



Spotlight **Monaco** **Residential Market**

2015



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Spotlight Monaco Residential Market

2014 was a record year for Monaco's residential markets. A weak euro offers buyer opportunities.

Welcome to our second in-depth look at the residential property market in Monaco. In this report we show how market activity and pricing is at an all-time high while extraordinarily constrained land supply means newly built property is extremely rare and at a premium so only the ultra prime market and the world's wealthiest are now catered for in the Principality.

Monaco has the highest GDP per head of any population in the world. It is one of a handful of global elite city-states and, in this respect, has more in common with Macau and Singapore than almost anywhere else in Europe. Monaco's wealth and status, nevertheless, goes hand in hand with some of the world's major urban centres where many Monaco residents will also spend some of their time. The lives of the ultra-rich in London, New York and Moscow are often intertwined with Monaco.

To classify Monaco solely as another world-class urban conurbation misses the point. It occupies a

unique position as a hybrid centre that incorporates not only commerce and ultra-wealth in a low-tax jurisdiction but also a Mediterranean playground for the world's wealthy.

Aside from the clear parallels with other world centres, Monaco is a premier destination for gambling, motor sport, yachting, recreation and relaxation. This combination, right on Europe's doorstep, sets it apart from almost any other city or state. Only Macau, on the doorstep of China is beginning to come close but the attractions of the South China Sea are not the same as the Mediterranean. In the longer term, Gibraltar has the potential perhaps to be a regional rival but will need huge amounts of investment and infrastructure to approach Monaco's prestige.

The unique offering of Monaco's global appeal and its extremely limited land supply will all combine to keep Monaco's real estate prices high with few or no mechanisms for them to fall. We anticipate they are at, or near, a high plateau, in common with many other ultra prime markets globally and will be for some time to come. ■



EXECUTIVE SUMMARY



Prices are stable and Monaco remains one of the world's most expensive real estate markets. However, in US dollar terms the Principality has slipped to second place behind Hong Kong, due to a weak euro. See page 5



For the global super rich, Monaco operates as part of a network of city property holdings. Homes in Monaco are most commonly paired with London, followed by New York and Moscow.

See page 5



2014 was a record year for the Monaco residential market. The number of residential sales exceeded their 2007 peak for the first time in 2014, with a combined value of €2.4bn.

See page 6



New build development is characterised by well appointed schemes offering large units to appeal to the world's wealthy. Developers are aligning products with those offered in the major world cities.

See page 8

MONACO AT A GLANCE

Monaco is the second smallest independent state in the world, and home to the world's highest concentration of ultra wealthy individuals. A global hotspot with a distinctly Mediterranean character, Monaco offers its residents a cosmopolitan city environment in a low tax, business friendly jurisdiction. A busy annual calendar of high profile events ranging from the Monaco Grand Prix to the Tennis Masters keeps the global gaze firmly on the tiny Principality, and ensures it punches well above its weight on the global stage.

“Monaco's low taxes and appealing living environment have made it a centre of global wealth”



FIGURE 1
Monaco fact file

 A sovereign city-state	Monaco is governed under a constitutional monarchy, of which the Sovereign Prince of Monaco – Albert II – is head of state.
 Global hotspot	The Principality is home to residents from over 100 nations. French is the official language of Monaco, but Monégasque, Italian, and importantly, English are widely spoken.
 Supply constrained	Just 2.2km in area, Monaco is 6% the size of Manhattan but home to the world's highest concentration of wealthy and super-wealthy individuals. Prime property is in high demand with price tags to match.
 Low tax	Sitting outside the EU, Monaco does not levy income tax, wealth tax or capital gains taxes.
 Financial centre	Monaco ranks 6th in the Y/Zen European Global Financial Centres Index.
 Motor sport	The Monaco Grand Prix and Monte Carlo Rally are widely considered to be the most prestigious events in the motorsports calendar.
 Monte Carlo Casino	The iconic Monte Carlo Casino is integral to Monaco's economy, tourist industry and global profile. It incorporates an opera house and ballet company.

Source: Savills World Research

Economy

Monaco enjoys a buoyant and diversified local economy. GDP surpassed pre-crisis levels as early as 2012, and the economy has performed well since, driven by wage growth and expansion in the economy generally – notably real estate.

Finance remains the city-state's major industry, accounting for 16.7% of GDP. Monaco ranks 6th in the Y/Zen European Global Financial Centres Index, having leapfrogged Vienna since last year's poll. Other important sectors include sciences (including biometrics), tourism and public services and administration.

