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ASSETS: HOW THE MARKETS FOR CLASSIC CARS, WINE AND ART ARE FARING
INTERVIEW: CITY DESIGNER ALEJANDRO GUTIERREZ SHARES HIS VISIONARY IDEAS
OPINION: MONEY ISN’T EVERYTHING, SAYS PHILOSOPHER ALAIN DE BOTTON

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Notes and definitions: HNWI is an acronym for ‘high net worth individual’, a person whose investible assets, excluding their principal residence, total $1m or more. An UHNWI is a high net worth individual is a person whose investible assets, excluding primary residence, are valued at between $10m and $50m plus. The term prime property is used to indicate the most desirable, and normally most expensive, property in a defined location. Community, but not exclusivity, prime property markets are an area where demand has a significant international bias. Exchange rates, unless otherwise stated, were calculated using the rate of 2 January 2009. The Wealth Report 2009 Attitudes Survey, the participants of the survey comprised 60 Citi Private Bank wealth managers in cauldron wealth markets and 60 HNWI in the world, representing an average $2.85bn.  Survey conducted between 1 December 2008 and 31 January 2009. Written and edited by Andrew Shirley and Liam Bailey, Knight Frank LLP. For research and press enquiries: Liam Bailey, Knight Frank LLP, 55 Baker Street, London W1U 8AN; +44 (0)20 7629 8171


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Welcome to the 2009 edition of The Wealth Report, the third such collaboration between Knight Frank and Citi Private Bank.

Over the past 12 months the economic outlook has become even more uncertain. Most of the developed world is now in recession, and even the emerging economies have been forced to pause for breath. Every commentator accepts 2009 will be tough. Our Attitudes Survey (page 12) indicates clearly that HNWIs will look to protect their wealth from the ravages of the downturn with an emphasis firmly on security and transparency rather than risk.

The tangible nature of property means it is well placed to benefit from this shift in emphasis, and there are signs that some mature prime property markets, such as London and New York, have readjusted to price levels that offer good value for purchasers. For some emerging markets, the rollercoaster ride looks set to continue. A full analysis of prime global markets is included on page 26, and we recommend 10 locations and sectors that offer potential for growth on page 23.

As property is just one aspect of wealth, we have expanded the scope of The Wealth Report by including an investigation into the performance of alternative assets, from art and cars to wine (page 36), and an assessment of the state of the philanthropy sector (page 16). Influential thinkers, such as Alain de Botton (page 20), also share their views on how the world will adjust to life post credit crunch.

We hope you enjoy reading the report.

Patrick Ramsay  
HEAD OF RESIDENTIAL  
Knight Frank

Peter Charrington  
HEAD OF CITI PRIVATE BANK UK  
Citi Private Bank
Crunch time

What impact has the global economic downturn had on the fortunes of the world’s super rich? Sebastian Dovey, of Scorpio Partnership, sets out his view

Wealthy investors across the world have been as shocked by the severity of the current financial crisis as the average investor. To a degree, many super wealthy have fared slightly better, as their professional advisers will have been able to forecast the storm and they would have moved into a more defensive asset allocation as much as 12 months ago. However, the big question on everyone’s mind is how long the current economic conditions will last – and here even the super wealthy do not have the answer.

Inevitably, the next question is: when will be the right time to get back into the market in terms of investing? At the end of 2008, I was with a family in Singapore who felt that the risk of being slightly early to the market was going to be worth taking in the first quarter of 2009. They also freely acknowledged that they were basing this assessment on a hunch rather than any mathematical certainties.

Global wealth distribution remained broadly static last year following a period of strong growth in emerging markets. As the credit crunch and recession unfold, the distribution will remain the same globally, although in absolute terms the number of HNWIs will inevitably fall, as most individuals have experienced, on average, a fall in total wealth of between 20% and 40%.

Investors will have to begin to accept risk again if they wish to recover some of their wealth, but the crucial matter remains identifying the right time to get back into the market and, more specifically, identifying the right asset classes in which to participate. Here, we expect many of the super rich to seek investment opportunities, and while they acknowledge they might not be getting it exactly right in terms of market timing, they know an opportunity when they see one. One investor suggested to me in Geneva recently that “the best thing to do when you fall off your ‘investment bike’ is to get right back on it”. Private equity and real estate are asset classes of particular interest.

In terms of wealth management, the world’s super rich, particularly in Europe, are beginning to seek investment opportunities, and while they acknowledge they might not be getting it exactly right in terms of market timing, they know an opportunity when they see one. One investor suggested to me in Geneva recently that “the best thing to do when you fall off your ‘investment bike’ is to get right back on it”. Private equity and real estate are asset classes of particular interest.

But the credit crunch has fundamentally changed wealth management. This is a critical issue. We are now in a new era of wealth re-creation, and the role of the financial institutions is under intense review. Investors now look at financial institutions in a totally different light. There is a loss of confidence that the institutions are as mighty as they claim.

Indeed, in my view, we have shifted into a new world order for wealth management where clients will actively seek out independent advice and recognise this as a value solution. Strange though this may sound, I think this is going to be a good thing in the long run. Both buyers and sellers have to re-engage with the concept of responsible and realistic investing.

At the moment, we are hearing of a greater appeal among clients toward direct investment. The asset classes could be private equity, real estate and even venture capital. Critically, the clients want to know what it is that they are buying, the provenance of the opportunity and also have a greater influence in the outcome. During the last 12 months they have learnt that they do not like the sense of helplessness that comes with being swept along in the market crises. This is being demonstrated in the property market. Despite the slowdown in property investment interest en masse, there are some specialist super rich investors who are now beginning to deploy capital in new property ventures.

We can expect some big changes in the year ahead: clients will want to take much greater control of their wealth matters. This is perfectly reasonable. In many ways, I am very excited about this market condition. For over a decade I have been calling for change in the industry, with greater respect toward the process of offering advice and building a client-centric focus.

Behind this call is a driving passion to see the customer – of whatever level of fortune – being better served in financial services. While I did not realise it would require a cataclysm to bring about the change and for the industry to hear my calls, it is here now, so let us just get on with it. It is time for change. And it is time for a new agenda.

Sebastian Dovey is Managing Partner and Head of Consulting at Scorpio Partnership.

www.scorpiopartnership.com
How bad is the current recession compared with others you have experienced?

