THE WEALTH REPORT 2015

The global perspective on prime property and wealth

www.knightfrank.com/wealthreport
It is clear that 2015 will be a remarkable year in terms of political and economic fluctuations, making it harder than ever to predict investor sentiment and the resulting wealth flows. We are fortunate in being able to draw not only on a network of over 350 offices, but also the views of thousands of active clients and investors, together with the expertise of our agency and consultancy teams, including those advising on alternative property sectors, such as healthcare, agriculture and student housing.

I am delighted that in this edition of The Wealth Report we share the first-hand investment perspectives and experiences of Massimo Ferragamo and Goodwin Gaw. In addition, the report also features the latest research from leading wealth analysts and commentators. Through our partnership with WealthInsight, for example, we can offer an analysis of wealth distribution trends covering almost 100 countries and over 100 cities. Contributions from NetJets, Fragomen and Ledbury Research allow us to focus on the critical issues of global travel and connectivity, wealth migration and luxury spending trends.

Our Attitudes Survey adds depth to our analysis by delving deep into the views of the wealthy regarding investment risks and opportunities. Our coverage of the world’s premier luxury residential markets has been expanded to include 100 cities and second-home destinations. And our focus on investment opportunities covers the world.

The scope and the ambition of the report is reflected by Knight Frank’s growth. In the last year we have formed a strategic residential relationship with Douglas Elliman covering New York and the key luxury home hotspots in the US. We have also established new offices in Chamonix, Provence, San Remo, Venice, Sardinia, Marbella and Taipei, as well as opening five new offices in the UK.

The reach and influence of The Wealth Report continues to grow. We hope you find our latest findings and forecasts both informative and inspiring.

If we can provide you with further research or advice we are of course happy to help and look forward to hearing from you.
World in numbers

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Luxury goods commentator and researcher

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Consultant and former US presidential advisor
Highs and lows: key statistics from The Wealth Report 2015

The Wealth Report contains a huge amount of data, not only from Knight Frank's own research teams, but also from leading industry analysts and commentators. The map below includes a worldwide snapshot of the numbers drawn from our PIRI 100 index; the wealth distribution data supplied by WealthInsight; the results of our Global Cities Survey and the findings of our unique annual Attitudes Survey.

Global trends

$20.8tn
The total wealth held by UHNWIs

172,850
The total number of UHNWIs worldwide

3%
Increase in the number of UHNWIs 2013 to 2014

$153bn
The undistributed commercial property investment by private individuals

82%
% of wealth advisors reporting the net worth of their UHNWI clients increased

50,767
The number of US UHNWIs predicted in 2024

18.8%
The largest prime residential price rise, seen by New York

15%
Of Latin American UHNWIs are thinking of changing their country of residence

-15%
The greatest drop in prime residential prices, seen by Buenos Aires

17.3 sq m
The area of prime property US$1m will buy in Monaco

01
London's ranking in our 2015 Global Cities Survey

61%
Of Russian UHNWIs are sending their children overseas for their secondary education

03
Hong Kong's ranking in our 2015 Global Cities Survey – the top Asian location

42%
Of Australian UHNWI investment portfolios are allocated to property

$0.2tn
The total wealth held by African UHNWIs in 2014

52%
The proportion of UHNWIs from the UAE who are considering buying a new home in 2015

1,8m sq ft
The area of First-World shopping malls set to open in Nairobi in 2015

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The growth in Singapore's UHNWI population, 2014 to 2024

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The Wealth Report
Attitudes Survey

The world is becoming increasingly preoccupied by the lives of the rich and famous; the more sensational the detail the better. Fuelling this trend is the growing omnipotence of an internet that streams a non-stop flow of gossip and photographs, authorised or not. Some of the super-rich, those whose wealth derives from their celebrity status, actively encourage it, but for most the intrusion is unwelcome. No wonder then that the distinctly un-voyeuristic results of our own annual survey of the attitudes of the wealthy, discussed over the following pages, reveal that ultra-high-net-worth individuals are becoming increasingly concerned about the power of the web in terms of online privacy and cyber-crime.

Interestingly, however, given a potential economic slowdown in China and continued political and economic uncertainty in many parts of the world, it is family and business succession issues followed by a possible hike in wealth taxes that are the biggest concerns for UHNWIs, according to the wealth managers and private bankers who advise them. Putting these concerns aside, 2014 was a good year for the wealthy. The vast majority saw their net worth increase, and most of the respondents to the survey said this trend would continue for their clients in 2015. But with contributors from all parts of the world, the results of our Attitudes Survey highlight some revealing regional trends.

Generally, UHNWIs living in Australasia seem happiest with their lifestyles – only 4% want to change their country of residence or domicile, and very few send their children overseas to be educated. By contrast, a third of those from Russia and the CIS are considering a move, and over 60% dispatch their children abroad for their secondary education.

The results of the Attitudes Survey also cement the position of property as the cornerstone of many UHNWI investment strategies – it accounts on average for almost a third of UHNWI portfolios. But bricks and mortar are not the only tangible assets that are in demand. So-called investments of passion, such as art, wine and classic cars, continue to attract more interest.

While our survey doesn’t delve into the more personal facets of UHNWI lifestyles, it provides an invaluable glimpse of their attitudes towards property, investments and the factors affecting their ability to increase and safeguard their wealth, and how those factors vary around the world.

A global guide to UHNWI wealth, attitudes and investments

01 Getting richer
According to the results of the Attitudes Survey, 80% of wealth advisors expect their clients’ net worth to increase in 2015.

02 The joy of property
Over a quarter of UHNWIs are thinking of buying a new house in 2015, while 35% of those surveyed expect their clients to increase their allocation to property investments during the year. In certain regions of the world up to a third of the super-rich are thinking of changing their domicile or country of residence.

03 The collecting bug
Over 60% of survey respondents reckon their clients are becoming more interested in collecting investments of passion.
The fifth instalment of The Wealth Report’s annual Attitudes Survey is based on a detailed survey of almost 500 leading private bankers and wealth advisors from across the globe, and reflects the attitudes of their ultra-wealthy clients who have a combined wealth of over US$1.7tn.

Covering many aspects of the lifestyles of ultra-high-net-worth individuals (those with a net worth of over US$65m), from wealth creation to philanthropy, from property investments to luxury spending trends, the survey’s findings offer a unique insight into the attitudes of the super-wealthy.

Last year proved to be a more profitable one for the world’s UHNWIs than expected by their advisors. In 2013 when we asked the survey’s respondents about their clients’ wealth creation prospects over the next 12 months, 63% said they thought their net worth would increase. A year later 82% said it had actually increased during 2014, with only 3% reporting a fall.

Looking forward, the outlook is still bullish. Despite concerns over the global economy, 80% of survey respondents expect their clients’ wealth to grow further in 2015 (see p18 for our detailed predictions on global wealth creation over the next 10 years).

Wealth trends

The latest findings from The Wealth Report’s annual Attitudes Survey of UHNWI advisors ANDREW SHIRLEY, THE WEALTH REPORT EDITOR

Wealth threats

However, the road to greater riches is not always smooth, and the survey results highlight a number of issues that UHNWIs believe could hinder their ability to generate more wealth. Interestingly, it was not the global geopolitical and economic issues that tend to spook stock markets that were of the most concern, but more personal issues.

On average, less than half of respondents said their clients were concerned about the impact of the Chinese economy collapsing (although unsurprisingly this rose to over 70% in Asia and 67% in neighbouring Australasia). The same pattern was repeated for the ongoing turmoil in the Middle East and Ukraine.

Family succession issues were, in fact, the number one worry, with 88% of respondents saying their clients were concerned about the handover of family wealth to the next generation. Family succession issues were, in fact, the number one worry, with 88% of respondents saying their clients were concerned about the handover of family wealth to the next generation.

Wealth worries

The issues UHNWIs believe could affect their wealth, lifestyles or business

Data refers to number of survey respondents who said each issue was of concern to their clients.

Source: The Wealth Report 2015 Attitudes Survey

Philanthropy, shopping, flying

UHNWIs attitudes to philanthropy remain largely unchanged. According to last year’s Attitudes Survey, 25% of respondents expected their clients’ philanthropic activities to increase, in this year’s survey the figure was 22%, with three-quarters predicting it would remain the same.

The outlook for a rise in giving was most pessimistic in more mature economies like Europe (17%), perhaps because philanthropy is already well established there, compared with emerging economies like Africa (56%).

As part of this year’s Attitudes Survey we have endeavoured to find out if younger UHNWIs have a different attitude to wealth than their parents’ generation. When asked if they were more philanthropic, 45% of respondents said “yes”.

By contrast, when we asked if they spent more on luxury goods, two-thirds of those taking the survey agreed that was the case, perhaps explaining why succession planning is considered such a big issue.

Overall, 30% of survey respondents are expecting their clients to splash out more on luxury goods this year, compared with 2014, with UHNWIs from Africa (43%), enjoying their wealth the most.

The use of private jets is growing steadily around the world, with demand rising most quickly in Asia – 38% of respondents said their clients were increasingly using them for business and leisure purposes (see our special feature on p40 for more).

Wealth monitor

Respondents were asked how their clients’ wealth had changed during 2014 and how they thought it would change in 2015.

2014 Change

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<thead>
<tr>
<th>Region</th>
<th>% Increase</th>
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<tbody>
<tr>
<td>Africa</td>
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<td>Australasia</td>
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<td>Europe</td>
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<td>Latin America</td>
<td>7%</td>
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<td>Middle East</td>
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<td>North America</td>
<td>6%</td>
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2015 Outlook

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The results of the Attitudes Survey are based on the responses from almost 500 private bankers and wealth advisors who completed a survey in late autumn 2014. The global figures are weighted to reflect the regional distribution of UHNWI wealth populations. A full regional breakdown of the data is available in Databank at the back of the report.
owned purely as an investment, according to our survey results. In Australasia and Asia the proportion edges up to almost 30%. Just over a quarter of UHNWIs are considering purchasing another house in 2015 to add to the three they already own.

When we asked our respondents if any of their clients were particularly interested in a ski, vineyard or equestrian property, a few interesting trends emerged. The demand from Asian UHNWIs for vineyards remains keen, with 40% of respondents with clients in China, 43% in Taiwan and 33% in Malaysia noting rising interest. In Africa (29%) and the Middle East (40% in the UAE) equestrian properties are more of a draw, while a ski chalet is the top priority for wealthy second-home seekers from Europe (38%) and North America (50% in the US).

One of the most revealing questions posed by the survey relates to the number of UHNWIs who are planning to permanently change their domicile or country of residence. Australians and New Zealanders are the least likely to want to up sticks, only 4% of those surveyed said their clients were considering a move. By contrast, a third of respondents with clients in the Russia/CIS region said a move could be on the cards. This follows a response rate of 38% in last year’s survey, suggesting a longer-term trend is emerging. Globally, tax was highlighted as the main reason UHNWIs would consider moving to a different country, but in Russia education and political issues were reported as two of the biggest drivers.

Seeking out the best education abroad for their children is clearly very important for Russian and CIS UHNWIs. Over 60% are likely to send their offspring overseas for their secondary education, compared with a global average of 27%. This process also seems to be happening sooner, with 67% of respondents noting that their clients were sending their children overseas at an earlier age. When we asked our respondents if any of their clients were considering purchasing a new home in 2015, almost 80% of respondents noted that UHNWIs prefer to invest directly into property, with only 12% choosing to use a fund vehicle. Bricks and mortar remain their appeal for the latest generation of UHNWIs, with 45% of respondents saying their younger clients were more interested in property than their parents. One of the most revealing questions posed by the survey relates to the number of UHNWIs who are planning to permanently change their domicile or country of residence.

Outside property, equities are predicted to be the most popular investment class in 2015, with a net balance of 48% of those taking the survey expecting their clients’ exposure to stocks and shares to increase in 2015. This builds on the growing appetite for riskier investments that the Attitudes Survey flagged up last year. Consequently, according to the survey results, cash, fixed income bonds and gold and other precious metals are likely to see a declining demand this year. Investments of passion, however, remain firmly on the radar for the super-rich. Globally, 41% of our respondents said their UHNWI clients were becoming more interested in the likes of classic cars, art and wine. Art is the luxury asset where interest is rising the most – perhaps unsurprising given its accessibility – followed by watches, wine and classic cars. Stamps arouse the least passion around the world, but there is a noticeable difference in Africa and Asia, where 14% and 8% respectively, of survey respondents noted increasing interest. Drilling down, the figure rises to 17% for China. This matches the recent rise in prices for Asian and Commonwealth stamps. For more on the performance of luxury investments turn to p62. Despite collectable assets commonly being described as investments of passion, personal pleasure is still the main motivation for their acquisition, according to 62% of those surveyed. In India, however, status (38%) was considered almost as important, and across Asia capital growth (32%) was a key factor. For full regional results see Databank, pp68–69.
Wealth trends under the microscope

Leading wealth experts share their views on key findings from the Attitudes Survey

The results of The Wealth Report Attitudes Survey discussed over the preceding pages provide a unique glimpse into the attitudes, concerns and investment choices of UHNWIs from around the world. To look at some of the issues raised in more detail, we asked leading specialists from various sectors of the wealth industry, including private banking, investment, family offices, education and legal services, to share their own insights into specific trends and highlight what the implications could be for UHNWIs and their advisors.

