THE WEALTH REPORT.

The global perspective on prime property and investment
Reading the 11th edition of The Wealth Report and looking ahead to the rest of 2017, there is no doubt that the world is at a crossroads.

As the report enters its second decade, the global milestones of 2017 will include the first year of Donald Trump’s presidency, the opening overtures of the UK’s Brexit negotiations, pivotal German and French elections and a critical succession of power in China. All have the potential to be as far reaching and influential on wealth creation and wealth flows as the global financial crisis, which defined the first decade of The Wealth Report.

In this time of rapid change and volatility, Knight Frank remains independent and committed to matching people and property perfectly, identifying and understanding residential and commercial property opportunities in key global markets, and working increasingly closely with our clients, both new and long-standing. To achieve this, we have three unanswered points of focus:

• Market-leading research, providing our clients with the deepest insight
• An industry-leading technology platform, keeping our clients informed and enabling them to transact efficiently
• A total commitment to outstanding client service, delivered by the best professionals.

Binding together these strands of our DNA is an ever growing network. Last year, in response to client demand, we opened a new office in the Philippines and further offices in London, Germany and the Alps, as well as re-establishing an exceptional team in Shanghai. Our new Family Office initiative is driven by our clients’ growing emphasis on wealth preservation as much as wealth creation.

For this audience in particular, this report is essential as it delivers insight and advice not just for the coming year, but for the next decade. For those readers who have yet to work with us, The Wealth Report offers an insight into the thought leadership that underpins the service provided by our transactional, consultancy, investment and valuation teams, based in 413 offices in 60 countries around the world.

I hope that you find the report illuminating and thought provoking. For some, it will raise as many questions and possibilities as it answers. Do please get in touch so that we can help you address any requirements or challenges you may have.

The Wealth Report will be updated over the coming months as we pass through the changing landscape of 2017. It promises to be a fast moving year and we would be delighted to work with you to guide you through it.
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THE BIG PICTURE AND THE DETAIL

Few people read a report from start to finish, but if you do opt to begin at the beginning, you will find that The Wealth Report follows a clear narrative journey. We kick off with our Global Wealth Trends section, looking at the big political and economic issues driving wealth creation around the world, including a pertinent essay by Liam Bailey, our Global Head of Research, on the growing efforts of governments to control and track the movement of wealth around the world. Following that, our Property Trends section, new colour-coded so you can flick straight to it, looks at the performance of the property markets we call home or invest in. And finally our glossy Luxury Spending Trends chapter focuses on the finer things in life like art, cars and boats, including a feature on the reasons we like to own them.

THOUGHT-PROVOKING CONTRIBUTORS

Although The Wealth Report is underpinned by our own expertise, we also like to share thought-provoking insights and perspectives from leading industry commentators and influential UHNWs—a certain Donald J. Trump featured in 2008—and the 2017 edition is no exception. A number of our contributors have recently published successful books in the light of recent events, both Treachery in America by Parag Khanna (page 20) and Superpower: Three Choices for America’s Role in the World by Ian Bremmer are looking like particularly timely reads. I was lucky enough to get an hour of Dr Bremmer’s time recently to discuss his views on the big political risks facing the world, read the interview on page 6 or watch video content at wealthreport.com.

UNIQUE UHNWI INSIGHT

Our annual Attitudes Survey, which this year is based on responses from almost 900 of the world’s leading private bankers and wealth advisors, lies at the heart of The Wealth Report and offers a unique perspective on the investment decisions and lifestyle choices of the world’s wealthiest individuals. The survey’s findings are featured throughout the report and are also broken down on a regional basis in the Databank section (page 61). On page 24 we include a fascinating focus on trends in private aviation, education and philanthropy. Swedish businessman Percy Barnevik’s approach to successful philanthropy, via his charity Yeland in Hand International, will be of particular interest to those looking to maximise the impact of their philanthropic endeavours.

IN-DEPTH DATA

Number obsessives should make the Databank section (page 61) their first port of call. Our detailed wealth distribution data produced by New World Wealth is a vital source of intelligence for anybody involved with the wealth industry, while information like our guide to the world’s most popular private jet routes — obtained by crunching literally millions of figures — gives a fascinating insight into the habits of the wealthy. The findings of our own proprietary research are scattered throughout the report. Our new City Wealth Index on page 22, for example, reveals the most important urban hubs for the wealthy, while the results of our ever popular Luxury Investment Index on page 50 highlight some of the most expensive objects of desire to go under the hammer in 2016—US$11m for a wristwatch, anybody? Finally, don’t miss our elegant and ingenious infographics, several of which were developed for us this year by Nicholas Fuller, whose work sits in the permanent collection of New York’s Museum of Modern Art.

PRIME PROPERTY MARKET EXPERTISE

Although the range and depth of content featured in The Wealth Report clearly highlights that Knight Frank understands not just the property needs of its clients, but also their wider interests and aspirations, property remains the bedrock of the report. The FBI 100, which really emphasises the extent of our global expertise, tracks the performance of the world’s leading city, sun and ski luxury property markets and it is always fascinating to see which locations are at the top and bottom of the table. I don’t want to spoil the surprise, but Asian cities dominate the top end of the rankings this year. To find out why and see the full results, turn to page 30.

ANDREW SHIRLEY
EDITOR, THE WEALTH REPORT

From the Editor
from this day forward, a new vision will govern this land. From this day forward, it’s going to be only America first.”

With these two short, yet immensely symbolic, sentences, spoken as part of his inauguration address in Washington DC on 20 January 2017, America’s 45th President Donald Trump formally called time on seven decades of interventionist US foreign policy. Seven decades that since the Second World War have seen the world’s most powerful nation attempt to wield its influence to imprint its own values on the rest of the globe.

While Mr Trump’s supporters welcomed him as a pledge to make America great again, to rebuild it strength from within and focus on addressing their own domestic woes, many other Americans were more nervous about the future. Across the Atlantic, speaking at The World Economic Forum in Davos, Switzerland, Ian Bremmer, founder and President of Eurasia Group reiterated his oft-quoted analysis: “Pax Americana is dead.”

It comes as little surprise to hear him say this. A couple of weeks earlier in his office on the 15th floor of a building on Fifth Avenue in Manhattan’s fashionable Flatiron district, Dr Bremmer had told me why he thinks the death of what he calls “Indispensable America” and the nation’s rethink in the shape of “Independent America” is bad news for the world.

So bad, potentially, that it tops Eurasia’s newly released annual list of the 10 biggest geopolitical risks currently facing the world. Top Risks 2017 was released a few days before our meeting, and Dr Bremmer had spent most of the week touring New York TV studios explaining that choice and why, when combined with Eurasia’s other risks, in particular a China liable to overreact (Risk 2) and a weakened Angela Merkel (Risk 3), he thinks we are entering what he describes as a “geopolitical vacuum”.

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Technology, in the form of energy, connectivity or automation, is a theme that also resonates frequently in Dr Bremmer’s commentaries, sometimes as an opportunity “technology has helped lift more people out of poverty” but often as a risk. Automation, for example, is now a far bigger threat to blue-collar jobs in the US than globalisation, he believes. As well as creating tensions between the White House and Silicon Valley (Risk 7), he also sees a number of fostering technology issues potentially colliding in the Middle East, with worrying implications for the stability of the region (Risk 5). “The first billion people that had access to the internet were wealthy elites in the developed world and emerging markets that were largely aligned with the status quo,” he says. “But when you actually start hooking up the global base and a flood of people is very discontented. That’s particularly true in the Middle East.”

That discontent is increasingly being honed into something more virulent by the spread of partisan or extremist news and social media outlets across the web that allow left or right-wing consumers to only listen to the points of view they hold themselves, says Bremmer. “That doesn’t matter in the US because essentially most Americans are politically apathetic. But in the Middle East if you’re connected and you’re not watching Al Jazeera, you’ll be watching sectarian news. It’s Sunni versus Shia, it’s tribe versus tribe – and it’s ripping these countries apart.”

The energy revolution of the past five years has also severely affected the ability of Middle Eastern governments to use oil revenues to uphold the identities of their citizens, adds Dr Bremmer. “Suddenly, Saudi Arabia wasn’t the swing country and a city at the same time, so you can do both of those things.”

However, the rise of the city brings its own challenges. “When you put these things together, you realise the city you can’t just address the borders that were set up by the Europeans but don’t align with historic notions of identity, and it’s not just that the US doesn’t want to be the policeman after failed wars; it’s really the explosive nature of technology that these governments can no longer deal with.”

So, all things considered, how risky is the outlook? “Pretty risky, it turns out. “If you talked to me at any point since I started this company and asked, ‘Can you do think there is any risk of war between key governments?’ I would have said: ‘I still don’t think it’s likely, but I can’t say that now.’”

And what are the implications for the world’s wealthiest people? After all, by and large, they bounced back pretty quickly from the global financial crisis. “Global economic growth in a world of recession is going to be lower. When emerging markets are responsible for most of the world’s growth, there will be higher volatility – and that means UHNWIs are going to be paying more attention to the safety of their capital than the size of their returns,” says Dr Bremmer. “But the biggest risks aren’t necessarily economic, they’re political.”

“Inequality grows, walls go up, and people impositions of wealth has increasingly been targeted. The Panama papers were not about the midclass classes, they were about the wealthiest.”

The declining power of governments to address society’s big problems brings the conversation on to wealth inequality, the issue that in one shape or another really drives most of the risks facing the world today. Last year, on these pages of The Wealth Report, our keynote interviewee, Lynn Forester de Rothschild, expressed hope that the Movement for Inclusive Capitalism, which she champions, would help create a fairer system of capitalism and globalisation.

But as Brexit, the US elections and numerous other populist-driven political outcomes show, voters aren’t prepared to wait for those running the system to mend it gradually. Instead, they are pinning their hopes on a new breed of politicians wielding a scalpel. “A wealth inequality problem that can’t be fixed,” says Dr Bremmer, “No,” comes the short answer. “I think that we will address it in many different ways around the world. Some will be successful, some will merely kick the can a bit further down the road, and some will be incredibly explosive. In the US, for example, you’ll see some very effective policy responses to inequality, but they’ll happen in certain municipalities and certain states, they won’t happen nationally. Inequality across America as a whole will grow.”

Part of the problem, Dr Bremmer argues, is that the data used to measure wealth inequality is “way out of date.” “Full employment, for example, is no longer a very useful metric because you’ll have so many people employed in the gig economy where labour will be on demand. You’ll need to look at whether those people have satisfying lives, are they able to think of themselves as productive and think of future pathways for their children. These that the questions that I think governments have been very inadequately at answering.”

The ability of politicians to answer the question now being asked of them by electorate is still an open question. “I’ve heard of, for example, go up, they will need to consider how they want to live their lives, how they interact with the world as a whole, and how they feel about themselves as human beings. What kind of future do they want for their children? What kind of society do they want to live in? They need to think more about that, frankly. That should be the principal concern that they have.”

Despite all this, Dr Bremmer isn’t all bearish about America or the future. “When you look at the orientation of Trump’s cabinet appointments it appears to be a safe bet that you’re going to see less regulation, lower corporate taxation and more support for infrastructure and privatisation. When you’ve got a billionaire running the country, the chances are it’s going to be a good place to be a rich person.”

“The world’s key urban hubs also have reason to be optimistic, he believes. ‘The places that are doing very well and are going to do a lot better are cosmopolitan global cities. Dubai, Singapore, Shanghai, Auckland, Copenhagen, London and New York are all going to do exceptionally well.’ Dr Bremmer believes these are the places that over the next 10 years or so will benefit most from new technologies like driverless cars, which, will help create ‘much more liveable environments.’

However, the rise of the city brings its own challenges. “They are new countries, so you’ll see that central leadership erodes as the legitimacy of the government gets weaker. The ability to drive national policies to help raise all boats becomes much more challenging. The great thing about Singapore is that it’s a country and a city at the same time, so you can do both of those things.”

For more insights from Dr Bremmer, watch exclusive video content at wealthreport.com
Global Wealth Trends

The big issues shaping the decisions of the wealthy

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We take an in-depth look at the latest wealth creation trends, while leading experts name the next global hotspots
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Wealth Migration
We map the movement of wealth around the world, and investigate how governments are seeking to capture it
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Global Cities
Knight Frank’s new City Wealth Index identifies the cities that matter
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Attitudes Survey
The factors influencing the investment and lifestyle decisions of the world’s wealthy
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Uncertainty rules

In this post-truth world, uncertainty has never been greater. Yet despite this, the world’s UHNWI population continues to grow. The Wealth Report looks at the latest trends in wealth creation – and at the shape of things to come.

While the overall number of UHNWIs has grown, considerable variation remains between growth rates in different regions and countries, reflecting the local factors that underpin wealth creation and the mobility of ultra-wealthy people. This “multi-speed” trend is set to continue over the next decade, with the number of UHNWIs predicted to climb by an average of 12% in Europe, compared with a forecast 9% growth in Asia over the same period. Overall, the number of ultra-wealthy populations worldwide is expected to grow by 43%.

There may be widespread uncertainty on a global regional and national level, but there are also strong fundamentals in many economies, with signs of real progress being made around regulation and policy which will help economic growth to flourish in some places,” Mr Amoils explains.

The dramatic growth of UHNWIs in Asia is set to be reinforced by stellar growth rates in several countries, including Vietnam, which is expected to see its ultra-wealthy population rise by 70% to 540 over the next decade – the highest rate of growth in the world. Millennium numbers are expected to jump from 14,300 to 38,600 over the same period.

The World Bank has described the transformation of the Vietnamese economy over the last 25 years as “remarkable”, with economic and political reforms translating into higher incomes. Although the bank warns that the country is vulnerable to economic and environmental shocks, the outlook for the economy remains strong, with average GDP growth of around 6% forecast annually until 2030. “We expect Vietnam’s young population to be boosted by strong growth in the local healthcare, manufacturing and financial services sectors,” says Mr Amoils.

Substantial growth is also forecast in Sri Lanka and India. As Andrew Kenningham, Chief Global Economist at New World Wealth, highlights, regulatory reform in India will help bolster its already positive economic performance. In China, despite indications that economic growth is slowing, the sheer scale of the economy, coupled with strong growth in the local high-tech, media, entertainment and healthcare sectors, will deliver 146% growth in ultra-wealthy populations, New World Wealth forecasts.

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However, even this level of growth will only take the total of UHNWIs living in the Australian region to 7,180. Despite the modest growth in ultra-wealthy populations expected in Europe, Australia's total ultra-wealthy population will still be smaller than that of several European countries in 2026, including Germany (6,750) and Switzerland (8,570).

In Europe, the UK will remain the front runner in terms of UHNWI numbers in 2026, with a forecast population of 12,310, up 30% from today, despite high levels of economic and political uncertainty in the country. Negotiating its exit from the EU. By contrast, New World Wealth forecasts little growth in the ultra-wealthy populations of Germany, France, Italy and Spain. "There, growth will be constrained by growing religious tensions, a combination of rising taxes and higher state pension obligations and public healthcare costs, and the loss of high-skilled jobs to Asia," says Mr Amoils. "We also expect to see some outward migration of UHNWIs from some of these countries."

The number of ultra-wealthy people in Russia and the CIS is forecast to rise by 60% over the next decade, with Azerbaijan and Kazakhstan matching the growth rates expected in the Russian Federation. This will take the total number of UHNWIs in the region to 5,170.

Africa rising

The growth in ultra-wealthy populations in Africa (30% in Latin America (37%)) will also outstrip that in Europe and North America. In Africa, sharp rises are expected in countries such as Mauritius, Ethiopia, Tanzania, Uganda, Kenya and Bermuda. In fact, of the 20 countries whose ultra-wealthy populations have grown most rapidly over the last decade, 13 are in Africa.

