RESIDENTIAL RESEARCH

BRANDED DEVELOPMENTS

The impact of branding on luxury residential developments, 2012

Knight Frank

Growing demand

The prime global residential market has seen a strong return to growth over the past three years following the downturn experienced in 2008 and early 2009. Branded residences have been at the forefront of this process.

Prices for prime residential property have outpaced the performance of the mainstream market in many international locations. As figure 1 confirms, in the three years to June 2012 the main prime city markets saw prices rise by 15.5%, compared to only 3.5% for the wider mainstream markets.

While the prime markets have outperformed, as we confirm in figure 4 those prime markets have in turn been outperformed by branded residences located there.

To understand the reason for this outperformance we need to understand how the ability of purchasers to generate wealth and their inclination to invest this wealth in residential property has developed over recent years.

The demand for prime property, especially cross-border transactions which tend to favour branded residences, has benefited from the recovery in the fortunes of the world's wealthy since 2009. Figure 2 confirms the growth in the high-net-worth population between 2006 and 2012.

Data provided by Ledbury Research, and published in the 2012 Knight Frank/Citi Private Bank Wealth Report, reveals that wealth creation has been dominated by the emerging market economies. The biggest high-net-worth population growth rates for 2007 were recorded by Asia-Pacific (154%), the Middle East (100%) and South America (67%).

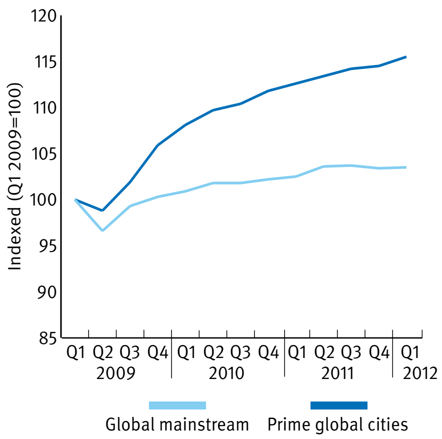
Research from The Wealth Report confirms that future growth in HNWI and UHNWI numbers will centre on locations that have reserves of existing wealth and innovation (the US), places that are financial and high-value service specialists (UK and Hong Kong), commodity-rich economies (Australia, Brazil, Russia and Canada), emerging market powerhouses (China and India) and low-tax jurisdictions (Switzerland) among others.

The growth in the number of wealthy people and the value of their assets has coincided with a shift in their investment requirements. Figure 3 confirms that several years of chaotic financial markets have convinced many of this group that they ought to invest a greater share of their wealth portfolio in tangible assets, including residential property.

This growing demand from the wealthy has of course supported the growth of prices, but more importantly has encouraged developers to attempt to differentiate their developments to create a premium proposition and attract a larger share of this expanding market. This process has encouraged increased attention on branded residences.

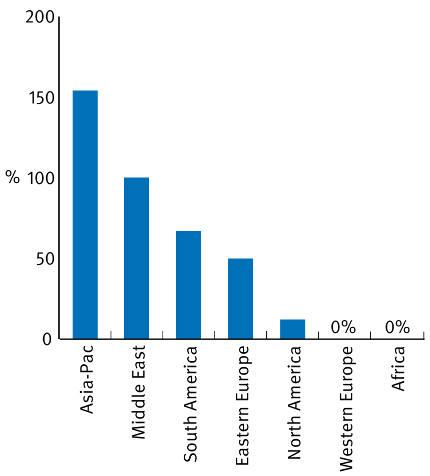
Over the next few pages we provide a definition of the branded residence concept, assess recent market performance and examine whether these properties attract a price premium.

