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R E S I D E N T I A L

# THE WEALTH REPORT.

The global perspective on prime property and investment



2018  
12th Edition



# The Wealth Report 2018

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## Definitions

### UHNWI

Ultra-high-net-worth individual – someone with a net worth of over US\$30 million excluding their primary residence

### HNWI

High-net-worth individual – someone with a net worth of over US\$1 million excluding their primary residence

### PRIME PROPERTY

The most desirable and most expensive property in a given location, generally defined as the top 5% of each market by value. Prime markets often have a significant international bias in terms of buyer profile

### Global and local insight

*The Wealth Report* provides a platform for Knight Frank to examine and assess the global trends that matter to our clients. Behind this macro picture, our research teams produce a wide range of local market reports and sector analysis to help our clients identify and understand the residential and investment opportunities available to them.

Leading this process is *The Wealth Report* City Series, the first of which was published in 2017 and focused on Melbourne. This year, the second in the series looks at Dubai, providing a comprehensive overview of economic, property market and lifestyle trends.

### The Dubai Edition covers:

- The impact of the Bureau International des Expositions' decision to award the World Expo 2020 to Dubai, making it the first city in the Middle East to receive this accolade
- Current residential market trends – having experienced headwinds in recent years, market performance is moving in a positive direction with annual price growth outstripping regional peers in the 12 months to December 2017
- Dubai's expanding role as a hub location for Asia, the Middle East and Africa
- Quality of life and business rankings – and their impact on property market performance.

This invaluable guide for anyone considering investing in Dubai is available to download at [knightfrank.com](http://knightfrank.com)

To find out more about our future plans for *The Wealth Report* City Series, contact [flora.harley@knightfrank.com](mailto:flora.harley@knightfrank.com)



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# Welcome to The Wealth Report

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*12th edition*

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As advisors to some of the world’s wealthiest people, life at Douglas Elliman is fast-paced and exceptionally interesting. Providing the best advice during constantly changing times is, of course, challenging. But by employing the best people, continuously enhancing our research capabilities and extending our global network, we aim to react quickly to events, ensuring our advice enables clients to constantly recalibrate their investment strategies.

The desire to “takeback control” is an increasingly important part of these strategies. Many of our clients are taking a more hands-on role when it comes to their investments; employing in part their own expertise, forming syndicates and building relationships with carefully selected trusted advisors who can offer bespoke advice on specific sectors.

We are confident that the articles in this year’s edition of The Wealth Report will both inspire and inform you. In addition to exploring the movement of wealth around the world and the fluctuations of the world’s luxury residential property markets, this year’s report offers fascinating insight into luxury spending trends – be it buying a priceless piece of art or, as in the case of one particular billionaire, your own sports team.

It is likely that many of the articles will prompt further questions. Please do get in touch should you like further information from our research team or guidance on your property portfolio.

We are here to help. We look forward to working with you in 2018.



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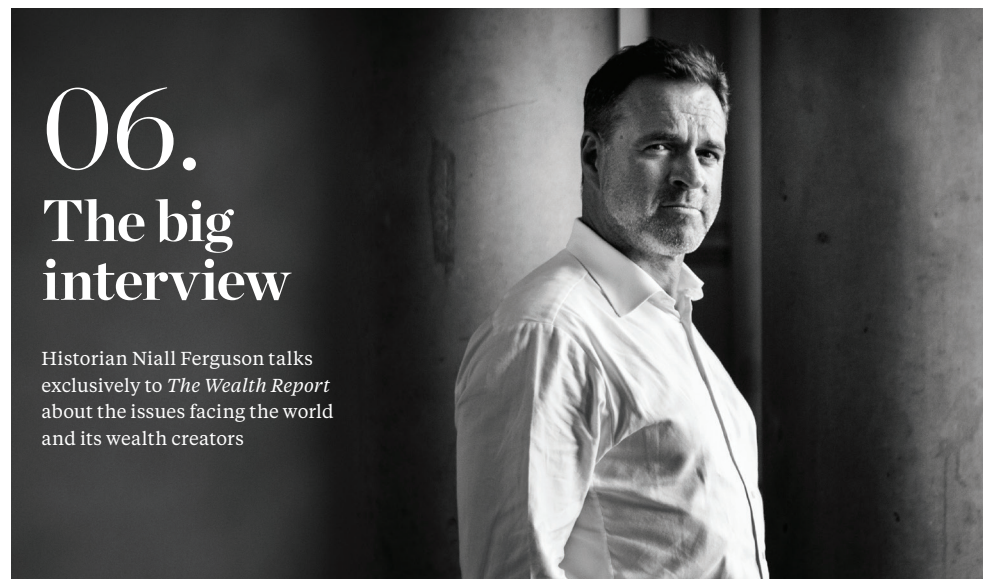
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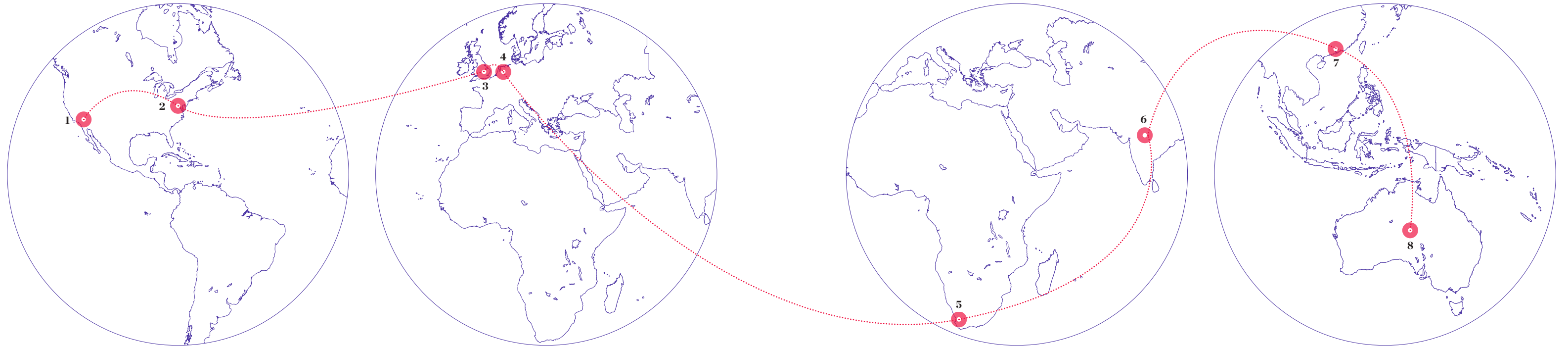
## Final word

The death of cheap money will help shape prime property performance, argues Liam Bailey



# Around the world in 80 pages

The Wealth Report has always been a truly global document – and this year’s issue is no exception. Editor Andrew Shirley highlights the locations that exemplify some of the key trends and most interesting articles from our 2018 edition



## 1. SILICON VALLEY

The hub of the social networks that are changing the world, for better or worse. Professor Niall Ferguson, now a senior fellow at Stanford University in the heart of the action, explains why Silicon Valley’s tech titans could do with a history lesson. *Page 6*



## 2. NEW YORK

The Big Apple scores big in our annual survey of the cities that matter to the world’s wealthiest people, taking top spot in the rankings right across the board. Nine other US cities join New York in the top 20, along with five urban hubs in Asia. *Page 28*



## 3. LONDON

Refusing to be bowled by Brexit, London is one of the biggest beneficiaries of the shifting flows of global capital. Our unique new analysis of data from the Bank for International Settlements shows where the money is coming from – and where it’s going to. *Page 20*



## 4. AMSTERDAM

Europe has been the recent global laggard in terms of prime property price growth. But in 2017 Frankfurt, Paris, Munich and Madrid all saw double-digit price rises. Amsterdam, however, led the way with a 15% annual surge in average values. *Page 34*



## 5. CAPE TOWN

Art, wealth and property have been bedfellows for millennia. Now, that relationship is creating exciting new synergies in the 21st century, as demonstrated in stunning style by Cape Town’s Zeitz Museum of Contemporary Art Africa. *Page 70*



## 6. MOHALI

Owning your own team is the ultimate investment of passion for sports-mad billionaires. *The Wealth Report* talks to one who saw early on the potential returns from the Indian Premier League, the cricket tournament redefining this most traditional of games. *Page 62*



## 7. GUANGZHOU

Government cooling measures may have dampened prime property markets in Shanghai and Beijing, but Guangzhou powers on. Sitting at the top of our benchmark PIRI 100 index, prices in the Chinese mainland’s third largest city rose by over 27% in 2017. *Page 34*



## 8. AUSTRALIA

Global demographics and consumption trends make farmland an investment sector to watch. On the doorstep of the fastest-growing middle class in history, Australia offers tempting opportunities for those looking to invest in the most tangible asset of all. *Page 58*





# Reformation 2.0

*Niall Ferguson, one of the world's most influential and controversial historians, talks exclusively to The Wealth Report's editor Andrew Shirley about the big issues facing the world and its wealth creators*

Niall Ferguson is in high spirits when we meet at the Hoover Institution at Stanford University, California, where he is a senior fellow. He's just become a father for the fifth time, his latest book has been getting good reviews – and I'm probably one of the last things standing between him and the Christmas holidays.

But over the next hour and a half, it becomes clear that Professor Ferguson is deeply concerned about the world we live in and what lies in store for future generations. Unsustainable levels of government debt, the implications of an increasingly connected world, religious fundamentalism and rising inequality are just some of the issues preying on his mind.

My first question is a very simple one, suggested by my ten-year-old son when I proudly told him I was interviewing somebody ranked as one of the world's 100 most influential people by *Time* magazine: "Dad, just ask the professor why everybody in the world can't live peacefully together."

Initially it seemed like too naive a query to put to such an august figure. But reading Professor Ferguson's new book *The Square and the Tower*, which examines the battle for power between traditional hierarchies and emerging social networks, I'm struck by the realisation that some of the early proponents of the internet did, in fact, believe that they had found the key to creating one big happy global family.





Illustration: Stephan Schmitz at Folio Art

“When the internet came into being, and particularly in the 1990s when it was in its first great investment boom, there was a story that was told by many people. The story was that, once everybody could email one another and share web pages, everything would be awesome,” explains Professor Ferguson. “We would all be able to exchange views and news, come to understand one another better, and ultimately form a kind of global community or republic of cyber-space. It was a tremendously attractive idea, this notion that greater knowledge and greater connection would lead to greater harmony.”

So, what went wrong?

“Greater connectedness, far from producing a unified global community, tends to result in greater polarisation because of a phenomenon that the network science people call homophily. We are inclined to be attracted by people like ourselves – birds of a feather flock together – and when you create a large social network, it becomes easier for people to cluster into like-minded subgroups.”

What makes the “everything’s going to be awesome” internet cheerleaders sound even more naive is that this phenomenon is far from being unique to the 20th and 21st centuries. “The bad news is that history is against this hypothesis,” says Professor Ferguson

bluntly. “The same thing also happened 500 years ago in the Reformation. Martin Luther thought that if everybody could read the Bible and see his sermons thanks to the wonder of the printing press, then there would be a priesthood of all believers, as foretold in the gospels.

“Instead, what actually resulted was 130 years of religious strife, for the simple reason that not everybody agreed with Luther. In fact, a great many people violently dissented and that ultimately led to the Counter-Reformation. I think what we are seeing today is another version of that same story. The idea behind *The Square and the Tower* is a very simple one. It is that people in Silicon Valley know almost no history, and people who write history know almost nothing about network science.”

It’s this that drew Professor Ferguson to Stanford in the heart of Silicon Valley, home to Google, Facebook, Uber and many of the other tech companies that have upended our daily lives. “The history of our times, to some extent, is being written here,” he says.

**The revolt against the elites**

The more you consider the polarisation of opinions that Professor Ferguson describes in his book, the more it becomes apparent just how much of today’s news agenda is being driven by the phenomenon. The rise of populist movements around the world, from Brexit to Trump to political events in the Middle East, has been turbo-charged by social networks.

Surging populism is something that clearly worries the wealthy. The results of *The Wealth Report* Attitudes Survey this year reveal that almost 50% of respondents believe it could impact their clients’ ability to create and preserve wealth.

But what exactly is populism, and are the wealthy right to be concerned? On his Fox News show I hear Steve Hilton, once an adviser to former UK Prime Minister David Cameron, describe it in almost folksy terms: it’s the common man taking back power, embracing old-fashioned family values. To others, like Princeton’s Professor Jan-Werner Müller, it’s almost the opposite: anti-plurality, anti-debate, often dangerous and largely based on a false premise.



Top of the pops Populism swept Austrian Chancellor Sebastian Kurz into power, but it has been a thorn in the side for UK Prime Minister Theresa May

“I think both of these views are in fact consistent with each other. It’s just that one is the view of somebody sympathetic to populism, while the other comes from somebody hostile to it,” reckons Professor Ferguson. “Populism is essentially a revolt against elites. It comes in two flavours though – the populism of the right, and the populism of the left – and this can be a source of confusion.

“The populists of the right tend to say, ‘Your problems are all due to immigration, free trade and a corrupt financial elite.’ The populists of the left tend to say, ‘Your problems are all the fault of a corrupt financial elite.’ The populists of the right say, ‘If you could restrict immigration and impose tariffs on imported

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**You can never really get what you want with populism. Anything that’s promised is going to fall short**  
 ”



goods, and imprison the corrupt financial elite, everything would be better.’ The populists of the left say, ‘Just tax the corrupt financial elite.’ So the policy programmes are quite different, and that means that populism can look more or less alarming, depending on where you sit. Most people who write for the liberal media are much more scared of the populism of the right and often confuse it with fascism, even though it’s actually quite different. If you are a member of the corrupt financial elite, you’re probably more concerned about the populism of the left, because it’s much more single-mindedly focused on you.”

**The backlash against the backlash**

But whether left- or right-leaning, populist movements are often driven by nostalgia. And that means, ultimately, they are almost always bound to disappoint. “There is inevitably an element of disillusionment in any populist backlash,” says Professor Ferguson. “You can never really get what you want with populism. More or less anything that’s promised is going to fall short. If you restricted immigration to the US completely, if you imposed punitive tariffs on Chinese imports, the effect on the ordinary American household would be to make them worse, not better, off.

“In the same way, I think we’ve just more or less calculated that the cost of Brexit to the UK so far, per week, is roughly the same amount that the Leave campaign said Brexit would make available to spend on the National Health Service.”

Professor Ferguson says the populist wave that swept the US appears to be losing impetus, partly due to concerns over tax reform legislation. “It adds more than US\$1 trillion to the deficit over ten years, which is not something that I can enthusiastically condone, and it’s not popular. So from a political point of view it seems to me the backlash is already gathering momentum. It’s the backlash against the backlash if you like; the backlash against populism.”

The professor is also sceptical about Brexit, which he likens to an extremely messy divorce. “I’m afraid that the outcome is bound to disappoint in one way or another. Either Britain is going to end up being de facto subject to European regulations, and perhaps even to the free movement of people, or it’s going to have to pay quite a high price outside the EU.

“It doesn’t seem to me immediately obvious that Britain can do a bunch of better deals with other countries than the deals that it has with the EU. It’s highly unlikely that, in a short space of time, Britain can compensate for the hit of leaving the single market.

“I understand why Remain lost, but don’t be naive about what this divorce is going to cost, how long it’s going to take, and where you’ll end up. One thing I’ve learned from my own experience is that it’s very easy to blame all your problems on the spouse that you’re divorcing, but there comes a moment when you realise that actually some of the problems are down to you. The low productivity of the British workforce is nothing to do with Brussels whatsoever.”

**The arithmetic of debt**

It seems an almost impossible time to be a politician, I suggest to Professor Ferguson. In order to win power you need to put forward populist policies, but in order to actually deliver them you’d need to raise taxes to politically suicidal levels. Is there a way that mature governments can break the circle so that giant leaps into the dark, like voting for Brexit or overtly populist politicians, are no longer seen as the only viable option?





Image: Denis Nevozhat on Ursplash

“It’s very, very hard to get out from under the nasty, fiscal arithmetic of debt,” he admits. “Most developed economies without large natural resources, and that includes most EU states and the US, have really substantial public debts, and often even more substantial unfunded liabilities that don’t appear on any national balance sheet.

“This is an extraordinarily difficult question in political economy, because it’s about generational imbalances. Right now, the dice are loaded in favour of the baby-boomers, people like me who were born in the two decades after the end of World War Two, and they’re loaded against newborns, children and the unborn. This is a really striking pathology of modern times, this breach of contract between the generations. It’s very hard to fix because the unborn and children don’t get to vote, whereas the elderly now tend to stick around long after retirement age, and they vote in rather large numbers.”

Warming to his theme, Professor Ferguson goes even further. “I think this is the central problem of our time. In 2001 I published a book called *The Cash Nexus*, in which I predicted that the politics of the future would be about generational conflict, not class conflict. Well, we’re here now. But most of us don’t really have the vocabulary to adapt, because we’re still used to thinking in terms of class, or percentiles: the 1% against everybody else. That’s all anachronistic. The real issue now is, who pays? Is it going to be granddad, dad or the kid? The solution is clearly to try to strike a balance between the

Bird’s eye view Growth in Chinese cities like Shenzhen helped save the world from the global financial crisis

## This is a striking pathology of modern times, this breach of contract between the generations

interests of the generations, but that must involve some elements of increased taxation, and some elements of welfare reform. Those are two difficult things.”

It seems a bleak outlook and raises the question, where do countries like the US and UK go next if democracy can’t solve their problems? “I think it’s extraordinarily difficult, even with the best will in the world, to get this kind of thing done in democratic systems,” Professor Ferguson admits.

But that’s not to say he’s given up on democracy. “Don’t get me wrong, I still think democracy is the best option. Other systems may solve some problems easily, but they will find the bigger problems harder to solve. Expecting the middle class to accept life without property rights, and without representation, is not realistic.”

### Troubled times

Talking of big problems, Professor Ferguson, who accurately predicted the 2008 global financial crisis, believes the world is not too far away from another recession. Why and when, I ask nervously?

In terms of why, the counterintuitive answer, he says, is partly because the world coped much better than he expected with the previous crisis.

“I was pretty much on the ball as to what would happen and how big it would be. So, pat on the back, well done Niall. But what happened next was more remarkable, and I didn’t read that so well. I underestimated the ability of the central banks, particularly the

Federal Reserve, to counter what was potentially a catastrophic chain reaction, which they did first by cutting interest rates to zero, and then by engaging in quantitative easing.

“One of the direct consequences was that all kinds of financial assets recovered in price, and we didn’t go into a depression. People who held on to their stocks as well as their bonds, not to mention their real estate, were made whole remarkably quickly. It was almost like a bad dream, and now it’s over and we’re all cheerful again. It’s almost as if amnesia is beginning to set in.

“That’s the very moment at which I feel obliged to ask, ‘So, what’s the next crisis going to look like?’ Nobody can be exactly sure, but I think there are a few reasons to watch out. One is the tightening of monetary policy we’re already seeing, starting with the Fed and the Bank of England. That is usually a sign that conditions are going to become less friendly.”

### The China question

Another reason to be cautious is rising debt. But this time around, it’s a very different kind of debt to the US sub-prime mortgages that broke some of the world’s leading banks last time. Now, it’s all about China.

“That’s definitely the big question,” says Professor Ferguson. “Sustained growth in China was the other reason that we didn’t have a re-run of the Great Depression. If China hadn’t focused so much on credit creation, I think we would have had a much tougher time globally. It was the stimulus package that worked.”

However, the flipside of China’s great crisis-fighting policies is a very high level of debt. “With the emergence in China of some of the pathologies that we recognised in the West ten years ago, like shadow banking and real estate bubbles, you have to ask yourself, as the IMF did just the other day: are China’s big banks sufficiently well capitalised to cope if there was suddenly a downturn in the real estate market?

“So, China is definitely the place to watch. Of course, economists have predicted nine out of the last zero Chinese financial collapses. I’m not about to add to the list of failed predictions, but I do think it’s much more likely than the US to be the epicentre of the next crisis.”

I push him for a timeline. “I’m not giving you a date to liquidate your portfolio,” he responds, “but I do think that we’re entering a different era. The post-crisis period is over. What we’re moving into now, perhaps, is a new pre-crisis period.

“I’m not saying there’s going to be a recession in January, February, or even December. We could sail through 2018 without any policy reverse, but I think the probability is rising that there will be a fundamental change in financial conditions, and the higher political risk that I think we’re seeing more or less everywhere is bound to weigh on assets sooner or later.”

As to how bad the impending crisis might be, again Professor Ferguson won’t be drawn. “It’s impossible to say anything about the next economic or financial crisis, except that it won’t be like the last one. The more regulation you dream up to avoid the last crisis happening again, the more certain you can be that the next crisis will be quite different.”

### A matter of opinion

Despite not wanting to predict the future – “I’m an historian, I don’t have a licence for that” – Professor Ferguson certainly doesn’t just dwell in the past. Throughout the course of our conversation



Image: Ander Bigger

he is highly critical of the way certain recent political crises have been dealt with. He is particularly scathing about Barack Obama’s strategy in the Middle East, the West’s reaction to Islamic terrorism and Angela Merkel’s handling of the EU immigration crisis.

“I haven’t ever set out to be a contrarian for its own sake,” he stresses. “But from a relatively early age, I can remember feeling a strong urge to disagree with what seemed to me to be wrong-headed conventional views. So, I’ve tended to read my way through the past, going from one question to another, itching to show that what you the reader think, is wrong.”

My final question for him is what kind of world he thinks his new son will grow up in, if it’s not one where everybody lives in peace and harmony. The answer is not reassuring.

“It will still be a frustrating world to be young in for our sons. All these oldies hanging on to their jobs for way too long and blocking upward mobility. I think it will be a very unequal world, where the returns on innovation have gone to a tiny proportion of humanity.” In this instance, I very much hope it’s Professor Ferguson who is wrong.

Looking ahead Niall Ferguson predicts an uncertain future for the next generation





## Global wealth

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*The big issues shaping the  
decisions of the wealthy*

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# New order

Super-rich populations are rising, but Europe is slipping down the ranks of the world's wealthiest regions, according to new numbers compiled for *The Wealth Report*. Gráinne Gilmore investigates

The theme of the 2018 World Economic Forum in Davos was "Creating a Shared Future in a Fractured World". While the world has faced an array of stiff economic and political challenges since global business leaders and policymakers first met in Switzerland back in 1971, the theme reflected a recognition that the threats faced by individuals, businesses and states are more widespread and diverse than ever.

But while delegates at the forum absorbed the cheery news about the re-emergence of "geostrategic fissures" on multiple fronts, the economic picture looked to be brightening. Indeed, investment bank Goldman Sachs chose to title its global economic outlook for 2018 *As Good As It Gets*.

Longer term, though, the picture is less clear, with the IMF and other commentators, including this report's keynote interviewee, the financial historian Niall Ferguson, predicting headwinds for global economic growth in the not too distant future.

So what does a potentially time-limited economic upswing, coupled with geopolitical uncertainty, mean for ultra-wealthy populations around the world? New data prepared exclusively for *The Wealth Report* by wealth data specialist Wealth-X shows that the number of ultra-wealthy people (those with net assets of US\$50 million or more) rose by 10% in 2017. This is in line with the results of *The Wealth Report* Attitudes Survey, in which 72% of respondents said that their clients' wealth had increased during the year. This took the the global population to 129,730, with a total worth of US\$26.4 trillion.

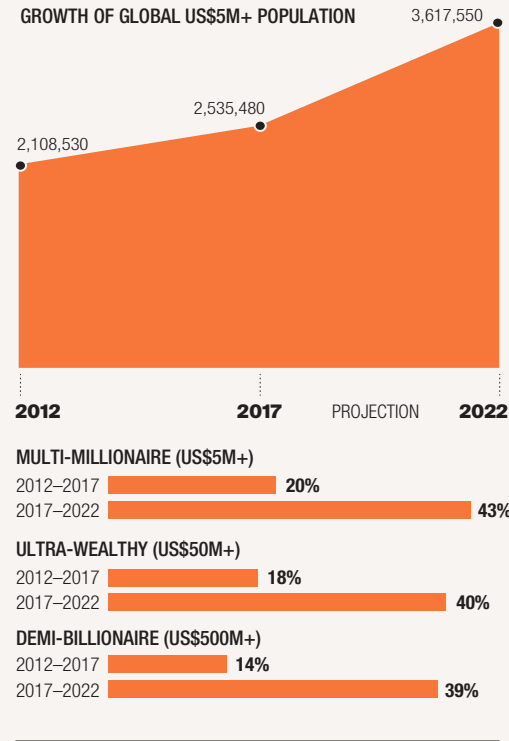
### The Goldilocks economy

According to Vincent White, Managing Director at the Wealth-X Institute, this is an auspicious time for wealth creation. "We have been experiencing 'Goldilocks' economic conditions: not too hot, and not too cold. These make it easier to do business, provide a good environment to raise capital and, above all, encourage entrepreneurialism – the key to wealth creation."

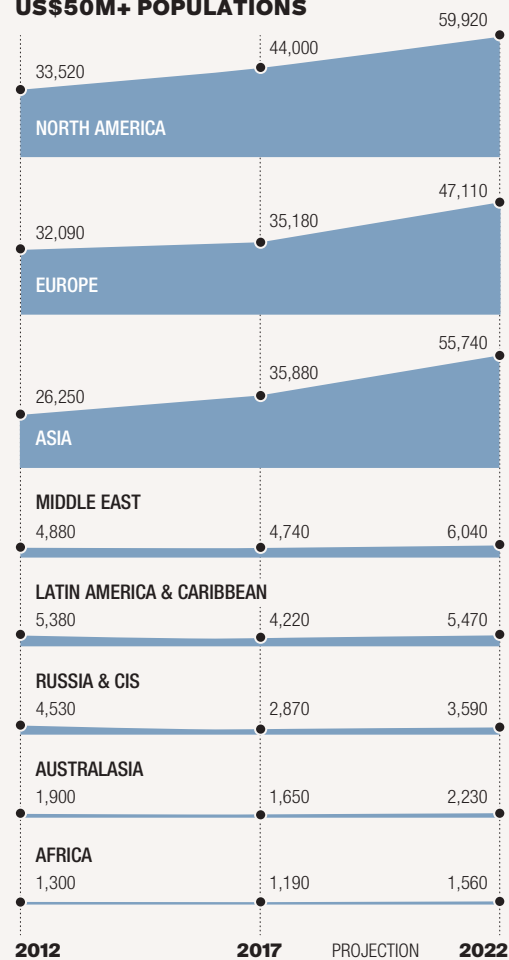
For this edition of *The Wealth Report*, the focus is on those with US\$50 million or more in net assets, as well as demi-billionaires (over US\$500 million) and multi-millionaires (over US\$5 million).

That 10% rise in the ultra-wealthy population marks a notably more rapid rate of growth than in the previous five years, where there was a cumulative 18% increase – indeed, *The Wealth Report* reported that ultra-wealthy populations actually fell in 2015. It mirrors the growing momentum of the global economy since the

## WEALTH POPULATIONS 2012 TO 2022

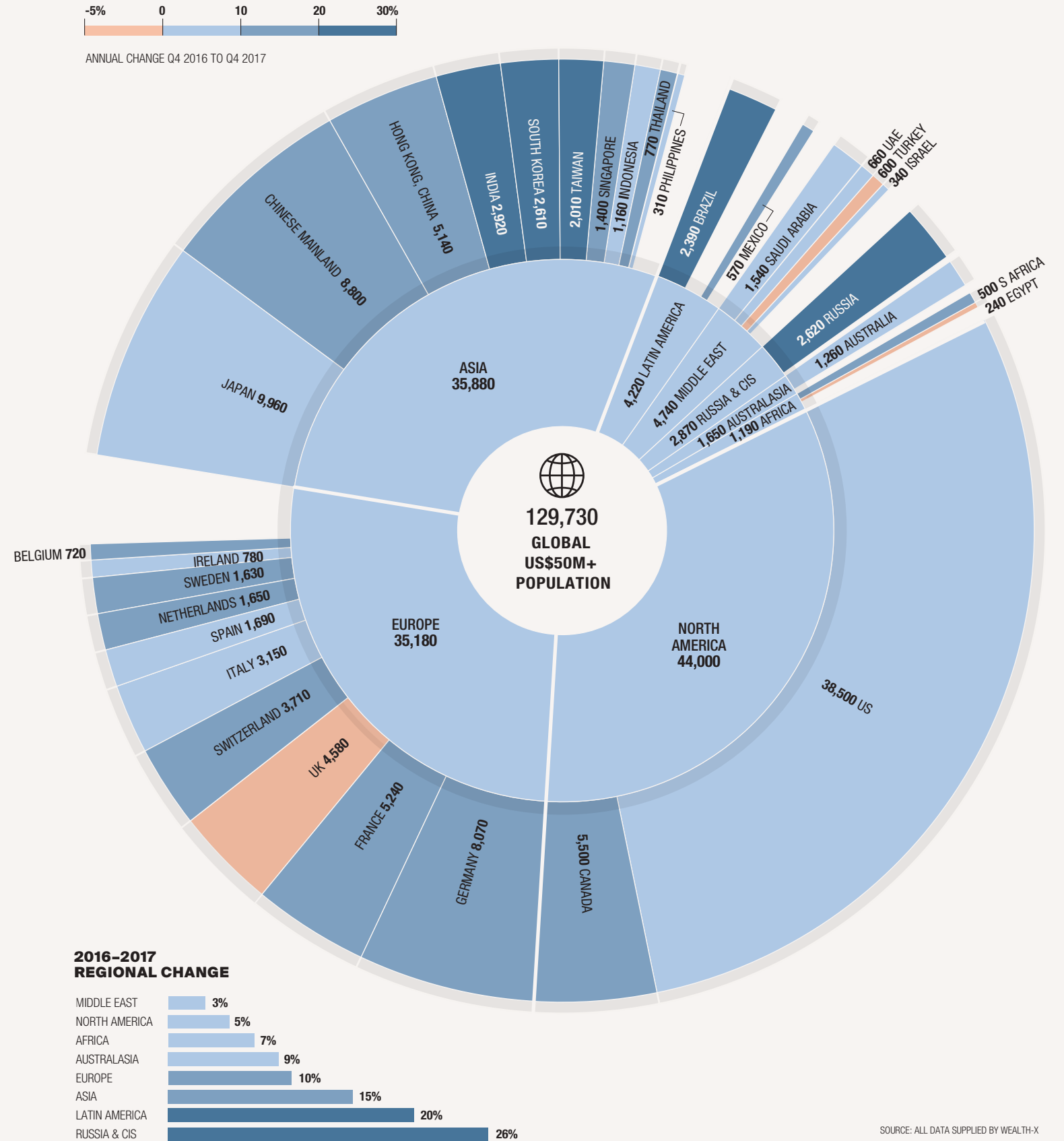


## REGIONAL CHANGE IN US\$50M+ POPULATIONS



# GLOBAL WEALTH

## INDIVIDUALS WORTH OVER US\$50M IN 2017



SOURCE: ALL DATA SUPPLIED BY WEALTH-X



start of 2017 – but the number of wealthy individuals is only one part of the methodology used by Wealth-X.

In addition to GDP growth, the performance of stock markets and other investments is taken into account, as are wealth distribution trends within countries – calculated using Wealth-X’s proprietary models. Currency also plays a significant role. The wealth data is shown in US dollars, and, as a result, the movement of local currencies against the dollar also has an impact.