In pole position sits Mauritius which, with its reputation as a relatively safe, business-friendly country with lower tax rates than many countries in Africa, is expected to remain a popular retirement hotspot for the wealthy. "The country will also be bolstered by its strengthening local financial services, with a forecast 135% rise in its UHNWI population over the next decade," Mr Amoils says.

While the total UHNWI population in these African countries is starting from a relatively low base, wealth is expected to increase all the way up the chain, with 7,500 new millionaires set to be created over the next decade in Kenya alone.

New World Wealth does not forecast any growth in the ultra-wealthy population in Nigeria over the coming decade. This follows on from a 20% decline last year alone due to economic and political tensions in the country. However, Geoffre Yu, who heads up the UK Investment Office at UBS, gives an alternative perspective on page 47, outlining the potential for wealth creation that could come from restitution of governance in achieved.

In Latin America, Mexico is predicted to see its ultra-wealthy population increase by 40%, although the country will undoubtedly be repositioning its relationship with its neighbour to the north as the new US president settles into his role. Argentina is expecting to see a 30% rise in those with $30 million or more in net assets between now and 2026; but Brazil, which currently has the second biggest ultra-wealthy population in the region, will see its growth rate more than halve from 47% between 2016 and 2016 to 20% over the coming decade, amid ongoing political upheaval and outward INSE migration.

The ultra-wealthy population remained static overall in the Middle East in 2016 and, while it is forecast to grow by 10% over the next decade, this still marks a slowdown compared with the 48% growth seen over the last 10 years. Saudi Arabia felt the impact of lower oil prices during 2016, resulting in a 14% decline in numbers, while the extreme devaluation of the lira caused the country's UHNWI population to settle in 2015.

Europe, Africa and Latin America also saw their ultra-wealthy populations decline in 2016. In Europe, some 1,470 people saw their wealth drop below the $30 million threshold, equivalent to a 1% annual fall, although the strength of the dollar may have had an impact as of New World Wealth's data is calculated in dollar terms. Africa and Latin America both saw 2% declines in their UHNWI populations in 2016. Yet a handful of countries — including Canada, Malta, the United Arab Emirates, Qatar, Monaco and Israel, as well as Australia and New Zealand — enjoyed significant growth in their ultra-wealthy populations.
New horizons

Political upheaval, governance reform and growing urbanisation are leading to the emergence of new global hotspots, say our experts

GRAINNE GILMORE
HEAD OF UK RESIDENTIAL RESEARCH

Istanbul, Turkey, is at the centre of a geopolitical storm

Head of UK Investment Office, UBS Wealth Management

GRÁINNE GILMORE

The UN recently calculated that the Arab Spring has cost the Middle East some US$600bn in lost economic growth.

Alongside this trend, a tidal wave of “populism” – marking a departure from the political norms seen in recent history – has increased the chances that “local” events, giving them the potential to affect the outlook not only for one country but also the wider region and, in some cases, the whole world.

Forecasting the future is always a challenging business, but in this environment, it becomes even more so. Our New World Wealth forecasts for wealth creation, explored on previous pages, are largely based on economic modelling, as are many of the forecasts issued by large organisations around the world.

There are a range of opinions on where, how and why wealth growth may emerge, based on varied expectations of future political events.

We asked four leading think-tanks, economists and investors to share their wealth creation hotspots. Their views are thought provoking – and show why numbers may not necessarily tell the whole story.

The key factor will be whether greater stability of governance can be achieved, but there are reasons to be optimistic, especially after the last general election in 2015. If there is a further round of political change, people will feel more secure, investing from overseas – and the wealth created in the country will be more likely to stay put. The tech and telecoms sector is strong, in particular mobile banking. As an oil exporter, Nigeria also benefits from further signs of progress too with the passing of the country’s first national bankruptcy law and a national sales tax, raising hopes that long-delayed reforms may now take effect to make the oil sector more flexible and facilitate land acquisition. India has a resilient, diversified economy; it is not reliant on commodities and its domestic and foreign debt burden is manageable.

The move created a short-term cash crunch; but it also sent a powerful message about the government’s determination to modernise the economy and reduce corruption. There were further signs of progress on economic modelling, as are many of the forecasts issued by large organisations around the world.

Increasingly though, the rise of globalisation is augmenting the influence of “local” events, giving them the potential to change the outlook not only for one country but also the wider region and, in some cases, the whole world.

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eopolitical events have always had the power to reshape the landscape for economic growth and wealth creation. Increasingly though, the rise of globalisation is augmenting the influence of “local” events, giving them the potential to change the outlook not only for one country but also the wider region and, in some cases, the whole world.

The UN recently calculated that the Arab Spring has cost the Middle East some US$600bn in lost economic growth, while regions around the world are trying to anticipate what impact the presidency of Donald Trump, who is already busily reshaping US foreign policy, will have on their economies.

In past years, China has driven more than half of the growth in UHNWI and HNWI populations. The question now is how its changing economic model and slowing growth will affect this trend. Much will depend on the pace and scope of reform. A commitment to expanding channels for overseas investment and deepening domestic financial markets, combined with a shift from manufacturing to services, tech and innovation, will underpin continued wealth creation. But those who have benefited from government connections and market distortions will see the pace of wealth creation slow, as more sectors open up to competition.

In implementing reform, the government will need to balance slowing growth with the risk of domestic unrest, meaning that baseline conditions for wealth creation will persist in the medium term. However, over the long term we expect sources of growth to evolve.

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World in motion

As the movement of wealth around the world continues to increase, so too does the desire of governments to regulate and control it.

Liam Bailey
Head of Global Research

The movement of private wealth across the world is critical in driving the performance of asset markets and, in particular, property. Some movements in wealth take the form of temporary investments while others, like migration, are more permanent. And as those shifts grow in both frequency and magnitude, so too do their impacts and the extent of the reaction to them.

As with most global trends these days, if you want to understand the scale of wealth flows there is no better place to start than China, where a heady mix of stellar wealth creation and political and economic volatility has led to rising capital movement. Capital outflows from China have been a constant since early 2016, prompted by a slowdown in the domestic economy, instability in local asset markets and a desire for diversification and the need for a hedge against depreciation as China sells dollars to support the yuan.

As money moves at a faster rate, so government efforts to control its movement also gain momentum. Once again, by way of illustration we need look no further than China where wealthy investors—officially limited to US$50,000 a year in offshore transfers—have become adept at maximising opportunities for converting money into other currencies.

The Chinese government reacted in 2016 by regulating access to casinos in Macau, a classic route for moving money, and limiting credit for cardholders travelling abroad. In 2017 the authorities went further by tightening the rules regarding acceptable investments for offshore transfers—with property explicitly excluded. Further restrictions seem likely, either formally via policy announcements, or informally through administrative processing.

But China is not unique in its efforts to restrict movement. Examples abound. Foreign companies with direct property holdings in Russia are now obliged to file details with the authorities. And, as The Wealth Report went to press, the UK government was consulting on similar moves for foreign companies, mirroring rules introduced in 2016 for UK registered companies.

This growth in regulatory activity based on understanding where private wealth & Partners will range further in 2017, ahead of the introduction of the OECD’s Common Reporting Standard (CRS). The CRS is set to have a critical impact on wealth migration, heralding as it does the sharing of unreported amounts of financial data on foreign citizens between governments. As we explore earlier, this new reality is raising some searching questions on data and personal security and even potential investment and residency patterns.

Amnesty international

Even money already held in offshore centres is not immune from greater oversight. Those are significant wealth pools at the end of 2016, the store of private wealth held in offshore financial centres totalled around US$10 trillion. Although only 1% and 6% of private wealth from the US and UK respectively is held in these centres, for the Middle East and Latin America the total is closer to 20%.

While the rate of growth in wealth held in centres such as Hong Kong and Singapore has averaged 10% annually in recent years, a rash of tax amnesty in preparation for CRS is persuading some investors to repatriate funds. The Indonesia tax authorities’ amnesty on undeclared tax liabilities arising from foreign assets ran from July 2016 until March 2017, and is predicted to result in an outflow from Singapore in particular. The Greek government has put forward plans for a tax amnesty covering funds held in Switzerland which would tax, legitimise and potentially lead to the repatriation of historic underdeclared funds. The Greek proposal comes in the wake of a similar amnesty announced by Italy in 2015, and is intended to discourage the flow of funds from Switzerland to other offshore jurisdictions ahead of the introduction of the CRS.

Stamp duty

The past 12 months have also seen a rash of new rules that aim to control the destination of investment flows. Three Australian states—Victoria, New South Wales and Queensland—have introduced an additional stamp duty surcharge for foreign buyers of residential property, in addition to the now 30% withholding tax on sales by foreign residents of high-value Australian property.

Elsewhere, we see a new capital gains tax for short-term property investments in New Zealand, the additional rate of stamp duty on high-value property purchases in the UK, and a new empty homes tax in Vancouver. Clearly the expansion of so-called “cooling measures” designed to control international wealth flows into property shows no sign of easing.

Africa rising

As The Wealth Report confirmed in 2016, migration of wealth can also take more enduring forms, with 16% of UHNWIs considering a permanent move overseas. The latest data from Henley & Partners clearly indicates that the world’s wealthiest spend over US$2.4bn each year acquiring new nationalities. Demand is highest from China, Russia and the Middle East, with around four-fifths of US EB-5 visas going to Chinese nationals. The cost varies considerably, from a few hundred thousand dollars in some Caribbean Islands to US$1m and more for citizenship in Cyprus and other European locations.

In the context of continued rising demand for overseas property, the fact that such schemes offer property as an investment route is a powerful draw. Even here though, pressure from regulators is for rule change to reduce or even prohibit demand for property altogether (see reforms in the UK and Singapore by way of example). Inevitably, this will have a dampening effect on demand for these particular schemes.

The overarching logic at play by any analysis of global wealth flows is one of flux. Nevertheless, there are two constants: first, ever growing demand from the wealthy to move their money into safe havens; and second, the corresponding determination of governments to exercise control over the flow of funds. The overriding impulse left by any analysis of global wealth flows is one of flux. Nevertheless, there are two constants: first, ever growing demand from the wealthy to move their money into safe havens; and second, the corresponding determination of governments to exercise control over the flow of funds.
Barriers and opportunities

What are the key factors influencing the movement of wealth and the wealthy?

Leading experts share their predictions with The Wealth Report

Voters for both Brexit and Trump last year were held up as examples of globalization being in retreat. I very much disagree with this diagnosis. I believe that these votes were votes against London and Washington’s mismanagement of globalization rather than against globalization itself, from which everyone benefits on the whole, even — eventually — those who lose their jobs in antiquated industries. Washington’s mismanagement of globalisation rather than against globalisation itself, from which everyone benefits on the whole, even — eventually — those who lose their jobs in antiquated industries.

Wealth Migration

Brexit will shift the dynamics of wealth migration

Andrew Arokosu has World Wealth

For many observers the UK’s decision in 2016 to leave the EU was a disaster both in broad economic terms and, more specifically, in terms of its ability to attract and retain wealthy residents. However, in our view, the forthcoming Brexit process will not result in an outflow of wealthy individuals from the UK; rather, it will mean that existing EU/NOWIs will be more likely to remain and indeed to be joined by a growing list of new arrivals. This view is backed up by the fact that over the past few years many of the wealthy UK residents we have interviewed have voiced concerns over the UK’s open border policy with Europe, as well as wider issues relating to the euro and economic dislocation within the EU.

As home to Europe’s dominant business and financial services cluster, the UK is in a uniquely advantageous position. It is the only English-speaking major-sized economy in the region; a fact that helps to attract EU/NOWIs and their businesses from across Asia, Australasian, African and North America. We anticipate that the UK’s traditional alliances with the US, Canada, Australia and New Zealand will all grow stronger post-Brexit. Specifically, we expect Britain to reintroduce two-year working visas for citizens from Canada, Australia and New Zealand in the next few years.

The world will become more globalised, not less

Parag Khanna Global strategist and bestselling author

While the great global centres like London continue to offer investors admirable returns over the long term, the cost of investment and assets is itself a barrier to entry. It was asked to point to a future growth sector, I would strongly urge investing in emerging and frontier markets, based on the demographic trends of urbanisation, and the new pragmatism of governments in investing in infrastructure in non-core districts of major cities as well as in second- and third-tier cities.

Blockchain will change...everything

David Friedman CEO, LifeChain

Blockchain is set to cut a wedge through the investment world – especially that part of it where issues relating to data, privacy and security intersect. At its core, Blockchain is a distributed ledger whose architecture offers a secure and seemingly unbreakable infrastructure that will give US/NOWIs the ability to accelerate the deployment and monitoring of their global capital across portfolios. Currently, every transaction requires validation of identity by a third party, adding friction to the process. By creating a permanent and unalterable record of each transaction, Blockchain eliminates the need for validation, reducing that friction and leading to greater control and trust. Ultimately, easier transactions should prompt a rise in volume, supporting additional global flows of wealth.

As the Common Reporting Standard (CRS) continues to gain traction across global tax regimes, there is an opportunity for investors to get ahead of the curve and influence how governments share information in the future, encouraging the exchange of accurate, transparent and timely data via a global Blockchain network.

In our view, the main risk for Blockchain is that someone will “hack” into this aggregation of data and assets, but that at some point a government might find such a concentration of information an irresistible target for control.

However, this is a geopolitical risk rather than a technology issue. The potential offered by Blockchain for accelerating global capital flows far outweighs the potential risks.

New citizenship options will open up

Dr Christian Vilin Rockley & Partners

The number of residence and citizenship-by-investment programmes is proliferating, and we are expecting a further slew to be announced in 2017. Recent European reforms mean that, for example, the Cyprus Citizenship-by-Investment Programme now offers more affordable access to the EU, with the minimum investment reduced to €2m. Investment options have been restructured, and now include the choice to invest in real estate or development land. Also in Europe, applications for the Malta Residence and Visa Programme opened last year. This gives individuals the right to reside, settle and stay indefinitely in Malta, with free movement of travel within the Schengen zone.

Elsewhere, in the Caribbean, Grenada’s Citizenship-by-Investment Programme has recently been reformed, and now offers visa-free travel to all major countries, and double taxation treaties with CARICOM and the UK, as well as an E-2 Investor Visa Treaty, giving successful applicants the right to enter, live, work and stay in the US. Aside from such programmes, the ability to move around the world is becoming easier thanks to a growing number of visa waiver agreements. Like the US did before it, Kuwait is in discussion with the EU regarding the removal of visa requirements for its citizens from the Schengen visa island, and China and Serbia now have a visa-free agreement with each other. Expect to see more such announcements through the course of this year.

Data sharing will influence investment decisions

Hiroko Moryu Partner, BDO

The introduction of the CRS means that the volume of private data being shared between governments is set to grow exponentially. At its simplest, the CRS will help signatory governments ensure that their citizens have paid the appropriate level of tax on their global investments. In reality, though, this is likely to mean coming face-to-face with a host of logistical problems. Governments must make sure that they have the capacity both to host and use the data received and to sift out misinformation, and that they are equipped to deal with the risk of data leaks.

No one should underestimate the scale of the challenges posed by the first two problems on this list: even well-resourced tax departments in Europe are running hard to get prepared. But the latter point is also hugely significant, especially as the “Panama papers” leak has shown that there are no guarantees when it comes to data protection.

There are real issues surrounding the security of US/NOWIs in these jurisdictions where government control of data will be weak and where there is the potential for extortion. The result may well be that US/NOWIs currently unions the emerging world will choose to move their investments, themselves and their families elsewhere in order to minimise personal risk.

So, where will they go? The US is set to be the biggest destination of choice. As long as it sits outside the CRS it will become an outlier in attracting wealthy investment.

In the UK too, the roadmap to Brexit currently remains unclear, and with it the shape of the nation’s post-Brexit relationship with the EU. The next 12 months should bring some clarity. The end of 2016 saw a noticeable change in the demographics of those looking to take advantage of investor (and entrepreneur) visa programmes globally, with a significant increase in appetite among European and US US/NOWIs that looks set to continue into 2017.

