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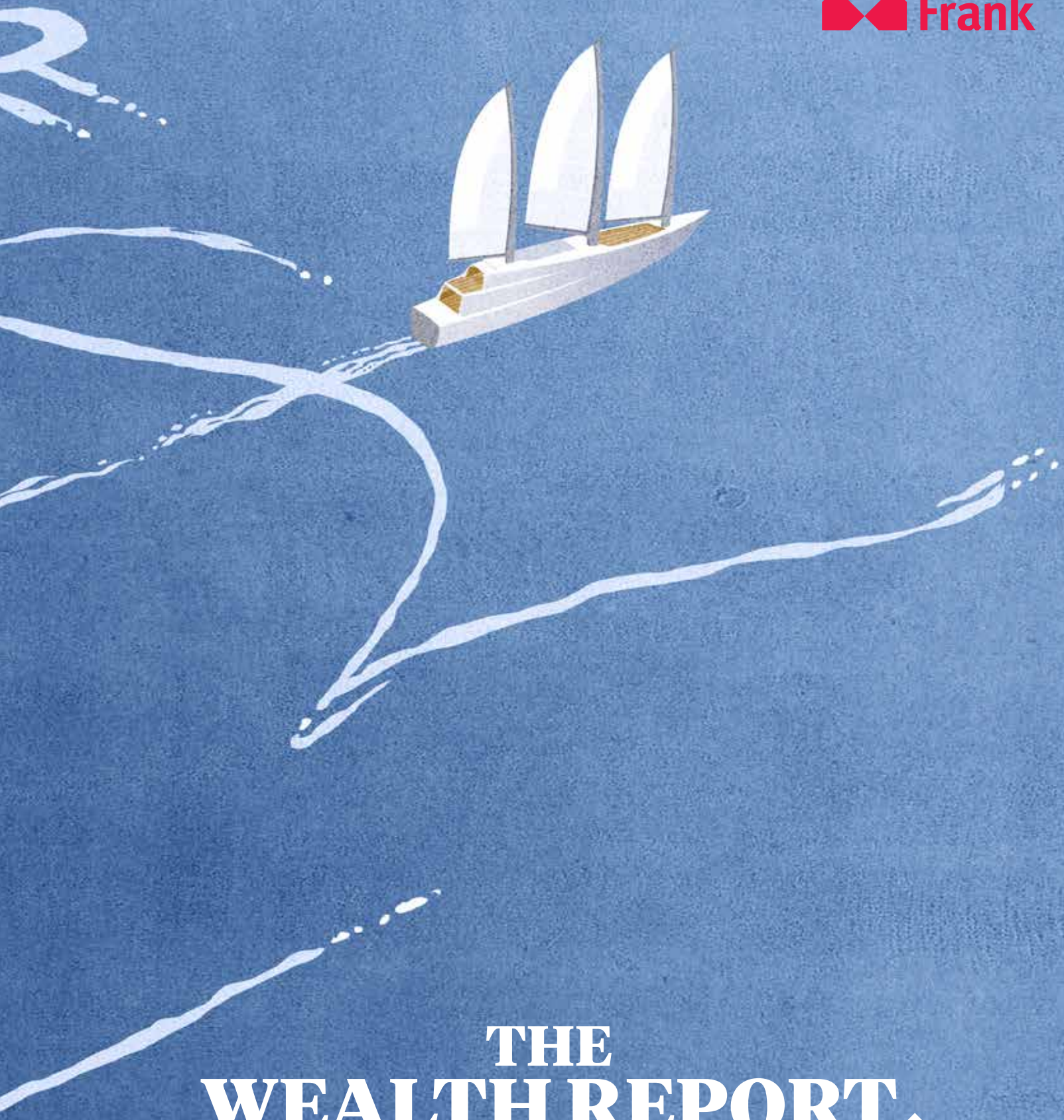

THE WEALTH REPORT.

6-MONTH UPDATE MIDDLE EAST

THE GLOBAL PERSPECTIVE ON PRIME PROPERTY AND INVESTMENT

The Wealth Report 2018

6-month Update Middle East

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Definitions

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

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

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

From the editor

Andrew Shirley introduces the first in our series of updates to The Wealth Report, capturing the latest intelligence and insights into global wealth trends

A year is a long time in global wealth trends and, following feedback from our readers, we discovered that not all of you want to wait until next spring to get your fix of *The Wealth Report*'s unique blend of insight and analysis.

So I'm delighted to present the first in a series of updates to *The Wealth Report*, which we'll be publishing at regular intervals. The package may be more compact, but it's nevertheless bursting at the seams with all the things that you love about the annual report.

We've got an interview with one of our regular contributors, leading geo-political risk analyst Ian Bremmer (page 3). Ian talks about his new book *Us vs. Them: The Failure of Globalism*, his most personal – and arguably most worrying – work yet.

There's also an update on the state of the world's luxury residential markets from Kate Everett-Allen, our international research guru (page 10). She reports that, while global price growth continues to slow overall, certain cities – including Tokyo, Madrid and Los Angeles – are bucking the trend.

For those interested in global property investment opportunities we look at the potential of the logistics sector in Asia-Pacific (page 13). As the region's online retail segment booms, this looks like a trend that is set to run and run.

A key part of *The Wealth Report* is our Attitudes Survey, based on responses from private bankers and wealth advisers around the world. As ever, education is incredibly important to UHNWIs, with the number of children being sent overseas for their schooling increasing year on year, according to the survey. Liam Bailey, our Global Head of Research, decided to take a deeper dive, working with a leading education consultant to analyse the growing demand for UK public schools from overseas (page 8).

Still focusing on global UHNWIs, Gráinne Gilmore, our Head of UK Residential Research, takes a look at the distribution of the world's population of demi-billionaires – those with over US$500 million in net assets – and finds that Asia is still leading the way (page 4). Flora Harley also shares the latest numbers from the Bank for International Settlements (page 6). Where is money flowing around the world? Prepare to be surprised.

I hope you enjoy this bite-sized edition of *The Wealth Report*. Do let us know what you think.

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Vital signs

Liam Bailey takes the pulse of the world's leading super-prime residential markets

Of all the world's luxury housing markets, none is as globally connected as London, and the super-prime £10m+ market here provides a crucial bellwether for global property investment trends.

This market has faced significant pressures in recent years. These include growing political uncertainty, in part as a result of the Brexit vote and domestic electoral turmoil, but also, more critically, some sharp increases in taxation on high value properties. A decade ago, the purchase of a £10m house would have attracted a stamp duty charge of £400,000. Today, a similarly valued property would attract a charge of over £1.4m.

Unsurprisingly, these pressures have acted to slow the top of the London market. Prices have fallen by between 10% and 20% over the past three years, and for foreign purchasers the weaker pound means effective discounts for dollar or similarly denominated buyers are equivalent to 30% or more.

Now, this repricing in the super-prime market is beginning to filter through to improved activity. We have run the latest data, covering the period to the end of August, to assess the direction of the market.

Supply-side data points to an increase in choice for purchasers. Available stock has increased by over a quarter in the past 12 months, with the number of newly available properties increasing by more than 30% year-on-year over the most recent three-month period.