Philanthropic attitude change

Millennials (to use the new parlance for under-40s) take seriously the notion of stewardship and social responsibility. This may not be news, exactly, but what differentiates millennials from their parents is the inclination to use robust and/or sophisticated management techniques for family philanthropy. The steel magnate model of philanthropy is giving way to that of measuring impact not only through the aforementioned implementation of business models for philanthropy, but also through the use of metrics to evaluate the potency of value-informed investments. While wealth managers still need to employ tax-efficient and long-term wealth management vehicles for UHNW millennials, they can also expect to implement values-based considerations into investment portfolios. Service providers supporting UHNWIs through intergenerational wealth management services (read here, family offices) can expect family giving to evolve from a redistributive model towards managed and measured philanthropic initiatives.

Andrew Porter, Director of Research, Campden Wealth

Overseas education

Recently, leading public schools have started to insist overseas applicants complete at least two years in a UK-based preparatory school. Clients from areas that are already well represented in the independent system, such as Russia, Nigeria and the Middle Eastern states, have realised the dramatic effect that an earlier move to a UK school can bring. Leading public schools carry out rigorous preassessments when children are 10 or 11. Preparing for these tests within the system greatly increases a student’s chance of success. For all these reasons, we are seeing renewed interest in boarding preparatory schools and London day schools from most of our international clients.

William Petty, Director, Bonas MacFarlane Education

Luxury investment

In our experience UHNWIs are becoming more and more concerned about paper assets such as bonds and equities, and are increasingly looking for tangible alternatives. The scarcity of luxury assets and their historic ability to hedge against inflation make them an appealing investment proposition – it is always possible to commission a new yacht, but nobody can paint another Monet or build a classic Ferrari. Increasing demand and limited supply suggest that capital growth could continue. There are risks, however, like fraud and poor portfolio diversification. To remove some of these risks, investors should express their views on luxury through a multi-asset solution.

Saeed Patel, Investment Analyst, Schroders

Attitudes to risk

As an investor you should devote your attention to things that a) matter, and b) you can do something about for succession, taxes, government scrutiny and privacy/security. Or at least their advisors think they are – which may not be quite the same thing.

Dr Greg Davies, Head of Behavioural Finance, Barclays

Online perils

A reputation is an individual’s most valuable asset, and in an increasingly digital age, cybercrime and online privacy are big concerns. We are increasingly being asked by high-net-worth individuals how they can go about protecting their reputation. It is vital to conduct a reputation management audit as soon as possible. This will focus on maintaining or taking control of an individual’s reputation. The first area to look at is information that the individual, or friends and family, has direct control over, such as social media accounts and personal websites. It’s also important that family and friends are aware of the risks of posting information online, as it could damage the individual. The more that can be done at the proactive stage, the better.

Nirj Shain, Head of Reputation Management, Taylor Wessing
A comprehensive analysis of how wealth is distributed around the world

Global wealth trends

With the help of data from WealthInsight, The Wealth Report provides a unique and comprehensive analysis of how global wealth distribution is changing and is predicted to change over the next 10 years.

Last year, around 15 people a day joined the ranks of the ultra-wealthy, or those worth over US$30m. This growth is set to continue in the coming decade, with the global population of ultra-high-net-worth individuals forecast to climb by 34% to a total of almost 231,000.

Our data also allows us to look at wealth distribution trends at a granular country level. As such, we can highlight specific wealth-creation hotspots, for example, Kazakhstan, where the number of UHNWIs is set to grow by 114% over the next decade. But topping the list of the almost 100 countries we examine is Vietnam, with a forecast uplift of 159% in its UHNWI population.

Taking a different angle on the data, we can see how evenly wealth is distributed within a country. While Monaco, unsurprisingly, perhaps, given that most of its residents are very wealthy, tops this list, with the equivalent of 874 UHNWIs per 100,000 people, the other countries that emerge at the top are perhaps more surprising. The US with 12.7 UHNWIs per 100,000 head of population, is some way behind countries in Scandinavia, New Zealand and the UK. Despite the sharp rise in the number of Chinese UHNWIs, there are still only 0.6 UHNWIs per 100,000 people in China because of the size of the country’s population.

Wealth, or more specifically, its uneven distribution, has become an increasing subject of debate over the past few years. Some, such as the controversial French economist Thomas Piketty, argue that governments should take action and levy higher taxes on the rich in order to re-distribute wealth. Others, like our contributor Dr Pippa Malmgren, believe that higher taxes could actually prove a barrier to economic growth, undermining the opportunity for wealth creation across every stratum of society.

In developing countries significant amounts of wealth are already being created by a growing and increasingly aspirational middle class. On p23 we examine the importance of this movement across the world, not only as a generator of wealth but also in terms of the increased political power it commands, and how this may be set to change the geopolitical landscape.
The global population of ultra-high-net-worth individuals grew by almost 5,200 last year, according to data prepared exclusively for The Wealth Report by the analyst firm WealthInsight.

This latest increase means 65,385 people have joined the ranks of the ultra-wealthy over the past decade – a rise of 6%. In total, there are now 172,850 individuals in this cohort who hold total wealth totalling $20.8tn, an increase of $700bn during 2014.

Moving up the wealth brackets, nearly 2,180 people became centa-millionaires last year, pushing the global population of ultra-high-net-worth individuals to 1,844 – an 82% rise from the number recorded in 2004. The annual pace of wealth creation also quickened in 2014 compared with 2013, with a 2.9% rise in the previous 12 months. But at a regional level the differences were more marked.

Most notably, Asia overtook North America as the region with the second-largest UHNWI growth. Some 1,419 people moved past the $30m+ mark in Asia in 2014, after an increase of fewer than 1,000 in 2013. Europe held onto the top spot with the most new entrants into the ultra-wealthy bracket over 2014. The ultra-wealthy in Asia now also hold more in total wealth, with net assets of $5.9tn, than those in North America, with $5.5tn. However, with a $6.4tn treasure chest, European UHNWs still control the most wealth.

Last year’s rise in UHNWI numbers came despite weaker-than-anticipated global economic growth. During 2014 the IMF was forced to downgrade its forecast for world output from 3.8% to 3.5%, this is still slightly stronger than the growth in world output from 3.7% to 3.3%.

Throughout the course of 2014, political tensions mounted, while increased uncertainty over the ramifications of withdrawing fiscal stimulus measures in the US affected sentiment in many regions.

Towards the end of the year plunging oil prices and the strengthening dollar also hit emerging markets, as well as key natural resource exporters like Nigeria, Russia and Mexico. Ouliana Vlasova, Head of Content at WealthInsight, says: “The positive outcomes for developed economies at the start of 2014 positively influenced wealth creation. However, that picture changed throughout the year. The growth in wealth could perhaps have been bigger had the world economy picked up more strongly in the second half of last year.”

The outlook for the rest of this year is also mixed. Although the IMF has downgraded its own forecasts for annual growth in world output from 3.8% to 3.5%, this is still slightly stronger than the growth in 2014. Emerging economies are expected to grow by 4.4%, compared with 2.4% for developed economies.

Economic headwinds

There is certainly evidence that beneath the economic headwinds, some central banks and governments have been getting to grips with the serious repair work needed in the wake of the global financial crisis.

However, fears over economic weakness in the eurozone prompted the European Central Bank to start a programme of quantitative easing earlier this year, a signal of the headwinds still facing developed economies. Yet the longer-term forecast for wealth creation, anticipating how wealthy populations will have changed a decade from now, is still upbeat. Looking through the shorter-term uncertainties, WealthInsight predicts the number of ultra-wealthy people will grow globally by 34% between 2014 and 2024, up from a forecast of 28% growth between 2013 and 2023 (see graphic for regional predictions).

Ms Vlasova says: “We expect the measures that are being put into place to

### UHNWI populations and total wealth by region in 2014

<table>
<thead>
<tr>
<th>World Region</th>
<th>Total UHNWI Population</th>
<th>Predicted 10-yr Growth</th>
<th>Total UHNWI Wealth</th>
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<td>Europe</td>
<td>60,565</td>
<td>28%</td>
<td>$5.6tn</td>
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<tr>
<td>Africa</td>
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<td>Latin America</td>
<td>9,902</td>
<td>36%</td>
<td>$1.9tn</td>
<td>25%</td>
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</tbody>
</table>

**Europe**

- **Total UHNWI population**: 60,565
- **Predicted 10-yr growth**: 28%
- **Total UHNWI wealth**: $5.6tn
- **Predicted 10-yr growth**: 28%

**Africa**

- **Total UHNWI population**: 1,932
- **Predicted 10-yr growth**: 58%
- **Total UHNWI wealth**: $0.2tn
- **Predicted 10-yr growth**: 40%

**Middle East**

- **Total UHNWI population**: 7,269
- **Predicted 10-yr growth**: 48%
- **Total UHNWI wealth**: $0.7tn
- **Predicted 10-yr growth**: 48%

**North America**

- **Total UHNWI population**: 44,922
- **Predicted 10-yr growth**: 45%
- **Total UHNWI wealth**: $5.9tn
- **Predicted 10-yr growth**: 40%

**Latin America**

- **Total UHNWI population**: 9,902
- **Predicted 10-yr growth**: 36%
- **Total UHNWI wealth**: $1.9tn
- **Predicted 10-yr growth**: 25%

**Global UHNWI population growth 2014**

- **Total UHNWI population**: 172,850
- **Predicted global UHNWI population growth 2014 to 2024**: 34%

**Global UHNWI wealth 2014**

- **Total UHNWI wealth**: $20.8tn
safeguard against another financial crisis will contribute to improved economic conditions over the next decade, coupled with government initiatives to create more entrepreneurs – one of the main drivers of millionaire growth.”

Asia is set to lead the way, with another 20,127 people likely to see their wealth move past $30m during the next decade.

Looking in more detail at our data, which includes a comprehensive analysis of wealth distribution for over 100 countries, we see a number of other key trends emerge.

Despite the turbulence in some corners of the global economy as a result of renewed political tensions and fiscal uncertainty in 2014, some countries experienced particularly strong wealth creation last year, with UHNWI populations expanding by 5% or more in 15 countries (see chart on p18).

Wealth equality

But when looking at these wealthy residents as a proportion of the country’s total population, the US, with 12 UHNWIs per 100,000, is outgunned by 19 countries including New Zealand and the UK (see chart on p32). Unsurprisingly, Monaco tops the list with an equivalent rate of 574 per 100,000.

In terms of sheer numbers, the US will still be the dominant force in terms of its ultra-wealthy population in 2024. But when looking at these wealthy residents as a proportion of the country’s total population, the US, with 12 UHNWIs per 100,000, is outgunned by 19 countries including New Zealand and the UK (see chart on p32). Unsurprisingly, Monaco tops the list with an equivalent rate of 574 per 100,000.

While Monaco is set to double its population of ultra-wealthy residents over the next 10 years, it will not quite keep up with the rate of growth in some other economies, including Vietnam, the Ivory Coast, Kazakhstan and Indonesia, which are forecast to see the largest increases in UHNWI populations over the next decade (see chart above).

We identified Kazakhstan last year as a country to watch, and this is still the case. It is set for a 14% increase in UHNWIs over the next 10 years, much higher than the 46% growth forecast for neighbouring Russia. Indeed, most of the CIS countries are set to outperform Russia in terms of UHNWI growth – not only because of the military and fiscal turbulence in the country, but also because of the trend in Russia for those who have amassed wealth to base themselves overseas. Almost one-third of Russian UHNWIs would like to change their domicile, according to the Attitudes Survey.

Indonesia, which is expected to see 132% growth in the number of ultra-wealthy people by 2024, is the only MINT country where 10-year forecast growth exceeds 100%. Jim O’Neill, former Chairman of Goldman Sachs, popularised the acronym MINT for Mexico, Indonesia, Nigeria and Turkey, identifying them as the new engines of economic growth. Nigeria comes close to Indonesia with 90% forecast growth in UHNWIs. It is striking, however, that even this level of growth is not enough to clinch the top spot for Africa, which is taken by the Ivory Coast (149%). Deon de Klerk, Head of International Private Clients at Standard Bank, Africa’s largest bank, says: “Africa has the highest potential for growth in any region at the moment. Reforms in Nigeria have been expedited, helping the country build credibility among foreign investors. It is an exciting time.”

When we look at the amalgamated expectations for growth in UHNWIs, the MINT countries, with average expected uplift of 76% over the next decade, narrowly defeat the BRIC countries (Brazil, Russia, India and China), which have an average forecast growth of 72%. However, they both far outstrip global average growth of 51%.
global wealth distribution

forecast growth (14%) and the average increase expected across the G8 (28%) over the next decade.

In China, policymakers are under increasing pressure with questions over economic growth mounting as well as political tensions surfacing in Hong Kong. However, Gabriel Sterne, Head of Global Macro Investor Services at Oxford Economics, says there is room for more education and financial deepening in the country. “We still see China as a success story, and see more opportunities to catch up in terms of productivity,” he says. Certainly by 2024 China is not only set to be the largest economy in the world, but will boasts nearly 15,700 UHNWIs and 330 billionaires.

Meanwhile, elections in India and Brazil will have sparked opportunities for more economic growth. India has seen a 166% increase in UHNWI over the past decade, and with the new Indian government commissioning a majority in the lower house for the first time in decades, there is real opportunity to introduce more transparency. That in turn will boost foreign investment. WealthInsight forecasts a 105% increase in India’s UHNWIs over the next decade.

Last year’s election in Brazil, and the ensuing interest rate rise by the country’s central bank, sent independent muscles, could start to shore up the Brazilian economy. There is still much work to be done, including offsetting the falling prices for key Brazilian exports. However, despite this, the growth of Brazil’s UHNWI population over the next decade is expected to outperform the global average, at 50%.

