THE DAVOS EFFECT

How decaying cities, fear of crime and astronomical prices are leading the world's elite to invest in remote sanctuaries

Eugene Costello

Can cities survive as a sustainable model for housing our citizens? Surely, sheer weight of population would suggest that they represent the most logical way of centralising resources for the benefit of all?

It seems, though, their primacy is not assured – experts talk of phenomena such as the "Paris effect" and the "Detroit effect". In recent years, much of the small talk at international gatherings of the super-rich such as Davos – the location of the winter gathering for the World Economic Forum – has focused on the increasing numbers among them who are buying up expensive boltholes in remote areas such as New Zealand, driven largely by fear of crime, such as kidnappings and ransoms in Latin America, to the recent jewellery heist in the Parisian apartment where model and reality TV star Kim Kardashian was residing at the time.

Sure, there's something about the theme of decaying civilisations and "dying cities" that grasps the zeitgeist, stirring in our collective psyches something visceral, intuitively, instinctively thrilling and shocking at the same time. It's a powerful leitmotif in culture – the long-dead, once-mighty king Ozymandias in Shelley's eponymous poem reduced to a partially buried statue in a desert with no sign of the cities he once commanded; the Statue Of Liberty barely visible, buried chest-deep in the shocking final scene of Planet Of The Apes (Charlton Heston, not Mark Wahlberg); the Mad Max film franchise; and the dystopian worlds of Escape From New York and Blade Runner.

Detroit should be a city of 500,000… it should never have gotten as big as 1.8 million

Conversely, from the 1970s to the 1990s there were breathless, excitable magazine features and documentaries about the growth of the 21st-century supercity – both fictional, as in UK sci-fi comic 2001AD (how quaint, with hindsight) where "lawgiver" Judge Dredd gunned his Harley substitute around Mega-City One – and real, sprawling behemoths such as Tokyo (34.3 million inhabitants), Shanghai (24.8 million), Mumbai (23 million) or Mexico City (22.9 million). These cities, the argument went, would grow out of the dysfunctional, dystopian ruins of the cities that preceded them.

As with so many social trends, there is truth on both sides. First, let's examine the Detroit effect. There's long been a trend in North American cities to abandon the centre and head in droves for the suburbs. Nowhere has this been more in evidence than in Detroit – Motown, for many years the epicentre of the once-formidable auto industry.

In the 1950s, Detroit was an expanding, wealthy city with factories turning out cars that were the envy of the world. Handsome civic buildings in the city centre attested to municipal pride, and by the 1950s its citizens enjoyed the highest average incomes and the top rate of home ownership of all US cities. The incredible rise of Motown attested to the feel-good factor its residents – some two million of them – felt.

Decades of white flight and the near-total collapse of the car industry mean that 60 years later the population has more than halved and many parts of the city have been as good as abandoned, with grass growing out of the pavements and roads, buildings standing empty, eschewed even by the homeless and drug-addicted who have far better abandoned housing stock from which to pick. Tellingly, not one single major US supermarket or grocery chain has an outlet in the city, underscoring the feel of a city that is gradually being abandoned back to nature.

Famously photographed extensively by two French photographers for a coffee-table art book, images of Detroit became synonymous with those of Chernobyl – abandoned classrooms, derelict houses, whole neighbourhoods of them, empty streets. And yet, Robert Beauregard, Professor of Urban Planning, Graduate School Of Architecture, Planning And Preservation, Columbia University, New York, has a different perspective on what he terms "ruins porn".

"People in this world [urban planning] would not use the word 'dying' to describe a city – the word we would use is 'shrinking'. A city can shrink without dying, and of course dying is a loaded word that suggests death. There is an argument that describes the obsession with what you term 'dying' cities as being 'ruins porn', famously as in the case of Detroit, where you had photographers going in and aestheticising the ruins as objects."

"So shrinking is a more useful term, and in fact it replaced what we used to call them, which was declining cities. And in the case of the US in the '60 and '70s you had a whole bunch of articles saying, look, the cities are dying. Whereas people now are less negative, and say, yes, they are shrinking, but how about we find ways to stabilise the slowdown and even promote new, different kinds of growth? There is an argument, for instance, for saying that Detroit should be a city of 500,000, that it should never have gotten as big as 1.8 million people or whatever."