Demand-side data tells a more mixed story, with a year-on-year decline of just under a fifth in the number of prospective purchasers active in the market in the three months to the end of August. But while the number of purchasers may have fallen, those that remain in the market are more active. The number of property viewings was up by 10% over the same period.

While some of this increase in viewings can be attributed to the fact that purchasers feel able to take their time searching for properties and can view across the whole market, this activity is clearly translating into sales. Sales of properties worth £10m+ in the three months to the end of July were 28% higher than in the same period in 2017, according to the most recent data available. This was boosted by a remarkable rise in the number of £20m+ transactions, which more than doubled over the same period.

As to the question who is driving this increase in activity, the short answer is that buyers are as diverse as ever. But some themes do emerge from our data. Buyers from mainland China continue to grow in number, and their £10m+ market share has trebled to more than 8% over the past three years. Buyers from the Middle East have seen their market share rise from 11% to 17% over the same period, while Russian buyers have held steady, taking around 12% of all sales. One standout trend has been the strength of domestic demand, with British buyers taking 38% of all purchases: the highest level for five years.

It is highly unlikely that transactions will return to the level seen prior to the stamp duty reforms of 2014 and 2016. The cost of transactions has risen and, unless these changes are reversed, we have to expect market liquidity to be impacted for the long term. However, the fact that super-prime transactions have notably increased from their recent lows suggests that the repricing process the market has experienced will continue to boost activity. Moreover, the uncertainty engendered by the Brexit process does not appear to be having a significant dampening effect on the attractions of London's most expensive properties for local or global buyers.

For sale through Knight Frank

Super prime Demand is resurgent at the top end of the London market

Which way now?

A new book claims globalism has left us more more divided than ever. Andrew Shirley talks to the author, Ian Bremmer, to find out more

Ian Bremmer, a leading geo-political risk analyst and regular contributor to *The Wealth Report*, was pretty fired up at the London launch of his latest book, *Us vs. Them: The Failure of Globalism*, earlier this summer. He's always a passionate orator, but that night he seemed genuinely angry at the state of the world. Having read the book, I can see why. A strong proponent of a liberal global order with an outward-facing America leading by example, Ian is aghast at the rise of populist politicians who polarise society and pit citizens against one other. Such populism and its more undesirable consequences, he argues, are the backlash from those who feel they have been left behind by globalism. I caught up with him after the launch to find out more...

Illustration: Stanley Chow

I've read a good number of your books and this feels like the most personal and impassioned yet. Did it feel that way when you were writing it, and what made you put pen to paper?

Absolutely. What spurred me was the feeling that the people living in my own country, the United States, have never been as divided as they are now and, rather than addressing the causes of these divisions, most people keep focusing on the symptoms. I want to be part of a more constructive conversation, and that can't just mean running a consulting firm that advises the folks that go to Davos. *Us vs. Them* is my attempt to be a part of the solution.

The premise of the book is that globalism has failed, but the statistics you quote suggest that across the world it has actually helped more people than it has hurt. Isn't it the failure of Western governments to adapt to the inevitable changing of the world order that is the real problem?

Globalisation has been a great success. It has generated huge amounts of wealth, created the global middle class we know today, extended life expectancy and made literacy near universal. Globalism is different. It's a political ideology (and a largely Western one at that) that says open borders, free trade and US-led global security will be good for all citizens of advanced industrial democracies. That hasn't proven to be true at all – inequality of wealth and opportunity is the widest it's ever been. Western leaders took their eye off the ball and stopped taking care of their people. That definitely wasn't inevitable.

Even without globalism, wouldn't we have many of the problems blamed on it? You argue, for example, that increased automation has actually destroyed more jobs in Europe and North America than competition from cheap labour in developing economies.

Automation is a big challenge and exacerbates opposition to globalism, but it's a challenge to which governments can respond by improving the social safety net and moving towards universal lifetime training. Corporations can be part of the solution too, and we're already seeing some of them start to move in that direction.

The book is full of worrying statistics – I was shocked that only 57% of young Americans think it is important to live in a democratic country – but if you had to choose, which frightens you the most?

I'd pick that one too, because it suggests that a large percentage of Americans think their system is rigged against them. That means they think the American dream is dead. We have to fix this, and sooner rather than later.

What do you think the consequences will be if our politicians aren't capable of finding solutions to the issues you highlight in the book?

Far more walls – both real and virtual, and of the external and internal variety. Put another way, more structural inequality that allows for more dehumanisation of people. Think Israel/Palestine, coming to a theatre near you.

How optimistic are you that our politicians have the solutions to the issues you highlight in the book, if indeed they want to address them?

I'm not optimistic at all. Clearly, these people do not have the solutions. What that means is that the solutions will need to start as smaller-scale experiments from local governments, companies and individuals, and grow from there. There's certainly hope.

If not, what will the consequences be?

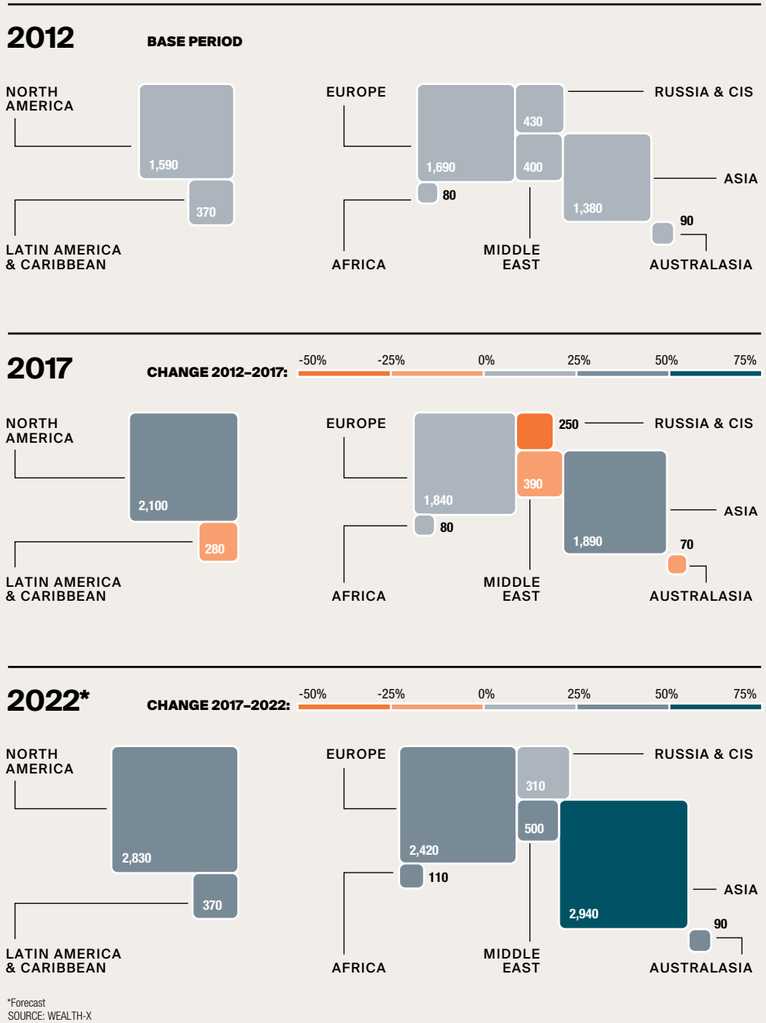
War. Revolution. Cats and dogs sleeping together. You name it. None of it is good, so let's start working on the solutions instead of fighting each other.

