Global Property Insight

Investors buy into landmark buildings' brands

Trophy assets

Middle East interest is just the tip of the sand dune, writes *Ed Hammond*

In July this year, a small group of Italian businessmen gathered in a private boardroom at the Ritz Hotel in London. Over two days of back-to-back meetings, they tried to persuade London's hard-nosed investors to buy into a fund that was concerned only with a very particular type of property: trophy buildings.

The proposition by Sorgente, the Italian real estate company, is a simple one: if a building has a strong enough brand, it will hold value better than lesser known properties around it.

Although it sounds like a marketing gimmick, the family-controlled company has turned the hunt for trophy buildings into a multi-billion-euro business.

Stefano Cervone, director-general of Sorgente, explains: "These assets are more liquid than a lot of others on the market, as they attract a global investor and will always command a premium to other top grade property." Sorgente owns some of the world's best known properties, including the Flatiron building in New York.

The company is keen to replicate its success at home and in the US, by launching a £1.6bn fund for buying up some of the standout buildings on skylines across Europe. "Tenants also want to remain in these type of buildings, as they become attached to the property and want their company to be associated with it," adds Mr Cervone.

The value-retaining qualities of trophy buildings have positioned them among a small number of haven investments within the property sector. In London, Paris, Hong Kong, New York and Rome, real estate investors are willing to pay a premium for those rare buildings that are likely to float above the economic maelstrom that is draining value from the mainstream property market.

However, while European and US investors are attracted to trophy assets for their stability, it is the large Middle Eastern and Asian sovereign wealth and family investment funds that have started to corner the market.

There is no better example of this trend than the Shard skyscraper in London. The 310m glass spire rises above London like a symbol of defiance at the economic turmoil beneath.

However, the project, now the tallest building in the EU, very nearly came unstuck. At the start of 2008, when construction finance dried up, it took a last-minute deal with a consortium of Qatari investors to swap an 80 per cent stake of the Shard for £150m to keep it going.

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In every big city in the world, there are examples of large, often government-backed funds, buying up buildings that have become brands in their own right.

"Sovereign funds from the Middle East are, of course, driven commercially – but also politically," says Nick Maclean, managing director for CBRE, the property consultancy, in the Middle East.

"The opportunity to gain influence or a higher national profile, while enjoying capital appreciation and income flows, makes real estate investment – not just in trophy assets – compelling," he adds.

But Yahya Abdulla, head of capital markets for Cushman & Wakefield in the Middle East, says that there is much more to come from the region in terms of cross-border property investment.

"Without having the same returns criteria, lifespan or cost of capital of large real estate funds, these organisations will seek to increase their portfolio, only making an exit once a compelling and perhaps strategic opportunity arises. We have perhaps only seen 'the tip of the sand dune'," he says

In many ways, the flight to trophy buildings is no different from investors turning to other secure real estate assets, such as student housing and government offices.

However, those companies specialising in trading the most distinctive buildings in the world argue that these hold their value through downturns and, crucially, outperform during the boom years.

But there is a limited supply, and industry observers are warning that this thin slice of the market might already be overpriced.

Mike Pope, senior city investment director at BNP Paribas Real Estate, comments: "Trophy assets are tangible assets with fixed returns and act as a good hedge against inflation.

"The real money, however," he adds, "is potentially in the less glamorous buildings.

"These, in due course, could become a focus for UK institutions as well as traditional buyers as opportunities start to open up."