THE WEALTH REPORT
The global perspective on prime property and investment

10th Edition

2016
Welcome to the 10th edition of The Wealth Report

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For a decade, The Wealth Report has documented the performance of prime property and its interaction with wealth creation.

While few markets or regions escaped the effects of the global financial crisis, we have seen large amounts of new wealth created, particularly in emerging economies. This has helped to ensure the resilience of property markets, with strong growth in many of the 100 prime residential locations we track (page 40).

The Wealth Report analyses the implications of these, and other, key trends for its readers, helping clients to make more informed decisions. In this year’s report, for example, we look at not just how globally mobile wealth has become, but also how authorities around the world have reacted (page 32).

While celebrating the success of our clients, we are also aware that wealth inequality – an issue we highlighted in the first edition of The Wealth Report – has continued to grow.

Our interview with Lady de Rothschild, the pioneering champion of the Inclusive Capitalism movement, highlights why this is an issue that none of us can ignore (page 14). We also interview three leading entrepreneurs from Africa, Asia and the Middle East who reveal their personal perspectives on philanthropy (page 26).

The past decade has also seen significant change for Knight Frank. We now have 417 offices in 58 countries and our coverage in the UK, Asia-Pacific, the Middle East and Africa is market leading. Having established a successful residential network in the US with our alliance partner, Douglas Elliman, we now turn our attention to Latin America.

Alongside our traditional real estate services, we have established best-in-class Healthcare, Energy, Student and Affordable Housing teams.

Over the past 10 years we have seen a growing desire by our clients to invest in property as well as live in it. Our Global Wealth Team now provides a single point of contact for UHNWIs and their advisors, wherever they are based and whatever their property needs, commercial or residential.

I hope you have enjoyed reading The Wealth Report over the past decade and that you will continue to find it equally invaluable in the future, which I am sure will provide many more opportunities and challenges for us all.
The Decade in Review

We look back at the big issues of the past 10 years and how they were covered in The Wealth Report

Attitudes Survey

UHNWI ISSUES
The latest results from our Attitudes Survey reveal what worries UHNWIs, where they are investing, their views on philanthropy and much, much more

CAPITALISM REBOOTED
The Wealth Report Editor, Andrew Shirley, interviews Lady de Rothschild, the London and New York-based entrepreneur, philanthropist and art collector who helped found the Coalition for Inclusive Capitalism

Global Wealth Trends

THE PAST, THE FUTURE
The latest UHNWI population data looking back 10 years and forward over the next decade, analysed by Gráinne Gilmore

BETTER GIVING
Three leading philanthropists from Asia, the Middle East and Africa share their personal perspectives on reducing inequality with targeted philanthropy

Wealth Movements

JET STREAM
We look at how global capital flows have shifted, identify future threats, highlight seasonal UHNWI migration and private-jet hotspots

CITY CONNECTIONS
We analyze the most important and well-connected cities for UHNWIs, and assess the threats to league toppers London and New York

Luxury Spending Trends

PASSION INVESTMENTS
The latest results from the Knight Frank Luxury Investment Index, which tracks the performance of 10 desirable asset classes, including art and cars

BIG SPENDERS
The new Luxury Spending Index compiled by Wealth-X highlights what objects of desire UHNWIs around the world are buying

Databank

Wealth distribution data from New World Wealth for 100 countries and cities

Detailed Attitudes Survey results in conjunction with Wealth-X

Prime Residential Property

WINNERS AND LOSERS
The latest results from our unique Prime International Residential Index tracking the performance of 100 of the world’s luxury property markets

HOT SPOTS
From cities to ski resorts, our pick of the top locations set to offer investment outperformance over the coming years

Commercial Property

A DECADE OF CHANGE
Knight Frank’s Head of Commercial Research, Lee Elliott, looks at how the world of commercial property investment has changed over the past decade

GLOBAL TRENDS
Our commercial property investment experts from around the world share their local market insight and knowledge

Data bank

That doesn’t mean it’s smart, or safe or moral or ethical to ignore where our middle classes are going, let alone the poor of our society

Contributors and interviewees

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LADY DE ROTHSCHILD
ENTREPRENEUR, INVESTOR, PHILANTHROPIST, CAMPAGNER

TONY ELMELU
ONE OF NIGERIA’S LEADING BUSINESSMEN AND PHILANTHROPISTS

MADELEINE BLIVIER
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JAMES POWELL
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The Decade in Review

Over the past decade, *The Wealth Report* has provided a unique perspective on the interaction between wealth and the world’s prime property markets. With the performance of prime central London residential property – one of the most critical global wealth markets – as our backdrop, we pick out some highlights and predictions from the past 10 years.

**2007**
- Citibank's plutonomy investment thesis – the concept that wealth inequality would worsen – provided the backdrop to our inaugural edition, and has continued largely unchecked.
- Roger Off, then Investment Head at Citi Property, confirmed his belief in agricultural land as the investment sector for the decade ahead. UK values have since risen by 70%.
- Our suggestion that Croatia would be one of the few Eastern European markets to develop a true prime residential offer has been largely borne out.
- As the world economy reached its nadir, our residential investment selection was led by London’s Marylebone. Those brave enough to follow our pick have seen a 71% rise in value.

**2008**
- We took our first diversion into luxury investments, with The Wealth Report Editor Andrew Shirley urging investors to “act now” to secure “bargains” in fine wine, art and classic cars.
- Our prediction that emerging market cities would see economic outperformance convert to growing influence as investment destinations proved too positive. The allure of market leaders still dominate.

**2009**
- The rise in the importance of Africa as a wealth investment location was cemented by our wealth distribution data confirming US$200bn of assets held by African UHNWs.
- Our analysis of global web-traffic data pointed to a 90% growth in online luxury property searches from Latin America, led by a 205% growth from Venezuela.

**2010**
- We reported how, despite rising prices, Asian investor appetite for property investment was only likely to grow and those from Myanmar and Sri Lanka were set to become more noticeable.
- In his contribution to this year’s report, Sir Richard Branson explored the potential for innovative space technology to revolutionise terrestrial travel, with potential dramatic impact on property demand.

**2011**
- We predicted the Hong Kong government’s intervention in mortgage lending would herald a new era of market control and we expected the trend to spread globally. It did.
- Legendary investor Jim Rogers shared his view that the financial crisis meant the rise of Asia and the decline of the US was now inevitable.
- Our prediction that the financial crisis would see economic outperformance convert to growing influence as investment destinations proved too positive. The allure of market leaders still dominate.

**2012**
- By a margin of four out of six, Shanghai was selected by our global panel as the city most likely to dominate the global economy, finance, wealth creation and investment in 2050.
- At the same time, Ledbury Research’s James Lawson confirmed how the combination of established branding, education and market maturity would keep Europe’s key cities on investors’ agendas into the future.

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**2016**
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**Total worth of world’s UHNWIs**
- $20tn

**UNHW living in London. Highest city proportion globally**
- 4.36%
A global guide to the attitudes of UHNWIs towards property, wealth and investments

To mark the 10th edition of The Wealth Report, this year’s Attitudes Survey takes a 10-year view. We look back at how the attitudes of UHNWIs to key issues and investment decisions have changed since the report was first published, and look forward to examine the outlook for the next 10 years.

One of the most interesting findings is that a significant proportion of respondents – leading wealth advisors and private bankers from around the world – expect their clients’ wealth to increase at a slower rate over the next 10 years than the past decade.

Succession and inheritance issues, wealth taxes and the global economy were identified as the main threats to future growth.

We also look at attitudes to philanthropy and property – both remain high on the UHNWI agenda. The majority of respondents said their clients would be increasing their philanthropic activities, while exposure to property as an asset class is also set to grow – 30% of their clients are considering a residential purchase in 2016.

Past editions of The Wealth Report have included contributions from influential thinkers and this year is no exception. On page 14 we interview Lynn Forester de Rothschild, who is at the forefront of the Inclusive Capitalism movement.

Although she still believes capitalism is ultimately the best way to reduce wealth inequality around the world, she says businesses, investors and governments need to take a longer-term view to make it work. A failure to act now could have serious consequences, she says.
Ten-year perspective

The Wealth Report’s Attitudes Survey looks at the changing outlook of UHNWIs
ANDREW SHIRLEY, THE WEALTH REPORT EDITOR

To mark the The Wealth Report’s 10th edition, the latest results from our annual Attitudes Survey shed light on how the outlook of the world’s wealthy has changed over the past decade and takes a look forward to the next 10 years. This year’s survey, conducted in conjunction with ultra-wealth intelligence consultancy Wealth-X, is based on the views of around 400 of the world’s leading private bankers and wealth advisors, who, between them, manage assets for about 45,000 ultra-high-net-worth individuals (UHNWIs) with a combined wealth of over half a trillion US dollars. As ever, the Attitudes Survey covers a wide range of topics from investment decisions to succession planning. Some of the highlights are analysed over the following pages, but you can find a comprehensive summary of the survey responses, broken down by world region, in the Databank section at the end of the report.

Wealth issues

The launch of The Wealth Report in 2007 was, ironically, quickly followed by the beginning of the global financial crisis. At first it seemed as if subsequent editions would be focusing on wealth diminution rather than creation, but that proved not to be the case. As our analysis of global wealth distribution on page 20 clearly shows, UHNWI numbers have burgeoned around the world, particularly in emerging markets. But our forecast for the next 10 years is more cautious, with the rate predicted to slow considerably.

This is echoed by the Attitudes Survey. When we asked the respondents if their clients’ wealth had increased at a faster rate over the past 10 years than it would do over the next 10, two thirds agreed. In Australasia, 94% of respondents predicted a slowdown – unsurprising perhaps as much of the wealth creation in the region has been powered by China’s economic growth, which is now slowing.

Globally, succession and inheritance issues, wealth taxes and the global economy were identified as the three main factors threatening wealth creation over both the past 10 years and the next decade. “We find our clients to be more multi-jurisdictional than ever before, with families often ending up dispersed across the globe. Many of our clients are also much more conscious about displaying their wealth in public,” says Money K, who heads Citi Private Bank’s wealth management and international wealth and investment division over both the past 10 years and the next decade.

Changes in UHNWI philanthropic activities

Growth in charitable giving was underpinned by the outlook of the world’s wealthy has changed over the past decade and takes a look forward to the next 10 years.

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Next Generation programme. “They prefer online delivery for market intelligence and execution of transactions.” As mentioned earlier, succession issues are the biggest worry for UHNWIs around the world with recent research suggesting that it is the second generation, rather than the third, that is most likely to squander the family fortune. When asked why their clients were so concerned about handing their wealth to the next generation, 63% of respondents said they didn’t feel their children would be encouraged to make their own wealth, while almost half said they wouldn’t know how to handle the investments. Encouraging them to take a more active role in the family business from a younger age appears to be an obvious solution.

However, as many as two thirds are generally not inspired to join the family business, preferring to pursue entrepreneurial ambitions or other professional careers, says Mr K. “There is a certain restlessness in them to make a difference in their careers, says Mr K. “There is a certain restlessness in them to make a difference in their careers, but they are not necessarily interested in running the family business.”

Many of those who do join the family business say they are not satisfied with the status quo. “Because of globalisation and new technologies, they desire to expand, modernise or reinvent the business to be more relevant and sustainable for the future,” says Mr K.

Philanthropy

Although protecting their wealth is a preoccupation for many UHNWIs, giving much of it away is also important. Facebook founder Mark Zuckerberg and his wife Priscilla Chan hit the headlines last year when they pledged to give away 99% of their shares – currently worth $45bn – in the social media giant. On average, 67% of those who took part in the Attitudes Survey said their philanthropic activities had increased over the past 10 years, with almost 80% saying activity would increase further over the next 10 years.