Monaco is an important centre of employment in the region, and a net importer of labour, with more than 50,000 jobs to its 36,950 inhabitants. Employment grew by 3.8% in 2014. Unsurprisingly, the unemployment rate is close to zero.

The Principality does not levy any income tax, wealth tax or capital gains tax. Instead, it uses social insurance, payable by both employers

and employees, and VAT payable on goods and services, to raise income. Corporations are exempt from tax, except where more than 25% of turnover is generated outside Monaco, in which case a rate of 33.33% applies.

Centre of global wealth

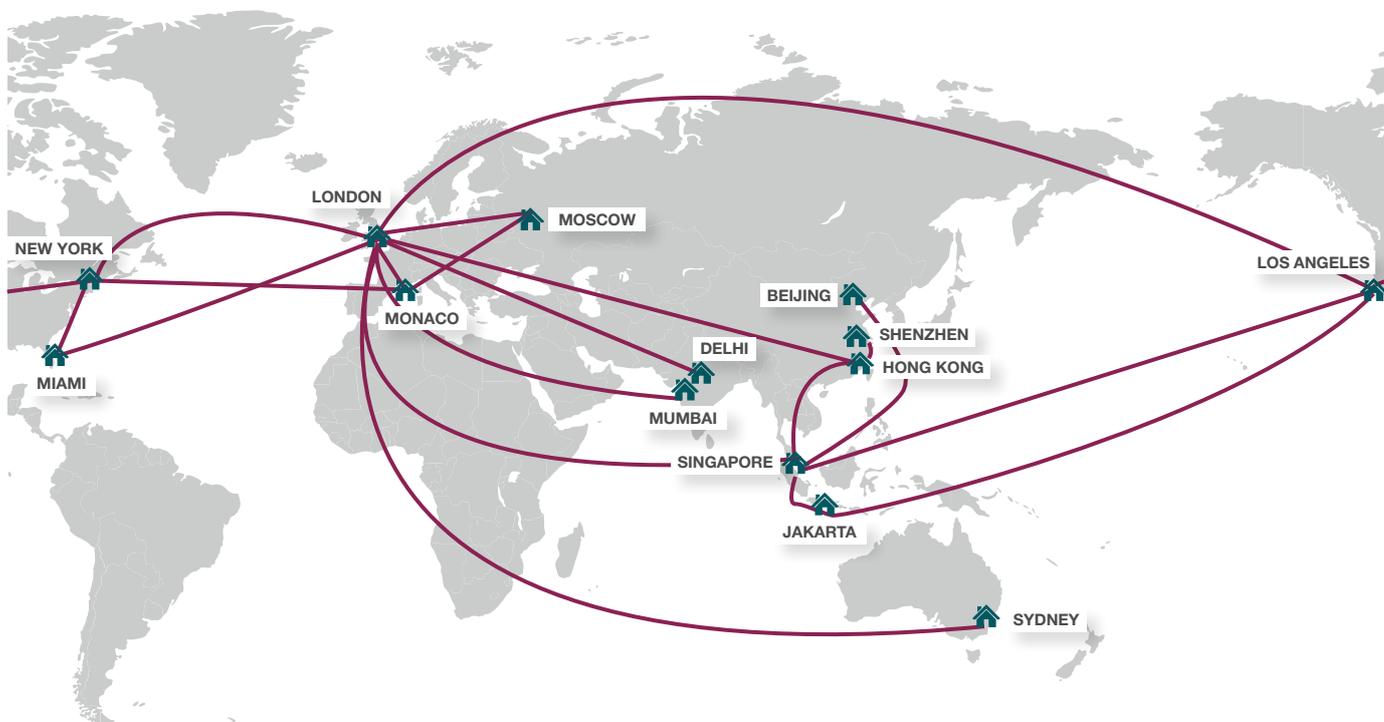
Monaco's low taxes and appealing living environment have made it a long-standing centre for the global super-rich. One reason it bounced back so rapidly from the global financial crisis was due to a weight of international capital seeking safe-haven investment in the Principality's real estate.

The number of global UHNWI individuals (those with assets of at least US\$30m) exceeded 211,000 in 2014, with a combined wealth of \$29.7 billion. Their numbers are forecast to pass 250,000 by 2019, with a combined wealth of \$40bn, according to Wealth X. Asia, Africa and the Middle East are set to see the fastest growth in their wealthy populations.

This is important for Monaco as new wealth created in emerging economies seeks safe havens in

FIGURE 2

Super commuters: the top city pairs where UHNWI hold homes



Source: Savills World Research, Wealth X

the key world cities and centres of Europe and North America.