PHILIP WATSON: The most striking characteristic is its breadth, both internationally and across different sectors of the economy. Most economic downturns in the recent past have been more concentrated geographically and on particular industries. The widespread nature of the current one results from its root cause in the credit markets, which have turned off the tap after a sustained period of excessive liquidity. The effect of this has been a radical correction in the pricing of almost every asset class, as the disconnect between inflated pricing and fundamentals has been cruelly exposed.

NICK BURNELL: This is the worst recession in my working lifetime. It connotes profound change for the Anglo-Saxon business model. The model is based on leverage and consumption, and the model is broken. It will take three to five years to recover from this downturn.

Graham Harvey: Without doubt we will see change—the big question is what type. There is no question that momentum towards the establishment of tighter regulation is underway. Deregulation in the past, such as the imposition of leverage ratios, the risk weighting of assets—and even more fundamentally—the meaning of capital, has led to some confusion. This has led to differing scenarios emerging across geographies. Remedies, therefore, also differ. A transparent, globally coordinated and harmonised approach with adequate resourcing would better support today’s global markets. Bank nationalisations, whether partial or complete, may serve to speed the process, too, though it can be argued it prevented the collapse of the system entirely.

When will property prices stop falling and when will they start to pick up again?

PHILIP WATSON: I think prices will continue to fall for investment property in secondary and tertiary locations throughout 2009, but prime core property will reach the bottom this year. People will start buying this type of property because a current yield of 7% is much better than earning less than 1% in your bank account.

Roderick Orf: The UK housing market is likely to continue to come under pressure throughout 2009 but will hopefully stabilise in 2010 and start to see a relatively sound recovery in the years after. Never bet against further shocks to the system; the banking bailout has had no discernible effect on the supply of mortgages or lending criteria, and that showed no sign of changing in the first quarter of this year. Buying into an economic recession seems ill advised, and all the indicators suggest this year will be tough, with climbing unemployment, economic contraction and issues around inflation. People are worried that the recession could usher in a new era of global protectionism. Do you think that will happen, and what would be the consequences?

GRAHAM HARVEY: There will be regulatory change, as public and shareholder pressure on financial institutions, especially those partly or wholly owned by governments, intensifies. However, the ability of regulators to prevent another bear market is questionable. Indeed, intervention of states in markets has not led to a substantial resumption of lending so far, although it can be argued it prevented the collapse of the system entirely.

Should banks and other financial institutions brace themselves for increased regulation in light of the failings exposed by the credit crunch, and would that help prevent a similar scenario in the future?

PHILIP WATSON: We will see change—the big question is what type. There is no question that momentum towards the establishment of tighter regulation is underway. Deregulation in the past, such as the imposition of leverage ratios, the risk weighting of assets—and even more fundamentally—the meaning of capital, has led to some confusion. This has led to differing scenarios emerging across geographies. Remedies, therefore, also differ. A transparent, globally coordinated and harmonised approach with adequate resourcing would better support today’s global markets. Bank nationalisations, whether partial or complete, may serve to speed the process, too, though it is conceivable that immediate concerns, such as easing credit conditions, may in the short term lead to looser bank capital constraints.

Graham Harvey: There will be regulatory change, as public and shareholder pressure on financial institutions, especially those partly or wholly owned by governments, intensifies. However, the ability of regulators to prevent another bear market is questionable. Indeed, intervention of states in markets has not led to a substantial resumption of lending so far, although it can be argued it prevented the collapse of the system entirely.
Russia's economic performance over the past eight years has been astounding. Between Vladimir Putin becoming prime minister in 1999 and stepping down as president last year, GDP rose more than six times in nominal terms. Poverty halved – only a sixth of Russians live below the breadline, compared with one-third when he took office. Once a basket case, Russia became one of the largest economies in the world, paying off its debts and building up a $600 billion foreign currency reserve.

Yet look a bit more closely and the results are less impressive. Russia failed to diversify its economy. The number of small and medium-sized enterprises shrank. Reform in public service faltered. Plans for new roads, schools, hospitals and power stations were much publicised but rarely completed. Corruption rocketed. As Boris Nemtsov and Vladimir Milov have pointed out in their seminal pamphlet, Putin: The Bottom Line, the results of the past eight years are actually rather feeble. The same point is made, from a different quarter, by Igor Yurgens, who runs a think tank close to the Russian president, Dmitri Medvedev.

So when the financial crisis hit Russia, the country was more fragile than it should have been, given the recent bonanza. The stock market has plunged by nearly three-quarters. The ruble – once a symbol of Russia's recovery from the 1998 economic crisis – has been unusually volatile. Investors who hold Russian commercial debt are twitchy. Inflation is high and unemployment is rising. The rickety financial system has not collapsed, but it is in poor health. For many who have done well out of the past eight years, these are worrying times.

A sensible, wealthy Russian would typically diversify his assets and income streams: some would be inside Russia – perhaps in the company or job where he first made his fortune. Then there might be some property in London, plus a mix of blue-chip equities and government securities, with a few holdings in hedge funds and more exotic investments, perhaps with leveraged bets at brokers in Moscow or London.

For the truly unlucky, all those have gone sour at once. The brokers are demanding margin calls. Equities have plunged. Safe government debt yields almost nothing. Risky commercial debt is worth next to nothing. Worst of all, our sensible, wealthy Russian may be facing demands from friends and associates to repatriate some money to repay favours and help them out. For those scrabbling for cash, one option might be to sell a prized property in London or New York. But the weakening residential property market means that these flats and houses, bought at the top of the market, may be worth considerably less.

The most likely solution is an uncomfortable one: thrift and patience. The bad thing about being rich is that you have expensive habits. The good thing is that you can always cut back on them in a downturn. The bigger questions are about what the future holds. Firstly, will the current traumas and economic pain in Russia herald a future in which wealth is held more widely and more durably? Economic downturns have one good feature: they highlight the faults of badly managed businesses. That can give the well-managed competitor a chance to move in. For now, the story in Russia is of the politically motivated bailout. But over the economy as a whole, the downturn will see more bad businesses go bust than good ones – and that is an opportunity for the entrepreneurial class.