The long view

Gráinne Gilmore takes a closer look at the wealth distribution data from the 2018 edition of The Wealth Report

WEALTH SPOTLIGHT

Regional demi-billionaire populations



*Forecast
SOURCE: WEALTH-X

In four years' time, there will be more demi-billionaires in Asia than in North America. Wealth data specialist Wealth-X predicts that there will be almost 3,000 people based in Asia who have more than US$500 million in assets by 2022, echoing one of the key themes from *The Wealth Report* – the increasing power of Asia as a wealth hub.

Strong global economic growth as well as rising asset prices will boost the number of demi-billionaires worldwide to 9,570 in 2022, up from 6,900 at the end of 2017. But, despite Asia's growth, the US will remain the country with the biggest overall population of demi-billionaires, expected to rise from 1,830 to nearly 2,500 by 2022. In China, the number will climb from 490 to 990, Wealth-X predicts.

In the 2017 and 2018 editions of *The Wealth Report*, risk analyst Ian Bremmer and historian Professor Niall Ferguson both highlighted the global economic and geopolitical developments that could pose a risk to growth and stability, not least greater protectionism, the role of technology in promoting political division and rising levels of debt.

The path so far in 2018 has not been smooth, with increasingly tense discussions on trade between the US and China, political uncertainty in the UK and some parts of the EU and interest rates either already rising or set to do so.

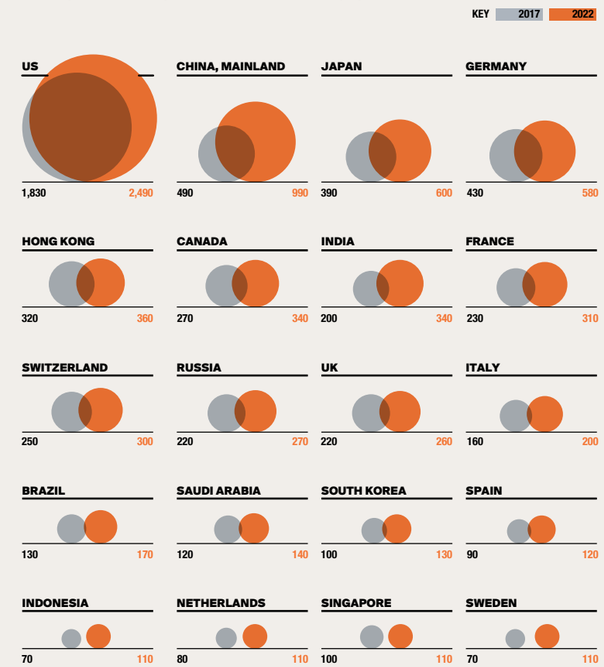
Nevertheless, the global economy continues to grow strongly, with the IMF forecasting 3.9% growth this year and next, up from 3.8% in 2017 and 3.2% in 2016. The Economist Intelligence Unit summed up the situation in a recent report: "There has arguably never been a greater disconnect between the apparent strength of the global economy and the magnitude of geopolitical, financial and operational risks that organisations are facing."

Certainly many stock markets are performing strongly. While there was a turbulent start to the year in the UK and Europe, markets have now regained the highs seen at the end of 2017. In the US, the stock market continues its bull run. So what does all this mean for UHNWIs?

"There has been a stabilisation in the growth of ultra-wealthy individuals," says Winston Chesterfield, Director of Custom Research at Wealth-X. "Market volatility has decreased, and the equity and bond performance seen in 2017 has created a sense of confidence. This has augmented the trend towards more entrepreneurial spending among the ultra-wealthy, especially in emerging economies.

"It is too early to say how UHNWIs will react to the political events of 2018 so far – but our data show that they tend to take a longer view. The vast majority of UHNWIs are entrepreneurs and, as such, have dealt with adverse business conditions before. As a result, they are prepared to take a more balanced view in periods of uncertainty or ambiguity."

Country and territory-level demi-billionaire populations



SOURCE: WEALTH-X

UNEASY RIDER

Knight Frank's Chief Economist James Roberts looks at the impact of Donald Trump's tariff increases

June 2018 saw the aftershocks of President Trump's increase in steel and aluminium tariffs reach the market for motorcycles. The EU responded to the increase by raising duties on the goods of famous American brands, including Harley-Davidson. As a result, production of the iconic motorbikes destined for sale in Europe will move to Thailand.

This prompts the question: do trade wars bring jobs home, or send them abroad? After all, most property investors want their assets located in places that are drawing wealth in.

Ironically, Harley-Davidson is a past beneficiary of US tariffs. The Reagan administration in 1983 sharply increased tax on imported heavy motorcycles for five years in order to support America's only producer, which was facing intense foreign competition in a saturated domestic market.

The Trump administration would probably argue that it wants to help US steel and aluminium producers in the same way. However, some commentators attribute Harley-Davidson's 1980s revival to a wider turnaround programme, with the tariff increase just one of several factors.

Tariff increases are a zero-sum game. Retaliation inevitably follows, with the risk that the loss of exports might outweigh the reduction in imports. Harley-Davidson was able to use the breathing space created by the tariff to modernise factories, increase efficiency and improve its products. This suggests that tariffs can, at best, buy time for companies to help themselves.

This raises uncomfortable questions for protectionists, as increased efficiency in manufacturing often involves sourcing components and materials abroad. Another history lesson comes from the UK in the early 20th century. Here, plans to raise tariffs on foreign steel drew opposition from British ship builders and engineering firms, who pointed out the impossibility of remaining competitive against foreign rivals in the face of higher raw material costs.

When a country imposes a tariff, its own businesses and citizens are the ones who pay. Property investors will be looking to see where economic activity gravitates to, once the flurry of tariffs has been announced.

Money on the move

Flora Harley provides an update on the global capital movements driving property performance worldwide

One of the critical issues we consider each year in *The Wealth Report* is where money is coming from – and where it's going to. These movements help to drive both residential and commercial property market performance globally.

Using data collected by the Bank for International Settlements (BIS), we are able to offer a unique overview of money flows. The Common Reporting Standard (CRS) and, more broadly, the global drive towards greater transparency may influence their timing and direction.

In the 2018 edition of *The Wealth Report*, we provided an analysis of BIS data on the level of deposits from individuals, corporates and governments by location of origin. The number of locations that report to the BIS on an aggregate level has risen to 31, while those reporting on a location-by-location basis has risen to 29, helping to provide a more comprehensive overview.

The level of deposits held overseas around the world is increasing. The total level of cross-border deposits reported at December 2017 was US$6.4 trillion, US$632 billion higher than was reported in December 2016.