“Many currencies gained strength against the US dollar last year, which has resulted in a net increase in our estimates,” confirms Mr White. “However, the relationship is not linear. There is an interplay between this and other factors affecting wealth growth.”

**Regional variations**

When it comes to assessing how ultra-wealthy populations have fared between 2012 and 2017, the picture is mixed. While the number of people with US\$50 million or more in net assets rose in North America (+31%), Asia (+37%) and Europe (+10%), there were falls in the remaining five regions, most notably in Latin America and the Caribbean (-22%) and Russia and CIS (-37%).

Some of these trends reversed in 2017. Russia and CIS bounced back by 26%, coinciding with Russia’s exit from recession at the start of the year. However, the number of people with US\$50 million or more in net assets is still 37% lower than at the start of 2012. At 2,870, the number of ultra-wealthy individuals living in Russia and CIS accounts for around 2% of the global total.

North America remains the world’s largest wealth region. Some 34% of the world’s ultra-wealthy are based there, and their ranks rose by a further 5% last year, taking the total to 44,000.

**Asia sets the pace**

Europe, however, failed to fend off a strong Asian challenge, narrowly losing its second place spot despite a 10% rise in the number of people with US\$50 million or more in net assets that took the total population to 35,180. A 15% rise in Asia’s ultra-wealthy cadre took its population to 35,880.

In China, the ultra-wealthy population will more than double in the next five years, according to Wealth-X. There will also be strong growth in Japan (+51%), India (+71%), Indonesia (+66%) and Malaysia (+65%). Overall, the outlook for the Asia region is “highly optimistic”, Mr White says.

Agathe L’Homme, Asian Analyst at the Economist Intelligence Unit, adds: “We have revised up our economic outlook for the region owing to a rosier Chinese growth forecast in the short term. Steady demand from final consumer markets and rising commodity prices will support exporting countries in the region, while expectations of a very gradual monetary tightening will underpin growth overall.”

Europe’s 10% growth in its ultra-wealthy population last year may seem counterintuitive given the political challenges facing the region. Yet many European countries saw a marked upswing in economic performance last year, with the euro zone outperforming the UK and US economies in terms of GDP growth. The European Central Bank (ECB) also held off tightening monetary policy, unlike central banks in the UK, Canada and the US. However, as James Roberts, Knight Frank’s Chief Economist, explains on page 56, the ECB is set to taper its quantitative easing programme this year.

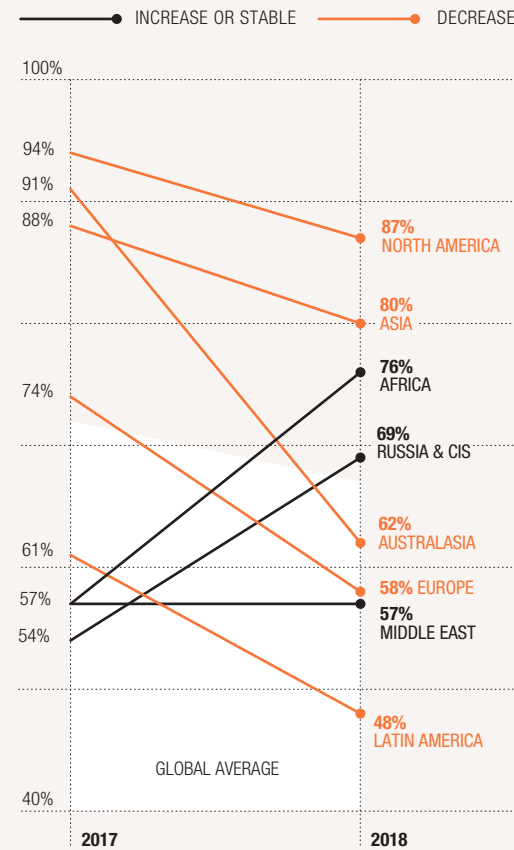
Latin America and the Caribbean also saw a bounceback in ultra-wealthy populations in 2017, with a 20% rise after the 22% decline

Sugar coated Wealth populations rose in Latin American countries such as Brazil last year



**POSITIVE THINKING**

Proportion of wealth advisers who say that their clients’ wealth increased in 2017 and will do so in 2018



SOURCE: THE WEALTH REPORT ATTITUDES SURVEY 2018, KNIGHT FRANK



seen since 2012. The total number of ultra-wealthy individuals in the region (4,220) is still lower than in 2012 (5,380), but the figure is expected to grow by 30% over the next five years. Brazil, the biggest wealth hub in the region, also saw strong growth last year.

Ian Bremmer, Head of Eurasia Group, a leading political risk consultancy, told *The Wealth Report*: “It’s largely an economic recovery story. The stock and bond markets have performed extraordinarily well this past year. While the ultra-wealthy took a hit in 2016, there was a clear rebound in 2017. Note that this was happening at the same time as the Brazilian real was going through an important devaluation. So in dollars, there was a real improvement.”

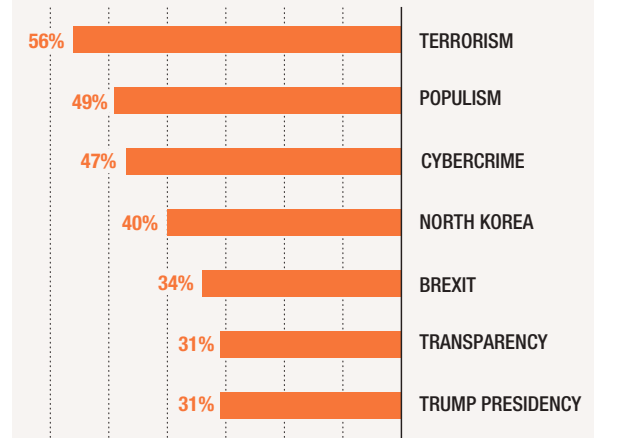
In the US, new tax policies aimed at trying to encourage more corporates to move money onshore may have ramifications for the whole economy and, in turn, for ultra-wealthy populations. In late 2017, President Donald Trump announced a raft of tax changes, including an ultra-low 15.5% tax rate for companies bringing their money onshore. He also cut corporation tax to 21%, as well as cutting some income tax rates and boosting family allowances.

Under current economic forecasts, the US is expected to see a 38% rise in its ultra-wealthy population over the next five years. However, the change to corporation tax could have an impact in the

Reach for the sky Malaysia’s forecast five-year wealth population growth is one of the world’s highest

**SLEEPLESS NIGHTS**

Proportion of wealth advisers who say that each issue will have a negative impact on their clients



SOURCE: THE WEALTH REPORT ATTITUDES SURVEY 2018, KNIGHT FRANK





Leading the way  
The seven co-chairs at this year's World Economic Forum

future, especially if it encourages more investment across the US.

"In terms of fiscal policy, changes in corporation tax and capital gains tax have the largest impact on ultra-wealthy populations, although it can take some time for the changes to be felt," explains Winston Chesterfield, Director of Custom Research at Wealth-X.

It follows, then, that a change in political leadership can also affect ultra-wealthy populations. One such change recently in South Africa may well have an influence, according to Dr Bremmer.

"Investor and consumer confidence will rise in the wake of the election of Cyril Ramaphosa as head of the ANC," Dr Bremmer says. "Wealthy South Africans are likely to continue moving money abroad and acquiring dual citizenship, although they are now also more likely to stay resident in the country since they are supportive of the new ANC leader."

South Africa is forecast to see a 20% uplift in its ultra-wealthy population over the next five years following a 14% rise in 2017.

#### So, where do you live?

Dr Bremmer's comments raise a salient question about where some ultra-wealthy people are actually based.

The methodology used by Wealth-X looks at residences and/or the location of business operations. While the majority of ultra-wealthy people will have their primary residences in the country from which their wealth is derived, a significant number are globally mobile. "There is no particular financial wealth band that dictates whether ultra-wealthy people will have a

global footprint, with houses in countries around the world," says Wealth-X's Mr White. "The switch from using hotels to investing in property is triggered by many factors, such as nationality, age and the industry in which they are involved. Culture and lifestyle also play a very significant part."

The global mobility of the ultra-wealthy is noticeable in such countries as Monaco. There are around 50 people worth over US\$50 million with a primary residence in the principality, according to the Wealth-X model. However, once the definition of residence is extended to all those with a home or presence in the country, this number rises to 542, making Monaco one of the most densely populated countries in the world in terms of ultra-wealthy people as a proportion of the total population.

#### Beyond 2018

Looking ahead, there are likely to be an increasing number of economic and geopolitical headwinds, not least monetary tightening across the board. However, ultra-wealthy populations are expected to continue to grow in the medium term. "Even when conditions are negative, we have traditionally seen more resilience among ultra-wealthy populations," Mr White says.

However, he also adds a note of caution, echoing some of the themes discussed at Davos. "There are societal changes taking place over the longer term – the reaction to wealth inequality is a pressure that shouldn't be ignored. There may well be a point where the growth in ultra-wealthy populations doesn't automatically continue on its current trajectory."

“  
**Changes in corporation tax and capital gains tax have the largest impact on ultra-wealthy populations**

”

## Breaking the cycle

*In failing states the normal models of wealth creation fall apart. Andrew Shirley asks former Afghan politician Seema Ghani why*

Afghanistan, unsurprisingly, doesn't feature in our study of global wealth populations. No reliable figures exist as to the number of HNWIs living in the country, but one thing is certain: although there is plenty of money circulating among an elite group of wealthy individuals and businesses, very little of it is trickling down to the rest of society, especially those living outside the capital Kabul.

Seema Ghani, a former deputy government minister turned anti-corruption campaigner and NGO leader, says that there are a number of reasons why the normal model of wealth creation, whereby the poor gradually become better off, even in countries with high levels of wealth inequality, appears to be failing in Afghanistan.

"What is happening is that we are becoming a nation of importers. Those with money invest in importing things from other countries. Money is not being used to produce anything here that would generate employment. Even basic agricultural productivity is declining."

A culture of short-termism and corruption is to blame, says Ms Ghani, who has calculated that private businesses pay only one third of the tax that they owe. "Despite the billions of dollars of aid that the government has received over the past 16 years, and which now accounts for about half of our national budget, it hasn't managed to tackle security or create the infrastructure and pool of qualified labour needed to encourage private investors. It is cheaper and safer to import things, or invest elsewhere. Entrepreneurs do exist, but many have moved to Dubai or are creating businesses in places like Malaysia."

A lack of well-educated young people with new ideas to help take the country forward isn't part of the problem, Ms Ghani points out. "Lots of aid money has been spent on education and almost six million children now attend school, a significant achievement. But when they graduate there simply aren't enough

jobs and so poverty levels remain high, especially outside Kabul."

Another problem is the fact that very little investment flows out of the capital to the rest of the country. "All the government contracts are awarded to businesses based in Kabul. And even when they are working on projects in the provinces they bring labour and sub-contractors from Kabul, too," says Ms Ghani. Indeed, Ms Ghani, who was deputy minister of



finance in 2004 and deputy minister of labour affairs in 2011, resigned both positions because she couldn't live with the system of patronage and short-termism. Breaking this vicious circle, when politicians have such a short-term view and are unwilling to embrace the vision of the younger generation, seems a daunting prospect. But for all that, she remains hopeful that the right kinds of interventions can make a difference.

Working mainly in the northern provinces of the country, initiatives funded by NGOs such as Hand in Hand Afghanistan, which Ms Ghani chairs, and the

Aga Khan Foundation are shifting some power back into the hands of people at the bottom of the wealth creation ladder by helping the rural poor to set up their own micro enterprises. Not only do these programmes help offset the country's entrepreneur drain, they provide Afghanistan's educated and unemployed young people with a productive, often life-changing outlet. And, because they target poor Afghans directly, the short-termism that mars Afghanistan's politics is sidestepped completely.

"It's not easy because decades of aid dependency have made even the poorest people very demotivated," says Ms Ghani. "But once we've convinced people to change their mindset and they realise that we have zero tolerance for corruption of any kind, the results are very rewarding and we find that other people start asking for help as well."

Not that Afghanistan's micro entrepreneurs have it easy. Those who successfully set up small businesses – for example, poultry production – often have to compete with cheap imports, while poor infrastructure makes it difficult to access other marketplaces. "We are constantly having to adapt and think of new ideas and approaches – but one benefit of smaller NGOs is that they can be much more reactive," says Ms Ghani. "It's not easy, but this year we will have created employment for about 11,000 people, so it can be done."

It can be done – and it must be done, she adds. The NGOs are also competing with terrorist organisations such as the Taliban, which pays its recruits up to US\$600 a month. "If we don't succeed it's not just this country that will suffer – the flow of refugees heading for the rest of the world will continue. It's much more cost effective to tackle this problem on the ground than waiting for them to arrive in the Western world."

*Seema Ghani is chair of the NGO Hand in Hand Afghanistan and co-founder of the People's Movement Against Corruption*



# Follow the money

Over the next six pages, Liam Bailey and Flora Harley track the movement of wealth around the world, starting with a unique analysis of global money flows

One of the critical issues we consider each year in *The Wealth Report* is where money is coming from – and where it is going to. It is this issue that ultimately helps to drive market performance in the 100 luxury residential markets we consider in our Prime International Residential Index (PIRI) on page 34 and the commercial property markets we examine from page 48.

Helpfully, figures just released enable us to give an intriguing snapshot of global monetary flows (see opposite). In 2016, the Bank for International Settlements (BIS) started to release data provided by 29 reporting locations on the aggregate level of foreign deposits by “non-banks” in their financial institutions. Of the reporting locations, 27 also analyse deposits on a location-by-location basis. Non-banks include individual, corporate and government deposits. This provides a unique perspective on the movement of money around the globe, helping to confirm the direction of travel of wealth and investment flows.

## Understanding wealth flows

Chinese funds deposited in reporting locations rose by US\$172 billion, a staggering 721%, in the three years to June 2017. Over the same period, deposits held by Russian non-banks grew by US\$6 billion, up 21%. The outbound flow of funds from China in particular, but also from other locations including Russia, has been a key trend affecting global asset markets over recent years. Despite official attempts to rein in these flows, the BIS data confirms that the trend looks likely to continue.

One subject we discuss at length later in this article is the growth of legislation aimed at improving financial and tax transparency globally. The OECD-inspired Common Reporting Standard (CRS) leads the way in this area.

Anecdotally, some investors appear keen to remain outside the scope of the regulations. The US and Taiwan are in the minority of major economies that have not committed to the CRS, and over the three years to June 2017, ahead of its implementation,

**NOTE ON THE DATA**

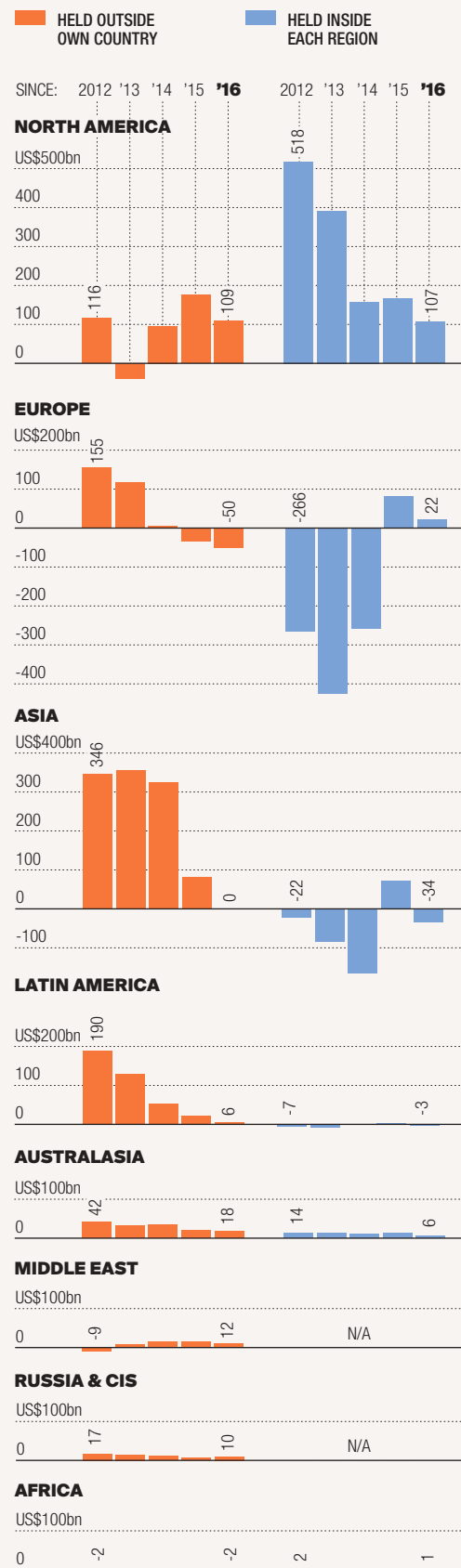
Not all reporting locations cover every nationality. For the periods analysed, 17 of the 20 reporting locations featured in our graphic cover 150 nationalities, while for four of them this extends to over 200. All deposits are reported in billions of US dollars, converted using the end-of-quarter exchange rate.

Our illustrations show the change in total deposits held in 20 of the reporting locations over the past year from 20 origin locations. The thickness of the line reflects the change in value over the past year.

The size of the node represents total deposits held in the destination location from all origin locations they report on as at June 2017.

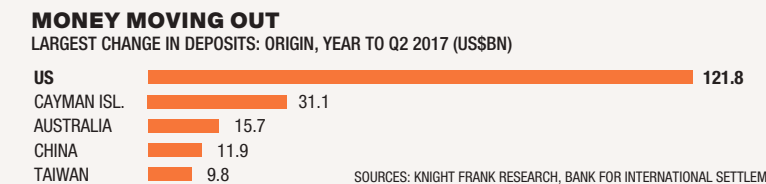
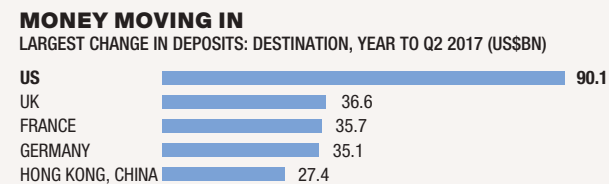
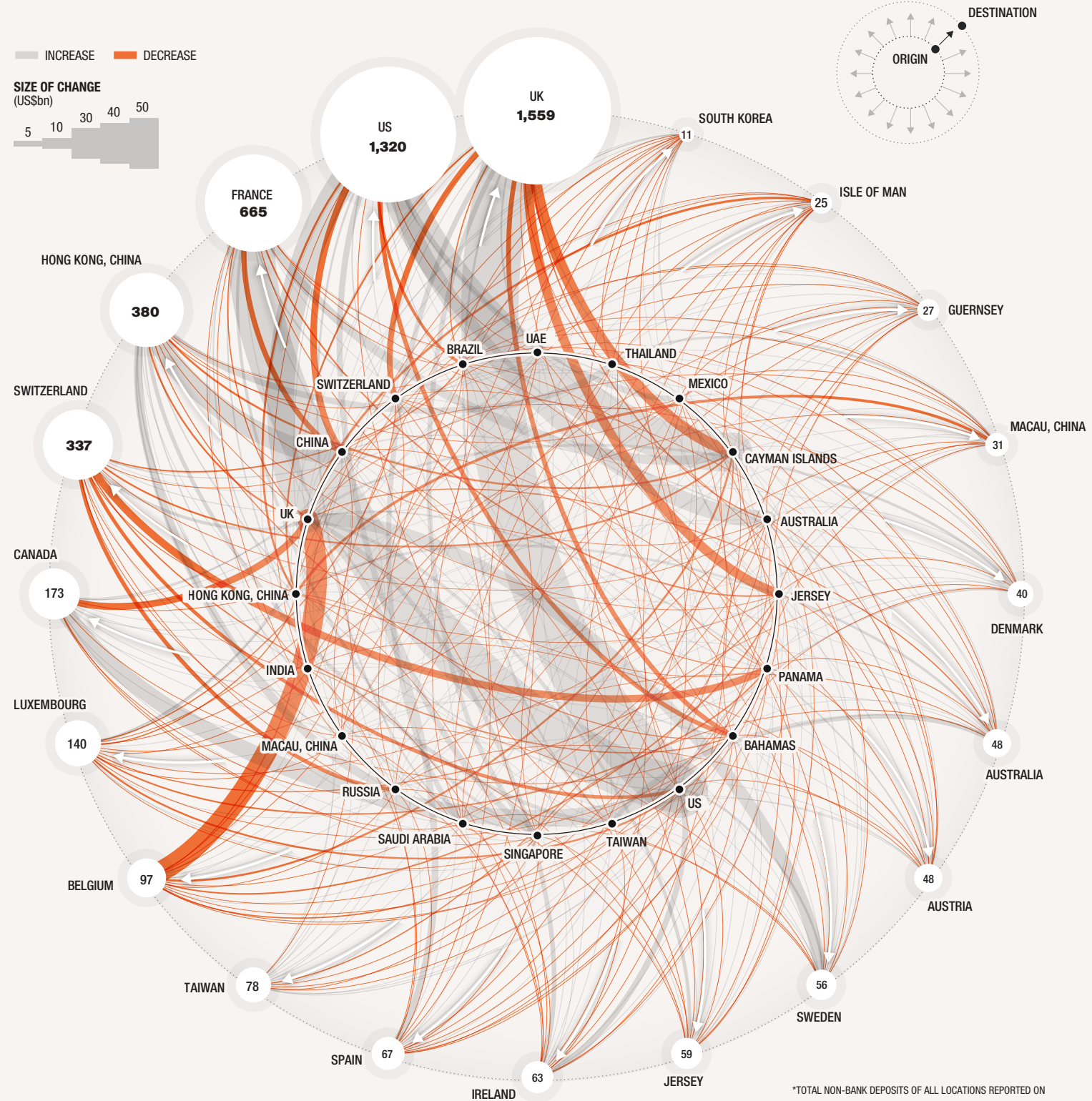
## LOCATION OF MONEY

CHANGE IN NON-BANK DEPOSITS FROM Q2 IN THE YEAR SHOWN TO Q2 2017



# MONEY ON THE MOVE

ANNUAL CHANGE IN TOTAL NON-BANK DEPOSITS BY LOCATION OF ORIGIN, TO Q2 2017 (US\$BN)\*





non-bank deposits held in each of these places increased by US\$122 billion and US\$25 billion respectively. In the US there was a rise of US\$90 billion in the 12 months to the end of June 2017 alone.

The impact of Chinese government policy has affected Hong Kong and Macau in different ways. While Macau has seen a 10% decline in deposits in the 12 months to June 2017, Hong Kong has become increasingly popular as an investment destination, with mainland Chinese investors increasing their deposits here by US\$19.5 billion over the same period.

Bahamian non-bank deposits, in the locations that report on them, fell by 25% in the past year. The data shows that deposits held by Panamanian non-banks also dropped by 20% in the last year. Deposits held in the Channel Islands declined markedly in the three years to June 2017, falling by 31% in Guernsey and 14% in Jersey. In the Isle of Man, the drop was 28%.

The above changes can in part be explained by currency shifts, in particular for the Channel Islands. But some commentators interpret these declines as supporting the narrative that the advent of the CRS and other transparency measures is eroding some of the benefits offered by traditional low-tax jurisdictions, leading to an outflow of funds.

Over the three years to June 2017, the amount of money held in Switzerland covered by this analysis has fallen by 8%. Once again, the introduction of the CRS and wider moves against bank secrecy could be contributory factors. In addition, it should be noted that Switzerland's interest rates became negative in 2015, meaning that investors were effectively paying to keep money in the bank, prompting an exodus of funds.

As more countries join the CRS and its scope potentially widens, the global pattern of wealth movements is likely to become ever more tangled.

## Keeping control

*With money moving around the globe in greater volume – and at greater speed – than ever before, governments are working hard to keep track*

Our annual analysis of global wealth and investment trends shows that the desire of wealthy individuals to move their money – and themselves – across borders shows no signs of abating. And, if the continued development of transparency regulations is anything to go by, the same is true of the desire from governments to at least monitor, if not direct, the flow. The scale of the challenge they face is considerable, to say the least. Money is moving at a record rate. An analysis of data from the BIS confirms that foreign non-bank deposits rose by US\$97 billion in the year to June 2017 in the 29 locations that provide detailed reporting.

For some, this cross-border activity is being spurred on by the prospect of tighter capital controls. As David Ji, Knight Frank's Head of Research for Greater China, notes, there is a real belief that the Chinese government is planning to tighten controls further. To take just one example, while Chinese citizens are currently allowed to buy up to US\$50,000-worth of foreign currency each year, there are signs that regulators intend to lower this limit.

Indeed, it is apparent that stricter rules are already being brought in. Since July 2017, Chinese banks are required to report on any customers depositing or



Bull run China could be set to tighten capital controls on the outflow of cash from the country

### PASSPORTS PLEASE

Value of passport and minimum cost of key citizenship and residency by investment programmes

RESIDENCY CITIZENSHIP

| PASSPORT RANKING* | COUNTRY           | COUNTRIES OFFERING VISA-FREE ACCESS | MINIMUM CAPITAL REQUIREMENT** |
|-------------------|-------------------|-------------------------------------|-------------------------------|
| 2                 | SINGAPORE         | 176                                 | US\$1.9M                      |
| 3                 | UK                | 175                                 | US\$2.7M                      |
| 4                 | AUSTRIA           | 174                                 | US\$9.6                       |
| =5                | PORTUGAL          | 173                                 | US\$0.3–1.2M                  |
| =5                | US                | 173                                 | US\$0.5–1.0M                  |
| 6                 | CANADA            | 172                                 | US\$0.6M                      |
| 7                 | AUSTRALIA         | 171                                 | US\$1.2M                      |
| 9                 | MALTA             | 169                                 | US\$1.2M                      |
| 12                | MALAYSIA          | 166                                 | US\$0.04–0.07M                |
| 17                | CYPRUS            | 159                                 | US\$2.4M                      |
| 28                | ST KITTS & NEVIS  | 139                                 | US\$0.15M                     |
| 31                | ANTIGUA & BARBUDA | 135                                 | US\$0.1M                      |
| 34                | ST LUCIA          | 130                                 | US\$0.1M                      |
| 36                | GRENADA           | 127                                 | US\$0.15M                     |

\*HENLEY PASSPORT INDEX \*\* EXCHANGE RATE AT 31 DEC 2017 SOURCE: HENLEY & PARTNERS

withdrawing more than US\$10,000-worth of foreign currency in a single day, and from the beginning of this year the Chinese government capped annual overseas withdrawals from Chinese bank accounts at US\$15,400.

With authorities aiming to maintain a weaker yuan to promote exports, overseas investments, including property, have become more expensive. Any prospect of a further weakening may act as an additional push factor for investors.

In India, the Liberalised Remittance Scheme (LRS) allows US\$250,000 per head per year to be moved out of the country. The pace of money transfers increased by 60% in the year to September 2017, and by almost 1,800% over the past decade. The rapid growth in transfers coincides with increased scrutiny by the Reserve Bank of India of dealings under the LRS.

### Targeted taxation

The growth of global wealth flows has also led a number of jurisdictions to introduce or extend taxes targeting affluent investors.

In July 2017, the government of New South Wales, Australia, raised the stamp duty surcharge from 4% to 8% for foreign buyers, as well as increasing its annual land surcharge from 0.75% to 2%. In the same month, Australia's treasury released a draft paper detailing proposed legislation to remove the main residence exemption for capital gains tax for foreign residents.

The government of New Zealand has proposed changes that will require property investors to pay tax on capital gains if they make disposals within five years of purchasing, up from the current two.

And in November 2017, the UK government announced plans for capital gains tax to apply to non-residents on commercial as well as residential property. We explore the development of property taxation in more detail on page 39.

### Transparency drive

Increasingly, government action is moving beyond taxation and into attempts to map the extent and movement of global wealth flows.

The OECD's big idea, the CRS, was launched in September 2017. Almost 50 countries formed the first wave with more joining earlier this year, bringing to more than 100 the number of nations now automatically sharing data on foreign accounts.

The CRS may be an important step towards revealing where wealthy people, as well as businesses, are placing their investments – but it is only the beginning of the story. The standard does not currently cover property ownership, but the support recently stated by the OECD for property ownership registers suggests that future iterations may well do so.

Trends at a national and intergovernmental level point towards a more comprehensive shift in the power of governments to identify who owns what. Both

the UK and Germany have taken action aimed at providing greater clarity on the ultimate beneficial ownership of trusts and international companies. In addition, both the EU and the Financial Action Task Force have echoed the OECD's call for a register of property owners.

As we stated in last year's edition of *The Wealth Report*, full transparency and total disclosure is coming. But for now, the desire for privacy remains a factor influencing UHNWI behaviour. In some cases, this is prompting individuals to reconsider their place of residence.

### Citizenship for sale

This trend is reflected in the growth in demand for second passports and residencies. Data from our Attitudes Survey reveals that 34% of UHNWIs already hold a second passport and 29% are planning to purchase one, while 21% are considering emigrating permanently.

The result has been a bidding war, as more countries seeking new sources of revenue try to encourage

foreign direct investment in return for citizenship. Some, including the UK, require a significant level of long-term financial commitment; but there are others with less onerous programmes or which are relaxing their requirements.

In the Caribbean, for example, several islands have recently slashed the level of investment required by as much as 50%, or linked citizenship to one-off contributions to hurricane relief or economic development funds.

### Safe havens

As the sector matures it will provide a major source of future revenue for countries that lack alternative exports – but, as we discuss overleaf, reputational risks are rising too. Less drastic than a change of residence but perhaps similarly effective, at least for now, is to place money in a country outside the CRS net. Switzerland, for example, has delayed the exchange



**Trends at a national and intergovernmental level point towards a comprehensive shift in the power of governments to identify who owns what**



of information with Middle East countries. BIS data confirms that financial non-bank deposits from Saudi Arabia and the United Arab Emirates into Switzerland rose by 44% and 53% respectively over the past three years, running counter to the trend of an overall fall in global deposits held there.

This urge for privacy is also steering flows within the CRS countries, with those offering high standards of data security emerging as favoured investment hubs. It is one thing for data to be disclosed to your home government; it is quite another for it to be sold on to third parties with questionable motives.

In its current guise, the CRS may encourage investment into property, at least in the short term. Under the existing rules, there is no requirement to report on property assets unless they are mortgaged. Some commentators have linked the growth in price and demand for Hong Kong property in the months leading up to September 2017 to a rush by mainland investors to prepare themselves ahead of CRS reporting.

An increase in exposure to the US may be another consequence. There are no reliable figures available



on the amount of capital coming into the most notable non-CRS signatory, but portfolio managers and fiduciaries put it in the hundreds of billions of dollars. This looks realistic in the light of data from the National Association of Realtors, which confirms that foreign buyer activity increased by over US\$50 billion year on year in the 12 months to March 2017.

As money becomes more mobile and scrutiny of offshore wealth increases, governments are trying to encourage money back onshore. Tax amnesties have raised tens of billions of dollars for governments across the world. From Indonesia to Italy, France and Fiji, at least US\$66 billion has been clawed back.

The tension between the growing globalisation of wealth and the desire for governments to provide controls will not easily be resolved, in large part because governments are conflicted in their desire to protect existing tax revenues at the same time as attracting new sources of wealth.