Secondly, will the business class in Russia develop a political voice? One of the startling features of opinion polls over the past eight years has been the clash between Russians’ appreciation of higher living standards and political stability, and their generally gloomy feelings about the nitty-gritty performance of the government. Is corruption getting better or worse? Worse, say the polls – and president Dmitri Medvedev agrees. Are elected representatives following their own interests or those of their voters? Their own. Are public services getting better or worse? Worse. And so on.

For anyone doing business in Russia, the costs of the overloaded infrastructure and predatory officials are burdensome and infuriating. Yet, so far the business world has preferred to keep its head down and enjoy the profits rather than complain about the costs. With the downturn, there is just a chance that this will change. The
It’s tempting to assume that wealth insulates HNWIs from the day-to-day worries associated with economic downturns. Surely, when you are worth millions or even billions, it doesn’t matter if stock markets fall a bit or your house is worth less than you paid for it. However, according to the results from The Wealth Report’s Attitudes Survey, which was completed by a global spread of Citi Private Bank’s wealth managers acting for almost 2,000 of the world’s richest people, that is not the case. The wealthy have the same preoccupations and concerns as everybody else. If anything, they keep an even closer eye on their investments and react more quickly when markets start to change.

### Asset Distribution

There has already been a substantial shift in asset distribution among the rich, who appear to have taken decisive action to mitigate risk and protect their wealth (see bar chart on page 14). Although the creation of fortunes is often associated with risk and daring decisions, safety first seems to be the mantra in times of economic turbulence, with both transparency and stability highly valued. Based on this survey, almost 90% of HNWIs have either decreased or substantially decreased their exposure to equities, while virtually all have moved away from hedge funds. A small proportion, 7%, feels confident enough to have increased their exposure to equities. Bank accounts have been the biggest beneficiary from the flight away from stock market volatility – almost 60% of those represented by our survey have substantially increased the amount they have on deposit. The perceived safety of the bond markets is reflected by the fact that 67.8% of respondents have increased their exposure to this kind of investment. But uncertainty about the ability of even national governments to repay increasing levels of debt could explain why 14.3% of people have decided to reduce their exposure to bonds.

### Property as an Investment

When looking at bricks and mortar as an investment class, the picture becomes less clear. The majority of HNWIs appear to be sitting on the fence at the moment, with 57.1% making no change to their property portfolios, although over 90% have seen their property portfolios decrease in value during the credit crunch, with about a third of those hit by a substantial decrease (see the graphs on page 14). The illiquid nature of property probably goes some way towards explaining this lack of action. While an entire portfolio of stocks and shares can be sold with just a few taps on a keyboard, it is more difficult – and sometimes almost impossible – during an economic downturn to sell property quickly. Many investors also acknowledge the long-term nature of property investment: even if values fall your asset is unlikely to disappear completely. Despite this, a significant number of HNWIs have either increased or reduced their exposure, with a very small percentage increasing it substantially.

This ambivalence is probably a reflection of the diversity of the property market and the attitude of the wealthy towards it. While stock markets around the world have all been heading one way only, property markets have not reacted homogeneously. As our PIRI survey on page 26 confirms, performance has varied widely. In those areas where values dropped fastest and furthest, canny HNWI investors are sensing the bottom of the downturn is imminent and are slowly reinvesting. Experienced investors realise we are firmly into the bargain-hunting stage of the property cycle, especially in the commercial and newbuild sectors. A number of survey respondents said their clients were actively looking to take advantage of distressed sales to cheaply acquire stable assets with good yields. Many fortunes have been property-based and a large proportion of the HNWI community has a passion for property ownership. According to our survey, property accounts on average for 30% of their asset portfolios. But even this enthusiasm has...
How did HNWIs change their exposure to various asset classes in 2008?

<table>
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<th>Asset Class</th>
<th>Substantially Increased Exposure</th>
<th>Increased Exposure</th>
<th>No Change</th>
<th>Decreased Exposure</th>
<th>Substantially Decreased Exposure</th>
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<td>23.2%</td>
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<tr>
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<td>27.5%</td>
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<tr>
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<td>47.4%</td>
<td>73.6%</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
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<td>21.1%</td>
<td>33.3%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Cash deposits</td>
<td>31.6%</td>
<td>36.8%</td>
<td>27.5%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
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Future exposure to property classes

Looking to the future (see bar chart, opposite page), our survey reveals that property is set to play a major role in HNWIs’ investment strategies, but the tough lessons learnt during the credit crunch mean the focus will remain firmly on tangible and transparent assets. Residential property is easily understood by everybody. We all know what we expect a house or apartment to provide – warmth, security, comfort and prestige. Expectations and emphasis will, of course, vary dramatically depending on circumstance, but the concept is uniformly shared by most societies around the world and the vast majority of its population will occupy a dwelling in one form or another. This common ground and empathy help explain why over half our survey sample is likely to increase its exposure to residential property over the next one or two years.

Within this timescale, most commentators are also predicting that prices will start to stabilise, bringing some certainty to the market. By nature, many investors fear buying an asset that has further to depreciate in value, but by waiting for the bottom of the market they also risk missing out on the best opportunities. Those will already have been snapped up by those prepared to take more risks.

Commercial property is also set to grow in popularity, with just under half of HNWIs showing their understanding of the market by planning to increase their investments in this area. This sector has been particularly hard hit by the recession, and is well placed to offer growth potential in the near future for the shrewd investor. Quality stock in the best locations with good clients has probably been devalued too much and this is reflected in some very tempting yields for those with funds to spend now.

But investing in commercial property does generally require a more in-depth understanding of specific industries and markets to minimise risk. Perhaps acknowledging this, over 20% of our sample is planning to cut its exposure to the sector.

Not all property investments are man-made and agricultural land has received much attention over the year. Despite the press headlines, our survey reveals that even international investors who have only invested in rising property markets and whose confidence has been knocked by the realisation that not even bull runs with seemingly boundless energy can carry on going on for ever.

As an opportunity rather than a threat, with some seeing it as an opportunity to buy more cheaply. Not everybody feels immune, though, with a number admitting they might have to sell some property.