Dr Christian Vilin is a Managing Director of Rockley & Partners, in charge of a network of offices and client services in residence and investment programmes.

The Panama papers leak has shown that there are no guarantees when it comes to data protection.

Immigration will be the key political issue

Nadine Goldfoot Partner, Fragomen LLP

Migration – of investors, and of people in general – will present considerable challenges in 2017, both within the EU and internationally. Immigration is a central issue for the new US presidency, and a prominent feature in elections across Europe.

More broadly, against a backdrop of growing global instability and security concerns, questions of economic migration and “forced migration” are becoming conflated in political discourse. Some countries with high historical immigration levels, such as Switzerland and the UK, are feeling the heat and have introduced restrictive policies, albeit ones that do not necessarily act as a barrier to US/NOWIs looking to invest.

In the UK too, the roadmap to Brexit currently remains unclear, and with it the shape of the nation’s post-Brexit relationship with the EU. The next 12 months should bring some clarity. The end of 2016 saw a noticeable change in the demographics of those looking to take advantage of investor (and entrepreneur) visa programmes globally, with a significant increase in appetite among European and US US/NOWIs that looks set to continue into 2017.
The Knight Frank City Wealth Index offers a fresh perspective on the urban hotspots and networks that are shaping the US$HNIW world, now and in the future.

HEAD OF GLOBAL RESEARCH

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Since it was first published 10 years ago, The Wealth Report has highlighted the most important cities for the world's wealthiest individuals. To mark our second decade, we have re-evaluated our criteria and created a new measure - the City Wealth Index.

So, how to identify the world’s leading wealth centres? The obvious response is to look at where the wealthy live. On that basis, the answer is New York, with its 6,570 UHNWI residents easily out-ranking London’s still respectable 4,780. However, this only gives us part of the picture. The world’s wealthy are a discreet group, and the place they call home is only a starting point when trying to unravel the locations that matter most to them.

The City Wealth Index uses four critical measures to identify the cities that matter to the wealthy: Current wealth – the current population of UHNWIs. Investment – the total amount, in US$, of private investment in property during 2016, weighted in favour of those markets with a high proportion of cross-border inflow investment. Connectivity – the number of inbound and outbound first and business class flights in 2016 (illustrated in more detail opposite). Future wealth – a forecast of each city’s UHNWI population in 2026, weighted in accordance with the findings of our Attitudes Survey.

Using this methodology, London emerges just ahead of New York overall with top scores for both current and future wealth. However, from a European perspective, there is little to celebrate: London is the only European city in our top 10 and, with the exceptions of Moscow and London, all European cities score lower for future than for current wealth.

Future wealth concentrations and investment firepower look set to be dominated by a twin for supremacy between Asia and North American cities. The third and fourth largest concentrations of wealth today, Hong Kong and San Francisco, are likely to be eclipsed by the rising fortunes of Singapore, Shanghai and Beijing, which are all expected to see their wealthy populations grow rapidly over the next decade.

The Wealth Report

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INTERPRETING THE DATA

Using data assembled exclusively for The Wealth Report, showing the number of first and business class passengers flying between key global hubs.

It is the combination of these relationships that gives rise to the hub-and-spoke effect that can clearly be seen in the graph, with a relatively small number of very well connected cities acting as gateways to less well connected satellites. Miami’s status as a hub for Latin American wealth is clearly shown, for example, as are the vital roles played by London, New York, Hong Kong and Singapore in this critical global network.
A question of priorities

Private aviation, education and philanthropy are all high on the agenda for UHNWIs, according to the results of our Attitudes Survey.

Andrew Shirley
Editor, The Wealth Report

The results of The Wealth Report’s Attitudes Survey, which this year is based on responses from almost 1,000 of the world’s leading private bankers and wealth managers, offer an annual window on the issues that are influencing UHNW investment and lifestyle decisions. All the survey results are collated on a regional basis in the Databank section of the report (see page 61), but over the next few pages we use data to illustrate some striking emerging trends.

In-depth data supplied by industry analysts JETNET and WINGX, and illustrated graphically on page 23, confirm these broad patterns, but also reveal some striking emerging trends.

According to the Attitudes Survey, only 15% of UHNWIs are likely to travel on non-commercial flights. However, the pattern varies widely around the world. Latin America’s wealthy residents, perhaps worried about the risk of kidnapping, are the biggest users, with 40% opting to go private. Just 4% of Australasian operators give the same answer.

There is also the potential for growth in the US private jet market, which this year is based on trends over 75% of the world’s 1,000 busiest routes are within North America. “Business aviation is deeply embedded as the way to travel,” says Hardy Sohanpal of international operator Global Jet Concept. “The privacy becomes more of a priority for corporations and personal flights. However, the pattern varies greatly as the desire to travel efficiently with maximum flexibility becomes more of a priority for corporations and private individuals, says Mr Sohanpal. “The introduction of new apps and charter models that are competing to become the Uber of the airways is also likely to attract those who shuttle frequently between cities travelling first or business class.”

Ukraine. Looking ahead, the Chinese market is set to rise in wealth creation – only 9% of UHNWIs routinely travel on non-commercial flights. However, the pattern varies widely around the world. Latin America’s wealthy residents, perhaps worried about the risk of kidnapping, are the biggest users, with 40% opting to go private. Just 4% of Australasian operators give the same answer.

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GOING PRIVATE

According to the Attitudes Survey, only 15% of UHNWIs use private aviation for the majority of their business and personal flights. However, the pattern varies widely around the world. Latin America’s wealthy residents, perhaps worried about the risk of kidnapping, are the biggest users, with 40% opting to go private. Just 4% of Australasian operators give the same answer.

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As our data shows, geopolitics can have a major impact on private aviation. Traffic between Cuba and the US, for example, has taken off sharply since 2012, while the opposite is true of flights between Russia and Ukraine. Looking ahead, the Chinese market is set to see strong growth, says Mr Koe. “The government is starting to see the importance of business jets as a competitive tool to support corporations in pursuit of regional trade opportunities.”

Frequent flyers (global and regional private jet traffic)

<table>
<thead>
<tr>
<th>Region/Country</th>
<th>No. of Flights 2012</th>
<th>5-Year Growth</th>
<th>No. of Flights 2016</th>
<th>5-Year Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America  (5,266,073)</td>
<td>1,083</td>
<td>+96%</td>
<td>2,569</td>
<td>+15%</td>
</tr>
<tr>
<td>Latin America  (2,307,276)</td>
<td>1,186</td>
<td>+96%</td>
<td>2,267</td>
<td>+15%</td>
</tr>
<tr>
<td>Europe         (1,704,678)</td>
<td>16,486</td>
<td>+51%</td>
<td>13,392</td>
<td>+15%</td>
</tr>
<tr>
<td>Asia           (1,516,352)</td>
<td>1,391</td>
<td>+96%</td>
<td>1,211</td>
<td>+15%</td>
</tr>
<tr>
<td>Middle East    (409,149)</td>
<td>1,267</td>
<td>+95%</td>
<td>1,251</td>
<td>+15%</td>
</tr>
<tr>
<td>Africa         (409,149)</td>
<td>622</td>
<td>+95%</td>
<td>584</td>
<td>+15%</td>
</tr>
<tr>
<td>Australasia    (409,149)</td>
<td>162</td>
<td>+95%</td>
<td>131</td>
<td>+15%</td>
</tr>
<tr>
<td>South America  (409,149)</td>
<td>47</td>
<td>+95%</td>
<td>40</td>
<td>+15%</td>
</tr>
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<td>North America  (5,266,073)</td>
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<tr>
<td>South America  (409,149)</td>
<td>47</td>
<td>+95%</td>
<td>40</td>
<td>+15%</td>
</tr>
</tbody>
</table>

**Note:** Data includes all flights covered by European or North America air traffic control. *Routes with over 10 flights."
Good schools are a key driver of the housing market and their presence often helps to push up local property prices, but UHNWIs from a growing number of countries are choosing to educate their children overseas.

For example, almost half of this year’s Attitudes Survey respondents with clients in Africa said wealthy families were becoming more likely to look abroad for a good school. For Latin America, the figure was 45%, the Middle East 40% and Asia 38%.

Although the US, Switzerland, Australia and a number of other countries all attract students from overseas, the UK’s private boarding schools are still seen as the gold standard by many, according to specialist education advisors who help UHNWIs find the right schools for their children.

Data published by the UK’s Independent Schools Council (see table opposite), which accounts for around 80% of the total number of pupils in independent schools, shows global demand rising strongly over the past 10 years, in particular from China but also from Africa and Russia.

Currency, quality of life and access to the best universities are the key trends boosting demand for a British education, says Ed Richardson, Director of Education at Keystone Tutors. “Ambitious families in Singapore have traditionally sent their children to schools in the US, not necessarily because they think they are better, but because of the cost. Now, they are telling me that the fall in the value of the pound is making this UK look much better value. That sentiment will be school in many other places.”

Although the number of students from the Indian sub-continent provides access to the best universities in both the UK and the US, he adds. “There is a feeling that schools in the US are really only focused on getting people into US universities.”

William Petty, of advisor Bonas MacFarlane, has observed a number of other regional trends. “While growth in the Russian market has slowed down over the past few years, I am seeing a sharp rise in the urgency of enquiries from Turkish families,” he says. “In September last year people were expressing interest, but by December it was: ‘Can we come right now?’ Some people are looking for boarding schools, but others are looking at London day schools with the whole family coming over.”

Although the number of students from the Indian sub-continent is lower than other parts of Asia, Mr Petty expects a rise in demand from India and Pakistan over the coming years.

Ironically, he says, one of the first questions many overseas parents ask about potential schools is, “How many people from my own country are already there?” “They are very keen to make sure that the school retains a traditional British ethos,” he explains. Conscious of this, most schools try to keep the level of overseas students at under 20%, he says. They are also keen to ensure a diverse mix. “In a world where business is becoming increasingly global, having your children make friends with people from lots of different nationalities is considered very attractive.”

教育培训，教育，教育

Education, Education, Education

Overseas students joining UK public schools

<table>
<thead>
<tr>
<th>Region</th>
<th>2015/2016</th>
<th>2005/2006</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>1,598</td>
<td>2,186</td>
<td>-27%</td>
</tr>
<tr>
<td>Australia</td>
<td>91</td>
<td>753</td>
<td>+120%</td>
</tr>
<tr>
<td>Europe</td>
<td>3,670</td>
<td>2,373</td>
<td>+55%</td>
</tr>
<tr>
<td>North America</td>
<td>1,108</td>
<td>343</td>
<td>+297%</td>
</tr>
<tr>
<td>South America</td>
<td>90</td>
<td>107</td>
<td>+19%</td>
</tr>
<tr>
<td>US</td>
<td>2,924</td>
<td>1,097</td>
<td>+170%</td>
</tr>
<tr>
<td>Africa</td>
<td>100</td>
<td>173</td>
<td>-37%</td>
</tr>
<tr>
<td>Middle East</td>
<td>2,830</td>
<td>1,480</td>
<td>+91%</td>
</tr>
<tr>
<td>Middle East Peru</td>
<td>1</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Middle East Saudi</td>
<td>1</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>1</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td>1</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>261</td>
<td>120</td>
<td>+191%</td>
</tr>
<tr>
<td>Japan</td>
<td>309</td>
<td>167</td>
<td>+88%</td>
</tr>
<tr>
<td>Germany</td>
<td>1,097</td>
<td>1,005</td>
<td>+88%</td>
</tr>
<tr>
<td>France</td>
<td>1,188</td>
<td>1,051</td>
<td>+13%</td>
</tr>
<tr>
<td>Thailand</td>
<td>1,188</td>
<td>1,108</td>
<td>+7%</td>
</tr>
<tr>
<td>Russia</td>
<td>261</td>
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<tr>
<td>Spain</td>
<td>1,051</td>
<td>1,108</td>
<td>-5%</td>
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<tr>
<td>Italy</td>
<td>1,108</td>
<td>1,097</td>
<td>+1%</td>
</tr>
<tr>
<td>Mexico</td>
<td>1,005</td>
<td>1,005</td>
<td>0%</td>
</tr>
<tr>
<td>Austria</td>
<td>154</td>
<td>148</td>
<td>+4%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>199</td>
<td>285</td>
<td>-27%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2,186</td>
<td>1,598</td>
<td>+36%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6,260</td>
<td>3,670</td>
<td>+75%</td>
</tr>
<tr>
<td>Singapore</td>
<td>107</td>
<td>91</td>
<td>+19%</td>
</tr>
</tbody>
</table>

*Change estimated as 2005 data not available.

Source: Independent Schools Council

Specialist education advisors who help UHNWIs find the right schools for their children. Educationalists are keen to ensure a diverse mix. “In a world where business is becoming increasingly global, having your children make friends with people from lots of different nationalities is considered very attractive.”
THE BUSINESS OF PHILANTHROPY

The results of previous Attitudes Surveys have consistently shown that philanthropy is becoming more important to UHNWIs around the world. This year, we dug a bit deeper in order to find out how important philanthropy was in their overall wealth management strategies.

Despite the rising popularity of impact investing, philanthropic outcomes were considered one of the least important considerations (see Databank, page 66). Perhaps surprisingly, this position didn’t change when we asked specifically about the priorities of the respondent’s millennial clients.

According to Lenka Setkova, Executive Director at the Coutts Institute, who advises the bank’s clients on philanthropy, UHNWIs very often still view philanthropy in isolation from their wealth creation. Nevertheless, she says, “We are certainly seeing more wealthy families actively consider the social and environmental impact of the businesses they own or the investments they make.”

Ms Setkova adds that the firm’s clients are very interested in the benefits of involving the next generation in philanthropy. “We have had children as young as six brought along to the workshops that we facilitate for families to help them articulate their values and craft their philanthropy strategy together.”

The Coutts’ Million Dollar Donors Report (which includes data from the Million Dollar Donors Roundtable in the UK, US and Middle East) also found a dramatic increase in the number of major donations – up 57% to 2,197 in 2015 compared with the previous year. A 2016 survey by the charity Philanthropy Impact also found that UHNWIs donate up to 17 times more when they are professionally advised – currently, only 12% of UK UHNW philanthropists use a special advisor.

The Legatum Group is a private investment partnership based in Dubai, whose partners share the belief that philanthropy is at its most effective when fully integrated into the core strategy of a business.

“We don’t talk about the need to give something back, because we don’t think businesses should have to apologise for what they do. We believe that free market capitalism in itself is an engine of social good,” says Alan McCormick, one of the Group’s four partners. “We have a distinctive mission. While generating capital is our core business, allocating capital to help others prosper is key to all that we do. The group applies a business-like approach to identifying the causes it supports. It tends to focus on areas that have received little attention from other philanthropists or aid agencies, first testing ideas on a small scale to prove they are credible and will make a real difference to a significant number of people by creating long-term systemic change.”

Major initiatives to date have included tackling diseases. “In total, more than 220 million people have received de-worming drugs via this particular project, including the whole of Burundi and Rwanda,” says Mr McCormick.

Swedish businessman Percy Barnevik is another ambitious philanthropist – his autobiography is tellingly titled I Want to Change the World – who believes that incorporating successful strategies from the corporate world makes philanthropy more effective and sustainable.

“It was the missing link in the aid world. Too many young people that had been educated hadn’t gone into employment, and that bred hatred and resentment.”

“People are becoming more generous,” says Dr Barnevik, who founded the charity Hand in Hand International 14 years ago after retiring from a career that included senior roles with Astra Zeneca, ABB, Sandvik, Skanska, General Motors, Investor and DHL.

Dr Barnevik believes that training people, particularly women – “teach a woman and you teach a generation” – become more enterprising is the key to lifting families and communities out of poverty.

“It was the missing link in the aid world. Too many young people that had been educated hadn’t gone into employment, and that bred hatred and resentment.”