Eurozone difficulties

The difficulties in the eurozone over the last year, with Germany narrowly avoiding another recession, are not over yet. The economic grouping faces a potentiality not only the balance of the economy, driving productivity as well as consumption in the coming years. This is reflected in our data, with many eurozone countries seeing a slightly lower level of growth in ultra-wealthy populations than the global average. However, the newest entrants to the eurozone – Latvia, Lithuania and Estonia – are set to outperform in the next decade, albeit from a low base. The UK, which had the fastest-growing economy in the G8 last year, is set to see 100 billionaires by 2024, making it the fifth-highest hub for billionaires in the world behind the US, China, India and Russia, each of whose overall population significantly outnumbers that of the UK.

For more wealth distribution numbers see Databank, p66.

The debate about income inequality (see graphic below) and wealth taxes gained traction during 2014, not least because of the widespread discussions around the idea of Thomas Piketty, a French economist who argues that there should be a global wealth tax on the richest in order to redistribute money to the poorest in society. The well-regarded OECD has also highlighted these issues, arguing that using tax and transfers to tackle inequality can be effective as long as the policies are highly targeted, aimed not just at the very poorest but the poorest 40% of the population, particularly focusing on education.

Yet other economists point out it has been proven that high marginal tax rates can decrease productivity and inhibit entrepreneurship, as those who succeed are faced with the prospect of much higher taxes. Dr Pippa Malmgren, founder of DRM Group and former economic advisor to US President George W. Bush, argues that instead of focusing on taxes and wealth brackets, there should be more emphasis on creating more wealth for all. (In her book Signs, published earlier this year, she argues that instead of increasing tax levies, governments should be cutting them, especially for entrepreneurs and small businesses.) “The argument seems to have swung to distribution,” he says, “but the point should be about productivity. It is essential that the policymakers focus on innovating and growing their economies.”

Millionaires, UHNWIs. Centa-mill- lionaires. Billionaires. Their lives and lifestyles cause fascination worldwide, but the changes happening below the apex of the wealth pyramid, while less glamorous, are just as important to anybody interested in the luxury sector.

Mass affluence, or the creation of middle-class consumers with disposable income to spend, is increasingly linked with economic growth and development, and wealth creation.

However, unlike the clearly delineated strata of the super-wealthy discussed earlier, there is no hard-and-fast definition of middle class. Some researchers have included those who earn close to or above the country’s average wage, while others have set specific income thresholds. For example, influential economists Branko Milanovic and Shlomo Yitzhaki declared in 2000 that the global middle class were those who earned between $4,000 and $17,000 a year.

More recently, the idea of looking at the purchase and use of cars as a measure of disposable income and middle-class status has gained currency.

Whatever the definition, there is no doubt that the middle classes have been expanding rapidly in emerging economies in recent years. By Milanovic and Yitzhaki’s measure, there are more than 369 million middle-class people in G20 developing economies, such as China, Brazil and India, and around one billion in advanced economies.

Between 2000 and 2010, Africa’s middle-class population grew from 29% to 34% of the continent’s total population, while the OECD says that by 2030 Asia will account for 66% of the world’s middle-class population – 10 times larger than that of the US and five times bigger than Europe’s.

As well as indicating rising living standards in a country, the middle classes are also the engine of consumer spending, with enough disposable income to purchase goods and services that can help pump money back into domestic and international economies.

The trend is particularly striking in the emerging economies, where private consumption is growing at around three times the rate of advanced economies.

The developing world’s share of global private consumption climbed from 18% to nearly 30% between 2002 and 2012, according to In Search of the Global Middle Class, written by Uri Dadush and Shimelise All. It is certainly no coincidence that the wealth data prepared for this report shows that some of the fastest rates of growth in the number of millionaires will be in Africa and Latin America over the next decade, with an expected increase of 43% and 46%, respectively.

Increased middle-class spending and investment power in developing econ- omies will have a direct impact on the potential for the creation of entrepreneurial UHNWIs who can benefit from the rising demand for everything from consumer goods to financial services, technology and health care.

This has been well proved by the stratospheric success of Alibaba, which recently revealed it now has 628 million active users across the world. Alibaba has propelled its founder, Jack Ma, to the top of the rich list with his success having been the result of, in no small part, increased consumer demand and access to technology across China.

In Africa, Acacia Mall, a new high-end shopping mall in Kampala, Uganda, is just one example where the middle classes are shaping retail, with Western-style shopping centres now providing good return for their INR/W backers. Judy Rugasira Ky- anda, Managing Director at Knight Eaton Uganda, says: “The mall is surrounded by areas populated by a strong middle class, who benefit from improved infrastructure and services provided in an upmarket setting.”

As a result, the Spanish retailer whose brands include Zara, Uterqüe and Massimo Dutti, which is majority-owned by its founder, the Spanish billionaire Amancio Ortega, has been expanding rapidly in China. It has already opened five stores in China and has stated a satisfaction for the chic-yet-affordable fashion among the middle class.

A growing and strengthening middle class can often be accompanied by politi- cal challenges, however, as the growth in economic independence sparks greater demand for better services – especially education, political transparency and freedom of expression. In the past two years alone there have been protests in countries including Brazil, Hong Kong, Venezuela, Bulgaria, China and Turkey, which have, to some extent, been associ- ated with the increasingly vociferous demands of the middle classes.

Yet the increasing demands of the middle classes can also prove a great spur to innovation, encouraging entrepreneurs to start their own businesses to provide this emerging class with disposable income, which in turn provides good jobs to lift more people into the middle classes – resulting in a form of virtuous circle.

This ability of the middle class to grow itself is perhaps just as well, amid a cloudier outlook for the global economy, the eyes of the world are turning to the middle classes – and more importantly their wallets and purses. Their spending power is a crucial lever to help boost global demand.
The Wealth Report asks what the biggest risks and opportunities for wealth creation around the world are

Narrow economic growth

The risk for wealth creation in the Indian economy and many other emerging economies will arise if economic growth over the coming years is not spread across every sector of the economy, from services to energy. Such broad-based growth results in a quicker trickle-down effect than when the economy is relying on just a few strong pockets of output. Every economy that transforms itself from an emerging to a developed economy has seen some instances where wealth inequality has grown, but this seems to be most acute where the economy is leaning on just one or two levels of growth.

Pricing of equities

I see the biggest risk at present being the disconnect between the pricing of bonds and commodities on the one hand, and equities on the other. While bond and commodity prices are pricing in weak global demand, recent stock market rallies seem to be factoring in the expectation of future profits based on rising demand. This year will certainly be a year to watch how the markets react to the withdrawal of monetary stimulus in the US, as there is a strong argument that the stock rally has been fuelled by excess credit in developed and emerging markets, fuelled by quantitative easing.

Government expansion

One key risk, certainly in the US but also elsewhere around the world, is the continued expansion of government. There has been exponential growth in the size of the government in the US over the past eight to 12 years, and this has been marked by more taxes and regulation. These developments have an impact on the dollars people have to invest. When there is uncertainty about whether a tax regime will continue to change, or about expanding regulation, investment decisions change, which in turn can have an effect on economic as well as investment outcomes. The US’s approach to this is, in effect, a global issue, as its economic performance has international ramifications.

Sustained political upheaval

Instability is a risk to any form of economic growth. This is particularly true in Africa. A major sustained political upheaval or a similar incident could detract from the important projects being implemented that should deliver growth. There are many countries within Africa, all at different stages of development. The ideal is that each of these countries stays on track towards economic development and growth. But if any of them, especially one of the major nations such as Nigeria, Kenya, South Africa or Angola, took a sudden change of direction, then that would pose a risk to Africa’s growth story.

Volatile outlook

Geopolitical events such as the escalation of Russia’s actions in Ukraine could lead to further loss of confidence and potentially a deflationary trap, particularly in Europe. At the other extreme, if economic growth is stronger than anticipated and central banks are wrong-footed by wage pressures on inflation, this could lead to tightening of policy and strong rises in yields. As investment advisors we worry more about these issues today, as loose monetary policies have helped push the valuation of many asset markets to levels that allow little room for disappointment.

Risks

Opportunities

The opportunities for wealth creation, especially in India, are potentially huge, if policymakers can boost manufacturing, or, as I call it, the “missing middle”. There are signs of a stronger and more transparent policy system under the new Modi government, and, if successful, this will attract more overseas investment. India has the ability and the know-how to increase its global presence in terms of manufacturing, and it could benefit from the global links created by over-seas investment. If allowed to flourish, a manufacturing sector in India could provide massive growth. Education is also more widespread than in other emerging economies.

Technology

There will be growing opportunities in emerging-market technology – that is, new, more-sophisticated developments within the technology we all use every day. Funding platforms such as Kickstarter are exciting, helping engender new ideas. We also see real estate, mostly commercial property, in the US as an opportunity – there is a reassurance that you can actually go kick your investment. People should not overlook the opportunities in developed economies. For many years the story has been about emerging economies, based on their manufacturing. But we have moved some of our manufacturing to the US and Canada in recent years – there is opportunity here.

Technology and real estate

Africa is one of the few regions in the world where there is huge potential for growth. It has a growing and young population that is fuelling demand and pushing up economic activity and wealth creation. The continent also boasts a strong strand of entrepreneurialism, which has resulted in a clear shift towards substantial growth in HNW1 numbers over recent years. Given that Africa currently accounts for 18% of the world’s population, but delivers only 4% of global output, it unquestionably offers great opportunity over the medium and longer term.
The cities that matter to the world’s wealthy for business and lifestyle

Global Cities Survey

What makes a city important to the wealthy, and what makes them want to live there? Researchers attempt to solve this conundrum by measuring and ranking quality of life and a host of other indicators.

Of course, if we measure a city’s importance by political power, Washington DC and Beijing will be at the top of the tree, followed closely by Brussels, the power base of the EU. If we assess quality of life, a clutch of northern European, Canadian and Australian cities, led by the likes of Melbourne and Toronto, will dominate. But, by and large, these cities do not boast the highest concentrations of UHNWI residents. You may need to lobby in Washington or Brussels, but you are less likely to want to live there.

Our focus, as highlighted so graphically on pp30-31, is to consider the number of UHNWI residents who actually choose to live in each city.

To provide a more rounded picture we have also assessed responses from our Attitudes Survey, in which we asked wealth advisors around the world to name the cities where their clients spend time for business and leisure.

“Follow the money” was the sage advice from the Watergate mole, and it holds true at the top of our rankings. London and New York, the world’s dominant financial centres, take the first two positions in our latest rankings. Although the total wealth held by UHNWIs is now greater in Asia than in North America, no single city can claim to be the region’s economic hub and really challenge the dominance of London and New York.

Within the Asia-Pacific region, Hong Kong is now the most important city largely because of its close economic affinity with China, although Singapore has the biggest UHNWI population.

Some of the most interesting results are not found at the top of city ranking tables – new candidates rarely emerge – and up-and-coming locations offer some of the most interesting opportunities for entrepreneurial UHNWIs or those looking to join the ranks of the super-rich. On p32 and p33 we highlight four cities around the world that could be worth a closer look.
The world's top 40 cities
The latest results from our Global Cities Survey, which monitors the cities that matter to the world's wealthy.

LIAM BAILEY, GLOBAL HEAD OF RESEARCH

Changing fortunes across our rankings over the past 12 months have seen Hong Kong and Singapore continue to slug it out for pole position in Asia. This year Hong Kong edges ahead, moving from fourth to third position in our global top 10. With Shanghai maintaining its steady rise, Asia holds four of the top 10 slots in our list. Although Geneva loses ground this year, Zurich's strengthening helps maintain European representation.

Focusing purely on the population of wealthy residents, our data confirms that London remains the single biggest centre for global UHNWIs, followed by Tokyo, New York and London. Ten years hence and the expectation is that London will retain its top spot, but Singapore will have closed the gap with a 54% growth in its UHNWI population over that period.

The most rapid growth in wealth will be seen in the likes of Ho Chi Minh City, Jakarta, Mumbai and Delhi. One-fifth of the cities assessed are expected to see greater than 100% growth over the next decade, all of which are in Asia or Africa. Geographic concentration of wealth remains a key facet with 10% of all additional growth in UHNWIs taking place in just five cities – Singapore, Hong Kong, New York, London and Mumbai – over the next decade.

When we focus on the broader measure of dollar millionaires, or HNWIs, rather than UHNWIs, we see some resilience in the performance of cities in the developed world. Tokyo contains the biggest single cluster of HNWIs today. At 466,000 the HNWI population is nearly a fifth larger than the number two city, New York, with a little under 400,000.

In 10 years we will see a reversal, with New York expected to be home to the biggest global total, with over 520,000 HNWIs, and Tokyo slipping to second place with 508,000.

By this point Beijing will sit in third position, with 360,000 dollar millionaires, a rise of 55% over the decade. Despite the US and Japan hanging on with the two biggest city counts, growth even at this wealth level will be dominated by Asian centres, with six of the 10 biggest growth cities in absolute terms being in Asia.

Collectively they are expected to add 600,000 new HNWIs to their populations over the period to 2024. In Mumbai alone forecast growth is a phenomenal 125,000 – a 128% rise. Our Attitudes Survey points to the cities that UHNWIs believe will yield the best investment opportunities in 2015 – led by New York, London, Berlin and Los Angeles.

Looking to the future, one constant remains: the rise of the Asian powerhouse cities, the relative decline of the European centres and the tussle between the two global behemoths – New York and London, with New York expected to be the most important city for global UHNWIs in 2028.

