bn sq ft of warehouse space, compared with 13bn sq ft in the US. "We are undersupplied for the customers we provide," Mr Barzegar says.

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Italian rebound offers a taste of *la dolce vita*

Commercial space

After a period of crisis, the country is enjoying a renaissance of sorts among investors, reports *James Politi*

When China's Fosun group acquired the former headquarters of UniCredit, the Italian bank, in central Milan last year, it was the latest in a wave of foreign investment in the eurozone's third-largest economy.

The €345m deal was also the largest single asset transaction in Italian commercial property for all of 2015. Fosun, led by Guo Guangchang — who has been nicknamed China's "Warren Buffett" — hopes to turn the property in piazza Cordusio into retail outlets and luxury flats. It enjoys the advantage of being only a short walk from Milan's landmark Piazza del Duomo.

The UniCredit deal came against a backdrop of improving conditions in the Italian commercial property market. These have been boosted by Italy's return to growth last year, after a deeply damaging triple-dip recession.

Meanwhile, two Italian real estate investment trusts, Coima Res and the De Agostini group's Idea Res, are preparing to float on the Milan stock exchange.

Paolo Bellacosa, head of capital markets in Italy for property advisers CBRE, says the market for commercial property acquisitions has "progressively improved in terms of investors' interest and transaction volumes", reaching €7.5bn last year.

Mr Bellacosa warns, however, that the flow of deals could be "tightening" this year. "Vendors are more reluctant to sell or overestimate the pricing expectations," he says.

Nevertheless, where there are to be deals, CBRE's most recent investor survey found that the majority are likely to occur in retail, hotels and offices. Some 50 per cent of respondents wanted to focus their investments in Milan. Italy's second-largest city has been experiencing a revival in recent years, partly because of last year's successful Expo.

Rome, Italy's capital and largest city, lags behind. It has been dogged by corruption scandals and the early resignation of its mayor last year. Just 26 per cent of investors surveyed by CBRE expressed an interest in investing in the city. Florence and Venice, however, appear to be increasingly appetising to commercial property investors. Many surveyed indicated an interest in these smaller cities, which draw millions of tourists every year.

Mr Bellacosa says the Italian market is "still too small" and wishes that it could become "larger, more liquid and more similar to other EU countries". Size, however, is not the only problem, he suggests. "The market is very polarised between a few super core transactions and a vast majority of distressed situations."

Reformist: Matteo Renzi, Italy's PM

Financing transactions may also be difficult given that Italian banks have been experiencing turmoil in recent months, including a sharp drop in share prices and growing concerns about the banks' large pile of non-performing loans.

This is bound to have a knock-on effect as far as their willingness to offer new credit is concerned, especially for higher risk deals.

Italy has seen an improvement on the residential property front. In a recent report, analysts at UniCredit cited data from Italy's tax agency that showed a 10.8 per cent increase in sales in the third quarter of 2015, compared with the same period a year earlier.

"Supply still exceeds demand, but it's evident that the process of normalisation of the market is occurring, with a partial absorption of the stock of unsold homes," the UniCredit report said. "The dynamic of slightly declining prices is a precursor to a recovery of the sector," it added.

Part of the improvement in the residential market has been driven by low interest rates, which have led to a rise in mortgages. According to a recent survey by Intesa Sanpaolo, Italy's second-largest bank after UniCredit, mortgages were up by 0.8 per cent by the end of last year compared with 2014.

"The recovery of financing for families to buy homes is continuing, sustained by the strong growth of gross [mortgage] issuance, and especially the success of fixed-rate deals, which from the middle of 2015 have overtaken those with a variable-rate," the Intesa Sanpaolo report said.

Ultimately, though, the fate of Italian property investments will rest on the extent of Italy's economic recovery. In 2015, the Italian economy grew by 0.8 per cent, according to Istat, the national statistical agency. Most economists are expecting an acceleration to more than 1 per cent in 2016.

Retail therapy in Milan
Flavio Lo Scalzo/Reuters

Many investors are still confident in the reformist political agenda being pursued by centre-left prime minister Matteo Renzi. At the same time, however, there have recently been some signs suggesting problems ahead for the recovery driven by global macroeconomic concerns over the impact of falling growth rates in emerging economies. In Italy domestic unemployment remains at 11.5 per cent, after having declined for most of last year, and industrial production activity appears weak.

> As crisis recedes, the prospects for Italian real estate still remain unclear

This year's stock market decline and the loss of investor — and public — confidence in Italian banks could also have a negative spillover effect on the property market.