The charity’s ethos resonates with donors, who are encouraged to visit the villages they have sponsored.

“People are becoming more generous,” says Dr Barnevik, “but they are increasingly focusing on what they get for their money. Every quarter we send them a report detailing how many people have been trained and how many businesses have been created.”

So far, he says, Hand in Hand has helped to create 1.9 million new businesses in India, Afghanistan and Africa. Eventually, the goal is to create 10 million jobs, lifting 50 million people out of poverty.
The value of the world’s leading prime residential markets recorded slower growth in 2016, according to Knight Frank’s unique Prime International Residential Index (PIRI), which tracks the value of luxury homes in 100 key locations worldwide.

On average, values rose by 1.4% in 2016, compared to 5.5% in 2015. The slowing has been most marked in Asian markets, with Japan, Hong Kong and Shanghai recording the strongest declines. The Attitudes Survey revealed that 18% of global luxury home buyers hold US dollar-linked assets, up from 12% in 2015. However, the PIRI 100 also reveals that values rose by 2.1% in 2016. The increase would be higher were it not for a huge gap of 49 percentage points between the top and bottom performers.

The performance of global luxury residential markets will raise an eyebrow among even the most experienced investors. China’s cities have catapulted themselves up our rankings with Shanghai, Beijing and Guangzhou claiming the top three slots, all themselves up our rankings with Shanghai, Beijing and Guangzhou claiming the top three slots, all themselves up our rankings with Shanghai, Beijing and Guangzhou. Last year’s front-runner, Vancouver, was once again a top performer, but it was a year of two halves. Over the coming months, all eyes will be on whether the 3% hike in stamp duty for additional homes introduced in April 2016, rather than the UK’s decision to leave the EU that helped to rein in demand. But the tail end of 2016 saw an uptick in sales volumes and improved sentiment as the market readjusted to the fall in Sterling.

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Meanwhile, Europe continues to send out mixed messages. Of those locations recording full price increases in 2016, 50% were located in Europe. A year earlier this figure was 65%, suggesting that the continent’s recovery is gaining traction. Amsterdam, Gothenburg, Munich, Berlin and Barcelona were Europe’s top performers in 2016, but second home markets such as Ibiza, Mallorca, the Western Algarve and Lake Como also rose up the rankings.

Market drivers
A breakdown of the PIRE 100 by world region shows that Australasia (+14.4%), Asia (+5.1%) and North America (+4.8%) are the key engines of growth. Europe and the Caribbean sit firmly “mid table”, recording moderate shifts of 0.5% and -0.3% respectively. Latin America (-2.7%), the Middle East (-3.3%), Africa (-3.4%) and Russia/CIS (-3.5%) all recorded negative growth, due to a combination of weak currencies, slowing economies, rising inflation, low oil prices and growing political risk.

Wealth creation and resulting cross-border flows have continued to shape prime property markets in 2016, with security concerns, currency movements, education and even healthcare also emerging as influential market drivers. However, this year’s PIRE results highlight two key points. First, local economic activity has a strong bearing on price performance (all of this year’s top 10 rankings report 3% or more in annual GDP growth). And second, economic growth is firmly concentrated in the world’s cities (22 of the top 25 PIRE rankings are occupied by cities).

A breakdown of the PIRE results by property type also confirms this latter point. Based on results from 2016, the value of a city-based luxury home increased by 2.4% on average, a ski home by comparison saw 1.9% growth, and a beach or coastal property slipped by 2.4% on average, a ski home or coastal property slipped marginally by 0.5%.

While the PIRE 100 helps us to gauge where a location is in terms of its property market cycle, this chart gives a picture of the value offered by key global residential markets in relation to each other.

We have selected 20 prime city markets and calculated, based on the typical luxury residential value for each city and the exchange rate at the end of 2016, how many square metres US$1m would buy in each.

The top four, Monaco, Hong Kong, New York and London, jostle for position each year. The gap between this tier and the rest of the pack is significant, regularly exceeding 12 sq m per US$1m in monetary terms, US$10,000 per sq m.

Since we started this exercise six years ago, Monaco has held on to the top spot – and values have remained largely static. At the end of 2016, US$1m would have bought a diminutive 17 sq m in this exclusive 2 sq km enclave, much the same as in 2010.

New York (26) and London (30) have regularly switched positions over the years, but the strength of the US dollar and softening prices in prime central London in 2016 have enabled New York to edge ahead. These latest results also highlight the relative value of key European cities such as Paris (55) and Berlin (87), where for US$1m you can buy significantly more than in New York or London.

Despite both cities recording strong price growth, there is a 41 sq m difference between the two top Australian cities, Sydney (87) and Melbourne (110). At 182 sq m, the top residential market in the Middle East, Dubai, finds itself sandwiched between Melbourne and São Paulo, underlining the emirate’s relative affordability.

Compared with Monaco’s 17 sq m, US$1m buys a palatial-sounding 203 sq m in Cape Town, although this is 16% smaller than the 232 sq m the same sum bought in 2015. This shrinking floor space is attributable to both currency (the rand strengthened against the US dollar in 2016) and rising prices on South Africa’s Atlantic seaboard.

The value of a city-based luxury home increased by 2.4% on average, and a beach or coastal property slipped marginally by 0.5%

Note: Prime means for property, but less specifically, is for properties considered super prime. Knight Frank Research

The full floor residence on the 53rd floor of Madison Square Park Tower, 45 East 22nd Street, Manhattan

Meanwhile, Europe continues to send out mixed messages. Of those locations recording full price increases in 2016, 50% were located in Europe. A year earlier this figure was 65%, suggesting that the continent’s recovery is gaining traction. Amsterdam, Gothenburg, Munich, Berlin and Barcelona were Europe’s top performers in 2016, but second home markets such as Ibiza, Mallorca, the Western Algarve and Lake Como also rose up the rankings.

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**Home comforts**

A guide to where – and why – UHNWI’s choose to settle, based on detailed insights from our Attitudes Survey

**Future view**

Knight Frank’s Chief Economist identifies the key global trends that will shape prime residential property markets in 2017 and beyond

The signs are that UHNWI Asian investors are set to expand their property investment requirements.

**Temporary space**

Geopolitical issues aside, the single biggest trend shaping investment patterns globally is digital disruption. To take a single example, Airbnb and similar sites have facilitated the growth of short-stay accommodation options not just as fragmentation in the global economy is sending more employees “on the road”; but also because OECD data points to close to 20% year-on-year growth in international temporary assignments. This process is set to be super-charged as firms move away from centralising operations in London and demanding staff work in these hubs.

**Politics is everything**

Brexit and Trump took many by surprise. The same will not be true in 2017: investors are now well aware that anything is possible when voters are called to the ballot box. Elections in the Netherlands, France and Germany will have many looking to stay ahead of unfavourable results, with money on the move to safe havens. European political risks will weigh on southern European markets as investors look to protect themselves from potential Eurozone turmoil.

**The American Empire**

At a time when many G20 nations are still cutting interest rates and turning the quantitative easing tap, the US economy is strong enough to move towards normalising its monetary policy. A strong dollar will undermine the spending power of America’s wealthy, and persuade capital elsewhere in the world that it would be better off in US-based income-producing investments while exchange rates find their true levels. Capital controls in Asia and elsewhere will trickle in 2017 as market realities reassert themselves. Expect more inflows into US markets where investors will look to set up in the storm amid the comparative calm of a growing American economy.

**Don’t forget Asia**

The narrative surrounding China’s economy shifted from “opportunity” to “risk” after the financial crisis, as all the upbeat arguments about stellar wealth creation were replaced by angst over indebted local governments and state enterprises.

The gloom is overdone: while the narrative surrounding China’s economy has been through several years of price corrections and a shift away from export-driven growth towards a consumer-led economy. The IMFs are forecasting Chinese GDP to reach US$12.4 trillion, more than twice the level recorded in 2010. Asia has been through several years of rapid growth of short-stay accommodation. To take a single example, the deluge of issues facing the world’s prime residential markets in 2017 is a challenge.

**Geopolitical currents from Europe, the US and China are inescapable – with the world’s leading cities the main investment targets.**

**PORTFOLIO BUILDING**

Average number of homes owned by UHNWIs

- **USA**
  - **Miami Beach**: +5%
  - **New York**: +3%
  - **Los Angeles**: +2%
  - **San Francisco**: +0%
- **Canada**
  - **Toronto**: +4%
- **UK**
  - **London**: +3%
- **US**
  - **New York**: +8%
  - **Miami Beach**: +8%

Sources: The Wealth Report Attitudes Survey

**DESTINATION BOARD**

Most popular second home locations for UHNWIs

- **UK**
  - **London**: +4%
- **US**
  - **New York**: +6%
- **Canada**
  - **Toronto**: +8%
- **China**
  - **Shanghai**: +0%
  - **Hong Kong**: +0%
- **New Zealand**
  - **Auckland**: +4%

**GLOBE Trotters**

Where the wealthy are most likely to own homes

- **North America**
  - **Canada**: +3%
  - **US**: +3%
- **Europe**
  - **EU**: +3%
  - **UK**: +3%
- **Asia**
  - **Japan**: +3%
  - **China**: +3%
- **Africa**
  - **South Africa**: +3%
  - **Namibia**: +3%

**SAFE AND SOUND**

The most important factors for UHNWIs when choosing somewhere to live

- **PERSONAL SECURITY**
  - **US**: 91%
  - **UK**: 90%
- **SUSTAINABILITY**
  - **Canada**: 88%
  - **China**: 88%
- **LIFESTYLE**
  - **UK**: 88%
  - **Canada**: 88%

**HOME AND AWAY**

% of UHNWIs likely to buy a new home in or outside their country of residence in the next two years

- **EUROPE**
  - **UK**: 37%
  - **France**: 28%
- **ASIA**
  - **China**: 39%
  - **Japan**: 46%
- **LATIN AMERICA**
  - **Brazil**: 28%
  - **Argentina**: 32%

**FUTURE VIEW**

Prime residential price forecast 2017

- **US**
  - **Miami Beach**: +5%
  - **New York**: +8%
- **UK**
  - **London**: +3%
  - **London**: +4%
- **Canada**
  - **Toronto**: +4%
- **China**
  - **Shanghai**: +0%
  - **Hong Kong**: +0%

Source: Knight Frank Research
Dubai South, Dubai
Dinka Saleem, Knight Frank Middle East
Set to become the emirate’s flagship urban project, Dubai South is a neighbourhood to watch. Home to the Expo 2020 site, the area benefits from ongoing government spending on infrastructure projects, notably the expansion of Al Maktoum International Airport and the Dubai Metro’s Red Line (Route 2020) which, once complete, will add to the potential for capital value growth in the location. The first two residential communities, set for completion by June 2019, are expected to feature affordable apartments and townhouses with prices starting from 300,000 UAE dirhams for a studio.

North of Runda, Nairobi
Dier Woodward, Knight Frank Kenya
The influential residents’ association in the traditionally high-end suburb of Runda works hard to ensure that new developments are in keeping with the character of the area, which was first developed in the 1970s to house United Nations staff. However, there is a scarcity of plots and development opportunities, leaving buyers with limited options.

The northern bypass has now opened up the area north of Runda, leading to the sudden and rapid expansion of the suburb into the surrounding coffee fields. The diplomatic community is already locating accommodation beyond Runda in new developments such as Eden Ville, Four Ways Junction and Five Star Meadows. These new housing estates and gated compounds are well served by facilities including top schools and sports complexes, and are within easy reach of Two Rivers Mall, East Africa’s biggest shopping centre, due to open early in 2017.

South Main, Vancouver
Kevan Skippworth, Dexter Associates
Intersecting Vancouver’s east and west sides, South Main is the gateway to the city’s downtown core, with the trendy Main Street neighbourhood and Olympic Village at either end. With many sites ready for redevelopment, new buildings will offer breathtaking views of both the downtown skyline and the ski mountains of the North Shore.

Further expansion of the city’s underground and rail network will provide access along West Broadway across Vancouver and potentially as far as the University of British Columbia. Land banking is already occurring as developers anticipate growth. Currently, CMHC will buy a new two-bedroom, two-bathroom apartment with mountain views, with prices typically ranging from C$800 to C$1,200 per square foot – but these values look to increase.

Randwick, Sydney
Michelle Ciesielski, Knight Frank Australia
Located in the heart of the Eastern Suburbs, Randwick’s heritage-listed homes are dotted around two hospitals, a university campus and the Royal Randwick Racecourse, while some of Sydney’s finest beaches are within walking distance.

Commuting into the central business district will be made easier with the opening of several stations on a new light railway line, which is scheduled for completion in 2018. A renovated, modern house starts from A$2.3m, while contemporary, higher density projects currently in the pipeline seek to push the median price for an apartment significantly higher than the current A$550,000.

Gentrification & the ripple effect

Lower East Side, Manhattan
Howard Margolis, Marie Espinal & Jeff Adler, Douglas Elliman
According to the New York Times, the city’s Lower East Side – traditionally home to an immigrant, working-class community – is “where gritty meets trendy”, offering authentic New York without the whitewashing. The neighbourhood between Houston and Delancey and east of Bowery to the East River is undergoing a transformation, with modern glass-fronted public housing sprouting up alongside century-old red brick tenements, and projects such as the US$1bn Essex Crossing development acting as a catalyst for wider gentrification. Due for completion in 2024, this nine-building project will encompass a 15,000 sq ft public park, retail and office space and will be the new home of the Essex Street Market, reflecting the area’s burgeoning reputation for gastronomy and artisanal crafts. Currently, prices for one- and two-bedroom condos – which make up the bulk of the neighbourhood’s existing housing stock – start from US$675,000 and US$800,000 respectively.

West Aspen
Rafie Bass, Douglas Elliman
Aspen’s envy-tale winter social calendar means many out-of-town buyers continue their search to the downtown area, drawn to be in the heart of the action and just a short walk from the gondola, restaurants and entertainment. Just a mile and a half away, however, West Aspen is beginning to rise in buyers’ estimations. North of Main Street, influenced from the bustling and bustling but connected via a twice-hourly bus service running well into the evening, West Aspen offers property values around half those of downtown.

Single family homes predominantly and prices are close to US$1m per sq ft, compared with values of US$3,500 per sq ft downtown. A half-duplex property typically starts at US$1.5m, and a detached single family home at US$2.5m.

Quartier des Pâquis, Geneva
Alex Koch de Giorgetti, Knight Frank International
Positioned on the Right Bank, sandwiched between five-star lakeside hotels and Geneva’s main station, the historic quarter of Pâquis. Once overlooked, the area is now undergoing a transformation similar to that seen in London’s Notting Hill Gate in the 1970s. At the baser northern end, close to the station, prices range between CHF150,000 and CHF250,000 per sq m. Moving to the quarter’s quieter southern end, located close to the lake, prices reach CHF200,000 per sq m. The higher-quality Geneva project being one in point. Pâquis is seeing the pace of redevelopment quicken, suggesting that the quarter will outperform the rest of the city by some margin over the next five to 10 years.

Centro, Madrid
Humphrey White, Knight Frank Spain
The historic quarter to the east of Madrid’s iconic Puerta del Sol plaza, which stretches between Alcalá, Sevilla and Carretera de San Sebastián, is undergoing a major transformation. Due for completion in 2018, the new Centro Canalejas Madrid will see the renovation of seven adjacent buildings, all previously occupied by Spain’s top banks. The heritage of the buildings is being carefully preserved due to their high architectural value. The development, which will be home to a 215-room Four Seasons luxury hotel, 22 exclusive residences with all hotel services included and high-end boutiques, is expected to be a catalyst for wider regeneration in the city centre.