Top 40 most important cities to UHNWIs in 2015

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<th>Rank</th>
<th>City</th>
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<td>+1</td>
</tr>
<tr>
<td>37</td>
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</tr>
<tr>
<td>39</td>
<td>São Paulo</td>
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</tr>
<tr>
<td>40</td>
<td>São Paulo</td>
<td>75</td>
<td>76</td>
<td>+1</td>
</tr>
</tbody>
</table>

changing fortunes across our rankings over the past 12 months have seen Hong Kong and Singapore continue to slug it out for pole position in Asia.

This year Hong Kong edges ahead, moving from fourth to third position in our global top 10. With Shanghai maintaining its steady rise, Asia holds four of the top 10 slots in our list. Although Geneva loses ground this year, Zurich's strengthening helps maintain European representation.

Focusing purely on the population of wealthy residents, our data confirms that London remains the single biggest centre for global UHNWIs, followed by Tokyo, New York and London. Ten years hence and the expectation is that London will retain its top spot, but Singapore will have closed the gap with a 54% growth in its UHNWI population over that period.

With the exception of London, European cities will see a relative decline in their rankings based on the size of their UHNWI populations over the next decade, despite an average 27% growth in wealthy residents.

Europe's relative, if not absolute, decline is reflected in North America, Australasia and even the Middle East, with one standout reason – the dramatic growth of wealth in Asia. On average, cities across that region will see a 91% growth in their UHNWI populations over the next decade.

The most rapid growth in wealth will be seen in the likes of Ho Chi Minh City, Jakarta, Mumbai and Delhi. One-fifth of the cities assessed are expected to see greater than 100% growth over the next decade, all of which are in Asia or Africa. Geographic concentration of wealth remains a key facet with 10% of all additional growth in UHNWIs taking place in just five cities – Singapore, Hong Kong, New York, London and Mumbai – over the next decade.

When we focus on the broader measure of dollar millionaires, or HNWIs, rather than UHNWIs, we see some resilience in the performance of cities in the developed world. Tokyo contains the biggest single cluster of HNWIs today. At 466,000 the HNWI population is nearly a fifth larger than the number two city, New York, with a little under 400,000.

In 10 years we will see a reversal, with New York expected to be home to the biggest global total, with over 520,000 HNWIs, and Tokyo slipping to second place with 508,000.

By this point Beijing will sit in third position, with 360,000 dollar millionaires, a rise of 55% over the decade. Despite the US and Japan hanging on with the two biggest city counts, growth even at this wealth level will be dominated by Asian centres, with six of the 10 biggest growth cities in absolute terms being in Asia.

Collectively they are expected to add 600,000 new HNWIs to their populations over the period to 2024. In Mumbai alone forecast growth is a phenomenal 125,000 – a 128% rise. Our Attitudes Survey points to the cities that UHNWIs believe will yield the best investment opportunities in 2015 – led by New York, London, Berlin and Los Angeles.

Looking to the future, one constant remains: the rise of the Asian powerhouse cities, the relative decline of the European centres and the tussle between the two global behemoths – New York and London, with New York expected to be the most important city for global UHNWIs in 2028.

Top three cities with the greatest growth in the number of UHNWI residents (2014–2024)

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Singapore</td>
<td>+1,752</td>
</tr>
<tr>
<td>2</td>
<td>Hong Kong</td>
<td>+1,251</td>
</tr>
<tr>
<td>3</td>
<td>New York</td>
<td>+1,013</td>
</tr>
</tbody>
</table>

Source: Knight Frank Global Cities Survey

How we measure the world
Our analysis confirms the most important global cities to the world’s wealthy. Our measure includes an assessment of unique city-level UHNWI population counts, provided by WealthInsight; in addition, our Attitudes Survey contributes rankings covering the importance of cities for their business links, economic activity and lifestyle offer. In short, these are the cities where the wealthy congregate, work, invest, are educated and spend their leisure time.

Future forecasts for wealth populations and judgements of the changing influence of cities from our Attitudes Survey underpin our forecast for the top 10 cities in 2025.

Most Important cities to UHNWIs in 2025

1. New York
2. London
3. Hong Kong
4. Singapore
5. Shanghai
6. Beijing
7. Dubai
8. Paris
9. Tokyo
10. Mumbai

Source: Knight Frank Research

ASIAN TIGER Singapore is set to gain the most UHNWIs of any city over the next 10 years

Source: WealthInsight See pp30–31 for more city-level UHNWI population data
Where UHNWIs really live

Our Global Cities Survey touched on the locations with the highest concentration of UHNWI residents; here we take a wider graphical look at city-level populations around the world in 2014.

Source: Wealth Insight
The cities featured on this spread are not those about to be listed among the world's top 10 or even top 20 most important cities. Indeed, none of them yet boasts any billionaire residents, according to data from WealthInsight, but their HNWI (millionaire) and UHNWI populations are rising, and they are locations whose influence we believe is growing strongly at a regional level. Even if they are unlikely to be on the second-home list of most UHNWIs, they should certainly be on their radars in terms of the wealth creation opportunities they will present. cities of the future

The Wealth Report picks locations with a potentially bright future

Belgrade, Serbia
As with all our featured cities, rising wealth is a key indicator of the growing strength of Belgrade's economic fortunes. While seeing only a steady 12% rise in strength of Belgrade's economic fortunes. As with all our featured cities, rising wealth creates opportunities they will present.

Panama City
The unique geography that has blessed Panama with its canal has also aided economic growth and wealth creation in its capital, Panama City, by bridging the divide between Latin and North America. With a near doubling in the number of HNWI residents since 2007 to hit 4,700 in 2014 and nearly 7,000 by 2024, the Economist’s decision to label the city “a Singapore for Central America” seems increasingly prescient. In a Central American context, Panama offers a high degree of economic and regulatory stability. Investors are attracted by the strongest economic growth offered in the region and also a very competitive tax environment – all of which have contributed to foreign direct investment levels hitting 9% of GDP in recent years.

Yangon, Myanmar
With its number of HNWI residents set to more than double over the coming decade, hitting in excess of 3,500 US dollar millionaires by 2024, Myanmar’s former capital and largest city, Yangon, is a classic example of emerging market wealth creation.

Addis Ababa, Ethiopia
Africa’s fastest-growing economy, Ethiopia, benefits from not only the political importance of Addis Ababa but also the 4.8% annual growth rate of the population within the capital. In addition to natural growth, there is vast rural-urban migration, which planners predict combined could lead to the size of the city surging by 2040 to over 8.1 million. Wealth creation has seen a near doubling of the population of HNWI since 2007 to a little over 1,300, with one of the strongest forecast growth rates for the coming decade – with an expected expansion to 2,600 by 2024.

The city is understandably witnessing severe growing pains, with public investment in transport including an overhead rail network, and constructiondominating GDP growth. Relocation of existing residents to accommodate new infrastructure has caused severe stresses on some sectors of the city’s population. The Renaissance dam under construction on the Blue Nile in Africa’s largest hydroelectric scheme and could provide energy security – a vital component for economic development.

With the presence of the African Union headquarters, and the headquarters of the United Nations Economic Commission for Africa, as well as a number of continental and international organizations, the city is commonly regarded as the political capital of Africa, lending a strong diplomatic and political edge to its growing economic strengths.
Virtually everybody likes to talk about house prices, particularly the value of their own home. But for ultra-wealthy individuals who may own houses around the world, keeping track of their portfolio’s worth is not that simple.

However, Knight Frank’s newly enlarged Prime International Residential Index (PIRI) now includes performance data for 100 of the world’s key luxury city and second-home markets, and is recognised as the sector’s most comprehensive performance benchmark.

So what does the PIRI 100 tell us about prime market performance in 2014 – which UHNWI property owners will be rubbing their palms, and who will be less cheerful? Well, the picture is certainly mixed around the world.

Those lucky enough to have property in the US are unlikely to have any complaints, as domestic and international demand fuelled price growth. European destinations fared less well, with values dropping on average by 0.4% across the continent. Overall, city markets around the world outperformed second-home sun and ski destinations.

Of course, the analysis over the following pages is about more than just what happened last year. While past performance is interesting, what the astute property owner will be more concerned about is future trends.

Although isolated issues such as the Swiss government’s surprise decision to unpeg its currency from the euro in January – house prices in effect became 20% more expensive overnight for foreign buyers – will clearly impact markets, we see two main opposing trends at play at the macro level. How they play out will have a profound impact on prime property markets. On one hand, the growing globalisation of wealth means there are more UHNWIs from more countries looking for luxury homes in an increasingly diverse number of international destinations; on the other, there is burgeoning government scrutiny of wealth and levels of protectionism.

The globalisation theme is highlighted by the rising number of UHNWIs who are looking to shift their domicile; with the help of immigration specialist Fragomen we explore this trend in more detail on page 42. The growing usage of private jets for business and personal purposes is another reflection of rising wealth mobility. Using exclusive data from NetJets we highlight the most popular and fastest-growing routes for the ultra-rich traveller.

And finally, Massimo Ferragamo, of the Italian fashion house Ferragamo, shares some of his own perspectives on luxury property ownership.
US shines as global growth falls

Analysis of the latest trends to emerge from Knight Frank’s unique Prime International Residential Index (PIRI)

KATE EVERETT-ALLEN, HEAD OF INTERNATIONAL RESIDENTIAL RESEARCH

The value of luxury residential property around the world rose by just over 2% on average in 2014, based on the performance of the 100 locations covered by our PIRI rankings. With reversals in markets as far apart as Asia, the Middle East and Europe, growth was lower than the 2.6% seen in 2013.

The US dominates the top of our table, taking four out of the top 10 positions, with New York (+18.8%) and Aspen (+16%) in first and second place respectively. The disparity with Europe’s cities is stark. Luxury prices rose by almost 13% on average across US cities last year, compared with an average of only 2.5% in Europe.

Bali, the leading Asian second-home market, and the emerging Middle Eastern urban powerhouse of Istanbul were standout performers, with luxury prices up by 15% year on year in both markets.

Our previous front runner, Jakarta, lost its throne to Jakarta, which led the rankings in 2012 and 2013, slipped to 12th place this year, an indication of the housing market slowdown evident across many Asian cities last year.

Some previous strong markets such as Dubai (-17% growth in 2013) saw prices slow markedly (0.3% in 2014). This is in part because of the mortgage cap of the Central Bank of the UAE, which is stricter for those purchasing properties above five million dirham.

The dampening impact of this kind of prudent macro policy also explains the ongoing weak growth in Hong Kong and Singapore. Government policy has been deliberately aimed at limiting price rises through higher taxation and mortgage market intervention.

Mainland China mirrored this trend with prime price growth in Shanghai (0%), Beijing (-0.3%) and Guangzhou (0.6%) proving lacklustre at best.

Buenos Aires proved our weakest performer, but with GDP growth in negative territory in 2014, the city’s housing market tribulations are less than surprising.

While the threat of Mayor de Blasio’s so-called prick-a-terme tax doesn’t appear to have damped growth in New York, recent hikes in stamp duty (a purchase tax) have curtailed the rate of price growth for properties worth over £2m in London, holding overall prime price growth at 5.1% for the year. The latest changes to UK Stamp Duty mean higher costs for those purchasing a property priced at £937,500 or above, this may cap growth above this threshold in the near term.

Despite the more muted performance of the PIRI 100 this year, luxury housing markets continue to outperform their mainstream counterparts. The average price of a luxury home in our index is 58% higher than it was at the index’s lowest point in the second quarter of 2009: the average price of mainstream global property has risen by just 14% over the same period.

Government policy has been deliberately aimed at limiting price rises through higher taxation and mortgage market intervention.

Annual price change by world region, to 31 December 2014

<table>
<thead>
<tr>
<th>Location</th>
<th>World Region</th>
<th>Annual % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moscow, Los Angeles, San Francisco, Miami and Riyadh relates to the period from Q2 2013 to Q2 2014, Data for Tel Aviv relates to the period from Q1 2013 to Q1 2014, Tokyo relates to properties above JPY 100m.</td>
<td></td>
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</tr>
</tbody>
</table>
Opposing forces
The tension between protectionism and globalisation in residential markets is impacting market performance

Liam Bailey, Global Head of Research

Since Knight Frank published the first edition of The Wealth Report in 2007, a relatively simple narrative – underpinned by even the global financial crisis – has dominated our analysis of global luxury residential markets. Rising wealth creation has led to an increasing number of buyers, from an ever-widening list of countries, purchasing property in a growing number of global hubs. The peak in 2014 of significant volumes of wealthy Chinese investors in markets around the world, it seems an odd time to question the sustainability of volumes of wealthy Chinese investors in from an ever-widening list of countries, has led to an increasing number of buyers, even the global financial crisis – has dominated,

Immigration, a classic driver for international property investment by UHNWIs, and a subject we look at in detail on page 42, is an arena where we are seeing rising counter-trends. In 2014 Russia, for example, imposed reporting requirements on nationals seeking permanent residence or citizenship in other countries, backed by criminal sanctions. Some recipient countries have tightened access to residency, notably Switzerland, which has seen a range of restrictions on UHNWI immigration over recent years.

The trend towards more, not less, international demand for residential property held in corporate and personal names, has continued into 2015. But long-term trends, such as the growing appetite for international education, and the pull of stable political, economic and regulatory safe havens, are responsible for the most durable ongoing demand sources.