Nomisma, an economic think-tank based in Bologna, stated in a recent report: "Although there is no doubt that the Italian real estate market has left behind the heavy crisis that characterised its dynamic for about seven years, it is still problematic to define its prospects over the medium term."

But for now, the deals continue. Early this month, UniCredit announced the sale of three more buildings to a Morgan Stanley real estate fund for more than €200m. This transaction — codenamed "the great beauty" — involved property in Rome along the famed via Veneto avenue, which has always been associated with film-maker Federico Fellini 's 1960s classic *La Dolce Vita*.

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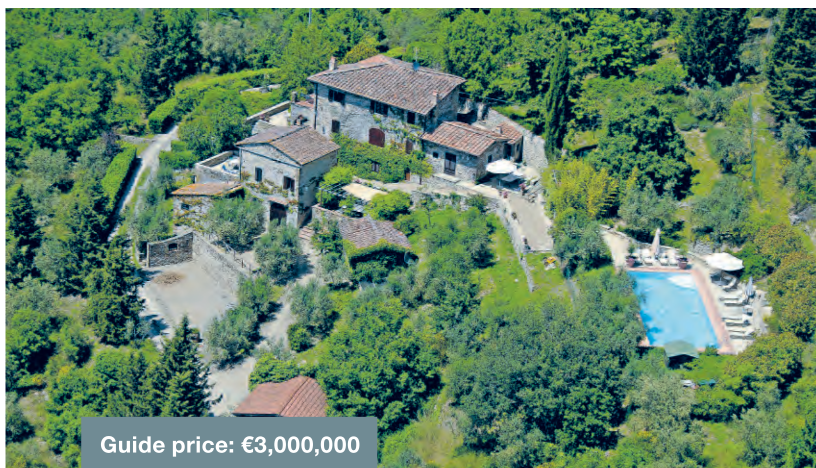
Gaiole in Chianti, Tuscany
Surrounded by beautiful gardens and land, this property sits in peaceful and unspoilt countryside in about 4 hectares with a swimming pool and annexe. 4 bedrooms and 5 bathrooms.



Greve in Chianti, Tuscany
Newly restored property sitting in a beautiful valley above Greve, enjoying sunset views over vineyards and olive groves. 6 bedrooms and 6 bathrooms, swimming pool, annexe, panoramic terraces.

Santa Maria Novella, Tuscany
Originally the mill house of Santa Maria Novella Convent, this property enjoys marvellous views towards Radda in Chianti and the surrounding countryside. 4 bedrooms and 4 bathrooms.

Demand slackens for Manhattan projects

Luxury developments
Fall in demand and excess supply are threatening returns, writes *Anna Nicolaou*

A 24-foot aquarium, an in-house hydrotherapy spa, and panoramic views stretching to the Atlantic Ocean — these are a few of the amenities available to buyers of mega-priced homes in the opulent "super tall" skyscrapers popping up across New York's skyline.

Developers across the city have piled into luxury projects, looking to capture what had seemed to be relentless demand from foreign billionaires seeking bunkers for their money. The building boom has been dominated by luxury: more than 80 per cent of new US "multifamily" units — or apartment towers — built in the past two years have commanded rents in the top fifth of the overall market, according to CoStar, a property research group.

Demand for the priciest property, however, has dried up as the weakening of the rouble and Asian currencies, along with the plunging oil price, have sliced the purchasing power of foreign elites from China, Russia and the Middle East. This has left chunks of glitzy property vacant as more units come to market.

Sales of these ultra luxury homes have slowed since the buying frenzy of 2013 and 2014. In Manhattan, 71 homes sold for between $10m and $20m in 2015, down from 100 in 2014, according to property information company RealtyTrac. Some 39 homes sold for more than $20m, compared with 50 the year before. Similar trends are playing out in Miami and Los Angeles — other cities which have led the US housing recovery thanks to foreign investment.

"There is no question that developers are worried", says Michael Stoler of Madison Realty Capital, a property investor. Banks are "very cautious" and not looking to finance these deals unless purchasers commit a lot of equity.

At prices of $10m and above, global investors dominate buying, which makes demand more vulnerable to swings in confidence in the world economy. Sales in Manhattan for more modestly priced luxury homes — $5m to $10m — rose from 182 in 2013 to 226 in 2015. In total, 336 homes sold for $5m or more on the island last year, while nearly 12,000 sold for under $5m.