Santo Spirito and Porta Romana, Florence
Amy Rosepen, Knight Frank International
The traditional home of Florentine artisans, the areas of Santo Spirito and Porta Romana, south of the River Arno, offer easy access to the historic tourist centre – without the crowds. Packed with workshops and antique galleries, they are also home to craft and farmers’ markets, small restaurants, churches containing important artwork, several theatres and the city’s green lung, the renowned Boboli Gardens. Typical buildings are lower-rise and narrower than elsewhere in Florence, with many of the “Noble Palazzi” built in the 1500s still belonging to the same families. Around €300,000 will buy a two-bedroom apartment that may be in need of some modernization, while €1m will secure a two- or three-bedroom, newly restored apartment with a lift and balcony or terrace.

Knight Frank
THE WEALTH REPORT

Residential Property

Technology & creative industries

MEDIASPREE, BERLIN
DOROTHEA METASCH, ZIEGERT IMMOBILIEN

Set in the heart of the borough of Friedrichshain-Kreuzberg, which straddles East and West Berlin, Mediaspree is now home to The Coca-Cola Company and Mercedes Benz, which sit alongside hip clubs and the district’s most iconic landmark, theleted Freibau Bridge with its towering structures. Corporations are following in the footsteps of the creative industries that have already set up home here, and housing demand is surging accordingly. Berlin will soon go for dual high-rise skyline with an entire row of residential projects planned along the waterfront. Two-bedroom apartments start at €500,000 and demand is expected to be high.

KAMOGAWA RIVER AREA, KYOTO
NICHOLAS HOLT, KNIGHT FRANK ASIA-PACIFIC RESEARCH

Famous for its numerous Shinto shrines, Buddhist temples, gardens and palaces, Japan’s former imperial capital is attracting growing interest from property investors at home and abroad. Buyers from China, and in particular Taiwan, have been increasingly active in the new-build market, which has further encouraged a scramble for limited development land plots by developers. Underpinning demand is a strong local economy centred around TT and tourism – Kyoto is home to 17 UNESCO heritage sites – the city’s beautiful mountainous backdrop and its limited supply of quality residential product. The Kamogawa River area, around the Kyoto Imperial Palace and Shigemato shrines, has been the epicentre for much of this development and looks well placed to outperform its neighbours.

MAJIWADA-KASARVADAVALI, THANE, MUMBAI
DR SAMANTAK DAS, KNIGHT FRANK INEA

After decades of being labelled as the poor cousin, Majiwada-Kasarvadavali in Thane, a city within the Mumbai metropolitan area, is now showing signs of realizing its promise. Up until a few years ago, the majority of job opportunities were in industry, now, the focus has shifted to the service and high-tech sectors, with the country’s largest technology firms queuing up to set up offices. A new metro rail line will significantly boost connectivity, and the area’s social infrastructure – premium malls, good schools and excellent healthcare facilities – is improving rapidly alongside the development of amenity-rich, high-rise residential projects. A ground to 4th floor apartment, property prices in Majiwada-Kasarvadavali remain very competitive – for now.

TOPHANE, BEYOGLU, ISTANBUL
ÖZLEM ATALAY, PAMIR & SOYEUR

Located within walking distance of the Bosphorus and from 2017 is home to the Galatasport Project, a major regeneration of the port and 1.2km waterfront that will significantly boost connectivity, and the area’s social infrastructure – premium malls, good schools and excellent healthcare facilities – is improving rapidly alongside the development of amenity-rich, high-rise residential projects. A ground to 4th floor apartment, property prices in Majiwada-Kasarvadavali remain very competitive – for now.

ZANGJIANG, SHANGHAI
KEEGNE WANG, KNIGHT FRANK CHINA

Located in Shanghai’s Pudong district, east of the historic centre, Zangjiang has been known as an industrial area and manufacturing base since the early 1990s. But in recent years, the area has been transformed into a major residential community, following in the footsteps of neighbouring Luqian Huangpu. As an IT hub, Zanjiang attracts talent from the manufacturing, IT, bio-medical and new materials sectors, which is creating strong residential demand. Rapid infrastructure development has also brought people into Zangjiang: a further five metro lines will soon pass through the area, in addition to the existing Metro Line 2. A budget of 40m yuan will buy a detached villa of around 300 sq m, while a larger home of around 1,000 sq m will command 100m yuan. Two-and-three-bedroom apartments of 90 to 120 sq m fetch between 5m and 7m yuan respectively.

Value hunters

MAYFAIR, LONDON
LIAM BALEY, KNIGHT FRANK GLOBAL RESEARCH

One strategy for identifying tomorrow’s hot investment is to start with today’s most fashionable. Following a dismal 2016 – with price falls of up to 10% and sales volumes plunging 25% – the prime central London market could eke out a convincing claim to that title. However, a little perspective is required. This is a market which has over the last 40 years delivered annual average total returns of 16%, while outperforming every major global luxury residential market. And at its very heart, sits Mayfair, an already glandile enclave now being buffed and buffed up by the addition of a range of upmarket retail, hotel, restaurant and restaurants of all kinds. Renovation might not be quite the right word for Mayfair’s latest revamp; but the area’s position as London’s leading residential address is set to be cemented over the next few years by the arrival of some of the world’s most prestigious residential developments.

HANCOCK PARK, LOS ANGELES
LAM SUEY, KNIGHT FRANK GLOBAL RESEARCH

East of Beverly Hills, heading towards downtown Los Angeles, lies Hancock Park. Built in the 1920s around the grounds of a private golf club, the picturesque Country Club, and the Los Angeles Tennis Club, the neighbourhood’s large East Coast-style homes are attracting growing demand. High-end restaurants, new boutiques and good private schools are tempting those buyers who have smaller budgets, yet want to remain within a 10 to 15 minute drive of Beverly Hills. With values almost half those found in neighbouring upmarket districts such as Santa Monica, Venice Beach and Beverly Hills, a four-bedroom detached home on a 10,000 sq ft plot starts at around US$1m.

WOODSTOCK, CAPE TOWN
ANNE PORTER, KNIGHT FRANK SOUTH AFRICA

Situated on the slopes of Table Mountain, this is the last remaining inner city area available for redevelopment and benefits from an Urban Development Tax Incentive scheme that encourages urban renewal through private sector investment. A mixed-use area, Woodstock features warehouses, loft conversions, new apartment blocks and a mix of freestanding and semi-detached homes, many of them Victorian. These latter properties in particular are highly sought after by those seeking an urban, cosmopolitan and trendy lifestyle close to Cape Town and keen to take advantage of Woodstock’s convenient transport links and popular entertainment venues.

The average price of a property has risen sharply in recent years to 2.3m rand.

Residential Property

SOUTH COAST, BARBADOS
EDWARD DE MALLET MORGAN, KNIGHT FRANK INTERNATIONAL

The South Coast of Barbados has long been overlooked, with most buyers gravitating instead towards the island’s western coastline. Beachfront locations around Accra Beach and St Lawrence Beach now offer relatively good value and easy access. By comparison, the opportunities for those lacking in the US$1 to US$2m bracket on the West Coast are narrowing. Developers have picked up on this trend with the delivery of new projects such as Capetown development that should attract further high-quality development to the South Coast.

WANDERING THE ARRASSONDEMENT, PARIS
MARK HARVEY, KNIGHT FRANK INTERNATIONAL

The 10th arrondissement, in the north-east of central Paris, combines stunning period buildings that capture the history and essence of the French capital with a hip, edgy atmosphere that appeals to a young, trendy crowd. With neighbouring arrondissements such as the 2nd and 9th commanding higher prices, the 10th offers great value in an essentially central location. The wide boulevards, walkways and bars and restaurants springing up along the Canal St Martin – a car-free zone at weekends, to the delight of cyclists and pedestrians – combine to create a vibrant and diverse neighbourhood. There is a cosmopolitan feel about the area that attracts artists, fashion designers and those working in the creative industries, which has in turn led to a wave of trendy affordable boutiques. A 200 sq m apartment will cost between €350,000 and €500,000.
Many happy returns

Private investors are taking advantage of the strong long-term performance of commercial property – and exploring new sectors of the market.

ANTHONY DUGGAN
HEAD OF CAPITAL MARKETS RESEARCH

Although many people will have been relieved to see the back of 2016, global commercial real estate remained a beacon of light throughout the year for both institutional and private investors. Transaction volumes were robust and returns favourable when measured against other asset classes.

Private investors have been key players in the global market for some time now, accounting for 20–25% of all transaction volumes over the last 10 years, but this rose to nearly 30% in 2016. From a performance perspective, it is easy to see the attraction.

According to analyst MSCI, global real estate has delivered an unleveraged return of 6.3% over the past 10 years, rising to 9% per annum over the past five years (to December 2015), with star performers including Indonesia (32.3%), Ireland (31.7%) and the US (32.0%). While Australia, Canada, Malaysia, Hong Kong and the UK have also posted strong returns.

Indeed, on both an absolute return and risk-adjusted basis, real estate has performed very well against the two largest asset classes: equities and fixed income. From the global financial crisis only served to highlight the relatively defensive nature of real estate, with downward valuation adjustments at least partly offset by returns from income.

While the return on global equities has been mostly as strong as for real estate over a 10-year period, real estate returns really come into their own on a risk-adjusted basis. The income component, coupled with slower capital-driven cycles, makes returns on real estate much more predictable than returns on equities, with real cash flows providing a source of cash return regardless of the underlying change in asset values. Over the same 10-year period global bonds have benefited from similarly low levels of volatility as real estate, but the return profile has been markedly weaker over the past five years.

Looking ahead, investors are understandably cautious given weak global economic forecasts and the expectation of further geopolitical uncertainty. But despite this, significant appetite for real estate investment portfolios remains. Our first Family Office Investment Trends survey (covered in more detail elsewhere) found that all respondents wished to continue increasing their allocations to property over the next 12 months and highlighted a number of reasons why, not least the scope this offers for acquiring tangible assets outside their domestic economy, and the opportunity to exercise total control over their assets.

So, where will these investors be looking in 2017? Knight Frank’s latest Global Cities commercial property report highlights a number of key trends for international real estate investors in the current economic environment. These include the rise of real estate as part of a wider and deeper “real asset” portfolio, alongside infrastructure investments and other physical assets, which share many of the characteristics that make property so attractive.

Also highlighted, and of particular relevance to private investors, is the rise of investment-quality “buildings with beds”. The most obvious example in this category is hotels, but clients are increasingly looking for advice on the development, purchase and management of assets such as private rented sector residential investments, student housing, senior living and healthcare facilities. Under-supply of such assets, combined with clear demographic-driven demand trends, is attracting interest from both investors and from developers who are creating products suitable for real estate investment portfolios.

Alongside these longer term trends, on page 44 we turn the spotlight on a sector we feel will become more and more attractive to private investors over the next few years: urban logistics. This sector is undergoing a revolution as rapid urbanisation drives the growth of global cities at the same time as trends such as the explosion in e-commerce translate into demand for ever greater volumes of goods to be moved at ever faster speeds around these new conurbations.

With short reaction times and precise delivery slots becoming increasingly valuable to retailers as points of differentiation, “local” real estate storage and logistics facilities are in high demand. Add to the mix the prospect of being able to buy urban land at a relatively low entry price point, and there are compelling reasons to invest.
A family affair

Diversification and stability are the key drivers for family offices looking to invest in commercial property, as the results of a unique new survey by Knight Frank show

ANTHONY DUGGAN
HEAD OF CAPITAL MARKETS RESEARCH

In order to better understand the motivations behind commercial property investment habits of family offices, we have created the first Knight Frank Family Office Investment Trends Survey.

The survey respondents — identified by the Knight Frank Private Client team as family offices actively involved in commercial property investment, although the length of time they have been investing varies — were interviewed directly.

The results, considered in conjunction with the findings from our long-running Attitudes Survey, combine to give us a unique understanding of how UHNWIs view and invest in commercial real estate.

Key asset

Commercial real estate is an important asset class for private investors, with 21-30% of global transaction volumes attributed to private buyers. Our 2017 Attitudes Survey data echoes this and shows that a full-quarter of private client wealth is allocated to real estate investments (including their primary residences and second homes); interestingly, this varies significantly from region to region, with Middle Eastern investors holding the highest proportion (33%) and North American investors the lowest (11%).

Investment drivers

When we asked respondents to our Investment Trends Survey why they invest in commercial real estate, the majority stated that diversification was the primary driver. Real estate is used in their portfolio to provide variation from both their domestic economy and across asset classes.

The stable income component was also a key attraction, and the term “future income stream” was often mentioned. With capital preservation also important to the respondents it is unsurprising to note that there was a strong preference for “core” type investments, such as centrally located office and retail units on long leases. However, there was also appetite from some to identify “value add” or “opportunistic” investments as part of their strategy.

In-house expertise

A member of the most established family offices discussed their decision to open a dedicated office to manage their real estate investments, enabling them to bring their asset management and due diligence processes in-house. Typically, such offices began on a limited scale with just a few staff, but grew as assets under management increased.

Importantly, it was felt that this “on the ground” resource gave them an advantage in terms of sourcing opportunities and building a portfolio.

Sector selection

Our survey also identified office property as the most popular sector for investors’ portfolios, a finding borne out by both long-term global transactions data and the results of our Attitudes Survey.

It was apparent that some investors were nervous about the structural changes underway in the retail sector, although those with experience of this particular asset class from their primary business, for example, were very happy to have exposure. Others were looking at it selectively.

The survey findings also showed, as we have observed throughout our advisory work, that logistics real estate is becoming increasingly attractive to our family offices.

Risks and returns

We asked respondents to give us their view of the current risk/return opportunity in their market area in 2017. The average score was six out of 10 (behind 10 was best). Most family offices see further value in the market, albeit with some concerns about the general economic climate.

In particular, a number were “worried about pricing of ‘core’ real estate in certain markets”, and felt correspondingly that “stock selection was key”. When asked to clarify what, in their view, may negatively impact pricing in 2017, a number identified “interest rate pressures”, “occupational demand” and “low forecast rental growth” as their primary concerns.

Other respondents were more upbeat and suggested that, given the continued economic and political uncertainty, concerns from investors could be due to “the reduced level of competition from other investors at this larger lot size might lead to better yields. However, it was clear that any investments would be closely scrutinised, with there being no urgency to spend money unless it is under the right opportunity areas.

Location, location

Responses to preferred locations varied considerably depending on their domicile, with Australia, Africa and the US all cited as investment targets for 2017. The majority, however, continues to look to Europe for their allocations, with the UK and Germany the most popular individual countries. The reasons for this included the scale of the market, relative liquidity and depth of opportunity available.

Once again, these results reflect the outcome of our Attitudes Survey, where the majority of respondents favoured investment in Europe.

Appetite for investment

Despite an element of caution expressed from some parts, the clear message was that respondents had a healthy appetite for further commercial real estate investment in 2017. Most talked in terms of large double-digit percentage target increases in the level of assets under management.

It was clear that the majority still felt “under-invested in property” and were on a journey to “obsolescence overall portfolio”. Typically, respondents were looking to secure lot sizes from £20 million to £50 million, although a number talked of scaling up to over £200 million, driven both by a desire to get money invested more rapidly and a perception that the reduced level of competition from other investors at this larger lot size might lead to better yields.

Long term view

The results of this first Investment Trends survey clearly show that family offices’ relationship with commercial property will only strengthen further over 2017. The asset class remains an important diversifier from their domestic economy and a “core” asset capable of providing both a store of wealth and a stable income component.

Private investor allocations are expected to increase with significant dry powder targeting the sector. Offices remain the most popular sector although logistics is increasingly rising up the wish list as the strong fundamentals become clearer.