A sense of personal fulfilment was cited as the main motivator, although in the Middle East religious beliefs were considered almost as important. However, the way the wealthy are giving is changing. The Zuckerbergs, for example, have created a more flexible limited liability company, not a traditional charitable foundation, to oversee their endeavours.

“This is indicative of a wider trend that we have seen across our client base,” says Tom Hall, Head of Philanthropy Services (UK) at UBS. “Not only is philanthropy increasing, so too is the desire to ensure that it is truly effective and actually solving the social and environmental problems of our time.

Philanthropists are becoming increasingly sophisticated in how they structure their giving and investing, with social impact emerging as a key third dimension along with risk and return in every investment decision.”

Property

How UHNWIs feel about property as a place to live and as something to invest in, is an important part of the Attitudes Survey. Residential real estate accounts for a quarter of the average UHNWI’s investable wealth, according to the survey, while commercial property investments make up 11%.

UHNWIs have become more conscious about displaying their wealth over the past 10 years.

Wealth managers have had to work harder to earn the trust of their clients over the past 10 years.

“Philanthropists are becoming increasingly sophisticated in how they structure their giving and investing, with social impact emerging as a key third dimension along with risk and return in every investment decision.”

Over the past 10 years, 54% of respondents said their clients had increased their allocation to residential property. Just over 40% expected it to increase further over the next 10 years, with 30% of clients likely to consider a residential purchase in the next 5 years.

When asked what factors had been growing in importance as a reason for UHNWIs to buy residential property, the most popular (55% of respondents) was as an investment to sell in the future, investment diversification (46%) and as a safe haven for funds (47%) also scored highly. The safe haven element was considered especially important by those respondents with clients in Russia and the CIS – 80% said it was becoming more important.

“The majority of our high-net-worth clients across Africa seek international diversification, with an ever increasing appetite for real estate,” says Standard Bank’s Deon de Klerk. “With the developing complexity of cross-border transactions, as well as a demand for real value and the most appropriate properties, the necessity to employ specialists in their respective fields to truly realise that safe haven perception is vital.”

Interest in commercial property is also growing strongly, with 47% of wealth advisers predicting an increased portfolio allocation by their clients over the next 10 years. Offices and hotels are predicted to remain the investments of choice, although warehousing and logistics could overtake shopping centres and high street retail, according to the survey.

The Wealth Report

“The results of the Attitudes Survey are available in the Databank section at the back of the report. Selected country-level data is available on request.
Making capitalism work

The Wealth Report Editor Andrew Shirley talks to Lynn Forester de Rothschild

It’s not often I get nervous before an interview. I’ve quizzed the likes of legendary investor Jim Rogers, environmentalist and film producer Trudie Styler and iconic fashion-house scion Massimo Ferragamo over the past 10 editions of The Wealth Report. But I do have to admit to a few butterflies on the way to meeting the glamorous and rather well connected American businesswoman Lynn Forester de Rothschild or, to be more formal, Lady de Rothschild – a title that came with her marriage to British banker Sir Evelyn de Rothschild.

Perhaps it is because, unusually for an interviewee, Lady de Rothschild has generously invited me to her own home in London, fittingly for a noted art collector, the former Chelsea studio of John Singer Sargent, one of America’s most influential artists.

Or maybe it is because it has been slightly daunting thinking of questions clever enough to ask a person who, having created her own hugely successful US telecommunications business, is now leading an ambitious campaign to redefine capitalism. And, for good measure, is part of a dynasty synonymous with 400 years or so of wealth creation.

The reason we are meeting is to talk about the emerging Inclusive Capitalism movement and the Coalition for Inclusive Capitalism – a not-for-profit organisation that was founded by Lady de Rothschild and is dedicated to promoting the concept.

It’s a belief that capitalism should be a system for the creation of broad-based prosperity, and should instil trust in our institutions, and optimism for the future – that’s the way I think about it,” she explains succinctly.

A single sentence, but one that opens a Pandora’s box of questions. The first on my list: how badly does capitalism really need fixing? But Lady de Rothschild beats me to it and is already recounting some survey findings released just that morning suggesting the answer is “very”.

“Only 19% of Americans,” she laments, “believe that their government, in most cases, will do the right thing. Trust in business is not that much higher. If we do not correct the problem, Lady de Rothschild believes the consequences could be dire. “A divided society against itself will not stand and it doesn’t matter if you’re in the top 1% or 0.001%. If the society around you is crumbling, you’re in a bad place,” she says.

Apologetic for not having longer to chat while ensuring a coffee is on its way, it is easy to see why so many influential figures, Christine Lagarde, Mark Carney, Bill Clinton, Prince Charles and even the Pope to name but a few, have been persuaded to lend their support to her campaign.

Despite this high-profile backing, the concept of Inclusive Capitalism is still not a part of mainstream vocabulary, so I begin by asking Lady de Rothschild to capture its essence for readers of The Wealth Report.

“It’s a belief that capitalism should be a system for the creation of broad-based prosperity, and should instil trust in our institutions, and optimism for the future – that’s the way I think about it,” she explains succinctly.

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"Now we can sit in London and New York and say society isn’t crumbling, the restaurants are beautiful, I can live my life, but that doesn’t mean it’s smart, or safe or moral or ethical to ignore where our middle classes are going, let alone the poor of our society.”

So what can we do about it, I ask. “One result is Occupy Wall Street, another result is the Tunisian vegetable vendor who set himself on fire, but I believe the best result is for business and investors to be part of the solution,” she explains.

“We have a lot of work to do and I don’t think we can put the burden on government alone. The point of Inclusive Capitalism is to talk with the large asset owners, asset managers and corporate leaders of the world and give them ideas that will be part of the solution."

And that is where the Coalition for Inclusive Capitalism comes in. The Coalition was created after the City of London asked Lady de Rothschild if she would help pull together the Conference on Inclusive Capitalism in 2014.

“I didn’t know what that would be like, but it was more successful than we could have imagined. The delegates represented a staggering $30 trillion of assets – one third of the world’s institutional assets under management, so then we had a second one in 2015 and are planning 2016 in New York City. To create change, however, we need more than a conference a year, so we created the Coalition.

“I believe our entrée is to the large asset owners, the sovereign wealth funds, the pension funds, the insurance companies and the people who manage their money – to simply convince them that an investment for the long term means attention to product, planet, people and profit.”

Lady de Rothschild is firm in her belief that practicing Inclusive Capitalism need not come at the expense of profits. “I’m not asking people to have a lower return.”

The couple are rigorous investors looking for very good returns.

“We’ve decided to double our money in India and in Africa we see internal rates of return north of 20%. The returns from our EL Rothschild portfolio are over 30%, so we are very clear that having impact does not mean we have to sacrifice returns.”

Lady de Rothschild, however, does admit it will be difficult to break the short-termism endemic among politics, business and consumer behaviour.

What motivated her to take on such a Herculean task, I wonder. “I personally care about the issue because I want to leave a world, or at least a country – America – that has a level playing field where people can achieve their dreams based on their God-given talent, not based on the families they are born into. I just believe in that.”

Inclusive Capitalism is not without its detractors. Some commentators claim it is simply a PR exercise by the world’s business elite to protect itself from the wrath of the disgruntled masses. Others say the concept of capitalism itself is the problem.

But Lady de Rothschild is quick to point out that while capitalism is not perfect, it has, by and large, been a power for good in the world. “I believe it’s like what Churchill said about democracy. ‘It’s the worst system apart from all the others.’ And remember that since 1980, while inequality has grown and way too much of the wealth has gone to the 1% in the developed world, for the rest of the world 700 million people have been lifted out of poverty.

“I don’t think capitalism properly practised needs to make any apologies. Crony capitalism is completely wrong, subsidies to the wealthy while we are cutting out the middle class – that’s just wrong and government shouldn’t be there to protect the rich. Capitalism should be about competition, ethics, innovation and a level playing field. If all that is in place, I don’t see how anybody could have an argument with Inclusive Capitalism.”

However, Lady de Rothschild does concede that Ian Davis, Chairman of Rolls Royce and a contributor to the 2015 conference on Inclusive Capitalism, makes a valid point when he says the concept “needs to be democratised if it is to become real and effective”.

So how can the concept be spread beyond the business leaders who attend her conference, I wonder. “It’s a very good question, and of course it’s the hardest question,” says Lady de Rothschild. “My simple response is that a journey of a thousand miles starts with the first step and I have said from the very beginning that Inclusive Capitalism is not about a destination, it’s about a journey and opening our eyes to how we invest.”

Inclusive Capitalism should not be confused with corporate responsibility or philanthropy, she stresses, although she and Sir Evelyn support a wide variety of causes. Some are traditional, such as funding a children’s hospital in London; some are based around the arts world – they are noted supporters of modern art and helped the Tate acquire a work by acclaimed video artist Bill Viola. But many are about microfinance, education and economic empowerment – elements that fit very closely with the concept of Inclusive Capitalism.

As we say goodbye, Lady de Rothschild worries that I haven’t brought a coat to guard against the inclement English weather. It’s actually quite mild for the time of year, but I appreciate her concern.

It remains to be seen whether the critics of Inclusive Capitalism will recognise her sincerity, though I leave thinking that Lady de Rothschild’s call for action is something that business, wealth creators, politicians and even consumers the world over can ill afford to ignore.
A comprehensive analysis of how wealth is distributed around the world

One of the key trends The Wealth Report has tracked since it was first published in 2007 has been global wealth distribution—or to be more precise, where the ultra-wealthy live and how populations are changing. This year we feature data, provided by New World Wealth, from more countries, cities and wealth bandings than ever before. If, for example, you need to know how many people with a net worth of over $10m currently live in Accra or Azerbaijan, we can tell you.

Our analysis of this comprehensive data over the next few pages concentrates on how the population of ultra-high-net-worth individuals has changed on a regional basis over the past 10 years, the latest annual shift and how it is predicted to move during the next 10 years.

A pivotal shift is that the growth of UHNWI populations is forecast to slow significantly over the next 10 years when compared with the past decade. Between 2014 and 2015, a slump in many global equity and commodity markets led to an actual drop in the number of UHNWIs around the world.

We also include a detailed look at one of the current hot political issues of the moment—the increase in wealth inequality around the world. Although fewer people now live in absolute poverty compared to 10 years ago, the gap between the rich and poor within many countries has widened. We also share the insight of three leading philanthropists from around the world.

**Global Wealth Trends**

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**Key topics**

01 Wealth slowdown
New UHNWIs will continue to be created over the next 10 years, but the growth will be significantly slower than the past decade

02 Plutonomy’s rise
Fewer people live in absolute poverty, but wealth inequality within countries is on the rise

03 A new philanthropy
Influential philanthropists from the developing world outline their empowering approach to philanthropy, which aims to reduce inequality via wealth creation
UHNWI populations 2005–2025

Using data from New World Wealth, this infographic clearly illustrates three trends regarding the world’s population of ultra-high-net-worth individuals – those with net assets of over $30m excluding their primary residence. First, despite the global financial crisis, UHNWI numbers grew sharply over the past decade. Second, the rate of growth was much higher in emerging economies. Third, the rate of growth is set to slow significantly over the next 10 years.
The global population of ultra-high-net-worth individuals (UHNWIs) has grown by 60% in the 10 years since The Wealth Report was first published.

According to data prepared for the 2016 report by wealth intelligence company New World Wealth, there are now 187,500 UHNWIs with $30 million or more in net assets, excluding their principal residence, around the world. This figure is up 61% from 116,800 in 2005.

This growth reflects the increase in asset prices and investment returns, especially in the years following the global financial crisis. Emerging economies have experienced the fastest rates of ultra-wealth generation over this period.

