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RESIDENTIAL
RESEARCH

ONE HYDE PARK

Analysing its performance, influence and potential legacy

Knight Frank

SUPER-PRIME EVOLUTION
INTERNATIONAL CONTEXT
FUTURE VIEW

THE MAKING OF THE SUPER-PRIME MARKET

Since 2006, when the unloved hulk of Bowater House was demolished, the plot home to One Hyde Park: The Residences at Mandarin Oriental development at the top of Sloane Street was London's most conspicuous construction site. Liam Bailey investigates...

Liam Bailey
Head of Residential Research

For three years the four-storey bank of site cabins facing into Hyde Park, and the army of construction workers building the 86 apartments (up to 2,500 workers on site during peak construction periods and over 5,000 workers involved in the project in total) were testament to the ambition behind the development. While planning permission was granted for 86 apartments, the final number is likely to be closer to 80 as some purchasers are choosing to merge apartments together.

The setting and repeated breaking of global price records, coupled with the sale of 62 units for over £1.4bn, impressed industry insiders as well as onlookers. But arguably the biggest achievement of One Hyde Park was its impact on the wider London and international markets.

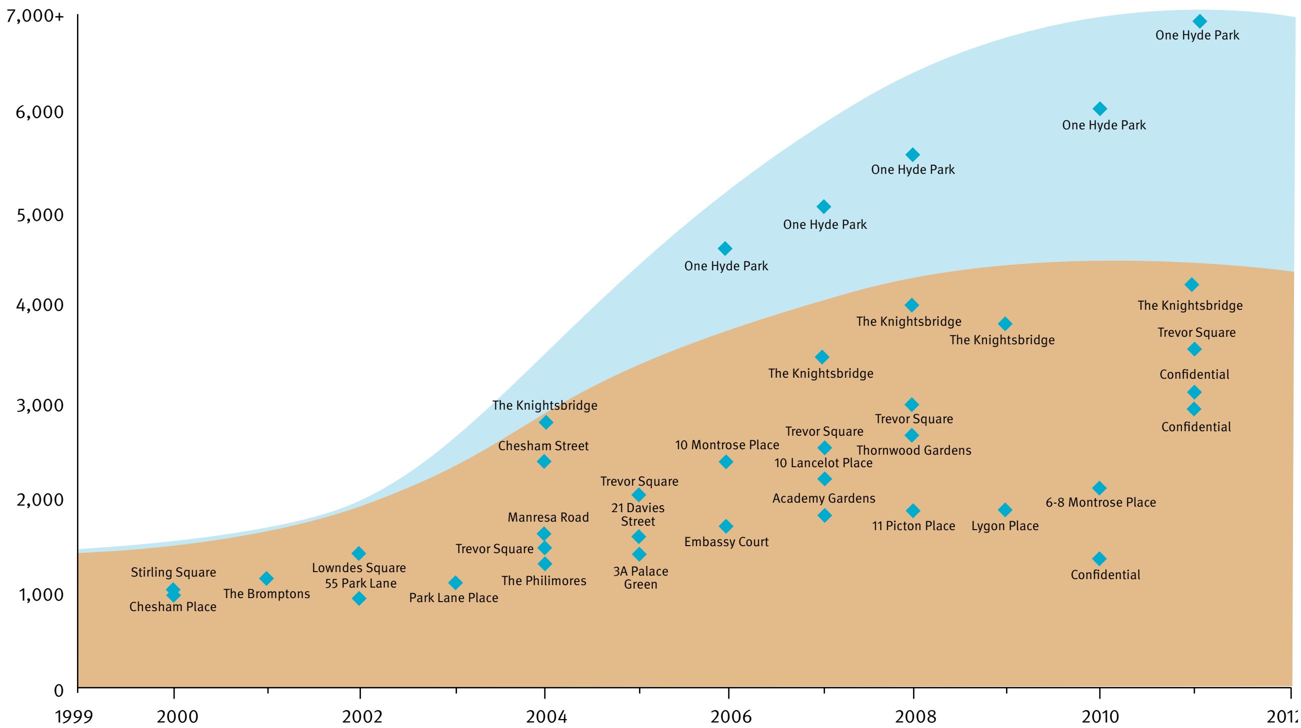
In this report we present evidence on the development's performance and influence to date, and conclude with our views on its potential legacy.