A "billionaires row" had emerged after the crisis, as developers built a stretch of skinny skyscrapers along Central Park. This was to meet demand from Chinese and Russian buyers seeking second or third homes that are often left vacant for parts of the year.

The jump in global investor demand in 2014 "appears to have been fully served" by supply, says Alan Lightfeldt of property website StreetEasy. The median sales price of luxury Manhattan homes fell for seven consecutive months to December 2015. Mr Lightfeldt forecasts Manhattan's luxury market will return to a "sustainable growth rate after the party of 2014".

Steven Roth of Vornado, the New York property company, warned nearly a year ago that luxury apartments were at risk of being overbuilt.

> 'Everyone had this herd mentality, and then you get a glut . . . A lot of those projects have stalled now'

With its ridged sides intended to resemble a cascading waterfall, 157 West 57th Street had spearheaded the luxury building boom. But after half the property's units sold in its first six months — one with a record price tag of $100.5m — sales have "slowed considerably", says Andrew Gerringer of luxury property specialists The Marketing Directors.

"Everyone had this herd mentality, and then you get a glut," Mr Gerringer adds. "A lot of those projects have stalled now."

The 157 West 57th Street building is 80 per cent sold, although sales in 2015 have been slower after demand peaked in 2013 and 2014, says Gary Barnett, president of Extell, the tower's developer. "Obviously the super luxury market has slowed down in New York. But there's still demand out there. It's a question of people taking more time and getting through the noise of more supply coming," Mr Barnett says.

Many buyers of property at such prices have been anonymous, hiding their identity behind limited liability companies. The US Treasury last month launched an investigation into all-cash buyers of luxury property in New York and Miami, where at least a third of property purchases worth more than $2m are carried out in the name of such companies.

Developers are backing these high-flying projects with bigger investments than in previous building booms, says Mr Gerringer. They are putting in 30 to 50 per cent in equity for a project, he adds, compared with 5 to 10 per cent in 2008. This leaves them more vulnerable to falls in the market: "Someone will probably go bust, but it's too early to tell," he says.

The types of lenders for these deals have changed in this property cycle. Before 2008 much of the financing came from big banks. In the post-Dodd Frank era, banks have pulled back. Hedge funds and private equity have stepped in to replace them, says Stuart Saft, a property lawyer at Holland & Knight.

Developers have rejigged some of their plans, says Mr Saft, and cut down on larger four-bedroom apartments in favour of two or three-bedroom units with lower price tags.

This is just part of the property cycle, Mr Saft adds. "At some point a hot real estate cycle is going to slow."

Way up high: 157 West 57th Street

Superskinny condominiums
The very height of luxury

A new generation of supertall, skinny skyscrapers is slicing up the New York skyline, a visible product of the luxury property boom as developers have scrambled to build the "biggest, baddest" towers to meet demand from foreign billionaires.

In the past five years, 51 co-called supertall towers — defined as buildings stretching above 984 feet — have been built across New York, Asia and the Middle East. This "astonishing rate" of construction compares with just 50 supertalls built over the previous eight decades, as luxury property has "transitioned into a post-recessionary boom", according to the Council on Tall Buildings and Urban Habitat (CTBUH).

As New York recovered from the financial crash, wealthy Chinese and Russians stormed back into the city's property market as a means of storing their money, pushing up demand for luxury residential apartments. Soaring land prices made making it practical to buy smaller plots and secure air rights to build up. Advances in engineering have made it easier to construct super tall, super thin towers.

This provoked a flurry of plans for buildings of unprecedented height and price, as developers raced against each other to break records. "Developers are somewhat ego-driven. It's human nature," says Andrew Gerringer of New York-based property agents The Marketing Directors.

Standing at 1,005ft, 157 West 57th Street — known as the "billionaire building" — became New York's tallest residential tower when it opened in 2014. It was the first of a stretch of ultra luxury towers that went up along so-called billionaires row on the southern border of Central Park. But a year later One57 was usurped by 432 Park Avenue, which at 1,396ft became the 100th supertall tower and the tallest residential building in the western hemisphere.

The new breed of skyscrapers has prompted something of a backlash from planners and New York residents. The towers cast shadows over Central Park and some locals feel the "grossly tall" structures ruin the skyline, says Eddie Shapiro, president of Nest Seekers, a property broker. As the city grapples with a dearth of affordable housing, some people see these trophy skyscrapers as the embodiment of New York inequality.