Despite the rise in political uncertainty and unknowns surrounding Brexit, the UK saw the largest inflow of overseas deposits by some margin. The level of deposits reported rose to US$1.8 trillion in December 2017, a currency-adjusted annual net inflow of US$239 billion.

The second most popular destination was France, with an annual adjusted net inflow of US$89 billion. This influx could be partly attributed to the popularity of Macron's government at the end of 2017, restoring faith in the French economy. Taiwan maintained its position, coming in third with an annual net inflow of US$12 billion, a fact that can be attributed at least in part to its being outside the remit of the CRS.

The country that saw the largest increase of deposits held outside its borders was the US. Over the course of 2017, it was the largest origin for deposit outflows, depositing an additional US$220 billion across the reporting locations. The most popular destinations for these funds were the UK, France and Canada. Hong Kong was also a significant source of funds, adding US$40 billion to the deposits held in other reporting locations over 2017, the biggest recipients being the UK, Macau and the US.

Sky high 101 Taipei in Taiwan, a top three destination for overseas deposits

CLEAR THINKING

An update on the latest transparency initiatives

The drive for transparency is increasing, led by tighter rules being implemented by the OECD through its CRS initiative as well as by the UK government. The OECD has recently reported that these new measures have now led to an estimated US$85 billion of additional tax revenue in recent years.

In March 2018, following a consultation, the OECD issued new model disclosure rules. These new rules require lawyers, accountants, financial advisers, banks and other service providers to inform tax authorities of any schemes they put in place for their clients to avoid CRS reporting or prevent the identification of the beneficial owners of entities or trusts.

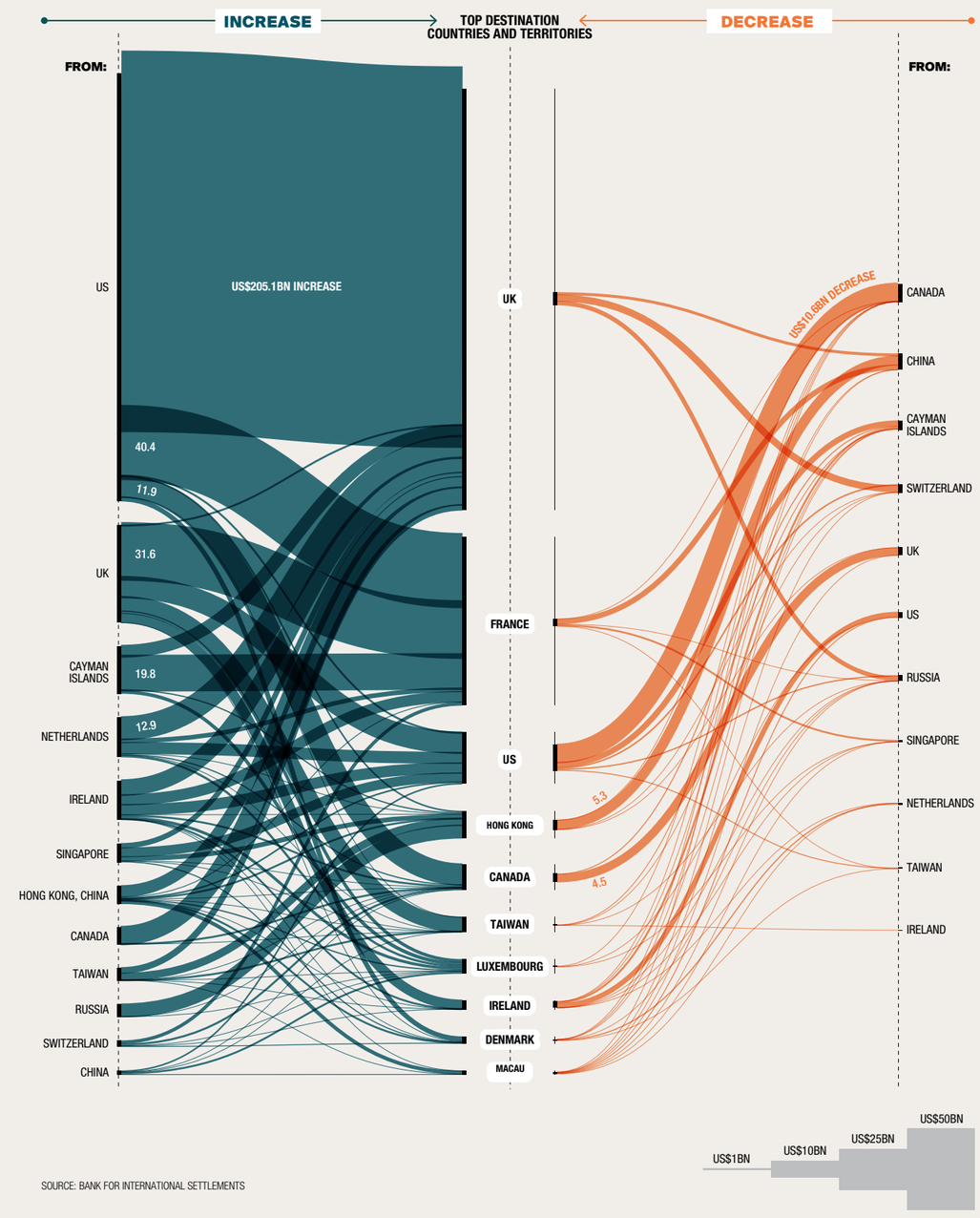
In addition, the OECD has begun investigating the use of citizenship and residency by investment schemes as a means of circumventing reporting requirements. A consultation on potential misuse was launched in February this year. The outcome of the consultation has yet to be released.

When it comes to individual country efforts at transparency, the UK is leading the way. The UK government announced the implementation of a register of the ultimate beneficial owners (UBOs) of overseas companies holding property, to take effect by 2021. This may lead to increased consideration of how to structure investments.

The UK government has also approved radical measures that will see the implementation of a register of UBOs in UK overseas territories, a move that has prompted accusations that the government is damaging the economic interests of these territories.

CASH FLOW

Change in bank deposits, annualised, Q4 2017 (US$bn)



SOURCE: BANK FOR INTERNATIONAL SETTLEMENTS

THE WEALTH REPORT

Centres of excellence

Liam Bailey explores why British schools and universities continue to exert a pull on families from all over the world

One of the biggest drivers for prime residential markets globally is the demand for international education. Knight Frank estimates that a total of £2 billion each year is invested in London's prime housing market by parents looking to secure accommodation while their children are at school in the capital.

To understand the drivers for this trend in more detail, we teamed up with London-based education specialists Keystone Tutors to find out why so many international families decide to choose a UK school. During the summer of 2018, Keystone Tutors surveyed over 130 education consultants, head teachers, heads of admissions, private client advisers and relocation agents to collate data on global trends regarding independent education in the UK.

The countries with the greatest numbers of children represented among the institutions taking part in the survey were Hong Kong, mainland China and Russia. The most popular age for wealthy parents to choose to send their children to study in the UK is 16, or sixth-form age, followed by 13, the age at which many enter secondary school. Those aged under 11 form a smaller, yet still significant, cohort.

