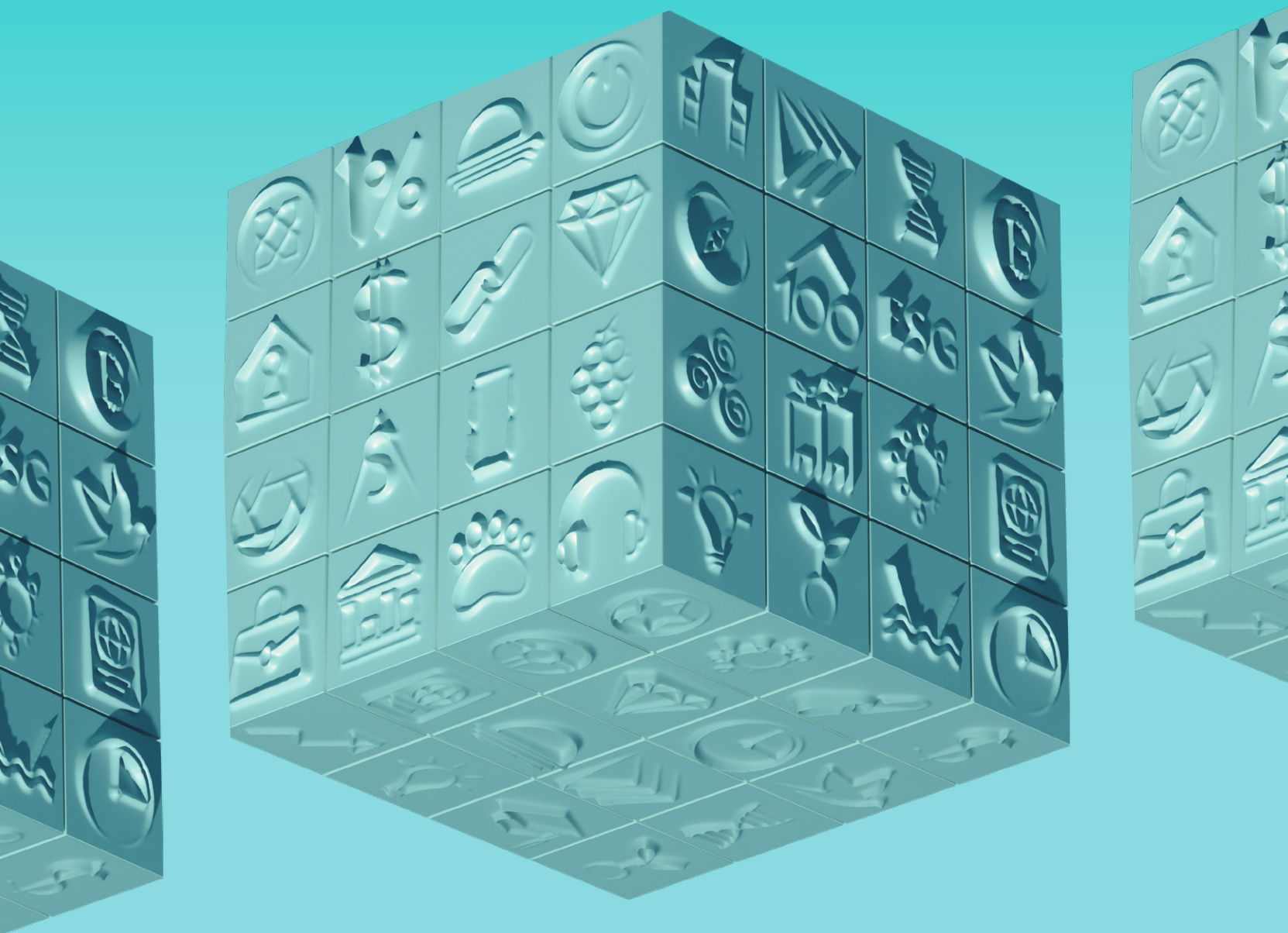


THE WEALTH REPORT

IMPLICATIONS FOR
COMMERCIAL REAL ESTATE



Introduction

For 15 years, The Wealth Report has documented the rise of private investors and their attitudes towards investing in real estate. Over this time, interest in commercial assets has grown substantially. Our latest global Attitudes Survey results show that private investors have, on average, allocated 21% of their portfolios to investment property and that they intend this figure to rise throughout 2021.

