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Achieving Premium Values

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OVERVIEW

Achieving a premium over local values is desirable in any given market. However, it is absolutely imperative in a market where confidence has been shaken. In this paper we consider how a residential developer might drive a price premium over and above the Local Embedded Value (LEV).

Location is, of course, paramount. And a high specification and finish should come as standard. To ensure premium pricing a unique selling point will set the development apart from the crowd. These might include its views, quality architecture, design features and branding. For example, a view of the Thames can add up to 20% premium; a tall building in this setting has even more potential, in some cases achieving up to £100,000 extra per floor. Additional services and amenities, particularly if integrated via a leading hotel chain, can enhance the degree of comfort and luxury to the extent buyers are willing to pay up to 17% more for this type of product. An effective marketing campaign can then ensure that these features achieve the deserved return at end-sales. These can be further enhanced by employing an appropriate marketing strategy and releasing the units in a slow and staggered fashion.

LOCATION, LOCATION, LOCATION

…the three most important words in the residential property market. At the luxury end of the market, these words are everything. The most affluent international buyers are only interested in easily accessible cities with financial or cultural relevance. Thereafter, they will generally be looking in prime pockets; say, Manhattan in New York or Knightsbridge in London. However, the traditional 'golden postcodes' no longer have a complete monopoly in the game; new developments in fringe locations can also play in the prime markets, just so long as they incorporate key premium-prompting features. This is made easier if the site has some natural attributes, on which the developer can leverage. For example, a good view can add substantial value.

Neo Bankside, adjacent to The Tate Modern

Source: Native Land

PAY PER VIEW

Neo Bankside is a perfect example of how views can be used to maximise value. Located just behind the Tate Modern, on the river, close to the vibrancy of The Cut and a short walk from the West End, City and many transport hubs, the area is already highly sought-after and usually commands around £580 psf. However, Neo Bankside is achieving nearly twice this, at £1,150 psf. This can be largely attributed to the views it offers. North-facing units at Neo Bankside, which offer panoramic views of the river and cityscape, are 15-20% more expensive than those at the rear; ranging £1,400 and £1,700 psf. The additional height also adds value; £50,000 per floor on two and three-beds, or up to £100,000 per floor on the higher units.

Views from Neo Bankside

Source: Native Land

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To maximise views and therefore premiums, the floor-plate of the building can be manipulated to 'stretch' the relevant side. Albion Riverside, also abutting the Thames, creates a curved frontage, taking full advantage of its views. This enabled it to benefit from 17% premiums at the time of release.

Albion Riverside

Source: Nigel Young/Foster + Partners

HOW TO WORK THE 'NON-VIEWS'

It is critical that the additional premium achieved by the units with impressive views is not cancelled out by units at the rear. A developer can prevent value leakage by creating alternative views at the rear; this is typically in the form of a piazza, landscaped garden or similar feature.

For example, Chelsea Bridge Wharf created an extensive and heavily landscaped piazza to break up the high-density buildings. While the units that fronted the river were clearly more expensive, those at the rear still achieved more than LEV. Similarly, Neo Bankside are developing a grand landscaped garden to the rear as well as offering generously-sized winter gardens. These units, which also happen to be south-facing, have also proven popular, particularly with owner occupiers. This suggests a view can create value whether it be natural or manufactured by the developer. This is particularly encouraging for schemes that aren't as favourably positioned as the likes of Chelsea Bridge Wharf or Neo Bankside.

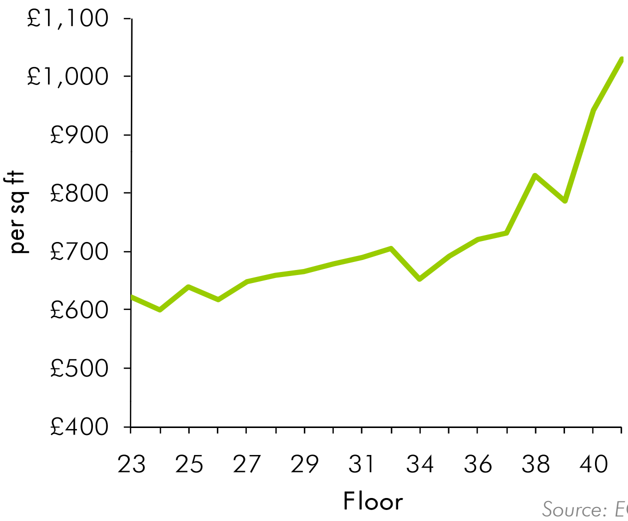
Chelsea Bridge Wharf: Piazza

Source: Chelsea Bridge Wharf

BUILDING HEIGHT AND BUILDING VALUE

Although great views are dependent to some degree on location, they can be maximised by building tall; the greater the height, the greater the view, the greater the price. It is no surprise that the tallest residential tower in London boasts the best views. All the apartments at the Strata sold in the peak of 2007; they sold well in excess of LEV of Elephant and Castle, proving exceptionally popular with investors. They then achieved additional premiums further up the building.

