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GERMANY

2019

Real Estate
Investment Market



The penthouse of Yoo Berlin, inspired by Starck. Yoo is a residential and hotel design company which was founded in 1999 by property entrepreneur John Hitchcox and the designer Philippe Starck.



Branded Residences – The Power of Brand Identification

The branded residence concept first emerged in 1920s Manhattan and the sector has been expanding ever since. Over the last few years, there has been a rapid rise in the number of branded residences. But how does luxury hotel branding affect the value of a property?

Brands move people. According to a survey conducted by a youth research institute, children as young as three and four years old already recognize the logos of Milka, Coca Cola and McDonald's. Luxury brands, such as Louis Vuitton and Chanel, enjoy instant recognition all over the world. Brands play a role in almost every area of our lives. And when it comes to living and lifestyles, it is not just financial aspects, but emotions, expectations and identity that determine how and where we want to live.

It is precisely these elements that build the strong brands that exemplify the identity and lifestyle of their customers. A brand is a promise of quality, so it is not surprising that branded residences have

been attracting renewed interest for some time now, even though the market is less well developed in Europe.

THE CONCEPT What exactly are branded residences? In a traditional sense, they are hotels with integrated or linked residential units, allowing condominium owners to benefit from the quality of a leading hotel brand, outstanding design and service, and professional property management services. Branded residences combine the ambience of a luxurious condominium with the amenities of a world-class hotel. Udo Lindenberg has been living at the Hotel Atlantic in Hamburg for more than 20 years, and Coco Chanel spent 37 years at the Ritz Hotel in Paris.

The association with a hotel brand can be manifested in a variety of forms: Hotel-led developments with directly integrated apartments, luxury resorts with apartments for holiday rentals, residential complexes with apartments managed by a hotel, and developments with separate hotels and residences. As the sector has evolved, a broader definition of the concept has emerged. Ultimately, any brand could, in theory, lend its name and image to the branding of a property. For example, luxury car and fashion companies, such as Bulgari, Versace, Moschino, Armani, Mercedes, Porsche and Aston Martin, have all been associated with branded residences. The Porsche Design Tower in Miami is just one such example. »

The world's top designers and architects have also licensed their names and design talents to branded residences, including Daniel Libeskind's *Złota 44* in Warsaw and *Verve* in Frankfurt. It seems highly likely that the concept will be extended to other fashionable brands. At present, however, the sector is largely driven by hotel brands and, according to Chris Graham of Graham Associates, there are currently more than 400 branded residences around the world, a majority of which are hotel branded. Nevertheless, the sector's strong growth has attracted a host of other brands. One of the branded residences sector's leading companies is Yoo, which has a portfolio of around 80 projects worldwide and has engaged top designers such as Philippe Starck, Jade Jagger and Kelly Hoppen. Yoo has residences in three major German cities: Berlin, Hamburg and Munich.

A BRIEF HISTORY OF BRANDED RESIDENCES

A glance at the history of the branded residences concept reveals that this is by no means a new phenomenon. The world's first branded residence, the *Sherry Netherland Hotel*, opened in 1927 on New York's Fifth Avenue. However, the segment did not really take off until the mid-1980s when *Four Seasons* proved just how successful the model could be. Today, according to the global real estate marketing company Graham Associates, *Four Seasons* and *Ritz Carlton* are among the market's leading brands. Over the last couple of decades, the segment has grown rapidly and there are now branded residences in over 60 countries worldwide. North America and Southeast Asia are the most developed markets. Europe accounts for just under 10 percent of global branded residences, a clear signal that there is significant growth potential.

A WIN-WIN SITUATION FOR DEVELOPERS AND CONDOMINIUM BUYERS

For developers, the concept of branded residences offers several advantages. Branding is a key differential in satisfying wealthy customers' ever more sophisticated requirements for unique design, lifestyle and identity. A positive brand identity and enhanced



emotional value also leads to faster sales. According to Graham Associates, condominiums in branded residences sell up to 30 percent faster than their unbranded competitors. There are also major synergy effects between developers and hotel operators in terms of interior design, amenities and service.

Buyers also appreciate the clear benefits of higher resale values, outstanding service, exceptional design, prime locations, professional management and the prestige associated with the brand.

They are attracted to branded residences because the brand represents certain quality standards in terms of security, service and furnishings. For wealthy global citizens, time is a precious commodity, which is why they appreciate the added convenience of services and amenities,

Another example of branded residences: *Verve* – Architecture by Daniel Libeskind, located in Frankfurt am Main

“A positive brand identity and enhanced emotional value leads to faster sales.”

Thomas Zabel, Head of JLL Residential Development Germany



such as a concierge, a cleaning service, a spa or a wine cellar. For the younger generation, it is important that branded residences offer a well-rounded experience. They might be more likely to buy if there is an exclusive night club or a star restaurant in the building. Many hotel operators also offer rental services, which means that buyers of branded residences in resort regions benefit from low vacancy rates and higher yields.

FACTORS TO CONSIDER Ultimately, there are certain risks associated with branded residences. If a brand's image is compromised, for example because it falls out of favor or is involved in scandals, this can drive down the value of residences that bear the brand's name. One recent example of this phenomenon involves Donald Trump,



whose name was and is linked to numerous properties. After his election, the value of his branded residences fell. According to the New York Times, some of his tenants even launched a petition calling for the Trump name to be removed from their building.

Of course, the branded residence concept involves more than simply associating any residential property with any brand. The chosen brand really needs to embody the lifestyle and demographic profile of the desired buyer. When selecting or designing a brand, it is important that the brand is striking and clearly positioned. Of course, the property's location still plays a major role. Branded residences are predominantly located in large metropolises or resort destinations by the sea or in the mountains. Other factors, such as the economy and local competition, also need to be considered.

PRICE PREMIUMS FOR BRANDED RESIDENCES According to Graham Associates, branded residences can command price premiums of up to 30 percent over comparable non-branded properties. It is therefore not all surprising that branded residences are one of the fastest growing

real estate asset classes. A good example is Burj Khalifa in Dubai, where an Armani residence trades with a premium of up to 30 percent compared to a similar sized apartment in the tower that does not carry the Armani brand. Branded residences at the Dubai Creek project, which is located on an estuary of the Persian Gulf, have achieved a premium of up to 100 percent ahead of comparable unbranded apartments.

In markets where demand is already very strong and property standards are already very high, such as London or New York, branding has little effect. There have even been a small number of branded residences where branding has not achieved any price uplift.

With Yoo in Berlin, Hamburg and Munich, Verve by Libeskind in Frankfurt and Eisenbahn 1 in Berlin, designed by the Italian luxury brand Bottega Veneta, there are already several branded residences in Germany. Growth in the sector shows little sign of abating and an increasing number of developers have exciting new developments in the pipeline. «

Thomas Zabel, Head of JLL Residential Development Germany