While the global population of UHNWIs is set to continue expanding, the pace will be significantly slower than the previous 10 years. The total number of ultra-wealthy individuals is forecast to rise 41% to 263,500 by 2025.

Predicted growth rates vary widely on a regional basis, with emerging economies still leading the way. The ranks of Asian UHNWIs are set to expand by 66% over the next decade, compared with 27% growth in Europe.

According to New World Wealth’s forecast, in 10 years North America will still boast the largest population of UHNWs, but the increase of 21,000 will be overshadowed by the 27,000 people in Asia who will see their wealth exceed $30 million by 2025.

Despite this long-term growth trend, data from 2015 shows the first annual dip in ultra-wealthy populations since the global financial crisis began in 2008. Last year only 34 of the 91 countries for which individual data is compiled saw a rise in UHNWIs.

Almost 6,000 people dropped out of the UHNWI wealth bracket in 2015 – a 3% slide. This downward shift reflected slower economic growth and the more volatile financial climate. The rate of global economic growth slowed in 2015, while growth in equity, commodity and other asset prices also decelerated.

In fact, most major stock market indices showed a cumulative 16% increase between July 2014 and December 2015. “Only two major currencies strengthened against the US dollar in 2015 – the Japanese yen and the Israeli shekel. All other major currencies depreciated, some considerably. This fluctuation in currency has certainly contributed to some people slipping into lower wealth brackets as measured by US dollars. Yet it is also worth noting that many ultra-wealthy people hold at least some of their assets in US dollars, which may have offered some protection against the effect of currency changes,” explains Amoils.

In The Wealth Report this year we have also included data for other wealth brackets, including millionaire and, for the first time, multi-millionaire populations – defined as those with assets of over $50m.

For more detailed data covering almost 100 countries and cities, see Databank, p64

\[\text{Source: All data in these pages supplied by New World Wealth}\]
Wealth inequality takes centre stage
A growing sense of disenfranchisement is changing the political landscape globally
GRÁINNE GILMORE, HEAD OF UK RESIDENTIAL RESEARCH

The economic growth seen in many countries over the past few decades, coupled with increased globalisation, has not only underpinned some of the wealth creation discussed in the previous pages but it has also helped to halve the number of people living in extreme poverty and narrow wealth inequality between countries on a global scale. However, the gap between rich and poor is growing within many countries, especially in advanced economies. The increasing power of the “one per cent” is not a new phenomenon. The first edition of The Wealth Report, published in 2007, highlighted the rise of “Plutonomies” – a concept that was coined by economists as they try to address those who feel disenfranchised. Ultimately, feelings of social, economic and political inequality can fester, even as economic growth, as in the case of the Arab Spring. The electorates in Western economies have also been making their feelings known, with the rise of populist right-wing politicians in the US, France and Hungary, while in the UK, the opposition Labour party has made a significant jump to the left with the election of Jeremy Corbyn as party leader.

A more fractured political landscape can cause economic uncertainty, and this can impede overall economic growth. As Lynn Forester de Rothschild says in her interview on page 14, entrepreneurs and wealth creators function best in a stable society.

So what is behind the recent rise in wealth inequality and how can it be addressed? French economist Thomas Piketty received worldwide attention in 2014 when he suggested that wealth was not flowing down from the rich to the rest of society. Inequality, he said, should be addressed by taxing wealth held by individuals around the world, to allow a share of that wealth to be redistributed.

Anthony Atkinson, a British economist, goes a step further, calling for robust taxation of the wealthiest, as well as government intervention in markets, to ensure even wealth distribution and guaranteed public employment.

However, the globalisation of wealth creation has made it easier for individuals and businesses to choose where and how to invest, making it more difficult for national tax legislation to have an impact on national outcomes.

There are also arguments that the digital revolution is exacerbating the concentration of wealth among those who “own” – whether it is shares, or companies – as opposed to those who work. In their paper Technology at Work, Dr Carl Benedikt Frey, Dr Michael Osborne and Citi argue that this is explained by the changing nature of innovation.

The Wealth Report 2016

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While the industrial revolution benefited consumers and workers (as large pools of labour were required to build and assemble new products), they point out that the technological revolution is primarily of benefit to consumers. “In the digital age, innovators and entrepreneurs, not workers or investors, will be the main beneficiaries.”

This chimes with those economists and commentators who have said that wealth taxes are not the best way to ensure economic opportunity for all. Dr Pippa Malmgren, a former US presidential economic advisor, said in last year’s edition of The Wealth Report that governments should be focusing on curtailing rather than raising taxes in order to foster entrepreneurship. “It is essential that policy-makers focus on innovating and growing their economies,” she said.

Another view that has received much attention is that of Matthew Rognlie, a researcher at Massachusetts Institute of Technology, who believes that the answer to inequality actually lies in property planning policy. Rognlie does not agree with Piketty that returns on capital investments will continue to grow ad infinitum. Instead, he says it is property, particularly residential, that helps underpin the net worth of the ultra-wealthy.

He says that the “super-normal” returns experienced by those holding property are bolstered by restrictive planning policies, especially in advanced economies in and around economically dynamic towns and cities. “Policy-makers should deal with the planning regulations and NIMBYism that inhibit house building.”

A recent paper published by Era Dabla-Norris and other economists working at the International Monetary Fund (IMF) has highlighted that “better access to education and health care and well-targeted social policies...can help raise the income share for the poor and middle class”. But Oxfam says that the work towards addressing inequality should go further than purely economic arguments that tackling climate change should be one of the key goals of policy-makers, as weather events such as heat waves or flooding affect those who depend directly on crops for their livelihoods hardest.

The UN has also highlighted that many other vulnerable groups are also at risk. “People who are socially, economically, culturally, politically, institutionally or otherwise marginalised are especially vulnerable to climate change,” it said in a report from 2014.

The ground-breaking global deal struck on climate change late last year in Paris may go some way to helping alleviate these concerns, but the wider debate around inequality is set to run for some time yet and will have long-term implications for UHNWIs and their advisors.
Giving something back: personal perspectives

I believe that every human being should have the opportunity to develop their talent to its fullest potential, regardless of age, gender, socio-economic or ethnic background. This belief has led me to set up the Stephen Riady Group of Foundations, which we established in 2010. Guided by my personal philosophy, the Foundations are dedicated to improving the lives of the less privileged through education, empowerment and engagement. For me, education lies at the heart of improving both people’s lives and social mobility, empowering them to make a difference and engaging others so as to make a greater impact and serve the community. Since its inception, the Group of Foundations has donated to various worthy causes and hopes to inspire and instil a sense of social responsibility in future generations. Among the key causes are education and skills building, health and sports, humanitarian and social development and environmental conservation.

To encourage greater understanding and awareness of natural disasters and the effects of climate change, I set up the Stephen Riady Geosciences Scholars Fund at the Earth Observatory of Singapore at Nanyang Technological University to help graduate students pursue research in geosciences. This is part of our commitment to ensuring more sustainable communities in Asia and making the world a safer place for everyone.

Philanthropy is a key part of my DNA. As a young child, I was always listening to stories about the family foundation and how we were building schools and clinics, or providing various scholarships in Africa, India and all over the world. As an adult, after having acquired experience and wealth, I started thinking ‘what am I going to do?’ in order to follow in the footsteps of the foundation and give something back. I was always very interested in working with young people, so I started off with the Young Arab Leaders – at first as a member, then moving to join the board and eventually as chairwoman. At that time in the Middle East there was a huge problem with unemployment and striking – it was just going crazy. Subsequently we rolled out a number of programmes aimed at tackling this issue by empowering young people to achieve their potential. I also recently started a scholarship in my name for Arab women, at London Business School. As we know, the rotation of wealth in a country is crucial to the growth and development of its economy. When you are growing at an even faster rate, Africa does have its challenges; chief among them is a rapidly increasing population of working-age adults, which will be the largest on the planet by 2050. Ensuring the private sector continues to flourish is the best way to meet the needs of this expanding workforce. However, to avoid the widening income and opportunity gap plaguing many developed economies, Africa’s growth must be inclusive. Achieving this requires businesses to act deliberately, while the public sector builds an environment that is globally competitive. This underpins my own foundation’s endeavours, which include the Tony Elumelu Foundation programme, a 10-year $100 million commitment to create 10,000 African entrepreneurs. Known as “Africapitalism”, this sustainable approach to philanthropy is an economic philosophy that encourages long-term investment in strategic sectors to help create broad economic and social wealth. Africapitalism will help build societies in ways that generate opportunities for advancement for all Africans – lifting millions out of poverty.

Three leading philanthropists share their personal and innovative approaches to tackling inequality

Dr Stephen Riady
Dr Stephen Riady is the Executive Chairman of Singapore integrated developer OUE Limited and President of the Lippo Group of companies

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Central to Africa’s growth is the rapidly expanding private sector, fuelled in part by record-breaking foreign investment into increasingly diverse sectors and investment by Africans into other parts of the continent, which is growing at an even faster rate. Africa does have its challenges; chief among them is a rapidly increasing population of working-age adults, which will be the largest on the planet by 2050. Ensuring the private sector continues to flourish is the best way to meet the needs of this expanding workforce. However, to avoid the widening income and opportunity gap plaguing many developed economies, Africa’s growth must be inclusive. Achieving this requires businesses to act deliberately, while the public sector builds an environment that is globally competitive. This underpins my own foundation’s endeavours, which include the Tony Elumelu Foundation programme, a 10-year $100 million commitment to create 10,000 African entrepreneurs. Known as “Africapitalism”, this sustainable approach to philanthropy is an economic philosophy that encourages long-term investment in strategic sectors to help create broad economic and social wealth. Africapitalism will help build societies in ways that generate opportunities for advancement for all Africans – lifting millions out of poverty.

Muna Easa Al Gurg
Muna Easa Al Gurg is Director of Retail for Easa Saleh Al Gurg Group, Chairwoman of Young Arab Leaders UAE and board member of Emirates Foundation and Easa Saleh Al Gurg Charity Foundation

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Tony Elumelu
Tony Elumelu, a Nigerian, is one of Africa’s most influential businessmen. In 2010 he established the Tony Elumelu Foundation, which promotes entrepreneurship across the continent

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An analysis of global capital flows and seasonal wealth migration

Wealthy investors are more mobile than ever and investment flows are targeting new markets.

Our analysis of cross-border capital flows confirms the rapid growth of investment activity and also the scale of movements between key countries, with strong growth in outflows from China reflecting the growth from the wider Asian region.

Movements of wealth and the wealthy are not just a matter of fixed investments. In our seasonal focus we analyse the annual migration of the wealthy by looking at the locations that see the largest changes in their resident wealthy population through the year. Los Angeles’ multi-millionaire population gyrates between a little over 11,000 to just under 6,000 through the year. Dubai, Cape Town, London and Miami also see significant volatility in their wealthy populations.

Our calendar of global events looks at the key locations where the wealthy cluster through the year – through the lens of private jet travel. Networking with the wealthy will take you from Davos in January, to the Masters in Augusta in April, Monaco Grand Prix the following month and the Aspen Ideas Festivals in June before ending the year at Art Basel in Miami.

London and New York have long dominated our ranking of global cities that matter most to the world’s wealthy. This year’s Attitudes Survey confirms no change to the prevailing mood. To understand the drivers for this attraction we have analysed connectivity between cities and global UHNWI populations using flight times and wealth density data.

Wealth Movements

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The past decade has seen remarkable growth in cross-border investment by individuals, with property forming a significant part of the story. While transparent data on investment into residential property is not available on a global basis, the graphic on the next page uses the latest IMF data to draw together a comprehensive picture of capital movements.