Most, though, seem content with their existing primary residences, with just over a quarter prepared to improve their existing dwelling rather than move (see chart, left). Only 7% are expected to take advantage of falling prices by upsizing. It may be that even the rich are nervous about displays of ostentation and affluence during a severe recession, preferring to be the understated ones. But for nearly 63% of HNWIs, just over 14% of the sample is predicted to go bargain-hunting during the downturn and add to their tally of secondary residences, while 23.2% may reduce the number of homes they have around the world. Some of these sales may be forced, but it is more likely to be a reflection of a more considered and less flamboyant approach to life in these recessionary times.

What overall conclusions can we draw from the survey responses? First and foremost it appears that HNWIs still regard property as a crucial part of their investment portfolios and have more confidence in it than other more ephemeral investments. Secondly, the majority of them are by and large happy with the houses they live in and have no plans to either retrench or expand their property collections because of the credit crunch.

The results show that when times get tough even the wealthy take the view that you should only invest in things that you understand. Property: we can see it, we can touch it, and we still all want it.
Over the past decade, wealth has been amassed on an unprecedented scale, creating a huge number of wealthy individuals across the world and making many of the rich even richer. This process has driven the emergence of new categories of luxury goods and services aimed at this wealthy elite. But, compared to the rise in luxury spending, the growth of giving among HNWIs has received little attention.

According to The Chronicle of Philanthropy, a record $15.5bn-plus was donated by the 50 most generous US philanthropists in 2008 – a 112% increase on the previous year. This is backed up by The Wealth Report’s Attitudes Survey (page 12). Of the wealth managers we questioned, 80% said charitable giving had increased over recent years, with 29% of HNWIs involved in philanthropic activities. Most (64%) opted to channel it through specialist funds or foundations.

The individuals who set up institutions that give to good causes are a diverse set of people. They are more likely than in the past to have made money themselves and, thanks to the massive growth of the financial services industries, they are younger than ever before. Almost half our survey respondents said people were beginning to consider large-scale giving at an earlier age.

Attitudes towards wealth and giving are also changing. Susan Mackenzie, Director of advisory service Philanthropy UK, says: “There is definitely a difference in the underlying demographic as we move from inherited wealth to self-creation. In 1989, three-quarters of The Sunday Times Rich List had inherited their wealth; now three-quarters are self-made. The UK is increasingly like the US with new wealth from entrepreneurs and the City.”

As our case studies on page 18 show, the attitude of donors has changed over time as well. No longer are people happy just to give money to a cause – increasingly they want to see it being used to allow people to change their life chances for the better. Mackenzie believes the underlying reasons for giving have not changed. These, she says, are “belief in a cause, personal experience, and a desire to help schools and hospitals that have helped family members”. She does notice some other changes, however: “It’s often inspiring how humble people are. They want to feel like partners in the process. People are becoming far more involved, and far more creative in the ways their foundation gives.”

Musa Okwonga, a director at the London-based Institute for Philanthropy, explains that givers have certain characteristics. “People are more likely to be philanthropists if they have been through higher education or are part of a church. Generally, they tend to identify with one of the main political parties, read a daily broadsheet and are over 35.”
At the most elite level, though, philanthropy becomes very different – and the phenomenon of the ‘family office’ emerges. ‘These are quite opaque, perhaps a bit like hedge funds in the sense that very few people, until recently, knew they existed or understood what they did,’ explains Okwonga. ‘They manage the investments and trusts – and philanthropic activities – of a single wealthy family, or sometimes a number of families. In the US, in particular, there is a whole industry devoted to advising family offices on giving.’

As the results of our Attitudes Survey show, nearly 66% of wealth advisors believe the economic downturn has reversed the trend towards philanthropy among HNWIs. Large amounts of wealth have simply vanished over the past year and many HNWIs are not quite as rich as they thought they were a year or two ago.

Melanie Schnoll-Regen, Head of Citigroup Philanthropic Services, is convinced that the amount given in dollars will decline this year – particularly as the wealth of so many prominent US-based donors has been eroded by the equity markets, credit crisis and Madoff scandal. ‘Many prolific philanthropists have been through a financial crisis, and they’re now thinking about giving, but their strategic priorities have been interrupted by the crisis.’

At one case study, however, there is more reporting and accountability than ever. ‘Scholl-Regen remains convinced that donors are far more aware of issues today than in the past as a result of volunteering, social networking and the internet. There is also a lot more information about the work that non-profit organisations are doing. There is a danger, she says, that the effects of the recession will be to encourage donors to concentrate their efforts in certain areas. An increasingly fragile Western economy could lead to philanthropists giving to domestic causes rather than global or development-focused areas.

Nevertheless, Barack Obama’s presidency has brought a new wave of optimism to America and this may inspire a greater degree of philanthropy – although this may take the form of volunteerism, rather than financial resources, at least in the short term. Moreover, the new administration’s attitude to areas such as stem cell research and microfinance – including US-based microfinance – could spur new interest in these, hitherto overlooked subjects.

Looking further ahead, Schnoll-Regen believes that philanthropy will continue to evolve and change. ‘There will be a new emphasis on the legacy of grandparents in wealthy families – the matriarchs and patriarchs. There is a need to educate young adults in the family’s history, how the wealth was accumulated and the family’s background before it had money.’

While the next few years will present problems to the philanthropy industry, they will also provide new opportunities.

People are more likely to be philanthropists if they have been through higher education or are part of a church.

Peter Munk
Businessman and Developer

Peter Munk, an example of how personal experiences are often the most important philanthropic drivers. Munk arrived penniless in Canada in the 1940s, after his family fled Nazi-occupied Hungary. He subsequently became one of Canada’s richest men, building Barick Gold into the world’s largest gold mining operation. Munk’s charitable foundation is worth more than $115bn and he says he is proud of the contribution he has made to Toronto, the city that took in his destitute family. The Peter Munk Cardiac Centre is now the best of its kind in Canada, treating around 17,000 patients a year and, through an impressive research programme, developing innovative treatments. His interest here has a personal element too – the hospital helped his mother survive a cardiac arrest.

Munk likes to combine business with philanthropy. He is currently developing Porto Montenegro, a 650-berth marina that will be the largest home for super yachts in the Mediterranean. But behind the glitter, he is aiming to leave a legacy of investment through educational and training programmes that will help the former Yugoslav republic prosper in the future.