There are 18 to 27 more super tall towers expected to be completed this year across the globe and 144 more under construction, according to the CTBUH. In New York more supertalls are in the works for the next few years: 217 West 57th Street at 1,775ft, 111 West 57th Street at 1,428ft and 53 West 53rd Street at 1,050ft. But as the global economy and foreign demand have slowed, comments Mr Shapiro, some of these projects will "probably get pushed to the next cycle".

Anna Nicolaou

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Urban horizons Tower projects often fail to express the spirit of cities, argues *Edwin Heathcote*

Quest for sky high returns grates on the mind and eye

Central London's 'cheesegrater' tower next to St Paul's cathedral
Oli Scarff/Getty Images

The skyline used to belong to God. The spires and domes which punctured the horizons rose upwards in acknowledgment of a higher purpose.

Then came the brick chimneys of industry and their plumes of smoke. Then the monuments of civic identity — the Statue of Liberty, Nelson's Column, the Eiffel Tower as the power shifted to the cities grown wealthy. These were in turn followed by the skyscrapers as the real influence moved to the corporations and banks which built them. The skyline has always revealed who owns the city, where the real power lies and to whom — or what — the citizens look up.

That is why the most recent shift in our skylines demands to be noticed. Anyone visiting New York and looking up will see the city's skyline radically changing. A new typology has emerged — the skinnyscraper — the ultra-slender, uber-extruded tower whose spiritual home is the edge of Central Park.

These attenuated fingers casting their anorexic shadows on to the grass are beginning to exert a real impact on Manhattan's horizon. Rafael Viñoly's 96-storey 432 Park Avenue kicked the new era off. Shop Architects' tapering, astonishingly slender 111 W57th is providing the next instalment. The latter will rise to above the height of the Empire State Building. Jean Nouvel's MoMA tower and Adrian Smith + Gordon Gill's Nordstrom Tower are to come. Both will dominate Manhattan's new horizon.

What is so striking about this new kind of skyscraper is its use — these are condo towers, often with only a single apartment to each floor and 360 degree views of the city. Perhaps that is why the shock has been so visceral — they appear to represent a *de facto* privatisation of the skyline.

The scale is not quite the same in London but here, too, the skyline is being punctuated by dozens of apartment towers. You could argue that in London, even though the towers are shorter, the effect is yet more pronounced. This is still low-rise city and each tower exerts a powerful impact.

The Shard and the Walkie Talkie now poke their way into the city's most surprising views. The Shard's developer, Irvine Sellar, recently went back to the drawing board with plans by the same architect, Renzo Piano, for another super-tall tower.

Dubbed the "Paddington Pole" this lanky cylinder would have radically changed the west London skyline — and it is a testament to the wealth and power in the west of the city that the plans are being revised when the Shard, in less-well-off Southwark, seemed to glide through.

The furore over the Piano project in Paddington seemed to indicate a turning point in London just as the concern over the shadows being cast over Central Park did in New York. London could face a future of over 200 new towers of 20 storeys or more appearing on its skyline over the next few years, while even New York's resolutely high-rise profile is being dominated by the new super-skinny, super-tall skyscrapers.

Fifty years ago in London the buildings that were poking their heads above the horizon tended to be either the architecture of the welfare state — social housing towers, government offices or even hospitals. The Brutalist concrete Guys and St Thomas's Hospital tower was the tallest in south London in the 70s. Now its neighbour the Shard has made it almost invisible.

There were occasional spectacular office blocks like Centre Point, now itself being converted to residential, and hotels but even the most striking structures — take the Post Office Tower — were public buildings.

> The new buildings too perfectly capture the pricing out of ordinary citizens

In New York the skyline had been dominated by the corporations which fed the economic boom time of the post-war years: Lever House, the Seagram Building, the Pan Am Building, the AT&T Tower. These were works by the greatest architects of the age built to express the city's economy as the centre of capital.

In both cities on either side of the Atlantic, the skyline could also be read as a graph of social and economic concerns, an ECG illustrating the pulse of the streets below.

Now the pattern has been disrupted. Some of the towers are undeniably powerful buildings, well-designed, often quite elegant but they are also huge. The towers of today express little of the spirit of the cities above which they loom; rather they act as extruded billboards for real estate as an asset class.

The resentment against these new buildings — even when they might be fine architecture — is that they too perfectly capture the pricing out of ordinary citizens from the centres of their respective cities. But perhaps worse than that, the sale of the bulk of these hyper-luxurious high-rise condos to foreign investors, buy-to-leavers and absentee landlords expresses the globalisation of property, the effects of which have been much like the globalisation of industry — the export of profits and the loss of benefits for the city.