Whether directly or indirectly, private investors accounted for 32% of the \$720bn spent on commercial real estate globally in 2020. Acquisitions have grown in scale and strategies have become ever more sophisticated, providing real competition to institutional investors, property companies and REITs. Appreciating the significance and implications of this growing source of capital is vital to anyone seeking to understand future trends in global real estate investment.

The Wealth Report

The Wealth Report is Knight Frank's flagship annual publication, offering a unique perspective on global wealth, prime property and investment. Now in its 15th edition, this year's Report provides a detailed analysis on how Covid-19 has impacted economic performance, wealth creation and asset classes around the globe, as well as our forecast for commercial and residential real estate the world over.



Meet the authors

The contributors to
*The Wealth Report : Implications
for Commercial Real Estate*



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Private wealth RESILIENCE AND GROWTH

The number of UHNWIs grew despite the pandemic

Knight Frank's Wealth Sizing Model reveals that, globally, the number of UHNWIs (ultra-high net-worth individuals) grew by 2.4% in 2020 to more than 520,000. While this was roughly one-third the rate of growth seen in 2019, it is a far stronger expansion than we would have predicted in the first half of the year, given the impact of Covid-19.

The model's results reflect the views of the respondents (leading private bankers and wealth advisors) to our latest Attitudes Survey, undertaken during Q4 2020.

Half said their clients' wealth had increased in the last year. Those with North American clients were the most optimistic, with 73% citing an increase and a further 23% seeing stability. The region's UHNWI population now sits at 190,085, almost 4% higher than at the end of 2019. The regions which were seemingly able to control the virus the best, Asia and Australasia, were the strongest performers with growth of 12% and 10% respectively.

Three key drivers of rising wealth

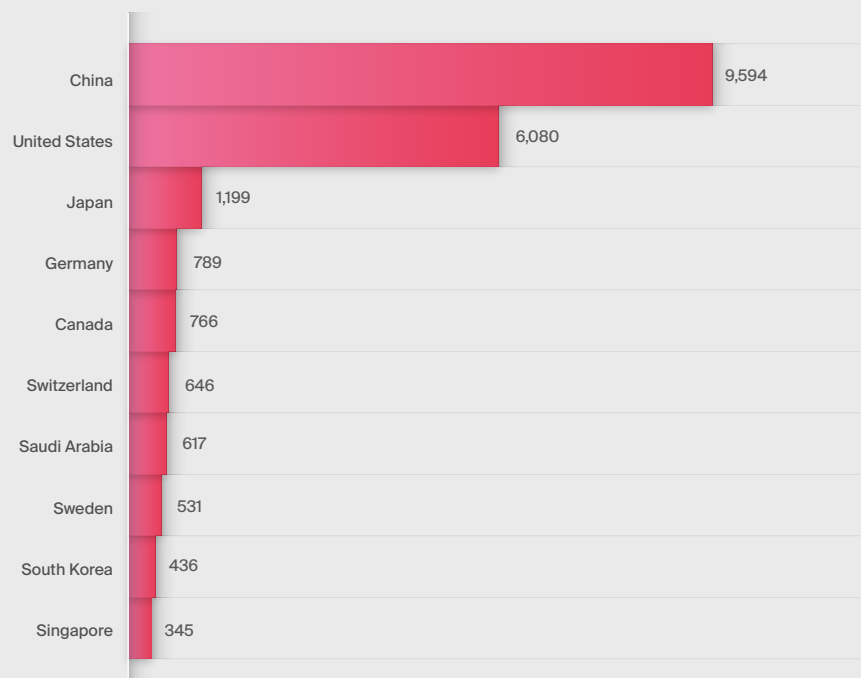
Among those survey respondents who said their UHNWI clients' wealth had increased, three key themes emerged as to why: diversification, equities and property.

1 The benefits of diversified portfolios

Diversified portfolios with long-term investment strategies, which follow trends such as the rise of technology, allowed losses in some areas to be offset by growth in others. Whether across asset classes or geographies, if done correctly this seemed to help many to weather the storm.

Change in UHNWI population in 2020

Additional UHNWIs by country



Source: Knight Frank Wealth Sizing Model

2 Riding the equity rally

Given that the Attitudes Survey shows equities account for nearly a quarter of UHNWI wealth portfolios, it is unsurprising that this was a major driver of wealth growth in certain countries. After most stock markets crashed by around 30% in March, as the true extent of Covid-19 became apparent, there has been a remarkable bounce back, particularly in the US where the S&P rallied by almost 70%.