Figure 1

Upwards and upwards

Selected central London developments with average achieved prices/sq ft

To understand the price trends in London's super-prime market over the past decade, this graph provides an overview of key schemes and sales which have contributed to the evolution of this sector. Where £1,000/sq ft was unusual a decade ago, by 2004 £2,000/sq ft became achievable, and from 2006 £3,000/sq ft became the new target for super-prime values, despite One Hyde Park having pushed through the £4,000/sq ft, £5,000/sq ft and £6,000/sq ft barriers and eventually topping £7,000/sq ft.



Source: Knight Frank Residential Research
Note: No sales were made at One Hyde Park in 2009 as the owners, Project Grande (Guernsey) Ltd (PGGL), took the decision to withdraw the development from the marketplace for a period of time.

One Hyde Park and the super-prime evolution

A decade ago it was enough for a London developer to say it was operating in the 'prime' market to gain the respect of funders, competitors and most importantly buyers.

In the early 2000s, a change began to be felt in the market. London's luxury sector, long an international market, suddenly expanded rapidly on the back of a global wealth surge. Buyers from Russia and the former CIS states – hungry to invest in assets outside of their home markets – began to arrive in London.

While these new arrivals were impressed with London's social, lifestyle and business package, they were more often than not distinctly underwhelmed by the luxury homes on offer.

Very simply, the new global super-rich did not do stairs and certainly did not 'get' the English affection for shabby chic.

> "By the end of 2004 the new international surge saw the £2,000/sq ft high being surpassed on more than one occasion."

Where the Russians led, so Indian, Asian and the new wave of Middle Eastern buyers followed. Soon the demand for new-build, high-spec, lateral living grew, and placed a significant premium on the few available units in the market that ticked the right boxes.

Developers responded to the new market requirements. Figure 1 presents the main schemes and refurbishments that blazed this new trail.

In 2000 sales at £1,000/sq ft were still a rarity, but they were on the up. By the end of 2004 the new international surge saw the £2,000/sq ft high being surpassed on more than one occasion.

One Hyde Park was launched off-plan in 2007, at a time when £2,500/sq ft represented the peak for super-prime sales; a 66% premium above typical prime market prices of £1,500/sq ft.

Not content with launching at the top end of the super-prime market, One Hyde Park achieved an average of £4,560/sq ft in its first year – a 188% premium above the prime market.

Prices rose steadily through 2007 and even 2008 to hit a maximum sale value of £5,934/sq ft.

As the cracks in the global economy and banking system became chasms through 2008, it seemed entirely possible that One Hyde Park represented the high watermark of the property market. Several commentators felt the development was to the 2008 crash what the Empire State Building and the Petronas Towers were to earlier downturns.

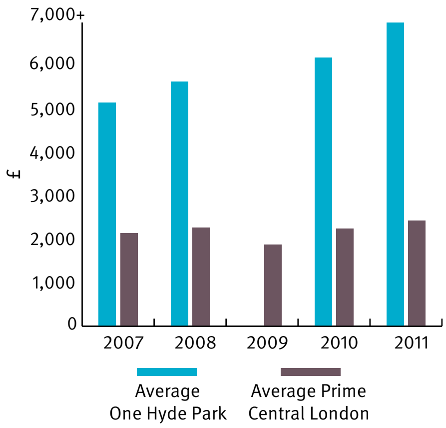
Figure 2, which confirms for the first time the actual price performance at One Hyde Park during the crash, points to a stumble in 2009. It could hardly be otherwise – between October 2008 and January 2009 global property markets didn't just seize up, they looked deep into the abyss. In fact, in the case of One Hyde Park the owners, Project Grande (Guernsey) Ltd, decided to withdraw the development from the marketplace to take stock of the unravelling global financial turmoil.

The steady price growth at One Hyde Park during 2010 and 2011 demonstrates why linking this development with earlier trophy developments was wrong – an issue we assess in our conclusion (p5).

International context

The super-prime development trend has not been limited to London. Projects in locations like New York, Monaco, Paris, Singapore and Hong Kong have been incorporating design features by renowned architects, high specification and concierge services to cater for the new demand for this product.

Figure 2
Performance gap
One Hyde Park and prime central London average sales prices (£s /sq ft)