For each country we have taken International Investment Positions, more specifically country-by-country assets and liabilities. Our ‘inward investment’ flow represents the liabilities that are claims on local assets by foreign residents. Our ‘outward investment flow’ represents assets that are claims of a local resident on an asset located in a foreign country.

By comparing the positions in 2005 and 2015 the data reveals trends in direct investment across key markets. While a broader dataset than just residential property investments, we can see clearly the key movements driving investment markets.

Unsurprisingly, the general trend over the past decade has been for significant growth in cross-border investment, led by massive growth in outflows from China (+1,471%) and in absolute terms, if not rate of growth, from the US. The impact of domestic economic growth and wealth creation, and in some cases more liberal credit controls, has seen rapid growth in outflows from markets such as Indonesia, Thailand and South Korea.

Economic instability in markets such as Italy and Greece has led to relatively strong outbound investment flows in a European context – with 106% and 110% growth respectively – over the past decade.

Looking at inward investment, China has seen notable growth (500%) alongside other emerging markets, such as Brazil (294%). Asian markets, which have seen strong interest from regional property investors, have seen concomitant growth in the data reviewed here – notably Singapore (287%), Hong Kong (222%) and Australia (146%).

Returning to Greece, we can see the impact of economic instability in an 18% decline in inward investment over the period considered.

The factors set to influence the future performance of these numbers are considered overleaf in our focus on risks to wealth flows.
The Cayman Islands: Also seeing improvements in transparency, as revealed by the bi-annual Financial Secrecy Index from the Tax Justice Network last year, which confirmed it is becoming far harder to evade taxation.

Most countries have seen an increase in tax transparency over the previous two years – with considerable improvements in locations such as the Cayman Islands and Luxembourg. The key reason is an increased demand for the global sharing of tax information. Encouraged initially by weaker economic performance and lower tax receipts following the global financial crisis, progress has been cemented by the OECD’s Common Reporting Standard (CRS) initiative. The CRS is attempting to ensure taxpayers are taxed appropriately in their home countries.

The CRS builds on the US Foreign Account Tax Compliance Act (FATCA) and is progressing rapidly. Exchange of information between over 30 countries is set to start in September 2017, but due diligence to identify owners and controllers of assets began in January this year. Some concerns are being expressed. Greater data sharing provides the potential for conflicting reports and information held by different governments and the potential for misuse of sensitive data. Some suggest that greater data sharing could mean some investors reduce their exposure to cross-border investments to ensure information on their financial assets is not shared with unstable regimes.

James Butera, a lawyer with Jones Walker in Washington, says that many Latin Americans “are afraid that if their financial information is revealed, they’ll be at risk of kidnapping or extortion”. However, others point to the reality of demand pressures for overseas investments and the desire for relocation – especially from emerging markets. “People think we are seeing a wave of Chinese demand. No, what we have seen so far is the ripple before the wave has even begun to arrive,” says Stephen Muller of New-York-based Kuafu Properties.

Over the past decade, The Wealth Report has tracked a growing trend in the global movement of wealthy people and their investments. Inevitably as flows have grown, governments have started to take an ever-closer interest. There is a developing push for tax transparency, as revealed by the bi-annual Financial Secrecy Index from the Tax Justice Network last year, which confirmed it is becoming far harder to evade taxation.

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Seasonal wealth flows
Private jet hotspots and city shifts
LIAM BAILEY, GLOBAL HEAD OF RESEARCH

Previous editions of The Wealth Report have examined, in detail, worldwide migration patterns for the wealthy. While these permanent movements of people are critical in driving residential property investment, seasonal and temporary movements are also instrumental in boosting demand for second-home purchases, reinforcing the appeal of one location over another. To illustrate these trends, we have teamed up with NetJets and WINGX to reveal how global sporting, art and business events create private-jet hotspots. Data from New World Wealth highlights specialist WINGX Advance.

The list of private-jet clusters is dominated by European and US events, mainly due to the maturity of private aviation in these markets. As Asia and other markets mature, further events are likely to join the list. Private aviation is still emerging in the region and private jet operators are slowly increasing their operations. “Events such as Art Basel Hong Kong will certainly attract a specific clientele who choose to fly privately, with a view to purchasing artwork,” says Marine Eugene, Head of Sales at NetJets Europe.

In terms of growth locations in Europe, last year saw strong growth for some Mediterranean resorts, especially the Ibiza season, says Richard Koe, Managing Director of business aviation specialist WINGX Advance. In the Middle East we expect to see something of a rebound in high-end tourism to the Greek islands and increasing VIP travel to resorts in Turkey. In the future, Istanbul should be an increasingly popular host-location for VIP events, such as boat shows and Grand Prix, but everything is contingent on the security situation,” he adds. Elsewhere, Brazil should have exciting long-term growth in terms of private jet demand with a boost from the Rio Olympics later this year. The question is whether that leads to sustainable growth. The Beijing and Sochi Olympics saw a boost activity as well,” says Mr. Koe.

While it is not surprising that traditional second-home markets, such as The Hamptons in the US and Cape Town in South Africa, experience wide fluctuations in their populations of HNWIs month-by-month through the year. It is not surprising that traditional second-home markets, such as The Hamptons in the US and Cape Town in South Africa, experience wide fluctuations in their populations of HNWIs month-by-month through the year. It is not surprising that traditional second-home markets, such as The Hamptons in the US and Cape Town in South Africa, experience wide fluctuations in their populations of HNWIs month-by-month through the year. It is not surprising that traditional second-home markets, such as The Hamptons in the US and Cape Town in South Africa, experience wide fluctuations in their populations of HNWIs month-by-month through the year. While it is not surprising that traditional second-home markets, such as The Hamptons in the US and Cape Town in South Africa, experience wide fluctuations in their populations of HNWIs month-by-month through the year.

Wealth movements
PRIVATE JET TRAVEL TO KEY GLOBAL EVENTS

<table>
<thead>
<tr>
<th>Event Location</th>
<th>Top non-national traffic</th>
<th>2012-2014 growth</th>
<th>Non-national to total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Davos</td>
<td>5%</td>
<td>+18%</td>
<td>15%</td>
</tr>
<tr>
<td>Art Basel</td>
<td>6%</td>
<td>+1%</td>
<td>15%</td>
</tr>
<tr>
<td>Miami</td>
<td>5%</td>
<td>+15%</td>
<td>10%</td>
</tr>
<tr>
<td>Art Basel</td>
<td>7%</td>
<td>+18%</td>
<td>5%</td>
</tr>
<tr>
<td>Superbowl</td>
<td>8%</td>
<td>+1%</td>
<td>5%</td>
</tr>
<tr>
<td>Monaco Grand Prix</td>
<td>8%</td>
<td>+1%</td>
<td>5%</td>
</tr>
<tr>
<td>The Masters</td>
<td>8%</td>
<td>+1%</td>
<td>5%</td>
</tr>
<tr>
<td>Geneva</td>
<td>8%</td>
<td>+1%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: NetJets & WINGX Advance

There has also been something of a rebound in high-end tourism to the Greek islands and increasing VIP travel to resorts in Turkey – but the 2022 Qatar World Cup will boost activity as well,” says Mr. Koe. We have also drilled into city-level wealth using data from New World Wealth, to understand highs and lows in the population of wealthy individuals across key markets globally, month-by-month through the year.

SEASONAL FLUCTUATIONS OF MULTI-MILLIONAIRE (US$10m+) POPULATIONS AROUND THE WORLD

*Including Malibu and Beverly Hills Source: New World Wealth

<table>
<thead>
<tr>
<th>Country</th>
<th>Location</th>
<th>Peak population</th>
<th>Low population</th>
<th>Peak month</th>
<th>Low month</th>
<th>Percentage difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>31,210</td>
<td>18,450</td>
<td>July</td>
<td>January</td>
<td>228%</td>
<td></td>
</tr>
<tr>
<td>New York</td>
<td>32,508</td>
<td>11,870</td>
<td>June</td>
<td>January</td>
<td>174%</td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>26,480</td>
<td>8,080</td>
<td>June</td>
<td>January</td>
<td>265%</td>
<td></td>
</tr>
<tr>
<td>Zurich</td>
<td>11,820</td>
<td>4,050</td>
<td>August</td>
<td>February</td>
<td>192%</td>
<td></td>
</tr>
<tr>
<td>Los Angeles*</td>
<td>11,170</td>
<td>5,630</td>
<td>June</td>
<td>February</td>
<td>191%</td>
<td></td>
</tr>
<tr>
<td>Paris</td>
<td>18,470</td>
<td>1,000</td>
<td>November</td>
<td>July</td>
<td>470%</td>
<td></td>
</tr>
<tr>
<td>The Hamptons</td>
<td>7,300</td>
<td>1,000</td>
<td>August</td>
<td>January</td>
<td>777%</td>
<td></td>
</tr>
<tr>
<td>Rio</td>
<td>6,510</td>
<td>1,000</td>
<td>December</td>
<td>July</td>
<td>229%</td>
<td></td>
</tr>
<tr>
<td>Miami</td>
<td>5,410</td>
<td>1,170</td>
<td>December</td>
<td>June</td>
<td>262%</td>
<td></td>
</tr>
<tr>
<td>Monaco</td>
<td>5,400</td>
<td>1,480</td>
<td>July</td>
<td>February</td>
<td>266%</td>
<td></td>
</tr>
<tr>
<td>Sydney</td>
<td>5,050</td>
<td>2,210</td>
<td>December</td>
<td>July</td>
<td>129%</td>
<td></td>
</tr>
<tr>
<td>Palm Beach</td>
<td>4,700</td>
<td>1,000</td>
<td>December</td>
<td>June</td>
<td>235%</td>
<td></td>
</tr>
<tr>
<td>Cape Town</td>
<td>2,620</td>
<td>390</td>
<td>December</td>
<td>July</td>
<td>608%</td>
<td></td>
</tr>
<tr>
<td>Cannes</td>
<td>2,220</td>
<td>460</td>
<td>August</td>
<td>February</td>
<td>383%</td>
<td></td>
</tr>
</tbody>
</table>

Source: NetJets & WINGX Advance

*Including Malibu and Beverly Hills

We have also drilled into city-level wealth using data from New World Wealth, to understand highs and lows in the population of wealthy individuals across key markets globally, month-by-month through the year. While it is not surprising that traditional second-home markets, such as The Hamptons in the US and Cape Town in South Africa, experience wide fluctuations in their populations of HNWIs through the year, there are also big fluctuations in some of the key global hubs. In London and Paris, for example, the peak-season population of those with net assets of over $10m is more than double seasonal lows. Los Angeles is the most “stable” market, according to our data.

Art Basel Hong Kong: A top destination for private aviation. Image courtesy of Art Basel

<table>
<thead>
<tr>
<th>Location</th>
<th>Peak population</th>
<th>Low population</th>
<th>Peak month</th>
<th>Low month</th>
<th>Percentage difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cape Town</td>
<td>11,170</td>
<td>5,630</td>
<td>November</td>
<td>July</td>
<td>470%</td>
</tr>
<tr>
<td>Palm Beach</td>
<td>4,700</td>
<td>1,000</td>
<td>December</td>
<td>June</td>
<td>235%</td>
</tr>
<tr>
<td>Cannes</td>
<td>2,220</td>
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Source: New World Wealth

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London and New York during the next decade. Of those who thought a challenger could emerge, opinion was divided fairly evenly between Singapore and Shanghai. In terms of importance, our respondents are predicting Shanghai will eclipse Hong Kong’s appeal over the period.

Interestingly, while 68% of European respondents and nearly 50% of North American respondents felt no city could overtake London and New York, Asians took a more bullish outcome with only 30% saying the status quo was set in stone.