As already stated, markets as diverse as Australia, the US, Africa and Asia were identified as potential hot spots. However Europe is, by some margin, the preferred destination of global allocations for 2017, with the UK remaining top of the country list, despite the ongoing uncertainty of Brexit.
E-commerce requires a significant number of real property assets to function efficiently. A crucial part of the online sales experience for customers is using and where it is located. The revolution is being driven by the accelerating trend for online retailing around the globe. Initially led by those markets with the deepest internet penetration, such as China, the US, the UK and Germany, it is now gaining traction elsewhere as the popularity of e-commerce continues to grow worldwide. A crucial part of the online sales experience for both retailers and consumers is the method by which goods reach the buyer. For the retailer, the challenge of advertising goods for sale online, managing stock, creating a global pricing strategy and, crucially, getting goods to the right place at the right time, is a daunting one. Gone are the days when products landed in the country they were being sold in, then were moved to logistics facilities before being distributed to stores. Now, those same goods need to be picked, packed and sorted, photographed, then delivered to a specific location at very short notice and may then have to work their way back through that same system if they are returned by the customer. For retailers, this means that speed of delivery has overtaken price as the main competitive battleground. This is expected to drive solid occupancy rates and positive rental growth.

Right place, right time

The surge in online shopping and the demand for ever shorter delivery times is creating opportunities for private property investors in a new sector: urban logistics.

ANTHONY DUGGAN
HEAD OF CAPITAL MARKETS RESEARCH

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Going the extra mile

While both are compelling investment opportunities, it is in these urban, local logistics facilities that we see the greatest potential for private investors seeking secure long-term returns and looking to tap into the opportunities created by the rise of e-commerce and increasing urbanisation. This translates into a number of compelling investment prospects on both the demand and supply side. First, as e-commerce grows, so too does the need to service these expanding consumption patterns. Last-mile delivery is a hot topic for many expanding conurbations, this is expected to drive solid occupancy rates and positive rental growth.

Second, vibrant and growing cities need a network of suppliers to function efficiently. From fresh food suppliers to car parts, trade counters and storage (to name just a few). So it is not just e-commerce driving demand for this asset class – other businesses are looking to establish bases near their customers, too. Third, as cities grow, the pressure on land and the competition from different uses intensifies. We view urban logistics as a potentially attractive entry point for gaining exposure to land in major urban centres. Investors can adopt a strategy of buying this asset type to provide income and capital growth potential in the short to medium term, with long-term options for change of use, depending on local regulations, to a higher-value usage such as housing.

John Lewis, one of the UK’s leading retailers, which 10 years ago was directing 75% of investment towards online sales and products. Today, three-quarters of investment goes into distribution and IT, and just 25% to stores. This trend is fuelling strong growth in the number of logistics facilities, ranging right the way from the very large regional distribution centres where goods are stored, photographed, picked, packed and sorted, through to urban parcel delivery properties and local depots designed to enable the fast “last-mile” delivery times needed to fulfill consumer demands.

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Hot property

The Wealth Report identifies seven hotspots around the world that present exciting opportunities for private property investors in 2017 and beyond

ANTHONY DUGGAN
HEAD OF CAPITAL MARKETS RESEARCH

While investment decisions will always depend on the individual – their appetite for risk, their level of expertise and appetite and the level of returns they’re looking for – away from the main global gateway cities such as London, New York, Tokyo and Paris, a growing number of exciting locations is emerging, with all the ingredients needed to make them attractive long-term commercial real estate investment choices for the private investor.

Over the following pages we highlight seven cities that are leading the way in developing a compelling mix of education, lifestyle, infrastructure, technology and real estate and, in the process, becoming the kind of vibrant, attractive locations where people want to work, shop, play and live. While each of the cities featured here is unique, they do share certain characteristics in common. In particular, the rapid growth of technology companies is driving a wave of regeneration and development that echoes through all real estate sectors. Cities that can provide a favourable environment for this type of business are seeing significant investor interest.

A large part of the attraction for these in-moving tech firms is the prospect of becoming part of an ecosystem that has been designed to attract the best talent. Education is a critical component, ensuring a regular flow of the type of highly skilled employees so sought after by fast-growing companies in the global “war for talent”. And hand-in-hand with this comes demand not only for office space, but for housing, retail, logistics, hotels and other types of income-producing real estate.

For more information on these hotspots and a host of other cities to watch, see the latest Knight Frank Global Cities report.

AMSTERDAM: THE NETHERLANDS

Amsterdam is working its way up the ranking of European tech locations and was rated one of the five most innovative cities in the world in the 2015 CITIE survey. There is a thriving start-up scene; a host of co-working spaces including B.Amsterdam, WeWork and Spaces, and Uber, Netflix and Toda are among the major players opting to make Amsterdam their mainland Europe headquarters. There’s no shortage of home-grown talent, either. A large, for example, handles online payments for clients including Foodora, Netflix, Spotify, Uber and Airbnb. and is valued at over US$1bn – the Netherlands’ first “unicorn”. Add to this its consistently high score as one of the world’s most livable cities, plus the quality of its transport links, both via Schiphol airport and overland to the rest of continental Europe, and you have a compelling case for the continued success of Amsterdam as a home for both business and leisure.

MIAMI: US

Often thought of as a tourist destination and home for wealthy residents, drawn by healthy tax incentives and an abundance of sunshine, rather than as a commercial property hotspot, Florida’s most famous city is reinventing itself as a creative and technology hub. In-movers such as Microsoft’s Innovation Centre, the company’s first in the US, in 2014 and the company’s recently opened Brickell City Centre supermall, part of a wider US$1.05bn mixed-use development, adding new names to the roster of global and boutique retailers already located in the expanding Miami Design District and Wynwood Arts District, plus the new Miami Worldcenter development, scheduled to open in 2017. In addition, the city’s education offer continues to improve with the University of Miami’s business school, located in the expanding Miami Design District and Wynwood Arts District, plus the new Miami Worldcenter development, scheduled to open in 2017. In addition, the city’s education offer continues to improve with the University of Miami’s business school, and law schools rising up the rankings.

BENGALURU: INDIA

Touted as the IT and start-up capital of India, Bengaluru has emerged as an attractive destination for multinational enterprises looking to set up innovation centres and tap into a fresh pool of technology talent. In-movers including Uber, Airbnb and Visa now sit alongside a healthy start-up scene, with home-grown tech success stories such as Flipkart, InMobi and Mu Sigma all now part of the billion-dollar “unicorns” club. Importantly, the city has a number of top-class global research institutes such as the Indian Institute of Science, as well as many state-owned research organisations that are turning out the innovative cultures and workforce so vital to today’s growing cities. As global enterprises look beyond the established hubs to find new talent pools and centres of innovation, Bengaluru has built a strong eco-system and the momentum to emerge as a leading option for both domestic and international businesses.

BERLIN: GERMANY

As a model for successful regeneration, Berlin is currently riding high. The two central districts of Mitte and Kreuzberg have led the regeneration wave, with Friedrichshain the most recent to take on the creative mantle. Even Berlin’s coolest districts are not immune: Pankow, with its buzzing cultural scene, boutiques and vibrant nightlife, is also now becoming increasingly gentrified. Recent years have seen an explosion of start-ups with more than 40,000 new companies incorporated each year. Crucially, the cost of living in Berlin is one of the lowest in Germany and compares favourably with the rest of Europe – for example, it’s around a third less than London – encouraging a young and vibrant culture. More than 174,000 people moved to the city in 2014, over half of them from overseas. The city’s economy is now one of the best performing in the country, driven by both tourism and services.
MELBOURNE: AUSTRALIA
With a population forecast to surpass Sydney’s by 2036, Melbourne is a thriving city that has undergone significant transformation over the last decade. In particular, there is strong growth in city centre living; unsurprising, given that the Economist Intelligence Unit rates it as the “world’s most liveable city”. In addition, the city is now the second-largest office market in Australia (behind Sydney), with the number of employees based in the central business district (CBD) increasing by more than 24% over the past 10 years. This has led to a wave of development activity with several large mixed-use schemes already delivered and a number in the pipeline, including the 30-year renewal project at the Fisherman’s Bend precinct, which will cover 450 hectares in Port Melbourne, south-west of the CBD. The scheme will include new high- and medium-density commercial and residential development for up to 80,000 residents and a working population of 60,000 by 2046. The continued emergence of these major projects provides investment opportunities of a scale and diversity to appeal to large investors, helping to maintain Melbourne’s position as a primary destination for global and domestic capital.

AUSTIN: US
Austin is fast becoming a global model for forward-thinking cities and has gained the title of Silicon Hills, the Silicon Valley of the south. It’s not hard to see why: its innovative mindset, entrepreneur-friendly environment, entrepreneurial focus and unique culture have transformed it from a government-dominated economy into a technology leader. Companies with bases in Austin range from tech titans such as Apple, Google, Facebook, Oracle, Cisco Systems, Dell and Hewlett-Packard through to mid-stage and start-up ventures. This environment, along with the steady flow of graduates from the University of Texas and other nearby schools, plus in-migration that is increasing the population by 150 people a day, is attracting further corporates looking for a young and educated workforce. A wave of construction is attempting to keep pace with demand, with a focus on both workspaces and co-working environments and high-density multifamily housing.

MEXICO CITY: MEXICO
Supported by a broad base of corporate industries such as automotive, telecommunications, logistics and retail, Mexico City continues to attract significant foreign direct investment as the gateway to emerging markets in the rest of Latin America. The city’s growing middle class is spurring significant redevelopment and regeneration. Large mixed-use projects are transforming neighbourhoods including Paseo de la Reforma, Polanco and Insurgentes and include modern housing and offices as well as shopping centres. Indeed, the office market has grown by 200% since 2001, with 170 new buildings. And with a new international airport under construction, Mexico City is investing in the future.

The first phase of development, scheduled to be completed in the early 2020s, is expected to provide capacity for up to 50 million passengers and 550,000 flights a year. This has the potential to rise to 120 million passengers and 1 million flights by 2030.

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Luxury Spending Trends
Investments of passion and objects of desire
- page 56
We delve into the results of Knight Frank’s most glamorous index to find classic cars back down on the grid, as fine wine moves up through the gears.

Investment grade wine finally knocked classic cars off the winner’s podium in the 2016 Knight Frank Luxury Investment Index (KFLII). The Knight Frank Fine Wine Icons Index, compiled for us by Wine Owners, recorded blistering growth of 24% in 2016, compared with a relatively lukewarm 9% increase in the value of the HAGI Top Index, which tracks the performance of the world’s most desirable classic cars.

Wine’s stellar performance was driven by exceptionally strong growth in key areas across the world, and in particular the resurgence of the top Bordeaux chateaux, which form the backbone of most investment cellars, says Nick Martin of Wine Owners. “In 2015 we saw growth of around 8% for the whole of the Bordeaux region, off the back of steep declines in 2012 to 2014 following the bursting of the Chinese-induced Bordeaux bubble in late 2011. “But 2016 was completely different. The top Bordeaux blue chips drove the entire market, growing 9% to the end of June. Brexit turbo-charged the market due to the devaluation of sterling, feeding more positive sentiment into a market that had already been gathering significant momentum. The first growth rose a further 18% between June and November 2016, resulting in an annualised performance of over 30%.”

Looking forward, Mr Martin believes Bordeaux will continue its upwards trajectory in 2017, although gains could be less broad-based as buyers start becoming more focused on value. Prospects look favourable elsewhere in France, too. “Blue chip Burgundy continued its strong run, rising a further 31% in 2016, driven by a number of short recent vintages and expectation of price rises ahead of the much-touted 2015 vintage release,” he says. A case of 1988 Romanée-Conti (pictured right) was the most expensive wine to sell at auction last year when it went under the hammer with Bonhams in October for £129,250.

California (up 34% in 2016) also continues to defy gravity, driven by its cult wines, as Mr Martin explains. “US collectors and direct-to-consumer wine ‘clubs’ continue to support the market as they buy into the scarcest wines irrespective of release prices, in the knowledge that having an allocation at first release is prized and secondary market prices are likely to see a jump after release.”

Northern Italy – and Piedmont in particular – also performed very strongly, says Mr Martin. “The qualitative improvements in Barolo, and the parallels with the development of the market in Burgundy a decade or two ago, have captured the imagination of the collector community. The market rose 28% and is likely to perform similarly over the next year.”

In addition, a growing interest in Piedmont vineyards from overseas investors should help to drive future growth, he predicts. The 143-year-old Vietti winery was sold to the US convenience store-owning Krause family last year, the family’s second such purchase in the region.
THE DRIVE TO QUALITY

For classic cars, “2016 was the year of the slowdown,” says HAGI’s Dietrich Hatlapa. For anybody not familiar with the market, that looks like a slightly downbeat claim as annual growth was still a very respectable 9%. But set against total growth of 10% over the past five years, it is clear that the market has dropped down a few gears.

“Those who were in it just for the money have moved on,” says Mr Hatlapa. “The market is now more in the hands of the collectors and specialists, which I think is good news for the real enthusiast.”

According to data from the Kidston 500, another market tracking index, of the cars put up for sale at the top international auctions during 2016, 78% sold by number – down from 84% in 2015 – while the proportion of cars selling for below their low estimate rose by 20%.

The pattern is the same in the US, says Brian Rabeold, Vice President of Valuation Services at specialist insurer Hagerty. The firm’s Blue Chip index, which tracks the value of 25 of the European, US and Japanese cars most prized by US collectors, fell by 1% last year. “Over the past year or so we’ve seen a shift from a sellers’ to a buyers’ market,” he says. “People are becoming more selective. Last year there were 24% fewer auction sales of cars over US$1m in North America.” He also notes a shift in interest towards new models like the Porsche 911.

“Out our top 1,000 clients are buying cars from the 2000s like never before.”

But despite the slowdown, the most cars in the right condition with the most desirable provenance will continue to set world records, says Mr Hatlapa.

Simon Kidston, who set up the Kidston 500, agrees: “Yes, the pace of deal making is noticeably slower, and the headline figures don’t convey that the underlying mood is much more reflective and uncertain amongst buyers and sellers. But until there are better, more mobile and tax efficient havens for cash, the market is likely to remain active and capable of reaching new peaks when fresh discoveries emerge from hiding.”

As if to prove the point made by Mr Hatlapa and Mr Kidston, a Ferrari 1957 335 Sport became the most expensive car to go under the hammer ever, in euro terms at least, when it was sold by Artcurial in Paris for €32m. This was more than double the pre-sale estimate of €15m, making it the most expensive ever to sell at auction.

A similar trend emerged in the US, with classic car sales also delivering new benchmarks. An historic 1962 Shelby Cobra went for over US$5m at Bonhams in Goodwood, a new benchmark for the brand. The firm’s Blue Chip index, which tracks the value of 25 of the European, US and Japanese cars most prized by US collectors, fell by 1% last year. “Over the past year or so we’ve seen a shift from a sellers’ to a buyers’ market,” he says. “People are becoming more selective. Last year there were 24% fewer auction sales of cars over US$1m in North America.”

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However, the most expensive car sold last year was handled privately by Mr Kidston. The exact price achieved for the 1962 Ferrari 250 GTO (pictured below) has not been revealed, but it exceeded the highest sum ever paid at auction under US$20m – a new record for a pre-war vehicle.

Also producing some record-breakers in 2016, even though their overall performance was relatively muted. The sparkler was the sale of the Oppenheimer Blue, a rare blue 14.23-carat diamond sold by Christie’s Geneva for the equivalent of almost US$51m, making it the most expensive jewel to ever sell at auction.

Blue seemed to be the colour of 2016. “This has certainly been the year of the Kashmir sapphire,” says Jean Gikha, Head of Jewellery for Bonhams UK and Europe. “They have performed well our auctions in London, New York and Hong Kong and see among the most highly prized gems for serious collectors.”

After worldwide bidding, Bonhams London sold a 14.13-carat ring for £1.4m in December against a high estimate of £800,000.

Male ‘jewellery’ also reached new heights. A Rare stainless steel 1941 Patek Philippe ref. 1518 perpetual calendar chronograph with moon phases broke the record for the most expensive wristwatch sold at auction when it went under the hammer with Phillips Geneva for US$51m.