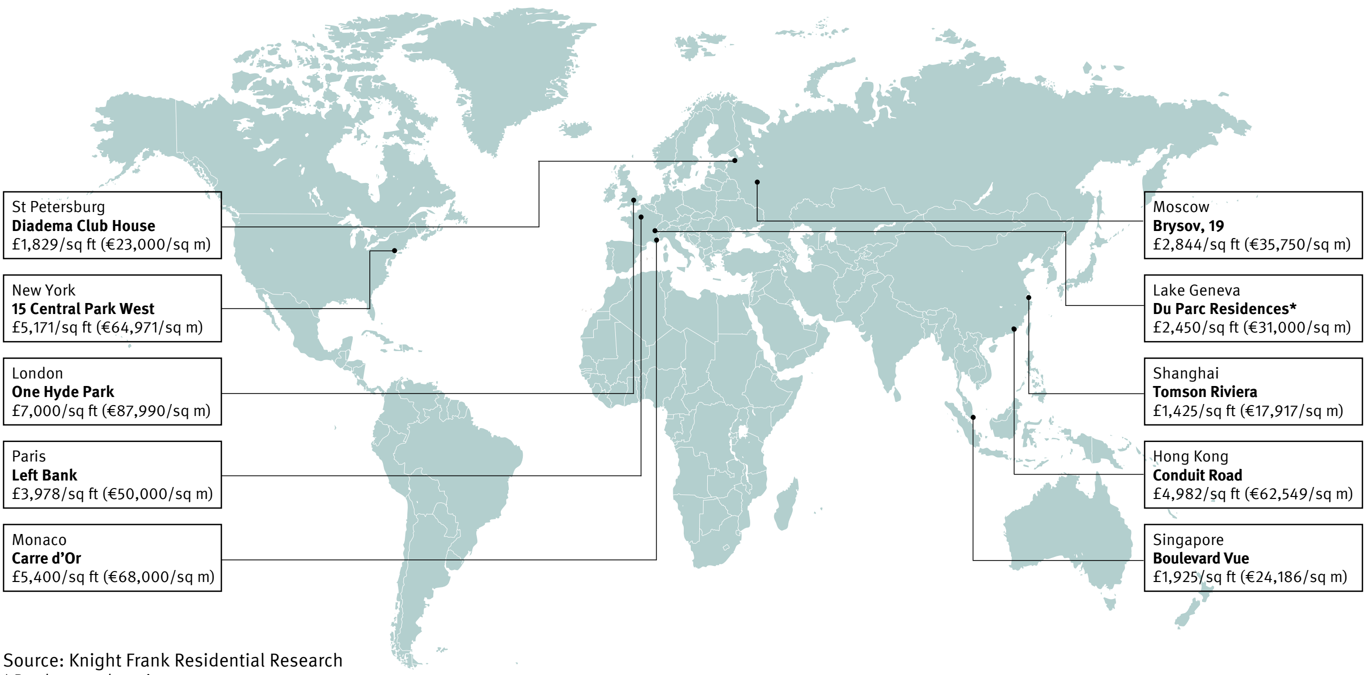


Source: Knight Frank Residential Research
Note: No sales were made at One Hyde Park in 2009 as the owners, Project Grande (Guernsey) Ltd (PGGL), took the decision to withdraw the development from the marketplace for a period of time.

Figure 3

Key global pricing

Pricing at selected global developments (2010 and 2011 data)

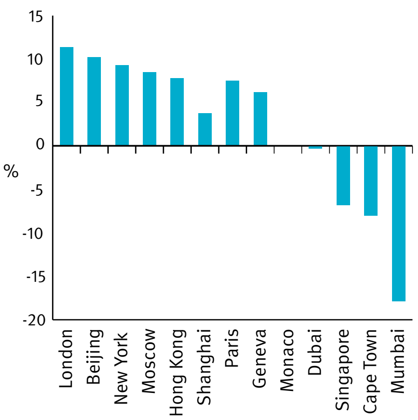


Source: Knight Frank Residential Research
* Penthouse sales price

Figure 4

Prime recovery

Knight Frank Prime Global Cities Index, annual price change Q3 2011



Source: Knight Frank Residential Research

In our map above we provide a summary of some of the key projects across the globe, which have contributed to this trend. The key point to take from this assessment is that only a handful of locations really compete in terms of super-prime pricing. It is only London, Paris, Geneva, New York, Hong Kong and Monaco where developers can be hopeful of achieving values above £3,000/sq ft (€36,000/sq m).

Even in this assessment, however, One Hyde Park stands out well above comparable schemes when it comes to price, excluding a small number of individual unit sales in Monaco that hit similar levels.

It is clear that One Hyde Park has had a significant impact in London, in terms of its influence on central London developers who, though they may not like to admit it, regularly use the scheme as a key reference point when assessing how their latest project stands in the market.

The development's global influence has been as significant. James Price, Knight Frank's head of International Residential Development, confirms that: "…developers from across the world have discussed, analysed and segmented One Hyde Park in an effort to understand how they can learn from its success."

James' view is that, while developers have accepted the need for greater attention to design, specification and services – and there is a general acceptance that One Hyde Park has raised the bar for development across the world – the real influence has been on those developers looking to attract international buyers.