## Points of view

*A panel of leading industry experts assesses the risks and opportunities posed by the growth of citizenship by investment schemes, and the implications of international transparency drives*

### TRANSPARENCY DRIVES

#### Data security risks

Perhaps unsurprisingly, the advent of the electronic exchange of financial information is pushing the issue of cyber-security to the top of the agenda. The unprecedented amount of financial data being shared between governments is also raising concerns about personal security. So individuals must give careful consideration to how, where and in what form they hold their wealth.

Wealthy individuals also need to consider the impact of reporting on the structures they currently use. For example, they may want to reduce the number of beneficial owners to lower reporting requirements. In addition, individuals will need to look again at the locations where their wealth is held, in the light of the strength of official data security rules and the extent of the risk of data breaches from poorly administered systems.

Filippo Nosedà  
Partner, Mishcon de Reya



Vienna calling Austria's citizenship by investment scheme is highly ranked

#### Rules need to evolve rapidly

Transparency rules are a relatively new trend and those that have been introduced to date are generally not well drafted. Financial institutions are now having to disclose information about clients' assets and interests in structures, while often not understanding the requirements in full. There is a real risk of duplication and inconsistency.

So far, we have not seen clients venturing into unregulated activity in order to escape disclosure. Those with the understanding – and the appetite for risk – may decide to invest in Bitcoin, say, but this will typically be for financial rather than tax or disclosure reasons. They might then also benefit from greater confidentiality under current rules, although, in the light of the recent popularity of Bitcoin, this benefit may be short lived as we would expect transparency regulations to catch up with investment trends.

Alexander Erskine  
Senior Associate, Taylor Wessing

#### Technology will be required

There is a dichotomy at the heart of the global drive for transparency. Although the exchange of information will simplify dealings with cross-border tax authorities, there remains a real reluctance to provide governments with information due to a basic lack of trust.

The growth of new technology infrastructure platforms like Blockchain could help alleviate fears and facilitate exchange. Blockchain provides the most secure infrastructure for housing this type of data, allowing access to a fixed number of parties and ensuring that any actual or attempted changes to data are embedded in the audit trail.

Moving forward, many families may not trust the transparency demanded by global CRS, but they can trust Blockchain to record an unalterable audit trail. In a twist on the old saying, "In God we trust, but all others must start using Blockchain."

David Friedman  
CEO, LifeChain

### CITIZENSHIP SCHEMES

#### Only the best regulation is acceptable

Citizenship and residency by investment programmes are big business: currently, the industry is worth an estimated US\$2 billion each year. However, it is beginning to draw concern and criticism.

Some take issue with the very notion of nationality as a commodity, with prospective customers choosing their new country based on price or "features" such as ease of travel, purchasing passports "off the shelf" and, aside from buying a property or handing over a fixed sum investment, making little real contribution to the host country.

Concern is also growing that the acquisition of a new nationality may be a vehicle to avoid FATCA, the CRS and various other international efforts to stem tax evasion. If this idea gathers momentum, it could potentially create problems for the countries involved.

Furthermore, there is the fear of terrorists being found to have travelled on a new passport before committing an atrocity. It is not hard to imagine how this could lead to governments being reluctant to accept "purchased" passports, restricting their use or denying access to those who bear them.

Clearly, there is great – and growing – demand. As the market matures, it would therefore be appropriate for governments to adopt stringent criteria in order to guard against such passports being acquired for improper or criminal purposes.

Joseph A Field  
Partner, Withersworldwide

#### Revenues must be spent responsibly

For microstates with small economies, the benefits of citizenship and residency by investment programmes can be substantial. In certain Caribbean islands, programme revenues account for up to a third of GDP.

The potential profitability of the channel has led to investment migration policies spreading, allowing small economies to formalise and scale up previous informal offerings of residency and citizenship.

Nonetheless, the overall effectiveness of the programmes depends on how funds are used. They may be spent responsibly to support long-term economic growth, along with educational opportunities, medical facilities, pensions and other forms of social support, but such assurances are typically not written into the policies themselves. Whether or not the programmes deliver the benefits they promise is ultimately a question of implementation and oversight.

Dr Kristin Surak  
SOAS University of London

#### Only as strong as their weakest link

Global families – and their businesses – today span countries and even continents. Acquiring alternative residence or citizenship is a means of participating in and moving through this interconnected world with greater ease, and we expect that the value of this kind of mobility and access will only increase as the tendency towards isolationist, immigration-hostile policies becomes more prominent worldwide.

Programmes are only as strong as their weakest link, and the most appealing are those with the most stringent processes in place. The only programmes worth considering are those that uphold high standards of due diligence and are free of corruption. These are the ones that draw credible, wealthy, and talented individuals with valuable business networks and entrepreneurial expertise to a country, enriching its social and economic capital.

Dr Christian Kälin  
Group Chairman, Henley & Partners

### TRADING PLACES

UHNWI citizenship trends

ABOVE AVERAGE VALUE

|                       | ALREADY HOLDING A SECOND PASSPORT OR DUAL NATIONALITY | CONSIDERING A SECOND PASSPORT OR DUAL NATIONALITY | CONSIDERING EMIGRATING PERMANENTLY |
|-----------------------|---|---|------------------------------------|
| AFRICA                | 19%   | 27%   | 28%                                |
| ASIA                  | 19%   | 26%   | 24%                                |
| AUSTRALASIA           | 6%  | 12%   | 26%                                |
| EUROPE                | 19%   | 20%   | 31%                                |
| LATIN AMERICA         | 30%   | 45%   | 41%                                |
| MIDDLE EAST           | 19%   | 35%   | 39%                                |
| NORTH AMERICA         | 10%   | 16%   | 24%                                |
| RUSSIA & CIS          | 45%   | 50%   | 58%                                |
| <b>GLOBAL AVERAGE</b> | 21%   | 29%   | 34%                                |

SOURCE: THE WEALTH REPORT ATTITUDES SURVEY 2018, KNIGHT FRANK



Valletta dreams A Maltese passport offers visa-free access to 169 countries



## Urban power

*The Knight Frank City Wealth Index identifies the cities that matter to the wealthy, now and in the future. Liam Bailey shares the latest results*

**W**ealthy investors help to drive demand for property across global markets. The decision where to purchase is driven by a range of factors, but familiarity and knowledge are tangible pull factors when it comes to city locations, as is an understanding of market and economic dynamics.

This year we have built on our City Wealth Index, which was introduced in last year's report, extending our analysis to provide the most rounded picture of the cities that matter to the world's wealthy. Our assessment covers a broad canvas, including where the wealthy live, spend and invest, where they enjoy their downtime and where they educate their children.

The Index is built around four themes, each covering a range of critical measures.

**Wealth** – We have considered current and future populations of wealthy residents. Our analysis looks at both HNW and UHNWI populations and – crucially – at the expected rate of growth in wealth creation at city level.

**Investment** – To understand where the wealthy are investing, we looked at data on major property investments – those worth the equivalent of US\$10 million or more – across both commercial and residential markets. We only considered investments made by private individuals or family offices. Our ranking takes into account the volume of investment, and its diversity in terms of the number of different nationalities investing.

**Lifestyle** – We have included a broad range of items under our lifestyle theme, including the number of luxury hotels and the number and quality of leading restaurants, as well as average visitor spend. Education, a significant driver for purchases of first and second homes globally, has been accounted for by considering the number and quality of universities in each city.

**Future** – Future economic performance will influence and shape investment decisions. To understand how cities are likely to fare over the medium term, we have considered predicted GDP, and city-level innovation.

Over the following pages, we explore the findings of this year's City Wealth Index.

Prime number New York tops the Knight Frank City Wealth Index

Image: Anders Jildén on Unsplash





# THE KNIGHT FRANK CITY WEALTH INDEX 2018

## KEY FINDINGS

New York sweeps the board, coming out on top for every ranking. London takes second place overall and is also runner-up in the investment and future rankings. San Francisco takes third place overall, but scores the second most desirable lifestyle. Overall, North American cities dominate, taking ten of the top 20 spots, with Asian cities occupying a further five.

### WEALTH

New York is a dominant centre for HNWIs (based on households earning more than US\$250,000 annually), with almost double the population of Los Angeles in second place. The top nine places on this measure all go to North American cities, with London filling the tenth spot. Over the next five years this is expected to change, with Jakarta and Cairo seeing the biggest increase in this bracket, followed by New York, Los Angeles and Delhi.

### INVESTMENT

While New York leads in terms of the largest annual average private investment into property over the two-year period to the end of 2017, London takes top slot for diversity of demand, measured by the number of different nationalities making investments. European centres compete closely with North American hubs on this measure, with Hong Kong leading the pack in Asia.

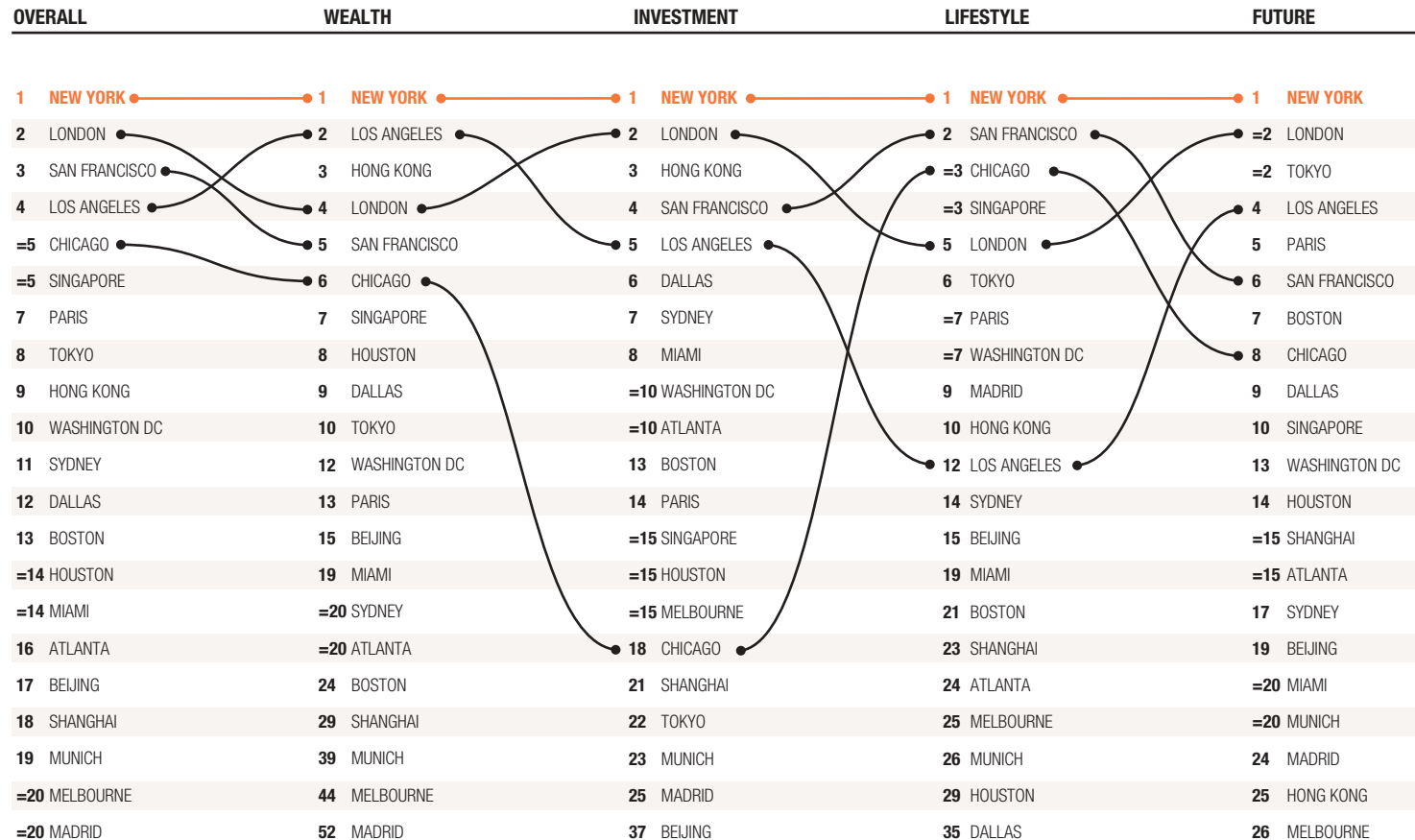
### FUTURE

In terms of future GDP (see opposite), measured in constant prices, New York again comes out on top, followed closely by Tokyo and Los Angeles. Looking to the future, North American cities look set to retain their supremacy, accounting for four of the top ten cities for future GDP.

### LIFESTYLE

London is top of the hotel rankings, with 75 five-star hotels as listed on reservations website Five Star Alliance, comfortably topping Dubai's 61. Dubai's overnight visitors were the biggest spenders, with a total expenditure of US\$28.5 billion. New York was in second place, with visitors notching up a US\$17 billion spend. In terms of average overnight visitor spend, Melbourne was on top with an average of US\$1,925 per person, followed closely by Dubai at US\$1,917.

## THE KNIGHT FRANK CITY WEALTH INDEX 2018 Connecting lines show the top five cities



SOURCES: KNIGHT FRANK RESEARCH, MACROBOND, WEALTH-X, NEW WORLD WEALTH, RCA, OXFORD ECONOMICS, FIVE STAR ALLIANCE, MASTERCARD, MICHELIN, TIMES HIGHER EDUCATION, 2THINKNOW INNOVATION CITIES™ INDEX 2016-2017

# CITY PERFORMANCE IN DETAIL

## A SELECTION OF ELEMENTS IN EACH CATEGORY

### WEALTH

CITIES WITH THE HIGHEST NUMBER OF HOUSEHOLDS EARNING US\$250K+ (2017)

|                 |           |
|-----------------|-----------|
| 1 NEW YORK      | 1,167,131 |
| 2 LOS ANGELES   | 637,749   |
| 3 CHICAGO       | 400,416   |
| 4 SAN FRANCISCO | 396,431   |
| 5 WASHINGTON DC | 366,560   |
| 6 HOUSTON       | 298,868   |
| 7 DALLAS        | 297,970   |
| 8 BOSTON        | 293,276   |
| 9 PHILADELPHIA  | 290,460   |
| 10 LONDON       | 272,604   |

GROWTH IN US\$250K+ HOUSEHOLDS (2017-2022)

|             |         |
|-------------|---------|
| JAKARTA     | 223,447 |
| CAIRO       | 152,643 |
| NEW YORK    | 148,413 |
| LOS ANGELES | 89,711  |
| DELHI       | 87,458  |
| MOSCOW      | 84,077  |
| ABU DHABI   | 84,067  |
| MUMBAI      | 74,866  |
| HOUSTON     | 71,211  |
| DALLAS      | 58,575  |

SOURCE: OXFORD ECONOMICS

### INVESTMENT

RANK OF CITIES BY THE AVERAGE NUMBER OF NATIONALITIES INVESTING (2016 AND 2017)

|             |                 |
|-------------|-----------------|
| 1 LONDON    | 6 HONG KONG     |
| 2 NEW YORK  | 6 SAN FRANCISCO |
| 3 AMSTERDAM | 6 MELBOURNE     |
| 4 BERLIN    | 9 SEATTLE       |
| 5 SYDNEY    | 9 BOSTON        |

SOURCE: RCA

### FUTURE

CITIES WITH THE HIGHEST FORECAST GDP FOR 2022 (US\$BN)



SOURCE: OXFORD ECONOMICS

### LIFESTYLE

HIGHEST NUMBER OF FIVE-STAR HOTELS (2017)

|                 |    |
|-----------------|----|
| 1 LONDON        | 75 |
| 2 DUBAI         | 61 |
| 3 NEW YORK      | 59 |
| 4 PARIS         | 56 |
| 5 MIAMI         | 46 |
| 6 LOS ANGELES   | 39 |
| 7 BANGKOK       | 33 |
| 7 SHANGHAI      | 33 |
| 9 WASHINGTON DC | 32 |
| 9 ROME          | 32 |

SOURCE: FIVE STAR ALLIANCE

AVERAGE SPEND PER OVERNIGHT VISITOR (2016) (US\$)

|                 |       |
|-----------------|-------|
| 1 MELBOURNE     | 1,925 |
| 2 DUBAI         | 1,917 |
| 3 SYDNEY        | 1,829 |
| 4 TEL AVIV      | 1,484 |
| 5 MADRID        | 1,464 |
| 6 HOUSTON       | 1,439 |
| 7 SAN FRANCISCO | 1,433 |
| 8 MIAMI         | 1,431 |
| 9 TAIPEI        | 1,348 |
| 10 LOS ANGELES  | 1,347 |

SOURCE: MASTERCARD

CITIES WITH THE MOST TOP 100 UNIVERSITIES (2018)

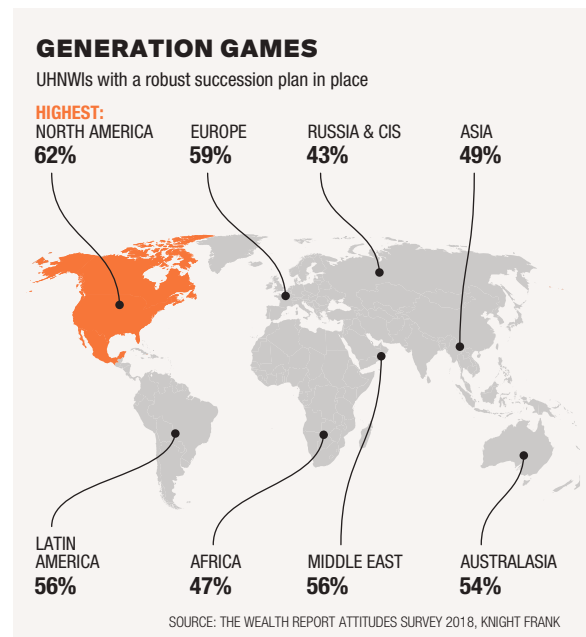
|               |   |
|---------------|---|
| 1 LONDON      | 4 |
| 2 LOS ANGELES | 4 |
| 3 HONG KONG   | 3 |
| 4 BERLIN      | 3 |
| 5 BOSTON      | 3 |
| 6 CHICAGO     | 2 |
| 7 NEW YORK    | 2 |
| 8 BEIJING     | 2 |
| 9 SINGAPORE   | 2 |
| 10 MUNICH     | 2 |

SOURCE: TIMES HIGHER EDUCATION



## Passing the bucks

*The Wealth Report looks at the complex issue of succession planning*



The results of *The Wealth Report* Attitudes Survey consistently show that passing wealth to the next generation is a major concern for wealthy individuals. Fear that their children will fritter their inheritance away, the worry that passing on too much, too soon will dampen their offspring's entrepreneurial spirit, or simply concerns about how to treat siblings fairly all weigh on their minds.

To test the overall impact of these worries, we decided to ask the respondents to this year's Attitudes Survey how many of their clients have a robust succession plan in place. Globally, the response was just 53%, with a high of 65% in the US and a low of 40% in Kenya. This highlights the scale of the issue and helps to explain why private banks and wealth advisers are putting so much effort into helping their clients with succession planning. *The Wealth Report* asked three of them from various parts of the world to explain just why figuring out how to pass on wealth is so challenging.

### Amit Kotha

*Head of UHNW, RBC Wealth Management, British Isles*

Today's wealthy families have unique needs and varying priorities, making succession planning a highly complex area of concern. What we do know is that succession planning is important for every family because of the desire to preserve wealth for future generations and to leave a lasting legacy.

With such a sensitive and important issue, there is no "one size fits all" solution. Some families want to preserve their dynasty, for example, while others wish to ensure their philanthropic endeavours endure.

It is said that many family fortunes fail to last for more than three generations. Our research into wealth transfer found that a significant number of wealthy families are unprepared to pass on their legacy and knowledge to the next generation. Just 26% have a full wealth transfer plan in place and the findings showed that the next generation is not being educated early enough about the management of wealth.

Given the complexity, wealthy individuals would benefit from identifying clear objectives for the future and drawing up a well-defined succession plan. In a world where regulation is constantly evolving, it is essential that global families are aware of the key issues and start planning as early as possible with advisers who can help to make the process as smooth as possible.



Illustration: Stephan Schmitz at Folio Art

### Prateek Pant

*Head of Products & Solutions, Sanctum Wealth Management*

The past two decades have seen a dramatic increase in wealth for family-run businesses. According to a report from Credit Suisse, the top 36 Indian families own more than a quarter of India's GDP. But the last decade in particular has also seen significant upheaval in domestic family structures.

Traditional family set-ups – with multiple generations living and working together, under the watchful eye of the patriarch – are being replaced by nuclear families, with the often Ivy League-educated younger generation keen to carve out their own paths. This has only served to increase complexity in both the personal and professional lives of many HNWI, who now find themselves having to consider – among other things – how to integrate professionals into the boards of family-run businesses, find roles for family members and manage inter-generational inheritance.

While being part of a successful family business offers huge advantages, managing change is never easy. An iconic founder may refuse to entertain new ways of doing business, while heirs may shudder at the prospect of succeeding incredibly successful parents. While studies continue to highlight succession planning across Indian corporates as a low priority, there is no lack of examples of what can happen when it goes wrong – proof, if it were needed, that the whole process should be better planned and implemented.

### Money K

*Managing Director, Citi Private Bank*

Succession transition is a high stakes game for family businesses and their owners. Getting it wrong – by choosing the wrong successor, mistiming the handover, being under-prepared, or failing to get stakeholders' buy-in to the succession plan – could mean severe repercussions, to the detriment of both the continued success of the business and family harmony.

Furthermore, family businesses today are also facing competitive challenges as a result of rapid globalisation and new technologies that are disrupting the world of business. Set against this backdrop, a poorly executed transition is potentially a recipe for disaster.

An increasing number of advisers have the expertise to help family business leaders develop governance frameworks to enable better decision-making, drive the family's role in society and, of course, ease succession issues. However, we do see an initial reluctance by some families, particularly from certain cultures, to take external advice, mainly because such issues are seen as very personal.



# Chain reaction

*Blockchain and Bitcoin are rarely out of the financial headlines, but are they set to revolutionise property markets? Tom Bill finds out*

The proponents of Blockchain are nothing if not audacious in their promotional hype. Some describe the technology as the biggest change to finance since the Medici family laid the foundations for modern banking back in the 15th century, while others believe it is set to be as transformative as the internet.

Such claims may seem far-fetched for something as mundane-sounding as a decentralised and immutable online ledger designed to simplify the trading of assets, including real estate. But as national land registries start to use Blockchain technology, it is time to look beyond the hype and explore how it could influence buyer behaviour and pricing in real estate markets. The role of liquidity is key here. Real estate trades at a relative discount to stocks and bonds because it is less liquid, but Blockchain could theoretically close that gap in two ways.

### Oiling the wheels

First, transaction times and frictions would reduce as more of the legal process moves onto the Blockchain. The United Arab Emirates, Georgia, Honduras and the UK are among the countries exploring the use of Blockchain technology for property transactions, while Sweden has already trialled it. “We found that it’s possible to shorten the process a lot, but one of the most successful aspects of the trial was security and the verification of contracts,” says Mats Snäll, Chief Digital Officer at the Swedish Land Registry.

Mr Snäll expects the use of Blockchain to grow over the next several years, but emphasises that it remains an emerging technology. His view is underlined by the results of our Attitudes Survey, where 41% of respondents – the most common response – said that their clients had heard of Blockchain, but had not yet considered its impact.

The second way that Blockchain could increase liquidity in property markets is through a process of “tokenisation” or “unitisation”. Enabling buyers to trade “units” in real estate online would have an impact on markets and pricing potentially far greater

than that of removing frictions from the sale process. The argument is that Blockchain provides the platform for something that is possible today, but which has not yet been implemented on a meaningful scale. Ambitions are not limited to real estate and there are plans to grow tokenised trading in many financial markets, including luxury investments. However, whether this represents the property industry’s very own “disruptor” moment depends on who you ask.

Abhimanyu Dayal is Chief Executive of Estatechain, a company that acts as a marketplace for the tokenisation of property and which plans to carry out its first transaction this year. Complex algorithms create an exchange through which vendors can sell tokens in residential property without needing to find a buyer. This is possible because investors pay for a finite reserve of tradable tokens on top of the value of the property itself: in other words, a liquidity premium.

Though the technology determines the pricing of a transaction, this happens within the framework of quarterly valuations by a chartered surveyor.

### 100% liquidity

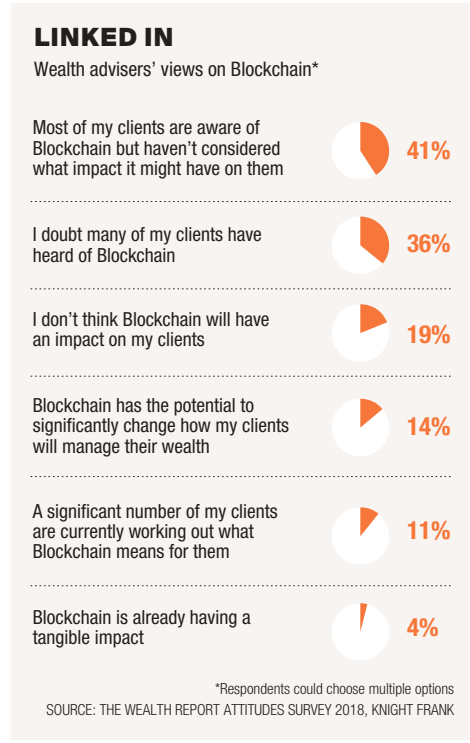
“This could revolutionise the real estate market because it provides 100% liquidity<sup>24/7</sup>,” says Mr Dayal. “If you want to invest in London residential property today, you will need to spend £700,000-plus and be locked in for seven to nine years. Now you can enter and exit whenever you want, which is how people want to invest.” While the regulation of tokenised assets is still evolving, the rollercoaster ride that cryptocurrencies have experienced on the currency markets will not affect values, Mr Dayal says. While investors need a cryptocurrency to trade, assets will be denominated in the home currency.

For others, the more fundamental question is whether a more liquid property market is feasible or even desirable. Professor Andrew Baum of the Said Business School at the University of Oxford has been involved in various attempts to unitise real estate and recently authored a research document, *Proptech 3.0*.

“It is not obvious that everyone wants a more liquid real estate market,” he says. “If real estate traded more like a stock or a bond, prices might rise due to increased liquidity, but equally they might fall because of greater volatility and risk. The global banking system has survived over the last decade because it has not been forced to mark property assets to market.” Professor Baum points out too that higher levels of liquidity would mean real estate losing its inherent appeal for many investors seeking a stable return by diversifying away from stocks and bonds.

While Professor Baum concedes that Blockchain is likely to reduce frictions and costs around transactions, he believes its impact will ultimately be comparatively limited. “If you accept the argument that Blockchain will be as big as the internet all over again, ask yourself how much the internet changed liquidity in property markets. Perhaps a bit, but nothing seismic.”

For now then, believe only a fraction of the hype.







# Property

*An insight into the markets  
where UHNWIs live and invest*

## **A fine balance**

The latest results of the Knight Frank Prime International Residential Index  
- page 34

## **Firm foundations**

Private investors are driving investment property markets and global mega-deals  
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## **Peak performers**

Prime residential markets set to outperform  
- page 42

## **Leading lights**

Top locations and sectors for private property investors to consider  
- page 58



# A fine balance

Kate Everett-Allen reports on the regional ups and downs of the world's luxury residential property markets in 2017

The latest results of our PIRI 100, which tracks the performance of the world's leading prime second home and city residential markets, confirm two significant trends. First, the scale of the slowdown in China's top-tier cities and, second, the extent to which Europe is seeing positive growth after a decade of weak results.

In 2017, the overall index increased by 2.1%, compared with 1.4% in 2016. This reflects the expansion of the global economy last year, when heightened political tensions were unable to dent growth. Two thirds of the locations in the PIRI 100 recorded static or positive annual price growth in 2017, with 11% posting double-digit returns.

### Look east

The Chinese city of Guangzhou leads the rankings, with prime prices up by over 27%. However, unlike in 2016 when Guangzhou was joined by Beijing and Shanghai in occupying PIRI's top three positions, this year it is China's only entry in the top ten.

Tighter macro prudential regulations introduced by the government have achieved their goal of deterring speculative activity and curbing price inflation across large parts of China. Shanghai and Beijing registered growth of just over 9% and almost 7% respectively; lacklustre by recent standards. Guangzhou's prime

market continues to grow because of its relative affordability: prime prices average 70,000 yuan per sq m, compared with 120,000 yuan in Shanghai. The weakening in Beijing and Shanghai contributed to a slight drop across the Asia-Pacific region as a whole, with markets averaging 4.4% growth in 2017, down from 5.2% the previous year.

Seoul (13.2%) and Hong Kong (7.3%) continue to perform strongly, despite stringent cooling measures. Both markets face limited supply and, in Hong Kong's case, significant investment flows from the Chinese mainland. After reaching its peak in the fourth quarter of 2013, a string of government cooling measures drove down private residential home prices in Singapore, but 2017 marked a turning point with prices ending the year almost 6% higher. A brighter economic outlook, rising household wealth and limited supply are supporting price growth.

In India, however, monetary and policy interventions have proved challenging for residential markets. Demonetisation, the Goods and Services Act and the Real Estate (Regulation and Development) Act all left their mark in 2017, with luxury prices rising by just 0.6% in Mumbai. But market confidence is now improving.

A lack of supply pushes Sydney's prime market (10.7%) ahead of Melbourne's (9.8%), with the gap between luxury and mainstream price performance widening in both cities. Foreign buyer application



For sale through Knight Frank

Place in the sun Prime property prices in Marbella rose 3% during 2017

fees and stamp duty hikes have led to slower rates of annual growth, but a strong appetite for luxury bricks and mortar remains.

### Eurovision

In 2016, a number of prime European residential markets were still in "recovery mode". Twelve months on, the PIRI 100 paints a very different picture. In

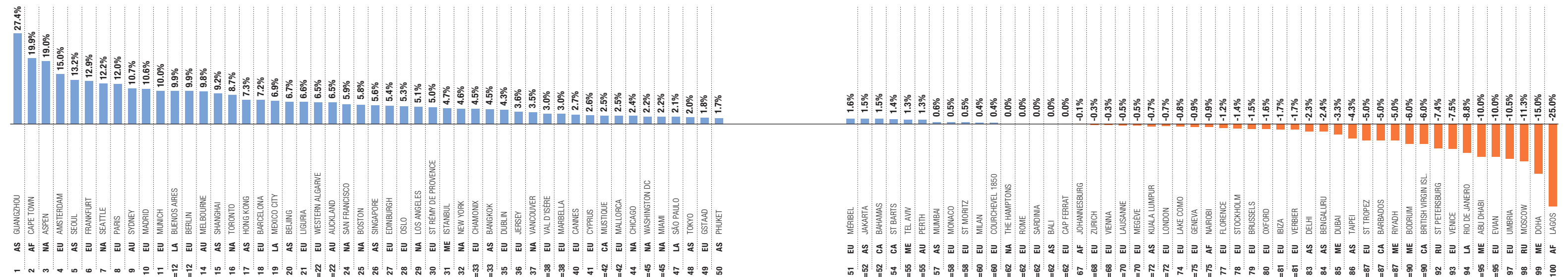
2017, four of the top ten performing prime residential markets were in Europe: Amsterdam, Frankfurt, Paris and Madrid. Heightened domestic interest has combined with capital flight from turbulent markets overseas. Latin American buyers now account for over 18% of prime purchases in Madrid's exclusive enclaves, while Turkish and Middle Eastern buyers are active in both Paris and Berlin.