3 Resilient property portfolios

As the largest single element in the average UHNWI investment portfolio – according to the Attitudes Survey – property values and holdings (both residential and commercial) play a significant role in total wealth levels. Some survey respondents believed that the capital value of their clients' holdings had fallen, but the general message was one of resilience.

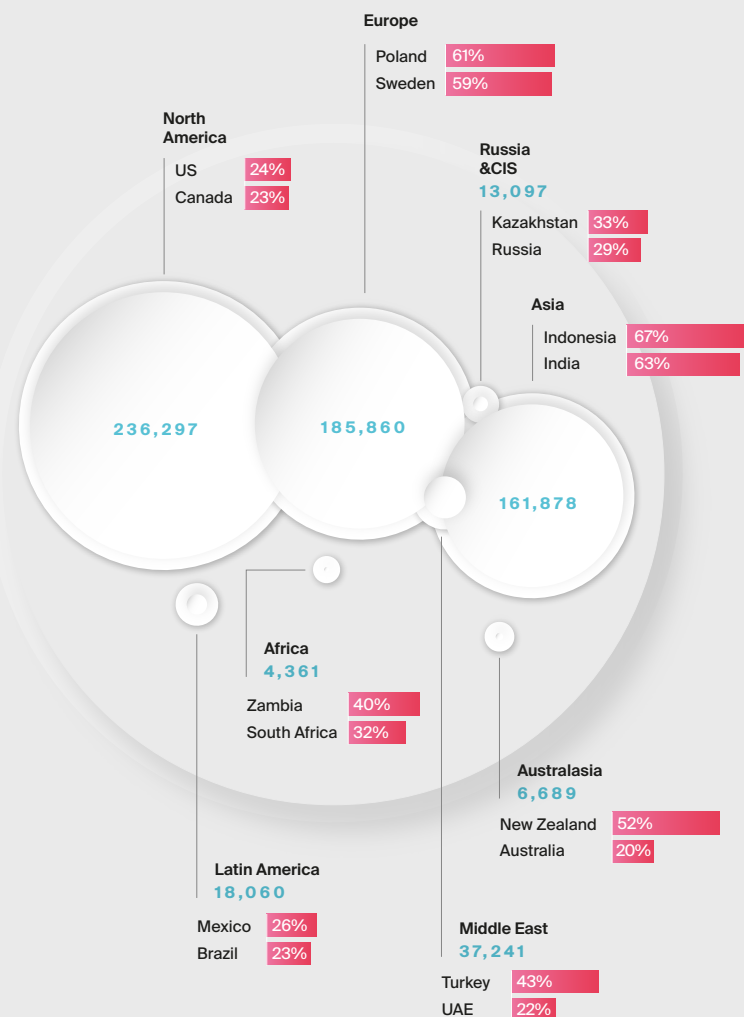
The outlook for PRIVATE WEALTH

Our model predicts that the global population of UHNWIs will grow by 27% over the next five years, while the number of HNWI – or millionaires – is forecast to rise by 41%. Respondents to our Attitudes Survey also take an optimistic view, with 93% expecting their clients' wealth to stay the same or increase in 2021. Just over one-fifth of these expect a significant – above 10% – increase. Those in North America, Australasia and Asia are the most optimistic, with 86%, 82% and 81% predicting either an increase or a significant increase.

Asia tops our five-year UHNWI growth forecast with 39%, led by Indonesia on 67% and India on 63%. This would see Asia's proportion of global UHNWIs rise from 22% to 24%. Europe will retain its crown as the second largest wealth hub with expected growth of 23%, bringing the total number of UHNWIs to 189,546. The biggest rises are forecast in Poland with 61%, and Sweden with 59%.

