

## New year, new investment?

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The unravelling of international financial systems and subsequent contagion into the broader world economy has clearly inflicted multiple wounds on residential property markets. Even the luxury end has been hit as high-net-worth individuals watch their investments in shares and, most recently oil, nosedive. The cost of existing debt has risen and new credit lines have become rarer and tighter. And we have seen huge and rapid currency fluctuations, which have a big effect on cross-border purchases.

Admittedly, it is an odd time to be recommending places to buy a house. But, as we move into 2009, with prices falling and more distressed sales coming to the market, it could just about make sense. Those with money are starting to scavenge for bargains.

Why anyone should listen to real estate industry analysts is a fairly important question. None of the agencies or organisations that regularly comment on the housing market predicted the 2008 crash so why should we think we know any more now?

But we are in a very different situation than we were a year ago. In 2007 we were at the top of a boom and the question was when it would turn to crash. Now we are in the crash and, whether prices fall 30 per cent or 50 per cent, at some point in 2009 the market is likely to hit bottom or be close to it. This is the time to prepare to buy before the herd moves in.

That's not to say a random selection of investments through auction house repossession catalogues will do. Wise househunters will concentrate on areas poised to perform well over the medium- to long-term. Prices will take a long time to recover fully so think carefully about the outlook for a particular location, its infrastructure, accessibility, amenities and prospects for economic growth. Build-quality in an older home or new development is important, as is an established secondary sales market and a transparent legal framework. Only after examining these factors should you look at price.

We have selected 10 locations - a mix of city centre and resort areas - where we think people can safely buy primary or holiday homes next year.

### 1 London

Prices are already 20 per cent lower than the peak and those buying with other currencies can add further discounts due to sterling's fall. But rather than focus on completely established - and still expensive areas - the place to look is Bayswater to Fitzrovia - an area north of super-prime London and south of the Paddington to King's Cross regeneration zones. These neighbourhoods are full of period architecture ripe for individual refurbishments or big redevelopments. Average entry-level values for the better emerging markets in London are about £700 per sq ft, rising to about £1,000 per sq ft for the more established locations. Super-prime kicks in at about £3,000 per sq ft.

### 2 Paris

It is virtually impossible to find sites to develop in prime locations of the French capital, which means there is an undersupply of quality new stock. At the same time, demand from domestic and international buyers and renters remains strong. So the top-end market is still relatively robust. Values of the most coveted residential property - in the 4th, 6th, 7th and 8th *arrondissements* - start at about €12,000 per sq metre, while exceptional homes can comfortably exceed €20,000 per sq metre. Paris has not escaped the ravages of the credit crunch but there has been no

tumble as witnessed in London.

### **3 New York**

The New York real estate market has suffered along with Wall Street, with year-on-year sales volumes for single-family homes down 15 per cent in the 12 months to September and average property values falling in both the second and third quarters of this year. Some areas performed better than others - the median price of a Manhattan condominium or co-op sold in the third quarter was \$928,300, up 7 per cent from the same period in 2007 - but pain in the broader market could continue until 2010. Still, thanks to tight supply in the best neighbourhoods, long-term employment growth trends and the inherent draw of the world's first global city, the Big Apple should prove more resilient than almost any other US market. Submarkets to watch include SoHo and TriBeCa downtown and Carnegie Hill on the Upper East Side.

### **4 Montenegro**

Montenegro appeared relatively recently on the second-home buyer radar - in effect only since its split from Serbia in June 2006. It has a small but attractive coastline with little room for significant resort development, limiting the risk of oversupply. And property prices - at €1,550-€3,100 per sq metre on average for new developments - are cheap when compared with many established European locations although they can go as high as €4,000-€5,500 per sq metre. In the longer term, Montenegro aspires to European Union membership, which will significantly lower its risk profile. Locations worth considering are Budva, Tivat and Sveti Stefan.

### **5 Majorca**

The much-publicised Spanish property downturn has not had much of an impact on the main luxury market in the Balearics because of a balanced supply-and-demand situation driven by fairly tight control on new development and continued purchases by domestic and overseas buyers. Recent road improvements have added to the island's appeal, low-cost airlines have improved flight frequency and 2009 will see the extension of the rail network link from Palma via Inca and Manacor to Arta. The prime locations are Puerto de Andratx and Palma Old Town in the south-west, Puerto de Soller, Valldemossa and Deia in the west and Formentor in the north, with average prices from €6,000-€7,000 per sq metre.

### **6 Austrian Alps**

With high altitude and reliable early snow, the Austrian Tyrol is emerging as a good-quality alternative to the more traditional Swiss and French resorts in the Alps. Since the country joined the EU in the mid-1990s, foreign ownership laws have been relaxed in many areas and new resorts have sprung up in Kitzbühel, Seefeld, Mayrhofen, Sölden, Ischgl and around Innsbruck. Prices are still much lower than in Switzerland and France. Between mid-2007 and mid-2008, average new development values in the Kitzbühel region rose by 0.8 per cent to just under €2,100 per sq metre.

### **7 Southern Cyprus**

Cyprus offers exotic landscapes, archaeological sites, a range of sport and leisure activities and an excellent climate. There are sandy beaches - notably around Limassol and Paphos - and mountains, with skiing facilities on the 1,950 metre Troodos peak. There can be tax advantages if home purchases are structured in the right way and the island has the lowest crime rate in the EU. So far, residential property values have held firm. Average prices are just south of the €200,000 mark, while luxury values range from €4,000-€5,000 per sq metre or higher in the top beach-front locations. Still, with transactions down and new-build developments hard hit, buyers should be able to negotiate attractive deals in 2009.

### **8 Costa Rica**

Costa Rica offers a rare combination of idyllic climate, political stability and - by international standards - attractive prices. A recent World

Economic Forum report ranked it as the most attractive destination in Central America and second best in Latin America and the Caribbean. And the government realises the importance of sustainable development. Foreigners have the same rights when purchasing as locals do, except in cases of beachfront concession property, where special rules apply. Although prices have been rising for several years, average values for the best new-build properties are still reasonable - at \$2,500-\$3,000 per sq metre.

## 9 Turkey

With its substantial and beautiful coastline, Turkey is rapidly emerging as second-home market and while most development has so far been aimed at the mass- and mid-markets, higher-quality projects are beginning to appear. There are limits on foreign buyers - they can't buy land of strategic, religious or cultural importance - but the country is mainly open (so long as Turks can buy in the foreigner's country too). Prices in prime coastal areas typically range from €1,200-€2,600 per sq metre. Locations worthy of investigation include Belek, Altinkum and the less developed areas around Bodrum.

## 10 Cambridge, UK

Since the 1970s the university town of Cambridge, eastern England, has been a hotbed for small technology companies, which has made the local economy relatively resilient. Over the next 10 years the city is expected to see 30,000 new jobs created, pushing the total to 100,000, and over the next 50 years the population is forecast to grow by 44 per cent. Development has traditionally been limited by a closely guarded green belt but the city recently decided to allow controlled expansion, creating thousands of homes in new communities. Still, it's unlikely that supply will keep pace with household and income growth, which will boost property values over the long term. Average prices range from £300-£500 per sq ft.

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