London, for its part, bounced back in 2017, moving from 92nd to 72nd place in the PIRI 100 rankings. Prime prices in the UK capital ended the year marginally lower, down 0.7%, compared with a fall of 6.3% a year earlier. However, this is primarily due to tax changes, rather than the Brexit decision.

It is not just Europe's cities that are on the up. Italy's Liguria and the Western Algarve are Europe's

## THE PIRI 100

Luxury residential market performance by global rank and geography (annual change December 2016 to December 2017)



Prime International Residential Index (PIRI) tracks the movement in the price of luxury homes

Sources: All data comes from Knight Frank's global network with the exception of Tokyo (Ken Corporation); São Paulo and Rio de Janeiro (Fundação Instituto de Pesquisas Econômicas); Oslo (Torbjørn Ek); Boston, Chicago, San Francisco, Los Angeles, Miami, New York, Seattle and Washington DC (S&P CoreLogic Case-Shiller); Barcelona (Ministerio de Fomento); Tel Aviv (Israel Central Bureau of Statistics); Jersey (States of Jersey); Berlin and Frankfurt (Immobilien Scout24); Mexico (Sociedad Hipotecaria Federal); Cape Town and Johannesburg (First National Bank); Stockholm (Svensk Mäklarstatistik)

Notes: All price changes relate to local currency. Data for Aspen, Barcelona, Tel Aviv and Tokyo relates to the period from Sept 2016 to Sept 2017. Data for Boston, Chicago, Los Angeles, Miami, New York, San Francisco, Seattle and Washington DC relates to the period Oct 2016 to Oct 2017. Data for Abu Dhabi, Berlin, Cape Town, Dubai, Frankfurt, Rio de Janeiro, São Paulo and Toronto relates to the period from Nov 2016 to Nov 2017. The price change for Tokyo relates to all properties above ¥100m. The price change for Bali relates to leasehold properties only. Data for Cape Town relates to the Atlantic Seaboard and data for Johannesburg relates to Sandton.



# PRIME MOVERS

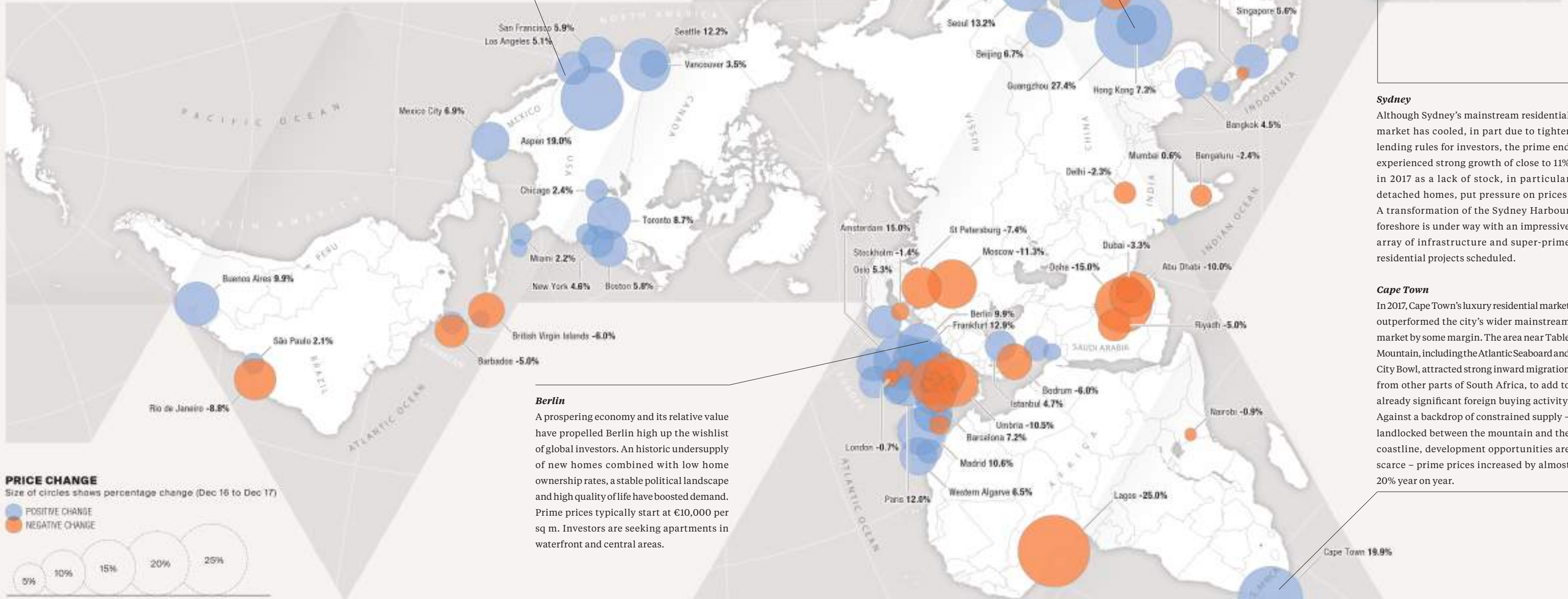
A global overview of this year's PIRI 100 results

## Los Angeles

A strong regional economy, shrinking inventories and limited supply have protected prices in Los Angeles, despite three rate rises in 2017. Domestic demand has proved steady and although the appetite of international buyers dipped marginally due to the strength of the US dollar, UK and European buyers remain active. Prime prices ended 2017 just over 5% higher, with gated communities in Beverly Hills and Malibu outperforming the city average.

## Hong Kong

Prime prices increased by 7.3% in 2017. Tight supply and strong outbound capital flows from the Chinese mainland have boosted price growth, despite more stringent capital controls and taxation changes. Neighbourhoods such as The Peak, which set a new record price in 2017, and Mid-Levels are among the most desirable. Further US interest rate rises in 2018 may slow but are unlikely to halt price growth.



## Sydney

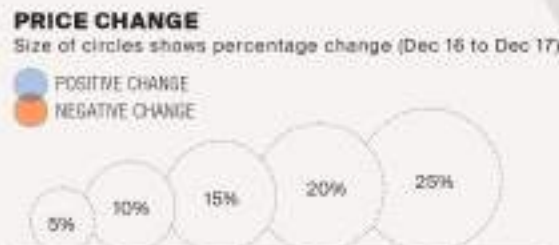
Although Sydney's mainstream residential market has cooled, in part due to tighter lending rules for investors, the prime end experienced strong growth of close to 11% in 2017 as a lack of stock, in particular detached homes, put pressure on prices. A transformation of the Sydney Harbour foreshore is under way with an impressive array of infrastructure and super-prime residential projects scheduled.

## Cape Town

In 2017, Cape Town's luxury residential market outperformed the city's wider mainstream market by some margin. The area near Table Mountain, including the Atlantic Seaboard and City Bowl, attracted strong inward migration from other parts of South Africa, to add to already significant foreign buying activity. Against a backdrop of constrained supply – landlocked between the mountain and the coastline, development opportunities are scarce – prime prices increased by almost 20% year on year.

## Berlin

A prospering economy and its relative value have propelled Berlin high up the wishlist of global investors. An historic undersupply of new homes combined with low home ownership rates, a stable political landscape and high quality of life have boosted demand. Prime prices typically start at €10,000 per sq m. Investors are seeking apartments in waterfront and central areas.



Sources: All data comes from Knight Frank's global network with the exception of Tokyo (Ken Corporation); São Paulo and Rio de Janeiro (Fundação Instituto de Pesquisas Econômicas); Oslo (Torbjørn Ek); Boston, Chicago, San Francisco, Los Angeles, Miami, New York, Seattle and Washington DC (S&P CoreLogic Case-Shiller); Barcelona (Ministerio de Fomento); Tel Aviv (Israel Central Bureau of Statistics); Jersey (States of Jersey); Berlin and Frankfurt (Immobilien Scout24); Mexico (Sociedad Hipotecaria Federal); Cape Town and Johannesburg (First National Bank); Stockholm (Svensk Mäklarstatistik).  
Notes: All price changes relate to local currency. Data for Aspen, Barcelona, Tel Aviv and Tokyo relates to the period from Sept 2016 to Sept 2017. Data for Boston, Chicago, Los Angeles, Miami, New York, San Francisco, Seattle and Washington DC relates to the period Oct 2016 to Oct 2017. Data for Abu Dhabi, Berlin, Cape Town, Dubai, Frankfurt, Rio de Janeiro, São Paulo and Toronto relates to the period from Nov 2016 to Nov 2017. The price change for Tokyo relates to all properties above ¥100m. The price change for Bali relates to leasehold properties only. Data for Cape Town relates to the Atlantic Seaboard and data for Johannesburg relates to Sandton.



highest-ranking second home markets, recording annual growth of 6.6% and 6.5% respectively. Both markets were hit hard by the global financial downturn and the fallout from the euro zone debt crisis: values tumbled by 30–40% in peak-to-trough terms.

In Spain, tighter supply has helped cushion prices across the country. In 2016, around 34,300 homes were completed nationwide. The figure was close to 600,000 a decade earlier, according to Spain's Ministry of Development. Barcelona, Madrid, Marbella and

Mallorca all registered positive price growth; only Ibiza saw a decline in 2017.

Emmanuel Macron's presidential victory buoyed France's prime residential markets. In 2017, the 11 French markets tracked by the PIRI 100 recorded 1.2% growth on average, compared with just 0.1% in 2016.

For Monaco, 2017 was a year of two halves. Prices climbed 2% in the first six months of the year but later stabilised, resulting in annual growth of 0.5%. Record prices were achieved in parts of Monte Carlo, but

demand for older apartments in secondary locations was noticeably weaker.

Chamonix leads the Alpine resorts, with prices ending the year 4.5% higher. The strength of the Swiss franc and restrictions on foreign buyers explain the weaker performance of some Swiss resorts.

**American beauty**

US markets put in a steady performance in 2017. Aspen sits third in our overall rankings, recording 19% growth. The top end of this upmarket ski resort saw sales volumes strengthen, but the scale of growth is a reflection of its weaker performance in 2016.

Los Angeles, New York and Miami saw moderate growth of 5.1%, 4.6% and 2.2% respectively in 2017. In New York, the 4.6% rise reflects the conclusion of a number of high-end sales as vendors across New York City (not just Manhattan) displayed greater flexibility on price in both the resale and new homes markets. Despite the strong US dollar, foreign buyers were active in 2016/17, spending over US\$153 billion on US residential property between April 2016 and March 2017, according to the National Association of Realtors.

A 15% foreign buyer tax, along with a move by China to tighten capital controls, account for Toronto and Vancouver's slide down the rankings (see panel). Prices have now corrected and are stabilising. Vancouver has seen annual growth slow from 14.5% to 3.5% and Toronto from 15.1% to 8.7% over the course of 2017.

In Africa, Cape Town takes second place in the PIRI 100, recording almost 20% growth year on year. The Atlantic Seaboard is attracting buyers from overseas as well as from elsewhere in South Africa, but both new and existing stock are in short supply.

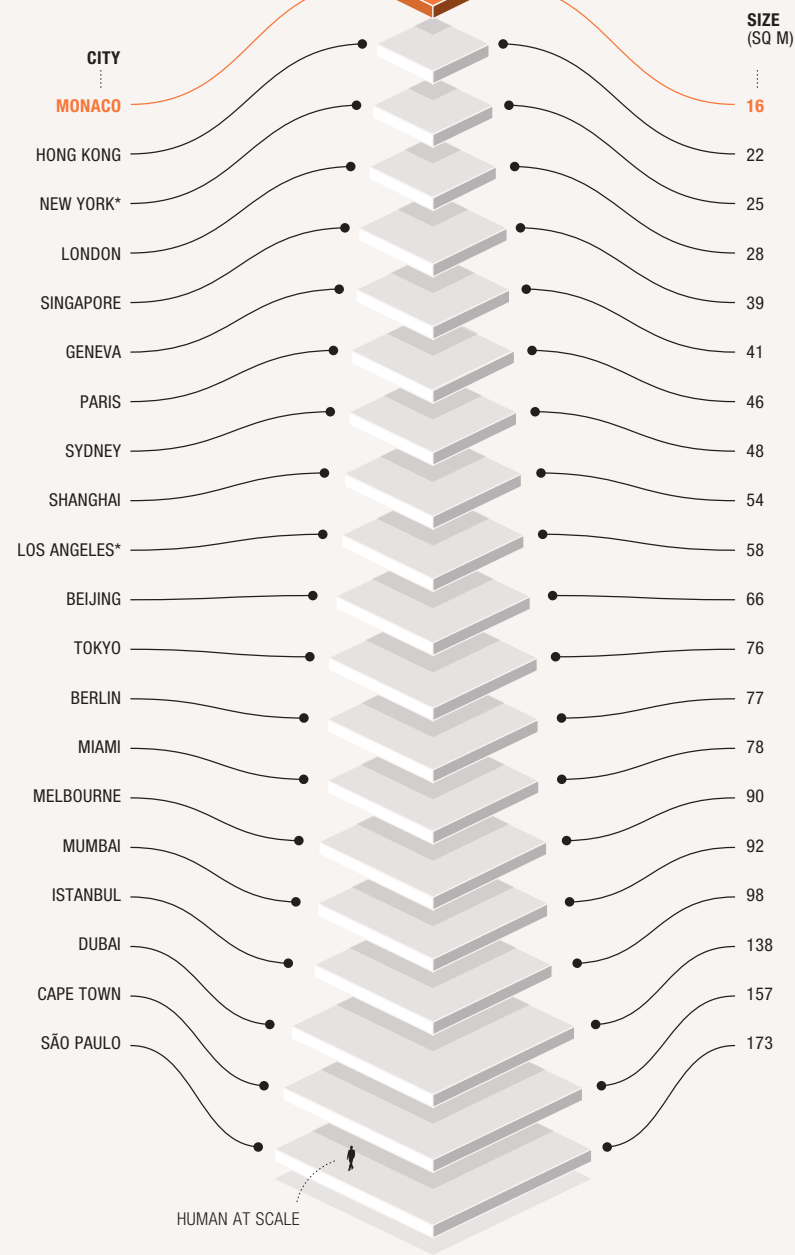
In the Middle East, Istanbul takes top place with growth of almost 5%, but with inflation in Turkey at almost 13% in 2017, prices declined in real terms. Dubai's story in 2017 was one of stabilisation. In the first nine months of the year, prime sales volumes rose by 6% and the total value of prime transactions reached Dh2.27 billion, up 9% from the same period a year earlier. Ahead of Expo 2020, large-scale investment in new infrastructure projects is expected to filter through into market sentiment.

Prime market performance in the region remains closely linked to the trajectory of oil prices, a pattern reflected in Russia and Africa. Although oil prices dipped in the first half of 2017, they rallied in the second half; but this was not enough to pull cities such as Moscow (-11.3%), Doha (-15%) and Lagos (-25%) off the bottom of the rankings.

Against the political odds, 2017 was a year when the economic stars aligned and relatively healthy growth was seen across most markets, including, for the first time since 2008, Europe. The outlook for 2018 is that economic growth will continue to support prices, but performance could be tempered as more central banks start to raise interest rates.

**RELATIVE VALUES**

How many square metres of prime property US\$1m buys across the world



\*New developments only. All data Q4 2017 based on exchange rate on 31 Dec 2017  
SOURCES: KNIGHT FRANK RESEARCH, DOUGLAS ELLIMAN, KEN CORPORATION

**TAXING TIMES**

*Cooling measures and rules on who can buy what, and where, are nothing new. Now, though, the number and stringency of these measures is actually redirecting wealth, as buyers look to gain a foothold before markets start to pull up the drawbridge*

With global wealth flows and house prices rising in tandem, policymakers are walking a fine line between trying to attract investment at the same time as ensuring affordability for residents, reducing the risk of house price bubbles and maintaining tax revenue.

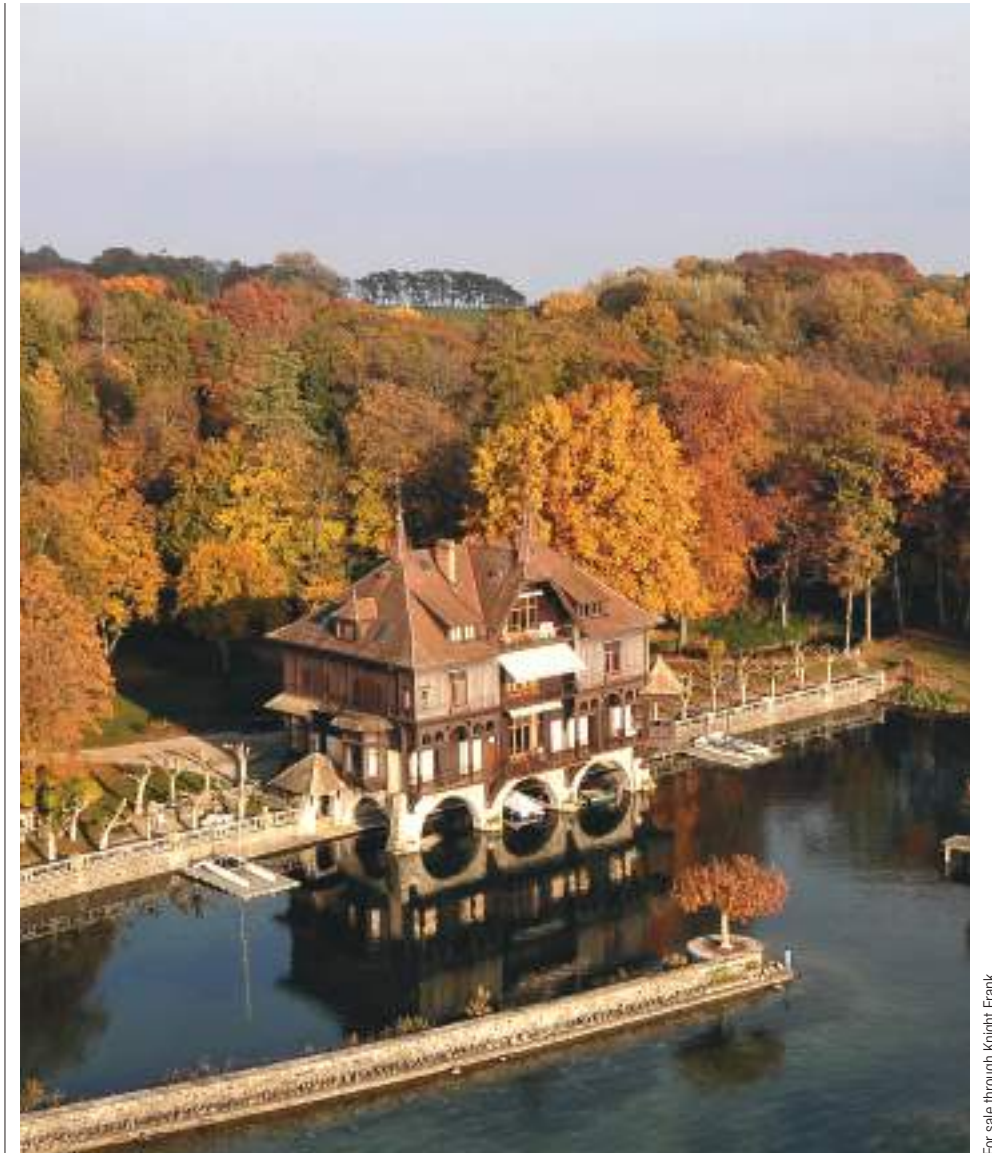
In some markets, overseas buyers have borne the brunt of these measures; in others, domestic buyers have also had their wings clipped. In an era of low growth, the option of monetary tightening has largely been off limits for over a decade. Instead, cooling measures have become the go-to means of controlling price inflation, gradually eroding the notion of truly open markets.

The latest wave of interventions arguably started in Asia in 2010, when Hong Kong, the Chinese mainland and Singapore embarked on a programme of macro prudential measures to deter speculative investment. Prices at this point had risen by 50%, 51% and 15% respectively from their post-Lehman lows.

Since 2010, other countries have followed suit, including Malaysia (stamp duty increase), the United Arab Emirates (cap on mortgage lending, transfer fee doubled), the UK (changes to stamp duty) and Australia (foreign buyer fee, stamp duty and land tax changes). Hong Kong, the Chinese mainland and Singapore have also made numerous modifications to their original rules in the interim.

More recently, the provincial governments of British Columbia and Ontario in Canada have imposed a 15% foreign buyer stamp duty on purchases in parts of Vancouver and Toronto. The effect on prices has been immediate. Just three months after the levy was introduced, annualised price growth in Vancouver had declined from almost 32% to 14.5%, and in Toronto from just under 30% to 11.5%.

In New Zealand, a ban on foreigners buying existing homes is expected in early 2018, but the restrictions will not apply to Australian purchasers, given that New Zealanders are exempt from home ownership restrictions in neighbouring Australia.



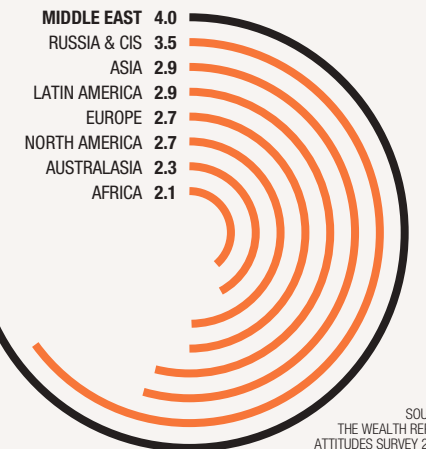
Waterfront view A villa on Lake Geneva

For sale through Knight Frank

“**2017 was a year when the economic stars aligned and relatively healthy growth was seen across most markets**”

**NO PLACE LIKE HOME**

Average number of first and second homes owned by UHNWIs

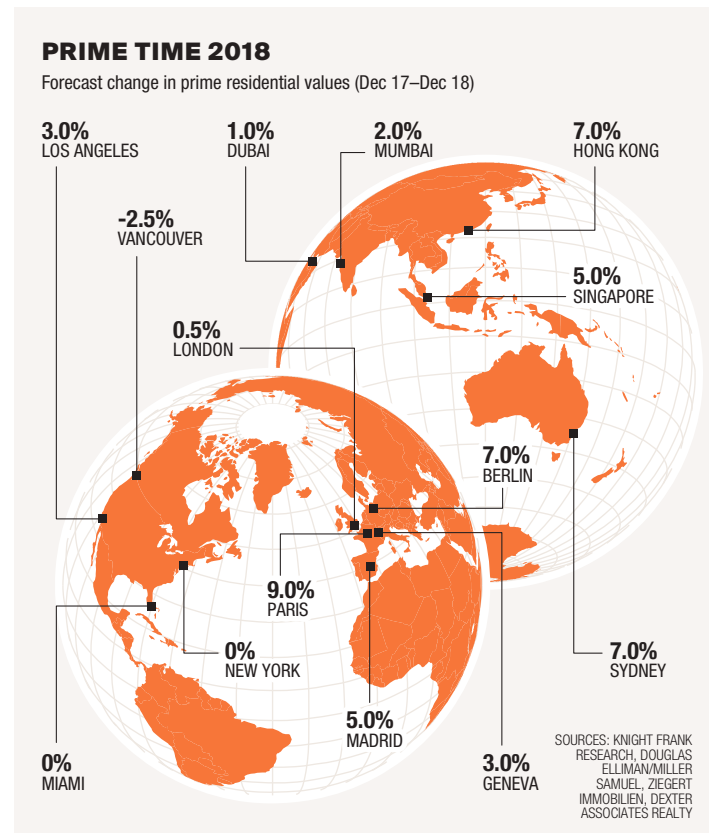


SOURCE: THE WEALTH REPORT ATTITUDES SURVEY 2018, KNIGHT FRANK



# Watch this place

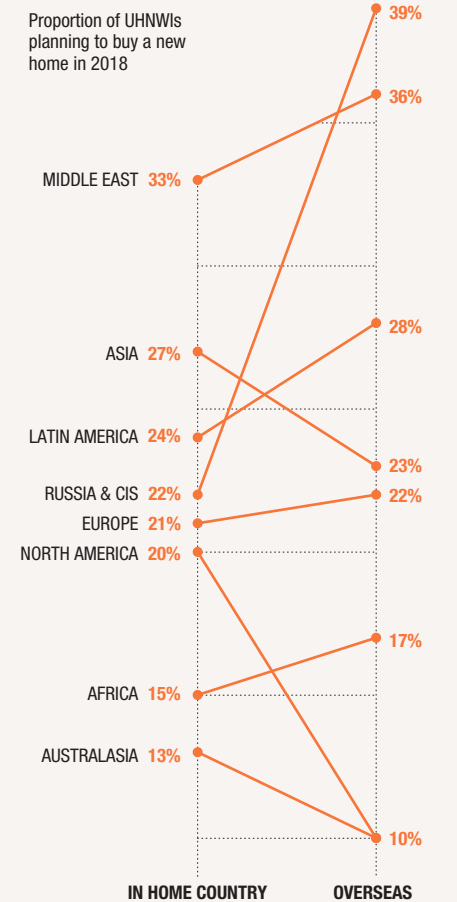
Liam Bailey explores the challenges and opportunities that lie ahead for residential property investors in 2018



City of light Prime property prices in Paris are forecast to rise by 9% in 2018

## HOUSE HUNTING

Proportion of UHNWIs planning to buy a new home in 2018



SOURCE: THE WEALTH REPORT ATTITUDES SURVEY 2018, KNIGHT FRANK

First, the good news. The global economy started 2018 in a very good place, with healthy growth in most leading markets.

It was the strongest coordinated growth spurt for almost a decade, and indicators from the first quarter point to more of the same for the rest of the year. But before we get too excited at the prospect of economic growth supporting higher property values, there are some not insignificant clouds on the horizon.

The Chinese and US economies in particular are showing signs of capacity constraints, which will lead to more rapid inflation. This, together with ongoing debt accumulation, not just in China but around the world, where total private, corporate and public debt is now estimated to equate to a record 325% of global GDP, means rate rises and a more general monetary tightening will be the main economic story over the coming year. This will dent growth into 2019, and weigh on property performance in the medium term.

With rate rises likely in the US, China and Canada, and potentially the UK, and with the European Central Bank beginning to taper its quantitative easing purchases, the process of unwinding economic stimuli will accelerate.

Despite these moves towards tighter monetary policy, though, borrowers will still be able to lock into incredibly cheap rates of debt in 2018. The fear of higher future interest rates and higher prices may spur action by investors to crystallise purchases, partly in the hope that property lives up to its reputation as a strong hedge against inflation.

### Leading the charge

With the US set to lead the charge on global rate rises, the US dollar is likely to strengthen against most major currencies, in particular the euro, sterling and Chinese yuan. For dollar-pegged or denominated investors, UK and European property markets will be likely to appear better value by the year end, while those from the Chinese mainland will find US or Hong Kong property investments more expensive.

The yuan faces another big issue in that a larger than expected decline in its value versus the US dollar could slow efforts to liberalise and internationalise the currency, or even stall them altogether. Any slowing of this process would reduce the flow of investment funds out of China.

The impact of market restrictions is set to become more pronounced in 2018. The mix of tax hikes,

outright investment bans and controls on mortgage lending aimed at foreign residential property buyers that are already being felt in places as far apart as Canada, New Zealand and Australia, together with tighter currency controls facing would-be investors

“  
Despite tighter monetary policy, borrowers will still be able to lock into cheap rates of debt in 2018  
”

(and in particular those from the Chinese mainland), is beginning to bite.

The confluence of these policies has seen overseas demand for property in some markets fall, as investors struggle to fund purchases. More noticeable has been the shift in demand, with buyers reconsidering the markets they are willing to investigate for

purchases. This process will become more noticeable in 2018, as some recent policy moves come into operation during this year.

### America rising

Tax reform in the US should prompt an increase in inbound investor interest. There is a general consensus that the reforms will spur additional economic growth. While this growth will act to raise property performance, it will be offset by rising rates and the strengthening dollar.

Brexit negotiations between the UK and the EU will undoubtedly influence investor behaviour across much of Europe, with some anticipating an uplift in residential and commercial property demand in Dublin, Paris and Frankfurt should bankers begin to relocate from the City of London. If 2017 is anything to go by, though, they are in for a long wait as only a trickle of jobs so far have been reported as set for a move.

The big issue to influence all global markets will be the shift in monetary policy. But even this is unlikely to offset the impact of strong global economic growth and wealth creation in the short term, both of which should act to support demand for property.



## Peak performers

From revamped historic quarters to former industrial zones, and from cutting-edge high-tech hotspots to new transport hubs, Kate Everett-Allen curates a selection of urban districts whose location, infrastructure and vibe mean they're set to outperform the competition

Perhaps the question Knight Frank's residential research teams around the world are most frequently asked by clients and journalists is: "where next?" The ability to identify the hotspots of the future is arguably the one superpower most investors and second home buyers would choose to be blessed with to enable them to stay one step ahead of the crowd.

Over the next six pages, our global teams share their local market insights, pinpointing the neighbourhoods they think will outperform their wider city or regional markets over the next five years. For some, transport improvements play a significant role; for others, new industries or an area's comparative value explain their selection.

To assist international purchasers, we have included not only the 2017 price change in local currency **LC** from the PIRI 100 (see page 34) for the wider city areas, but also displayed the price change in other key currencies.

Image: Joseph Pearson on Unsplash



### Sant'Ambrogio, Milan

Alessandro Riboni, Knight Frank Italy

**LC** +0.4% **€** +0.4% **£** +4% **\$** +14%

The beating heart of ancient Milan, Sant'Ambrogio is one of the city's most prestigious residential areas. Long favoured by the Milanese bourgeoisie, the district stands at the crossroads of the Roman trading centre, and is packed with ateliers, workshops, art studios and elegant boutiques. Now, its period buildings and outstanding location inside Milan's inner ring road, close to Cinque Vie – the iconic crossroads which forms the city's historic heart – and the prestigious Catholic University, are attracting investors, who are also looking ahead to 2022 and the completion of a new metro line which will provide a direct link with Milan Linate Airport. Prices start at around €6,500 per sq m with particularly fine properties fetching up to €8,500 per sq m.

### Potsdamer Straße, Kurfürstenstraße and Gleisdreieck, Berlin

Till Johannes Brühöfener-McCourt, Ziegert Immobilien

**LC** +10% **€** +10% **£** +14% **\$** +25%

Once home to a number of Berlin's newspaper and publishing companies – and also to its red light district – the area south of Potsdamer Platz is giving way to art galleries, stylish restaurants and hip bars. On the south-western side of the city, the neighbourhood benefits from its proximity to the 250-acre Tiergarten park, and to the Technical University of Berlin and Humboldt University. The rejuvenation now extends west as far as Gleisdreieck: once little more than warehouses and scrubland, this new urban neighbourhood has the community-led Park am Gleisdreieck at its heart. In Wohnpanorama, a new development on one of the last plots directly overlooking the park, €650,000 will buy a two-bedroom apartment and €775,000 a four-bedder, with values typically around €5,000–€9,000 per sq m.