We have observed that real estate investment among the world's super-rich – particularly among emerging wealth – is overwhelmingly an urban phenomenon. Just under half of UHNWI investment has flowed into the major cities of the world. An important urban centre in its own right, Monaco benefited from this flow of capital in the years immediately following the global financial crisis.

For the global super rich, Monaco operates as part of a network of city property holdings. Figure 2 above shows the top city pairs where UHNWI hold homes and divide the majority of their time. While London is at the nexus of these city hubs, it is one of a dozen globally important locations. Monaco, is one of these important centres, in league with major world centres for this group.

For homeowners the London-Monaco link is especially strong, the major world city complementing the low-tax Principality. New York and

Moscow are also frequently paired with Monaco, in smaller volume. It is no surprise that the neighbouring Nice airport is one of the most important bases for private jet traffic.

Monaco's status as a must-have global address has pushed prices to global highs (Figure 3). The price of ultra-prime property in Monaco stands at €90,900 psm (\$9,000 psft). While prices were static in 2014, a weak euro has seen it drop down the global league table and is now second to Hong Kong in US dollar terms, purely on currency movements. Monaco looks increasingly affordable to US dollar, British pound and Swiss Franc buyers (see p8). ■

29%

Almost one in three of Monaco's residents are classified as millionaires

Source: WealthInsight

FIGURE 3

Ultra-prime prices: per square foot/metre

City	USD psft	Euro psm	2014 price movement in local currency
Hong Kong	\$10,700	€ 92,500	↘
Monaco	\$9,000	€ 90,900	→
New York	\$6,100	€ 52,700	↗
London	\$5,900	€ 51,300	↘
Tokyo	\$5,900	€ 51,300	↗
Paris	\$4,400	€ 38,400	↘
Moscow	\$4,500	€ 38,600	↘
Singapore	\$2,500	€ 23,100	↘
Shanghai	\$2,400	€ 20,800	→
Dubai	\$1,200	€ 10,600	↗

Source: Savills World Research

RESIDENTIAL MARKET

Monaco experienced a surge in residential market activity last year, with transaction volumes exceeding their 2007 peak for the first time. In total, 555 residential properties traded in the resale market in 2014, putting the number of deals 21% above 2007 levels.

The very upper tiers of the market have been the most liquid, and as a consequence transactions in euro terms reached new records. Some €2bn of property traded in the resale market in 2014, compared to the previous peak of €1.1bn in 2008, an increase of 91%.

While total sales volumes by both number and value have reached new highs, average prices have remained static. This, set against a weak euro has made Monaco property look cheaper to some foreign buyer groups, particularly those with US dollars.

A €2m property cost US dollar buyers \$2.16m in April 2015, compared to \$2.77m in April 2014, a reduction of 22% in a year. The same €2m property to a British sterling buyer cost £1.44m in April 2015, compared to £1.65m a year prior, a reduction of 12%.

Investors have been active in the €1-10m bracket, seeking easy to manage properties to feed into the rental market. Monaco benefits from a range of end users, and second home purchasers and those seeking primary residences in the super-prime segment have been active too.

Monaco is unusual in that almost all of its residential stock could be considered 'prime'. The 'mainstream' housing stock, in which many of its workers live is found in bordering French towns. Given Monaco's restricted space, 95% of its housing stock is in the form of apartments, with villas making up the balance.

The Principality has a large rental sector, much of it institutionally owned and let to Monégasque residents. In the ultra-prime sales market British, Russian, Middle Eastern buyers have been especially active in the last year.

Monaco's ultra-prime residential markets are focused in Monte Carlo, around the famous Place du Casino. The most desirable area is Carre D'Or, followed by neighbouring Fontvieille, which also offers a variety of commercial uses. Sought-after buildings can be found throughout the Principality, with the majority of new ultra-prime schemes developed in outer districts due to limited land availability in the ultra-prime core. ■

FIGURE 5 Monaco district by district

Average transaction price 2014

- Above €4m
- €3m to €4m
- €2m to €3m
- €1m to €2m

MONTE CARLO

Arguably the most prestigious district in Monaco, at the centre of Monte Carlo is the Carre d'Or, a grand square bordered by luxurious hotels and casinos. High-end, modern apartments and villas, such as those of the Boulevard de Suisse are all in high demand.

Key buildings: Mirabeau, Floralies, Park Palace, Sun Tower, Monte Carlo Star

JARDIN EXOTIQUE

On the western corner of the Principality, centred around Monaco's cliffside botanical garden. A comparatively cheaper area, but with a number of prestigious buildings.