Forecast regional UHNWI populations in 2025 and countries with highest five-year growth

■ Absolute number of UHNWIs
■ Countries with strongest growth within continent



Source: Knight Frank Wealth Sizing Model

The outlook for PRIVATE WEALTH

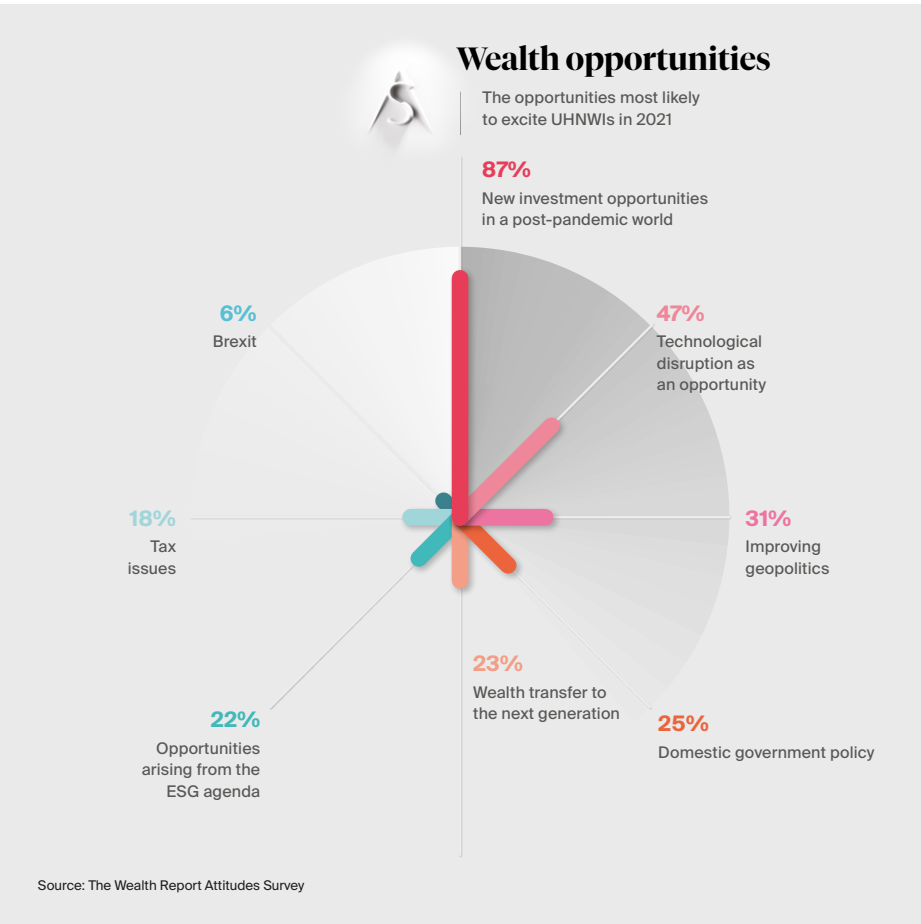
Coming out of the crisis – the biggest issues affecting wealth

When we asked Attitudes Survey respondents about the issues that were of greatest concern to their clients, Covid-19 unsurprisingly came out on top, with 80% choosing it as a key risk. But nearly 90% see new investment opportunities in a post-pandemic world. The availability and greater adoption of technology will aid this, and just under half of our survey respondents find

technology as a disruptor exciting.

The arc of global geopolitics will always play a huge role in wealth creation. In last year’s Attitudes Survey political tensions and trade wars was the second most cited concern – this year, it has slipped to fourth place.

As we move on from 2020, therefore, private investors are optimistic about investment opportunities, increasingly focused on technology, and somewhat less concerned by geopolitical tensions.