Town and country opposite: Milan  
below: Red Mountain, Aspen

### Red Mountain, Aspen

Joshua Saslove, Douglas Elliman

**LC** +19% **€** +35% **£** +30% **\$** +19%

One of Aspen's most affluent neighbourhoods, Red Mountain arguably "arrived" decades ago. However, 2016 saw the market pause for breath as the decade-long acceleration in prices eased off, allowing the area's inventory to expand and giving buyers their best choice of homes for some time. With its sun-drenched, south-facing slopes, Red Mountain rarely collects sufficient snow for skiing but it offers residents unrivalled views of Aspen, the Maroon Bells and the magnificent Elk Mountain Range. Just five to ten minutes' drive from downtown Aspen, Red Mountain boasts great schools, world-class restaurants and a packed year-round calendar of cultural events, while its predominantly 1970s housing stock has been upgraded to offer sophisticated design and the very latest technology. Typical prices range from US\$6 million for a three-bedroom home on a one-acre plot to US\$50 million for a six-bedroom property on a four-acre plot.



For sale through Douglas Elliman | Knight Frank



**Kwun Tong, Hong Kong**

David Ji, Knight Frank Greater China

LC +7% € -6% £ -3% \$ +7%

The redevelopment of Kwun Tong, a former manufacturing district in the east of the Kowloon Peninsula, is the biggest ever seen in Hong Kong. The first phase will provide 2,000 new homes plus commercial and community facilities, with further waves of development to follow. The aim is to improve living conditions for existing residents at the same time as accommodating the influx of white-collar workers coming into the area, as financial and other professional service companies look to move away from Hong Kong’s crowded centre to locations that offer better value for money. The impact on prices is already being felt: apartment prices have accelerated from HK\$8,000 per sq ft five years ago to around HK\$14,000 per sq ft today.



**Les Grands Boulevards and Bonne Nouvelle, Paris**

Roddy Aris, Knight Frank International

LC +12% € +12% £ +16% \$ +27%

Nestled between the 2nd, 9th and 10th arrondissements, the area around Les Grands Boulevards and Bonne Nouvelle – stretching from Opéra in the west to Porte Saint-Denis in the east – is a neighbourhood very much on the up. Trendy bars and chic restaurants are flooding into the area – already a magnet for new tech companies – along with small retail shops and concept stores. The eclectic vibe, combined with classic Haussmannian architecture, is attracting demand from a new clientele of hipsters, fashionistas and well-to-do “bourgeois bohemians”, including UK buyers attracted by the proximity of the Gare du Nord and area’s location just ten minutes’ walk from Les Halles and Montorgueil, and close to Drouot and Le Marais. With interest strong among Swiss and US buyers too, €10,000 per sq m is no longer an aspirational price threshold.

**Thanisandra, Bengaluru**

Divya Grover, Knight Frank India

LC -2% € -9% £ -5% \$ +4%

The opening of Kempegowda International Airport in 2008 has helped turn Thanisandra, a hamlet on Bengaluru’s north-eastern fringe, into a prime real estate opportunity. Its proximity to the airport and fast-developing physical infrastructure have proved attractive to business, with IT parks and special economic zones transforming the skyline, and hospitals, education institutions and shopping malls following hot on their heels. Now, developers are looking to capitalise on the area’s strategic location with modern, high-spec apartments designed to appeal to young IT professionals working nearby. Prospective buyers can expect to pay between 4.5 million and 8 million rupees for a two-bedroom turnkey apartment covering 950–1,250 sq ft.

**Justicia, Madrid**

Rosa Uriol, Knight Frank Spain

LC +11% € +11% £ +15% \$ +26%

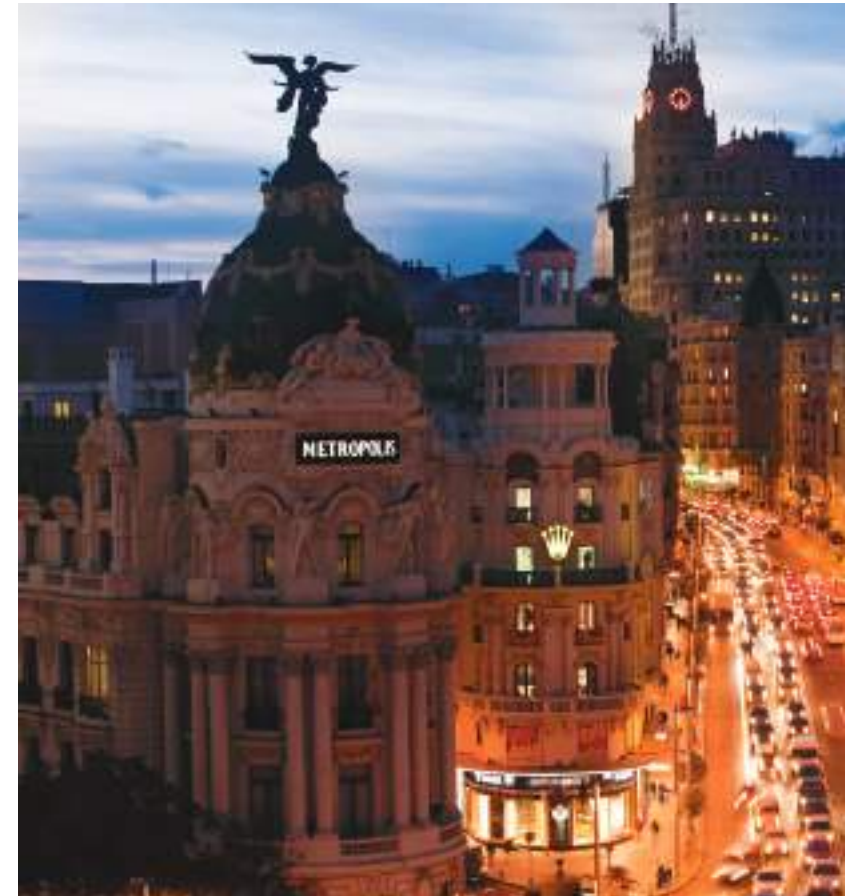
Despite being one of Madrid’s traditional prime residential districts, Justicia is undergoing something of a transformation as vendors and investors update their spacious, high-ceilinged apartments to meet the demands of a new wave of buyers seeking state-of-the-art design and high-spec homes. The evolution is in part thanks to the Centro Canalejas Madrid Project, set to transform seven historic buildings into a single space which will house Spain’s first Four Seasons Hotel as well as big-name boutiques and gourmet restaurants. At the heart of Justicia lie Chueca and Salesas, home to numerous independent shops, art galleries and boutique hotels as well as restaurants and fashion stores. A three-bedroom apartment of around 200 sq m will cost in the region of €1.2 million.

**Brentwood, Los Angeles**

Tracy Maltas, Douglas Elliman

LC +5% € +20% £ +15% \$ +5%

With its tree-lined streets and beautiful homes, Brentwood – an upscale neighbourhood in Los Angeles Westside – is already home to affluent families, as well as celebrities, athletes and politicians. This pocket of the city has always had charm, but recently there has been an influx of new restaurants and high-end boutiques – the long-established Brentwood Country Mart is now home to brands like Christian Louboutin, Helmut Lang and actress Gwyneth Paltrow’s lifestyle store Goop. Brentwood also boasts some of LA’s best private schools, a convenient location and easy access to the beach. And, compared with the city’s other famous “B’s” – Beverly Hills and Bel Air – it offers great value for money. A 10,000 sq ft house on a good street might go for US\$20 million, compared with US\$30 million for a comparable property in Bel Air.



Around the world  
top to bottom: Gran Via, Madrid  
Northern Beaches, Sydney  
Brentwood, Los Angeles



**The Hongqiao CBD, Shanghai**

Regina Yang, Knight Frank Greater China

LC +9% € +2% £ +6% \$ +16%

The expansion of western Shanghai as a business centre is gathering pace with the development of Hongqiao CBD, set to provide a new epicentre for this side of the city. The project – the biggest of its kind ever seen in China – will benefit from close integration with the Hongqiao Transportation Hub, which offers air and high-speed rail links to the region and beyond. The new neighbourhood is already emerging: some 340 buildings are under construction, with a gross floor area of over 5 million sq m. According to government plans, by 2020 the Hongqiao CBD will be home to 500,000 residents and host 600,000–700,000 office workers. A total of 56,000 new homes are to be added, mainly in the northern zone. The average home price is now 45,000 yuan per sq m for a typical two- or three-bedroom unit, up from 20,000 yuan just three years ago.

**Forest District, Sydney**

Sarah Harding, Knight Frank Australia

LC +11% € +5% £ +9% \$ +20%

Located fewer than eight kilometres from the stunning Northern Beaches of Sydney, the Forest District extends from the leafy suburbs of Middle Harbour, north along the Garigal National Park and up towards the bushland of Ku-ring-gai Chase National Park. Known for its excellent state and independent schools as well as its alternative education facilities, the Forest District typically attracts professional couples with above-average incomes. The area will benefit from the new B-Line bus service, which provides a direct link to Sydney’s CBD, as well as from the new Northern Beaches Hospital, currently scheduled to open in late 2018. A well-appointed four-bedroom house with landscaped gardens starts at A\$1.6 million, while a townhouse or apartment starts from A\$900,000.



Hotspots opposite top: Paris  
opposite bottom: Shanghai

**Villars-sur-Ollon, Swiss Alps**

Alex Koch de Gooreynd,  
Knight Frank International

LC -5% € -13% £ -9% \$ -1%

Just 90 minutes from Geneva Airport, this stunning south-facing resort with its breathtaking views has recently invested close to SFr40 million in upgrading ski and in-resort facilities, with a further SFr60 million-plus planned over the next few years. Villars saw prices fall by more than 10% following the introduction of the Lex Weber law, designed to curb the boom in second homes, and due to the strength of the Swiss franc. However, there is now a real sense of change following recent investments and the expansion of the area’s renowned boarding schools – among them Beau Soleil, La Garenne and Aiglon College – which together draw over 800 students into the village every year. A typical two-bedroom apartment will fetch SFr400,000 to SFr1 million, while a four-bedroom chalet will command close to SFr3 million.





Computer generated image for indicative purposes only

For sale through Douglas Elliman | Knight Frank

“  
**FiDi is now one of the most stylish and sought-after pockets of residential real estate in Lower Manhattan**  
 ”

**Financial District, New York**

Andrew Wachtfogel, Douglas Elliman

LC +5% € +19% £ +14% \$ +5%

Manhattan’s southern tip is home to the Financial District, or FiDi. Long sidelined as a purely commercial district with Wall Street at its heart, FiDi is now one of the most stylish and sought-after pockets of residential real estate in Lower Manhattan. Crops of new businesses, from upscale food halls and chic boutiques to lively neighbourhood bars and power lunch spots, have been added to the area’s existing charms, like the cobblestone streets and 19th-century red-brick buildings of the South Street Seaport, which feel a world away from New York’s bustling

streets. Unlike neighbouring TriBeCa, where converted industrial buildings dominate, sleek and contemporary high-rise apartments populate FiDi’s streets and sit alongside key landmarks such as One World Trade Center, One World Observatory and the popular 25-acre Battery Park. A two-bedroom apartment at 125 Greenwich Street starts at US\$3.26 million, while a larger three-bedroom penthouse apartment at 1 Seaport Residences starts at US\$7.15 million.

**Paya Lebar Central, Singapore**

Alice Tan, Knight Frank Singapore

LC +6% € +0.3% £ +4% \$ +14%

Located on the eastern fringe of the city, the former swamp of Paya

Lebar was originally cleared to make way for an airport in the 1950s, along with housing, schools and factories. Now, the area is seeing a new wave of gentrification, thanks to its rich cultural heritage, array of public and private housing along with shophouses, commercial and community facilities and excellent transport links to both the East-West MRT and Circle underground lines. Riding on the momentum of recent commercial developments in Paya Lebar Central, further urban regeneration is now under way with the completion of Paya Lebar Quarter, a four-hectare integrated development by Lendlease that is set to transform the area into a regional business and lifestyle hub. The average price of a typical two-bedroom private condominium

is from S\$900,000 to S\$1.1 million, while a three-bedroom condominium ranges between S\$1.1 million and S\$1.5 million.

**Karen, Nairobi**

Ben Woodhams, Knight Frank Kenya

LC -1% € -13% £ -10% \$ -2%

Karen is a wealthy suburb of Nairobi some ten miles west of the CBD, named after Karen Blixen, the Danish expatriate who lived here in the early 20th century and famously wrote about her experiences in the book *Out of Africa*, subsequently made into an Oscar-winning film. From the early 2000s, growth was rapid, with many of the original five- and ten-acre plots developing into modern housing clusters with shared

amenities such as club houses, gyms and swimming pools. This period saw land prices soar from 2.3 million shillings per acre to their current levels of over 50 million shillings per acre, where they have now stabilised. The market for these townhouses has become somewhat saturated, with a subsequent plateauing of both house prices and land values. Typically, houses currently sell for around 80 million to 110 million shillings, although we are now seeing record prices being achieved for larger stand-alone houses with more substantial gardens.

**La Garde-Freinet, Côte d’Azur**

Jack Harris, Knight Frank International

LC -4% € -4% £ +0.4% \$ +10%

Perched in the hills overlooking the Bay of St Tropez, the village of La Garde-Freinet is characterised by its surrounding forests of oak and cork trees – historically, the source of much of its wealth. Typified by its cobbled streets and offering traditional bastides, estates, and large villas, the region attracts international buyers looking for Provençal charm within striking distance of both Nice International Airport and the sea – but without the hustle, bustle and stratospheric price tags of coastal locations. Around €1.5 million will buy a four-bedroom house with one hectare of private gardens, while €2.5 million will secure a more substantial six-bedroom home with large grounds and an enviable view.



Points of view  
 clockwise from left:  
 125 Greenwich Street, New York  
 The Palm, Dubai  
 Cape Town, South Africa

**Palm Jumeirah, Dubai**

Taimur Khan, Knight Frank Middle East

LC -3% € -15% £ -12% \$ -3%

The Palm Jumeirah, the world’s first series of artificial archipelagos, has quickly established a global reputation. Traditionally the island, which is shaped like a palm tree, has featured luxury apartments on its stem and sprawling garden homes and villas on its 16 fronds, attracting young professionals and families respectively. Now, with the development of The Pointe and Nakheel Mall, offering some 5.9 million sq ft of entertainment, dining and retail, the appeal of the stem is set to broaden. A two-bedroom apartment starts at US\$750,000, while garden homes and villas start at US\$3 million.



**Bayswater, London**

Ian Marris, Knight Frank UK

LC -1% € -5% £ -1% \$ +9%

There has been much speculation over the past ten years about Bayswater’s potential as a prime address. To date, though, it has not outperformed as forecast; surprising, given its position close to Hyde Park and when compared with neighbouring Notting Hill and Marylebone. However, things may be about to change, following the announcement of plans for a major redevelopment of the Whiteleys shopping centre and the northern end of Queensway. Architects Foster + Partners have been appointed to create a major mixed-use scheme, with a transformative mix of retail and amenity facilities centred around a large courtyard and anchored by a five-star boutique hotel offer alongside residential accommodation. This promises to provide the “hub” that has been lacking hitherto, and will complete the gentrification of Westbourne Grove. We expect to see a significant impact on prices, with the location materially outperforming the Knight Frank Prime Central London Index over the next five years.

**CBD, Cape Town**

Richard Hardie, Knight Frank

South Africa

LC +20% € +16% £ +21% \$ +33%

A world-renowned business address, Cape Town’s CBD is now emerging as a sought-after residential postcode too. The city’s central core extends from the Harbour, with Strand Street and the railway station at its heart. Once dominated by high-rise office blocks, an injection of new capital and innovative ideas is changing both the atmosphere and the skyline. Initiatives such as First Thursday, when galleries and museums stay open late, the area’s world-class restaurants and its views of Table Mountain and Cape Town Harbour have led to an upsurge in interest from CBD workers anxious to spend more time enjoying their leisure and less time commuting in this notoriously congested city. Typical prices range from 1.2 million rand for a studio to 30 million rand for a penthouse, with a two-bedroom, two-bathroom apartment with secure parking fetching an average 5 million rand.



# Firm foundations

*Solid fundamentals are underpinning record levels of private buyer interest in commercial real estate as investors chase assets across the world's super-cities. Anthony Duggan takes a detailed look at the trend*

A robust global economy with synchronised regional growth is supporting the dynamics of the world's commercial property markets. And investors, both private and institutional, continue to see real estate as an attractive part of their overall investment portfolios. The benefits include a stable income return, the potential for capital value growth, diversification and, in particular, its status as a relatively high-yielding asset class in a world that is on the hunt for returns.

A key pillar supporting investor sentiment is the healthy state of occupier markets. This drives demand for floor space, supporting rents and ensuring the security of income return. Structural shifts, often driven by technological change, are behind trends such as the rapid expansion of logistics operators into distribution space to satisfy the shift to online retail.

Demand for flagship retail units on prime pitches is also strong as retailers look to provide a unique experience to promote their brands, while serviced office providers benefit from companies increasingly embracing new, flexible, space-as-a-service offerings. Moreover, evolving demographics underpin the ongoing institutionalisation of specialist real estate sectors, such as student housing, elderly accommodation and healthcare.

Technology firms in particular are growing rapidly and are supporting leasing markets across property sectors. Amazon, for example, added nearly a quarter of a million employees during 2017, primarily by creating new jobs in its fulfilment centres (driving logistics demand), call centres and in software development and engineering (driving office demand). As part of this rapid growth, the business is currently finalising plans for a second headquarters location. It has received bids from 238 cities and regions across North America, eager to compete for the 50,000 or so jobs and significant investment the move will bring.

### Global performer

Commercial real estate remained a favoured asset class for global investors during 2017, with transaction volumes robust at US\$840 billion and above-average returns recorded across many sectors and markets.

Online jungle Amazon's new office at Principal Place in the City of London





Transaction volumes were supported by a strong year for outbound capital flows. London was a focus for a large proportion of this overseas capital, and the city's office market saw a record number of large deals transacted, driven by a huge wave of private money chasing big single-asset transactions. London's leading position as a global metropolis, its landlord-friendly lease structure, the ability for buyers to secure large lot sizes and the recent weakness of sterling have all outweighed any apprehensions investors may have had over potential fallout from the UK's decision to leave the EU.

**From strength to strength**

Hong Kong also saw a surge in activity as domestic investors bought heavily into office and retail markets. While some investors are baulking at the pricing of Hong Kong assets and are looking to other global super-cities, many see Hong Kong's tight supply, strong demand and high liquidity as justification for the high price of securing exposure to the market.

Conversely, New York saw a fall in the volume of deals, with concerns about interest rate rises and changes to fiscal and regulatory policy causing both domestic and international investors to pause their buying strategies. With the underlying real estate and economic drivers in the US remaining positive, we expect this to be a short-term trend and for activity to pick up again in 2018.

Investment in the main European cities has also risen over the course of the past few quarters as clear signs of an economic recovery combine with improving occupier markets. Europe will continue to move up many global private investors' target lists as fundamentals go from strength to strength.

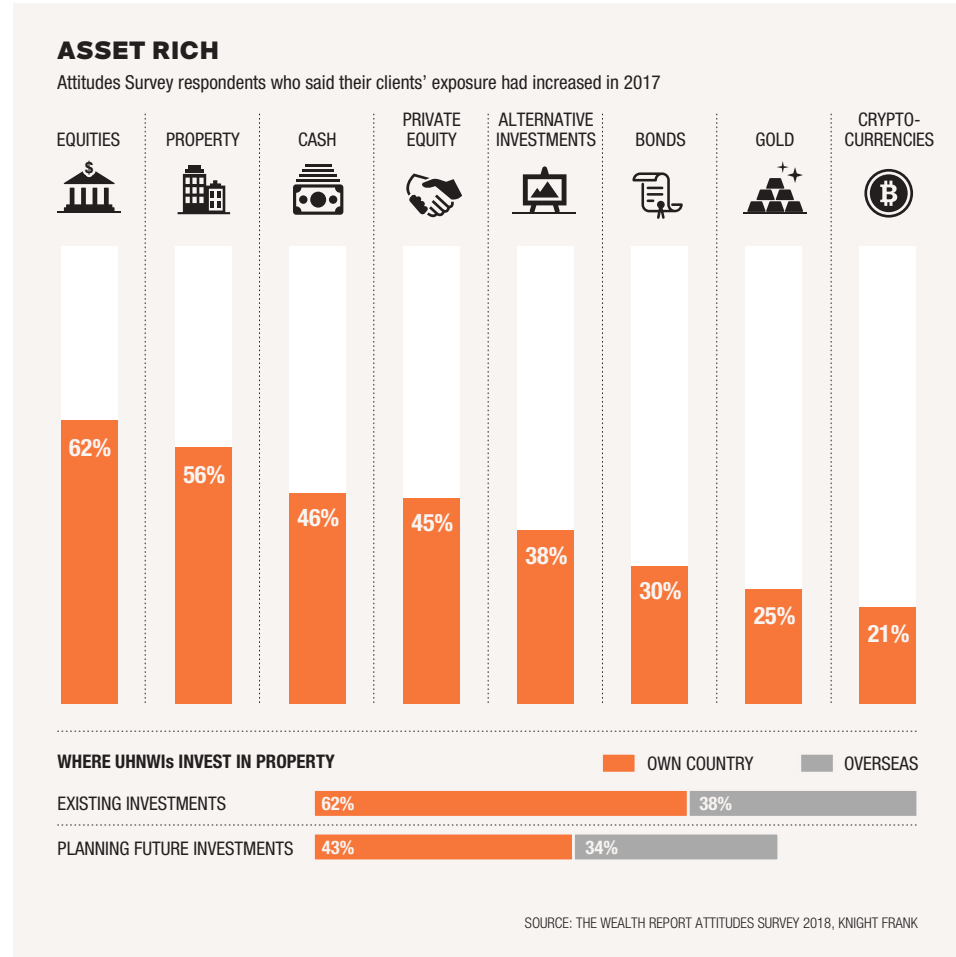
One clear trend over the past few years has been the increasing globalisation of many real estate investment portfolios. As private investors become progressively more exposed to their domestic market, through either business ownership or real estate investments, there is an increasing propensity to look to other core geographies for asset diversification.

**Super-cities**

The top targets are primarily those locations that can provide deep, liquid and transparent real estate markets, so it is unsurprising that the top ten global cities attract nearly 30% of total annual investment transactions each year.

These super-cities, such as London and New York, are a compelling prospect for investors looking to invest outside their domestic markets for the first time. Transparency and liquidity, as well as language, law, best-in-class advisers and currency stability, all provide reassurance for those on a new journey.

Given the continued growth in global wealth and allocations to real estate highlighted in this report, it is perhaps unsurprising that private investors



Get connected The Oculus station and shopping mall within the World Trade Center, New York

continue to be a significant buying force in commercial real estate. Indeed, during 2017, private investors accounted for a third of all purchases; the highest proportion for over ten years.

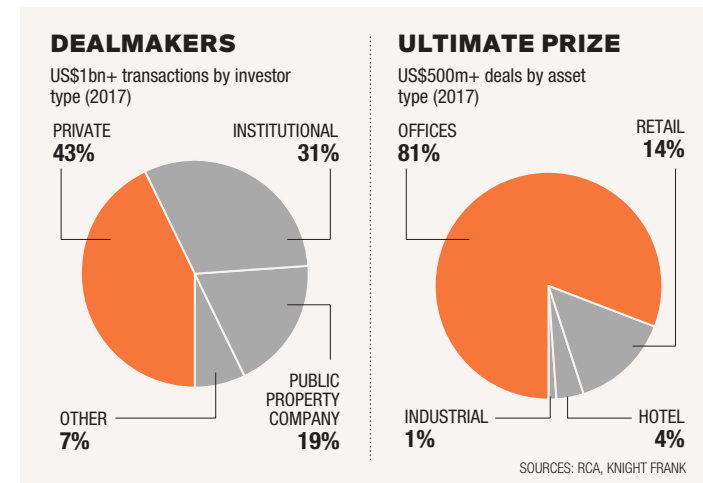
Appetite for real estate continues to increase globally, as investors grapple with the global low-yield, low-return environment and show signs of shifting allocations away from some fund types such as hedge funds. In addition, there are worries around perceptions of stretched valuations across many publicly traded bonds, while record-breaking equity markets are making some nervous. As a result, money is moving towards alternative investments, with real estate a prime target for a large proportion of this capital because of its relatively high yield.

Underlying all these drivers are commercial real estate's fundamentally attractive attributes: a relatively stable return profile with opportunities for improvement; potential for capital value growth; and the opportunity to diversify from existing assets or geographies. In particular, real estate provides the ability to fine-tune and control an investment strategy – buyers can tailor purchases in terms of geography, sector and tenant type, as well as lot size, ownership structure, business plan and risk profile. We expect that strong global demand from private investors will continue to build.



**Liquid assets**

*Mega-deals are on the rise around the world, says William Matthews – and private capital is fuelling the growth*



Dizzy heights above: Hong Kong saw The Center office building sell for over US\$5 billion in 2017  
overleaf: The "Walkie Talkie" and the "Cheesegrater" were sold in London

Few purchases come with a billion-dollar price tag, even in the world of real estate. As recently as the previous decade, just a handful of buildings breached this threshold each year, the majority of them offices in Manhattan, bought by institutional investors and property companies.

The market for these mega-deals is changing rapidly, however. The past five years have seen the total value of US\$1 billion-plus transactions jump from US\$5 billion in 2012 to over US\$20 billion in 2017. Asia has emerged as the predominant source of demand, accounting for just under two thirds of purchases by volume.

The type of investor has been evolving, too. While just a few years ago no private capital was involved in any US\$1 billion-plus purchase, private investors were behind three such deals in 2017. In fact, thanks to the US\$5.1 billion purchase of The Center office building in Hong Kong by a consortium of domestic investors, private capital backed over 40% of mega-deals by value in 2017.



For those with the means, the allure of investment at this scale is clear. Typically, buildings that can command such a high price are landmarks, defined by world-class architecture or instantly recognisable silhouettes, and famous in their own right. Purchasers of such buildings gain instant global recognition as “serious” investors, and can potentially use this to enjoy preferential access to further deals.

There are also practical reasons for considering very large lot sizes. Commercial real estate transactions take time and energy, potentially making a single large purchase more efficient than a number of smaller ones. A larger scale also provides interesting asset management opportunities. And, while many trophy buildings are bought as part of a long-term holding strategy, their status is such that when the time comes to sell there is likely to be a waiting list of eager bidders.

Above the billion-dollar threshold, most transactions involve office buildings. While the source of demand



## Private investors can wait for the right opportunities to acquire some of the world’s best real estate



for these offices is increasingly global, the drivers behind pricing are most certainly rooted in local markets. Simply put, a billion dollars will buy a lot more in some markets than it does in others, and we use the Knight Frank Skyscraper Index to monitor the extent of this gulf. The analysis reveals one reason why even investors with some of the largest budgets, including those from Hong Kong or Singapore, may be looking to invest beyond their domestic markets in comparably less expensive locations such as London.

Broadening the criteria to include deals worth US\$500 million-plus, a somewhat different picture starts to emerge. The same overall trend of rising investment is evident, with purchases growing from US\$21 billion in 2012 to US\$53 billion in 2017, but the mix of assets is broader, featuring shopping centres, hotels and industrial facilities.

Regardless of pricing, single-asset transactions are not the only way for private investors to gain large-scale



exposure to commercial real estate. Platform deals – in which purchasers buy the operational business as well as the underlying real estate – are proving increasingly popular with a wide range of investor types seeking to deploy capital quickly.

Such deals represent an alternative way to make acquisitions of scale. They also come with the advantage of a management team in place to look after day-to-day operations, which can be especially helpful when entering unfamiliar markets.

Although traditionally the preserve of sovereign wealth funds, private equity and institutional investors, some private investors also appear to be following this path. For example, in 2017 it emerged that Hong Kong investor Samuel Tak Lee, whose portfolio includes the 14-acre Langham Estate in central London, had increased his share of Shaftesbury, a real estate business listed on the London stock exchange, prompting speculation regarding a possible takeover bid.

For those private investors willing to take a more hands-on approach, there is no reason to be constrained by the availability of existing platforms. Creating new portfolios of prime assets is one route that has proved attractive to family offices globally. The rise of Pontegadea Real Estate, a multi-billion-dollar portfolio assembled by Inditex owner Amancio Ortega, shows that this can be done with speed and at scale.

We predict that the volume of US\$1 billion-plus and US\$500 million-plus deals – single buildings or portfolios – will continue to grow as the real estate asset class matures globally and investors, ranging from institutions to sovereign wealth funds, gradually ratchet up allocations. Yet even with the current pace of growth, it would be a stretch to characterise this tier of the market as truly liquid. And therein lies the opportunity for private investors: free of the timing constraints of commercial rivals, their patient capital can wait for the right opportunities to acquire some of the world’s best real estate.



# From strength to strength

Family offices are flexing their muscles when it comes to the search for better returns. Tom Bill takes a closer look at their evolving investment strategies



A nine-year period of ultra-low interest rates has inevitably affected how investors deploy capital. For private family offices, it means shaking off their sleepy reputation, taking a more hands-on approach to investment, and increasing their exposure to higher-yielding assets such as real estate.

It represents a natural evolution for an investment model that only became widespread in the 1980s, but also follows greater scrutiny of traditional asset managers. Institutional funds and hedge funds have battled against an outflow of investors' cash as they struggle to justify investment methods and fee structures in markets that have become more difficult to second guess.

"Family offices have become sexy," says Russ D'Argento, founder and CEO of FINTRX, a family office asset-raising platform based in Boston, US. "Running parallel to their sheer growth has been the increased sophistication of those running them. Not only are the folks who are pulling the strings regarding investment decisions better versed in the process, they're also positioned to make quicker decisions when they see unique opportunities."

Assets under management (AUM) at family offices have grown as the model becomes more popular and the capital invested works harder. Family offices

accounted for US\$1.8 trillion of AUM in 2016 according to FINTRX, a figure that grew 29% from US\$1.4 trillion in 2015.

The Landon family office is an example of one that has adopted the kind of sophisticated approach referred to by Mr D'Argento. It has clubbed together with other European family offices to invest directly in real estate and private equity opportunities in the US, where it manages a combined US\$550 million of market equity.

### **Creative thinking**

"We were once invested in around 25 private equity funds, but the overall returns were being corroded by the fee structure," says Rupert Edis, Chief Executive of JPS Finance, the Landon family's London-based office. "Most were charging an annual 2% fee on capital that had not even been deployed." The more adverse global tax landscape has also played its part, says Mr Edis. "Increasingly, to preserve capital you have to grow capital."

While not all offices are taking quite such an innovative approach, many are scrutinising their use of external asset managers. One executive at a family office with about US\$1.7 billion of AUM said that they had switched away from active stock-picking funds into cheaper, passively managed exchange-traded funds in recent years, because finding returns that justified the high fees was





of International Capital Markets in China. “Rapid growth of wealth requires careful thought about diversification and steady returns,” she points out. “We worked with a family office from the tech sector who did this by avoiding traditional office investments, instead targeting a WeWork-type serviced office development in Boston.”

An executive from a third family office, with about US\$5 billion of real estate AUM, said that a sense of control over wealth, which is often destined for the next generation, was a key consideration for family offices. “Funds can lock you into an investment for several years,” they say. “No institution is going to fully understand the needs of an individual family office and we found that when we wanted liquidity to do deals that were consistent with our strategy, the lock-in period meant we couldn’t.”

**Patient capital**

The results of *The Wealth Report Attitudes Survey* underline the link between real estate and this growing and increasingly professionalised pool of private capital. Stock markets rose to record highs in 2017 due to US tax reforms among other factors, so it is unsurprising that 62% of the survey’s respondents said that their clients had increased their exposure to equities.