Figure 1
Prime and mainstream pricing diverge
Knight Frank's Prime Global Cities and Global House Price indices compared, index from Q1 2009



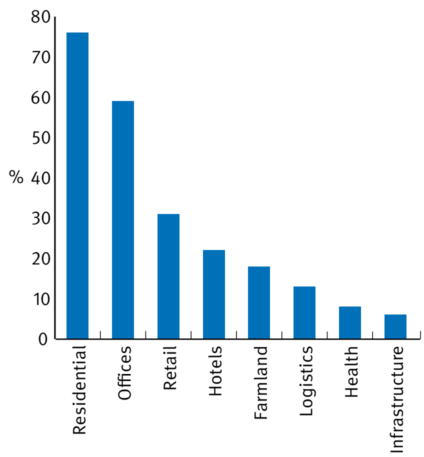
Source: Knight Frank Residential Research

Figure 2
Wealth recovery
Growth in UHNWI population, by world region, 2011 to 2016



Source: Knight Frank Residential Research

Figure 3
Residential leads wealth investment
Property investment sectors HNWIs increased exposure to in 2011, % of those responding



Source: Knight Frank Residential Research

Defining branded residences

Originally, branded residences were simply residential developments linked to an adjacent hotel. However, the provision of hotel services is now only part of the concept.

The idea of linking hotels with residential space is not a new one; New York's Sherry Netherland Hotel offered private residences when it opened in 1927, and as the market has matured developers have widened the range of services offered.

There are several key themes which have been developed as the concept of a branded residence has evolved, from an emphasis on services and facilities to serve wealthy but time-poor individuals, to the significant level of attention paid to both architecture and interior design, as a means of creating an identity for the development and improving the environment offered.

The importance of branding and design

Using brands as a means of identification has become increasingly important in a competitive marketplace. Residential developers have applied lessons learnt in the hotel sector to their own developments, helping to create individuality and also exclusivity.

The rising profile of design and branding in residential developments, especially at the top of the market, is reflected in the shift in consumer expectations. The branding of residences creates an aspirational model and a reflection of luxury and prestige associated with that brand, helping developers to stand out in a competitive market.

Design is a critical part of the creation of a brand. The use of well-known architects and interior designers for example not only increases the quality of the final product but also helps potential purchasers identify with the development.

Integrating facilities

The emerging trend for knowledge transfer of the hotel experience to residential developments involves both branding and the integration of hotel services and amenities, with the objective of incorporating not only luxury and prestige but also security and privacy.

Residents in the best world-class developments increasingly benefit from integrated hotel-style services, which can include: 24-hour concierge and security service, CCTV monitoring, private elevators from secure underground parking direct to apartments, chauffeurs and porters, integrated entertainment systems, concierge, laundry, theatre and restaurant booking, and shopping services.

Prime branded residential properties increasingly function as fully networked places of work, including facilities for business meeting, conference and video-conferences.

As service and facility standards have risen in hotels, demand for similar standards in branded residences has followed suit, particularly for restaurants and bars, private dining rooms, private cinemas and screening rooms, climate controlled wine cellars, wine tasting facilities and external wine consultation services.

Health and fitness suites are a key requirement and the level of service expected has risen over recent years to include swimming pools, saunas and spa services.

"Branded residences command an average uplift of 31% compared to equivalent non-branded schemes."

Barkli Virgin House by yoo

Is there a premium for branded residences?

Branded developments are provided with more services and facilities than their non-branded competitors. They also have more attention paid to design, both internally and externally. Of course, all this comes at a cost, with higher service charges.

The key issue for developers and investors is whether, branded developments achieve and maintain a premium price compared to non-branded developments. To test this issue we have assessed prices for branded and non-branded developments in the world's key development markets.

During July and August 2012 we worked with our global network to assess like-for-like pricing for 26 branded developments in 17 global locations, together with 79 comparable prime non-branded developments.