The real reason for the shrinking of cities such as Detroit is, of course, the economy. “Both here in the US, in the UK and elsewhere, you had a pretty substantial decline in heavy industry,” says Beauregard. “In the UK you had these great cities born of heavy industry in Victorian times, such as Birmingham, Liverpool and Manchester, and they are suddenly losing their raison d’être by losing industry to off-shore. And the same here in the US, with places such as Detroit, Buffalo, Cleveland, St Louis, Pittsburgh… their economies were collapsing, and that was part of that era. And to compound matters, here in the US we had a huge south-to-north migration, meaning that African-Americans were moving from the agricultural South to look for work in the North just as all the jobs were disappearing.”

In recent years, Davos has been followed by headlines talking of the rich “fleeing” cities and looking for private boltholes

So is there a future for cities such as Detroit that have lost their economic and industrial purpose? Well, up to a point, says Beauregard, “There are some neighbourhoods that are just about viable, although they are pretty much on the edge. I was speaking to a colleague a couple of years back who was living right there in the centre in a community that was just about holding its own, and he said, ‘Yes, the housing value has dropped to the point that it is now stabilised and we can see a future. But all it would take would be two or three neighbours to throw the towel in and we’re screwed.’ You know, these are not stable neighbourhoods.”

Beauregard points out that the current population of Detroit is still sizeable, in excess of 700,000, but that the crux of the problem is that the population is all spread out, so huge swathes of suburbs are being left to go to ruin, and a lot of the industrial areas are not viable now that industry has gone. “What this means is, that you get pockets where the neighbourhoods seem kinda viable but they are spread out over large areas.”

Beauregard gives the example of one such pocket, that of Midtown. “If I dropped you into Midtown, where you’ve got the university and the teaching hospital, you’d think, oh my, what a nice, middle-class neighbourhood with lots of cultural activities and nice shops and bars. I stayed there a while back in a bed-and-breakfast and it was charming. And on the other side of Downtown, there is a housing project by the famous architect Mies van der Lowe, and that is doing great. But as I say, these are pockets, and pockets do not a city make.”

The Sultan of Brunei is one of the investers in Herne Bay, Auckland’s prime real estate neighbourhood

While the lower middle-classes might be drawn to a cool van der Lowe apartment, it’s not going to save the city, says Beauregard. “You keep hearing about Detroit and artists and hipsters, that they are moving to Detroit and they are living in inner-city communities and growing food and painting and sculpting, and all the rest of it,” he says with a slightly cynical New York drawl. “But there’s no scale, there’s no industry, there’s no jobs. The hipsters, I am sorry to say, are not going to make any real difference.”

The challenge when a city shrinks so drastically is one of allocating resources, he says, pointing out that it is hard to provide civic services such as schools and hospitals, not to mention shops, when there are only two or three households left in a particular neighbourhood.

And it is not a problem that is simply confined to cities such as Detroit, as Beauregard points out, whose future was predicated upon a manufacturing base that has since disappeared. After the Berlin Wall came down in 1989 there was a huge exodus – to call it a diaspora would be no exaggeration – of “Ossies”, as East Berliners were called. In the process, more than a million apartments were simply abandoned, leading the German government to found the Shrinking Cities Project, devoted to studying what is becoming a global phenomenon, looking at cities such as Berlin, Leipzig, Detroit and Manchester and Liverpool in the UK.

“I know hedge fund managers all over the world who are buying airstrips and farms in places”

Which brings us neatly to the second phenomenon, what might be called the “Paris effect”. Looking at London in particular, the astronomical rise in the price of property over the past decade means, some argue, that it will become more akin to Paris where the only super-rich can afford to live in the centre, with the poor banished to the farthest outreaches of the city and only travelling in to the centre to do the menial service jobs required for tourists, residents and office workers. A recent study found the average price of a property in the UK to be an astonishing eight times the typical wage; in London, where prices are jaw-droppingly higher than the rest of the UK, it is no exaggeration to say that, as things stand, the dream of home ownership will, for the vast majority, remain just that – a dream.