> "Developers from across the world have discussed, analysed and segmented One Hyde Park in an effort to understand how they can learn from its success."

In addition to the form of the development at One Hyde Park, developers have also concentrated on the more intangible elements – the sales strategy, the approach to marketing and PR, and the approach to location selection – not just a prime location, but an iconic prime location.

James' view is echoed by New York-based Prudential Douglas Elliman, who have confirmed "One Hyde Park had a significant impact at an international level. It's probably one of the most impressive developments built to date, and buyers respond very well to it."

"Not only did these buyers emerge from the recession almost unscathed, but so too in some ways did central London."

Future view

One Hyde Park did not follow in the footsteps of earlier peak-market developments affected by economic crises. Demand for units certainly slowed in 2008 and 2009 prior to the owners' decision to withdraw from the market due to the global economic crisis, but sales have proved robust since and the original plan for delivery has largely been adhered to.

This achievement was secured against the backdrop of a global financial convulsion that undermined property markets across the world.

One Hyde Park's success is due to the fact that it was designed and executed to meet a very specific requirement from the new international wealthy. Not only did these buyers emerge from the recession almost unscathed, but so too in some ways did central London.

In figure 4 we present headline residential price growth statistics for prime sectors in key global city markets. London is not the only city to have seen a revival in pricing. In Europe, the US and across Asia-Pacific, prime locations appealing to international wealth have also performed strongly.

In key markets like London the availability of top-end developments that attract wealthy international purchasers is still very limited. The opportunity for developers to capitalise on this market is therefore a real option.

The problem is that the sites suitable for these developments are limited, and so too are the skills and knowledge required to deliver the right product. But get this combination right and the rewards can be significant.

The lack of finance available for speculative residential schemes, as well as the lack of sites in sought after locations in Knightsbridge, means that a similar scheme of the same scale as One Hyde Park will be some time in coming to the market.

I predicted earlier this year that we would see £10,000/sq ft developments some time this decade. Bearing in mind the £1,000/sq ft jump to over £7,000/sq ft in the 10 years to 2011, as well as the recent success of One Hyde Park and other super-prime apartment sales, I suspect this record will be broken even sooner.

VALUE ADDED

Developers are constantly hunting for that elusive formula they believe will prevent their development from languishing with a mere 'luxury' label, and instead push it to the heady heights of 'uber-luxury'. Or, in our slightly more prosaic market terminology, raise it from prime to super-prime.

In reality there is no such formula. Requirements change over time and from one location to the next. Even seemingly similar buyers have sharply different ideas on what makes a property 'perfect'.

At One Hyde Park one of the key factors underpinning pricing and sales milestones has been the combination of cutting-edge architecture, design, art works and high-quality services, in addition to 999 year leases and direct views over Hyde Park.

The approach taken by developer Project Grande (Guernsey) Limited was based around the collaboration of leading architects, designers, artists and hoteliers. This has been very successful by any measure – as the sales figures revealed in this report confirm.

This collaborative approach has allowed the creation of what might be called "points of difference" between the development and other super-prime schemes in London and other markets.

Architecture and design: the objective at One Hyde Park was very simple – to work with Pritzker award-winning architecture practice Rogers Stirk Harbour + Partners, to create a new London landmark on a par with the practice's earlier projects, including the Lloyd's Building in the City of London and the Centre Pompidou in Paris.

Candy & Candy, one of the world's leading interior designers, complemented the architectural elements within the development by designing all the communal areas, a number of show apartments, and providing a base design palette for each apartment.

Apartment size: the ability to create a large building has enabled the control of floor plates to create lateral apartments. These are in such high demand from global UHNWIs, but in very short supply in London. Lateral spaces of 9,500 sq ft have been created, with penthouses of up to 27,000 sq ft.

Services: One Hyde Park is the first development in Europe to incorporate Mandarin Oriental's 'The Residences'. This hotel group will provide very high levels of experienced and personalised service for residents.

Amenities: facilities provided at the development include a 21m ozone swimming pool, saunas, steam rooms, an exercise studio, squash court, gym, golf simulator, wine cellars, business suites, a private cinema screening room, private entertainment suite, library, secure underground parking and valet service.

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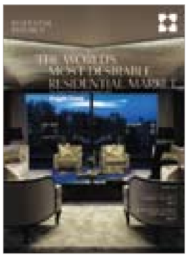

Super-prime London Report 2011

Hong Kong Luxury 2011

Shanghai Luxury Residential Q2 2011

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