Bonhams’ Global Head of Watches, Jonathan Darracott, says collectors are moving away from dress watches towards more functional timepieces, such as sports chronographs and military models.

This shift partly explains why indices tracking the market show more limited growth than might be expected, considering the increase in the number of people collecting watches, he reckons. “Some of the most popular watches today weren’t really considered that desirable when the indices were put together.”

PAINTING BY NUMBERS

Even the best efforts of wine and classic cars couldn’t prevent KFLII, which tracks the performance of 10 collectable investments of passion, posting overall growth of just 2%, its weakest performance since 2009’s 2% drop.

The biggest contributor to last year’s slide was art, which dropped by 14% according to auction data analysed for The Wealth Report by Art Market Research. There was, however, a marked variation in performance across different genres.

European Impressionist painters, such as Manet and Cézanne, saw the largest annual drop in the value of works sold at auction, while 19th-century artists like Constable and Turner rose by 29%. Modern and contemporary works, which have previously been the stellar performers in our art index, recorded drops of 8% and 2% respectively.

However, Vik Muniz’s Whole Earth, Managing Director of 3885 Ltd Art Advisory, says auction results are only part of the story. “They only represent 45% of the market and this year there has been reluctance among vendors, perhaps because of Brexit and other economic worries, to consign their best works to auction unless they really had to sell.”

Buyers at the lower end and middleware of the market have also become more circumspect, she says. “Since the global financial crisis people have been much more wary of overpaying for things.”

By the end of 2016, however, the market looked more positive with November’s New York sales, which traditionally mark the end of the auction year, attracting strong bidding. The top price of the year was achieved by Christie’s when it sold one of Claude Monet’s iconic Grainstack paintings for US$81m, way above its US$45m estimate.

Other big sellers included Girls on the Bridge by Edvard Munch, which was sold by Sotheby’s for US$54m – a big jump from the US$31m it fetched when sold in 2009 – and Christies’s XXXV by the Dutch-American artist Willem de Kooning, sold by Christie’s for US$66m, a record for the artist.

“At the top end, seminal works that are fresh to the market will always do well,” explains Mr Raikhel. “Two works from very different parts of the art spectrum exemplified this trend earlier in the year. Showing that the Old Masters still have life in them, Peter Paul Rubens’ Lot and his Daughters was sold by Christie’s London for £40m, the second-most expensive work to sell by the artist after his Massacre of the Innocents, which made almost £25m in 2002. And Christies’s by the modern US artist Jean-Michel Basquiat set a record for the artist when it fetched US$57m with Christie’s New York in May.

However, the most expensive car sold last year was handled privately by Mr Kidston. The exact price achieved for the 1962 Ferrari 250 GTO (pictured below) has not been revealed, but it exceeded the highest sum ever paid at auction (US$38m for another 250 GTO sold by Bonhams) for a classic car and was possibly the biggest deal ever struck.

FEELING BLUE

Several of the other most cases that feature in KFLII also produced some record-breakers in 2016, even though their overall performance was relatively muted. The sparkler was the sale of the Oppenheimer Blue, a rare blue 14.23-carat diamond sold by Christie’s Geneva for the equivalent of almost US$51m, making it the most expensive jewel to ever sell at auction.

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P
erformance and attribution are vital when buying a classic
car, a work of art or an antiquity. A connection with a well-
known historic collection, authorship by a renowned artist,
or a CV that includes setting the lap record at Le Mans, for example,
can enhance desirability – and add significant value.

Of course, the reverse is also true: in these cases where provenance can be uncertain, the conse-
quences of having purchased a mistakenly or falsely described asset can be very
significant indeed. When, for example, one of our clients discovered
that the artworks they had bought based on the understanding
that they were by a famous artist who’s works were to
be found in a European royal collection were actually by a minor
artist of no significance, the impact was huge both emotionally
and, of course, financially.

Buyer beware
Navigating between fact and sales hyperbole to work out where
the truth actually lies can be challenging, particularly as even
pre-eminent experts can have differing opinions. Take the version
of Caravaggio’s The Cardsharps sold at auction for £42,000 after
being catalogued by Sotheby’s as the work of a follower of the artist.
The buyer, a renowned art scholar, later declared that the painting
was by Caravaggio himself, and valued it at £20m. The prior owner
then tried to sue Sotheby’s for allegedly giving him negligent advice
about the painting’s value. However, the court held that the auction
house had, at the time of the original sale, reasonably come to the
conclusion that the artwork’s value was £500,000. In this case, the
buyer was by far the more at fault: the damage was not visible to the
naked eye. The owner claimed both damages. However, the courts only awarded the cost of repair,
holding that there was no real depreciation in value because there
had been previous repair work of which the owner had been unaware,
and the damage was not visible to the naked eye.

Legal title
Legal title is an aspect that is often overlooked. Is the person selling
you those “pristine matching numbers” or that “magnificent example
of an Old Master’s canvas” really the legal owner? Do they really
have the right to complete the sale? And how can you be sure? With
no centralised register to show who owns what, it is not surprising
that ownership disputes should arise. Buying from a well-regarded
source can offer some protection; but not always.

One example we encountered involved a client who became the
victim of a calculated fraud, where a genuine artwork was swapped
with a forgery. The fraudster consigned the original for sale by
auction, leaving the client unaware that the artwork hanging on
their wall was a fake. Such a scenario shows how a number of people
– the legal owner, the auction house and the buyer – can all find
themselves victims of fraud.

Buyers of classic cars should ask for documentation such as
bills of sale, legal certificates or records held by the original
manufacturer. They should also ensure there is no outstanding
finance that might lead to a competing claim for ownership.

Similarly, those purchasing yachts should check for existing
liens: rights over the asset in favour of a creditor. If the creditor
retains the lien post-purchase, the yacht could be detained or sold.

Insurance
One final word of caution. Whether you are a buyer or a seller, be
certain to have insurance that runs either right up to the point of
sale, or from the very moment ownership is transferred. Should your
classic car happen to burst into flames just as it is being shown to
a potential buyer, as happened to one unfortunate Bentley owner, the
situation will be made slightly less heart-breaking by the knowledge
that your investment has not entirely gone up in smoke.

Specialist insurers can provide bespoke arrangements, including
those where a range of assets is covered under one policy. They
can also make sure you’re covered if, for example, you decide
to take your Bizzarrini GT Strada for a spin on the track at the
Goodwood Festival of Speed, or to loan your prized Bernard Buffet
to the retrospective in Paris.

Indeed, transportation is an area where it pays to read the fine
print. In the case of Classic Driver, an antique clock being displayed in
an exhibition was damaged in transit. The owner claimed both
the cost of repair and the depreciation in value caused by the
damages. However, the courts only awarded the cost of repair, helding that there was no real depreciation in value because there
had been previous repair work of which the owner had been unaware,
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Shane Glegg
Partner, Taylor Wessing Private Wealth Team

All passion spent
When it comes to luxury purchases and investments, the heart can often
rule the head – to the buyer’s cost. The Wealth Report looks at some salutary
examples where things have turned out not to be quite as they seem.

Shane Glegg
Partner, Taylor Wessing Private Wealth Team

THE WEALTH REPORT
Luxury Spending Trends

When it comes to luxury purchases and investments, the heart can often
rule the head – to the buyer’s cost. The Wealth Report looks at some salutary
examples where things have turned out not to be quite as they seem...
The visceral thrill of driving or sitting in the passenger seat of a gorgeous classic car. Contemplating the intricate brushstrokes of a painting by one of the world’s great artists. Being dazzled by the flawless gems in an amazing piece of jewellery worn by somebody sitting opposite you in a fine restaurant. Admiring the craftsmanship of a classic chronometer on your wrist.

All of these feelings help to explain why “personal enjoyment” was considered the number one reason why UHNWIs collect and buy luxury assets, according to the respondents who took part in The Wealth Report Attitudes Survey this year. It’s pretty obvious really: we buy things that will give us great pleasure.

Very often, of course, that pleasure is clearly connected to one of our senses – the taste of a great bottle of Bordeaux, the visual beauty of a Van Gogh, the sound of a gurgling V8 or rasping V12 engine. At other times, it might be more to do with our bank balance or our ego.

As the previous article on the performance of luxury asset classes clearly showed (page 50), some of these “objects of desire” also turn out to be shrewd investments. So it’s no surprise then that “capital appreciation” is now the second most important motivating factor when making a purchase, according to our survey respondents – although many people still find it hard to understand the rationale for buying wine when you have no intention of drinking it.

The “status” that ownership brings was in third place. But close behind this top three were more cerebral or social benefits that included “becoming part of a like-minded community”, “intellectual curiosity” and “becoming an expert”.

Community spirit

Buying into a sense of community might sound like an incongruous idea in the context of acquiring a luxury sailing yacht – after all, there could hardly be a better way to get away from it all than by taking to the high seas – but, says Klaas Meertens, owner of Oyster Yachts, it is an important factor for many of the firm’s clients.

This is reflected in the huge enthusiasm of Oyster owners for perhaps the most involved customer-participation event organised by any seller of luxury assets: a 27-month, 27,000-mile circumnavigation of the world. Over 30 owners have signed up for the fully supported event that started in Antigua in January 2017 and will finish back there in 2019.

“We may organise the Oyster World Rally, but with all the friendships found in this exclusive adventure, truly it belongs to the participants. We’re just facilitators,” says Oyster CEO David Tydeman. “Becoming one of the select few to circumnavigate the globe, particularly in the company of others sailing the same class boat, creates a unique bond.”

Although it would be hard to consider even the least costly Oyster yacht as anything other than a...
luxury purchase – they start from around £900,000 on the water and go up to over £20m for the flagship Oyster 108 model – owners come from a wide variety of backgrounds and that is part of the attraction of the events like the World Rally, says Mr Tydeman. “There is a lot of social mixing going on. People leave their egos behind.”

Not all the events attended by Oyster owners are quite so extreme. Having originally bought the firm as an investment opportunity, Mr Shorten caught the sailing bug himself while attending a regatta organised by the luxury Italian knitwear brand Loro Piana. A clever handicapping system means different size boats can all compete against each other at regattas which are usually held in either locations that really bring owners together. “We recently returned from New Zealand where we hosted our first Epic Drive event. A convoy of 31 McLarens joined us, ranging from the F1 all the way through to our Sports Series. In January, we hosted our first ice-driving experience in Finland,” explains Mr Banks. “It’s about making your customers feel welcome and part of the brand,” he adds.

As well as holding track days on some of the world’s leading Formula 1 circuits, complete with instructors who help owners fine tune their driving skills, McLaren organises lifestyle events in remote or extreme locations that really bring owners together. “We recently returned from New Zealand where we hosted our first Epic Drive event. A convoy of 31 McLarens joined us, ranging from the F1 all the way through to our Sports Series. In January, we hosted our first ice-driving experience in Finland,” explains Mr Banks. “It’s about making your customers feel welcome and part of the brand,” he adds.

An egalitarian affair

Classic cars are another example where ownership is considered classics and are keenly sought after by collectors prepared to pay over £20m to add one to their collections. The sense of community around the model that ownership brings is a crucial part of the attraction and one that McLaren tries hard to foster.

“When you’re purchasing a high-value item, that desire for a sense of community is important,” says James Banks, Head of Bespoke Cars at McLaren Special Operations. “At McLaren you do feel like you are part of a family. It is very important to us to make our customers feel welcome and part of the brand,” he adds.

Better together

Taking a share in a racehorse is perhaps the ultimate example of luxury assets creating a sense of community and shared exhilaration.

Harry Herbert, Chairman of Highclere Racing, one of the first and most successful racing syndicates – organisations that enable small groups of people to enjoy owning some of the world’s best horses – says some of his members are wealthy enough to buy their own horses but nevertheless choose to join a syndicate because they relish the experience of enjoying a win with the other owners.

“People love celebrating together. I see that buzz time and time again,” he says. “I think it’s almost a primal thing that can become very addictive. Some people who’ve owned their own horses can be a bit reticent about joining a syndicate which costs from around £7,000 to £50,000, but once they do they generally wonder why they didn’t do it earlier.”

Contrary to what some might believe, owning a racehorse should not be seen as an investment, even...
through Hogarth has produced heroes like Harlequin, Tamarisk and Petrunia that have sold for many millions of pounds, says Mr Herbert. “Obviously if we sell a horse from a syndicate for much more than we bought it for then the owners will benefit, but it’s not generally a way to make money.”

Back to school
A sense of scholarship and intellectual curiosity can be another driving force for collectors, particularly those in the art and car world. Gregor F two years coming out of rehab in 1990 he knew very little about the art world’s greatest private collections. He was able to make a living from his work as an art critic and writer and was eventually able to buy some of the photographs owned by Sir Elton John, selected from what has been described as one of the world’s greatest private collections.

Interviewed about his collection, Sir Elton admits that when he first started buying photographs after coming out of rehab in 1990 he knew very little about the genre, and was simply drawn to it by the images. However, as the collection grew, so his depth of knowledge increased, and he now considers himself something of an expert.

Giles Huxley-Parlour, co-owner of London’s Beetles & Huxley gallery, which, like a number of the top photography dealerships, has sold pieces to Sir Elton John’s collection, says that kind of journey, albeit mostly on a smaller scale – the musician reportedly has over 8,000 photographs – is common among his clients.

“Most people begin their collections because they have a house to decorate and walls to fill,” says Mr Huxley-Parlour. “Often they’ll start with a mainstream photographer whose work they know, but then they discover a world of opportunities, start educating themselves and graduate towards works that are more sophisticated.”

The process of learning can in itself become a real luxury for some UHNWIs, he observes – and it’s one that money alone can’t buy. “Going back to being a student, choosing to learn for the pleasure of learning, what it’s via catalogues, talk or online videos – we’ve found our clients really love it.”

Sharing their collections with the wider public, via loans or gifts to galleries, or even joining the growing trend for setting up private museums, is an extension of that scholarship process, adds Mr Huxley-Parlour. “It turns it into philanthropy.” Being able to give something back – yet another example of the benefits that owning luxury assets can bring.

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**Databank: the numbers behind the trends**

The 2017 Attitudes Survey results are based on responses from almost 900 of the world’s leading private bankers and wealth advisors, representing over 10,000 clients with a combined wealth of around $US2 trillion. Wealth distribution numbers are provided by New World Wealth and show historical and forecast growth across five wealth bands at regional, country and city level.

**The Attitudes Survey data**

**Wealth management, succession, education and investment issues**

PLEASE SELECT THE FIVE FACTORS THAT ARE MOST IMPORTANT TO YOUR CLIENTS WHEN IT COMES TO THE MANAGEMENT OF THEIR WEALTH AND THEIR INVESTMENT DECISIONS

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THINKING ABOUT YOUR HANNUED CLIENTS IN PARTICULAR, PLEASE SELECT THE FACTORS (IF ANY) WHICH ARE SIGNIFICANTLY MORE IMPORTANT TO THEM THAN TO YOUR OTHER CLIENTS

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AND WHICH FACTORS ARE SIGNIFICANTLY LESS IMPORTANT TO THEM

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<td>Income Return</td>
<td>45%</td>
<td>45%</td>
<td>50%</td>
<td>47%</td>
<td>45%</td>
<td>45%</td>
<td>45%</td>
<td>45%</td>
<td>45%</td>
<td>46%</td>
</tr>
<tr>
<td>Wealth Preservation</td>
<td>29%</td>
<td>26%</td>
<td>36%</td>
<td>27%</td>
<td>29%</td>
<td>26%</td>
<td>29%</td>
<td>28%</td>
<td>29%</td>
<td>27%</td>
</tr>
<tr>
<td>Capital Growth</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>Portfolio Liquidity</td>
<td>19%</td>
<td>15%</td>
<td>23%</td>
<td>22%</td>
<td>19%</td>
<td>16%</td>
<td>21%</td>
<td>19%</td>
<td>21%</td>
<td>19%</td>
</tr>
<tr>
<td>Portfolio Diversification</td>
<td>19%</td>
<td>15%</td>
<td>23%</td>
<td>22%</td>
<td>19%</td>
<td>16%</td>
<td>21%</td>
<td>19%</td>
<td>21%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Databank: the numbers behind the trends

WHAT PROPORTION OF YOUR CLIENTS USE PRIVATE AVIATION FOR THE MAJORITY OF THEIR BUSINESS OR PERSONAL AIR TRAVEL?