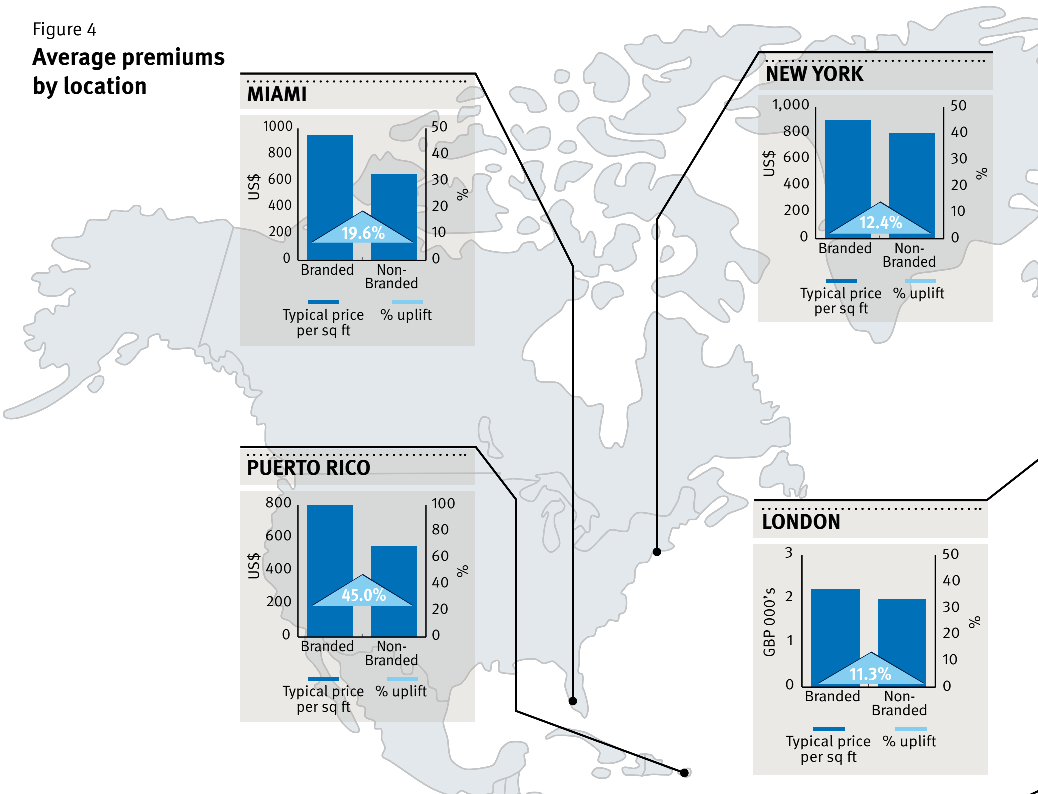
We selected locations which had examples of both luxury branded and non-branded schemes, and where the price evidence was strong enough to be able to confirm typical values on a per sq ft basis.

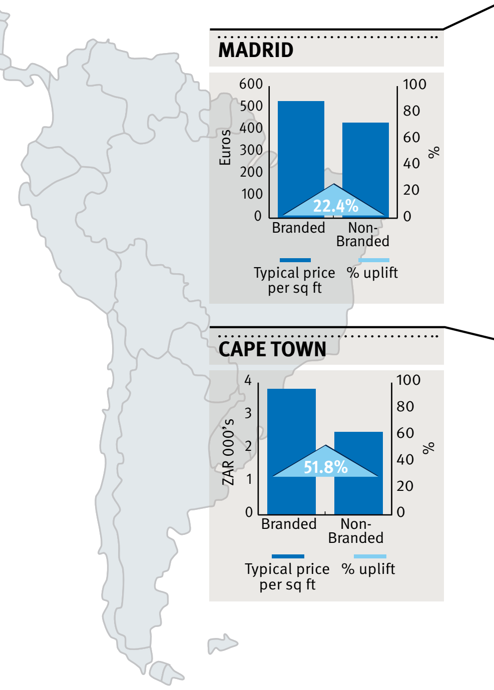
Our analysis has allowed for differences in development location, unit sizes and specification. Our results confirm that, for each location where we were able to attain sufficient evidence, branded developments outperform non-branded developments.

The results of this exercise are illustrated on figure 4 and confirm that branded developments are priced at a premium to non-branded developments with an average 31% uplift, although the rate of uplift ranges from 5.7% in Jakarta to over 50% in several locations.

Our results shown on the map confirm average prices in local currency (on a per sq ft basis) across branded and non-branded schemes.