Connections

There is no direct correlation between the locations where the wealthy are normally resident and the locations their advisors view as being most important to them. This reflects the itinerant nature of many UHNWIs who increasingly educate their children overseas while working and living in multiple international locations. Working with our data partners at Sabre Airline Solutions, we wanted to understand which cities were actually the best connected to the world’s wealthy.

Given that London and New York seemed unlikely to be overtaken this year, we also asked the contributors to the Attitudes Survey to identify risks that could potentially undermine the two cities’ appeal.

For London, the table of risks was headed by changes in taxation – reflecting five years of relatively rapid tax reform in the UK, followed by changes to financial regulation driven by the impact of EU and domestic activism on London’s financial sector.

In New York, tax and financial regulation risk were joined by the threat from terrorism, which ranked only marginally lower in London’s case.

Looking ahead, we asked which cities, if any, could realistically challenge

Asian took a more bullish outlook, with only 30% saying the status quo was set in stone

Over the past decade, The Wealth Report has ranked the cities that matter most to the world’s wealthy, based on where they live, invest, educate their children, grow their businesses, network and spend their leisure time.

On all measures, year-in-year-out, London and New York have vied for the top two slots. No other city comes close in terms of breadth and depth of appeal.

This year, London has beaten New York for the second successive time to win the accolade of ‘most important city to UHNWIs’, according to the results of our Attitudes Survey of wealth advisors. Singapore, Hong Kong, Shanghai and Dubai repeated their competition for the status quo a year ago, with only 14% of respondents feeling that no city could overtake London and New York the previous year.

Our analysis was based on matching in multiple international locations.

Interestingly, while 68% of European respondents and nearly 50% of North American respondents felt no city could overtake London and New York, Asians took a more bullish outcome with only 30% saying the status quo was set in stone.
The performance of the world’s most important prime residential markets

Last year was a mixed one for the world’s most important prime residential markets. At one end of the scale we saw prices in Vancouver rise by almost 25%, with nine other cities including Monaco, Shanghai, Sydney, San Francisco and Istanbul also posting double-digit growth.

At the other end of the league table Lagos saw prices drop 20%, unsurprising perhaps given Nigeria’s dependence on oil.

This performance disparity across the 100 locations covered by our Prime International Residential Index (PIRI) highlights the many factors playing out around the world that affect prime property markets. Some markets such as second-home locations in Italy and France are still gradually recovering from the impact of the global financial crisis, while others such as London have already reached new heights. But, on a more positive note, fewer locations saw values fall than in 2014.

Governments are still vying with the increased mobility of global wealth in a bid to increase tax take and transparency, and our detailed analysis on page 42 looks at how these issues will develop longer term.

Given the growing complexity and nuances of the current marketplace, deciding where to invest for the future is not an easy decision. Our Hotspots article on page 44 may help. It lists three locations for each of five categories, ranging from countries to resorts, that we believe have the potential to outperform the average, for the short term at least.
supply, coupled with foreign demand, spurred on by a weaker Canadian dollar exploiting the city’s stellar performance. Antipodean markets also performed strongly. Sydney, Melbourne and Auckland all recorded double-digit annual price growth, up 18%, 12% and 10%, respectively. Of the 34 locations where prime prices slipped in 2015, 22 were located in Europe. Yet there is renewed optimism that prices in the region’s most popular second-home destinations, particularly Spain, Italy, the Algarve and parts of the Côte d’Azur, are close to bottoming out. Munich, Amsterdam, Monaco and Berlin are Europe’s standout performers, recording price growth of 12%, 10%, 10% and 9% respectively in 2015. Even the global financial crisis hardly affected the upward trajectory of key German cities. Amsterdam conversely is bouncing back from a fall of 18% in peak-to-trough terms. The prime central London market remains in positive territory during the tumultuous times of 2009, to explain the city’s stellar performance. Despite areas of growth, the world’s emerging markets are not the shining beacon they were two to three years ago. The US Federal Reserve’s recent rate rise, the resulting strong dollar and the collapse in commodity prices all help to explain why Buenos Aires (-8%) and Lagos (-20%) are located at the foot of the PIRI 100.
PIRI Highlights

A closer look at 20 of the locations in the PIRI 100 that saw interesting shifts in the price of prime residential property in 2015.

Vancouver sets the pace

The winners and losers in our annual round-up of prime market performance

KATE EVERETT-ALLEN, HEAD OF INTERNATIONAL RESIDENTIAL RESEARCH

Monaco is still one of Europe’s property hotspots

North America

South America

Europe

Asia Pacific

Vancouver’s prime property value outperformed during 2015.

The value of the world’s leading prime residential property markets rose on average by 1.8% in 2015, according to the latest results of our unique Prime International Residential Index (PIRI). This was similar to the 2% growth seen in 2014. However, in full-year 2015, we recorded a strong spread of flat and positive price growth, compared with 6% in 2014. The gap between the strongest and weakest-performing luxury residential markets in the PIRI 100 has shrunk considerably from 97 percentage points during the tumultuous times of 2009, to 45 points in 2015. Despite this convergence, the index still saw some significant outperformance last year. Vancouver led the rankings by some margins, with prices accelerating 25% during 2015. A lack of supply, coupled with foreign demand, appears to be driving the city’s stellar performance. Antipodean markets also performed strongly. Sydney, Melbourne anduckland all recorded double-digit annual price growth, up 15%, 12% and 10%, respectively. Of the 34 locations where prime prices slipped in 2015, 22 were located in Europe. Yet there is renewed optimism that prices in the region’s most popular second-home destinations, particularly Spain, Italy, the Algarve and parts of the Côte d’Azur, are close to bottoming out. Munich, Amsterdam, Monaco and Berlin are Europe’s standout performers, recording price growth of 12%, 10%, 10% and 9% respectively in 2015. Even the global financial crisis barely affected the upward trajectory of key German cities. Amsterdam conversely is bouncing back from a fall of 18% in peak-to-trough terms. The prime central London market remained a positive outlier throughout the year (+1%) despite a raft of new property taxes, many of which were aimed at foreign buyers, being introduced. The relaxation of cooling measures in some Chinese cities has had an immediate impact on performance, with luxury prices in Shanghai and Hong Kong set to rise. The Chinese government continues to boost housing market activity with recent monetary easing, tax breaks and interest rate cuts. Given price falls in Singapore and Hong Kong, it will be interesting to see if policymakers in these markets follow suit and continue to play an2015, 2014 and 2013. Prices have fallen 13% in peak-to-trough terms. Even the global financial crisis barely affected the upward trajectory of key German cities. Amsterdam, Munich, Monaco and Berlin are Europe’s standout performers, recording price growth of 12%, 10%, 10% and 9% respectively in 2015. Of the 34 locations where prime prices slipped in 2015, 22 were located in Europe. Yet there is renewed optimism that prices in the region’s most popular second-home destinations, particularly Spain, Italy, the Algarve and parts of the Côte d’Azur, are close to bottoming out. Munich, Amsterdam, Monaco and Berlin are Europe’s standout performers, recording price growth of 12%, 10%, 10% and 9% respectively in 2015. Even the global financial crisis barely affected the upward trajectory of key German cities. Amsterdam conversely is bouncing back from a fall of 18% in peak-to-trough terms. The prime central London market remained a positive outlier throughout the year (+1%) despite a raft of new property taxes, many of which were aimed at foreign buyers, being introduced. The relaxation of cooling measures in some Chinese cities has had an immediate impact on performance, with luxury prices in Shanghai and Hong Kong set to rise. The Chinese government continues to boost housing market activity with recent monetary easing, tax breaks and interest rate cuts. Given price falls in Singapore and Hong Kong, it will be interesting to see if policymakers in these markets follow suit and continue to play an
**Prime performance drivers**

**Economics, taxation and political priorities influence prime global housing markets**

**LIAM BAILEY, GLOBAL HEAD OF RESEARCH**

As The Wealth Report went to press, one of the dominant issues overshadowing the world’s key residential markets was the fallout from the shift to rising interest rates in the US.

In Asia, for example, there will undoubtedly be an impact on buyer sentiment, which our Hong Kong Head of Research, David Ji, believes will lead to a reduction of sales volumes. This will be the case even though the Federal Reserve’s initial moves are likely to remain cautious and will have only a minimal impact on mortgage payments.

The impact of the impending change in US policy was already being felt in the final three months of 2015, with many global markets seeing weaker trading conditions. The transition to higher rates in the US is likely to be emulated by other strongly performing economies, including the UK, Australia and Canada, although expectations are being regularly pushed further out in time.

The expectation of higher rates helped boost the US dollar throughout 2015, which weighed on inward investment into the US. “A slowdown in demand was inevitable, but the US still remains hugely attractive as a global market,” says Sofia Song, Head of Research at Knight Frank’s US residential partner, Douglas Elliman.

It is important to remember that not every market internationally has been waiting for the transition away from ultra low interest rates – some never experienced them. In Kenya, for example, rates are in double digits. The impact of the impending change in US policy was already being felt in the prime central London market, Sydney and Melbourne have all seen an increase in supply. As the market tilts in favour of purchasers, there will be a reevaluation of pricing potential in many areas.

**New supply**

In addition to interest rates and other economic factors, performance will be influenced by rising supply pipelines. Developers have taken advantage of a combination of rising prices and low financing costs to deliver new homes at a significantly faster rate in many prime markets.

New York, London, especially around the edge of the prime central London market. Sydney and Melbourne have all seen an increase in supply. As the market tilts in favour of purchasers, there will be a reevaluation of pricing potential in many areas.

Frank’s Managing Director in Kenya, Ben Woodhams. This impact has been replicated in other resource-heavy markets, including Australia’s previously booming prime regional markets.

The opposite trend can be seen in other prime markets, notably land-restricted Hong Kong. Here, the low supply of land over recent years has added to the affordability issue. Although the central government is trying to make up the shortfall, the political climate has changed. Environmental pressure groups hold more influence and local councils are displaying a more protectionist attitude to their land.

While prime buyers in Hong Kong still focus on The Peak and Mid-levels, it will be the New Territories where most new supply is delivered. Prices are likely to underperform there.

New-build volumes are critical to future performance, confirms Nicholas Holt, Head of Research in Asia-Pacific. “At the prime end of the market Hong Kong is seeing tight supply. Singapore is too but at much less severe levels.” Similar issues are being seen in Vancouver, with the city experiencing the lowest level of inventory for 25 years. “The number of multifamily developments along the major transportation routes is rising but this is not enough to make up for the lack of prime market supply,” says Kevin Skipworth of Knight Frank’s partner Dexter Associates.

**Outperformance**

Opportunities still exist in some European markets, many of which are still recovering nearly eight years after the 2008 crash.

Well-connected areas in the South of France, especially rural areas within easy reach of the new Eurostar route to Provence, and ski resorts within an hour’s commute of one of the main airports serving the Alps, look well placed for future growth. Most Italian prime markets saw flat or marginal price increases in 2015. Although prices are not going to jump significantly in 2016, says Nicholas Holt. Tokyo is seeing strong investment in the run up to the 2020 Olympic Games and Chinese buyers are starting to show an interest.

In the US, Los Angeles is set to lead the market, followed by Miami. Lower base prices and relatively low supply provides scope for price growth in Los Angeles, while demand is still robust in Miami.

Overall, investors globally need to be cautious. Price rises are slowing after a strong run in many markets, while interest rates and ownership costs for foreign investors are increasing.
Residential hotspots

We select three locations across each of five categories, highlighting key investment opportunities.

In a higher-interest rate and lower-growth environment, picking the right residential property investment location becomes a more pressing issue. Our shortlist is influenced by the burgeoning requirement for market outperformance led by economic and employment growth, new infrastructure, regeneration, quality of education, environment and lifestyle.