New York, at least, with its high property taxes, manages to capture some of the value back for the city but London, fails in even this most basic respect.

Peter Rees, one-time chief planner for the City of London, called these properties "safe-deposit boxes in the sky", an eloquent encapsulation of the alienation of this real estate from the real city that lies below it.

If this new generation of towers is to be integrated into the city, both physically and psychologically to become part of the streets which they cast in shadow, this problem will need to be addressed.

If it is not, the consequence will be a new architecturally-imposed class system and a picture of inequality inscribed in the skyline in the most graphic way imaginable.

It will leave citizens feeling like tourists in their own cities, gawping up at the homes of the wealthy blacking out the sky where once there was sun.

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Let the good times roll for co-working office ventures

Flexible offices Shared workspace providers are enjoying a boom in demand, reports *Judith Evans*

Work, rest and play: a WeWork office environment

The walls are exposed brick, Apple laptops ubiquitous, the drinks ordered via iPad, the outfits casual. There may be faux-industrial lighting or leather sofas; there will most likely be talk of a creative community.

From San Francisco to Berlin and from Nairobi to Bangkok, the scene is an increasingly familiar one: an office in which companies — especially small technology firms — share ideas and flat white coffees along with a workspace.

Corporations such as Visa and Verizon have succumbed to the lure of the flexible office, which accounts for 8 per cent of newly occupied global office space, according to research produced last year by estate agency Cushman & Wakefield.

That has benefited both traditional serviced office providers such as London-listed Regus, which increased its global network by a fifth to more than 2,700 locations last year, and newer rivals such as New York-based WeWork, which raised money in 2015 based on an implied valuation of $10bn.

In Shanghai, where the concept is newer, there are more than 100 co-working spaces. "It's all part of the sharing economy. It's digital shaking up the workplace," says Mark Dixon, founder of Regus. "We've been doing this for a long, long time — more than 25 years — but it's really now that we're seeing very strong growth."

Serviced offices and co-working are the descendants of the 1980s "business centre" which boasted immediate access to a desktop computer, telephone and fax machine. Providers boosted their income with additional charges for those services. But the latest equivalents thrives on the opposite phenomenon — the fact that workers with laptops and mobiles can set up anywhere.

Cushman & Wakefield traces today's co-working boom back to the financial crisis, which robbed large numbers of skilled workers of their jobs, forcing them into freelance work or becoming "unexpected entrepreneurs". It all fuelled demand for shared spaces. Those spaces then grew in popularity with the resurgence of the tech industry.

> Some offices have unlimited beer on tap and a weekly 'happy hour'

There is also a more prosaic driver: awareness of how efficiently office space is used. Spaces in traditional offices are in use on average for only 50 per cent of the working week, say property advisers CBRE. Companies, therefore, may be tempted to place some staff in flexible spaces that, while more expensive day-to-day, can be expanded or shrunk at will.

A question that splits providers is whether the traditional serviced office such as those offered by Regus and Australian-listed rival Servcorp is fundamentally different from the co-working space like WeWork, whose central selling point is its people.

WeWork argues it offers "much more in addition to the space". Its 55 offices are designed around communal lounges and "pantries" with unlimited beer on tap. One of its selling points is a weekly "happy hour", while events include talks by the likes of Richard Branson.

Eugen Miropolski, director of its European business, says: "You become part of the WeWork community."

Ken Raisbeck, of CBRE, agrees. While serviced offices are "fundamentally focused on financials", co-working "brings individuals together for common purpose", he says. Regus, however, believes this it simply a question of branding. It launched its Spaces brand in 2015, seeking to attract creative workers. Spaces operates in "exactly the same market segment" as WeWork and is growing fast, says Mr Dixon.

Both serviced offices and co-working spaces face the same central risk — the danger that leases taken out by occupiers, which can be as short as one month, will not cover the much longer commitments providers sign with landlords.

If demand falls, providers cannot quickly escape their own leasing commitments. "The long leases versus the short rent remains a classic worry in this space," says John Lutzius, managing director at Green Street Advisors.

That difference was one reason for a series of insolvencies that followed the 1990s heyday of serviced offices. Regus's US arm filed for bankruptcy protection in 2003 and it was forced to sell more than half of its UK business. Another casualty was HQ Global Workspaces, which was eventually bought by Regus.