Gerald Ronson
Chief Executive,赫尔国际

Gerald Ronson is one of the UK’s most successful entrepreneurs and property developers. In 1956, he founded Herson International, now called Herson International. His current projects include the 220m Heten Tower in Bishopsgate in the City and the Heron, a 29c apartment residential tower near the Barbican. Ronson’s public image may be that of a hard-nosed, no-nonsense back-street developer, but his donations 30% of his time to good causes and raises over £1m a year for charity.

The Gerald Ronson Foundation gives a seven-figure sum to help the underprivileged in education and welfare, although I probably raise four or five times that for the other charities I help with,’ says Ronson, whose faith plays a big role in his philanthropic activities. ‘I have been involved in many causes, from the Prince’s Trust and the National History Museum, to cancer research. I have been involved all my life, and shall be even at 70, predominantly in charities helping the underprivileged. I believe if the good Lord blesses you with the ability to make money, then you have the responsibility to put it back into the community.

At the most elite level, though, philanthropy becomes very different – and the phenomenon of the ‘family office’ emerges. ‘These are quite opaque, perhaps a bit like hedge funds in the sense that very few people, until recently, knew they existed or understood what they did,’ explains Okwonga. ‘They manage the investments and trusts – and philanthropic activities – of a single wealthy family, or sometimes a number of families. In the US, in particular, there is a whole industry devoted to advising family offices on giving.’

As the results of our Attitudes Survey show, nearly 66% of wealth advisors believe the economic downturn has reversed the trend towards philanthropy among HNWIs. Large amounts of wealth have simply vanished over the past year and many HNWIs are not quite as rich as they thought they were a year or two ago.

Melanie Schnoll-Regen, Head of Citigroup Philanthropic Services, is convinced that the amount given in dollars will decline this year – particularly as the wealth of so many prominent US-based donors has been eroded by the equity markets, credit crisis and Madoff scandal. ‘Many prolific philanthropists have been through a financial crisis, and they’re now thinking about giving, but their strategic priorities have been interrupted by the crisis.’

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While the next few years will present problems to the philanthropy industry, they will also provide new opportunities.

Is philanthropy always a good idea? Liam Bailey

The rapid growth of philanthropy in recent years has encouraged a more critical examination of its impact. While generosity is viewed as noble, there is no guarantee of its success. The $33.5bn Bill and Melinda Gates Foundation, for example, came under fire in 2008 for attempting to concentrate on medical solutions to global health problems rather than ensuring these solutions worked at local level. It has since worked hard to tackle this problem and the wider accusation of unaccountability.

There are undoubtedly problems within the sector, and the main cause is the ineffectual use of funds, including the duplication of effort and under-performance of the not-for-profit sector. Research from 2007 found that in the US there were 1.6m organisations employing nearly 9% of all workers. Many worked in the same fields, with little cooperation or sharing of resources.

An important criticism is that the sheer size of the megafoundations means they divert resources – labour, research spending and materials – towards their own areas of particular interest and take away effort from equally needy but less glamorous causes. However, this argument would seem to imply that governments and businesses have a monopoly on intelligent resource allocation – in the light of the sub-prime, credit crunch and welfare spending failures across the developed world, this seems rather unfair.

There is little doubt that the wealthy may find it hard to dispose of their wealth effectively, but this difficulty ought not to dissuade them from the attempt. The significant potential offered by so-called ‘smart philanthropy’ ought to keep them focusing on the potential outcomes.

Paul Brest and Hal Harvey’s book, Money Well Spent: A Strategic Guide to Smart Philanthropy, suggests that rather than conflicting with government programmes, philanthropy is complementary. This should be the experimental sector, where more risky and longer-term solutions can be trialed before the public or business sectors implement them on a wider scale. Brest goes further by welcoming philanthropic failure. He argues that through failure lessons can be learnt and future improvements can evolve, and without the willingness to fail, the big advances that donors seek will not be achievable. It is hard to make money work effectively, but this challenge motivates the likes of Bill Gates and the countless other philanthropists. Their willingness to waste as well as to give money ought to be welcomed.
Bonfire of the Vanities

Recessions ask us to look past the value of our property and investment portfolios and consider some of the biggest questions of all, says influential philosopher Alain de Botton

The current economic crisis is forcing all of us to rethink nothing less than the meaning of life. In particular, it is prompting us to re-examine a key idea in our society: the connection between making money and being happy. Criticisms of consumer society have focused not only on the shortcomings and inadequacies of products but also, more fairly perhaps, on the distorted picture of our needs that ensues from the way these products are presented to us. They can appear essential, blessed with extraordinary powers to bestow happiness on us, because we understand neither their actual identities nor our own functioning.

A car advertisement will, for example, be careful to ignore aspects of our psychology and of the overall process of ownership that could spoil, or at least mitigate, our joy at coming to possess a featured vehicle. It will fail to mention our tendency to cease appreciating anything after owning it a short while. The quickest way to stop noticing something may be to buy it – just as the quickest way to stop appreciating a person may be to marry them. We are tempted to believe that certain achievements and possessions will guarantee us an enduring satisfaction. We are led to imagine ourselves scaling the steep sides of the cliff face of happiness to reach a wide, high plateau on which to continue our lives; we are not reminded that soon after reaching the summit we will be called down again into fresh lowlands of anxiety and desire.

Life seems a process of replacing one anxiety with another – which is not to say that we should never strive to overcome any anxieties or fulfil any desires, but that we should perhaps build into our strivings thinking through...
an awareness of the way our goals promise us levels of rest and resolution that they cannot, by definition, deliver. The car will quickly be absorbed and hardly be noticed – until the night a burglar does us the paradoxical service of breaking a window to steal the radio and reminds us, in the midst of the shattered glass, how much there was to be grateful for.

The advertisement stays quiet, too, about the weak capacity of all material goods to alter our levels of happiness, as compared with the overwhelming power of emotional events. The most elegant and accomplished of vehicles cannot bring us a fraction of the satisfaction of a relationship – just as it cannot be of any comfort whatever following a domestic argument or abandonment. At such moments, we may even resent a car’s impassive efficiency and the methodical calculations of its onboard computer.

We are equally prone to misunderstand the attractions of certain careers, because so much of what they entail has been edited out, leaving only highlights it would be impossible not to admire. If we cannot stop envying, it is especially poignant that we should spend so much of our lives envying the wrong things.