The three greatest motivations for clients sending their children to school in the UK were: quality of education (87% of all respondents); prestige of school name – including perceived future employment prospects (67%); and to improve their children's chances of securing a place at Oxbridge or other top UK universities (62%). Other motivations included property investment and quality of life, as well as the higher cost of school fees in other countries.

Similarly, the most frequently cited reasons for selecting a university in the UK were prestige of university name and quality of education offered (each 80%), followed by quality of culture and lifestyle (44%).

Besides the UK, the most popular choices of countries to send children to for school were the US (mentioned as an option by 68% of respondents), Canada (29%), and EU countries (29%). After these, non-EU countries such as Switzerland are popular choices. For university options, the US leads with 86% of respondents confirming it as an option, followed by the UK, with Canada next (35%), the rest of the EU (35%) and Australia (20%).

The vast majority of respondents (66%) believed that the UK's vote to leave the EU had had no impact on the attractiveness of the UK for education. The results showed that 61% of respondents felt their clients' appetite to consider UK education had not changed in the past 12 months, while 24% felt it had increased, and only 15% felt it had decreased.

Keystone Tutors' own work in this arena confirms that the greatest motivation for families to send their children to school in the UK remains quality of education and, in particular, the ability of prestigious British independent schools to cater to the entry requirements of universities in the UK and the US. The appeal of renowned British public schools in the UK itself remains strong despite the establishment of franchised versions around the world. This is largely thanks to the strong pastoral care and wide array of extra-curricular activities on offer.

Demand for an international education is also driven by the perceived benefit of being exposed to another country's language and people. This broadened global perspective incentivises wealthy parents to send their children overseas to develop language skills and build a global network.

The hope is that a high standard of academic teaching, the wide array of extra-curricular opportunities, and the development of an international cross-cultural perspective, will lead to better career prospects.

Hallowed turf Preparing for Oxbridge is a key reason overseas students come to UK schools

All change

Knight Frank's unique analysis of the world's top luxury residential markets highlights some emerging trends, says Kate Everett-Allen

Reach for the stars The Los Angeles property market leads the way in the US

In our analysis of the Prime International Residential Index (PIRI 100), published in *The Wealth Report* back in March, we noted the extent to which prime prices in European cities were strengthening, while Chinese cities were in general seeing moderate growth in luxury residential prices.

Six months on, a focus on 20 of the cities within the PIRI 100 finds these trends persisting – and some new ones emerging. As previously forecast, price growth is slowing at a global level. Across the 20 cities tracked, average prime prices rose by 6% in the year to December 2017; by June 2018, this figure had dipped to 4.2%.

With the cost of finance set to rise in a number of markets, more stringent cooling measures being imposed, and slower growth in China's first-tier cities, lower price growth will characterise the overall results of the Index for some time to come.

Inevitably, there are outliers. Singapore and Tokyo, for example, have seen a resurgence in growth. In Singapore, recovery is a consequence of rising foreign demand and high land bids by developers, which has fed through to new-build prices; in Tokyo, growth is linked to economic sentiment, the city's relative value compared with Hong Kong and Singapore, and investment ahead of the 2020 Olympic Games.

Madrid continues to fly the flag for Europe, with prime prices up 10.3% over a 12-month period. Berlin saw prices rise by 8.5%, and Paris, where domestic buyers, buoyed by an improved economy and cheap finance, are investing once more, saw prices accelerate 6%.

Beijing and Shanghai currently sit mid-table. China's decision to pare back its housing subsidy programme will have an impact on mass market sales in smaller cities, but we expect luxury price growth in first-tier cities to persist.

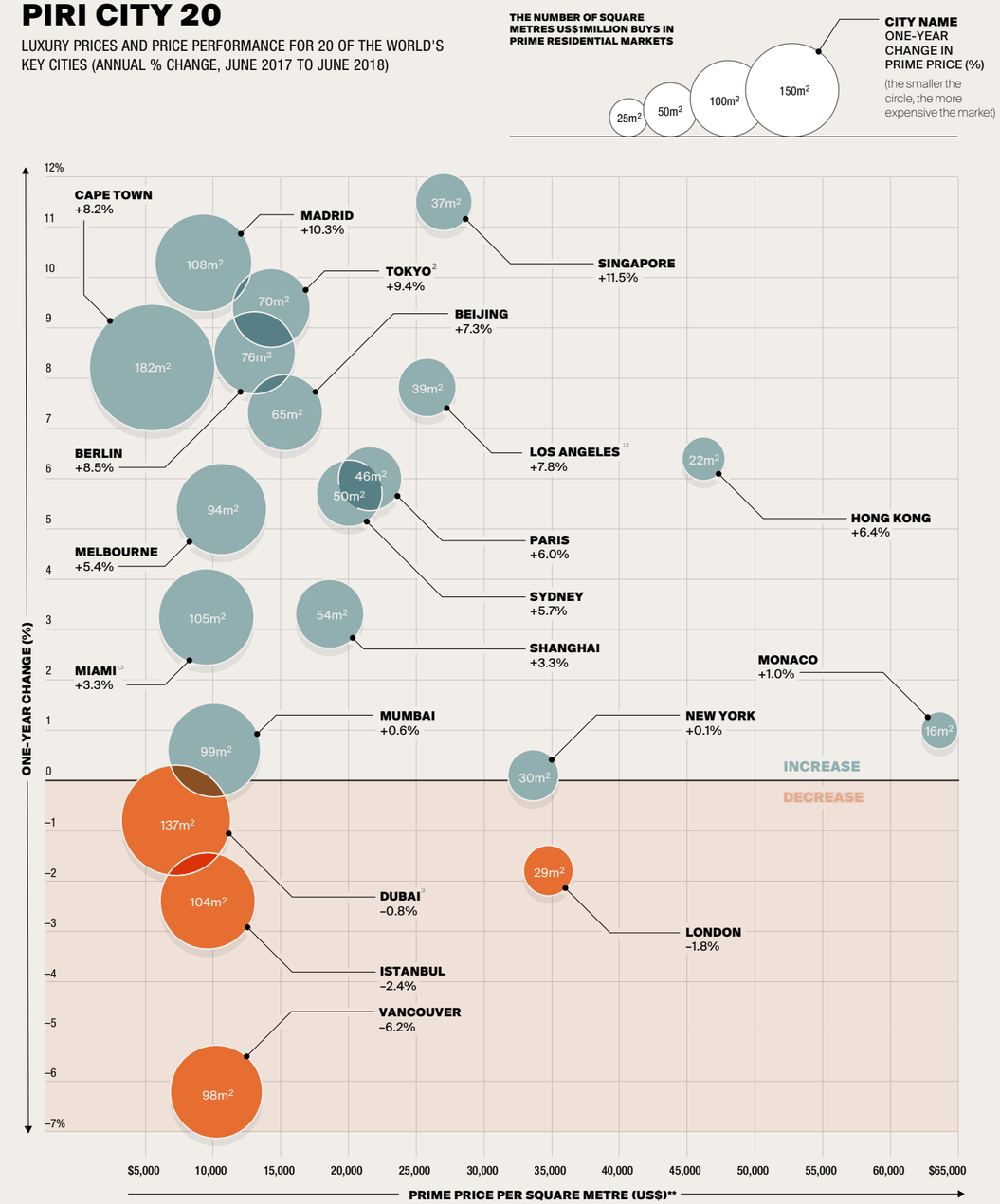
US cities registered positive growth in the year to June, reflecting the general health of the economy, with Los Angeles leading the pack at 7.8%. In some cities, inventory levels are still rising, and it is likely to be 2019 before the full impact of Donald Trump's State and Local Tax (SALT) reforms is known.