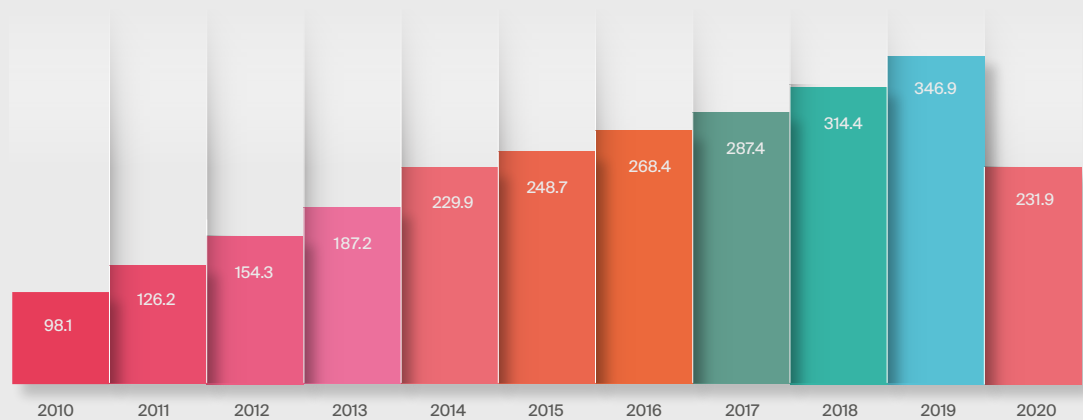


The importance of private capital IN GLOBAL REAL ESTATE INVESTMENT

Private investors have a long history of deploying capital in commercial real estate, but as the chart shows, the scale of this activity has increased markedly in recent years. Private capital, in various guises, routinely accounts for a third of global investment in commercial real estate

Private capital investment by year

Private capital investment (\$bn)



Sources: Knight Frank/RCA

Transaction volumes were down last year across the globe with private capital not immune. However private buying activity was 9% up on the 10-year average and far stronger than the 6% fall in the amount committed by institutional investors.

Looking ahead, our research suggests that private investment in commercial real estate will rebound sharply in 2021. One reason for this is that current portfolio allocations to commercial real estate, while not low

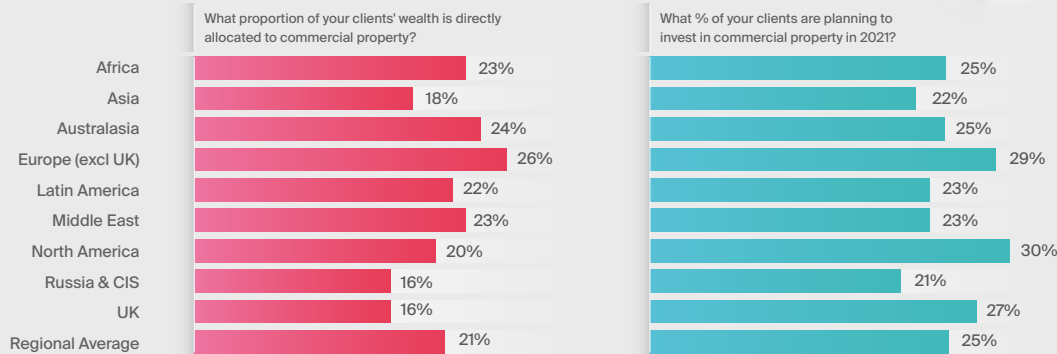
compared with institutional allocations, still shows room for growth in many regions, including Asia, Russia & CIS, and the UK. Globally, the share of respondents expecting clients to invest in commercial real estate this year edged up to 25%, from just over 20% in the year prior. Although current restrictions on movement point to a focus on domestic deals initially, we expect a strong level of international purchases to be resumed with the lifting of domestic and international travel restrictions.

The importance of private capital IN GLOBAL REAL ESTATE INVESTMENT

What will this investment look like? Current allocations to commercial real estate favour the private rented residential sector and offices, but in addition to these, interest in logistics and industrial property, development land, and healthcare and retirement living also features prominently.