Sold Prices at Strata, Elephant and Castle



Source: EGi

Some developments have fairly transparent pricing strategies, which employ a flat per-floor increase. Others are more complicated, as specifications, size and type of units change. Pricing strategies will also depend on competing supply. For example, Canary Wharf demands a certain height in order to benefit from any views at all and premiums can sometimes be compressed as a result of the fact the tall building is no longer unique.

Height also adds value as a feature in itself, not just for the opportunities it creates for views. In contrast to the tower blocks of the 60s, tall iconic well designed towers, can become international status symbols. Think Burj Khalfia and Trump Towers. They can epitomise luxury living and provide trophy apartments for the most affluent buyers. In our most recent audit of super-prime new-build schemes across the world, nine out of the top ten most expensive were over 20 storeys, most were over 55 and one even as high as 150. Although development conditions and changing planning conditions have created a difficult environment for tall building development over the last couple of years, it is likely that the resurgence of high-rise living will persevere.

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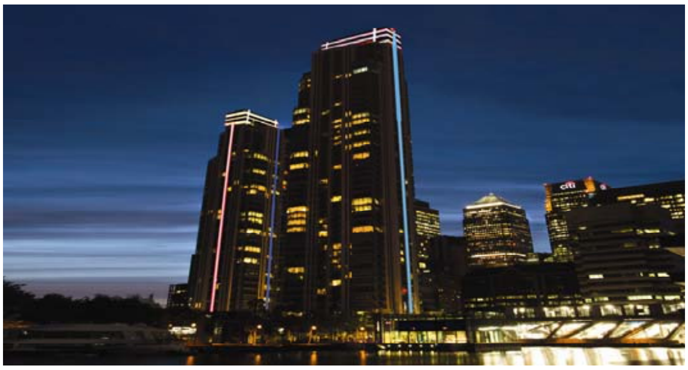
DESIGN: CELEBRITY ARCHITECTS

The great views at Neo Bankside are not the only feature that help it surpass LEV. It was also designed by one of the world's most renowned architectural firms; Rogers Stirk Habour and Partners. Over the past decade, the concept of celebrity architects has created a great deal of excitement. Richard Rogers, Norman Foster, Zaha, Gehry, SOM, Vinoly and many more have all become brands in their own right, each offering their own unique 'trophy' product.

One of the main advantages of appointing a celebrity architect is that each usually has a distinct style and approach, so there is a degree of security, both for the developers and the buyers. SOM, for example, are best known for setting the pace for the rise of steel-and-glass skyscrapers and so were perfect for Ballymore's iconic towers at Pan Peninsula which achieved significant premiums and record sales rates upon initial release. Similarly, Piers Gough at CZWG, who is renowned for his sensitive approach to old buildings, was an ideal choice to restore Bankside Lofts, which also sold ahead of local values.

Legal & General were keen to sign a celebrity architect to its now-complete development, Central Saint Giles. Renzo Pianno won the work on the basis of his sensitivity to the local area and they maintain that he was fundamental to gaining planning consent.

Pan Peninsula broke local price ceilings



Source: Ballymore Group

Top of Award Winning Bankside Lofts

Source: Matthew Weinreb

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Stand-out schemes can often expose the disconnect between what the local people want and what the local authorities want. In this case, Piano's name and vision helped build confidence in the project, most notably from local residents, which helped secure planning permission. Given the site and location complexities, this alone was arguably worth the extra cost. But of course, a designer name can also command a designer price-tag. We believe that apartments at Central Saint Giles sold recently to overseas investors for around £1,300 psf; anecdotal evidence indicates this reflects a substantial premium.

It is difficult to strip out the precise premium that a celebrity architect can attribute, given that they are usually brought on board on high-end developments in good locations that are already likely to sell well. However, most sales agents tell us that the name in itself can help secure sales, particularly in uncertain times. Not only have the top names accrued their own following and subsequent buying pool, they have also become internationally trusted power-houses, instilling certain amount of confidence.