Regus has sought to mitigate this risk by entering into profit-sharing partnerships with landlords. WeWork has also signed some profit-sharing deals, although it has drawn scepticism from the property industry by taking out a series of major leases at a time when office rents in its biggest markets are at record highs.

WeWork insists a downturn could improve its business. "There could be even more demand. Companies will be more reluctant to sign a three or five or 10 year lease," says Mr Miropolski.

The sector is attracting more players — such as Second Home in London and NeueHouse in New York, which seeks to foster an atmosphere similar to that of a private members' club. Longer established ventures such as The Office Group are taking spaces in landmark buildings.

As long as the good times continue, space exists for all. "The market is growing rapidly and we are growing rapidly within it," Mr Dixon says.

Peer-to-peer pioneer targets mortgages

Lending

The founder of LendInvest has big ambitions to shake up UK property lending, writes *Hugo Greenhalgh*

With any new start-up it is difficult to distinguish ambition from hubris. Either way, Christian Faes has big plans for LendInvest, a company he co-founded in May 2013 with business partner, Ian Thomas.

"I think we can be the biggest mortgage lender in the country," he says. "But it's going to take us a number of years to get there — and it's not necessarily a race. That's not the real test of how good the business is."

His business model has been to attract investors and then lend out money on a short-term basis to property professionals, not first-time buyers. Typically over a three-year period, the average loan size has been about £500,000-£600,000, something LendInvest is keen to reduce as it looks for a more mainstream market. On the other side of the business, the company's customers invest an average of £60,000 which can be advanced as loans.

Last year the co-founders attracted their first outside investor. Beijing Kunlun, a Chinese-listed technology company, took a 20 per cent stake in the company which valued it at £110m.

It was a decision driven not so much by financial need, explains Mr Faes. "The principal [Zhou Yahui] is a tech entrepreneur," he says. "He's been hugely successful and is very experienced in growing a fast-growth tech business." The new backer, therefore, can offer practical guidance as well as financial clout to his property lending venture, he argues.

When LendInvest first launched three years ago, peer-to-peers lenders were a relative novelty in the UK. Now, the market is looking increasingly crowded — and is likely to become more so in the UK following changes in rules which create a new category of Individual Savings Account (Isa). That will allow UK savers to place peer-to-peer loans in the tax-free wrapper from April.

"We would like to be authorised and ready for this year's Isa season," says Mr Faes, "but, as all the platforms are finding out, the FCA [the Financial Conduct Authority, the UK financial services watchdog] is being extremely thorough in terms of the authorisation process.

"Even if we are authorised and ready to go, it's not a story for the next couple of months," he adds. "It's more for the next four to five years."

The launch of the Isa confers much-needed credibility to an industry that has come under fire. In February, Lord Turner, former chairman of the Financial Services Authority, the FCA's predecessor, criticised the peer-to-peer loans industry, warning of possible "big losses" which could "make the worst bankers look like absolute lending geniuses".

Harsh words, and Mr Faes does not dismiss them lightly. He sees some merit in their content — if not the delivery. "If you look at the thrust of his comments I wouldn't say that we wholly disagree," he says.

Next on his agenda is expansion into various Commonwealth countries. And then there are ambitions to buy an "offline lender" — a traditional bricks and mortar mortgage lender. "[We are looking for] one that has experience originating credit, but doesn't have the technology, perhaps is perceived as a dying brand or just doesn't have a brand," explains Mr Faes.

Christian Faes, co-founder of mortgage-lending venture LendInvest

For the peer-to-peer proponent, the ultimate test is whether LendInvest is still around in 10 years' time. The venture's success will depend on continuing to ensure "borrowers have a good relationship with the business" while also ensuring those committing their funds remain happy, he says.

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Second-tier cities rival capital returns

Urban rankings

Less renowned destinations are catching the eye of real estate fund managers, says *Peter Bill*

Last year the high prices demanded of property investors in the world's "super cities" of London, New York, Tokyo and Paris drove global fund managers towards a second rung of merely excellent cities such as Berlin, Beijing and Seattle.