Key buildings: Patio Palace and Monte Carlo View

FONTVIEILLE

Largely reclaimed from the sea, Fontvieille is home to Fontvieille Harbour, Louis II Stadium and a 'pollution free' industrial centre. As one of Monaco's newer districts, apartments here are larger on average compared to some older districts of Monaco.

Key buildings: Terrasses du Port, Seaside Plaza, Palazzo Leonardo

FIGURE 4 Resale transaction volumes exceed 2007 peak



Source: IMSEE

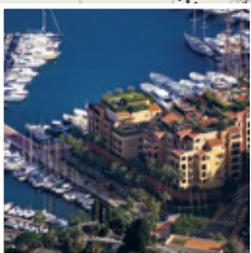
Source: Savills World Research

Seven key districts with distinct residential characteristics

LARVOTTO & LA ROUSSE

On the east side of Monaco is Larvotto and on the hills, La Rousse, developed in the 1960s. It is dominated by apartment buildings of this era, though the majority are only available for rent. La Rousse is home to the soon to be completed Tour Odeon.

Key buildings: La Reserve, 21 Princesse Grace



LA CONDAMINE

This district encompasses Port Hercules, and is known for the 'Place d'Armes' market, restaurants and high-end retail offer. As the hub of the annual F1 Monaco Grand Prix, Condamine is recognised around the world. Apartments with terraces and direct harbour views command a significant price premium.

Key buildings: Porto Bello, Shangri La and Ermanno Palace

Grand Prix circuit



MONACO VILLE

The oldest district in Monaco, Monaco Ville is the original fortified town and home to the Prince's Palace. A popular tourist spot, apartments are rare here and many are subject to 'sous le loi 1292' which places restrictions on letting the property.

Key buildings: 18th or 19th century conversions



THE NEW BUILD MARKET

The new build market in Monaco is tiny, and exclusive. New development is tailored to the demands of the global elite and this means large, high-spec apartments with extensive facilities within the building. Much of Monaco's housing stock is comprised of apartments developed in the 1960s and 70s with a limited amenity offer, so the new supply occupies and enjoys a unique position in the marketplace and carries a significant price premium.

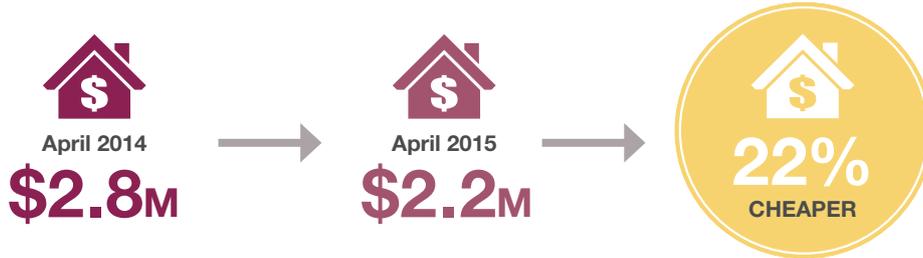
IMSEE recorded just 11 new build sales in 2014, down from 15 in 2013, so the market remains very small and exclusive. During the global economic

downturn developers in Monaco shifted their focus to the global ultra-prime segment, developing larger units at higher price points. This has pushed total new build sales volumes to €345 million, 2.5 times the volume recorded in 2013 and 13 times that of 2008.

High-end schemes completed in recent years include L'Oiseau Bleu (20 units), Le Monte-Carlo View (45 units) and Le Monator (19 units) and the Tour Odeon (70 units) which is due to be completed this year.