Figure 4
Average premiums by location





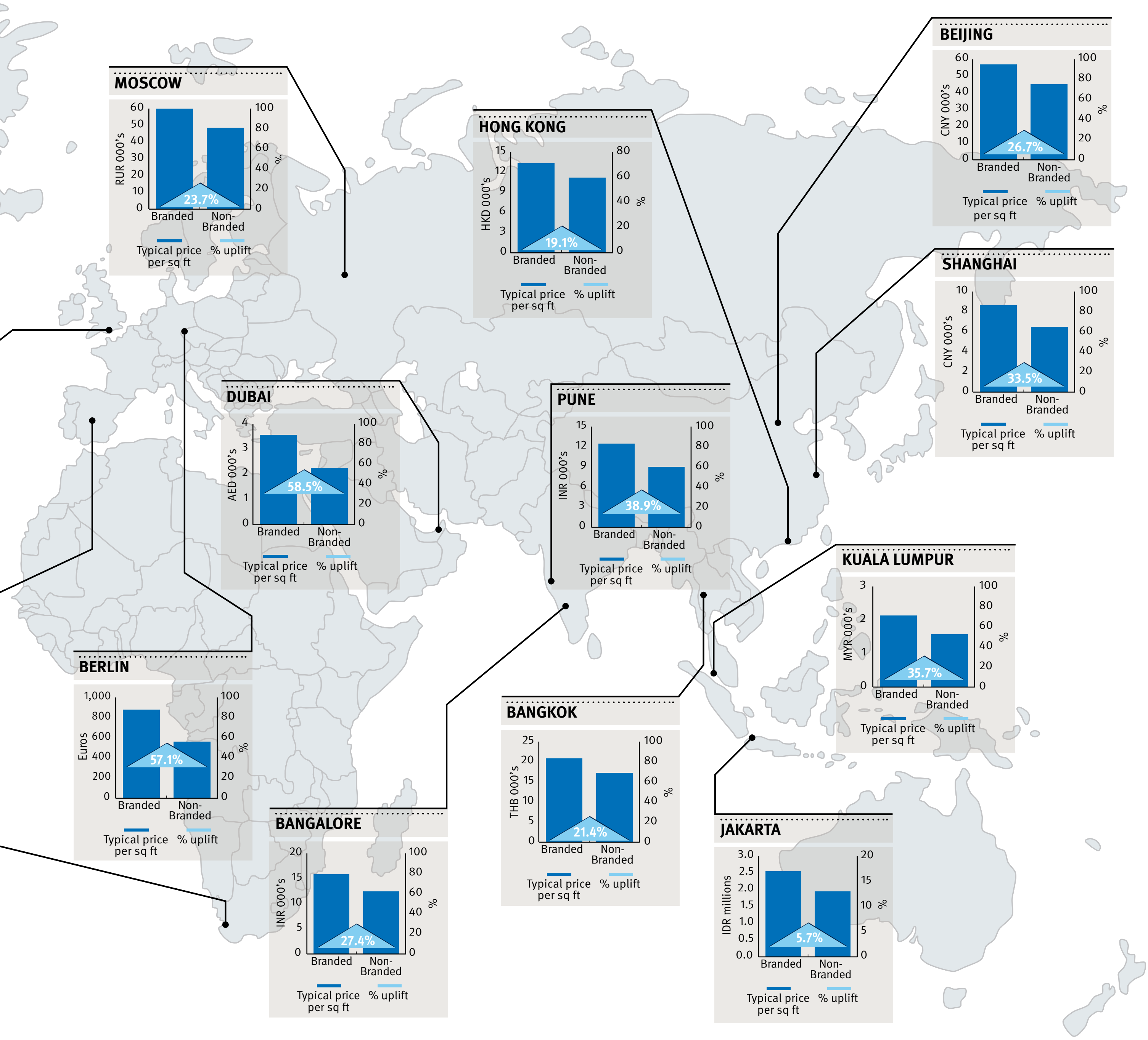
The drivers of the price premium

During our research we collated views from agents and developers across the main global markets to provide a consensus on the price premium commanded by branded residences. There were four key themes which emerged and which are reinforced by our own experience in this market.

Firstly, branded developments sit at the most competitive and innovative edge of the market. This is the sector where developers are attempting to reinvent the concept of the residential development, by fusing the best of hotel and other services into a residential template – this innovation attracts buyers who are looking to buy into the latest trends.