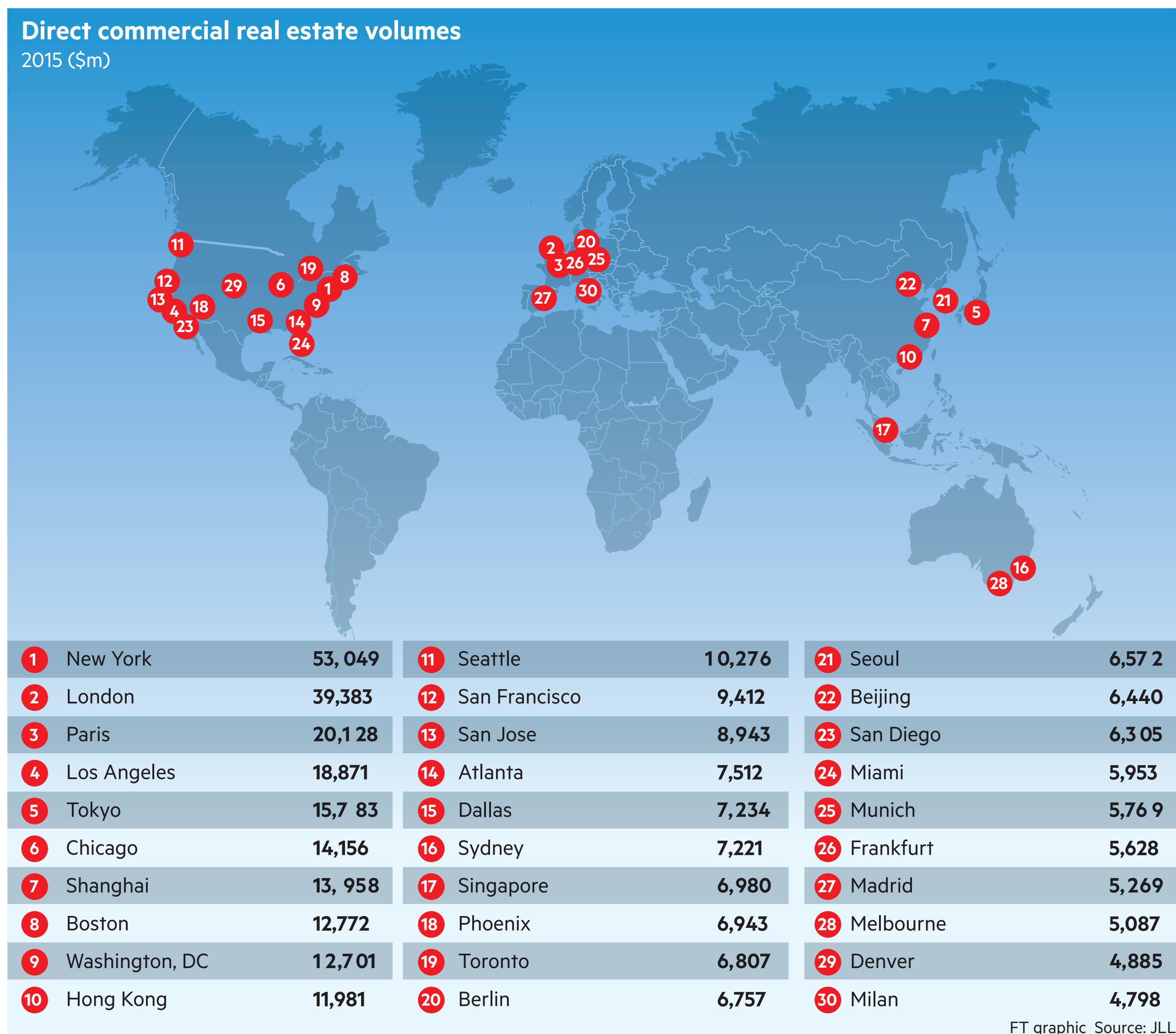
Commercial property investment leapt 65 per cent to $30bn in this group of lower-tier destinations. By contrast total spending in 2015 across the world's top four super cities fell by 10 per cent to $128bn compared with the previous year, according to latest figures from JLL, the international property agency.

Though super cities may command the weight of investment in commercial real estate, they do not necessarily all offer the best returns. Anticipating swings in returns available across the many dozens of less obvious and unfashionable urban destinations is also part of the task faced by an elite group of global fund managers. It is relatively easy to identify a solid core of favoured locations in the US and Europe. Delivering a shopping list of winning locations to property investors has become more challenging in Asia, however, as regional economic uncertainty has risen.

Alastair Hughes, chief executive of JLL's Asia Pacific division, argues that Bangalore, Manila and Shenzhen remain good investment bets. "Each has large, young and fast growing populations," he says.

Shenzhen has become China's Silicon Valley while Manila's appeal is growing as it experiences the beginnings of an outsourcing boom. For its part, Bangalore has already become a world leader of IT outsourcing.