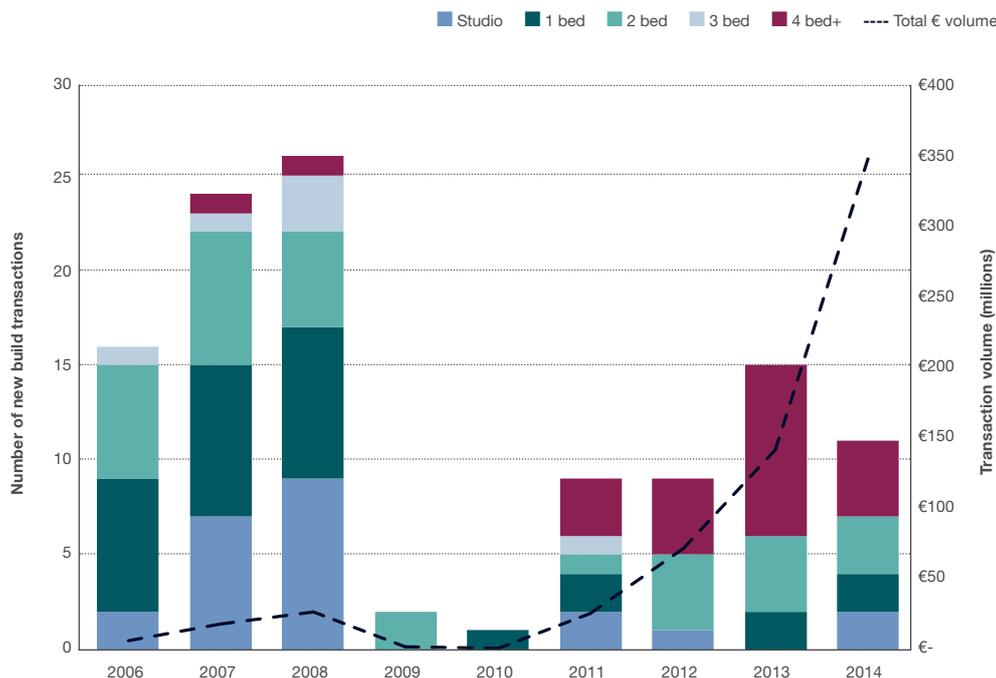
Other large developments, such as Le Stella (102 units), have recently launched, and will incorporate retail and office space. Last year also saw the completion of Villas du Sporting, three ultra-prime villas of 500sqm on the seafront. ■

FIGURE 6 How much a €2m property costs to a US dollar buyer



Source: Savills World Research, exchange rate as at 17th March 2015

FIGURE 7 New build transactions: the trend for larger units continues



Source: IMSEE





SHAPING MONACO: CITY BUILDING FOR THE FUTURE

Land is constrained in Monaco so the Principality is taking innovative approaches to urban development by making available new development space through urban restructuring, land reclamation and renewal.

New development

New development has been targeted firmly at the global super rich, designed to compete with the best schemes of London, New York and Hong Kong. Tour Odeon, situated in La Rousse, topped out in 2014, rises to 49 stories and offers 70 apartments to a very high specification. Le Stella, located in La Condamine, consists of two villas and 99 apartments in an iconic 'sculptural form', thanks to its undulating balconies.

Land reclamation

Monaco is no stranger to land reclamation, it has been claiming land from the sea since the late 19th century. The Fontvieille district, developed in the 1970s, is almost entirely built on reclaimed land and extended the Principality's land area by 20%. There are plans for an eleventh ward, Le Portier, adding 27.5 hectares of new land between Port Hercule and Grimaldi Forum.

Urban renewal

Prominent sites are being re-imagined and redeveloped to maximise limited land and make it fit for the 21st century. A new Sporting D'Hiver is under construction, replacing the 80 year old building of the same name. The Richard Rogers scheme incorporates six residential pavilions, office accommodation, a pedestrian retail street and conference facility. ■



A further 27.5 ha of land
is to be reclaimed
from the sea



OUTLOOK

■ **World cities cool:** World city ultra-prime is cooling, but Monaco's restricted supply and retreat characteristics means it should fare better. Prices in the Principality are static and we expect them to remain stable given limited new development and sustained demand.

■ **Brand Monaco:** Monaco's high global profile gives it a cache among the global wealthy that will underpin demand over the long term. Monaco's history and heritage is something that the competition in emerging enclaves just can't replicate.

■ **Wealth creation:** As a 'safe haven' real estate market, new wealth created in emerging economies is already flowing to stable markets of Europe and North America, into key world cities and centres including Monaco. Monaco's internationally cooperative stance means its status as a low tax jurisdiction appears secure.

■ **Heritage:** Monaco enjoys a rich cultural and built heritage. To date, it has been Monaco Ville's historic architecture that has been protected and celebrated. But much of Monaco is characterised from development in the 1960s and 70s and we anticipate the best buildings from this era being preserved and promoted in future.

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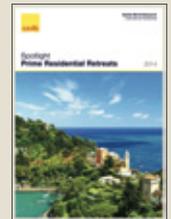
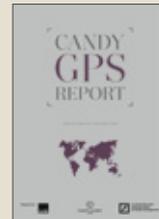
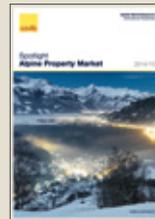
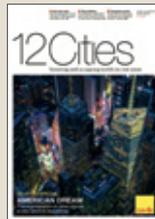
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