Secondly, the benefits and convenience of the service offer is prized by buyers to the extent that they are happy to pay for the higher service charges associated together with the uplift in headline capital value.

The third factor is design and identity. That purchasers are attracted by good design is not especially ground-breaking. What is important is that they are attracted by the opportunity to



associate themselves with the designer or architect involved in the scheme.

The fourth and, for many, the most important factor is the trust associated with buying into a known brand. For many buyers their purchase of a branded residence is their first step into international property ownership. This often involves dealing with an unfamiliar legal system, and buying a considerable distance from their main home. The ability to identify with a known brand often therefore gives confidence in the delivery of the development and its ongoing management.

As we confirmed at the outset of this report, the main centres for the generation of new wealth are concentrated in the emerging world. Evidence from the development of the luxury consumer goods market confirms the importance placed on brands in these markets as a means of confirming provenance, security and trust.

It seems likely that as global wealth creation expands, the demand for high-quality residential development property in key global centres will undoubtedly rise. But, importantly for the branded residential sector, the premium placed on service, design and ultimately brand provenance, is likely to be maintained in the future.

Locations in focus

MOSCOW

In Moscow we identified two top branded schemes, Barkli Park and Barkli Virgin House, both by yoo. The average asking price at each development is around RUR 60,000 per sq ft. Non-branded developments include Impersky Dom, Granatny 6, Granatny Palace, Copper House and Stolnik. Asking prices at Granatny 6 and Impersky Dom averaged around RUR 48,500 per sq ft. This represents a premium of around 23% for the branded developments.

DUBAI

Some of the best evidence of the impact of branding on values is witnessed in Dubai. Armani branded apartments in the Burj Khalifa tower are priced around AED 5,000 per sq ft. Ordinary unfinished apartments sell at between AED 3,000 and 3,500 per sq ft (an uplift of roughly 50%). Comparing Palazzo Versace and D1 (adjacent to each other on the Dubai Creek) gives an extreme example of the impact of branding. Apartments at Palazzo Versace achieve an uplift of 120% against the unfinished D1 apartments.

LONDON

London is a hub for branded developments. Examples include One Hyde Park (Mandarin Oriental), The Shard (Shangri-La), and The Knightsbridge (Hyatt). The uplift in London equates to around 11% on average for the schemes we have considered, there are several high profile hotel branded schemes in the pipeline in London's prime and super-prime residential market due for release over the next five years.

PUERTO RICO

In Puerto Rico we found the average uplift for branded residences to be around 45%. This was based on Ritz Carlton Dorado Beach, a branded luxury beach resort where the average asking price is around £777 per sq ft. Interestingly, the average price of the non-branded parts of the development is £218 per sq ft, which represents a 250% uplift. Of the other non-branded developments we considered, the average price of comparable schemes ranges from £258 per sq ft at Azure Beach to £504 per sq ft at Aqcuamarina.

CASE STUDY:

yoo

yoo was one of the pioneers of the branded residential concept when it launched in 1999. Together with its high-profile designers Philippe Starck, Marcel Wanders, Jade Jagger, Anouska Hempel and Kelly Hoppen, yoo works with its developer partners to help them compete in the property market by providing a combination of interior design, marketing and branding.

Since 1999, yoo has been working with international developers on a large number of residential, hotel and commercial projects throughout Asia, Australia, Europe, Africa, North and South America and the Middle East. yoo is responsible for the branding and design of more than 10,000 homes in 37 cities. As a result yoo is the largest residential brand by geography and number of projects.

Here we speak to John Hitchcox, chairman and co-founder of yoo, about what motivates buyers at branded developments, how yoo is pioneering when it comes to place-making, untapped markets, and the outlook for the sector.

How does branding help a development?

It lends credibility, endorsement and identification, in that the buyer is identifying with a certain lifestyle and taste. Jade Jagger isn't a designer in the traditional sense but her bohemian lifestyle and taste are very well recognised and there is an alignment there with people who buy schemes that Jade has been involved with. We try to bring together the best of the best across interior design, architecture, hotels and furnishings.

What motivates buyers to purchase branded residences over similar non-branded schemes?