The strength of London’s education offer has long underpinned demand for the city’s property. A decade ago Russian, Middle Eastern or European children moving into London schools would be starting at age 13. Rising competition for places at age 13 means a starting age of seven or eight is increasingly the norm. London is not the sole education target. There is a growing desire for UHNWIs to craft a global education experience – school in the UK or Australia, university in the US, postgraduate study or MBA in Europe – creating global citizens in terms of language, location and education. And at every stage there will almost inevitably be a property requirement.

Although rules surrounding the immigration process are tightening in some locations, the general trend is for more countries to create high-value immigration schemes and meet tough compliance safeguards, more will undoubtedly try. Perhaps the biggest trend that would contribute to our globalisation narrative assumption for a moment. Since the financial crisis the list of countries that have imposed tougher controls on the free flow of capital, even if only temporarily, has grown longer – India, Ghana, Cyprus, Ukraine, with more to come. There has been a shift away from the assumed direction of travel – of more-liberal trading conditions. Even if China does liberalise, the huge potential for Chinese investment flows to influence asset prices globally highlights the tension between our globalisation narrative and protectionism themes.

Rising demand from emerging-world sources will have the potential to lead to a stronger political and regulatory backlash in the main global investment hubs – if asset prices and affordability issues rise strongly as a result.

FIVE GLOBAL PRIME RESIDENTIAL HOTSPOTS

London
St John Street, Clerkenwell. This area has led the left-trending for over 30 years. We see the demand for left accommodation increasing. Scarcity will drive pricing, as will Crossrail, with the nearby Farrington station providing access to this key investment location. The Tech City association will also drive the continued growth of high-quality shopping and restaurants. Typical 700 sq ft apartment – US$200,000

New York
West Street in Manhattan is one to watch. The street will form the new residential entrance to Brookfield Place, adjacent to the new World Trade Center complex, and will be lined with world-class restaurants and luxury retail brands. West Street is a leader for the whole downtown market, which is set for a boost over the next five years, value growth here should unseat the rest of New York by some margin. Typical 1,000 sq ft apartment – US$2.7m

Cape Town
Main Road, Green Point, Cape Town. The local area was initially boosted by the legacy of the World Cup, and huge investment was put into upgrading local infrastructure, such as developing parks, malls and a transport system. On the back of this, restaurants such as Massa and Belge have improved the local lifestyle offer. Add to this mix the retention of good schools, the city centre and views of Table Mountain and this is the street to watch in 2015. Typical 700 sq ft apartment – US$125,000

Dubai
Business Bay, Dubai. Work has started on building a channel connecting the sea to the existing lake that lies in front of the Burj Khalifa. This will allow access for super-yachts and sailing boats to the city. Construction of large towers lining the channel is under way, providing residences with the unique benefit of marina facilities in this central location. Typical 1,000 sq ft apartment – US$600,000

Hong Kong
Our tip for Hong Kong is the Sai Ying Pun neighbourhood. It is within close walking distance to central Hong Kong but retains local charm. The area is a mecca for global shops and excellent local restaurants. While more residential buildings have started to be developed in the area, there are still many opportunities for investment. Typical 700 sq ft apartment – US$1.5m

Source: See our PIRI table on page 37. *Based on apartments only

PIRI (Prime International Residential Index) 2015

<table>
<thead>
<tr>
<th>City</th>
<th>Second home – 1yr</th>
<th>Second home – 5yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monaco</td>
<td>$2.9m</td>
<td>$5.5m</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>$1.9m</td>
<td>$3.3m</td>
</tr>
<tr>
<td>London</td>
<td>$2.3m</td>
<td>$3.6m</td>
</tr>
<tr>
<td>New York</td>
<td>$2.1m</td>
<td>$3.3m</td>
</tr>
<tr>
<td>Singapore</td>
<td>$1.5m</td>
<td>$2.7m</td>
</tr>
<tr>
<td>Geneva</td>
<td>$1.2m</td>
<td>$2.1m</td>
</tr>
<tr>
<td>Sydney*</td>
<td>$1.0m</td>
<td>$1.5m</td>
</tr>
<tr>
<td>Shanghai</td>
<td>$0.8m</td>
<td>$1.3m</td>
</tr>
<tr>
<td>Paris</td>
<td>$0.7m</td>
<td>$1.1m</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>$0.6m</td>
<td>$1.0m</td>
</tr>
<tr>
<td>Miami</td>
<td>$0.5m</td>
<td>$0.8m</td>
</tr>
<tr>
<td>Rome</td>
<td>$0.4m</td>
<td>$0.6m</td>
</tr>
<tr>
<td>Moscow</td>
<td>$0.4m</td>
<td>$0.6m</td>
</tr>
<tr>
<td>Istanbul</td>
<td>$0.3m</td>
<td>$0.5m</td>
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<tr>
<td>Tokyo</td>
<td>$0.3m</td>
<td>$0.5m</td>
</tr>
<tr>
<td>Mumbai</td>
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<td>$0.5m</td>
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<td>Sao Paolo</td>
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<tr>
<td>Dubai</td>
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<td>$0.5m</td>
</tr>
<tr>
<td>Cape Town</td>
<td>$0.3m</td>
<td>$0.5m</td>
</tr>
</tbody>
</table>

The square metres of luxury property US$1m will buy

There are, however, two potential future approaches to reduce this tension. Firstly, a more flexible and comprehensive approach, with more taxation and regulations aimed at non-resident investors. By asking for notification of second passports, Russia has confirmed how restrictions can easily come from the wealth-exporting nations. China will enter into greater cooperation on information exchange – regarding taxation and by which China, and others, will ultimately join in the wider policing of global wealth. This shift towards increased global cooperation over taxation and transparency, and the sharing of investor details, would see a greater alignment of costs and benefits between wealth-exporting countries and the investment destination countries – which could ultimately support long-term growth in investment.
FLY AWAY

Using exclusive NetJets data, The Wealth Report looks at the most popular private jet routes and assesses their impact on wealth migration and property investment destinations.

NetJets reports that the synergy between New York and London is greater than ever, with traffic on this major route increasing every year.

While Dubai and the broader UAE are seeing increasing traffic, the Middle East’s position as the world’s third-largest market is being challenged by the rise of traffic in China and Brazil. Traffic from Brazil to Europe has grown 20% each year since 2010, with the main destinations including France, Spain, Portugal and the UK – reflected by luxury property investment purchases by Brazilian buyers during 2014.

Africa is a more fragmented market, although Nigeria has become a major private jet hub – with flights to and from Lagos making it into our list of the top 10 private jet hubs and it is likely to be a major private jet destination in the near future. Private jet traffic to this part of the world is being challenged by the rise of traffic to Africa’s tropical destinations like Verbiere, St Moritz and Courchevel. Growth in traffic to Alpine airports, such as Sion and Chambéry, points to a revival in demand for property in areas connected to skiing. The airport of St-Tropez, where flying from London is more expensive than flying from Moscow or Dubai to the airport of St-Tropez, is being challenged by the rise of traffic from Dubai to Sardinia (+14%) and Ibiza (+17%).

In a relatively flat market both Olbia in Sardinia (+14%) and Ibiza (+17%) have seen very strong annual increases in traffic over the past 12 months, confirming the growing importance of this market as a holiday and second-home hub. Nice remains a major destination, despite the airport of St-Tropez, where flying from London is more expensive than flying from Moscow or Dubai to the airport of St-Tropez, is being challenged by the rise of traffic from Dubai to Sardinia (+14%) and Ibiza (+17%).

NetJets shines some light on the latest trends. There is a clear synergy between established market routes and investment flows – with London and New York displaying one of the closest prime property relationships as well as flight paths.

The most insightful data comes when we look at emerging-market demand. Latin American investment in Europe, for example, has long been overshadowed by the huge waves of investment flowing into Miami and other US hotspots. The breadth of routes flown into key EU markets from Brazil, but also Argentina and other key southern American hubs, reveals a closer relationship between these markets than is often recognised. The huge potential for demand for property in Europe, and also in North America, from investors based in Asia, Africa, the Middle East and Latin America is hinted at by the new growth routes highlighted by the NetJets data.

WHO IS FLYING?

Over 80% of private jet passengers are male. The typical age for flyers is 40-55. Private entrepreneurs dominate in terms of profession. Source of wealth tends to be from finance and the oil and gas sectors. NetJets reports that flyers from the property industry have returned in the past 12 months, joined by owners of technology companies.
PASSPORTS, PLEASE

HNWI migration is a major influence on the global luxury property market. Using research provided by global immigration specialist Fragomen, we examine the directions of travel

Anyone watching London’s stellar residential market performance will be unsurprised to hear that the UK has been a top recipient of mobile HNWIs over the past decade. According to Nadine Goldfoot, a partner at Fragomen, over 60% of these have been from Europe, but substantial numbers also coming from China, Russia, India, the Middle East (especially Saudi Arabia, Syria and Turkey) and Africa (led by South Africa, Nigeria and Egypt). More recently, 30% of the 700 applications in the first nine months of 2014 for the UK’s Tier 1 investor visa were from China, with 62% coming from Russia.

Singapore has seen strong migration of HNWIs from China, India and Indonesia. Flows into the US predominantly come from the UK, India and Russia, although Fragomen’s worldwide client practice notes a number of HNWIs who had been domiciled in Switzerland for tax purposes have relocated to Singapore, the UK or the UAE.

There has been growing speculation over the success of the more recent entrants to the investor immigration market – most of them in Europe. Fragomen has noticed a sizeable uptake in programmes linked to property purchases in Europe – across Spain, Portugal and Latvia.

Malta’s Individual Investor Programme introduced in February 2014 had received over 200 applications by August 2014, with applicants from 30 countries, but mostly from Russia.

Official figures show over 1,936 visas were issued in the first 12 months of Portugal’s Golden Visa programme. Here the vast majority of applicants have been from China, representing close to 80% of total demand.

The biggest story in terms of wealth-exiting nations is undoubtedly China. It is estimated that 76,200 Chinese millionaires emigrated or acquired alternative citizenship over the 10 years to 2013. They are a significant force in Europe and dominate Asia-Pacific schemes – with around 90% of applicants for Australia’s Significant Investor visa coming from China.

India’s wealthy migrants tend to favour the UK, the US and Australia. French and Italian HNWIs prefer the UK and Switzerland. Some 73,000 Russians received foreign passports in 2014/15, the majority of the HNWIs among them focusing on the UK and the US.

The main factors that are likely to drive prime residential markets over the short and long term

Demand will increasingly be driven by international developers

The world’s largest residential developers, led by players from China, India, Hong Kong and Malaysia, continue to diversify into new markets. Where Greenland Group, Swite, China Vanke Co and Lodha Group lead, they are followed by private compatriot investors looking to dip their toe into international investment – with the reassurance of buying from a familiar brand. Watch for Hong Kong buyers in Miami, and Chinese buyers on the Australian Gold Coast and the US West Coast – and just about everywhere in London and New York.

Some buyers will find the market less welcoming

Pressure from any number of bodies – the EU, the US and the OECD included – on low tax jurisdictions to comply with transparency rulings is acting in concert with ever tighter regulations aimed at reducing the risk of money laundering. Similarly, while EU and US restrictions on Russia over the Ukraine crisis may have been tightly drawn in terms of named individuals with whom to avoid doing business, the somewhat vague wording in the regulations has caused professional advisors to become increasingly risk-averse in terms of whom they work with. Banks in particular will simply not risk falling short of regulatory standards. There are a small but growing number of potential buyers who will find it increasingly difficult to access foreign property markets.

Government stimulus will be with us for longer

That ultra-low interest rates and government stimulus measures have aided demand for residential property, with just about every other tangible asset, is a given. A year ago the assumption was that it was only a matter of time before interest rates would begin to rise across the developed world. A year on and the continued fragility of the eurozone recovery and broader concerns over the global economy have meant that policy tightening has been pushed further into 2015 and even into 2016. It appears that the support for global demand and the ability of purchasers to push prices higher will be with us for some while yet.

Technology will reinforce the globalisation of demand

In last year’s edition of The Wealth Report we discussed the potential impact of sub-orbital travel on property demand over the next 10 to 20 years. More immediate support for global demand is likely to come from improvements to traditional jet technology. Several companies such as Aeron, Spike Aerospace, Lockheed Martin and Boeing are working to reintroduce a more affordable and sustainable supersonic replacement for Concorde.

Countries with the biggest inflows of HNWIs (past 10 years)

<table>
<thead>
<tr>
<th>Country</th>
<th>HNWIs 2013</th>
<th>HNWIs gained from 2003 to 2013 (as a percentage of total HNWI population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>16,956</td>
<td>10,492 (61%)</td>
</tr>
<tr>
<td>Singapore</td>
<td>14,139</td>
<td>8,106 (57%)</td>
</tr>
<tr>
<td>US</td>
<td>13,240</td>
<td>8,285 (63%)</td>
</tr>
<tr>
<td>Australia</td>
<td>12,190</td>
<td>7,114 (59%)</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>10,600</td>
<td>6,075 (57%)</td>
</tr>
<tr>
<td>Canada</td>
<td>7,779</td>
<td>4,758 (61%)</td>
</tr>
<tr>
<td>UAE</td>
<td>7,381</td>
<td>4,331 (59%)</td>
</tr>
</tbody>
</table>

Countries with the biggest outflows of HNWIs (past 10 years)

<table>
<thead>
<tr>
<th>Country</th>
<th>HNWIs 2013</th>
<th>HNWIs lost from 2003 to 2013 (as a percentage of total HNWI population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>21,087</td>
<td>13,422 (64%)</td>
</tr>
<tr>
<td>India</td>
<td>11,667</td>
<td>7,552 (65%)</td>
</tr>
<tr>
<td>France</td>
<td>8,564</td>
<td>5,663 (66%)</td>
</tr>
<tr>
<td>Italy</td>
<td>7,377</td>
<td>4,816 (65%)</td>
</tr>
<tr>
<td>Russia</td>
<td>6,248</td>
<td>4,011 (64%)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>3,170</td>
<td>1,995 (63%)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3,033</td>
<td>1,916 (63%)</td>
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Source: Fragomen using data from New World Wealth survey

The Wealth Report 2015
Massimo Ferragamo’s life seems to divide neatly in two. Not only does he split his time between Italy and the US – “I was sent there to work for the Ferragamo business when I was 25” – but in each country he likes to move between homes in the city and the countryside.