However, the second largest rise was in real estate, with 56%, on average, reporting an increase across the globe. Some 38% of the wealth managers taking the survey said that UHNWI investors were happy to take more risk, compared with 32% who reported that they were less willing – underscoring the importance of higher returns.

The relative safety and liquidity of offices remained the most attractive sector for investors, with 40% declaring a growing interest. However, Mr Duggan believes that this will change in coming years as private wealth becomes even more sophisticated in its approach to investment.

“The 1990s were all about the wave of institutional capital hitting real estate markets. That was followed by waves of private equity and sovereign wealth capital. The next ten years will be all about the impact of private wealth.”

By way of example, Mr Edis says that the average total annual return on JPS’s real estate investments in the US has been 23% since 1994. “These are emerging market levels of return in the most developed economy on the planet,” he says. “Our current strategy is based around offices and mixed-use developments with rental apartments. We are surfing the demographic wave of the millennial generation who want to reside in city centres in places like Boston, Atlanta, Washington DC, Charleston and Savannah.”

“Family offices like real estate because they can closely manage risk,” says Anthony Duggan, Head of Capital Markets Research at Knight Frank and a strategist on the company’s Family Office Forum initiative. “If you buy a FTSE 100 share, you are exposed to many different dynamics. There are far fewer variables when you buy an office in Berlin, and families like that.”

The sheer pace of wealth creation in places like Asia has also played a part, says Bunny Wang, Knight Frank’s Head

difficult in a market inundated with capital from quantitative easing.

It has also wound down its exposure to bonds because of the low returns and, in line with many other family offices at this stage in the investment cycle, has reduced its use of hedge funds. “The idea was that hedge funds would make a lot of money in the downturn,” says the executive, “but many simply didn’t.”

All of which means real estate is typically at the centre of any strategic rethink, representing an increasingly important asset class for family offices. Some 55% of global offices had some exposure to real estate in 2016, up 6% on the previous year, FINTRX data shows. Indeed, private buyers accounted for 34% of global commercial real estate investment in 2017, the highest percentage in ten years, according to Real Capital Analytics.

“If you’re hunting for yield, it’s clearly there in real estate,” says David Adler, Head of Real Estate at Barclays Private Bank. “Most commentators do not see

the spread between real estate yields and government bonds narrowing to any great extent in the near to medium term, despite any expected reversal of low interest rates, so the attraction will remain.”

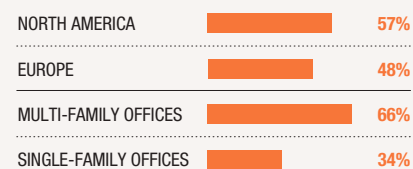
Knight Frank’s Head of Global Capital Markets Andrew Sim concurs. “There is a huge volume of private investor and family office money looking for real estate returns and new global channels of investment. From merchant families in regional Saudi Arabia to industrialists in tier-three Chinese cities, more investors are waking up to the benefits of real estate investments.”

**A savvier approach**

Families are hiring more expertise now, due to a growing appreciation of the complexities of real estate, says Mr Adler. “In the past, you would sit back, collect the rent cheque and then address asset management issues such as lease terminations or rent reviews as they arose, often in a panic. The approach is now far savvier.”

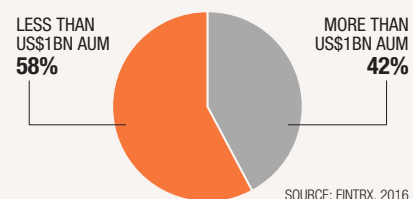
**BRICKS AND MORTAR**

Family offices with real estate exposure



**FIRE POWER**

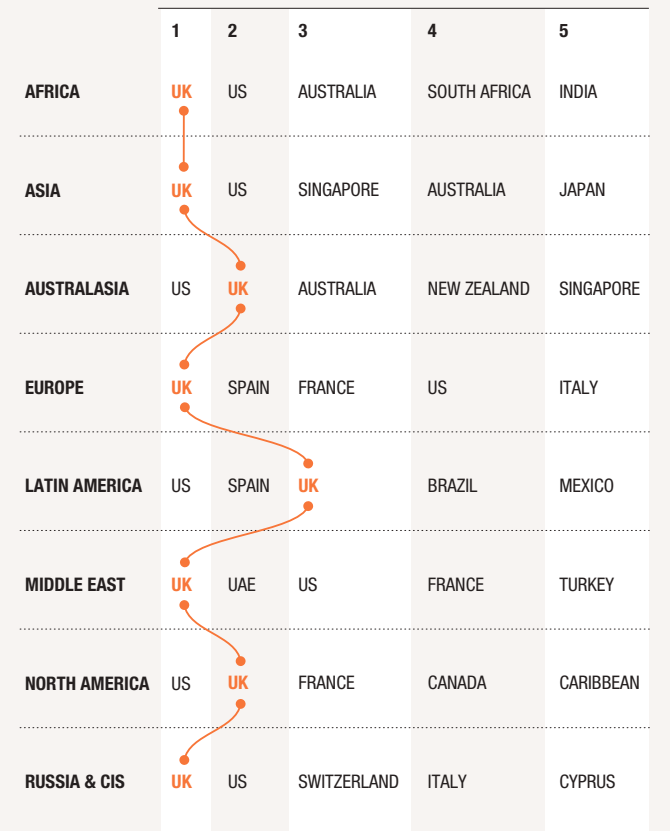
Size of all family offices exposed to real estate



Family fortunes  
previous page: Washington DC  
above: WeWork office

**HOTSPOTS**

Most favoured countries for new UHNWI property investments



SOURCE: THE WEALTH REPORT ATTITUDES SURVEY 2018, KNIGHT FRANK

“The 1990s were all about the wave of institutional capital. The next ten years will be all about the impact of private wealth”



## Economic outlook

James Roberts, Knight Frank's Chief Economist, shares his take on the key trends set to shape the property investment landscape in the year ahead



The global economy moved into a new cycle in 2017, following the sluggish performance seen in the years after the global financial crisis. The election of President Trump did not derail US growth, the euro area saw output strengthen and unemployment fall, while rising commodity prices helped lift mineral-exporting nations out of the doldrums. The digital revolution, and the disruption that follows in its wake, continued to spread, as firms like Alibaba, Amazon, Uber and WeWork established outposts in ever more cities around the world.

In 2018, we see growth strengthening further. The International Monetary Fund is predicting that the global economy will expand by 3.7%, which if correct would be the highest rate of growth since 2011. In this context, UHNWIs need to think of moving away from safe haven investments and towards risk-facing assets, which typically perform strongly in cyclical upswings. Here are four economic trends for investors to consider in 2018.

### A rebound for office-based industries

Many emerging market nations are now seeing rapid growth in service industries, most notably China. This reflects the growing economic strength of the country's middle classes, and its increasingly sophisticated economy.

Meanwhile, after years of consolidation, many service firms in developed economies are now right-sized and looking for opportunities. Consequently, we see growth coming in 2018 for office-based service industries, as expansion in the tech sector and more cross-border investment creates demand for professional and financial services.

Analyst and forecaster Oxford Economics is predicting worldwide GDP growth for financial and business services (FBS) industries to reach 3.7% in 2018, its strongest rate of expansion since 2006. In terms of headcount, Oxford Economics expects the number of global FBS workers to rise by 7.9 million in 2018. This could create demand for around 950 million sq ft of office space across the world: four times greater than the total current office stock of London. UHNWIs should consider office investments in major city centres.



### The cyber-security arms race

In 2017, cyber-attacks were frequently in the news, ranging from the global repercussions of the WannaCry virus, believed to have infected over 300,000 computers in 150 countries, to the attempt to hack the email accounts of members of the UK Parliament. Research firm Gartner estimates that global corporations spent over US\$86 billion on cyber-security in 2017, up 7% on 2016, a figure it is forecasting to rise to US\$93 billion in 2018.

As we move into an age where computers are starting to drive cars, and will soon control all the appliances in our homes, the potential for cyber-attacks to cause damage is going to increase exponentially. We see demand for cyber-security software and services further boosting the already robust economic growth seen in those cities that are popular with IT firms. This will have all sorts of investment implications for UHNWIs, ranging from start-ups seeking venture capital funding, to increased demand for offices and homes in leading tech cities around the world.

### Europe's taper tantrum

During 2017, the central banks of Canada, the US and the UK all increased their policy rates, in what was seen as the beginning of the end for exceptionally low interest rates in those nations. By contrast, the European Central Bank (ECB) continued to pursue quantitative easing (QE). However, some of the euro area nations, in particular Germany, have not needed such emergency policy measures for several years now. With unemployment now falling and growth picking up across the currency bloc, the ECB is widely expected to begin gradually turning off the QE tap in 2018.

This will probably result in nervous conditions in European investment markets across asset classes, similar to the "taper tantrum" seen in the US when the Fed wound down its QE purchases. It is popularly said that markets hate uncertainty, and this could present investors who are prepared to look past short-term nerves with an opportunity to buy assets in the euro area at a discount.

### Digital watch

left to right: The tech sector is creating demand for office space in cities like Berlin, and pushing the growth of Asian e-commerce

“ UHNWIs need to think of moving away from safe haven investments and towards risk-facing assets, which typically perform strongly in cyclical upswings ”

### Digital Asia

The latest wave of the tech revolution has been closely associated with major Western cities like San Francisco, New York City, London and Berlin. However, it is worth noting that the top ten list of global internet firms ranked by revenue contains three Chinese companies. The most recent edition of Knight Frank's *Global Cities* report found that e-shopping was flourishing in Asian cities such as Bangkok and New Delhi. Many Chinese cities are rapidly going cashless, via mobile phones and QR codes. Even buskers accept e-payments.

UHNWIs looking to capitalise on the rise of digital Asia should examine how the trends unfolded in the West for clues on how to invest. The rise of e-shopping in the West has boosted demand for courier companies, and pushed up the value of the warehouses they operate from. Also, there is ample evidence that in the US and Europe the tech phenomenon has been strongest in those cities with the best universities and the most vibrant social scenes. This will probably be the case in Asia, too.





## Leading lights

*From urban hotspots to dynamic new sectors and transformational infrastructure projects, Knight Frank's investment advisers around the world identify seven exciting opportunities for private property investors in 2018 and beyond*

Dutch courage above: Amsterdam's futuristic film museum contributes to the city's vibrant reputation  
Heart of Steel opposite: Pittsburgh has swapped heavy industry for hi-tech businesses

Picking investment winners in any asset class depends on a number of elements coming together. In real estate, for example, the key factors might include a dynamic location, a sector that's in growth mode, and positive demand from both occupiers (to provide the income) and investors (to drive up prices).

Here, we identify seven areas where we see all these elements aligning, and that we believe have the potential to outperform the competition over the next few years. They include three cities highlighted by our global network as having significant economic momentum and positive property market dynamics, three sectors with strong occupier demand driven by structural shifts and, last but by no means least, a vision and strategy with the potential to have a truly transformational impact on locations and markets around the world.

### Hot cities

**Amsterdam:** The Netherlands increasingly appears on the radar of investors seeking exposure to the economic and property market recovery in Europe. In Amsterdam, high vacancy rates in the office sector have been a concern for those looking to deploy capital, but availability is now tumbling – office leasing reached a nine-year high in 2016, and 2017 was equally strong – and supply shortages are emerging in the most sought-after districts. At the same time, the city's vibrant and expanding technology sector is driving demand, and rents are rising. While Amsterdam draws significant investment volumes, positive market dynamics in Rotterdam are also attracting interest from global investors. Indeed, with investors looking to the Netherlands as an appealing alternative to more expensive European markets such as Paris and Berlin, demand for assets is expected to remain robust.

**Manila:** The Philippines is seeing significant growth in its real estate markets, with Manila – home to nearly 13 million residents – at the heart of this expansion. Strong economic fundamentals, an investment-grade rating and an increasingly transparent real estate market are attracting growing interest from investors around the world. Office vacancy rates remain constrained despite ongoing development activity as local and offshore occupiers drive robust levels of office demand. With further significant infrastructure projects planned, Manila is growing into a significant regional hub and, increasingly, a destination for global real estate investment.

**Pittsburgh:** Now emerging from the shadows of the giant US technology centres of Silicon Valley and San Francisco, Pittsburgh is establishing itself as a tech centre capable of attracting the world's biggest firms. Household names with an office in the city include Amazon, Apple, Facebook, Google and Uber. Indeed, more than 70 major tech-focused firms with headquarters in Silicon Valley have opened local offices in Pittsburgh over the past ten years, helping drive its status as a key technology hotspot and, in particular, as a centre for the development of artificial intelligence and autonomous vehicles. In its turn, this growth is triggering regeneration and increasing interest from real estate investors.



### Sectors on the rise

**Logistics:** The strong growth of online consumer spending continues to drive high levels of leasing activity of logistics units by retailers (both traditional and online) and third party logistics providers. This active demand is driving robust income returns through strong rental value growth in locations that can offer low vacancy rates and modest development pipelines.

This is not a new topic for *The Wealth Report*; we discussed the trend in some detail last year. However, we continue to expect significant growth to come from the structural changes ongoing across



the globe. For example, in the UK, logistics property returns, as measured by MSCI's IPD Property Index, exceeded 20% in 2017 – and industry consensus forecasts predict that it will again be the top performing commercial property sector in the UK in 2018.

While the UK has a relatively more advanced online sales platform (around 18% of retail sales are online), other countries are at a much earlier stage of adoption (10% in France and 5% in Spain, for example) and are expected to continue to grow at pace. Amazon is well established in markets such as the UK and the US, but only opened a full retail offering in Australia in December 2017. There is plenty more mileage in this real estate story.

**Flagships:** As a larger proportion of retail spending moves online, and retailers shift their strategy to ensure that they thrive in the world of multichannel retailing, a clear – if perhaps counterintuitive – trend is the growing importance of the bricks-and-mortar store. Retailers recognise the value of a physical presence that acts as a showcase, drawing customers in and creating an experience that encapsulates their values in a tangible way and brings their brand “story” to life.

Big brands such as Apple, H&M, Louis Vuitton, Uniqlo, Samsung, Nike and others cluster in premier locations, with many brands having multiple flagships around the world – and often more than one per city. Suitable assets are seeing strong demand as retailers place greater value on these “destination” flagship stores and compete for space in the prestigious locations that best reflect their brand and ambition.

**Agriculture:** Global demographics and changing consumption trends all point to agriculture as a sector brimming with opportunity over the short and long term. It is estimated that population growth, land degradation, the impact of climate change and lack of access to water will require an additional cropping area equivalent to three times the size of France by 2030.

Where and what to invest in will very much depend on an individual's attitude to risk and their investment horizon. For those looking for large-scale land holdings with security of tenure, top-quality management, significant energy and environmental diversification potential, and convenient access to the world's fastest-growing food market – by 2030 Asia's “consuming class” is set to rise by 1.6 billion people – Australia ticks all the boxes.

In Africa, where the population is set to grow by almost 500 million people by 2030 and the sub-Saharan middle class is growing rapidly, Zambia offers both existing agricultural units farmed to Western standards and opportunities to purchase significant tracts of undeveloped land at much lower prices. In the UK, Brexit may well pose a challenge for some farmers, but it will undoubtedly also offer plenty of opportunities for innovative and forward-thinking agri-entrepreneurs.



Land of opportunity Australian farmland is on the investment radar

### China's game-changer

Spanning 69 countries and encompassing around 60% of the world's population and 40% of global GDP, the Belt and Road Initiative (BRI) is an ambitious Chinese vision aimed at driving economic growth, expanding global influence and promoting interconnectivity and integration. The BRI – which is scheduled to be complete by 2049 – will provide a platform for new trade routes, economic links and business networks across six economic corridors from China to Central and South Asia, the Middle East and Europe and along a maritime route from South-East Asia and Oceania to the Middle East, Africa and Europe.

With the majority of BRI countries already undergoing rapid modernisation and urbanisation, the need for investment in roads, railways, ports, airports, pipelines and technology infrastructure is growing exponentially. At the same time, the growth of new domestic and multinational companies in the BRI is also attracting Chinese investment, with merger and acquisition activity growing significantly year on year. For many Chinese firms, the BRI will become a core part of their business strategy and, increasingly, Chinese brands will become global.

As an opportunity for real estate investors, the development of the built environment alongside the BRI, through infrastructure, logistics and new urban settlements over the coming decades will be considerable. The initiative will drive substantial new capital investment alongside a major increase in the activity of Chinese businesses that will bring exciting prospects for development, investment and value growth.

Of the 69 countries named as part of the initiative, the Knight Frank *New Frontiers* report scored locations such as Singapore, Qatar, New Zealand, Estonia and Malaysia highly on our Belt and Road Development Index. There will be significant benefits for those real estate owners who can identify the right assets and harness the momentum that the BRI will undoubtedly bring.





## Luxury spending

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*Investments of passion  
and objects of desire*

**20/20 vision**

An Indian billionaire IPL owner  
shares his love of cricket  
- page 62

**Face-off**

The results of the Knight Frank  
Luxury Investment Index  
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**Home is where the art is**

The evolving links between  
art and property  
- page 70



**M**ohit Burman is a mixture of nerves and excitement as we chat about cricket in a private members' club in London's Mayfair. And understandably so. In just a few weeks the latest player auction for the Indian Premier League (IPL), the annual 20-over, big-hitting cricket tournament that has revolutionised the game, is set to get under way.

This will be Mr Burman's chance to bid for the players that he'd like to play for the team in which he holds the majority share, the Mohali-based Kings XI Punjab, over the next three years. If it were simply a matter of having deep pockets Mr Burman might be feeling more relaxed – his family owns the Dabur group, one of India's largest consumer goods companies – but that's not the case. In the IPL, rather like a fantasy football league, strict rules govern how much can be spent.

The owners of each of the league's eight franchises have a purse equivalent to around US\$12.5 million to spend at the auction. However, with the most in-demand Indian or overseas players commanding multi-million-dollar price tags – Royal Challengers Bangalore set a record by retaining India's national captain Virat Kohli for US\$2.7 million – it's a balancing act to assemble a team that has sufficient local and international star power to pull in the crowds and sponsors, but also enough depth to win games consistently. Teams can also only field four overseas players in any one game.

"You do need the names, but the trick is to identify up-and-coming young Indian players who will be your stars of the future," says Mr Burman, who co-owns the team with Bollywood actress Preity Zinta and Indian businessmen Ness Wadia and Karan Paul. He plays his cards close to his chest when I ask who he'll be targeting at the auctions. "I'm going to discuss it with my co-owners and team manager and then we'll decide who we want."

# 20/20 VISION

*Buying your own sports team is one of the most exciting, but also one of the riskiest, investments of passion. An Indian billionaire shares the rollercoaster ride with Andrew Shirley*





**Billionaires club**

Ultra-wealthy investment into sports teams is a growing phenomenon. According to the latest *Billionaires Insights* report from bank UBS, over a 140 of the world's top sports teams are owned by just 109 billionaires. The majority – 60 – are from the US, but 29 come from Asia, and Asian billionaires were behind over half of club acquisitions in the past two years.

I ask Mr Burman what's driving the trend and why he got involved with cricket. "If you look at the US and the UK, affluent people buying sports teams is nothing new, but now huge amounts of wealth are being created in other parts of the world it's become much more global." There's also been a shift in social attitudes, he adds. "Previously it wouldn't have been considered so acceptable to be seen spending a lot of money on a sports team, but that is changing now."

Although most owners like himself are passionate about sport and love the thrill of owning their own team, nobody wants to lose money. "Of course I'm a huge cricket fan, but I definitely saw it as an investment when I bought my stake in the franchise," says Mr Burman, who has been involved with the IPL since its inception ten years ago. "The team is run like any other business with a proper board and CEO."

"At the same though, I knew it could be difficult to make money owning a sports team – I was well aware of what I was getting into. You shouldn't invest money into sports that you can't afford to lose," he stresses.

Even though the IPL is now one of the world's richest sports leagues, profits are not a given. "We lost money for the first six years; it's been a long learning process," admits Mr Burman. "To begin with it was difficult to get sponsorship and some people assumed that the team owners didn't care how much money they spent. It was easy for costs to spiral."

Retaining sponsors can also be a challenge, Mr Burman adds. "Everybody is chasing the same companies and generally there are no specific benefits for a sponsor to be associated with one particular team. There is a lot of brinkmanship that goes on when you are negotiating."

The high point of Mr Burman's IPL involvement came in 2014 when the Kings XI won the round robin league part of the competition, just missing out on victory in the final knock-out game, despite scoring a highly respectable 200 runs. But even success doesn't guarantee more money. "When you win games your players want to be paid more, although when they don't do so well, the opposite certainly doesn't apply," he jokes.

Each team, for example, is allowed to retain three of their most valued



"The tournament itself lasts for just six weeks, which means we currently only have two to three months when people are really buying shirts and other merchandise." Because players also move around every three years, it can be difficult to build up a long term fan base. "We need to think out of the box to extend that period and create more loyal supporters," he explains.

Another option to make money from sport is to sell your stake in a franchise for more than you bought it for. Teams are now reportedly worth many millions of dollars more than when they were first auctioned. But Mr Burman says that's not on the cards for him. "I'm not a seller."

The IPL auctions take place several weeks after my chat with Mr Burman and literally a few days before *The Wealth Report* is about to go to press, but there's just time to see which players will be joining Kings XI this year. Managed by Indian batting legend Virender Sehwag, it looks like the team is a potent mix of experience and youthful talent.

Punjabi hero Yuvraj Singh, who started his IPL career with the team, is back, joined by two of India's current most exciting match winners, triple century-maker Karun Nair and ace spinner Ravichandran Ashwin.

Big-hitting West Indian Chris Gayle brings some international stardust, while other overseas picks include IPL favourite South African David Miller and the in-form Australian trio of Aaron Finch, Marcus Stoinis and Andrew Tye. Mujeeb Zadran, the sixteen-year-old Afghani spinner, could be a potentially destructive signing if he fulfils his potential.

I email Mr Burman to wish him luck and ask how he's feeling after the auctions. "We got most of the players that we wanted and I'm very excited, although of course still a bit nervous. But this definitely could be the year."



Image: Vikram Mahal

existing players and strike individual deals rather than bidding for them in the three-yearly auction. But Mr Burman has let players he would prefer to have kept go, because they asked for too much money. "You never know, I might get the chance to buy them for less in the auction."

**A model for success**

Other sports in India have tried to copy the IPL model – Mr Burman himself has owned badminton and hockey franchises – but have not enjoyed the same success. "There's just not the domestic and international interest to make it work financially," he explains. Even an equivalent football competition would struggle here, he says.

"Technology now means everybody can access every sport in the world, so why would they want to watch retired stars playing here when they can watch the world's best players in the English Premier League? A ten or 12-year-old kid wants to see world-famous teams and players."

That's not to say Mr Burman isn't interested in owning a football team. He's been asked to get involved with several English teams, but never felt confident enough to take the plunge. "Maybe one day the right opportunity will come along."

At the moment, the main area he is focusing on is creating a marketing strategy to boost revenue streams from the Kings XI.

Big hitters *previous page*: local hero Yuvraj Singh strikes out *clockwise from top*: South African David Miller rejoins Kings XI this year; Mohit Burman; co-owner Preity Zinta with former Kings XI stars New Zealander Martin Guptill and India's Sandeep Sharma





# Face-off

A contrasting pair of record-breaking portraits helped art to drive wine off the top of the Knight Frank Luxury Investment Index in 2017. Andrew Shirley is blown away by the numbers



## PASSION PLAY

Reasons for buying luxury investments



SOURCE: THE WEALTH REPORT ATTITUDES SURVEY 2018, KNIGHT FRANK

One is the serene face of Christ, the other a contorted slash of colour. One was painted in the 15th century by an Old Master, the other by a New York graffiti artist who died of a heroin overdose in 1988. Both made over US\$100 million at auction in 2017.

If *Untitled* by Jean-Michel Basquiat, sold via Sotheby's to the Japanese collector Yusaku Maezawa for US\$110.5 million – setting a new record for an American artist – had been the most expensive painting to go under the hammer last year it would still have been an amazing story.

However, it was Christie's sale of *Salvator Mundi* by Leonardo da Vinci that really focused the world's attention on the art market. Some experts decried its condition, while others doubted whether it was even by da Vinci, yet that didn't stop a buyer from the Middle East deciding it was worth a staggering US\$450 million, smashing the previous world record of US\$179 million set by Picasso's *Women of Algiers* in 2015.

These two headline grabbers are clearly extreme examples, but the wider art market also performed very strongly. For some time now art has lagged behind asset classes such as classic cars and wine in the Knight Frank Luxury Investment Index (KFLII), but 2017 was the year of its comeback. According to data from Art Market Research (AMR) that we use to track its performance, the average value of art sold at auction rose by 21%.

### Appetite for art

"Volatility in the art market has been driven by the prices of post-war and contemporary art in the last few years," says AMR's Sebastian Duthy. "After a depressed market in 2016 caused widespread concern, consignors were tempted back by auctioneers last year. The desire among wealthy art enthusiasts to add to their new museums carried on through 2017, while the appetites of great institutions such as the Louvre, which opened a new franchise in Abu Dhabi, put more pressure on supply.

"As prices for the very best 19th- and 20th-century art continue to hit the headlines, there is hope within the industry that the sensational da Vinci sale could attract a wider audience to Old Masters in 2018."

Wine, which was KFLII's top-performing asset class in 2016 with growth of 24%, put in another double-digit performance last year to clinch second place. The value of the Knight Frank Fine Wine Icons Index, compiled for us by Wine Owners, rose by 11%.

"Since the summer the currency effect caused by sterling's devaluation has dropped out of the picture, and this could in part account for the moderated growth in the index for 2017," points out Wine Owners' Nick Martin.

Scarcity-driven markets remain particularly strong, he adds. "Burgundy markets rose 16.5% on the back of more or less insatiable global demand for the top wines, and a series of short harvests culminating in the 2016 release where some communes were down in volume by as much as 70% due to frost damage."

Record breaker  
*Salvator Mundi* became the world's most expensive picture when it was auctioned for US\$450 million in 2017



Much of the increase in demand is coming from Asia, says Andrew Gordon, Managing Director of Private Cellar, which provides a bespoke cellar management service for high-net-worth collectors. "Our Fine Wine List has seen unprecedented turnover in recent months with particularly strong demand for stock with perfect provenance from discerning Asian customers," says Mr Gordon.

"While partly due to the devaluation of sterling against other currencies, I do not believe that it's a simple currency issue – buyers in the Far East have extremely sophisticated tastes and an ever increasing depth of knowledge, which makes it an exciting time for buyers and sellers alike. Demand for top Burgundies is stronger than ever, driven by the scant quantities produced in recent vintages, but blue chip wines from Bordeaux, Italy and California do not linger on our list for long."

**Record breakers**

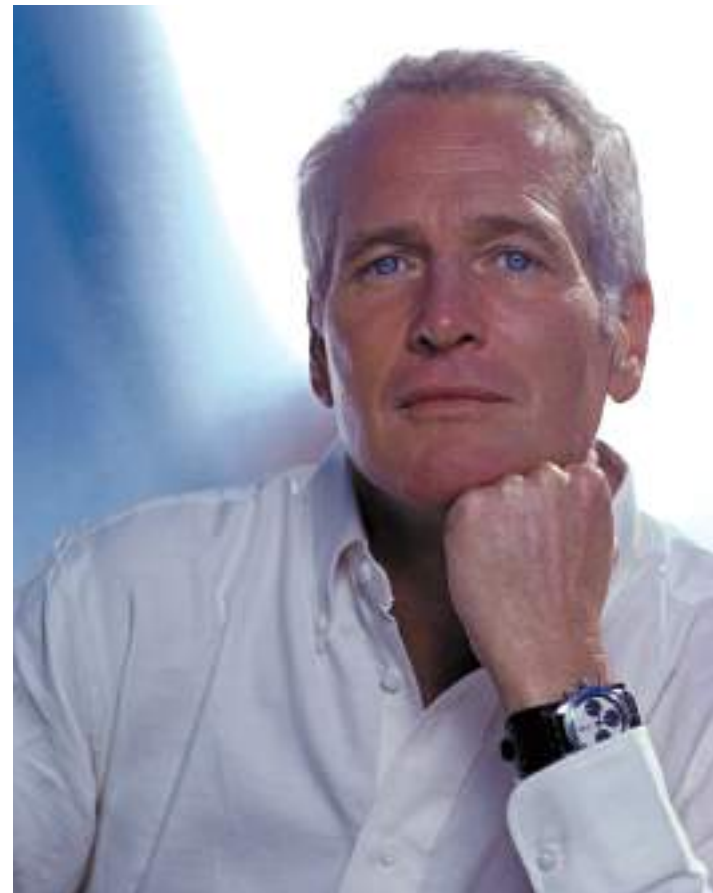
Even those asset classes that didn't perform as strongly overall as art or wine in 2017 produced some record-breaking sales.

Classic cars, which are still by some way the best performing asset class in KFLII over a ten-year period, saw a number of striking auction results, with Bonhams dispatching a 1995 McLaren F1 for US\$15.6 million, while a 1959 Ferrari 250GT California Spider LWB made US\$18 million through RM Sotheby's. But it was a 1956 Aston Martin DBR1, raced by legendary driver Stirling Moss, that was the year's top seller when it was auctioned by RM Sotheby's for US\$22.5 million.

Although it has been suggested for some time that the classic car market might fall significantly, Dietrich Hatlapa of analyst HAGI, which provides our KFLII car data, isn't too downbeat. "It's hard to make predictions, but what I can be fairly confident about is that strong prices will be paid for the best cars by knowledgeable collectors this year." The



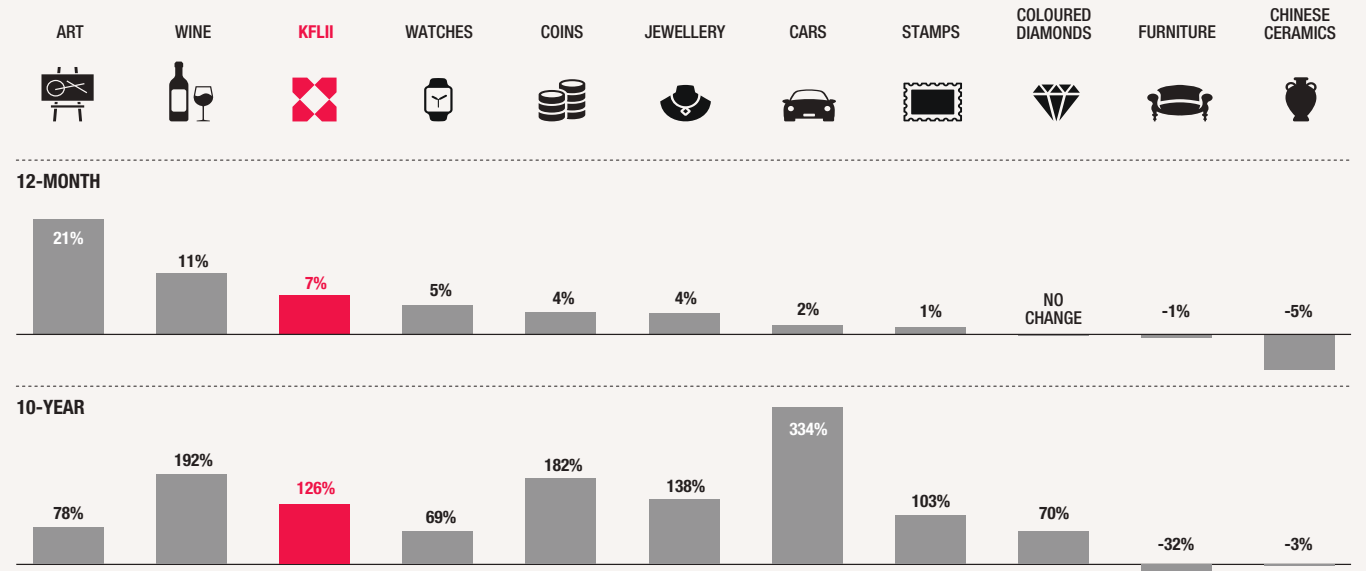
Image: Courtesy of Sotheby's



Objects of desire  
clockwise from left: The Pink Star  
Unfilled by Jean-Michel Basquiat  
Paul Newman and his Rolex Daytona  
An Aston Martin DBR1

**GOING UP, GOING DOWN**

The Knight Frank Luxury Investment Index (KFLII) Q4 2017



NOTE: KFLII IS BASED ON THE WEIGHTED PERFORMANCE OF THE TEN ASSET CLASSES  
SOURCES: ARTMARKETRESEARCH.COM (ART, CHINESE CERAMICS, WATCHES, JEWELLERY), HAGI (CLASSIC CARS), STANLEY GIBBONS (STAMPS, COINS), WINE OWNERS (WINE) FANCY COLOR RESEARCH FOUNDATION (COLOURED DIAMONDS). FOR METHODOLOGY DETAILS PLEASE CONTACT ANDREW.SHIRLEY@KNIGHTFRANK.COM

results from the year's first major classic car auctions in Scottsdale, Arizona, seem to bear this out.