The essence of the charge made against modern materialism is that it is guilty of a gigantic distortion of priorities, of elevating to the highest level of achievement a process of accumulation which should be only one of the many things determining the direction of our lives under a more truthful, more broadly defined conception of ourselves.

Incensed by the distortion of priorities, the 19th-century art critic John Ruskin excoriated Victorian Britons for being the most wealth-obsessed people in the history of the world. They were, he wrote, never far from a concern with what they had and from where. But Ruskin made a confession. Contrary to expectations, he too was frantic to become wealthy. The thought of wealth preyed on his mind from breakfast till dinner. Yet he was only sarcastically toying with an ambiguity in the word ‘wealth’ to bring home more forcefully how far he felt his countrymen had strayed from virtue. For the dictionary tells us that wealth means not only, or historically even primarily, large amounts of money.

It means an abundance of anything, from butterflies to books to smiles. Ruskin wished to be wealthy in kindness, curiosity, sensitivity, humility, godliness and intelligence – a set of virtues he referred to simply as ‘life’.

In *Unto This Last*, first published in 1860, Ruskin entreated us to set aside our ordinary monetary conceptions of wealth and take up a life-based view, according to which the wealthiest people would no longer be merchants and landowners but those who most keenly felt wonder beneath the stars at night or were best able to interpret and alleviate the sufferings of others. “There is no wealth but life,” he intoned. “Life, including all its powers of love, of joy and of admiration.”

Ruskin was uttering the plain, childlike truths of the prophets – and when people did not guffaw, they listened. In a lecture on the centenary of Ruskin’s birth, George Bernard Shaw proposed that the invective of Lenin and the indictments of Marx were, when compared with Ruskin’s works, like the platitudes of a rural dean. Ruskin’s political message to the cultured people of his day – the class to which he himself belonged – began and ended in this simple judgement: “You are a parcel of thieves.”

Ruskin wasn’t alone in the opinion. Others hammered home identical criticisms of the way money appeared to have become the chief determinant of respect, something to wield as a sign of demonstrable goodness, and not merely one component – and perhaps not the most important – of a fulfilled life. “Never did people believe anything more firmly than nine Englishmen out of 10 at the present day believe that our greatness and welfare are proved by our being so very rich,” lamented poet Matthew Arnold in *Culture and Anarchy* (1869).

Thomas Carlyle agreed, only more angrily. In *Midas* (1843), he asked, “This successful industry of England, with its plethoric wealth… which of us has it enriched?… We have sumptuous garnitures for our life, but have forgotten to live in the middle of them. Many men eat finer cookery, drink dearer liquors, but in the heart of them, what increase of blessedness is it enriched?… We have sumptuous garnitures for our life, but have forgotten to live in the middle of them. Many men eat finer cookery, drink dearer liquors, but in the heart of them, what increase of blessedness is there? Are they better, beautifuler, stronger, braver? Are they even what they call ‘happier’? We have profoundly forgotten everywhere that cash payment is not the sole relation of human beings.”

Carlyle was not blind to the benefits of modern enterprise. But he could not accept a way of life in which what he termed “Mammon worship” subsumed the drive towards “blessedness” and “satisfaction” on “God’s Earth”.

Whatever our politics, recent events are making such voices ever harder to ignore.

Alain de Botton is author of *The Architecture of Happiness* (Pantheon), www.alaindebotton.com
The recession has left few sectors undented, but even in turbulent times there are opportunities to be seized. Bricks and mortar still remain an attractive long-term investment, offering a sense of security that stock markets cannot provide in today’s economic environment. Even cash deposits look out of favour, as investors question the safety of their money and banks slash interest rates. Here, experts at Knight Frank and Citi Private Bank reveal the worldwide locations and sectors that should make sound investments for the future.

“...The weakness of sterling, combined with significant price falls, means London is very attractive to international buyers. Up-and-coming areas with additional growth potential include Fitzrovia, to the east of Marylebone. It may lack the historic and architectural integrity of areas further west but it makes up for this with a more varied selection of properties.

“...Neighbouring Bloomsbury is already famous for its leafy appearance and elegant architecture, as well as the British Museum. Bedford Square is often cited as the best preserved of all London’s Georgian squares. The vast regeneration programme planned for King’s Cross is likely to make this area far more attractive to prime buyers. Already, the opening of the high-speed Eurostar link at St Pancras has vastly improved the image of the area.”

1. Up-and-coming prime London locations

Liam Bailey, Head of Residential Research, Knight Frank

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2 US vacation and resort areas
Michael McPartland, Head of Residential Real Estate Lending, Citi Private Bank

“Over the next one to three years, I believe there will be opportunities in vacation and resort areas for real estate and investment vehicles like REITs (real estate investment trusts). As values rise, these areas generally trail primary home regions, but they are also usually the first area to give back value when prices decline.

“The euphoria of the last few years led to a lot of over-building within the sector. The inventory exists, and much of it was created during a real estate bull cycle. This inventory will need to be realabsorbed, and the fundamental remains that made these areas attractive to begin with. We are also beginning to see many experienced real estate funds acquiring properties. These funds are likely to begin to show profits over the next five years, assuming that the desire for inventory and capital constraints lessen.”

3 Barbados
Georgina Richards, Caribbean Desk, Knight Frank

“The term ‘flight to quality’ is one being used above all others at present, and I do not think it is more applicable than in the Caribbean. We have seen increasing interest in up-and-coming islands, but over the last few months this has retracted to focus yet again on Barbados. Barbados appreciates its consistent track record, even in uncertain markets, thanks to a stable government, good infrastructure, a developed economy and accessibility.

“Virgin Atlantic is expanding its routes from Manchester to Barbados, property transfer tax has been reduced to 2.5% and foreign exchange controls have been lifted. I would invest in either a beachfront property or well maintained themed development offering an array of facilities and security. Three-bedroom townhouses in a waterfront development in St James are available for $1.7m.”

4 Moscow and regional Russian centres
Elena Norton, Russian and CIS Desk, Knight Frank

“Moscow is the place where everyone from Russia and the CIS would like a base. There is a lack of development opportunities in the inner city centre, and many developers have been affected by the crisis. I believe that in 12-18 months’ time the shortage of quality stock will be really felt. Among regional cities, Kaliningrad and Astrakhan will be interesting for residential property investment due to their strategic locations as major sea ports on the Baltic and Black seas.