Colour at Central Saint Giles

Source: Gregory Simmons @ ICouldDoThisForALiving.com

STARCHITECTS: BECAUSE THEY'RE WORTH IT

The main reason why it is impossible to isolate the value created by a celebrity architect is that the name is clearly intrinsic to the talent and experience it represents. The quality of design is typically outstanding. Not only will a unique, signature property appeal aesthetically, and have the potential to completely transform the surrounding area, it can also incorporate many practical advantages.

It does not look as though the idea of 'starchitects' is a passing phase. Indeed, the increasing volume and variety of signature architects at the forefront of development indicates that this is just the beginning. Nor is it based on an fixed, elitist inner-circle, but rather a broader pluralism. The fact that more experimental architecture is not just viable, but profitable, creates fertile ground for newer and lesser known firms to practice similar philosophies. Now that the appropriate commercial value is attached to their work, architects can have the time, space and budget to challenge technological and artistic boundaries and more importantly, develop our ability to create better living spaces. Are they worth it? Absolutely.

SPECIFICATIONS: NOT SO SPECIAL

A stunning specification will be expected. We do not consider this a feature in itself that will create premium values, but rather it could seriously compromise values if it is not incorporated. Buyers of luxury property are used to a certain degree of quality and will be aware of the latest advancements in design and technology. This can apply to temperature control, security entry systems, floor to ceiling windows, generously-sized bathrooms and wardrobes, sound insulation, LCD televisions fixed above the bathtub, disco lights… the list goes on.

Developers will often utilise well-known brands that can communicate the presence of quality more efficiently than any other marketing means. For example, if the appliances are by Siemans, Kitchens by Sub-zero and Miele, Bianco Assoluto stone floors and interiors designed by Armani (as per Burj), then a potential purchaser will feel secure in its standard.

Bulthaup Kitchen Systems

Source: Bulthaup GmbH & Co KG

Some developers will offer a choice of fit-outs, or from a palette of colours, as per Candy and Candy at One Hyde Park. In a rare move, they also sold units at 21 Manresa Road in just shell and core form, knowing that the buyers will want to fit it out to their own taste. Premiums are more attainable when the specification is unique, hence why it can add significant value to one-off properties with custom-made interiors. While this epitomises the desired exclusivity, this approach is not usually possible or profitable on developments of scale, although it is sometimes employed to push penthouse premiums.

ADDED EXTRAS: SERVICES AND AMENITIES

A certain level of service will be expected by the discerning high-end buyer. This includes a concierge, a gym and 24-hour security, are to be expected and so won't in themselves drive premium values. However, other more elaborate 'extras', will transfer to the final sales prices.

Pan Peninsula has one of the broadest and most exclusive offerings in the London market, hence its significant premiums. There is a holistic health spa, pool, private cinema, business centre, penthouse level cocktail lounge, signature restaurant and other shops and bars. Most of these facilities are for resident only use, providing an air of exclusivity.

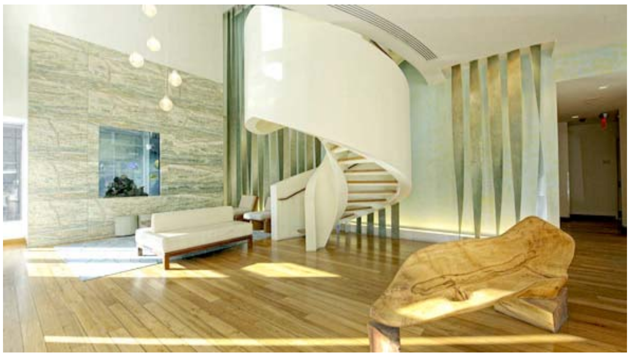
Private Pool and Bar, Pan Peninsula

Source: Ballymore Group

The service package is increasingly offered by a well-known and highly regarded hotel chain, enabling residents to enjoy a 5-star hotel service all the time. This was successful at One Hyde Park which joined forces with The Mandarin Hotel, as well as a number of other ventures, particularly in Asia. For example, St Regis Residences in Singapore boasted 6* hotel services, which became the main selling feature, helping units achieve 25% in excess of LEV.

Another 'added extra' that often gets overlooked is 'community' space. This can be in the form of landscaped gardens, water features, atriums or extensive lobbies, all of which will create a sense of place within the development; an exclusive place at that. Lifting the overall quality of the scheme will clearly translate to a lift in unit-by-unit values.