The content is the most important element of each of our projects. People identify themselves with the project, the community they're about to move into and the location to an extent. They are buying into a lifestyle that will enable them to meet likeminded people. These developments are like new villages in a sense. That's the fundamental essence of our projects.

Are there any patterns when it comes to buyers at your developments?

It very much depends on the project in hand, but our buyers tend to be international, cultured, design-savvy and enterprising. We like to think that we are democratising design as we don't only operate at the top end in terms of prices. Our apartments range from $100,000 in Bulgaria to $10m in New York.

Have you seen a growth in interest from particular nationalities or locations?

Our activity and interest in India has been huge – we have around $2.5bn of projects running there at the moment. We have two projects in Bangalore, three in Mumbai and one in Delhi. The Indian market has been very receptive to the concept of branding and links with celebrities.

What's the most pioneering idea or feature you've incorporated at one of your developments?

We see our projects as creating new villages – the idea is that you are no longer born into a village, you move to it. The communal areas we incorporate such as the clubrooms and lounges are an important part of what we do in creating social centres where people can meet. We work on resort projects as well as urban projects and these communal areas are especially important in our tall buildings as they give residents the opportunity to interact if they want to. We are constantly experimenting with new ideas to improve the quality of our customers experience in our projects.

Are there any previously untapped markets in terms of locations to launch a development and sources of buyers?

When we started out back in 1999 I identified 100 cities for us to target. Since then we have been involved in numerous projects in cities we didn't think to include on that initial list, including Baku, Lima and St Vincent. We've also had great success in Russia and South America is looking interesting, particularly Brazil. Interest in China has been relatively slow to date as developers there have tended to stick to fairly traditional design styles but we expect this to change over the next 10 years. We're looking forward to the North American market coming back to life.

What's your outlook for the sector?

I think we're still in the very early stages of branding in the residential sector. Coupled with the fact that the proportion of the world's population living in cities continues to grow, I think we'll see an expansion of the branded sector in various ways. As with the luxury goods market, what we're doing is creating intellectual property. The growth of this sector isn't without its risks. Quality is always a big issue in any brand development and especially important in the construction sector. So its very critical to get it right particularly when your customers only purchase a home once every seven years on average.

Do you have any exciting projects in the pipeline?

We are very active now in the hotel sector now and building our brand more prominently in this space is a big focus. We also design and manufacture a lot of furniture now both in house and with our partner designers, this is an area of great growth potential for our business. We sign between 10 and 20 new projects each year, our average project size is valued at £120 million.

yoo developments

ICON SOUTH BEACH
South Beach Miami, USA

Developer: The Related Group
No. of properties: 289 across two towers
Completion date: 2005

Features/facilities: Lobby, swimming pool, library, bar, restaurant, games room, fitness centre

Asking price: Approx US$1,725,000

Premium compared to equivalent non-branded: 27%

YOO PUNE
Pune, India

Developer: Panchshil Realty
No. of properties: 228 units across six towers
Completion date: 2014

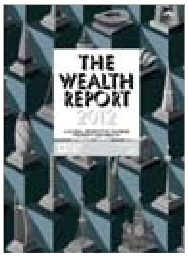
Features/facilities: Design by Phillipe Starck, cigar lounge, cinema, business centre, library, tea lounge, games room, swimming pools, coffee bar, cabanas

Asking price: US$2,000,000

Premium compared to equivalent non-branded: Up to 20%

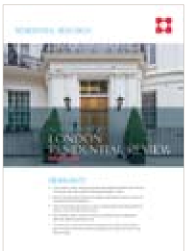
RESIDENTIAL RESEARCH

Recent market-leading research publications

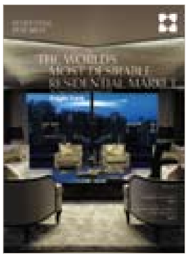


The Wealth Report 2012

Global Development Review 2012

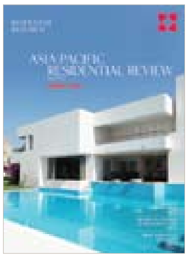


The London Review Autumn 2012



Super-Prime London Report 2011

Prime Global Cities Index Q2 2012



Asia-Pacific Residential Review June 2012

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