LOS ANGELES

The city is just three years into a market recovery. Prices are growing, underpinned by limited new supply, while demand flows have been bolstered by Asian buyers. Improvements to urban centres, retail and the wider lifestyle offer are opening up new areas to investors.

MADRID

Last year underlined the extent to which Madrid’s prime market has recovered with prime sales volumes up 23% year-on-year and prime prices outperforming many neighbouring European cities. Steady price growth looks likely to continue in 2016 as the impact of supply constraints are felt in the top districts of Salamanca, Jerónimos and Chamartín.

SHANGHAI

The city, along with Shenzhen, the other financial hub of mainland China, has turned a corner in economic and market terms over the past six months. Shanghai is seeing positive price growth on the back of continued urbanisation, a diverse and thriving service sector and a strong international community.

GOLD COAST

A popular second-home destination, the arrival of the Commonwealth Games in 2018 has kickstarted investment, with a new light rail system and a AUS200m airport expansion planned. Competitive prices, compared with Australia’s top cities, plus strong fundamentals – local population growth and expanding tourism – underpin demand along the 57 kilometre coastline.

CÔTE D’AZUR

A perennial favourite with the super wealthy, the South of France is in the nascent stages of recovery. Last year saw an upturn in sales activity with the village of Mougins and the exclusive Cap d’Antibes seeing strong demand.

LOWER EAST SIDE, NEW YORK

New infrastructure, amenities and restaurants are driving price growth in an area burgeoning with luxury developments by developers like Ian Schrager and architects Herzog & de Meuron. Proximity to Nolita, SoHo, and the East Village is helping market product to investors.

CHIYODA, TOKYO

The prime residential market in Chiyoda – along with Minato and Chūō, the two other central Tokyo wards – has performed well since the advent of Abenomics. While Japan’s overall population is in decline, Tokyo continues to see its numbers swell. Chiyoda’s residential market looks set to benefit from the 2020 Olympic Games, which will bring improvements in infrastructure and attract foreign investment.

PIMLICO, LONDON

An area that remains one of central London’s very few overlooked residential markets. High-quality housing stock, a riverside location and proximity to established prime markets combine to ensure the area stands to benefit from the major regeneration work taking place in adjacent Victoria.

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A decade on from the first edition of The Wealth Report and commercial real estate is a firmly established component of the investment portfolios of the wealthy. According to Real Capital Analytics, private investors have placed $1 trillion in the asset class since 2009 – or $1 in every $4 invested in commercial real estate investment over that time.

The on-going appeal of commercial real estate to private wealth derives from it being a tangible asset with an underlying value that extends beyond the ability to produce income. As part of a diversified investment strategy, bricks and mortar offer reduced volatility relative to assets subject to daily market pricing. Furthermore, the asset class also serves as a hedge against other publicly traded investments and protection from rising inflation rates, though this is not currently a significant issue across the global economy.

Despite clear market evolution over the last decade, multiple perceived barriers to entry for private investors remain. The central obstacle, identified by 52% of our Attitudes Survey respondents, is the lack of deep experience across the private investor community. This is significant in a sector that is also regarded as being both highly complex and management intensive. It also contributes to the second strongest perceived barrier – that of liquidity. Further improvements in market transparency, greater best practice exchange and access to professional advice are essential if the pool of private investors is to extend and reach deeper into the commercial market.
From crisis to critical mass

Commercial property investment’s 10-year journey
LEE ELLIOTT, HEAD OF COMMERCIAL RESEARCH

During the past decade the commercial real estate landscape has transformed, now nearly encapsulated in one word – globalisation. For an asset class that in its essence is inherently local, this international influence has been nothing short of remarkable.

Inevitably, globalisation has ushered in significant cyclical and structural changes to the marketplace. No 10-year retrospective can ignore the onset of the greatest economic catastrophe since the Great Depression – the global financial crisis. It was a crisis derived from the dramatic unravelling of the flawed inter-con nective unravelling of the flawed inter-connection between residential real estate assets and sophisticated, but flawed, financial instruments. Almost immediately the commercial real estate market entered a downturn as asset prices tumbled and highly leveraged investors ran into difficulty. Demand for commercial real estate assets slumped and investment volumes fell.

Yet, ironically, the crisis generated a macro-economic backdrop that proved conducive to significant and sustained capital flows into commercial real estate. The combination of low growth, low inflation, low interest rates, a huge injection of liquidity courtesy of quantitative easing and a lack of performance from other mainstream asset classes, all point ed investors to commercial real estate.

At the bottom of the cycle in 2009, investment into global office, retail, industrial and hotel properties stood at $210bn, according to data from Real Capital Analytics (RCA). One year later global investment across the same asset types had risen by 67% to $362bn. Four years on and volumes stood in excess of $700bn.

What is telling, in the context of private wealth, is despite this variability in investment volumes, the proportion of private investment remained remarkably consistent from 2009 to 2014 – 23.4 to 26.6% of total volumes.

This illustrates perhaps the most significant transformation in the commercial real estate market over the past decade – the emergence of a deeper pool of prospective investors.

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Invariably, globalisation has ushered in more markets. This will enable private investors to, once more, be at the vanguard of this transformation.

The tangible qualities of direct investment into ‘bricks and mortar’ do, however, continue to hold sway over the wealthy private investor. Finally, the past decade has witnessed marked improvements in market transparency. There is now more data, more information and more expertise across more markets. This will enable private investors to overcome knowledge gaps and inform their investment strategies.

The past 10 years has witnessed a ma turing of commercial real estate into a sophisticated and truly global asset class open to a deep and varied pool of investors. What is certain is that the next 10 years will be no less transformative than the last. I fully expect private investors to, once more, be at the vanguard of this transformation.

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The role of these private interests should not be underestimated. There was clear capacity, willingness and opportun ism to fill the space left by debt finance following the global financial crisis, and to adopt higher-risk development positions critical to market momentum.

In this sense, private wealth has had an important role in sustaining and, in some cases, effectively kickstarting, global commercial real estate markets.

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While the pool of prospective inves tors has broadened, so has their geographical focus. The globalisation of commercial real estate market over the past decade – the emergence of a deeper pool of prospective investors. A host of new sources of capital have emerged, not just the likes of sovereign wealth funds, Asian pension funds and petro states, but also UHNWIs and other private interests.

The role of these private interests should not be underestimated. There was clear capacity, willingness and opportun ism to fill the space left by debt finance following the global financial crisis, and to adopt higher-risk development positions critical to market momentum.

In this sense, private wealth has had an important role in sustaining and, in some cases, effectively kickstarting, global commercial real estate markets.
FUTURE OPPORTUNITIES
Berlin's growing start-up community will continue to drive the office market as new creative areas are established. Over the next three to six years investors will discover different types of investment. This will provide office opportunities in city locations such as Charlottenburg, Kreuzberg and Tiergarten, which are not yet prime but have growth potential for rents and yields. The eventual opening of the city’s new airport can only help.

MARKLAND DEAL
Kurfürstendamm 212-214 was a rarely available prime high-street opportunity. We acted for a Berlin-based family on the acquisition of this €84m investment.

MARKLAND DEAL
The Aquila Tower, which Knight Frank sold to a private Asian investor who outbid the institutional sector, was the first of three skyscrapers acquired by international UHNWIs.

TRENDS OF THE DECADE
Ten years ago UHNWI investors looked to trusted Central London office locations, particularly Mayfair, High St Kensington and core City, with the more adventurous venturing into Soho or Covent Garden. Investments would often be freehold, with a 10-year plus lease and no more than one or two tenants. Today, multi-let properties with well-timed lease expiries and support rent reviews are favoured. New areas include the City fringe, Farringdon, Clerkenwell, Bloomsbury (all benefiting from Crossrail) and Paddington. They are also branching into the UK’s regional cities and different sectors such as logistics and student accommodation.

FUTURE OPPORTUNITIES
I would be looking at offices in good CBD locations in key UK regional cities, such as Birmingham, Manchester and Edin-burgh. Multi-let offices in Bloomsbury, Farringdon and Old Street/Moorgate, where there is the opportunity to refurbish and reconfigure to improve rental levels, and where the micro location will benefit from new Crossrail stations.

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TRENDS OF THE DECADE
The Dubai International Finance Centre (DIFC) is the region’s leading financial hub. These factors have fuelled the development of new master communities and a CBD and attracted significant investment from neighboring GCC countries as well as the wider region, including India and China.

FUTURE OPPORTUNITIES
We see continued investment from the Gulf into other key international markets as diversification remains paramount. As more international corporations establish regional headquarters and expand and consolidate existing office space, there will be a greater focus on quality in Dubai. We see opportunities in well located, wholly owned Grade A office developments and in logistics warehouses connected to the new Dubai airport.

MARKLAND DEAL
The acquisition of the super-prime Rolex Unit at One Hyde Park, Knightsbridge, London, highlights the continued demand for best-in-class assets in key global cities. Knight Frank acted for a private Middle Eastern investor in this transaction.

MARKLAND DEAL
Nairobi’s 33,000 sq m Garden City mall opened in 2015. It is the largest mall in East Africa.

TRENDS OF THE DECADE
There has been a sea-change in attitudes towards Sub-Saharan Africa over the past decade, as a rising number of investors have recognised it as a region of long-term growth and opportunity. Although most markets, with the exception of South Africa, remain small by international standards, modern property development has gathered pace and the stock of investment-grade commercial property has increased. Private intra-Africa investment by UHNWIs is increasing as is the amount of money being invested by individuals from the Gulf, particularly into Muslim countries including Senegal. South African funds and trailblazing UK-based emerging market specialist Actis are also active.

FUTURE OPPORTUNITIES
Large, fast-growing cities, such as Nairobi, Lagos, Dar es Salaam and Luanda will continue to offer the clearest investment opportunities. The growth of Africa’s consumer class will create opportunities for further development in the retail sector – both in the current hotspots and in second-tier cities where developers may be able to gain first-mover advantage. The logistics sector should also emerge in importance, particularly in key gateway locations such as Luanda, Zambia.

LANDMARK DEAL
Developed by Actis, the first phase of Nairobi’s 33,000 sq m Garden City mall opened in 2015. It is the largest mall in East Africa.
**TRENDS OF THE DECADE**

As a credible investment class from a global standpoint, the technology sector has been the most significant force in the emergence of commercial real estate in leading cities. Besides Mumbai, which has a diversified occupier base, other cities like Delhi and Bengaluru have been the prime beneficiaries of this tech boom. India is attracting global investors such as Blackstone, while Indian investors are diversifying globally into development and core assets in gateway cities such as London. The “Modi effect” has been crucial in both the import and export of capital.

**FUTURE OPPORTUNITIES**

Technology is now one of the core differentiators for many businesses across all sectors. Such dynamics will benefit cities with the right combination of technology talent, affordable real estate, superior infrastructure and a vibrant living environment. Bengaluru for instance will reap the benefits of this transformation. In 2013 to 2015, the technology sector contributed 58% to the city’s total office demand of 26 million sq ft.

**LANDMARK DEAL**

In 2015 India’s largest office deal of around two million sq ft in Mumbai’s peripheral business district was agreed to a technology sector giant.

**TRENDS OF THE DECADE**

Chinese institutional investors have dominated the market in the past, including the China Life Insurance (Overseas) purchase of the west tower of One HarbourGate, Hung Hom, Kowloon, Hong Kong, for US$550m. Now we are starting to see a new wave of Chinese investors venture offshore. Private UHNWIs, typically developers and industrialists, have been making quite a stir. Unlike earlier investors by Chinese institutions focusing on trophy assets, these new investors dominate small to mid-cap private investments in primary and secondary locations. The US and Western Europe are key targets.