Property market regulations continue to determine the direction and volume of capital flows. Since our last update, Hong Kong, Singapore and Vancouver have all seen new macro-prudential measures introduced, from vacancy taxes to stamp duty hikes and tighter lending rules.

On the one hand, investors may rue the rise in property market regulations which, in many cases, will add to their bottom line in the form of purchase or disposal taxes. On the other, new regulations have heightened market transparency, enabling some purchasers to move into emerging markets with greater confidence.

PIRI CITY 20

LUXURY PRICES AND PRICE PERFORMANCE FOR 20 OF THE WORLD'S KEY CITIES (ANNUAL % CHANGE, JUNE 2017 TO JUNE 2018)



SOURCE: ALL DATA FROM KNIGHT FRANK'S GLOBAL NETWORK EXCEPT: TOKYO (KEN CORPORATION); NEW YORK (STREETEASY); LOS ANGELES AND MIAMI (S&P CORELOGIC CASE-SHILLER); BERLIN (IMMOBILIENSCOUT24); VANCOUVER (DEXTER ASSOCIATES REALTY, REAL ESTATE BOARD OF VANCOUVER). KNIGHT FRANK RESEARCH, DOUGLAS ELLIMAN/MILLER SAMUEL, KEN CORPORATION

NOTES: DATA FOR NEW YORK RELATE TO MANHATTAN AND TO MAY 2018; DATA FOR LOS ANGELES AND MIAMI ARE TO APRIL 2018. THE DATA FOR BERLIN RELATE TO THOSE PROPERTIES IN THE 95TH QUINTILE WHICH ARE LOCATED IN THE CENTRAL AREA OF BERLIN.
[1] BASED ON TOP-TIER OF MAINSTREAM MARKET IN METRO AREA. [2] BASED ON ALL CONTRACTS ABOVE ¥100M. [3] PROVISIONAL. AS AT Q2 2018. **CURRENCY CALCULATION AS AT 29 JUNE 2018.

Blockchain: is a revolution coming?

Could Blockchain accelerate plans for the tokenisation of real estate estate, a process that divides property ownership into tradable units? Two experts who expressed opposing views in The Wealth Report explain their position in more detail to Tom Bill

Abhimanyu Dayal founded Blockchain and real estate company Estatechain. He is Head of Strategy at Akropolis.io, a company that applies Blockchain technology in the pension fund market

Professor Andrew Baum of the Saïd Business School at the University of Oxford is the co-author of Global Property Investment: Strategies, Structures, Decisions and the 2017 report PropTech 3.0: The Future of Real Estate

Andrew Baum: I can see how tokenising real estate is appealing but there is a huge amount of ignorance around the subject. With Blockchain it feels like we are still in Alice in Wonderland territory, and it's fair to ask whether it will ever enter the real world.

Abhimanyu Dayal: I agree that there is ignorance – but, crucially, demand is growing. I have spoken to a number of large funds, and owning real estate tokens rather than whole buildings gives them added liquidity and greater flexibility in allocating capital, which they find very appealing.

AB: I see three ways this could play out. First, the tokenisation of property becomes widely adopted by investors. Second, it gains traction but only appeals to a smaller group of investors, with trading confined to a side market. Third, neither of the above happens, and the world stays much the same. I would note that all previous attempts to unitise real estate in a meaningful way have failed.

AD: What's different this time, though, is that the technology has advanced to a point where there is critical mass. Asset management has become more competitive since the global financial crisis, and the ability to cut costs is attractive. A pension fund may own a skyscraper in one city and want exposure to another city without having to buy a whole block. Blockchain creates a secure cross-border exchange that allows them to do that in a regulated way.

AB: I hate to pour cold water on idealism, but I am dubious about tokenising real estate for the simple reason that more liquidity means more volatility. There are forces of reaction and many investors are perfectly happy with a slow-moving, illiquid asset class like real estate. You are not forced to mark values to market and you don't get blown around during financial crises.

AD: Real estate investment is still relatively old-fashioned and tokenising real estate can allow investors to manage risk better. In the case of a hotel or shopping mall, investors may be seeking exposure to a certain site rather than to its management team. You would be exposed to both if you owned the company's shares. Plus, if things go wrong, there is always the security of owning real estate. Effectively, good real estate can act as a hedge against bad management, or the ups and downs of the wider stock market.

AB: It could possibly work as a side market, but not as something that overwhelms the main market. The trading of real estate tokens may ultimately end up becoming absorbed by the real estate investment trust market as the distinction between the two becomes less and less significant.

AD: There is also an appeal for emerging market investors. Take the case of a large international investment bank with an office in an emerging economy. An investor might prefer exposure to the fixed income stream of the bank as a tenant rather than the risk of holding the government bond of the country where the bank is located. Blockchain enables this more original approach to investing.

AB: I can see how things get more interesting in emerging markets, where there could potentially be less resistance. There are more risks around title, currency and political stability, and these new models could mitigate some of those in principle.

AD: There is more work to be done in order to change people's mindsets. Investors saw the bull run enjoyed by cryptocurrencies, and are interested in the fact there are tangible returns. Once they get comfortable with that, many go one step further. I'm getting lots of calls from funds who want to talk about tokenisation. Nobody wholly understands the technology yet, but at least people are asking the questions.

Take five

Nicholas Holt highlights five key trends behind the growth in Asia-Pacific's industrial and logistics market

Over the past five years, global investment into industrial and logistics property has doubled, reaching a total of US$126 billion in 2017. A sector traditionally prized for its stable income has recently seen dynamic capital growth, and logistics facilities now attract lower yields than retail property in some markets.

This evolution has been driven by exceptionally broad investor appetite for the sector, ranging from private equity vehicles and institutional funds to private individuals and families. Platform and portfolio transactions have become increasingly common among larger investors as they seek large-scale assets.

In Western markets, the rise in online shopping is one of the key drivers stimulating this apparently insatiable appetite, as retailer demand for modern distribution facilities continues to grow. In Europe, rental growth forecasts for the sector are healthy, as stock is scarce and demand high.

Asia-Pacific markets share these characteristics too. However, as these five key trends demonstrate, they face an arguably more diverse mix of investment drivers, encompassing global trade, manufacturing growth and new infrastructure opportunities.

1) China moves up the value chain

China's growth over the past 30 years has been largely based on its status as the workshop of the world. Today, however, the "Made in China 2025" initiative represents a concerted effort to move China up the value chain, with the ultimate aim being for China to compete globally in manufacturing innovative technologies. Modern logistics facilities and high-tech business parks are seeking more investment to upgrade existing sites and regenerate older brownfield sites.

