

# United states in America

By **Stirling Larkin**

ANDY Warhol said that being good in business was the most fascinating kind of art. If this were true then there would be little doubt that the US has been the art centre of our modern era.

As neoteric as it has been to pivot towards Asia, it has still made sense and cents to always keep US investment opportunities to the front of one's mind.

The US and its markets remain the flywheel of our global economy and the home to both innovations and new investment prospects. Appreciative of this, the Australian Ultra High Net Worth (UHNW) investment community has never taken its eyes off them; investing in stateside real assets, hedge funds and money market products, to name but a few.

However, especially in the most recent years since the GFC, there have been new, fresh and viable ways for other investment communities to also invest in US assets, either directly or via co-investment.

This has largely been thanks to a number of factors aligning and allowing both American and global investors to find these new and reliable ways of accessing high-yielding, relatively stable growth opportunities.

Firstly, the rise, increasing sophistication and further development of the Exchange Traded Funds (ETF) and Products (ETP) markets in North America have been nothing short of spectacular.

Now constituting about 40 per cent of all US on-market deal flow, this relatively new investment vehicle has allowed both small retail and large institutional investors alike the chance to participate in assets and prospects that were close to impossible less than a decade ago.

Also, importantly, Australian investors can now buy and sell these products both on the ASX and, increasingly, directly in the US, thanks to the rapidly maturing internet trading and execution platform technologies.

Coupled with the fact that these solutions are priced far more competitively than their predecessors — like off-market managed funds — they have provided better access to capital markets and enhanced-trading methodologies. Some

have been realised through the advent of “intelligent” ETFs, introduced in the aftermath of the 2000-02 bear market to avoid perceived flaws of passive index investing.

The most popular of those so far have been “smart beta” strategies, which in essence attempt to deliver a better risk/reward profile, versus conventional index exposures, by employing alternative weighting schemes based on measures such as volatility, dividends or perceived systematic biases or inefficiencies in markets.

The jury is still out on whether these new approaches enhance returns over time, but they nevertheless present global investors with new, exciting and cost-effective choices thought near impossible a generation ago.

Australian UHNW investors are also taking positions directly in US companies and real assets at levels not seen since the 1970s.

US juggernauts like Amazon and newcomers like Tesla Motors have sparked their interest alongside a renewed focus on direct Manhattan real estate assets.

The Manhattan story can in part be explained by US domestic fundamentals and partly by global investors’ pivot towards Asia and an eye on where Asian UHNWs are buying assets.

Taking into consideration the relative strength of the Australian dollar, Australian UHNW investors have recognised that, as Manhattan residential property inventories have been sharply contracting over the past six years, and as accommodative US monetary policy has led to the recovery of the US property market, that Manhattan residential real estate is the place to be in 2014. According to George Fesser and Tim Cass of the Corcoran Group in New York, Manhattan residential property appears to be better value than Asian capital cities or London.

They highlight this point by noting that, in China, the average price per square foot in the luxury market remains “rangebound” at \$US4000-\$US5000 whereas New York still averages a range of \$US2500-\$US3500.

Fesser believes the recently heightened interest by Asian UHNW investors is because “Manhattan is home to some of the top educational institutions in the world and many foreign investors send their children here to study, and purchase large condos for them to live in.”

These investors also value the high-end amenities offered by many of the new luxury developments, like One57, which will also have a Park Hyatt hotel on the lower floors, or Robert A.M. Stern's 30 Park Place, which will host a Four Seasons hotel.

Cass sees that "owners also like the fact that their guests can stay in the building's hotel" and residences such as W Downtown in Manhattan even provide a service that will help owners rent out their units when not in use.

All being considered, Australian UHNW investors are not allowing their Asian UHNW peers to crowd out this market and, by doing so, limit their global opportunities. This competitive pricing tension has led to record prices, such as the penthouse at One57 recently going into contract for \$US90 million (\$95.3m).

According to the Corcoran Group, the luxury Manhattan market — defined as the top 10 per cent of all co-op and condo transactions — has a median price more than four times the overall Manhattan market, and year-on-year this market has seen a 43 per cent gain in average prices. As foreign investors are attracted to better-known areas of Manhattan, developers are making note and have observed Australians' interest in Baccarat by Skidmore, Owings and Merrill, and One57 by Christian de Portzamparc, both near Fifth Avenue and Central Park, as well as 520 W. 28th Street by Zaha Hadid, adjacent to world recognised The High Line elevated park.

Unlike Al Gore's "inconvenient truth", the convenient truth is that the US continues to provide world-class opportunities for world-class investors looking towards the New World.

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