



The post-crunch world: the view from Monaco

October 2010

The first major financial crisis of the 21st century was a transformational event that has had many significant and unforeseen impacts on various business sectors and economies. Three years after the start of the credit crunch we can see glimpses of a recovery in some areas but also conflicting signs of a world that is still struggling to heal itself, especially in the West.

Many investors are worried about inflation but bond yields are close to record lows. Economies are growing in GDP terms but there is little evidence of a recovery in employment markets. Interest rates are at record lows but people are borrowing less and paying down debt. Stock markets are rising but earnings forecasts are being lowered. Everywhere there are signs of confusion and even central banks are heading in opposite directions. The Federal Reserve is expected to start a second round of quantitative easing in the next few weeks, following on the heels of Japan's recent announcement to ease further, whereas European countries are implementing austerity plans and cutting back on government spending.

Investors need to be mindful about how they interpret information in this confusing environment. The French Riviera was teeming with superyachts during summer and the big spenders appeared to be back in force. This year saw more than 100 boats moored in the bay outside Monaco during September, in attendance at the annual yacht show, which might indicate that the yachting industry is in rude health. However, superyacht sales declined 70% in 2009 according to Camper & Nicholsons which means that there are more boats than customers. One local resident who is in the market for a new boat complained to me recently that yachting sales people had forgotten how to sell after years of booming demand but now there are signs of a frantic effort to boost the number of transactions and the huge number of vessels turning up at the Monaco Yacht Show suggests that it's a buyers market.

Some boat builders have had to contend with clients who have pulled out of their purchase before completion and they've been faced with either finding a new buyer or financing the remaining build themselves. In spite of positive spin in the media, local rumours going around Monaco suggest that some well-known yacht builders have run out of cash and are on the verge of bankruptcy. The market for used boats is extremely 'soft' and there are some great bargains to be had for those with cash to spend but the stumbling block might be the high running costs. You could save a few million on the asking price of your new superyacht but it will still cost you in excess of 1m Euros a year just to keep it afloat. Until the feel-good factor returns and people feel more confident about the economy, high-maintenance assets will remain out of favour.

The Candy brothers, famous high-end decorators for the über-rich, recently sold their 45metre yacht Candyscape shortly after advertising it for 7million Euros whereas they'd originally spent over \$15m buying and redesigning it. They should be able to stomach the loss if stories of the sale of Christian Candy's pad in Monaco for 240m Euros are true. The sale of the 17,500sq ft 3 bedroom apartment has been touted as a sign of revival in the local property market where

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transactions have halved since 2007. However, some people believe the sale price might simply be a product of the Candy & Candy marketing machine because the buyer appears to have paid nearly 5 times the average local price per square metre, in a very weak market. According to the Monaco Chamber of Real Estate Agents the average selling price for an apartment in Monaco is 2 million Euros and some properties are taking 3-4 years to sell, which means either the Candy brothers have pulled off an amazing coup or the buyer is the biggest sucker in history. Rather than signalling the revival of the market, this sale looks more like the kind of deal that you'd see at the peak of a global property boom.

There are signs of financial fatigue. On the main shopping street in Monte Carlo there are one or two empty shops and residents have found that they can negotiate a good reduction when their rental leases are up. There has also been a noticeable exodus at the lower end of the wealth scale, as many have departed in search of lower property prices and more living space, and a surprising number of apartments reportedly sit empty. Rent increases went crazy a few years ago as Russians and Eastern Europeans started to arrive but the global recession knocked the wind out of the market. Today Monaco still has around 100 estate agencies vying for around 180 sales this year. They cover an area the size of London's Hyde Park so we might start to see some attrition in the real estate sector unless tax rises in other countries encourage high earners to up sticks.

Like the wrong side of midnight, the 'other side' of the credit crunch is a strange place. The finances of the wealthy appear to be in good shape generally whereas the middle classes are hunkering down for further job losses and higher taxes. Whilst money probably can buy you better financial advice the disparities we see today have grown substantially. Asia is creating new millionaires every week whereas the number of Americans living in poverty gets greater every year. If financial bonuses are a measure of success then it seems that bankers have come through the crisis they were largely responsible for as the biggest winners. A few years ago we worried about banks going bust, today the number one concern is about the solvency of entire countries but we are told that this is what recovery looks like. Anyone emerging from a coma might be forgiven for thinking that the world is a financially more perilous place than it was in 2008, not one that is on the mend.

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