Luxury investments don't need four wheels to benefit from the glamour surrounding motor racing. The cherished Rolex Daytona worn by actor and keen racing driver Paul Newman was another record breaker. Given to him by his wife Joanne Woodward and inscribed "Drive carefully", the watch, guided at US\$1 million, was sold by Phillips for US\$17.8 million.

Chinese luxury investments and buyers were firmly among the record-breaking action in 2017. Hong Kong jeweller Chow Tai Fook paid a record price for a piece of jewellery, snapping up the Pink Star, a 59.6-carat vivid pink diamond, for HK\$553 million (US\$71 million), while a strikingly small and simple 1,000-year-old Ru guanyo ceramic brush-washing bowl doubled its pre-sale estimate by fetching HK\$295 million (almost US\$40 million). Sotheby's handled both sales.

Even furniture, which brings up the tail of KFLII, has the power to defy expectations. Bonhams sold an exceptionally rare set of four 16th- or 17th-century Chinese huanghuali folding chairs, estimated at around £200,000, to an Asian buyer for almost £5.3 million.

Whether we will see records broken at the same rate in 2018 remains to be seen, but it will take some work of art to overtake *Salvator Mundi*.



Image: Courtesy of RM Sotheby's

Image: Courtesy of Sotheby's





**T**hroughout history, prosperous individuals have built majestic homes for their prized collections. The Medici family supercharged the Italian Renaissance with its patronage of artists such as Leonardo da Vinci, Michelangelo and Raphael, while British art and architecture were transformed during the 17th and 18th centuries when the upper echelons of society returned from their Grand Tours of Europe.

An array of impressive stately homes were constructed or, in some cases, reimagined as inspired owners endeavoured to incorporate these new European influences, both through the design of the buildings themselves and the newly acquired collections within. Today, a new generation of UHNWIs is taking over the mantle, creating new spaces designed to place much-loved collections at the centre of the home.

"I call them the modern-day Medicis," says Charu Gandhi, Director of Elicyon, a Chelsea-based interior design studio. Mrs Gandhi has worked with an impressive list of clients, including numerous famous faces and one of the world's wealthiest art collectors – who, incidentally, has just acquired the penthouse in a development on London's increasingly fashionable Chiltern Street.

"Luxury collections are all about private enjoyment," Mrs Gandhi says. "My clients want to be able to enjoy their favourite pieces with their loved ones every day in the comfort of their home." This focus on displaying beloved collections often takes precedence over all else. Mrs Gandhi frequently designs homes around her clients' collections – even

when the collections in question do not yet exist.

"One of my favourite recent projects was a four-bed apartment in London's One Hyde Park development. The client had a clear design vision centred on art," explains Mrs Gandhi. "But he didn't yet have a collection – so creating that became a key part of my role too." Mrs Gandhi went on to consult experts in New York and the Middle East, attend art fairs and auctions, and commission artists whose aesthetic she felt would fit in well with both the apartment's design and the owner's vision.

"For me, it was very important that my home at One Hyde Park reflected my passion for art," says the apartment's owner, a European entrepreneur. "It now has the perfect mix of well-established artists and rising stars, with stunning pieces from Andy Warhol, Damien Hirst, David Hockney, Joan Miró, Antony Gormley and Helaine Blumenfeld."

## Home is where the art is

*Art was the top-performing asset in the Knight Frank Luxury Investment Index during 2017, rising by 21% to overtake recent front-runners wine and classic cars. To mark its resurgence, Sophia King explores the evolution of the long-established links between art and property*

Interior design  
The apartment of art collector and former Warhol muse Jane Holzer





**Aiming high**

“It’s almost a prerequisite that super-prime buyers seek a home with a main room ceiling height of three metres or more,” says Rupert des Forges, Knight Frank’s Head of Prime Central London Developments. “That’s the minimum height you need to display serious artwork; something that many of our clients are factoring into their decisions.”

James Carter-Brown, Head of Knight Frank Residential Building Consultancy, agrees. “I’m finding that our clients are increasingly interested in contemporary art, particularly because of its investment potential. However, it can be challenging to display from a structural point of view. As part of a major recent property refurbishment, one of my clients wanted help with the installation of a spectacular Dale Chihuly glass sculpture in their Grade I listed home. The piece measured seven feet by six and weighed almost 900kg. I had to arrange for the ceiling to be reinforced to support it.”

**A global quest**

The quest for a home filled with impressive art is a global phenomenon. In the US, Knight Frank’s residential real estate partner Douglas Elliman frequently sees an overlap between its clients and those who attend high-end auctions and art shows such as Art Basel Miami.

One example of this fusion of property and art is 75 Kenmare in New York’s NoLita neighbourhood. With exterior design by renowned New York architect Andre Kikoski and interiors by Kravitz Design – the design firm founded by American rockstar Lenny Kravitz – the new development merges art, architecture and style with its richly textured façade and artful interiors.

In Switzerland, luxury interior design firm Accouter Design worked on a €130 million property on Lake Geneva centred on a particularly remarkable art collection. “The client owned priceless pieces, including sketchbooks by Picasso and Van Gogh,” says Mia Kitsinis, a senior interior designer at Accouter. “We referenced the unique style of these artists to create a scheme that conveyed opulence, paying particular attention to lighting, colours and contrasts to ensure that the interior architecture and decor enhanced – but didn’t overpower – these splendid artworks.”

Of course, art isn’t the only luxury collectible around which UHNWIs are building their homes. Mrs Gandhi has created projects inspired by collections of whisky, antiquarian books, jewellery, Baccarat crystal and even rare ceremonial robes which, following discussions with experts at the Victoria and Albert Museum in London, are now presented as museum-quality installations in the main living areas of one particular client’s house.

“Ultimately, collections are an extension of their owners,” Mrs Gandhi says. “An expression of who they are and what they enjoy.”



Sculpted delights  
clockwise from top:  
Bespoke whisky cabinet  
designed by Elicyon  
Works of art by Athi-Patra Ruga  
at The Zeitz MOCAA, Cape Town  
and Antony Gormley at the Musée  
d’Art Classique, Mougins

**Place and space**

Sometimes, however, even those with the largest of houses run out of room to display all their objects of desire; or, of course, they may decide for other reasons that the time has come to share their particular passion with the wider world.

Former commodity trader Christian Levett has been collecting ever since he was a child buying old coins and medals with his pocket money. Over the years he has amassed thousands of works of art and antiquities, including the world’s largest privately owned collection of ancient armour. Since 2011, the bulk of his internationally acclaimed collection has been on display at the Musée d’Art Classique, a museum he created from a medieval building in the French Riviera town of Mougins.

Mr Levett says that place and space were the key aspects that inspired the project. A number of the artists whose works hang in the museum lived in Mougins, or were inspired by the countryside around it. Picasso, for example, spent the last 12 years of his life there. The town’s pre-Roman origins also form a suitably historic home for the antiquities on show.

“I think the synergy between the collection and its surroundings adds to the visitor experience,” explains Mr Levett. The varied history of the 550 sq m building itself, which started life as a prison and then became a flour mill before being converted into a house in the 1950s, also reflects the diversity of the objects within – classical artefacts are frequently and intriguingly juxtaposed with contemporary works of art.

“The original interior had been entirely stripped out by a previous owner, so it offered the perfect blank canvas on which we could create four floors of open galleries and glass vitrines without upsetting the French heritage agencies,” adds Mr Levett.

A similar process, albeit on an industrial scale, was undertaken by London-based design and architecture practice Heatherwick Studio during its transformation of a giant disused concrete grain silo into the Zeitz Museum of Contemporary Art Africa (MOCAA), which opened in Cape Town in September 2017.

In 2011, the owners of the city’s Victoria & Alfred Waterfront approached Heatherwick to develop ideas for the run-down site – home to a grading tower and



**Collections are an extension of their owners – an expression of who they are and what they enjoy**







42 cellular silos – as a place of contemporary culture. In a stroke of serendipity, German philanthropist and former Puma chief executive Jochen Zeitz happened to be looking for a permanent home in which to share his private art collection.

“The technical challenge was to find a way to create spaces and galleries within the ten-storey high tubular honeycomb without completely destroying the authenticity of the original building,” says designer and studio founder Thomas Heatherwick.

The original concrete silos were partially carved out to create an awe-inspiring atrium at the heart of the museum. The tower, inspired by the design of a Venetian lamp, now comprises convex glass shells that reflect the surrounding views of Table Mountain, City Bowl, and the harbour and city beyond.

The Zeitz MOCAA is Africa’s largest contemporary art gallery, but it is also a masterpiece in its own right. “This is a public museum with a private collection,” says Mr Zeitz. “It’s not my museum or the Waterfront’s museum – it’s for Africa.”

Luxury collections offer a great deal of enjoyment, but their incredible value as an investment asset can also rub off onto their surroundings. In some cases, the mere presence of a well-placed piece of art can boost property prices. One project in particular – a property at One Hyde Park – achieved a very successful sale price following the introduction of stunning pieces by British sculptor Barbara Hepworth.

### The finishing touch

“There’s undoubtedly a close relationship between luxury homes and art,” says Knight Frank’s Rupert des Forges. “Buyers at the top end of the new homes market tend to be relatively young and focus on contemporary art in their collections. The careful placement of artwork by the likes of Hirst or Warhol can be the finishing touch that prompts a prospective buyer to make an offer.”

In fact, thoughtfully displayed artwork can be so enticing that UHNWIs regularly ask to purchase pieces along with the property that houses them.



**Collections offer a great deal of enjoyment, but their investment value can also rub off onto their surroundings**



“Purchasers typically pick pieces of art on display that particularly complement the overall aesthetic of a property,” explains Mr des Forges. “We’ve had some buyers request to purchase every piece of art on display; it’s rare, but it happens.”

Such a request is no small investment. Artwork displayed in show homes is borrowed from local galleries and tends to be of a value proportionate to the property itself. A prime new show home, for example, could be expected to display art worth in the region of £500,000.

And show homes aren’t the only properties using art to enhance the overall visitor experience. In Christian Levett’s three luxury ski chalets in the French resort of Courchevel 1850, a good number of Old Masters and more contemporary works can be found earning their keep on the walls.

“It definitely adds value to the chalets as a business,” says Mr Levett. “At this kind of level [rents hit up to €400,000 per week for Edelweiss, the biggest chalet in the French Alps], people expect to have the perfect experience in every sense, which includes being surrounded by great works of art.”

In Madrid, developer Italinmuebles has worked in collaboration with Carlos Cruz-Diez – hailed by some as one of the greatest artistic innovators of our time – to create Montalbán 11, an ultra-luxury development that integrates art and architecture to a level never before seen in the city. Kinetic art pieces by Mr Cruz-Diez feature in the foyer and elevator, and a unique piece of art is included in the sale price of each apartment.

“It’s standard for quality luxury developments to be in a great location with high-end finishes,” says Maximilian Pizzorni, managing partner at Italinmuebles. “But UHNWIs are sophisticated people looking for more than that. We made sure that Montalbán 11 provides extra parking space for cars, extensive wall space for art, and spacious cellars for storing wine – all centred around the incredibly unique project of Mr Cruz-Diez.”

### City walls

Art isn’t only being hung on walls to add value to residential real estate. In cities around the world, it is increasingly being combined in an even more symbiotic way with property. Global brands including Louis Vuitton, Unicef and Coca-Cola are working in collaboration with talented artists to harness the power of what many would call graffiti, but is now known as street or wall art.

Gucci executed a particularly successful wall art project last year – #GucciGeeks – in partnership with British illustrator Angelica Hicks. Featured on the sides of buildings in the fashion capitals of New York and Milan, the campaign resulted in huge engagement across social media and rocketing sales of its accompanying merchandise.

Viola Raikhel-Bolot, Managing Director of independent art advisory firm 1858 Limited, works with agencies and brands to select the right artist for their campaigns and has seen at first hand the impact that graffiti advertising can achieve.

“Passers-by typically can’t engage with a billboard in the same way that they can with an urban wall and social media,” says Mrs Raikhel-Bolot. “By taking traditional advertising and transposing it to mural-size artwork, we’ve seen companies make significant increases in both their brand awareness and profit.”

“It’s a three-way agreement between the brand, the artist and the owner of the wall space. Often, the artist will help transpose their artwork into a large-scale mural, which can be the closest many people will ever come to seeing an artist create an original work of art. It generates a lot of excitement.”

It’s not just the audience that’s likely to be excited, either. Such campaigns frequently see relatively unknown artists thrust into the limelight. To take just one example, Retna, the artist behind Louis Vuitton’s Miami-based graffiti campaign, went on to design the artwork for Justin Bieber’s multi-million-selling *Purpose* album cover.

For building owners, what was previously just an external wall can now generate its own revenue stream. “Clearly it depends on the location, but the ‘rents’ could be significant,” says Mrs Raikhel-Bolot.

### Moving with the times

At the moment, graffiti art advertising is most prevalent in the US and Europe, but with cities such as Hong Kong now also getting involved, it’s likely that Asia won’t be far behind in embracing the trend. Regardless, the very nature of the project means that the wall art can be appreciated irrespective of location, via the platform currently shared by more than 800 million people worldwide: Instagram.

A great deal has changed since previous generations built spectacular homes around beloved collections inspired by their exotic travels, but the symbiotic relationship between art and property continues to evolve. And with art coming in so many different shapes, sizes and forms – whether a privately curated collection, a bespoke graffiti advertisement or a building’s unique architecture – its influence seems set to flourish in ever more modern and intriguing ways.

Wall art *opposite*: the Zeitz MOCAA in Cape Town, *below*: Gucci Criminal Couture campaign, New York





# Taking to the airwaves

The Wealth Report looks at the latest superyacht and private jet data

Sales of new private jets remain relatively flat, says Rolland Vincent, Director of JETNET iQ, which analyses the global jet fleet. However, a turning point could have been reached in 2017 with growth in private flight activity, in particular charter flights – up 10% in Europe – says Richard Koe, Managing Director of flight activity analyst WINGX Advance. The superyacht market is also recording growth, driven by the US, according to Merijn de Waard, Director of SuperYacht iQ.

## FLYING HIGH

### JET OWNERSHIP

NORTH AMERICA 13,775 PRIVATE JETS (Q3 2017)

LATIN AMERICA 2,626

EUROPE 2,580

ASIA PACIFIC 1,229

AFRICA 476  
RUSSIA/CIS 241

ANNUAL CHANGE (%) +3

+1

0

+4

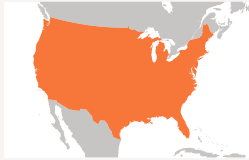
-2

-1

MIDDLE EAST 514

+7

### TOTAL FLIGHT DEPARTURES 2017



US

2.05m



EUROPE

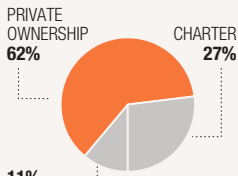
513,893

ANNUAL CHANGE

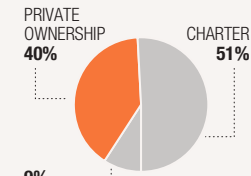
4.8%

4.7%

FLIGHT TYPE



11% FRACTIONAL OWNERSHIP



9% FRACTIONAL OWNERSHIP

### MOST POPULAR ROUTES

#2 LA VAN NUYS-MCCARRAN LAS VEGAS 4,753

LOS ANGELES

LAS VEGAS

WASHINGTON DC

NEW YORK

LONDON

PARIS

GENEVA

MOSCOW

NICE

#1 NEW YORK TETERBORO-WASHINGTON DULLES 5,106 FLIGHTS

#32 LONDON LUTON-PARIS LE BOURGET 1,476

#8 PARIS LE BOURGET-GENEVA COINTRIN 3,084

#17 NICE CÔTE D'AZUR-MOSCOW VNUKOVO 1,949

SOURCES: JETNET (JET OWNERSHIP); WINGX (FLIGHT ACTIVITY ANALYSIS)

## BLUE PLANET

### GLOBAL SUPERYACHT FLEET\*

#### SAILING YACHTS

765

158

SHARE FOR SALE

#### MOTOR YACHTS

4,030

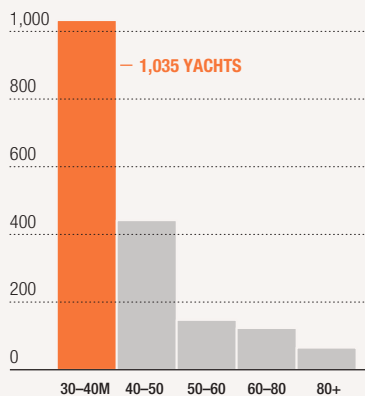
773

\*OVER 30 METRES. AS OF JAN 2018  
SOURCE: YACHT DATA PROVIDED BY SUPERYACHT IQ

### NEW COMPLETIONS

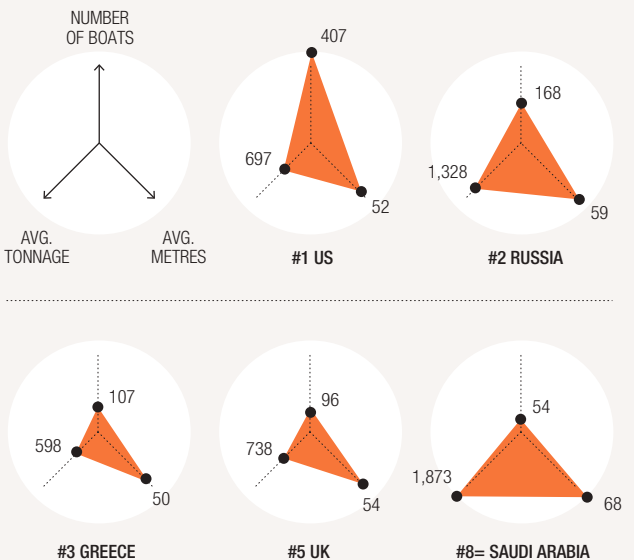


### COMPLETIONS BY SIZE (2008-2017)



### SUPERYACHT\*\* OWNERSHIP

\*\* OVER 40 METRES. AS OF JAN 2018





# Databank: the numbers behind the trends

*The Wealth Report* contains a plethora of data from many different sources, including Knight Frank's own proprietary indices. But two datasets deserve more space than is available in the main body of the report. These are the results of *The Wealth Report's* unique annual Attitudes Survey and a detailed breakdown of global wealth distribution figures, which this year has been provided by Wealth-X.

## *The Attitudes Survey*

The 2018 Attitudes Survey is based on responses from over 500 of the world's leading private bankers and wealth advisers who between them represent around 50,000 wealthy individuals with a combined wealth of more than US\$3 trillion. The data on the following pages represents the aggregated findings of the survey at a regional and global level.

For access to more in-depth regional and selected country-level responses, please contact [slobhan.leahy@knightfrank.com](mailto:slobhan.leahy@knightfrank.com). If you would like to participate in next year's survey, please get in touch using the same email address.

## *Wealth distribution data*

Our wealth data tracks the number of individuals at three wealth bands and at different geographic levels. Wealth-X is a leading global wealth information and insight business, partnering with prestige brands across the financial services, luxury, not-for-profit and higher education industries. It has developed the largest collection of hand-curated dossiers on UHNWIs available anywhere in the world today. The wealth distribution data featured in *The Wealth Report* is based on Wealth-X's Wealth and Investable Assets Model, which produces statistically significant estimates for total private wealth and population size by level of wealth and investable assets for the world and each of the top 70 economies, which between them account for over 97% of global GDP.

For more details about the model, and any enquiries regarding the data in *The Wealth Report*, please contact [press@wealthx.com](mailto:press@wealthx.com)

# Wealth distribution data

## Regional wealth distribution

|                           | US\$5M+ INDIVIDUALS |           |           |           | % CHANGE  |           |           |
|---------------------------|---------------------|-----------|-----------|-----------|-----------|-----------|-----------|
|                           | 2012                | 2016      | 2017      | 2022      | 2012-2017 | 2016-2017 | 2017-2022 |
| AFRICA                    | 25,710              | 21,460    | 22,970    | 30,630    | -11%      | 7%        | 33%       |
| AUSTRALASIA               | 54,280              | 41,890    | 45,750    | 62,080    | -16%      | 9%        | 36%       |
| RUSSIA & CIS              | 66,700              | 33,500    | 42,390    | 53,310    | -36%      | 27%       | 26%       |
| LATIN AMERICA & CARIBBEAN | 105,220             | 69,880    | 83,130    | 108,370   | -21%      | 19%       | 30%       |
| MIDDLE EAST               | 76,790              | 72,350    | 74,330    | 95,250    | -3%       | 3%        | 28%       |
| EUROPE                    | 600,760             | 592,270   | 650,670   | 875,150   | 8%        | 10%       | 34%       |
| ASIA                      | 493,820             | 600,900   | 686,820   | 1,107,460 | 39%       | 14%       | 61%       |
| NORTH AMERICA             | 685,250             | 888,400   | 929,420   | 1,285,300 | 36%       | 5%        | 38%       |
| TOTAL                     | 2,108,530           | 2,320,650 | 2,535,480 | 3,617,550 | 20%       | 9%        | 43%       |

|                           | US\$50M+ INDIVIDUALS |         |         |         | % CHANGE  |           |           |
|---------------------------|----------------------|---------|---------|---------|-----------|-----------|-----------|
|                           | 2012                 | 2016    | 2017    | 2022    | 2012-2017 | 2016-2017 | 2017-2022 |
| AFRICA                    | 1,300                | 1,110   | 1,190   | 1,560   | -8%       | 7%        | 31%       |
| AUSTRALASIA               | 1,900                | 1,510   | 1,650   | 2,230   | -13%      | 9%        | 35%       |
| RUSSIA & CIS              | 4,530                | 2,270   | 2,870   | 3,590   | -37%      | 26%       | 25%       |
| LATIN AMERICA & CARIBBEAN | 5,380                | 3,510   | 4,220   | 5,470   | -22%      | 20%       | 30%       |
| MIDDLE EAST               | 4,880                | 4,610   | 4,740   | 6,040   | -3%       | 3%        | 27%       |
| EUROPE                    | 32,090               | 31,920  | 35,180  | 47,110  | 10%       | 10%       | 34%       |
| ASIA                      | 26,250               | 31,290  | 35,880  | 55,740  | 37%       | 15%       | 55%       |
| NORTH AMERICA             | 33,520               | 41,880  | 44,000  | 59,920  | 31%       | 5%        | 36%       |
| TOTAL                     | 109,850              | 118,100 | 129,730 | 181,660 | 18%       | 10%       | 40%       |

|                           | US\$500M+ INDIVIDUALS |       |       |       | % CHANGE  |           |           |
|---------------------------|-----------------------|-------|-------|-------|-----------|-----------|-----------|
|                           | 2012                  | 2016  | 2017  | 2022  | 2012-2017 | 2016-2017 | 2017-2022 |
| AFRICA                    | 80                    | 80    | 80    | 110   | 0%        | 0%        | 38%       |
| AUSTRALASIA               | 90                    | 70    | 70    | 90    | -22%      | 0%        | 29%       |
| RUSSIA & CIS              | 430                   | 210   | 250   | 310   | -42%      | 19%       | 24%       |
| LATIN AMERICA & CARIBBEAN | 370                   | 240   | 280   | 370   | -24%      | 17%       | 32%       |
| MIDDLE EAST               | 400                   | 380   | 390   | 500   | -3%       | 3%        | 28%       |
| EUROPE                    | 1,690                 | 1,650 | 1,840 | 2,420 | 9%        | 12%       | 32%       |
| ASIA                      | 1,380                 | 1,630 | 1,890 | 2,940 | 37%       | 16%       | 56%       |
| NORTH AMERICA             | 1,590                 | 1,960 | 2,100 | 2,830 | 32%       | 7%        | 35%       |
| TOTAL                     | 6,030                 | 6,220 | 6,900 | 9,570 | 14%       | 11%       | 39%       |

MIDDLE EAST INCLUDES TURKEY, AFRICA INCLUDES EGYPT

SOURCE: WEALTH-X



Country/territory & provincial wealth distribution

| COUNTRY/TERRITORY | US\$5M+ INDIVIDUALS |         |         |           |           |           |           | US\$50M+ INDIVIDUALS |        |        |        |           |           |           |
|-------------------|---------------------|---------|---------|-----------|-----------|-----------|-----------|----------------------|--------|--------|--------|-----------|-----------|-----------|
|                   | 2012                | 2016    | 2017    | 2022      | 2012-2017 | 2016-2017 | 2017-2022 | 2012                 | 2016   | 2017   | 2022   | 2012-2017 | 2016-2017 | 2017-2022 |
| ARGENTINA         | 6,650               | 6,070   | 7,440   | 11,310    | 12%       | 23%       | 52%       | 260                  | 240    | 300    | 450    | 15%       | 25%       | 50%       |
| AUSTRALIA         | 49,020              | 36,040  | 39,280  | 53,570    | -20%      | 9%        | 36%       | 1,580                | 1,160  | 1,260  | 1,720  | -20%      | 9%        | 37%       |
| AUSTRIA           | 8,000               | 7,350   | 7,990   | 10,820    | 0%        | 9%        | 35%       | 300                  | 270    | 300    | 400    | 0%        | 11%       | 33%       |
| BELGIUM           | 14,290              | 16,050  | 17,810  | 28,510    | 25%       | 11%       | 60%       | 580                  | 650    | 720    | 1,160  | 24%       | 11%       | 61%       |
| BOTSWANA          | <=100               | 100     | 130     | 180       | N/A       | 30%       | 38%       | <=20                 | <=20   | <=20   | <=20   | N/A       | N/A       | N/A       |
| BRAZIL            | 58,930              | 34,090  | 43,570  | 54,700    | -26%      | 28%       | 26%       | 3,250                | 1,870  | 2,390  | 3,000  | -26%      | 28%       | 26%       |
| CANADA            | 84,510              | 66,160  | 76,720  | 97,100    | -9%       | 16%       | 27%       | 6,060                | 4,740  | 5,500  | 6,950  | -9%       | 16%       | 26%       |
| CARIBBEAN         | 210                 | 230     | 230     | 340       | 10%       | 0%        | 48%       | <=20                 | <=20   | <=20   | <=20   | N/A       | N/A       | N/A       |
| CHILE             | 6,290               | 4,420   | 4,940   | 5,720     | -21%      | 12%       | 16%       | 280                  | 190    | 220    | 250    | -21%      | 16%       | 14%       |
| CHINA, MAINLAND   | 105,580             | 184,130 | 207,350 | 425,270   | 96%       | 13%       | 105%      | 4,500                | 7,820  | 8,800  | 17,980 | 96%       | 13%       | 104%      |
| COLOMBIA          | 7,990               | 4,320   | 4,970   | 6,560     | -38%      | 15%       | 32%       | 420                  | 230    | 260    | 350    | -38%      | 13%       | 35%       |
| CYPRUS            | 350                 | 240     | 270     | 410       | -23%      | 13%       | 52%       | <=20                 | <=20   | <=20   | <=20   | N/A       | N/A       | N/A       |
| CZECH REPUBLIC    | 4,500               | 3,990   | 4,460   | 6,650     | -1%       | 12%       | 49%       | 290                  | 260    | 290    | 430    | 0%        | 12%       | 48%       |
| EGYPT             | 3,680               | 4,350   | 4,180   | 4,160     | 14%       | -4%       | 0%        | 210                  | 250    | 240    | 240    | 14%       | -4%       | 0%        |
| FRANCE            | 89,530              | 88,220  | 104,090 | 143,560   | 16%       | 18%       | 38%       | 4,510                | 4,450  | 5,240  | 7,210  | 16%       | 18%       | 38%       |
| GERMANY           | 117,700             | 121,520 | 136,990 | 185,510   | 16%       | 13%       | 35%       | 6,940                | 7,150  | 8,070  | 10,910 | 16%       | 13%       | 35%       |
| HONG KONG, CHINA  | 47,450              | 56,720  | 67,700  | 75,780    | 43%       | 19%       | 12%       | 3,610                | 4,290  | 5,140  | 5,750  | 42%       | 20%       | 12%       |
| INDIA             | 30,660              | 39,430  | 47,720  | 81,820    | 56%       | 21%       | 71%       | 1,890                | 2,420  | 2,920  | 4,980  | 54%       | 21%       | 71%       |
| INDONESIA         | 17,540              | 17,160  | 19,010  | 31,590    | 8%        | 11%       | 66%       | 1,080                | 1,050  | 1,160  | 1,930  | 7%        | 10%       | 66%       |
| IRELAND           | 7,740               | 10,500  | 11,180  | 14,780    | 44%       | 6%        | 32%       | 540                  | 730    | 780    | 1,030  | 44%       | 7%        | 32%       |
| ISRAEL            | 5,940               | 8,600   | 8,600   | 10,170    | 45%       | 0%        | 18%       | 230                  | 340    | 340    | 400    | 48%       | 0%        | 18%       |
| ITALY             | 54,580              | 50,130  | 53,670  | 67,110    | -2%       | 7%        | 25%       | 3,200                | 2,950  | 3,150  | 3,930  | -2%       | 7%        | 25%       |
| JAPAN             | 179,220             | 182,910 | 199,980 | 306,690   | 12%       | 9%        | 53%       | 8,940                | 9,110  | 9,960  | 15,020 | 11%       | 9%        | 51%       |
| KENYA             | 740                 | 1,110   | 1,290   | 2,070     | 74%       | 16%       | 60%       | 50                   | 80     | 90     | 140    | 80%       | 13%       | 56%       |
| MALAYSIA          | 7,670               | 6,290   | 7,100   | 11,750    | -7%       | 13%       | 65%       | 330                  | 280    | 310    | 510    | -6%       | 11%       | 65%       |
| MEXICO            | 15,510              | 11,940  | 13,200  | 19,300    | -15%      | 11%       | 46%       | 660                  | 510    | 570    | 830    | -14%      | 12%       | 46%       |
| MONACO*           | 1,140               | 1,340   | 1,410   | 1,810     | 24%       | 5%        | 28%       | 50                   | 50     | 50     | 70     | 0%        | 0%        | 40%       |
| NETHERLANDS       | 29,220              | 29,240  | 32,580  | 49,750    | 11%       | 11%       | 53%       | 1,480                | 1,480  | 1,650  | 2,490  | 11%       | 11%       | 51%       |
| NEW ZEALAND       | 5,260               | 5,850   | 6,470   | 8,510     | 23%       | 11%       | 32%       | 320                  | 350    | 390    | 510    | 22%       | 11%       | 31%       |
| NIGERIA           | 4,880               | 3,950   | 3,730   | 6,500     | -24%      | -6%       | 74%       | 260                  | 210    | 200    | 340    | -23%      | -5%       | 70%       |
| PERU              | 4,540               | 4,030   | 4,670   | 6,160     | 3%        | 16%       | 32%       | 300                  | 270    | 310    | 410    | 3%        | 15%       | 32%       |
| PHILIPPINES       | 4,500               | 5,420   | 5,680   | 10,390    | 26%       | 5%        | 83%       | 250                  | 300    | 310    | 570    | 24%       | 3%        | 84%       |
| POLAND            | 7,230               | 6,290   | 7,050   | 10,660    | -2%       | 12%       | 51%       | 300                  | 260    | 290    | 440    | -3%       | 12%       | 52%       |
| PORTUGAL          | 4,740               | 4,370   | 4,570   | 5,650     | -4%       | 5%        | 24%       | 250                  | 230    | 240    | 300    | -4%       | 4%        | 25%       |
| ROMANIA           | 2,930               | 3,280   | 3,720   | 5,630     | 27%       | 13%       | 51%       | 190                  | 210    | 240    | 360    | 26%       | 14%       | 50%       |
| RUSSIA            | 59,040              | 30,030  | 38,120  | 46,500    | -35%      | 27%       | 22%       | 4,060                | 2,070  | 2,620  | 3,190  | -35%      | 27%       | 22%       |
| SAUDI ARABIA      | 22,110              | 20,320  | 21,100  | 25,040    | -5%       | 4%        | 19%       | 1,610                | 1,480  | 1,540  | 1,820  | -4%       | 4%        | 18%       |
| SINGAPORE         | 20,990              | 18,480  | 21,970  | 24,240    | 5%        | 19%       | 10%       | 1,340                | 1,190  | 1,400  | 1,550  | 4%        | 18%       | 11%       |
| SOUTH AFRICA      | 13,380              | 9,120   | 10,350  | 12,430    | -23%      | 13%       | 20%       | 640                  | 440    | 500    | 600    | -22%      | 14%       | 20%       |
| SOUTH KOREA       | 39,530              | 45,110  | 55,670  | 71,680    | 41%       | 23%       | 29%       | 1,860                | 2,120  | 2,610  | 3,360  | 40%       | 23%       | 29%       |
| SPAIN             | 40,260              | 33,960  | 35,090  | 48,010    | -13%      | 3%        | 37%       | 1,930                | 1,630  | 1,690  | 2,300  | -12%      | 4%        | 36%       |
| SWEDEN            | 24,100              | 25,010  | 29,280  | 45,460    | 21%       | 17%       | 55%       | 1,340                | 1,390  | 1,630  | 2,510  | 22%       | 17%       | 54%       |
| SWITZERLAND       | 41,400              | 47,000  | 52,950  | 64,720    | 28%       | 13%       | 22%       | 2,910                | 3,290  | 3,710  | 4,530  | 27%       | 13%       | 22%       |
| TAIWAN            | 24,520              | 26,660  | 33,700  | 39,760    | 37%       | 26%       | 18%       | 1,470                | 1,590  | 2,010  | 2,370  | 37%       | 26%       | 18%       |
| TANZANIA          | 160                 | 210     | 250     | 460       | N/A       | 19%       | 84%       | <=20                 | <=20   | <=20   | <=20   | N/A       | N/A       | N/A       |
| THAILAND          | 10,970              | 10,790  | 12,330  | 15,770    | 12%       | 14%       | 28%       | 680                  | 670    | 770    | 980    | 13%       | 15%       | 27%       |
| TURKEY            | 14,690              | 12,760  | 12,540  | 17,730    | -15%      | -2%       | 41%       | 700                  | 610    | 600    | 840    | -14%      | -2%       | 40%       |
| UAE               | 6,360               | 7,280   | 7,180   | 9,940     | 13%       | -1%       | 38%       | 580                  | 660    | 660    | 910    | 14%       | 0%        | 38%       |
| UGANDA            | <=100               | <=100   | <=100   | 190       | N/A       | N/A       | N/A       | <=20                 | <=20   | <=20   | <=20   | N/A       | N/A       | N/A       |
| UK                | 104,280             | 99,590  | 97,530  | 113,660   | -6%       | -2%       | 17%       | 4,890                | 4,670  | 4,580  | 5,330  | -6%       | -2%       | 16%       |
| US                | 600,740             | 822,240 | 852,700 | 1,188,200 | 42%       | 4%        | 39%       | 27,460               | 37,140 | 38,500 | 52,970 | 40%       | 4%        | 38%       |
| ZAMBIA            | 150                 | 100     | 140     | 200       | -7%       | 40%       | 43%       | <=20                 | <=20   | <=20   | <=20   | N/A       | N/A       | N/A       |