It is this gulf between rich and poor, and the simply unattainable nature of property prices for the majority, that has been sending jitters throughout the super-rich community. In the past couple of years, Davos has been followed by sensationalist headlines talking of the rich “fleeing” cities and looking for private boltholes. Hysteria aside, there is a degree of truth in this phenomenon, what we might term the “Davos effect”, that has been, at least in part, responsible for what Jeremy O’Hanlon, head of marketing at New Zealand property tracking service Property NZ Ltd (homes.co.nz), tells Portfolio has been “a skyrocketing of prices” over the past three years. By way of example, he points to a property on his website, 15 Marine Parade in prime waterfront location Herne Bay, Auckland. In October 2012, it was valued at NZ$7.35 million; four years later, it is currently listed at NZ$12.36 million. That’s some capital growth…

As far back as January 2015, Robert Johnson, president of the Institute Of New Economic Thinking, revealed that the widening inequality in the northern hemisphere was causing jitters among many of the super-rich who didn’t believe an apocalyptic descent into lawlessness and chaos to be too far-flung a possibility. Said Johnson: “I know hedge fund managers all over the world who are buying airstrips and farms in places like New Zealand because they think they need a getaway.”

Pointing out that this gulf between rich and poor could lead to such a nightmarish scenario for the rich wasn’t just happening in the likes of Latin America but in supposedly wealthy countries in, say, western Europe, Johnson added: “People need to know there are possibilities for their children, that they will have the same opportunities as anyone else.”

And that is why New Zealand, for many, is the bolthole of choice. Officially the third safest country in the world, it has beautiful landscapes, superb properties and a stable society offering good education and leisure options. O’Hanlon refers me to Auckland-based real-estate brokers Graham Wall (grahamwall.com). I spoke to one of two sons

Above: A property in Westmere in Auckland
Top: Graham Wall and his two sons

of the eponymous founder, the irrepressibly cheerful Andrew Wall who is almost messianic about how great his country is, and what fantastic opportunities it offers the "increasing numbers of international businessmen who are queuing up to buy here".

Graham Wall Senior set the firm up in 2002; one of his first clients was the Sultan of Brunei, who could see the potential and was drawn to Auckland's prime real estate neighbourhood, Herne Bay. "It's a fantastic site, two minutes from the city centre, with absolute tranquillity and security, dotted about with lots of green, boatsheds and private beaches," says Wall. That waterfront strip accounts for the country's biggest deals – "that deal was for about NZ$30 million for 11 plots, which seemed astronomical then but would be a bargain now, but it's probably fair to say that it was the Sultan who really kickstarted the international interest."

Last year, the biggest sale in New Zealand was around the corner from there, a property called Sentinel that sold for NZ$24 million. That happened to be a Kiwi buyer, but the year before the biggest deal had been for NZ$39 million to a Chinese buyer.

People need to know there are possibilities for their children

"The media focuses on the Chinese but actually our international clients are from all over the world. A recent client fitted your description [of the types mentioned at Davos] perfectly – a New Yorker coming out of Zurich who wanted to move out here with his lovely family. We sold him a beautiful property for NZ$18 million on Burwood Crescent in Remuera, which is traditionally the neighbourhood that old money is drawn to." (In March of this year, Prime Minister John Key revealed that he had once been burgled while living on the same street, saying that "the whole house was cleaned out".)

The New Yorker also bought a property on the South Island, near Queenstown, and Graham Wall sees a lot of clients opting for a rural idyll down there, says [son Andrew] Wall, "Queenstown started out as little more than a village servicing three ski fields down there, but now it's a genuine city. It has fantastic restaurants and the setting is breathtaking as it sits over a lake surrounded by mountains. There are some really great parcels of land down there that fit the bill of what you call 'boltholes' – we sold one big parcel to [Facebook and PayPal investor] Peter Thiel and similar parcels to a lot of other guys from Silicon Valley."

The area where Thiel bought is called Damper Bay, at Wanaka, Queenstown Lakes – "a really wonderful part of the world that has managed to keep its remote feeling because of some clever work by the council. Each parcel is a massive site, acres upon acres, but you can only have one residence on the site, and even that residence has to be hidden from the eyeline on the lake." So local architects have become especially skilled in coming up with daring contemporary designs that manage to blend in with the landscape".

So what are the hot new areas that the super-rich will head for now that Herne Bay sounds like it is at saturation point? "My tip," says Wall, "is a neighbourhood called Westmere in Auckland. We are currently marketing two properties there, one at NZ$10 million and one at NZ$20 million, and it's a fantastic up-and-coming area." One is tempted to make a point about NZ$20 million-properties hardly being up-and-coming, but one resists. "We've had to take the NZ$20 million property off the market temporarily to rent it to a production company who wanted somewhere for their stars to stay while shooting a film here."

Is he allowed to say which stars? Wall gives an easy, New Zealand laugh, and says, "Yeah, sure, no worries. Have you heard of Jason Statham and his wife Rosie Huntington-Whiteley?" There goes the neighbourhood, then…