Allocations to commercial property

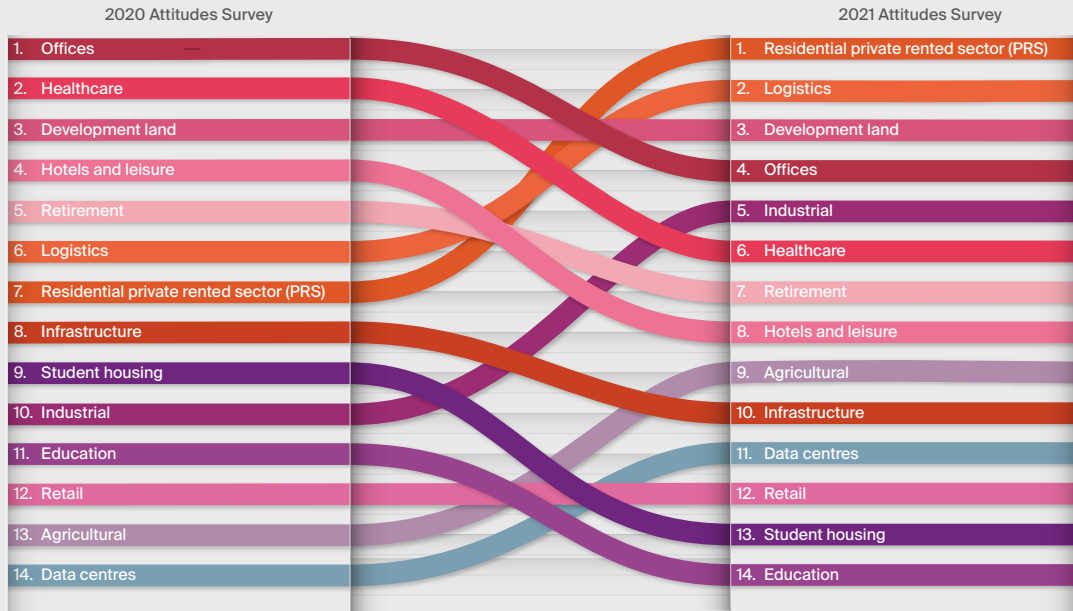
Responses from our Attitudes Survey



Source: The Wealth Report Attitudes Survey

Sector focus

Which of these sectors are becoming of more interest to your clients?



Source: The Wealth Report Attitudes Survey

The importance of private capital IN GLOBAL REAL ESTATE INVESTMENT

Three investment themes for 2021

In addition to the preferred sector allocations identified by our research, we predict that private investment over the coming year will converge around three more fundamental themes: a renewed focus on domestic and near-neighbour locations, more overt targeting of sustainable assets and implementation of ESG strategies, and the hunt for assets, sectors and locations riding the wave of premium performance driven by the key pandemic megatrends.

Near-neighbour safe havens



Large, liquid transparent markets with favourable structures and legal systems will continue to be a big draw for investors across all capital types. The global Super Cities will remain key picks and increased political certainty in regions such as the US and Europe will add further conviction to these core markets.

As The Wealth Report data highlights, there will continue to be severe disruption in global travel in 2021, with 84% of respondents expecting to continue to travel less this year. In our view this means there is a real opportunity for private buyers to capture rarefied assets in their home markets or those locations that they have built appropriate specialist resource. We see a rare opportunity for private capital to access locations and stock that would normally face intense competition from a much larger pool of global investors.

ESG: Sustainability



Our Attitudes Survey data reveals a rapidly growing interest in ESG: nearly half of all family offices are now more interested in ESG-focussed investments than they were 12 months ago; for all UHNWIs this rises to as much as 65% for North America, 60% in Australasia and 51% in the UK. The pandemic has accelerated rather than dampened interest in this critical theme.

Understandably, there remains a desire to amass more knowledge in what can be a complex, technical field. Less than a quarter of investors in Asia and the Middle

East felt that they had all the information required to make ESG investments. Just over half of investors in Europe felt equipped to make such investments, while the figure was highest in the US, at 70%.

Ultimately, however, we believe that private investors will be well positioned to capture the 'green premium' we expect to see for the limited number of assets that conform to rapidly growing institutional requirement for sustainable real estate. As demand for these assets builds, the premium will undoubtedly emerge. Buying best-in-class assets or transforming existing buildings to meet current sustainability criteria will be an extremely important focus this year.

Pandemic premiums



The pandemic has seen the emergence of a K-shaped recovery - accelerated tech adoption and ways of working have supercharged some sectors while shrinking others. Areas such as pharmaceuticals, e-commerce, tech manufacturing, renewables, digital entertainment and data storage have surged.

Consequently, real estate sectors such as data centres, logistics, film studios and life sciences will continue to benefit from these trends and will see strong occupier and investor demand. Real estate including offices, residential and retail in locations where innovation in these sectors dominate will also be a key pick.

With our Attitudes Survey results showing that interest in commercial property is spread across a much broader range of property types than in previous years, there is evidence that private investors are already starting to take these emerging themes into consideration.

Key COMMERCIAL DEALS

A selection of transactions from across the Knight Frank network that helped define the private investment market in 2020

50 Flinders Street



Location
Adelaide, Australia

Purchaser
Nikos Property Group

Sector
Office

Sq ft
231,426 sq ft

Price
AU\$175,000,000

Ontime Urban Distribution Unit



Location
Madrid, Spain

Purchaser
Allegra

Sector
Logistics

Sq ft
188,089 sq ft

Price
€21,700,000

105 Keizersgracht



Location
Amsterdam, Netherlands

Vendor
HNW

Sector
Office

Sq ft
25,533 sq ft

Price
€31,100,000



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