“I would definitely start looking for opportunities now, taking advantage of the global economic turmoil. The Moscow market will be the first to recover, with most growth towards the end of 2010. Here, $5m will buy an apartment that will hold its value and appreciate over the short and medium term. The level of regional investment will be about $1-2m.”

5 Prime marina developments
James Price, Head of International Residential Development, Knight Frank

“Demand remains for high-quality property linked to desirable facilities, such as marina-based residential projects. Porto Montenegro (visualised below), a regenerated port on the Bay of Kotor, offers attractive surroundings and 650 berths, including 130 for boats over 30m.”

6 Northern Tuscany, Lazio and Bordeaux
Paul Humphreys, European Director, Commercially EMPA

“An improvement in infrastructure means that northern Tuscany in Italy is increasingly accessible and the area to the north of Lucua, the Garfagnana Valley, is undoubtedly well worth considering as an alternative to the more traditional areas in the wine region to the north of Lazio also has potential, as a new international airport at Vieterbo is scheduled for completion this year.

“In France, Bordeaux is undergoing something of a renaissance, and we are expecting to see increased Chinese interest in the area’s vineyards following Hong Kong’s abolition of import tax on wine. In all of these areas, an expenditure of between 500,000 and 2m will give buyers some excellent options to choose from. The growth period over which property should be purchased and held is at least five years.”

7 Distressed US and UK property, plus emerging markets
Roger De, Head of International Investment, Citi Property Investors

“The US and the UK have an abundance of distressed real estate – in many cases distressed not because of the locations or tenants, but due to their capital structures. I believe there will be opportunities to buy debt on these properties at a deep discount to par in future years. There may not be growth for a number of years to come, but the high volume of distressed property will outweigh available capital, which should result in some attractive returns.

“Asian property continues to decline in value, but the underlying economies remain strong. Real estate historically has appreciated in tandem with a country’s GDP. China and India are likely to economically outperform most countries and this presents an opportunity to buy assets cheaply as well as participate in these countries’ strong ongoing underlying economic fundamentals.”

8 Luxury penthouse apartments
Patrick Ding, Head of International Residential, Knight Frank

“Penthouse apartments in the best buildings in key city centres and resorts will retain their popularity. The wealthy are short of time and forever trying to simplify their lives, and fully managed lock-up-and-leave properties are ideal.

“If I were an investor, I’d start looking now and select at least two locations in different parts of the world and different currencies. If I were a lifestyle purchaser then clearly the location will be driven by factors other than pure investment returns. Different locations are in different stages of the property cycle right now, but Paris has displayed considerable resilience in recent years and is still benefiting from the Eurostar link to London. Monaco has seen some of the froth come off prices and London now looks good value. Buying property in these markets, which perform consistently well, will always make sense.”

9 European REITs
Harry Chau, Real Estate Analyst, Citi Investment Research

“The opacity of direct property values is reflected in the confusion and sharp write-downs of net asset value expectations in the quoted sector. For institutional investors, whose performance is benchmarked quarterly, property stocks are a risky sector. However, for private investors who take a longer-term view, some of the shares look interesting.

“Real estate is a long-term investment, and the introduction of REITs was intended to allow investors the opportunity to access income streams of the direct market via liquid, quoted companies. The dividend yield of the European real estate sector is currently at a 50% premium to the wider market and should remain one of the more resilient, given index-linked or upwards-only rental growth.”

10 Brazil
Nicholas Barnes, Head of International Residential Research, Knight Frank

“Although Brazil is a popular tourist destination, it remains in the emerging market category for second-home buyers. There are few developments of quality, though several are planned. Nonetheless, Brazil has considerable untapped potential and offers many attractive features.

“The country boasts more ecological diversity than any other, its economy has performed well in recent years and it is expecting a considerable boost following the discovery of what is believed to be the world’s largest offshore oil field. The nation’s exotic, slightly frontier character is appealing to those seeking something different within the comfort of a fully serviced resort community. Average values are low – resorts along the northeast coast average $1,400 per square metre for villas and $1,000 per square metre for apartments.”
For most of the world’s prime residential markets, 2008 was a year to forget. Prices fell in almost half of all global hot spots and sales volumes all but dried up in many markets. From Europe, to the Middle East, to the Americas and Asia, few places had much to celebrate. The impact of the credit crunch was felt first in the prime newbuild and investment-led markets. By the summer of 2008, off plan sales in Europe, North Africa, the Caribbean and Middle Eastern resorts struggled to maintain traction and development plans were either scaled back or put on hold.

It was perhaps obvious in retrospect that investment and some over inflated second-hand markets would be hit hardest. In areas where local demand for prime property is limited or even non-existent – especially those with an abundance of stock – investors have created an artificial market. Without them there is nothing to support prices. As returns from equity and commodity markets plunged, even HNWIs and UHNWIs cut their discretionary expenditure. But the worsening global and local market conditions meant that through the year even the prospects for the world’s most expensive first-home markets – including London, New York, Hong Kong, Sydney and Singapore – weakened sharply.

The results from our Prime International Residential Index reflect these trends (see page 28). Of the 55 locations covered by our index, 23 saw prices fall over the course of 2008, six saw no change and 26 saw growth. But data for the final quarter of the year is more telling, revealing how the downturn has gathered pace. Comparing Q4 against Q3 2008, 35 locations saw prices fall as opposed to only 14 showing growth. The biggest losers were the prime districts of the big cities: Hong Kong (-25%) and London (-17%) led the decline, but several other cities saw double-digit price falls, including Singapore (-25%) and Sydney (-12%).

The most resilient prime markets last year tended to be found in the emerging economies – notably Moscow (+13%), Jakarta (+18%) and Bangkok (+23%). Even Dubai, which has been tipped for a crash by the slide in the value of sterling, slips down the ranking to number two. Manhattan is in third place, while Asian cities (Hong Kong, Tokyo and Singapore) compete with European centres (Moscow, Rome and Paris) for the remaining positions in the table, with Sydney bringing up the rear. The impressive showing from Moscow (fourth) is influenced by the relatively small size of the city’s prime market area – and the rapid growth of HNWI purchasers over recent years – although recent evidence is that price growth has slowed and turned negative in the final quarter.