2) E-commerce in South-East Asia

A fragmented market, lack of easy online payment methods and a strong shopping mall culture means e-commerce has not yet had the same powerful impact in South-East Asia that it has had in other regions. However, with both Alibaba and Tencent investing heavily in the region in recent months and the introduction of cross-border payment solutions, there is now significant scope for growth (see chart). And, as the retail market moves online, demand for modern logistics warehousing in close proximity to major urban centres and transport links will only increase further.

3) The Belt and Road Initiative

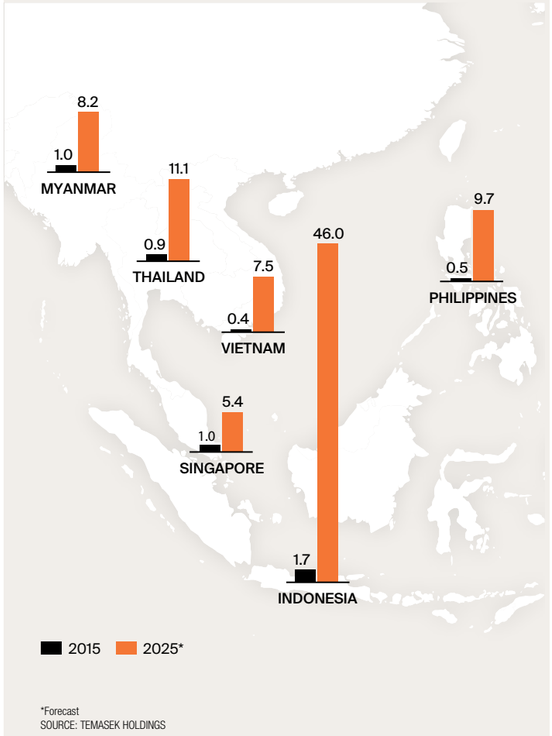
China's flagship Belt and Road Initiative is already having an impact on markets in the Eurasian region and has led to investment in transport links, power plants and economic zones to benefit Chinese contractors and destination markets.

While initial investment has been focused on infrastructure, it is likely to encourage low-cost manufacturing to move to South-East Asia and Africa, especially with new transport links providing significant opportunities in the logistics sector as supply chains are upgraded.

The sheer scale of the vision, coupled with varying levels of institutional effectiveness and market risks, means that progress is expected to be patchy, with staggered opportunities. However, Thailand, Malaysia and Cambodia are already seeing interest from Chinese and international manufacturers and real estate developers.

GOING UP

Retail e-commerce market volume in South-East Asia in 2015 and 2025, by country ($USbn)



*Forecast
SOURCE: TEMASEK HOLDINGS

4) Tax reform in India

In 2017, the largest tax reform in Indian history was rolled out – the Goods and Services Tax (GST). Prior to this, identical products were sold at different prices across state borders. Now, these price gaps have been closed, as the GST has replaced federal and state taxes, creating much greater uniformity and certainty in the Indian market.

This is already having a noticeable impact on supply chains. The removal of checkpoints has resulted in faster distribution of goods, which has led to reduced inventory holding levels and, in turn, amplified demand for warehouses by companies looking to leverage enhanced economies of scale. The knock-on effect has been an increase in warehouse consolidation and, with it, rising investor interest.

5) The US vs. China

Trade tensions between the US and China in 2018 have caused some businesses to review their strategies and reassess risk. Manufacturers who may face increased tariffs if the situation deteriorates could look at adjusting their supply chains, and many are already looking at contingencies. If the situation worsens, it could lead to businesses seeking to circumnavigate the potential tariffs by reshoring or outsourcing, which could impact Asia-Pacific economies.

Read more on global commercial trends in the latest Active Capital report knightfrank.com/activecapital

THE WEALTH REPORT

Art out in front

Andrew Shirley looks at the latest results of the Knight Frank Luxury Investment Index

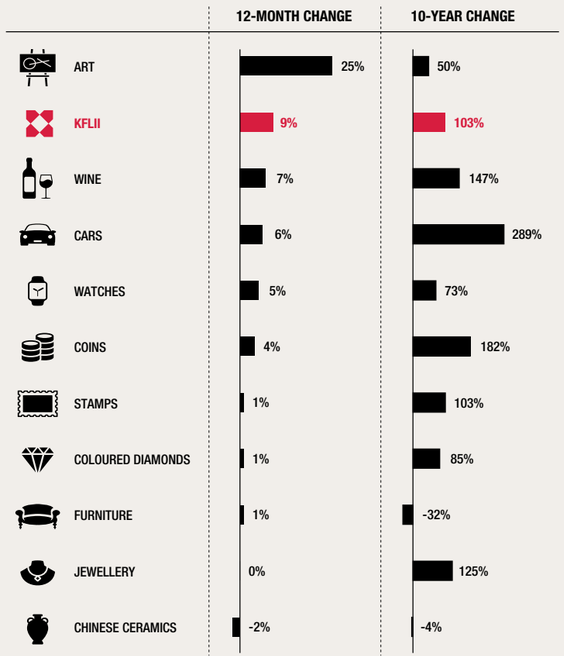
At the beginning of 2018, art had surged to the front of the Knight Frank Luxury Investment Index (KFLII), which tracks the performance of ten luxury asset classes. Six months on, it is holding its own, with annual growth of 25% to the end of June.

Given the US$450 million sale of Leonardo da Vinci's *Salvator Mundi* last year, it is unlikely that we will see a new record price for a painting any time soon. However, in May, Sotheby's did set a new company benchmark with an impressive US$157 million for Amedeo Modigliani's sumptuous *Nu couché (sur le côté gauche)*.

Delving beyond the 25% headline figure – based on analysis of auction prices by Art Market Research (AMR) – it's clear that not every genre is moving at the same pace. Contemporary art, for example, recorded a slight drop, while the market for Old Masters is making something of a comeback, with average prices rising by 24% over the past year.

OBJECTS OF DESIRE

The Knight Frank Luxury Investment Index (KFLII) by asset class*



*All data to Q2 2018 except stamps, coins, Chinese ceramics (Q4 2017)
SOURCES: ART MARKET RESEARCH, FANCY COLOR RESEARCH FOUNDATION, HAGI, STANLEY GIBBONS, WINE OWNERS

Image: Courtesy of RM Sotheby's

Record breakers top: Ferrari 250 GTO

"Since *Salvator Mundi* was confirmed as a lost masterpiece by Leonardo da Vinci, auction houses such as Christie's in London, Dorotheum in Austria, Pandolfini in Italy and Lempertz in Germany have been embracing unattributed Old Master paintings," explains AMR's Veronika Lukasova.

"Unattributed works that are connected with stellar name artists, for example, 'Follower of Canaletto', can regularly achieve higher prices than some firmly attributed works by lesser artists. The uptick is undoubtedly having a knock-on effect across the whole Old Master market."

Wine remains in second place in the rankings, with the Knight Frank Fine Wine Icons Index, compiled by Wine Owners, recording annual growth of 7%. "This year has been about consolidation," says Wine Owners' Nick Martin. "Some of the more expensive, older vintages are coming off their peaks, while others power ahead. Burgundy continues to defy gravity as it adds another 14% in the year to date, compared with Bordeaux first growths at less than 3% overall. Over three years, Burgundy has risen 85% compared with 45% for first growths."