In Italy he owns a house in Florence – “the most beautiful city in the world, where I was born” – as well as Castiglion del Bosco, a 5,000-acre estate in the Val d’Orcia region of Tuscany. Stateside he has an apartment in Manhattan and a country house in Millbrook, a small village in upstate New York referred to as a low-key version of the Hamptons.

“I love the contrast between the city and the countryside,” he explains. “They are quite different, and I really like that.”

But, I ask, if you had to make a choice? “If I was forced to choose I would say I prefer the countryside,” he concedes after a moment’s thought.

He brushes off my surprise that he doesn’t also own a waterside property like many other UHNWIs or a ski chalet, especially as his wife skied for the Italian national team. He says he likes to keep things simple.

“To be honest, a collection of houses can also be a collection of headaches,” he says, “and there are so many lovely places around the world to stay and ski. The whole family is also a great lover of places around the world to stay and ski. All you can see is somewhere very special. All you can see is green, green and green, and nothing to ruin the view of the landscape.”

Originally, the plan was to turn the estate into a very exclusive private members’ club. However, in the wake of the financial crisis, Mr Ferragamo changed his model. The estate is still very exclusive, but visitors can now stay in the hotel and villas and join Italy’s only private golf club, which is located on the property.

A number of the estate’s villas have also been sold to an international range of buyers. “We renovate the villas for the owners, and when the owners are not in residence, we manage all aspects of the property,” he explains. “They are doing very well, so we might open outside of Italy – and the freehold of many of the Ferragamo shops around the world. ‘Real estate became second nature to us almost by chance. We’re allergic to paying rent,’ he says.

“Given that Mr Ferragamo has such a peripatetic lifestyle, I wonder if he has time for any other investments of passion apart from property – maybe art or classic cars. ‘As a family we own art, although I’m not really a collector myself,’ he says. But as befits somebody who likes to make his own rules when investing in property, it turns out that he does have a suitably individual collection that takes pride of place in his Florentine study. ‘I do love sports, so I like to buy antique silver trophies. You can get a nice surprise when you turn them over and see they were made by Mappin & Webb, Asprey or Garrard.’ His favourite, he says, is a huge 1904 silver charity shield from England, once competed for by a team called the Cornishmen against the winners of the then-equivalent of the Premier League.

Although he “hates to overpay” for anything, Mr Ferragamo says, as with property, you have to like what you buy and be prepared to hold it, and then in the long term it will prove to be a good investment.

**As a family we don’t speculate. There is not a speculative piece of DNA in our bodies. When you speculate it’s like musical chairs**

He asks me if I’ve ever been to the Val d’Orcia, a UNESCO world heritage site, largely unchanged since the 18th century. “I’ve not, so I mention another area in Tuscany that I have visited and considered very beautiful. ‘It is nice there,’ he replies politely, “but it’s not the same. Del Bosco is somewhere very special. All you can see is green, green and green, and nothing to ruin the view of the landscape.’

**To be honest, a collection of houses can also be a collection of headaches**

**LABOUR OF LOVE**

Castiglion del Bosco in Tuscany’s Val d’Orcia
In the 2014 edition of The Wealth Report, almost half of the wealth advisors who took part in our annual Attitudes Survey said that their UHNWI clients would potentially increase their investment allocation to property during the year. In this year’s survey, almost 40% of respondents said that had actually happened.

Property is definitely back on the agenda for private investors, who accounted for around a quarter of all commercial property deals last year, as well as residential investments. Tracking the exact proportion is difficult because many transactions, while essentially funded by an UHNWI, are fronted by a family-owned fund, company or private office.

The tangible nature of property, especially when located in leading cities such as London, is one of its enduring attractions. But UHNWIs are now looking beyond prime or trophy offices and retail space as a safe haven for their funds; they are prepared to look up the risk curve to non-core locations.

This may mean moving outside a capital city’s CBD area, where yields have become increasingly compressed, or heading into secondary cities where better value and higher returns are available.

Increasingly for many UHNWIs it also means investing overseas. The results of our Capital Markets Survey show that wealthy investors are allocating more of their funds to property investments outside their own country. More peripheral markets such as Ireland and Spain are benefiting from this trend.

Demand for alternative property assets is also growing, and is leading to more private investment into business-critical opportunities like health care and student accommodation. UHNWIs are adopting increasingly sophisticated investment strategies, and sometimes this approach involves the kind of active management previously restricted to institutions and funds. Examples include refurbishment and development projects.

According to our latest Attitudes Survey results, the UHNWI hunger for property as an investment remains undimmed. Falling oil prices should free up more capital to be spent on consumer goods, which should in turn present more property opportunities to feed the increasingly hungry private investor.
The slump in oil prices may be bad news for producers, but it is particularly bad news for China. The country’s projected GDP drop by 22%, which is understandable in an unfolding recovery. Where next?

In the cities that have led the recovery, like London, New York and San Francisco, the skylines are peppered with cranes. Since the Olympics London has added seven new skyscrapers. In these cities higher-risk investment strategies are now in play, so real estate investors are asking where next they should buy to best ride the recovery. A good starting point has to be the places that have been struggling up to now.

Commercial property sales in Asia-Pacific fell by 5% in 2014. The region’s two rising giants, India and China, are indicative of trends in the broader region. In China the land market has seen sales drop by 22%, which is understandable in a country that has built “ghost cities” in the past. China is adapting to a new pace of growth, but the country’s projected GDP increase this year from the IMF is about 7% in 2014 to around US$619bn in 2014, which is almost the equivalent of adding 18 new corpora
tions the size of General Motors. China is far from a busted flush and actually somewhere to look for long-term opportunities. That office rents have edged back rather than slumped in Shanghai and Beijing during challenging market conditions bodes well for the long term, so I see resilience in key centres. India’s property market has experi-
ced a marked slowdown. However, on a recent trip to Mumbai I was struck by the encouraging effect of the reformist Modi govern-
ment on the business community. The Knight Frank India Real Estate Sentiment Index reflects this, with confidence in the property industry rising from 63 in 2013 to 68 in 2014. India’s commercial property is often overshadowed by the residential market. However, office rents are showing tentative signs of recovery, and Jeeb Ali has been de-
clared the world’s most productive port by the Journal of Commerce, while passenger numbers at Dubai’s international airport continue to rise. This suggests the core economic areas of tourism, trade and travel are result in stronger economic activity.

Europe enjoyed an impressive rebound in investment last year, with investors re-entering the markets that suffered most in the 2010 to 2012 period, like Spain and Ireland. In 2012 Spain saw just three deals of over €100m; last year there were 16. The core eurozone economies of France and Germany were largely stag-
nant in 2014. However, property in the gateway city of Paris has mostly defied the gloom, and plans to develop new rail infrastructure will create future develop-
ment hotspots. Berlin has a vibrant technology scene and a relatively low cost of living for young workers. I see more incubators for start-ups being developed. UHNWIs are now an important force in the commercial property world and are operating at all levels – prime, secondary, development and change of use. Opportunities are opening up as the global econom-
ics move into a new cycle. Development in particular is rising up the agenda in the real estate world, and UHNWIs will be part of the new wave of building.
In my role advising high-net-worth investors around the world, it is clear that the demand for property as an investment class is increasing rapidly.

To help analyse the global property investment activities of UHNWIs from around the world, it is clear that there is still demand for residential buildings, particularly from UHNWIs making their first foray into commercial property investment.

UHNWI property investment goes global

Key trends from the results of The Wealth Report Global Capital Markets Survey

In terms of inbound investment from UHNWIs from other countries, there are some interesting patterns. China is not seeing an increase in the number of private individuals looking to invest in property there. The same pattern is repeated for Hong Kong and Singapore.

One of the clear trends to emerge is the increasingly global nature of private investments. UHNWIs still hold most of their property investments in their own country, but in the vast majority of the locations surveyed, wealthy private individuals have been increasing the amount invested overseas. Some are diversifying their portfolios as they gain more experience with property investing, while others may be from a particular diaspora investing back into their homelands – for example, US-domiciled Indians, and expat Kenyans. Those based in less stable parts of the world are often seeking a safe-haven for their wealth.

This safe-haven theme is also reflected in the preferred locations and sectors for those UHNWIs investing outside their own countries. The UK, and London in particular, was the most popular first-choice destination.

Germany was at the top of the list for UK-based wealthy individuals and was a popular second for other European UHNWIs. For Asian investors, Australia and the US were leading second or third choice destinations. A Chinese UHNWI, for example, has just bought 175 Liverpool Street, a Grade A office building in Sydney’s CBD, for AU$400m. Office buildings were the dominant commercial sector of choice, however, there is still demand for residential buildings, particularly from UHNWIs making their first foray into property investment.

In terms of the global nature of private investments, the landscape of private investors is increasingly diverse. The uncertainty around the extent of the Chinese economic slowdown is clearly having an impact.

The uncertainty around the extent of the Chinese economic slowdown is clearly having an impact.

For the UK and France, the Middle East is the source of most private investment, although those from other parts of the world are making their presence felt, notably Brazilian billionaire Joseph Safra who purchased London’s “Gherkin”.

In Australia, the US and Africa, wealthy Chinese investors are currently the most significant overseas investors.

Tony Galetti, Head of Knight Frank South Africa, says the growth of UHNWI Chinese investment into South Africa has been impressive over the past few years. There is a strong preference for industrial property, he points out, with large industrial area of greater Johannesburg that have been virtually all bought up by private Chinese investors. There have also been several trophy purchases, including a prominent Sandton skyscraper as well as several notable wine farms in the Western Cape region.

In the US, gateway cities, particularly New York and San Francisco, are attracting not just Chinese investment, but also interest from Korean, Israeli and Middle Eastern UHNWIs, says Alex Foshay.
The Wealth Report asks 10 property investment experts from across Knight Frank’s global network to highlight trends that private UHNW investors should be watching closely.

**Chinese investors diversifying their portfolios**

**LOCATION TO WATCH:** MIAMI, MANCHESTER AND BRISBANE

**NEIL BROOKES**
Head of Capital Markets, Asia-Pacific

Wealthy Chinese investors have been expanding from luxury residential properties into office buildings, shopping malls and hotels. The latest example is the high-profile joint-venture purchase of the General Motors Building in New York by Zhang Xin, chief executive of office landlord Soho China. After several initial waves of Chinese institutional capital outflow, China is now becoming part of the so-called Fourth Wave of investors, which also consists of insurance companies, small-to-mid-cap-state-owned enterprises and private developers. After heavy investment into gateway cities and trophy buildings, Chinese UHNWIs have established a familiarity with transacting in these markets, and we expect that they will start to pursue higher yields in other commercial property sectors. We will see them moving beyond the gateway cities of London, New York and Sydney and investing into other key cities, such as Frankfurt, Brisbane, Miami and Manchester. In fact, cities like Miami are already firmly on the radar of the wealthy Chinese investor, as the prices of apartments there are up to 25% lower than in Shanghai. A key trend remains the cultural diversity of the city, and of growing importance is the quality of life offered. These factors will continue to draw in Chinese UHNWIs.

**Changing population and food consumption trends**

**SECTOR TO WATCH:** AGRICULTURAL LAND IN THE UK AND AFRICA

**TOM RAYNHAM**
Head of Agricultural Investments, London

Investor interest in farmland continues to grow for a number of reasons. First, demographics. Everybody has to eat, and the world’s population is set to hit nine billion by 2050. Investing in farmland is a simple way to buy into the demand created by this trend. But not only will there be more mouths to feed; those mouths are demanding more meat and dairy-based foods, which require more land to produce per unit of energy than traditional grain-based diets. Second, tightness. Off the back of the financial crisis, farmland is increasingly being seen as a safe-haven inflation-hedging asset. In the UK values have risen almost 200% over the past 10 years, according to the Knight Frank Farmland Index. Third, the ability to add value to underutilised land. For the more hands-on investor this offers the opportunity to substantially boost capital values, particularly in areas with a higher risk profile, and is something our experts in Zambia are helping a number of UHNWI investors achieve.

**Rebalancing of economic power in Africa**

**SECTOR TO WATCH:** GRADE A OFFICE AND RETAIL SPACE IN NAIROBI

**ANTHONY HAVELOCK**
Head of Agency, Nairobi

The decline of Cairo’s commercial influence at the northern end of Africa, and the realisation by international businesses that they cannot run the entire continent from Johannesburg in the southern tip, has created a vacuum that Nairobi is eagerly filling. With the arrival and expansion of a string of multinationals, the city is now firmly established as one of Africa’s leading hubs. Local developers have responded by building Grade A quality office space that is attracting top-quality tenants paying dollar-denominated rents with leases that include fixed annual increases. Generally, rents are perceived as good value by international firms, suggesting there is room for healthy future rental growth and also yield shift, which in turn is attracting global investors. In addition, newly discovered oil and gas deposits are creating something of an energy boom, while all sectors of Kenya’s economy, apart from tourism, are growing — GDP is rising at around 5.8% per year. This is largely being driven by a burgeoning middle-class hungry for Western-style goods and shopping experiences that, by and large, seems impervious to political controversies and terrorism activities. This year should see the opening of around 1.8m square feet of First World shopping malls in Nairobi, with new international retailers committing to the region for the first time.