Europe offers an increasing range of less obvious attractive destinations. Nine of JLL's dozen favourite spots in Europe are not prime global locations. Aside from Paris and London, Istanbul, Dublin, Edinburgh and Manchester feature in this list. "There is increasing recognition that success is no longer purely about size but involves a capacity to adapt," concludes the JLL report, which is scheduled to appear on March 15 at the same time as the MIPIM trade show in Cannes.



#	City	$m	#	City	$m	#	City	$m
1	New York	53, 049	11	Seattle	10,276	21	Seoul	6,57 2
2	London	39,383	12	San Francisco	9,412	22	Beijing	6,440
3	Paris	20,1 28	13	San Jose	8,943	23	San Diego	6,3 05
4	Los Angeles	18,871	14	Atlanta	7,512	24	Miami	5,953
5	Tokyo	15,7 83	15	Dallas	7,234	25	Munich	5,76 9
6	Chicago	14,156	16	Sydney	7,221	26	Frankfurt	5,628
7	Shanghai	13, 958	17	Singapore	6,980	27	Madrid	5,269
8	Boston	12,772	18	Phoenix	6,943	28	Melbourne	5,087
9	Washington, DC	12,701	19	Toronto	6,807	29	Denver	4,885
10	Hong Kong	11,981	20	Berlin	6,757	30	Milan	4,798

FT graphic Source: JLL

Property fund managers spend much time and expense at this annual assembly of industry leaders on the French Riviera, both aboard yachts and ashore, promoting investment strategies and attempting to grab the attention of the world's biggest pension, life and sovereign wealth funds.

The running of global funds generates billions of dollars a year in gross fees. The research produced by agents aimed at justifying their strategies to investors provides a useful "map" of the investment world. But it is also often used internally as a "first filter" by fund managers as a stress test on their own sophisticated risk models.

A series of sales of commercial property in London, New York, Hong Kong and Tokyo in 2015 indicate the warning lights may already have been blinking "sell" for fund managers who control large portfolios of assets in prime cities for at least a year.

Anthony Myers, Blackstone's head of real estate in Europe, appeared to be hedging his bets when he said in Paris last month: "For stabilised assets, it's a good time to be selling . . . but we're still here to buy in Europe." His views count. Blackstone, ranked the world's biggest real estate fund manager, has $94bn of property assets under management and a purse filled with billions more.

Neil Cable, who runs Fidelity's €1bn European real estate fund, also argues the case for a more measured approach to investing in prime locations.

One factor is that more prestigious locations often offer constrained time windows within business cycles to profitably acquire assets, he argues, when compared with the more consistent returns available in lower ranked destinations. "There are only two years in ten when it makes sense to buy prime," he argues. "We can still buy secondary property with a 2 per cent yield premium over prime."

The opportunity to steadily build a portfolio of assets in this secondary market, when compared with the stop-go market conditions that exist in many prestige locations, is akin to "starting a 100 metre race 20 metres up the track," he says. "Usain Bolt might beat you, but few others will." Fidelity produced returns of 14 per cent in 2015 from a £450m UK fund invested in resolutely un-prime spots like Bournemouth and Gatwick.

Andrew Angeli, head of UK strategy at CBRE Global Investors, backs the trend towards looking beyond super cities. "Last year 60 per cent of our £1.4bn investment in the UK was spent outside the capital," he says.

Among deals struck by CBRE was a £130m investment for three office buildings in Birmingham on behalf of a German investor, with rents expected to yield a return of just under 6 per cent. "But we don't necessarily just go for bigger cities" says Mr Angeli, whose company ultimately manages $89bn of assets worldwide. "We like Slough and Milton Keynes," he says. "We are also happy to consider alternate property sectors offering long term income, including roadside properties in less salubrious locations."

Leading fund managers including Blackstone, Starwood, Lone Star and Brookfield and CBRE Global Investors tend to have the best intelligence networks in the sector. But relying on the size and reputation of investment institutions is no guarantee of returns in a sector also subject to large risks.

Ian Marcus, former head of real estate at Credit Suisse and now adviser to Eastdil Secured and Wells Fargo Securities, recalls the lead-up to the last crisis. Between 2004 and 2007, "we all fell into the same trap: management by Excel", he says. "No one really bothered to go out and look at the real estate."

It pays to visit. Before committing, investors need to know about who they will be doing business with — particularly if cities operate as political fiefdoms. Who "owns the city" can influence investor sentiment says Rosemary Feenan, global research director at JLL.

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