**FUTURE OPPORTUNITIES**

Location-wise, we continue to see exceptions to offshore investors in counter-cyclical markets such as Perth and Canberra. Secondary stock has excellent fundamentals in the Sydney CBD and metropolitan markets. The generous yields and stable markets of Adelaide are attracting investors, while Brisbane, which is a market affected by the slump in the resource and commodities sector, is generally considered at, or near, the bottom, with an increase in buyer activity.

**LANDMARK DEAL**

The Australian Technology Park sale on the fringe of Sydney’s CBD for AU$263m during late 2015 set a new benchmark (5.75%) for core yields in a non-CBD location.

**TRENDS OF THE DECADE**

Foreign UHNWIs have always been competitive in San Francisco’s commercial real estate market, particularly those from Asia Pacific and the Middle East. While many invest directly, we’ve seen a major entrance by offshore investors over the next 10 years. It remains a market of choice among creative types due to its burgeoning communities and proximity to Manhattan. Investors have been the most active buy-siders, while Brisbane, which is a market affected by the slump in the resource and commodities sector, is generally considered at, or near, the bottom, with an increase in buyer activity.

**FUTURE OPPORTUNITIES**

Brooklyn is a New York City metro market that has experienced sharp increases in both supply and demand and will continue to offer opportunities to UHNWI investors over the next 10 years. It remains a market of choice among creative types due to its burgeoning communities and proximity to Manhattan. Inventory is growing as developers such as Boston Properties, Rudin, Jamestown and RFR construct and redevelop millions of square feet. New tax legislation that makes it easier to invest in property will have a major impact.

**LANDMARK DEAL**

In 2015, Bank of China acquired Seven Bryant Park in the heart of Midtown Manhattan for $600m and will occupy approximately 60% of the asset.

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In 2015, Bank of China acquired Seven Bryant Park in the heart of Midtown Manhattan for $600m and will occupy approximately 60% of the asset.
Future trends

As private investors push further into commercial real estate markets, new investment strategies and market behaviours will emerge. Knight Frank’s Head of Commercial Research examines five macro trends that will prove influential.

Lee Elliott, Head of Commercial Research

The insatiable rise of urbanisation

The stage for future commercial real estate investment is undoubtedly urban. The momentum behind urban place creation is as ubiquitous as it is unstoppable. This will create tremendous opportunities for investors, in three ways. First, the changing shape of the city and the creation of new urban quarters through regeneration will generate investment opportunities. Second, as business models adapt to the needs of urban consumers new types of real estate product will emerge. Most notable here is the inevitable rise of urban logistics in direct response to the growth of e-commerce. Third, the changing shape of cities presents opportunities for adding value - obsolete office stock being converted to hotel, residential or specialist uses or being upgraded. Urban infrastructure projects present a huge opportunity too.

India emerges from the shadows

BRIC economies have been on the investors’ radar since Jim O’Neill first coined the acronym in 2001. Although these economies have been buffeted in recent years and still present transparency challenges for investors, we see strong opportunities, particularly in India, over the next decade. The election of the Modi government has ushered in a pro-business, pro-technology agenda that is starting to play out in the real estate markets. The incredible progress of the technology sector in India has served as a catalyst for the emergence of high-grade commercial real estate in leading Indian cities, such as Mumbai, Delhi and Bengaluru, and has positioned these markets as credible investment destinations from a global standpoint.

Experiential real estate

Successful investors must be attuned to how the occupier will utilise the real estate asset they are renting or buying. It is the key to income generation. Yet the wants and needs of the occupier, and the strategic significance placed upon real estate, is transforming. No longer can the office be viewed simply as a container for staff. Similarly, the modern retail unit is today about much more than the throughput in the cash register. Real estate is increasingly about the user experience. Best performing retail assets will support retailers indirectly in driving increased sales – being one, albeit important, part of an omni-channel presence. Office buildings will be central to driving occupier efficiency, productivity and talent retention. Understanding these changing dynamics will be pivotal in stock selection and investment return.

Innovative access to real estate product

Although the wave of innovative financial instruments crashed following the global financial crisis, as illustrated by the demise of real estate derivatives, new innovative products will emerge over the short to mid-term that allow the private investor to access commercial real estate. We live in an era of crowd-sourcing and crowd-funding and these collaborative models will develop in commercial real estate. We will see greater tie-ups between private wealth and real estate expertise in joint venture structures and anticipate syndicated approaches that utilise strata title in office buildings. This will enable the wealthy to invest in lot sizes that would have otherwise been difficult to access. Indirect real estate products also continue to emerge, especially in emerging markets such as India and China where REITs will become established investment vehicles.

Specialist sectors move further into the vanguard

Specialist commercial real estate sectors such as student accommodation, automotive, healthcare and hotels have become an established favourite of UHNWI investors over the past decade. But wider socio-economic and demographic dynamics mean that the opportunity has been barely exploited. For example, demographic upheaval caused by an ageing population will serve to create future market opportunity in the healthcare sector. While such opportunities are currently focused on Western markets, the absence of state systems of welfare, the rising ability to pay for private provision, and the sheer weight of demography, will open up the emerging markets too.

No longer can the office be viewed simply as a container for staff. Similarly, the modern retail unit is about much more than the throughput in the cash register.
Investments of passion performance and global luxury spending trends

Last year saw yet more records broken in the modern-art world. When *When Will You Marry?*, a painting by Paul Gauguin of two Tahitian girls, became the most expensive work of art ever sold when it was bought by a museum in Qatar for $300m. Picasso’s *Women of Algiers* notched up a new record for a painting sold at auction after making over $179m, while *Reclining Nude* by Modigliani was not far behind, going under the hammer for $170m to a buyer from Shanghai.

However, our overall art index rose by a muted 4% as other genres fared less well during the year. Classic cars were again the top performing investment of passion with annual growth of almost 17%. The Knight Frank Luxury Investment Index tracks the performance of 10 investments of passion and always makes for fascinating reading. With a Hong Kong businessman also paying the top price ever achieved for a piece of jewellery – the Blue Moon diamond – last year, UHNWI hunger to collect the world’s most desirable objects seems stronger than ever. Our new Luxury Spending Index compiled by Wealth-X reveals how trends vary around the world.
The value of the Knight Frank Luxury Investment Index (KFLII) rose by 7% in 2015. This compares with a 5% drop in the value of the FTSE 100 equities index and a rise of only 1% for the top end of the London residential market.

But the headline figure masks a mixed performance across the 10 asset classes in KFLII. Classic cars (+17%) continue to top our league, with furniture again bringing up the rear (-6%).

A slew of stellar auction results throughout the year kept luxury investments firmly in the media spotlight. Even furniture scored a new high when a Marc Newson Lockheed Lounge sofa was sold in April for £2.4m ($3.7m) by Phillips.

A Hong Kong-based billionaire set an all-time record for a gem or piece of jewellery when he bid $48.4m for the Blue Moon, a rare fancy vivid blue diamond auctioned by Sotheby’s Geneva in November. The day before, he paid $28.5m for a vivid pink diamond sold by Christie’s.

Despite this, Dietrich Hatlapa, of analyst HAGI, says growth is slowing and considerably lower than for the 12 months to September 2014, when the HAGI Top Index zoomed up by 28%. Mr Hatlapa says the collector market is reacting to a downturn in global liquidity and potential interest rate rises.

Contemporary and modern artists have performed particularly strongly this year, with Picasso’s Women of Algiers setting an all-time auction high of $179m with Christie’s in May. Many other artists, including Modigliani ($170m) and Twombly ($70.5m), also scored personal bests.

Wine also had a good year with the Knight Frank Fine Wine Icons Index up 5%. Many of the investment-grade Bordeaux wines have now started to recover from the slump induced by the sharp drop in Chinese demand, says Nick Martin of Wine Owners, which compiles the index.

A selection of some of the luxury collectables that set new records or were the top sales of the year when they went under the hammer during 2015

1 – Picasso: Women of Algiers
   Sold by Christie’s, May 2015
   $179,300,000

2 – Lockheed Lounge, Marc Newson
   Sold by Phillips, April 2015
   $3,700,400

3 – Jaguar C-Type Works Lightweight
   Sold by Sotheby’s, August 2015
   $13,200,000

4 – Patek Philippe Doctor’s Chronograph
   Sold by Phillips, May 2015
   $1,067,583

5 – The 12-carat Blue Moon of Josephine
   Sold by Sotheby’s, November 2015
   $48,400,000

All data to Q4 2015

Sources: AMRD – Furniture, Chinese ceramics, jewellery, watches, stamps, coins, philately.
        Stanley Gibbons – Stamps, Coins.
        HAGI – Classic cars.
        Fancy Color Research Foundation – Coloured diamonds.

Opposite: Patek Phillippe source image courtesy of Christopher Beccan

Source Hagerty
To a valuation worth over 5x the sale price at least one example of model

STAND OUT AUCTION SALES
The index is based on the proportion of UHNWIs from each of the principal geographic regions who own at least one of the following luxury assets – yachts, private jets, collectables (fine wine, antiques, art, jewellery and watches) – and a luxury automobile worth more than $100,000.

This allows us to compare the likelihood of an UHNWI from a particular region owning a luxury asset against the global average. The overall index is equally weighted across the four asset classes. In a world where many UHNWIs are cash rich yet time poor, yachting continues to provide the ultimate sanctuary for privacy and an opportunity to spend quality time with family and friends.

Currently, North American UHNWIs are the most likely to own a private jet, with ownership levels 2.0x and 1.59x above the global average. UHNWIs in Africa and Latin America are below the global average for yacht ownership, while the number of UHNWIs with a luxury automobile is 1.55x the global average. Although wealth in Africa is extremely concentrated in certain countries, we see growing potential for luxury brands/brands including high-end auto marques. As individuals in emerging markets become wealthier, we expect to see the numbers of collectors increase. Not only do collectables represent a safe asset investment, they are a way of illustrating status and a sense of having ‘arrived’. Last year, the world’s top 200 art collectors came from 36 countries, compared with 17 in 1990. Many of these were emerging markets such as China and Brazil (Art News).

In order to navigate the intricacies of doing business in emerging markets such as Africa, brands will have to re-calibrate their product offerings. We have seen more top-end marques such as Bentley release off-road models more suited to rougher roads. Appealing to a rapidly growing and youthful population heavily influenced by the strength of the continent’s online community is also key for luxury marketers to get right.
An investment of two halves

Football team ownership is not just a passion play

James Powell, Head of Sports Group, Cantor Fitzgerald

While the playgrounds of the super-rich are ever-changing, a new generation of young, extremely wealthy entrepreneurs and business people are looking for new ways to invest their money. One area to have seen a huge leap in interest from investors is sport, particularly football. At the top end of the profile scale is the Russian billionaire Roman Abramovich, who became the owner of Chelsea FC in 2003. Since then there has been a growing list of investors with an interest in football clubs, from Sheikh Mansour, the owner of Manchester City, to Les Stacking, a lottery winner and now the owner of Newport County AFC.

What are these owners looking for? Not everyone who buys a club is a fan nor do they own the club as a status symbol. They may not even be viewing ownership as an opportunity to increase the target audience for another of their businesses. There is money to be made.

According to Deloitte’s annual Review of Football Finances, English Premier League (EPL) revenues rose 29% last year from £2.3bn to £3.3bn. Wages have increased by just 6%, far less than anyone expected.

In February 2015, the league sold television rights to its games for a record £5bn, 71% above the previous deal. It is projected that from the 2016-17 season, even the bottom club in the league can expect around £100m in central prize money each season (up from £62m now) and the highest earning club can expect around £135m (up from £97.5m).