**Middle East economic and political instability**

**SECTOR TO WATCH:** COMMERCIAL PROPERTY IN THE UAE

**JOSEPH MORRIS**
Head of Capital Markets, Middle East

Last year was a tumultuous one for the Gulf region. After an extremely positive start to the year, continued political and economic instability in the Middle East, as well as sharp falls in oil prices, hit confidence hard across local capital markets. As a result, we have witnessed further investment flows from the region into stable, income-generating commercial property internationally. Key cities such as London continue to attract capital, but we have more recently seen Middle Eastern investors moving up the risk curve to tier-two cities and UK regions, as well as peripheral economic zones like Ireland, Germany and Spain. More locally, in the Gulf, with high volatility across both the local stock market and the Dubai residential sector, we anticipate that assets such as commercial real estate with long-term occupational leases will benefit from the fallout, especially as Dubai preserves its status as the region’s relative safe haven. Investor interest is growing from the wider GCC (particularly Saudi Arabia), but also from countries such as India.

**Reinvestment by US West Coast tech entrepreneurs**

**SECTORS TO WATCH:** THE MISSION AND POTRERO AREAS OF SAN FRANCISCO AND THE NEW WAVE OF TECH CLUBS

**KYLE KOVAC**
Senior Managing Director, Capital Markets
San Francisco

They may have already made their first billion or 10, but changing the world with one wildly successful idea like Twitter or LinkedIn isn’t enough. Tech entrepreneurs who have seen their companies mature to the point of initial public offering are continuing to reinvest their intellectual and monetary capital into new start-up companies with their own requirements for office space. However, while the hunger to discover the next game-changing technology remains undiminished, the location of the search has shifted. We are seeing a move away from the Silicon Valley into San Francisco proper as firms recognise the latest generation of tech talent wants to live, socialise and work in the centre of the action. Cash-rich companies like Google are also buying space, not renting it. In addition to the renowned SOMA district and burgeoning Mid-Market area, neighbourhoods such as the Mission and Potrero districts are being targeted by smaller and start up tech firms. A growing sector in the town is the establishment of prestigious private tech clubs such as The Battery, where entrepreneurs and developers can hang out and share ideas.
Owning their own home still remains a key aspiration for most people in the UK, but a growing number of young professionals now see renting as a long-term option rather than as a stopgap.

Head of Residential Capital Markets, UK

James Mannix

Although some commentators are saying that Australian commercial property is now fully priced, partly on the back of continued demand from Asian institutions and private investors, I believe the market still offers opportunities for UHNWIs. While current premium (trophy) yields in Sydney’s CBD are almost comparable to the 2007 nadir, yields are still relatively high on a global basis and there is the expectation that local funding costs will fall to their lowest levels on record in 2015 and remain “lower for longer.” This means a substantial positive spread between property yields and funding costs is opening up. This is most accentuated for non-CBD secondary grade, suburban and provincial office space. Cross-border capital flows will increase further because of the depreciation of the Australian dollar, driving even higher sales volumes and asset prices. This will be complemented by a more positive outlook in the occupier market, particularly in east coast cities where stock levels are falling because of conversion of former commercial space into hotels and residential accommodation.

物业市场在经济复苏中落榜

sector to watch: 澳大利亚非核心、次核心住宅或非CBD商业办公市场

James Parry
Head of Institutional Sales and Capital Markets, Australia

Ireland’s economy was one of the first to rebound from the financial crisis, with current growth rates of over 7%. One of the main drivers of the recovery has been the country’s ability to attract foreign direct investment, particularly from the fast-growing IT sector, with Google, Twitter, LinkedIn and Facebook all expanding their Irish operations in 2014. Mirroring the broader economy, the property sector has rebounded from the lows of 2010/11, with strong occupier demand pushing up rents in all sectors. With very little new construction over the past five years and a limited development pipeline, rents are likely to continue to grow strongly over the next 24 months. Although the total property return is predicted to exceed 36% in 2014, property values are still approximately 20% below their peak, offering potential for attractive investment returns. Investor demand, buoyed by the strength of the dollar against the euro, is largely from US private equity funds that have targeted both large-scale asset and loan portfolios. Although they have now been joined by some of the European pension funds and Middle Eastern investors, demand from UHNWIs has so far been limited to some Asian interest in the hotel sector. With a number of trophy residential and commercial assets still to be traded, the market offers international private investors a stable environment with potential for attractive returns.

物业市场在经济复苏中落榜

sector to watch: 新建租赁住宿

James Mannix
Head of Residential Capital Markets, UK

Owning their own home still remains a key aspiration for most people in the UK, but a growing number of young professionals now see renting as a long-term option rather than as a stopgap while they save to buy a property. This has been driven by the increasing cost of joining the housing ladder, but it also reflects transitional modern lifestyles as people switch jobs more often and want the freedom to move from one location to another. This demand for rented property provides investors with a secure return because it is easy to find another tenant when one moves on. The private-rental sector model in the UK is also evolving. Purpose-built developments maximise returns by carefully balancing social and private space. More compact and efficiently laid-out apartments allow more units per development, but this is offset by better communal facilities like gyms, which offer comfort and safety as people move on. The private-rental sector model in the UK is also evolving. Purpose-built developments maximise returns by carefully balancing social and private space. More compact and efficiently laid-out apartments allow more units per development, but this is offset by better communal facilities like gyms, which offer comfort and safety as people move on. The private-rental sector model in the UK is also evolving. Purpose-built developments maximise returns by carefully balancing social and private space. More compact and efficiently laid-out apartments allow more units per development, but this is offset by better communal facilities like gyms, which offer comfort and safety as people move on.
The Wealth Report Editor Andrew Shirley talks to GOODWIN GAW about his passion for property and why investing in the wrong side of town can sometimes be the right move

**Personal perspectives on property**

The first thing I notice when talking to Goodwin Gaw in his Hong Kong office is that property development is clearly more than just a business for him. It is something he is deeply passionate about at a very personal level.

“I was always into building things and architecture as a kid. I even thought I wanted to be an architect. So my dad sent me off to work with one, but then I realised something: apart from a few very successful ones, and even then only later on in their careers, architects generally build what their clients want, not what they want to.”

For many in the real estate industry, it’s the deal that is their livelihood. But I don’t get the impression that this is what makes Goodwin Gaw tick. For him it’s the chance to take something unloved, recycle it and bring it back to life.

Take his very first investment, for example. In 1998 he bought Hollywood’s iconic Roosevelt Hotel, bankrupt and a shadow of its former life, which witnessed some of Tinseltown’s most historic events, including the inaugural Academy Awards and Marilyn Monroe’s first modelling shoot.

No only is the hotel again the cool place to be seen, but the deal spurred a slew of further investments, including the conversion of over 40,000 square metres of empty historical buildings into trendy residential lofts, which helped rejuvenate the then down-at-heel downtown area of Los Angeles.

The aim is to change neighbourhoods, make them better places to live, and that means markets with liquidity — places like London and New York.

Having cut his property teeth on a hotel redevelopment, Mr. Gaw continues to be drawn to hospitality and lifestyle opportunities around the world, but I’m not surprised to hear he still likes something with a bit of an alternative angle to it.

He helped, for example, bring renowned hotelier Nick Jones’s artsy Soho House concept to Chicago and is also looking at Hong Kong.

As we wrap up the interview I ask him where he chooses to live and why. He succinctly lists Hong Kong and Los Angeles: “Those are the places where I do business.” But he gets more animated when I ask about second homes. “We do have a house in a members-only club in the Montana mountains, he says. “The air is so clean up there.”

He pauses, thinks and then adds: “I think that is a concept that could really develop in China. People are becoming more and more interested in healthy lifestyles and organic food.” Watch this space.

**Goodwin Gaw**

Hong Kong-based Goodwin Gaw is one of Asia’s most influential and innovative property developers. Having built his own, diverse residential, commercial and hospitality portfolio spanning Europe, Asia and North America.

**The goal is to create a return for investors, although some have asked me, ‘Are you having too much fun?’ But I tell them when I’m having fun that’s when I know things are going well. And I am always investing my own money into every project.’**

**Asian HNWIs are looking for safety rather than pure upside at the moment, and that means markets with liquidity — places like London and New York**

**Cities go through cycles, he explains. “At one point everything old is considered obsolete, but then people get nostalgic for it. You need history. Take New York’s meat-packing district, London’s Shoreditch. To be a truly global city you need that character, that variety.”**
Investments of passion: performance and luxury spending trends

Luxury research

And now for the fun stuff. So far in The Wealth Report we’ve talked about big and important themes like global wealth distribution, the world’s most important cities, property markets and investments.

In this chapter we look at exciting things like luxury goods, classic cars, art, jewellery and fine wine.

Of course, this being a serious research publication we naturally look at such purchases from an investment perspective. The latest results from the Knight Frank Luxury Investment Index, which tracks a theoretical portfolio of 10 investable luxury assets, show that many of these investments of passion have seen their values continue to rise.

Although, according to the results of our Attitudes Survey, the personal pleasure they provide is the main reason most UHNWIs like to collect beautiful and pleasurable things, one suspects that even the most epicurean collectors would prefer that their treasures grow in value.

Coloured diamonds are the latest addition to our index. Given that jewellery has historically been a common way to store and transfer wealth in many cultures, diamonds are perhaps one of the most multifunctional assets in the index.

We list some of the most high-profile sales in our special feature on p64. Pearls, which until recently were considered rather old-fashioned, are also rising rapidly in value. This trend is being helped by the almost total lack of supply of new natural pearls coupled with strong demand from the Arabian Gulf, where many of the world’s finest pearls were originally harvested.

Indeed, much of the recent demand for luxury goods and investments has been driven by wealth creation in regions with burgeoning economies like Asia and the Middle East. It is therefore intriguing to see that the UK tops our new Big Spenders Index, compiled for The Wealth Report by Ledbury Research.

The index tracks the countries likely to see the strongest growth in spending on big-ticket luxury items by their own UHNWI populations and visitors from abroad. It would be fair to say that the UK secured poll position off the back of the many visitors who flock to London’s luxury stores and increasingly out-of-town designer outlets like Bicester Village – the second-most visited destination in the UK for wealthy Chinese tourists and part of a string of similar ‘villages’ around the world.
Hey, big spender
The results of a new index compiled for The Wealth Report by Ledbury Research's Luxury Analysis team

MADALINE OLLIVIER, LUXURY ANALYST, LEDBURY RESEARCH

The general outlook for luxury spending continues to be positive. Almost a third of respondents to The Wealth Report's Attitudes Survey expect their wealthy clients to spend more on luxury goods in 2015, compared with just 8% who expect it to decline.

But how does the short-to-medium-term outlook compare for individual countries, and where in the world might luxury brands look to expand? The new Big Spenders Index, compiled exclusively for The Wealth Report, provides some of the answers by identifying the locations likely to see strong growth in big-ticket spending by their own ultra-wealthy populations and visiting UHNWIs.

Topping the list for 2015 is a very well-established centre of wealth, the UK. The country scores well, in terms of both the fortunes of its domestic UHNWI population, thanks to the relative strength of the UK economy, and our tracking of the drivers and indicators of high-end spending.

The finding underlines the importance of the UK for luxury brands, which sold over £3bn of goods in the country last year, according to Ledbury’s estimates.

China fills the second slot in our ranking table. The Chinese are already the single biggest consumers of luxury goods around the world, accounting for some 29% of the global luxury spend, according to consultants Bain & Altagamma.

Although recently much has been said about the impact of the Chinese government’s anti-graft measures on luxury demand, Ledbury has consistently argued that the fundamentals of the Chinese luxury market remain very attractive, given the burgeoning wealthy population and rapidly growing middle class. China's high ranking in the Big Spenders Index reflects the underlying robustness of its UHNWI population.

While overall sales performance of luxury goods in the Greater China region has been muted over the past 12 months, there is no denying that there is still a strong demand for luxury brands, which isn’t going to change.

However, what is certainly changing is where Chinese consumers are choosing to buy luxury (the vast majority of Chinese luxury spend is outside mainland China), the selection of luxury brands they are buying, and the profiles of the consumers themselves, which are rapidly evolving because of the varying attitudes that exist towards luxury within the different Chinese cities.

India, one of the lower-profile BRIC economies, is in fifth place in our ranking. Over the past year the rise in wealth and the number of wealthy has been impressive – the number of UHNWIs is increasing rapidly, according to our Wealth Model. Aligned to this wealth growth is an equally substantial increase in luxury consumption: the value of champagne imports rose 35% year on year, according to the most recent data from Le Comité Interprofessionnel du Vin de Champagne, despite total exports being flat.

We expect international luxury goods to be particular beneficiaries of this new wealth in India, rather than more traditional, local brands. For example, research by the Kotak Mahindra Bank has shown that among the wealthy, the traditional Indian wedding gift is fast evolving away from silver plates towards top Western designer brands.

We also anticipate that wealth creation, and luxury consumption, will be neither quite as controversial nor quite as hampered by social inequality or austerity agendas as has been the case in Brazil and indeed, latterly, China. With India’s long-standing caste system, wide gaps in incomes and wealth are an accepted norm in the country, according to Kotak Mahindra.