| COUNTRY/TERRITORY | US\$500M+ INDIVIDUALS |       |       |      |           |           |           | % CHANGE |      |      |      |           |           |           |
|-------------------|-----------------------|-------|-------|------|-----------|-----------|-----------|----------|------|------|------|-----------|-----------|-----------|
|                   | 2012                  | 2016  | 2017  | 2022 | 2012-2017 | 2016-2017 | 2017-2022 | 2012     | 2016 | 2017 | 2022 | 2012-2017 | 2016-2017 | 2017-2022 |
| 20                | 20                    | 20    | 30    | 0%   | 0%        | 50%       |           |          |      |      |      |           |           |           |
| 80                | 50                    | 50    | 70    | -38% | 0%        | 40%       |           |          |      |      |      |           |           |           |
| 30                | 20                    | 20    | 30    | -33% | 0%        | 50%       |           |          |      |      |      |           |           |           |
| 30                | 30                    | 30    | 50    | 0%   | 0%        | 67%       |           |          |      |      |      |           |           |           |
| <=10              | <=10                  | <=10  | <=10  | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |
| 200               | 110                   | 130   | 170   | -35% | 18%       | 31%       |           |          |      |      |      |           |           |           |
| 300               | 230                   | 270   | 340   | -10% | 17%       | 26%       |           |          |      |      |      |           |           |           |
| <=10              | <=10                  | <=10  | <=10  | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |
| 50                | 30                    | 40    | 40    | -20% | 33%       | 0%        |           |          |      |      |      |           |           |           |
| 270               | 450                   | 490   | 990   | 81%  | 9%        | 102%      |           |          |      |      |      |           |           |           |
| 20                | <=10                  | <=10  | 20    | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |
| <=10              | <=10                  | <=10  | <=10  | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |
| 20                | <=10                  | <=10  | 20    | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |
| 20                | 20                    | 20    | 20    | 0%   | 0%        | 0%        |           |          |      |      |      |           |           |           |
| 190               | 190                   | 230   | 310   | 21%  | 21%       | 35%       |           |          |      |      |      |           |           |           |
| 370               | 380                   | 430   | 580   | 16%  | 13%       | 35%       |           |          |      |      |      |           |           |           |
| 230               | 260                   | 320   | 360   | 39%  | 23%       | 13%       |           |          |      |      |      |           |           |           |
| 140               | 170                   | 200   | 340   | 43%  | 18%       | 70%       |           |          |      |      |      |           |           |           |
| 70                | 60                    | 70    | 110   | 0%   | 17%       | 57%       |           |          |      |      |      |           |           |           |
| 20                | 30                    | 30    | 50    | 50%  | 0%        | 67%       |           |          |      |      |      |           |           |           |
| 20                | 30                    | 30    | 30    | 50%  | 0%        | 0%        |           |          |      |      |      |           |           |           |
| 160               | 150                   | 160   | 200   | 0%   | 7%        | 25%       |           |          |      |      |      |           |           |           |
| 330               | 330                   | 390   | 600   | 18%  | 18%       | 54%       |           |          |      |      |      |           |           |           |
| <=10              | <=10                  | <=10  | <=10  | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |
| 20                | 20                    | 20    | 30    | 0%   | 0%        | 50%       |           |          |      |      |      |           |           |           |
| 50                | 40                    | 50    | 70    | 0%   | 25%       | 40%       |           |          |      |      |      |           |           |           |
| <=10              | <=10                  | <=10  | <=10  | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |
| 70                | 70                    | 80    | 110   | 14%  | 14%       | 38%       |           |          |      |      |      |           |           |           |
| <=10              | 20                    | 20    | 20    | N/A  | 0%        | 0%        |           |          |      |      |      |           |           |           |
| 20                | 20                    | 20    | 30    | 0%   | 0%        | 50%       |           |          |      |      |      |           |           |           |
| 20                | 20                    | 20    | 30    | 0%   | 0%        | 50%       |           |          |      |      |      |           |           |           |
| 20                | 20                    | 20    | 50    | 0%   | 0%        | 150%      |           |          |      |      |      |           |           |           |
| <=10              | <=10                  | <=10  | 20    | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |
| 20                | <=10                  | <=10  | 20    | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |
| <=10              | <=10                  | 20    | 20    | N/A  | N/A       | 0%        |           |          |      |      |      |           |           |           |
| 360               | 180                   | 220   | 270   | -39% | 22%       | 23%       |           |          |      |      |      |           |           |           |
| 130               | 120                   | 120   | 140   | -8%  | 0%        | 17%       |           |          |      |      |      |           |           |           |
| 90                | 80                    | 100   | 110   | 11%  | 25%       | 10%       |           |          |      |      |      |           |           |           |
| 30                | 30                    | 30    | 40    | 0%   | 0%        | 33%       |           |          |      |      |      |           |           |           |
| 80                | 80                    | 100   | 130   | 25%  | 25%       | 30%       |           |          |      |      |      |           |           |           |
| 100               | 90                    | 90    | 120   | -10% | 0%        | 33%       |           |          |      |      |      |           |           |           |
| 60                | 60                    | 70    | 110   | 17%  | 17%       | 57%       |           |          |      |      |      |           |           |           |
| 200               | 220                   | 250   | 300   | 25%  | 14%       | 20%       |           |          |      |      |      |           |           |           |
| 70                | 80                    | 100   | 110   | 43%  | 25%       | 10%       |           |          |      |      |      |           |           |           |
| <=10              | <=10                  | <=10  | <=10  | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |
| 50                | 50                    | 50    | 70    | 0%   | 0%        | 40%       |           |          |      |      |      |           |           |           |
| 60                | 50                    | 50    | 70    | -17% | 0%        | 40%       |           |          |      |      |      |           |           |           |
| 70                | 80                    | 80    | 110   | 14%  | 0%        | 38%       |           |          |      |      |      |           |           |           |
| <=10              | <=10                  | <=10  | <=10  | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |
| 240               | 230                   | 220   | 260   | -8%  | -4%       | 18%       |           |          |      |      |      |           |           |           |
| 1,290             | 1,730                 | 1,830 | 2,490 | 42%  | 6%        | 36%       |           |          |      |      |      |           |           |           |
| <=10              | <=10                  | <=10  | <=10  | N/A  | N/A       | N/A       |           |          |      |      |      |           |           |           |

| TOTAL WEALTH HELD BY INDIVIDUALS WITH A NET WORTH OF US\$50M+ IN 2017 |                 |
|---|-----------------|
| REGION  | WEALTH (US\$BN) |
| AFRICA  | 245             |
| AUSTRALASIA   | 269             |
| RUSSIA & CIS  | 832             |
| LATIN AMERICA & CARIBBEAN   | 965             |
| MIDDLE EAST   | 1,275           |
| EUROPE  | 6,803           |
| ASIA  | 7,237           |
| NORTH AMERICA   | 8,778           |
| TOTAL   | 26,403          |

\*Data excludes second-home owners. Total residents per wealthband significantly higher

SOURCE: WEALTH-X



# The Attitudes Survey

## Investment trends

| THINKING OF BLOCKCHAIN TECHNOLOGY, PLEASE CHOOSE THE OPTION(S) THAT MOST REFLECT YOUR VIEWS AND YOUR CLIENTS' POSITION |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| MOST OF MY CLIENTS ARE AWARE OF BLOCKCHAIN, BUT HAVEN'T CONSIDERED WHAT IMPACT IT MIGHT HAVE ON THEM                   | 31%    | 41%  | 56%         | 42%    | 43%           | 41%         | 43%           | 31%          | 41%            |
| I DOUBT MANY OF MY CLIENTS HAVE HEARD OF BLOCKCHAIN  | 51%    | 44%  | 35%         | 37%    | 39%           | 35%         | 31%           | 15%          | 36%            |
| I DON'T THINK BLOCKCHAIN WILL HAVE AN IMPACT ON MY CLIENTS   | 11%    | 11%  | 15%         | 10%    | 22%           | 38%         | 12%           | 31%          | 19%            |
| BLOCKCHAIN HAS THE POTENTIAL TO SIGNIFICANTLY CHANGE HOW MY CLIENTS WILL MANAGE THEIR WEALTH                           | 14%    | 12%  | 21%         | 14%    | 9%            | 6%          | 18%           | 23%          | 14%            |
| A SIGNIFICANT NUMBER OF MY CLIENTS ARE CURRENTLY WORKING OUT WHAT BLOCKCHAIN MEANS FOR THEM                            | 9%     | 10%  | 0%          | 14%    | 9%            | 3%          | 18%           | 23%          | 11%            |
| BLOCKCHAIN IS ALREADY HAVING A TANGIBLE IMPACT   | 0%     | 5%   | 0%          | 5%     | 4%            | 3%          | 8%            | 8%           | 4%             |

| HOW HAS YOUR CLIENTS' EXPOSURE TO THE FOLLOWING INVESTMENTS CHANGED OVER THE PAST 12 MONTHS?* |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| EQUITIES  | 26%    | 78%  | 41%         | 52%    | 62%           | 48%         | 65%           | 45%          | 52%            |
| PROPERTY  | 12%    | 19%  | 35%         | 42%    | 76%           | 30%         | 61%           | 45%          | 40%            |
| PRIVATE EQUITY  | 12%    | 44%  | 41%         | 44%    | 48%           | 22%         | 76%           | 27%          | 39%            |
| ALTERNATIVE INVESTMENTS (ART, WINE, CARS, ETC)  | 9%     | 22%  | 53%         | 38%    | 19%           | 22%         | 46%           | 27%          | 29%            |
| CASH  | 26%    | 24%  | 47%         | 17%    | 29%           | 33%         | 46%           | 9%           | 29%            |
| CRYPTOCURRENCIES  | 24%    | 5%   | 6%          | 6%     | 33%           | 7%          | 20%           | 27%          | 16%            |
| GOLD  | 3%     | 7%   | 18%         | 10%    | 5%            | 19%         | 17%           | 45%          | 15%            |
| BONDS   | 15%    | 21%  | -18%        | -4%    | 19%           | 7%          | 0%            | 9%           | 6%             |

\*% = Difference between respondents reporting an increase in exposure and those reporting a decrease

| ON BALANCE, HOW HAS YOUR CLIENTS' ATTITUDE TO INVESTMENT RISK CHANGED OVER THE PAST 12 MONTHS?* |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| HAPPY TO TAKE MORE RISK   | 35%    | 57%  | 35%         | 32%    | 43%           | 26%         | 46%           | 27%          | 38%            |
| NO CHANGE   | 12%    | 23%  | 41%         | 41%    | 33%           | 22%         | 35%           | 36%          | 30%            |
| LESS WILLING TO TAKE RISK   | 53%    | 19%  | 24%         | 28%    | 24%           | 52%         | 20%           | 36%          | 32%            |

## Wealth creation

| ON BALANCE, HOW HAS THE WEALTH OF YOUR CLIENTS CHANGED OVER THE PAST 12 MONTHS?* |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| INCREASED  | 57%    | 88%  | 91%         | 74%    | 61%           | 57%         | 94%           | 54%          | 72%            |
| NO CHANGE  | 16%    | 8%   | 9%          | 23%    | 30%           | 29%         | 2%            | 38%          | 19%            |
| DECREASED  | 27%    | 4%   | 0%          | 3%     | 9%            | 14%         | 4%            | 8%           | 9%             |

| ON BALANCE, HOW DO YOU THINK YOUR CLIENTS' WEALTH IS LIKELY TO CHANGE IN 2018?* |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| INCREASE  | 76%    | 80%  | 62%         | 58%    | 48%           | 57%         | 87%           | 69%          | 67%            |
| NO CHANGE   | 16%    | 14%  | 38%         | 37%    | 39%           | 31%         | 11%           | 15%          | 25%            |
| DECREASE  | 8%     | 6%   | 0%          | 4%     | 13%           | 11%         | 2%            | 15%          | 7%             |

| WHAT ARE THE FACTORS THAT YOU THINK WILL CONTRIBUTE TO THE INCREASE/DECREASE? |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| PERFORMANCE OF OWN BUSINESS   | 38%    | 51%  | 9%          | 15%    | 9%            | 20%         | 6%            | 69%          | 27%            |
| GLOBAL ECONOMIC CONDITIONS  | 22%    | 50%  | 15%         | 11%    | 9%            | 23%         | 4%            | 62%          | 24%            |
| LOCAL ECONOMIC CONDITIONS   | 49%    | 58%  | 15%         | 10%    | 17%           | 20%         | 0%            | 23%          | 24%            |
| PERFORMANCE OF PROPERTY INVESTMENTS   | 32%    | 29%  | 9%          | 9%     | 9%            | 20%         | 2%            | 38%          | 18%            |
| PERFORMANCE OF NON-PROPERTY INVESTMENTS                                       | 22%    | 36%  | 15%         | 11%    | 4%            | 11%         | 2%            | 46%          | 18%            |
| LOCAL POLITICAL CONDITIONS  | 51%    | 30%  | 0%          | 3%     | 9%            | 11%         | 0%            | 8%           | 14%            |
| GLOBAL POLITICAL CONDITIONS   | 5%     | 14%  | 3%          | 2%     | 9%            | 6%          | 0%            | 23%          | 8%             |
| TAX CHANGES   | 0%     | 19%  | 0%          | 2%     | 4%            | 11%         | 0%            | 0%           | 5%             |

| WHAT IMPACT DO YOU THINK THE FOLLOWING ISSUES ARE HAVING OR WILL HAVE ON YOUR CLIENTS' ABILITY TO CREATE AND PRESERVE WEALTH?* |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| TERRORISM  | -62%   | -63% | -56%        | -38%   | -43%          | -63%        | -56%          | -54%         | -54%           |
| CYBERCRIME   | -62%   | -48% | -47%        | -44%   | -4%           | -40%        | -60%          | -54%         | -45%           |
| THE RISE OF POLITICAL POPULISM AROUND THE WORLD  | -49%   | -34% | -29%        | -36%   | -52%          | -40%        | -42%          | -62%         | -43%           |
| NORTH KOREA CRISIS   | -35%   | -54% | -38%        | -22%   | -26%          | -26%        | -42%          | -54%         | -37%           |
| BREXIT   | -38%   | -15% | -6%         | -41%   | -9%           | -23%        | -17%          | -38%         | -23%           |
| THE COMMON REPORTING STANDARD, FATCA AND SIMILAR TRANSPARENCY REGULATIONS  | -14%   | -24% | -12%        | -19%   | -22%          | -14%        | -17%          | -46%         | -21%           |
| TRUMP PRESIDENCY   | -22%   | -17% | 18%         | -7%    | 9%            | -3%         | 4%            | -23%         | -5%            |

\*% = Difference between those respondents who said an issue would have a positive impact and those that said it would have a negative impact. The lower or more negative the number, the bigger the threat

## Next generation

| WHAT PERCENTAGE OF YOUR CLIENTS HAVE A ROBUST SUCCESSION PLAN IN PLACE TO PASS THEIR WEALTH TO THE NEXT GENERATION?* |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|  | 47%    | 49%  | 54%         | 59%    | 56%           | 56%         | 62%           | 43%          | 53%            |

| WHAT PERCENTAGE OF YOUR CLIENTS SEND THEIR CHILDREN OVERSEAS FOR THEIR EDUCATION?* |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|  | 43%    | 54%  | 12%         | 25%    | 58%           | 61%         | 14%           | 65%          | 41%            |

| DO YOU EXPECT THIS PERCENTAGE TO INCREASE OVER THE NEXT FEW YEARS?* |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| YES   | 76%    | 81%  | 25%         | 46%    | 90%           | 80%         | 41%           | 78%          | 65%            |
| NO  | 24%    | 19%  | 75%         | 54%    | 10%           | 20%         | 59%           | 22%          | 35%            |



UHNWI mobility

| WHAT PERCENTAGE OF YOUR CLIENTS ALREADY HAVE A SECOND PASSPORT/DUAL NATIONALITY? |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|  | 28%    | 24%  | 26%         | 31%    | 41%           | 39%         | 24%           | 58%          | 34%            |

| WHAT PERCENTAGE OF YOUR CLIENTS ARE CONSIDERING ACQUIRING A SECOND PASSPORT/DUAL NATIONALITY? |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|   | 27%    | 26%  | 12%         | 20%    | 45%           | 35%         | 16%           | 50%          | 29%            |

| WHAT PERCENTAGE OF YOUR CLIENTS ARE CONSIDERING EMIGRATING PERMANENTLY TO ANOTHER COUNTRY? |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|  | 19%    | 19%  | 6%          | 19%    | 30%           | 19%         | 10%           | 45%          | 21%            |

| WHERE ARE THOSE CONSIDERING EMIGRATING MOST LIKELY TO MOVE TO? |              |           |             |             |               |             |               |              |                |
|--|--------------|-----------|-------------|-------------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA       | ASIA      | AUSTRALASIA | EUROPE      | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| 1  | Australia    | US        | UK          | UK          | US            | UK          | US            | Switzerland  | UK             |
| 2  | UK           | Australia | US          | US          | UK            | US          | Caribbean     | UK           | US             |
| 3  | US           | Canada    | Australia   | Switzerland | Spain         | Canada      | UK            | Monaco       | Australia      |
| 4  | Canada       | UK        | Singapore   | Spain       | Canada        | Switzerland | Canada        | Italy        | Switzerland    |
| 5  | South Africa | Singapore | New Zealand | Portugal    | Mexico        | UAE         | Ireland       | Cyprus       | Canada         |

Property investments

| WHAT PERCENTAGE OF YOUR CLIENTS' INVESTMENT PORTFOLIOS IS ALLOCATED TO PROPERTY (EXCLUDING PRIMARY RESIDENCE AND SECONDARY HOMES)? |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|  | 39%    | 39%  | 45%         | 38%    | 55%           | 48%         | 34%           | 42%          | 43%            |

| WHAT PERCENTAGE OF YOUR CLIENTS HAVE PROPERTY INVESTMENTS (EXCLUDING PRIMARY RESIDENCE AND SECONDARY HOMES) IN THEIR COUNTRY OF RESIDENCE? |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|  | 61%    | 57%  | 75%         | 62%    | 68%           | 61%         | 56%           | 57%          | 62%            |

| WHAT PERCENTAGE OF YOUR CLIENTS HAVE PROPERTY INVESTMENTS (EXCLUDING PRIMARY RESIDENCE AND SECONDARY HOMES) OUTSIDE THEIR COUNTRY OF RESIDENCE? |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|   | 27%    | 30%  | 16%         | 37%    | 42%           | 55%         | 27%           | 71%          | 38%            |

| WHAT PERCENTAGE OF YOUR CLIENTS ARE THINKING OF INVESTING IN A PROPERTY (EXCLUDING A PRIMARY RESIDENCE OR SECOND HOME) IN THEIR COUNTRY OF RESIDENCE OVER THE NEXT FEW YEARS? |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|   | 37%    | 36%  | 42%         | 44%    | 62%           | 51%         | 39%           | 32%          | 43%            |

| WHAT PERCENTAGE OF YOUR CLIENTS ARE THINKING OF INVESTING IN A PROPERTY (EXCLUDING A PRIMARY RESIDENCE OR SECOND HOME) OUTSIDE THEIR COUNTRY OF RESIDENCE OVER THE NEXT FEW YEARS? |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|  | 29%    | 28%  | 11%         | 34%    | 38%           | 49%         | 22%           | 57%          | 34%            |

Residential property

| ON AVERAGE, HOW MANY HOMES (PRIMARY RESIDENCE AND SECOND HOMES NOT BOUGHT PURELY AS AN INVESTMENT) DO YOUR CLIENTS OWN? |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|   | 2.1    | 2.9  | 2.3         | 2.7    | 2.9           | 4.0         | 2.7           | 3.5          | 2.9            |

| WHAT PERCENTAGE OF YOUR CLIENTS ARE PLANNING TO BUY AN ADDITIONAL HOME IN THEIR HOME COUNTRY OVER THE NEXT 12 MONTHS? |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|   | 15%    | 27%  | 13%         | 21%    | 24%           | 33%         | 20%           | 22%          | 22%            |

| WHAT PERCENTAGE OF YOUR CLIENTS ARE PLANNING TO BUY AN ADDITIONAL HOME OUTSIDE THEIR HOME COUNTRY OVER THE NEXT 12 MONTHS? |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|  | 17%    | 23%  | 10%         | 22%    | 28%           | 36%         | 10%           | 39%          | 23%            |

Luxury investments and philanthropy

| WHAT PERCENTAGE OF YOUR CLIENTS ACTIVELY COLLECT AN INVESTMENT OF PASSION SUCH AS ART, WINE, JEWELLERY, WATCHES OR CLASSIC CARS? |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
|  | 23%    | 28%  | 40%         | 41%    | 35%           | 44%         | 37%           | 47%          | 37%            |

| PLEASE RANK THE IMPORTANCE OF THE FOLLOWING FACTORS TO YOUR CLIENTS WHEN THEY ARE BUYING INVESTMENTS OF PASSION |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| JOY OF OWNERSHIP  | 2      | 2    | 1           | 1      | 2             | 1           | 1             | 1            | 1              |
| CAPITAL APPRECIATION  | 1      | 1    | 2           | 2      | 1             | 2           | 2             | 2            | 2              |
| SAFE HAVEN FOR CAPITAL  | 3      | 4    | 4           | 3      | 3             | 4           | 3             | 3            | 3              |
| INVESTMENT PORTFOLIO DIVERSIFICATION  | 4      | 3    | 3           | 4      | 4             | 3           | 4             | 5            | 4              |
| STATUS AMONG PEERS  | 5      | 5    | 5           | 5      | 5             | 5           | 5             | 4            | 5              |

| WHICH PHILANTHROPIC CAUSES ARE YOU CLIENTS MOST LIKELY TO SUPPORT?* |        |      |             |        |               |             |               |              |                |
|---|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|   | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| EDUCATION   | 58%    | 66%  | 44%         | 44%    | 50%           | 64%         | 63%           | 44%          | 54%            |
| HEALTH/DISEASE CONTROL  | 24%    | 38%  | 56%         | 49%    | 40%           | 28%         | 56%           | 56%          | 43%            |
| ENVIRONMENTAL ISSUES  | 27%    | 38%  | 22%         | 57%    | 40%           | 24%         | 32%           | 33%          | 34%            |
| THE ARTS  | 6%     | 11%  | 69%         | 47%    | 10%           | 20%         | 34%           | 44%          | 30%            |
| SOCIAL ISSUES (EQUALITY/HUMAN RIGHTS)                               | 18%    | 19%  | 41%         | 20%    | 15%           | 28%         | 37%           | 0%           | 22%            |
| DISASTER RELIEF/EMERGENCIES   | 21%    | 23%  | 16%         | 10%    | 15%           | 16%         | 15%           | 11%          | 16%            |
| JOB CREATION/TRAINING   | 30%    | 27%  | 3%          | 16%    | 5%            | 16%         | 7%            | 11%          | 14%            |
| ANIMAL WELFARE AND CONSERVATION                                     | 18%    | 7%   | 13%         | 13%    | 5%            | 8%          | 12%           | 11%          | 11%            |

\*% of respondents who chose each option

| DO YOU FEEL IN GENERAL THAT YOUR CLIENTS' PHILANTHROPIC ACTIVITIES ARE INCREASING? |        |      |             |        |               |             |               |              |                |
|--|--------|------|-------------|--------|---------------|-------------|---------------|--------------|----------------|
|  | AFRICA | ASIA | AUSTRALASIA | EUROPE | LATIN AMERICA | MIDDLE EAST | NORTH AMERICA | RUSSIA & CIS | GLOBAL AVERAGE |
| YES  | 70%    | 74%  | 72%         | 68%    | 55%           | 48%         | 80%           | 78%          | 68%            |
| NO   | 30%    | 26%  | 28%         | 32%    | 45%           | 52%         | 20%           | 22%          | 32%            |



# The slow death of cheap money

*Asset prices have been rising over the past decade, supported by cheap credit. The manner of its removal will determine property market performance, argues Liam Bailey*

With interest rates on the rise in the US, and central banks stepping back from asset purchase programmes that have largely served their purpose, the cost of money is beginning to rise. It is therefore a fairly safe bet that the next decade will not see a repeat of the double or even triple-digit property price growth we have seen in leading markets over the past ten years.

To gain a better understanding of how property prices are likely to perform, we need to consider the likely shape of the unwinding of quantitative easing (QE). This is not just the usual story of central banks setting out to tame surging economic growth.

In the current cycle, a key objective is the normalisation of monetary policy, so that there is room for manoeuvre to cut rates again when the next downturn comes. It's a balancing act that means central banks will tread carefully as they withdraw the economic sugar hit of QE. Indeed, just how cautiously they move will determine the impact on asset prices.

It's fair to say that the pace of action so far has been incredibly slow. In the US, the Federal Reserve first signalled the end of QE in March 2013 but only began tapering, slowing the purchase of assets, in December 2013, famously sparking a "taper tantrum" on the financial markets. Despite this process, total assets held by the Fed at the end of 2017 were still US\$425 billion higher than when tapering began. At the same time, it took two years for the US Federal Funds Rate to rise from 0.25% to 1.5% in December 2017.

The inference is that the era of low borrowing costs will be with us for some time to come – but also that the pace of the rise should allow property markets time to adjust. For investment property, as long as rental growth is outpacing the rise in the cost of capital, investors should be able to ride the shift away from ultra-low rates.

There will undoubtedly be changes to market behaviour. It will become harder to generate exciting returns. Opportunities for added value through active management of property are already much more sought after. This is, after all, the great advantage of property compared with passive equity or bond investment: the ability to influence returns through improvements, development and leasing strategy.

Accepting the average returns on offer in a market will simply not be enough – because the average will be underwhelming. Location and property selection and active management will be the key to success, and so too will be the need to be alert for inflection points. Central banks will no longer be doing the heavy lifting.



LIAM BAILEY  
GLOBAL HEAD OF RESEARCH

“  
Investors should be able  
to ride the shift away  
from ultra-low rates  
”