Eco Cribs: Riverhouse Complex



Source: Riverhouse

Teardrop Park at Riverhouse Complex

Source: Riverhouse

Technology Advancements: Foster's Turbines

Source: Nigel Young/Foster + Partners

Growing Lessons: Eco-Homes in Milton Keynes

Source: Taylor Wimpey

GREEN: A NEW SHADE OF LUXURY?

Prime property and sustainability do not traditionally go hand in hand; a sector that relies on frequent flying, second and third homes, copious amounts of personal space, complicated technology – the underlying ethos is hardly to encourage a more sustainable way of living. However, the underlying ethos *is* to deliver whatever the buyer *wants*, not whatever the buyer *needs*. And herein lies the potential for green development.

A shift in sentiment towards a more eco-conscious way of living is starting to influence development. This is more apparent in, say New York, as opposed to Dubai. And the level of success also varies; for example, bamboo hideaways in remote islands is a completely different endeavour than a high-density urban retreat. Indeed, the incorporation of sustainable features is still in its early days, and mostly consist of a well-meaning 'nod' with one or two features, but there are many examples that indicate that technology is advancing, on the back of changing public opinion.

Celebrities are probably making the loudest case; Leonardo DiCaprio famously chose to buy at The Riverside Complex in Manhattan on account of its green credentials. The building used locally acquired materials, is partly powered by solar, has 24-hour fresh filtered air system, green roof-tops and as much open green space as it can provide.

The Riverside Complex has a lot more to offer than just green credentials and it is therefore not possible to strip out the premium that this alone incurs. The additional cost of 'going green' can also be off-putting. So although we are not at the stage yet where we can say that a sustainable building will have stronger values than a not-so-sustainable building, that day may still come.

PREMIUM BRANDING

The use of branding can apply to development partners such as the architect, interior designer, fit-out suppliers, hotel operator or the developer itself. Developer-Branding has become more important over the last two years, as so many developers have suffered and been forced to stall schemes. Developers like Grosvenor or Native Land can give buyers confidence, particularly when they are buying off-plan and particularly on an international level.

As with all additional features, the appropriate use of branding will depend very much on the individual scheme and the buyers it hopes to attract. For example, branding is more important in the middle east, perhaps because the market has less of a history to determine value, so it must import them in the form of Armani or SOM. With regards to buyers, each pool is unique; Chinese are renowned for having particular brands that they never stray from. In contrast, British buyers tend to be less amenable to overt branding.

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PHASING THE PERFECT RELEASE

Although the right marketing campaign is clearly essential in order to achieve the desired sales and values, it is unlikely in itself to significantly enhance the values themselves. However, the phased release of the scheme can have a strong impact.

Since the recession there has been a deviation from off-plan purchases. This is due to a high number of developers who have been unable to complete buildings and a more rigorous due diligence process from funders (for both developers and prospective purchasers).

Beyond this, in the prime markets, a new statement development can have an uplifting impact on the surrounding area, increasing values in the immediate vicinity while maintaining its premium, thus experiencing price uplift after the first year or so. The scheme has the chance to gain momentum and gather confidence.

We have looked at a number of schemes by Northacre, one of the most prominent developers of prime property in London. Generally, as these schemes illustrate in the table below, higher premiums can be achieved post-construction. This indicates that, if one can get the funding right, it is always better to hold back sales until the development is complete and in its element.

Northacre Schemes – Phased Premiums

Development	Embedded Value £/Sqft	Off Plan Sales £/Sqft	Premium %	% of Revenue Off Plan	PC Sales £/Sqft	PC Premium %	% of Revenue PC
Observatory Gardens	£250	£375	50%	70%	£450	80%	30%
Earls Terrace (1998)	£500	£800	60%	60%	£1,000	100%	40%
The Bromptons (1997)	£400	£650	63%	80%	£800	100%	20%
The Phillimores (2002)	£750	£1,200	60%	70%	£1,400	87%	30%
KINGS Chelsea (2001)	£495	£650	31%	80%	£850	72%	20%

CONCLUSION

Location will always underpin the value of a residential property but, as this research indicates, there are a number of ways a developer can push the premiums above local embedded values. This mostly means capitalising on the principal that people will pay a lot more for what they *want,* not necessarily for what they *need*. This equates to being able to gaze across the city skyline from your designer kitchen, calling down to see if you've got time for a swim before your shirts get delivered, knowing that you are one of a handful of people whose home was designed by Lord Richard Rogers. People will pay a lot more for a lifestyle, for a dream. And as people come from different corners of the world and as their dreams change, so too can this criteria. As one of the only slivers of the residential development market that can afford to experiment and advance new ideas in design and technology, we hope that people start to dream in green.

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