Reflecting on the regional make-up of the top countries, it is interesting to see Europe, Asia and the Middle East all well represented. Africa is noticeably absent this year, reflecting some weakening on the continent, notably in commodity fuelled wealth, which had propelled the success of a number of countries.

LUXURY SPENDING TRENDS
Drawing on extensive monitoring of luxury markets around the world, Ledbury Research picks out interesting developments within the main luxury goods categories

APPAREL
Wearable technology and luxury overlap

With the wearable tech trend continuing, fashion brands have been collaborating with tech companies to help break into the market. But fashion brands are also choosing to make their own wearable, style-conscious tech. Ralph Lauren is pioneering this strategy through its newly unveiled line of smart clothes dubbed Polo Tech. Embedded technology in the clothes allows users to monitor their bodies on smartphones.

WATCHES AND JEWELLERY
Women’s watches boom

Women have traditionally been more interested in smaller, unobtrusive styles unable to accommodate the complexity and multifunctionality of traditional men’s watches. But a fashion for slightly larger watches and jewellery, combined with the growing purchasing power of women, particularly in luxury strongholds such as China, is helping drive sales. The share of female watches in the market has risen to around 42% in 2015 (Bain & Altagamma).

ACCESSORIES
Pre-owned luxury

Pre-owned luxury goods sales are booming. The second-hand market for luxury apparel, accessories, watches and jewellry is valued at some €99bn (Bain & Altagamma). Leather goods and clothing make up 53% of that, and the segment is growing faster than the luxury industry overall (Bloomberg). Some products sold on these marketplaces achieve prices higher than retail, as customers bypass waiting lists for items such as new Hermes bags.

CARS
India lags

Manufacturers had been hoping that India would follow in China’s footsteps for luxury car demand, but most have seen disappointing sales and sluggish demand. Only 250 supercars are estimated to have been sold in the country in 2014 (HIS). Import duty hikes and currency declines aren’t helping, but a more fundamental obstruction comes from India’s roads. However, manufacturers could benefit from impending releases of luxury SUVs.

YACHTS
Market recoveries

At the 2014 Monaco Yacht Show, shipbuilders, brokers and outfitters all said that the market was improving – 38% more superyachts were sold in the first half of the year compared with the same period in 2013 (Camper & Nicholsons International). This is despite some caution in the industry because of the political uncertainty within Russia and the Middle East, traditionally seen as the strongest markets for superyachts.
There is no doubt that so-called investments of passion are still catching the imagination of the wealth management sector and the media. I continue to be pleasantly surprised by the press coverage and seem to fall more readily into the category of investments of passion. (See our special focus on diamonds on p64 for more details.)

So how has this newcomer to KFLII performed compared with the other asset classes that we track? Since January 2005 the Fancy Color Diamond Price Index has increased by 167% in value, which interestingly is almost exactly the same rise as the wider jewellery index that we use. Christie’s jewellery consultant Raymond Sancroft-Baker, who compiles the index on behalf of Art Market Research, says that demand for top-quality coloured gemstones is also very strong. “We’ve seen a million dollars a carat paid for a Burmese ruby recently, and £200,000 a carat for a Kashmir sapphire.”

The market for pearls is also extremely buoyant, says Mr Sancroft-Baker. “There is a lot of demand from the Gulf States, who are buying back their heritage. I recently valued a pair of natural pearl earrings at a million pounds.”

Once again classic cars have been the strongest performer in KFLII over both the long and short-term, with the value of the HAGI Top Index rising by an astounding 48% over the past 10 years and growing 16% in 2014. This actually represents something of a slowdown, following the index’s staggering 47% surge the year before.

HAGI founder Dietrich Hatlau says the market is returning to normal – although a 1962 Ferrari 250 GTO Bertinetta did set a new world record when it went under the hammer for $38m at the Bonhams Quail Lodge sale in August.

In general, however, classic Porsche models performed most strongly in 2014, while more-modern supercars from the 1970s and 80s, like the Lamborghini Countach and Ferrari F40, are growing in popularity, adds Mr Hatlau.

After a few years of relatively languid performance, art appears to be bouncing back, with annual growth of 15%, according to data from Art Market Research. “The art market has fully recovered from the economic crisis,” says Harvey Mendel- son, of art advisory firm 1888 Ltd. Chiariot, by Giacometti, was the most expensive auction sale of the year, making almost $40m at Sotheby’s record-breaking November sale of modern and impressionist art in New York.

However, instability in certain parts of the world is having an impact on specific sectors of the market. At a Sotheby’s evening sale of high-value Russian art in London only 32% of the 37 lots on offer found buyers.

Coins were the only other asset class to achieve double-digit growth in 2014 with gains of 13%. A rare Edward VIII, 1937, gold sovereign made £516,000 when it was auctioned by Baldwin’s in May.

Our benchmark philatelic index – the Stanley Gibbons GB250 – grew by just 3% over the year, but the market for Chinese and Commonwealth stamps continues to grow strongly, says Keith Heddle, Head of Investments at Stanley Gibbons. The sole remaining example of a British Guiana 1858 one-cent black on magenta set a new world record when it was auctioned for $9.48m by Sotheby’s New York in June.

The 1933 Patek Philippe Supercomplication pocket watch was another record breaker when it sold for $3.2 million Swiss francs at Sotheby’s in Geneva, the highest price for any timepiece sold at auction. The overall watch market, however, remained stable with annual growth of 4%.

Knight Frank’s Fine Wine Index was up 7% on the year, with strong growth for certain US and Italian vintages. But the top end of the Bordeaux market is yet to stabilise, although it should finally bottom out in 2015, says Nick Martin of Wine Owners, which compiles the index.

The value of antique furniture continued to fall in 2014.

Overall, KFLII grew by a further 10% in 2014 and has risen by 205% over the past 10 years. Although this doesn’t take into account any storage, maintenance, insurance or dealing costs, it does help explain the ongoing interest in luxury investments.
Multifaceted investment opportunity

To coincide with the introduction of coloured diamonds into the Knight Frank Luxury Investment Index, industry expert Claire Adler explores the growing appeal of diamonds as an investment of passion

There is nothing quite like holding a 30-carat D-Flawless diamond in the palm of your hand. This tiny thing could assure the financial security of a couple of generations of an entire family.

Robust returns on diamonds of more than one carat, mounting demand from Asia and the prospect of mines running dry are pointing to the increased attractiveness of precious natural diamonds as an investment asset. Global diamond supply is expected to plateau by 2020 and drop off significantly in the following decade, according to mining giant De Beers.

“Since 2009 the price of polished diamonds measuring one carat or more has increased by 65%,” says Art Epstein, CEO of Aetzwep World Diamond Centre. "The most transportable form of wealth in existence.

While diamond aficionados may be madly in love with the stones they buy, they also regard them as a means to increased wealth. In 2006 billionaire jeweller Laurence Graff bought the 78.1-carat Maharajah diamond. It had not been seen in 50 years because it had been in a bank vault. “The translucency, the life in that stone, is beyond anything I have ever seen,” Mr Graff said at the time. The next day, he sold it for an undisclosed profit.

Fancy colour diamonds (a technical term in the industry for stones of exceptional colour), which are far rarer than white diamonds, are performing particularly strongly. The 9.75-carat Mellon Blue diamond, purchased in 2005, according to the new index.

Overall, fancy pink, yellow and blue diamonds have increased in value by 167% since 2009, according to the new index.

Individuals looking to invest in diamonds can buy stones from diamond traders and pay for storage and insurance, or buy shares in diamond companies. The Singapore Diamond Investment Exchange and Los Angeles-based Investment Diamond Exchange partner with banks offering private clients purchasing, valuation and certification services.

Asset management firms including Diamond Capital Fund sell shares in stores of physical diamonds. Scienz Colored Diamond Fund, owned by UHNWI John Rigas, invests in red, pink, blue, green, orange and yellow diamonds sourced from mines for individuals and institutions.

“Since the 1950s the price of the diamonds we invest in has never dropped,” says Mahyar Makhzani, Co-Managing Director at Scienz Colored Diamond Fund.

Investing in diamonds poses challenges. Unlike gold, diamonds are not fungible – one carat is not equal to another. Although the internet has brought transparency, there is no standardised pricing index that classifies the many thousands of different qualities of diamonds, which incorporate a spectrum well beyond the traditional four Cs of cut, carat, colour and clarity, while also offering easy access to individuals beyond the diamond industry.

Bruce Cleaver, Executive Head of Strategy at De Beers, now anticipates a rise in diamond prices. “With growth in diamond demand expected to outstrip growth in supply, there are different possible outcomes, but we believe higher diamond prices would account for a significant amount of the gap,” he says.

The concept of diamonds as a store of wealth is not new. Diamonds are arguably the most transportable form of wealth in existence.

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The concept of diamonds as a store of wealth is not new. Diamonds are arguably the most transportable form of wealth in existence.

The Fancy Color Diamond Price Index (Jan 2005 to Oct 2014)

The Fancy Color Diamond Price Index (Jan 2005 to Oct 2014)
## Regional wealth distribution

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<th>Millionaire populations</th>
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## Billionaire populations

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<td>How do you expect your clients’ philanthropic activities to change in 2015 compared with 2014?</td>
<td><strong>Decrease</strong></td>
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<td>5%</td>
<td>6%</td>
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<td><strong>Increase</strong></td>
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<td>29%</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
<td>20%</td>
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<td>77%</td>
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<td>39%</td>
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<tr>
<td>How do you expect your clients’ spending on luxury goods to change in 2015 compared with 2014?</td>
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<td>10%</td>
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<td>58%</td>
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<td>59%</td>
<td>62%</td>
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<td>Do your younger clients spend more on luxury goods than their parents’ generation?</td>
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<td>9%</td>
<td>10%</td>
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<td>77%</td>
<td>76%</td>
<td>66%</td>
<td>66%</td>
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<td>Are your clients increasingly using private jets for their business and leisure travel?</td>
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<td>71%</td>
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<tr>
<td>What percentage of your clients send, or are likely to send, their children overseas for their education?</td>
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<td>38%</td>
<td>4%</td>
<td>19%</td>
<td>36%</td>
<td>23%</td>
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<td><strong>University</strong></td>
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<td>16%</td>
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<td>34%</td>
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<td>67%</td>
<td>12%</td>
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<td>64%</td>
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<td>On average, what percentage of your clients’ total net wealth is accounted for by their main residence and any second homes that are held not purely as an investment?</td>
<td><strong>Residential for investment</strong></td>
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<td>16%</td>
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</tr>
<tr>
<td><strong>Retail/wholesale</strong></td>
<td>10%</td>
<td>16%</td>
<td>15%</td>
<td>13%</td>
<td>17%</td>
<td>12%</td>
<td>3%</td>
<td>13%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Hotels</strong></td>
<td>13%</td>
<td>24%</td>
<td>21%</td>
<td>29%</td>
<td>26%</td>
<td>44%</td>
<td>32%</td>
<td>56%</td>
<td>52%</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td>20%</td>
<td>27%</td>
<td>26%</td>
<td>23%</td>
<td>20%</td>
<td>40%</td>
<td>32%</td>
<td>56%</td>
<td>52%</td>
</tr>
<tr>
<td><strong>Agricultural</strong></td>
<td>29%</td>
<td>27%</td>
<td>26%</td>
<td>43%</td>
<td>40%</td>
<td>9%</td>
<td>84%</td>
<td>56%</td>
<td>27%</td>
</tr>
<tr>
<td><strong>Waste/housing/industrial</strong></td>
<td>66%</td>
<td>31%</td>
<td>21%</td>
<td>28%</td>
<td>35%</td>
<td>30%</td>
<td>20%</td>
<td>17%</td>
<td>31%</td>
</tr>
<tr>
<td>Where are your clients most likely to invest in property?</td>
<td><strong>Abroad</strong></td>
<td>62%</td>
<td>61%</td>
<td>64%</td>
<td>66%</td>
<td>44%</td>
<td>23%</td>
<td>73%</td>
<td>11%</td>
</tr>
<tr>
<td><strong>In their own country</strong></td>
<td>38%</td>
<td>39%</td>
<td>36%</td>
<td>34%</td>
<td>56%</td>
<td>56%</td>
<td>77%</td>
<td>86%</td>
<td>29%</td>
</tr>
<tr>
<td>Are your younger clients more interested in property as an investment than their parents’ generation?</td>
<td><strong>Yes</strong></td>
<td>30%</td>
<td>40%</td>
<td>30%</td>
<td>40%</td>
<td>30%</td>
<td>40%</td>
<td>30%</td>
<td>38%</td>
</tr>
<tr>
<td><strong>No</strong></td>
<td>70%</td>
<td>60%</td>
<td>70%</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
<td>70%</td>
<td>70%</td>
<td>62%</td>
</tr>
</tbody>
</table>

**Note:** Due to rounding, some columns may not total 100. LuxLucy spending trends regional data available on request.
Housing affordability is moving up the investment agenda

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One of the biggest trends we are monitoring across pretty much all the markets we focus on is the ongoing globalisation of demand for property. The biggest counter-trend I see at play is protectionism (pp35–39).

Compared with other capital flows, money moving into residential property often attracts controversy. New demand is accused of hiking prices, as well as further extending the investment agenda. As a result, taxes on expensive homes and property are being extended.

Not because affordability and accessibility issues are world property markets is to some extent misplaced. Instead, this renewed focus on the impact of wealth on local residents.

In my view, this area will become an increasingly dominant area of focus for our clients. As challenges and opportunities come, they don’t get much bigger, or more important.

Please contact me if you would like to discuss this or any of the issues raised in this year’s report.