Many assume that this growth cannot be sustained exponentially, but others believe that increased TV revenue is linked to the globalisation of football, and in that sense there is plenty more audience to capture and monetise.

In China and India, fewer than 10% of the population currently “really, really care about football.” The EPL earns just 2p in TV rights per Chinese person, compared with over £8 per Singaporean, according to the business website Sportingintelligence.com.

There are other key revenue streams, ticket sales, of course, being one. But you can buy a season ticket at Bayern Munich for the equivalent of £104 and Barcelona for £74, which is less than the cheapest available in the top four leagues in both England and Scotland.

So how have Barcelona and Bayern Munich become the second and fourth richest clubs in the world respectively, in spite of (relatively) cheap season tickets? There is another strand of revenue aside from broadcasting and match-day income: commercial revenue. These activities include shirt deals, stadium rights and major sponsorship deals on a regional or global level.

Bayern has the second largest kit deal in the world, a 15-year contract with Adidas worth £42.5m a year to the German club. However, even this pales in comparison to Manchester United’s deal, also with Adidas, worth £75m per year.

There are also other properties for sale: stadium naming rights, training kit deals, leisurewear partners; Manchester United even has an official global Noodle Partner. The list, the potential and therefore the income, is almost endless.

An indication of fast rising income and huge financial rewards is demonstrable through the increased interest of US private equity firms in the EPL. PEAK6, a Chicago-based vehicle, owns 35% of Bournemouth, while Josh Harris, the private equity executive, has acquired a controlling interest in Crystal Palace.

But if you are not a global brand like Manchester United, with companies queuing up to pay millions to partner with you, or an EPL club sharing the spotlight of a new mega TV deal, how do you make money from owning a football club?

You go back to that most basic of economics: buy low and sell high. Over the last decade, Porto, the Portuguese club, has made nearly £650m in player sales. They have also been champions in eight of the last 10 seasons and won the Champions League and Europa League. Real Sociedad has generated €62m in transfer fees since July 2012, from sales of academy graduates while Lille, chaired by businessman Michel Seydoux, has generated €76m since July 2012.

But many investors coming into football do not have a ready-made scouting network, so it is possible to find the potential big-money sales of the future another way?

One option is to crunch numbers – lots of them. Using thousands of data points it has been possible to create the Cantor Fitzgerald Player Valuation Model (in collaboration with Siocomics) that shows a player’s ‘intrinsic’ value and even puts a figure on just how much his on-pitch decisions increase his team’s chances of scoring.

The model can also show if it is better to spend big and ride high in a top-flight league or target a lower division club and win promotions.

Football is often seen as a game full of surprises, but what seems certain is the enduring appeal to fans. As a result, its ability to generate money will not change.
### Regional Wealth Distribution

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<td>200%</td>
<td>-4%</td>
<td>72%</td>
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<td>Latin America &amp; Caribbean</td>
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<td>10,455,000</td>
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<td>76%</td>
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### Country-Level Wealth Distribution

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<td>14,030,000</td>
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<td>23,080,000</td>
<td>200%</td>
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<td>80%</td>
<td>-5%</td>
<td>39%</td>
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<td>India</td>
<td>1,500,000</td>
<td>2,750,000</td>
<td>2,700,000</td>
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<td>-5%</td>
<td>39%</td>
</tr>
<tr>
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<td>2,750,000</td>
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<td>-5%</td>
<td>39%</td>
</tr>
<tr>
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<td>-5%</td>
<td>39%</td>
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<tr>
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<td>4,150,000</td>
<td>80%</td>
<td>-5%</td>
<td>39%</td>
</tr>
<tr>
<td>Russia and CIS</td>
<td>1,500,000</td>
<td>2,750,000</td>
<td>2,700,000</td>
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<td>80%</td>
<td>-5%</td>
<td>39%</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>1,500,000</td>
<td>2,750,000</td>
<td>2,700,000</td>
<td>4,150,000</td>
<td>80%</td>
<td>-5%</td>
<td>39%</td>
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</table>

### Notes

- Each wealth band includes the number of individuals in subsequent bands (e.g., millionaires include multi-millionaires, UHNWIs, etc.). 2015 figures are provisional.
- Country excluded due to instability: Tunisia, Libya, Zimbabwe, Sudan, Ukraine, Greece, Iraq, Syria, Source: New World Wealth Report.
## CITY LEVEL CHANGE (LISTED BY COUNTRY)

<table>
<thead>
<tr>
<th>City</th>
<th>Country</th>
<th>Region</th>
<th>Millionaires</th>
<th>Multi-millionaires</th>
<th>UHNWIs ($30m+)</th>
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<tbody>
<tr>
<td>Algiers</td>
<td>Algeria</td>
<td>Africa</td>
<td>2,000</td>
<td>200</td>
<td>10%</td>
</tr>
<tr>
<td>Luanda</td>
<td>Angola</td>
<td>Africa</td>
<td>6,300</td>
<td>500</td>
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</tr>
<tr>
<td>Buenos Aires</td>
<td>Argentina</td>
<td>Latin America</td>
<td>14,000</td>
<td>900</td>
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<tr>
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<td>Australia</td>
<td>Australia</td>
<td>95,000</td>
<td>3,200</td>
<td>40%</td>
</tr>
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<td>Australia</td>
<td>68,000</td>
<td>1,600</td>
<td>30%</td>
</tr>
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<tr>
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<tr>
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<td>Africa</td>
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<td>16%</td>
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<td>Africa</td>
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<td>32</td>
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<tr>
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<td>Chile</td>
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<td>Jakarta</td>
<td>Indonesia</td>
<td>Asia</td>
<td>6,000</td>
<td>390</td>
<td>40%</td>
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</table>

Source: New World Wealth
### Attitudes Survey results in conjunction with Wealth-X

#### INVESTMENT TRENDS

<table>
<thead>
<tr>
<th>Breakdown of UHNWI wealth portfolio allocations</th>
<th>Africa</th>
<th>Asia</th>
<th>Australasia</th>
<th>Europe</th>
<th>Latin America</th>
<th>Middle East</th>
<th>North America</th>
<th>Russia &amp; CIS</th>
<th>Global average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Precious metals (gold etc)</td>
<td>6%</td>
<td>21%</td>
<td>12%</td>
<td>9%</td>
<td>13%</td>
<td>12%</td>
<td>21%</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Personal businesses</td>
<td>35%</td>
<td>36%</td>
<td>21%</td>
<td>29%</td>
<td>38%</td>
<td>53%</td>
<td>42%</td>
<td>30%</td>
<td>36%</td>
</tr>
<tr>
<td>Cash</td>
<td>24%</td>
<td>51%</td>
<td>63%</td>
<td>41%</td>
<td>13%</td>
<td>38%</td>
<td>42%</td>
<td>60%</td>
<td>42%</td>
</tr>
<tr>
<td>Real estate investments</td>
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<td>37%</td>
<td>42%</td>
<td>64%</td>
<td>38%</td>
<td>53%</td>
<td>37%</td>
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<td>53%</td>
<td>21%</td>
<td>30%</td>
<td>36%</td>
</tr>
<tr>
<td>Jewellery and precious metals</td>
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<td>49%</td>
<td>32%</td>
<td>30%</td>
<td>13%</td>
<td>47%</td>
<td>16%</td>
<td>30%</td>
<td>30%</td>
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<tr>
<td>Primary residence and second homes</td>
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<td>52%</td>
<td>58%</td>
<td>59%</td>
<td>38%</td>
<td>59%</td>
<td>47%</td>
<td>50%</td>
<td>54%</td>
</tr>
<tr>
<td>Cars and bikes</td>
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<td>42%</td>
<td>44%</td>
<td>63%</td>
<td>38%</td>
<td>37%</td>
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<td>Fine art and antiques</td>
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<td>62%</td>
<td>79%</td>
<td>75%</td>
<td>75%</td>
<td>47%</td>
<td>95%</td>
<td>80%</td>
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<td>68%</td>
<td>100%</td>
<td>61%</td>
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<td>65%</td>
<td>68%</td>
<td>80%</td>
<td>70%</td>
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<td>19%</td>
<td>11%</td>
<td>14%</td>
<td>16%</td>
<td>7%</td>
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<td>Personal businesses</td>
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<tr>
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<td>36%</td>
<td>21%</td>
<td>37%</td>
<td>19%</td>
<td>28%</td>
</tr>
<tr>
<td>Collectibles (art, wine, classic cars etc)</td>
<td>4%</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
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<td>6%</td>
<td>3%</td>
<td>0%</td>
<td>4%</td>
<td>13%</td>
<td>0%</td>
<td>5%</td>
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<tr>
<td>Potential change in popularity of asset class over next 10 years</td>
<td>% of respondents who said allocation was likely to increase</td>
<td></td>
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<td></td>
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<td>Breakdown of UHNWI wealth portfolio allocations</td>
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<td>Asia</td>
<td>Australasia</td>
<td>Europe</td>
<td>Latin America</td>
<td>Middle East</td>
<td>North America</td>
<td>Russia &amp; CIS</td>
<td>Global average</td>
</tr>
<tr>
<td>Precious metals (gold etc)</td>
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<td>17%</td>
<td>21%</td>
<td>10%</td>
<td>0%</td>
<td>18%</td>
<td>16%</td>
<td>10%</td>
<td>14%</td>
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<td>59%</td>
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<td>14%</td>
<td>16%</td>
<td>7%</td>
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<td>19%</td>
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<tr>
<td>Collectibles (art, wine, classic cars etc)</td>
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<td>2%</td>
<td>3%</td>
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<td>Better returns</td>
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<td>Precious metals (gold etc)</td>
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<tr>
<td>Most common collectibles investments for UHNWIs</td>
<td>% of respondents who said their clients collected asset</td>
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<tr>
<td>Fine art and antiques</td>
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<tr>
<td>Cars and bikes</td>
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<td>Watches and precious metals</td>
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<td>Collectible investments that will become more popular with UHNWIs over the next 10 years</td>
<td>% of respondents who selected asset</td>
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<td>Stamps and coins</td>
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Investment trends will increasingly be driven by tax and policy

Liam Bailey
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+44 20 7861 5133

In the first edition of The Wealth Report, published in 2007, we highlighted the growing divergence between the fortunes of the very wealthy and everybody else.

The phenomenon, with the rich becoming ever richer, was awarded the moniker ‘plutonomy’ by Citi. In line with the plutonomy investment thesis, investing in goods and services favoured by the wealthy would lead to investment outperformance.

In the case of property at least, this strategy has largely been proved successful. Over the past decade, prices in prime markets have been pushed higher by low interest rates. But it has been the weight of money from wealthy investors looking to secure assets in leading world economic hubs that has propelled markets to record levels.

With mixed policy responses from the US, Europe and Japan, it is too early to claim that the era of low rates is firmly at an end.

However, it is, at the very least, likely that 2016 will see the beginning of an unwinding of the impact of the low cost of debt.

Irrespective of what happens to interest rates during 2016, policy pressure will continue to build on prime property markets. As we note on page 32, there is increased attention being paid by governments on the impact rising investor demand for residential property is having on affordability in key urban markets.

Higher taxes, curbs on foreign investment and loan caps will continue to spread globally. At the same time investors will continue to demand prime assets, not at any price, but the desire for safe-haven investments in an increasingly volatile economic environment will only grow. As rising demand meets policy barriers, the spread of locations considered by investors will widen.

On page 44 we point to markets where investors have the potential to see out-performance in the near-term. The pressure from investors for stronger income returns in the face of rising rates will see a growing focus on regional residential markets, alternative sectors – like retirement and student housing – and new neighbourhoods close to existing prime markets.

Policy pressure will increasingly inform investment activity.