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# Just as the world economy was recovering



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► finished and there is no sign that work is continuing. Hoarding surrounds large tracts of undeveloped land.

Mixing vacant and unfinished properties with occupied ones drags down the value of everything. The bust also gives developers very little incentive to resolve disputes over maintenance. Clongriffin is one of a number of north Dublin developments involved in legal cases over buildings contaminated with pyrite, a mineral that crumbles as it oxidises.

Clongriffin may also have the wrong sort of properties for this stage of the cycle. During the boom much of the construction activity was in flats. Developers liked them because they could generate more revenue from a single plot of land. First-time buyers saw them as a way to get onto the housing ladder, perhaps hoping to trade up to a house later. But prices have now fallen so far that buyers can skip the flat and go straight to a family home.

Clongriffin's unsold units will probably find buyers in the end, thanks to its location. Two-fifths of Ireland's population lives in greater Dublin and the country has one of the highest proportions of 25-45-year-olds in Europe, most of whom will want to own their homes. But lots of the excess was in more rural areas. Marie Hunt of CB Richard Ellis (CBRE), a property consultancy, points out that in such places even an oversupply of 20 homes can make a big difference.

### Only in America

Oversupply can take many forms. America's big housing worry is its huge "shadow" inventory—homes whose owners are seriously behind with their mortgage payments or in foreclosure and which will eventually come onto the market. Even though American house prices are now back at fair value (ie, the ratio of house prices to rents is back to its long-run average), this pipeline of distressed properties is putting prices under continued pressure.

It also helps explain why America has suffered such a sharp fall in prices after the bust despite peaking lower than many other countries (see chart 4, next page). House prices are generally "sticky" on the way down, in part because people are averse to selling at a loss. But America's bust has brought waves of distressed sales, forcing prices down rapidly. Around a quarter of borrowers are now in negative equity. "The big question is not how fast prices rose but how fast and how much they fell," says Eric Belsky of the Joint Centre for Housing Studies at Harvard University. ►



## A world apart

International buyers are still splurging on residential property

CONCEIVED during the boom and taken over by its lenders after the bust, the Icon Brickell has become the most visible symbol of Miami's property renaissance. The Philippe Starck-designed condominium complex is, depending on taste, either hugely sophisticated or utterly naff. The columns at the base of the building are shaped like Easter Island statues (see picture); tables and chairs sit voguishly in the water of an outdoor pool; the walls of an enormous spa are lined with books wrapped in white paper. It's seductively ridiculous.

The complex had been largely pre-sold, but when the bottom fell out of the market buyers refused to pay up. Units are now being marketed at heavily reduced prices. Sales, at around 60 units a month, are running at twice the expected level, says one agent. The main source of demand is cash-rich international buyers, most of them from Latin America. Local agents say Venezuelans are the most active buyers, followed by Brazilians.

International money is flowing to other properties in the city, too. Figures from the Miami Association of Realtors, a trade group, show that sales of condominiums in Miami in 2010 were more than 40% up on the previous year. "The foreign and, especially, the Latin American buyer has been a big factor in the remarkable turnaround in sales velocity," says Jubeen Vaghefi of Jones Lang Lasalle (JLL), a property consultancy.

The flow of cash from abroad reflects many factors. The appreciation of curren-

cies such as the real, allied to the fall in prices, has made places like Icon Brickell look good value relative to posh properties at home. Miami is the natural gateway into America for Latin Americans. Security is another draw: the kids are unlikely to be kidnapped.

Miami is one of just a few cities around the world that attract international buyers. In Hong Kong the market is buoyed by people from the mainland who slap down wads of cash. Even Dubai still attracts money from less stable places such as Iran and Iraq.

London is the most international city of all. Last year it pulled in cash from Europe as the pound weakened against the euro, as well as buyers from the Middle East, North America and Asia. According to Knight Frank, an estate agent, in the 12 months to June 2010 half of all newly built flats in central London were bought by foreigners. At The Lancasters, an opulent residential development nearing completion on the north side of Hyde Park, the split of sales to date is more like 60-40 in favour of foreigners.

Prices have proved as resilient as demand. At One Hyde Park, a starry new development which officially opened in January, some units have reportedly sold for more than £6,000 (\$9,625) per square foot. Klas Nilsson, the boss of Northacre, the company behind The Lancasters, says the credit crunch has not hurt either sales or prices. Indeed, it has helped: with few other such developments under construction, there is less competition.