HOW STRONGLY DO YOU AGREE WITH EACH OF THE FOLLOWING STATEMENTS?

WHAT ARE YOUR CLIENTS’ BIGGEST CONCERNS REGARDING HOW THEY WILL PASS THEIR WEALTH TO THE NEXT GENERATION?

PLEASE INDICATE HOW STRONGLY YOU AGREE THAT THE FOLLOWING ARE THREATS TO YOUR CLIENTS’ ABILITY TO CREATE AND MAINTAIN THEIR WEALTH OVER THE NEXT FIVE YEARS.

NET BALANCE OF MILLENNIAL PRIORITIES (DIFFERENCE BETWEEN PREVIOUS TWO TABLES)

HOW IMPORTANT ARE THE FOLLOWING FACTORS FOR YOUR CLIENTS WHEN CHOOSING WHERE TO BUY SOMEWHERE TO LIVE?

WHAT PERCENTAGE OF YOUR CLIENTS IS LIKELY TO BUY ANOTHER HOME IN OR OUTSIDE THEIR COUNTRY OF RESIDENCE OVER THE NEXT TWO YEARS?

IN WHICH PARTS OF THE WORLD DO A SIGNIFICANT NUMBER OF YOUR CLIENTS OWN HOMES?

HOW MANY FIRST AND SECOND HOMES DO YOUR CLIENTS TYPICALLY OWN?

* Respondents were asked to rank each factor out of 10

HOW MANY TIMES AND WHERE DO YOUR CLIENTS TYPICALLY TRAVEL?

PRIVATE AVIATION

WHAT PROPORTION OF YOUR CLIENTS USE PRIVATE AIRCRAFT FOR THE VACATION OR BUSINESS TRAVEL OF THEMSELVES OR THEIR FAMILIES?

WHAT PROPORTION OF YOUR CLIENTS USE PRIVATE AIRCRAFT FOR THE VACATION OR BUSINESS TRAVEL OF THEIR CONFRONTATION WITH THEIR CHILDREN?

WHAT THINKING MADE YOUR CLIENTS CHOOSE TO BUY SOMEWHERE TO LIVE IN THIS COUNTRY?

WHAT THINKING MADE YOUR CLIENTS CHOOSE TO BUY SOMEWHERE TO LIVE IN THIS COUNTRY?
**The Wealth Report Databank**

**Luxury investment and spending trends**

Please rate how important the following are to your clients when building their collections.

*Respondents were asked to rank each factor out of 10*

<table>
<thead>
<tr>
<th>Factor</th>
<th>Africa</th>
<th>Asia</th>
<th>Australasia</th>
<th>Europe</th>
<th>Latin America</th>
<th>Middle East</th>
<th>North America</th>
<th>Russia/CIS</th>
<th>Global average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status</td>
<td>4.9</td>
<td>4.4</td>
<td>2.9</td>
<td>4.3</td>
<td>3.6</td>
<td>4.6</td>
<td>4.6</td>
<td>4.3</td>
<td>4.1</td>
</tr>
<tr>
<td>Don’t know</td>
<td>6.7</td>
<td>6.2</td>
<td>5.5</td>
<td>6.3</td>
<td>5.2</td>
<td>6.7</td>
<td>6.9</td>
<td>6.4</td>
<td>6.2</td>
</tr>
<tr>
<td>Personal enjoyment</td>
<td>7.1</td>
<td>7.1</td>
<td>6.4</td>
<td>7.2</td>
<td>6.2</td>
<td>7.1</td>
<td>6.8</td>
<td>7.3</td>
<td>6.9</td>
</tr>
<tr>
<td>Race horse</td>
<td>4.2</td>
<td>3.5</td>
<td>5.0</td>
<td>4.8</td>
<td>5.6</td>
<td>4.2</td>
<td>3.9</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Private jet</td>
<td>4.4</td>
<td>5.0</td>
<td>6.1</td>
<td>5.5</td>
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<td>4.4</td>
<td>4.7</td>
<td>5.0</td>
<td>5</td>
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<td>Logistic</td>
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<td>6.4</td>
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<td>4.1</td>
<td>4.7</td>
<td>4.4</td>
<td>4.6</td>
</tr>
<tr>
<td>Professional sport</td>
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<td>5.0</td>
<td>3.9</td>
<td>5.3</td>
<td>4.7</td>
<td>5.0</td>
<td>5.0</td>
<td>4.7</td>
<td>5.0</td>
</tr>
</tbody>
</table>

**Percentage of wealthy individuals who have collections, such as art, wine or classic cars**

<table>
<thead>
<tr>
<th>Country</th>
<th>Africa</th>
<th>Asia</th>
<th>Australasia</th>
<th>Europe</th>
<th>Latin America</th>
<th>Middle East</th>
<th>North America</th>
<th>Russia/CIS</th>
<th>Global average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>15%</td>
<td>17%</td>
<td>9%</td>
<td>15%</td>
<td>25%</td>
<td>15%</td>
<td>29%</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>Asia</td>
<td>20%</td>
<td>14%</td>
<td>3%</td>
<td>24%</td>
<td>38%</td>
<td>13%</td>
<td>21%</td>
<td>0%</td>
<td>16%</td>
</tr>
<tr>
<td>Australasia</td>
<td>23%</td>
<td>9%</td>
<td>22%</td>
<td>24%</td>
<td>13%</td>
<td>15%</td>
<td>21%</td>
<td>29%</td>
<td>14%</td>
</tr>
<tr>
<td>Europe</td>
<td>8%</td>
<td>16%</td>
<td>19%</td>
<td>26%</td>
<td>13%</td>
<td>13%</td>
<td>7%</td>
<td>21%</td>
<td>15%</td>
</tr>
<tr>
<td>Latin America</td>
<td>28%</td>
<td>23%</td>
<td>38%</td>
<td>27%</td>
<td>38%</td>
<td>40%</td>
<td>14%</td>
<td>29%</td>
<td>23%</td>
</tr>
<tr>
<td>Middle East</td>
<td>13%</td>
<td>13%</td>
<td>22%</td>
<td>22%</td>
<td>25%</td>
<td>17%</td>
<td>43%</td>
<td>29%</td>
<td>23%</td>
</tr>
<tr>
<td>North America</td>
<td>45%</td>
<td>48%</td>
<td>41%</td>
<td>46%</td>
<td>63%</td>
<td>50%</td>
<td>36%</td>
<td>21%</td>
<td>44%</td>
</tr>
<tr>
<td>Russia/CIS</td>
<td>55%</td>
<td>58%</td>
<td>63%</td>
<td>61%</td>
<td>75%</td>
<td>60%</td>
<td>50%</td>
<td>57%</td>
<td>60%</td>
</tr>
<tr>
<td>Global average</td>
<td>15%</td>
<td>17%</td>
<td>9%</td>
<td>15%</td>
<td>25%</td>
<td>15%</td>
<td>29%</td>
<td>21%</td>
<td>18%</td>
</tr>
</tbody>
</table>

**City-level wealth distribution (listed by country)**

<table>
<thead>
<tr>
<th>City</th>
<th>Africa</th>
<th>Asia</th>
<th>Australasia</th>
<th>Europe</th>
<th>Latin America</th>
<th>Middle East</th>
<th>North America</th>
<th>Russia/CIS</th>
<th>Global average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagos</td>
<td>3,000</td>
<td>3,000</td>
<td>2,000</td>
<td>4,000</td>
<td>2,000</td>
<td>4,000</td>
<td>2,000</td>
<td>4,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Buenos Aires</td>
<td>10,200</td>
<td>11,000</td>
<td>6,000</td>
<td>12,000</td>
<td>6,000</td>
<td>12,000</td>
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</tr>
<tr>
<td>Paris</td>
<td>35,300</td>
<td>35,300</td>
<td>20,000</td>
<td>35,300</td>
<td>20,000</td>
<td>35,300</td>
<td>20,000</td>
<td>35,300</td>
<td>20,000</td>
</tr>
<tr>
<td>London</td>
<td>73,000</td>
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<td>73,000</td>
<td>40,000</td>
<td>73,000</td>
<td>40,000</td>
<td>73,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Tokyo</td>
<td>96,000</td>
<td>96,000</td>
<td>50,000</td>
<td>96,000</td>
<td>50,000</td>
<td>96,000</td>
<td>50,000</td>
<td>96,000</td>
<td>50,000</td>
</tr>
<tr>
<td>New York</td>
<td>122,000</td>
<td>122,000</td>
<td>65,000</td>
<td>122,000</td>
<td>65,000</td>
<td>122,000</td>
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<td>122,000</td>
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</tr>
</tbody>
</table>

**Datasheet**

<table>
<thead>
<tr>
<th>City</th>
<th>Africa</th>
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<th>Europe</th>
<th>Latin America</th>
<th>Middle East</th>
<th>North America</th>
<th>Russia/CIS</th>
<th>Global average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagos</td>
<td>3,000</td>
<td>3,000</td>
<td>2,000</td>
<td>4,000</td>
<td>2,000</td>
<td>4,000</td>
<td>2,000</td>
<td>4,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Buenos Aires</td>
<td>10,200</td>
<td>11,000</td>
<td>6,000</td>
<td>12,000</td>
<td>6,000</td>
<td>12,000</td>
<td>6,000</td>
<td>12,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Paris</td>
<td>35,300</td>
<td>35,300</td>
<td>20,000</td>
<td>35,300</td>
<td>20,000</td>
<td>35,300</td>
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<td>40,000</td>
<td>73,000</td>
<td>40,000</td>
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</tr>
<tr>
<td>Tokyo</td>
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<td>96,000</td>
<td>50,000</td>
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<td>96,000</td>
<td>50,000</td>
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</tr>
<tr>
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<td>65,000</td>
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<td>122,000</td>
<td>65,000</td>
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</tbody>
</table>

**Sources**

- New World Wealth
### Regional wealth distribution

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EUROPE</strong></td>
<td>12,780</td>
<td>23,080</td>
<td>28,200</td>
<td>39,700</td>
<td>136%</td>
</tr>
<tr>
<td><strong>ASIA PACIFIC</strong></td>
<td>7,780</td>
<td>15,420</td>
<td>18,000</td>
<td>30,300</td>
<td>250%</td>
</tr>
<tr>
<td><strong>LATE AMERICA</strong></td>
<td>4,680</td>
<td>8,330</td>
<td>9,800</td>
<td>16,000</td>
<td>253%</td>
</tr>
<tr>
<td><strong>AFRICA</strong></td>
<td>1,470</td>
<td>2,600</td>
<td>3,500</td>
<td>5,500</td>
<td>250%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>31,030</td>
<td>59,430</td>
<td>79,200</td>
<td>86,300</td>
<td>132%</td>
</tr>
</tbody>
</table>

### Country-level wealth distribution

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GLOBAL</strong></td>
<td>39,390</td>
<td>52,250</td>
<td>59,800</td>
<td>76,200</td>
<td>169%</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td>7,900</td>
<td>9,200</td>
<td>10,100</td>
<td>11,900</td>
<td>152%</td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td>4,920</td>
<td>5,100</td>
<td>5,800</td>
<td>7,100</td>
<td>139%</td>
</tr>
<tr>
<td><strong>JAPAN</strong></td>
<td>6,900</td>
<td>7,100</td>
<td>7,700</td>
<td>11,200</td>
<td>210%</td>
</tr>
<tr>
<td><strong>CHINA</strong></td>
<td>2,920</td>
<td>3,100</td>
<td>3,700</td>
<td>5,200</td>
<td>238%</td>
</tr>
<tr>
<td><strong>FRANCE</strong></td>
<td>3,480</td>
<td>3,700</td>
<td>4,100</td>
<td>5,600</td>
<td>218%</td>
</tr>
<tr>
<td><strong>GERMANY</strong></td>
<td>5,300</td>
<td>5,600</td>
<td>6,200</td>
<td>8,100</td>
<td>246%</td>
</tr>
<tr>
<td><strong>ITALY</strong></td>
<td>2,600</td>
<td>2,800</td>
<td>3,100</td>
<td>3,800</td>
<td>134%</td>
</tr>
<tr>
<td><strong>INDIA</strong></td>
<td>1,600</td>
<td>1,800</td>
<td>2,000</td>
<td>2,700</td>
<td>175%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>39,390</td>
<td>52,250</td>
<td>59,800</td>
<td>76,200</td>
<td>169%</td>
</tr>
</tbody>
</table>

Note: Data reflects a scenario where wealth is concentrated in 100 countries, each representing 0.1% of global wealth.

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Privacy is rapidly becoming an unattainable luxury

Most people value privacy and, understandably, prefer to keep information about their investments and assets to themselves. The unrealistic nature of this aspiration was highlighted early last year when nearly 12 million documents, including private financial information relating to more than 200,000 individuals and entities—the so-called Panama papers—were leaked to the media. It was proof, if proof were needed, that no data can be truly secure.

However, concerted international co-operation aimed at helping governments understand and track the global movement of wealth and assets may soon render such unachievable leaks redundant. The US started the process in 2010 with the Foreign Account Tax Compliance Act (FATCA), which led to a unilateral demand for foreign financial institutions to report details of accounts and investments held by US citizens.

Aside from prompting several thousand Americans to renounce their citizenship including, reportedly, the UK’s Foreign Secretary Boris Johnson, and forcing the Swiss to evolve their banking secrecy rules, FATCA prompted a global copycat move from the OECD. Its decision to agree information sharing among 100 countries through the Common Reporting Standard (CRS) will trigger a data deluge later this year, as jurisdictions around the world begin the automatic exchange of information on their citizens’ financial information.

As investment portfolios become more global and wealthy people move more rapidly, we should not be surprised that the direction of travel is towards “big data” capture. As Ian Bremmer notes on page 9, governments will be keen to look for new metrics to accurately measure emerging wealth and economic trends which have significant political implications.

This points to an issue that runs throughout this year’s edition of The Wealth Report, which is that developed markets are seeing more politically inspired resistance to large inflows of capital from emerging markets: witness responses in Vancouver, Hong Kong and more, as detailed on pages 38 and 41.

At the same time, emerging markets are concerned—increasingly so—in the case of China—about outbound capital flows. This government desire to control wealth movements will inevitably necessitate a better understanding of where citizens hold their wealth.

Irrespective of current government initiatives, technological developments will make it increasingly difficult to hold assets and investments discreetly, even where the objective is to maintain privacy rather than to evade taxation. If the predictions on page 20 from one of our contributors, David Friedman, prove correct, technology is moving towards a future where the entire ownership of all global assets will be free to search in real time.

All this has profound implications for those jurisdictions that have built their business models around their ability to provide investment secrecy. Access to the likes of private aviation may allow the wealthy to continue enjoying a measure of personal privacy, but data privacy is set to become an increasingly rare commodity.

Our expertise

There’s a human element in the world of property that is all too easily overlooked

At Knight Frank we build long-term relationships that enable us to provide personalised, clear and considered advice on all areas of property in all key markets. We believe personal interaction is a crucial part of ensuring every client is matched to the property that best suits their needs, be it commercial or residential. Operating in locations where our clients need us to be, we provide a worldwide service that is locally expert and globally connected. We believe that inspired teams naturally provide excellent and dedicated client service, which is why we have created a working environment where people’s opinions are respected, where they are given the opportunity to contribute to the success of our business, and where excellence is recognised and rewarded.

The result? A more motivated team, dedicated to ensuring that your experience with us is the best it can possibly be.

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