Following a shaky start to 2018, classic cars have raced back to take third place in the KFLII. Annual growth at the end of Q2 2018 stood at a respectable 6%, according to the HAGI Top Index. However, HAGI's Dietrich Hatlapa cautions against assumptions that this presages the beginning of another classic car bull run. "The market is still very cautious," he says.

Really rare cars are still making good money, though. A Ferrari 250 GTO, sold privately recently, is reported to have made US$70 million, while RM Sotheby's set a record for the most expensive car to sell at auction when it sold another 250 GTO (pictured) for $US48.4 million at the recent Monterey sales.

> "Since Salvator Mundi was confirmed as a lost masterpiece by Leonardo da Vinci, auction houses such as Christie's in London, Dorotheum in Austria, Pandolfini in Italy and Lempertz in Germany have been embracing unattributed Old Master paintings"

Capturing Chinese wealth

Knight Frank's Private Wealth Intelligence Unit in Beijing reports on why property is still number one for Chinese investors

The last decade has seen a dramatic increase in the number of wealthy Chinese individuals. The number of people with US$50 million or more in investable assets has risen 96% in the five years since 2012, hitting 8,800 at the end of 2017. While the drivers behind the increase are closely related to China's huge economic growth, UHNWI attitudes are also evolving as the state of the Chinese economy, capital controls and other push factors shape the investment landscape. Here are four key factors that are influencing wealthy Chinese individuals in terms of their investment strategies.

1) Turbulence in the financial markets

The first half of 2018 has seen some turbulence in the Chinese financial markets, exacerbated by the ratcheting up of trade tensions with the US. Not only have there been significant bond defaults in the debt markets, but also weak equity markets and a number of bankruptcies, most notably in the P2P sector. The gentle stimulus measures recently introduced by policymakers will likely favour property investment.

2) Education and emigration

While many wealthy Chinese people invest overseas in parallel to other business interests, two key drivers include education and emigration. In higher education, the US, the UK and Australia are especially significant targets for Chinese students, with many parents looking at property investments in the cities where their children are studying. Emigration, similarly focused on Western markets, continues to be a major push factor for the purchase of overseas homes.

3) Varying levels of wealth and experience of other countries

While investors from each province and city have different preferences, broadly speaking the US, the UK and Australia still come top for education, lifestyle and emigration. First-time investors, as well as those with smaller budgets, tend to favour countries that are somewhat closer to China, including Thailand, Japan and Vietnam. After that, Chinese investors are increasingly considering a broader spectrum of destinations, with favoured countries including Dubai, European markets outside the UK, and New Zealand.

4) Capital controls

Despite significant appetite for overseas investment, capital controls continue to provide a challenge, with many successful purchases being funded by existing offshore capital. The difficulty of getting capital out of China is certainly bottlenecking many potential investments and, while in the medium term controls are likely to be relaxed, for the time being the obstacles remain.

On the rise Shanghai, China, where levels of private wealth are reaching new heights

Knight Frank's Private Wealth Intelligence Unit in Beijing has comprehensive knowledge and contacts with many of China's wealthiest individuals, servicing their global property needs.

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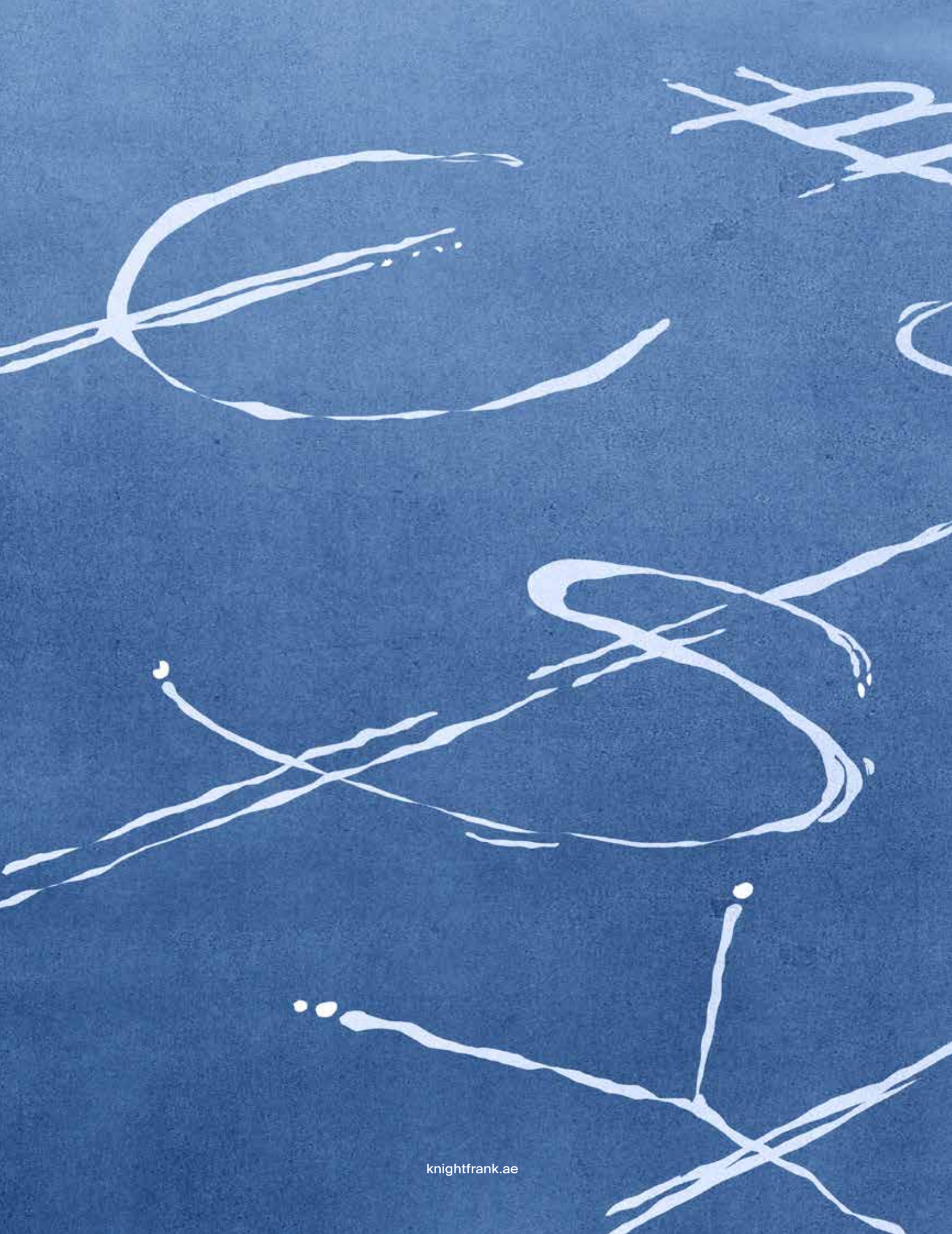

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