Different parts of the world are at different stages of the global downturn, but nowhere will be immune from a significant fall in property values.

Tax efficient locations, which proved to be market leaders during the boom years, have begun to come under pressure. Zero growth was recorded during the year for both the Cayman Islands and Bermuda, whereas in Monaco a respectable rate of growth in the first half of 2008 was reversed by a sharp downturn in Q3 – before values stabilised in the final quarter – leaving prices 2.1% up on the year.

Following rapid price adjustments, in addition to currency fluctuations, the league table for the world’s most expensive residential markets has changed substantially since the 2008 Wealth Report (see chart below). Despite recent price falls, Monaco stands out at the head of the field – with an average value of €50,000 per square metre for the best properties. London, where values have been hit hard by the slide in the value of sterling, slips down the ranking to number two. Manhattan is in third place, while Asian cities (Hong Kong, Tokyo and Singapore) compete with European centres (Moscow, Rome and Paris) for the remaining positions in the table, with Sydney bringing up the rear. The impressive showing from Moscow (fourth) is influenced by the relatively small size of the city’s prime market area – and the rapid growth of HNWI purchasers over recent years – although recent evidence is that price growth has slowed and turned negative in the final quarter.

AND THE FUTURE

Depending on where you were in the world, 2008 saw prime market conditions range from ‘challenging’, to ‘difficult’, to ‘awful’. Looking ahead to the rest of 2009 and beyond, it is very easy to become despondent about the prospects for prices and sales volumes throughout the luxury market. Rather than being immune from the wider market downturn, as many felt would be the case 12 months ago, the luxury housing sector is potentially more vulnerable
**Prime residential**

### WINNERS AND LOSERS

#### PRIME GLOBAL MARKETS

Residential price change, year to Q4 2008 and Q3 to Q4 2008*

<table>
<thead>
<tr>
<th>Location, Country</th>
<th>Q/Q Prime Global Markets</th>
<th>Y/Y Prime Global Markets</th>
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<tbody>
<tr>
<td>1 Bangkok, Thailand</td>
<td>3.4%</td>
<td>22.5%</td>
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<tr>
<td>2 Jakarta, Indonesia</td>
<td>3%</td>
<td>17.7%</td>
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<tr>
<td>3 Bali, Indonesia</td>
<td>3.7%</td>
<td>14.7%</td>
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<td>4 Kuala Lumpur, Malaysia</td>
<td>2.3%</td>
<td>15.8%</td>
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<td>5 Istanbul, Turkey</td>
<td>2.1%</td>
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<td>6 Moscow, Russia</td>
<td>-5.6%</td>
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<td>7 Dubai, UAE</td>
<td>-19.1%</td>
<td>10.8%</td>
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<td>8 Geneva, Switzerland</td>
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<td>9 Verbier, Switzerland</td>
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<td>10 Cancun, Mexico</td>
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<td>11 Vancouver, Canada</td>
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<td>12 Marrakech, Morocco</td>
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<td>13 Shanghai, China</td>
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<td>14 Ostend, Belgium</td>
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<td>15 Cape Town, South Africa</td>
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<td>16 Limassol, Cyprus</td>
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<td>18 Mauritius</td>
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<td>21 Johannesburg, South Africa</td>
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<td>22 Monaco, Monaco</td>
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<td>23 Montenegro</td>
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<td>24 Rome, Italy</td>
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<td>25 Milan, Italy</td>
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<td>26 Bermuda, Carribbean</td>
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<td>27 Nice, France</td>
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<td>28 Sao Paulo, Brazil</td>
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<td>29 Cayman Islands, Carribbean</td>
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<td>30 St Tropez, France</td>
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<td>32 St Jean-Cap-Ferrat, France</td>
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<td>33 Frankfurt, Germany</td>
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<td>34 Lake Como, Italy</td>
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<td>35 Central Algarve, Portugal</td>
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<td>36 Forte Dei Marmi, Italy</td>
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<td>37 San Francisco, United States</td>
<td>-3.1%</td>
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<td>38 Florence, Italy</td>
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<td>39 Madrid, Spain</td>
<td>-3.8%</td>
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<td>40 New York [Manhattan], United States</td>
<td>-4.1%</td>
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<td>41 Tokyo, Japan</td>
<td>-5.4%</td>
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<td>42 Courchevel, France</td>
<td>-7.5%</td>
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<td>43 Chantilly, Italy</td>
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<td>44 Melbourne, Australia</td>
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<td>45 Mallorca, Spain</td>
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<td>46 Venice, Italy</td>
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<td>47 Sydney, Australia</td>
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<td>54 Home Counties, United Kingdom</td>
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<tr>
<td>55 Hong Kong, China</td>
<td>-26.6%</td>
<td>-24.5%</td>
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*Source: Knight Frank Residential Research

**To economic shocks than the mainstream market, although the most desirable and established prime locations will retain their liquidity and long-term values better than the artificially inflated newcomers to the prime arena discussed earlier.**

The element that gave the sector its impetus for growth over the last decade was the expansion of global trade and economic linkages. This factor contributed to the rapid growth of a footloose and wealthy global elite, giving the global luxury market a substantial raison d’être. This trend saw an explosion in demand for multiple residences by those who ran their business in, say, Russia, raised finance in New York, and spent August in St-Jean-Cap-Ferrat and February in Courchevel.

The demand for property to facilitate this lifestyle grew substantially. As late as the summer of 2008, Knight Frank sold more European properties priced at or above €10m in three months than in the whole of 2006. The credit crunch and resulting economic downturn slowed this process.

The question to answer is whether the downturn is leading to a simple repricing of assets that had become overvalued through the late boom period, or whether something more fundamental has occurred in the global economy that will mean prime market pricing will be further suppressed and take a long time to recover. The evidence from one market at the epicentre of the downturn is that the former is more likely. London’s top-end market saw the downturn accelerate in late 2008 as the market accepted that 10% or 15% price reductions were insufficient to get sales underway. By early 2009, the 30% discounts being offered triggered a rally in market activity and allied to a 20% decline in sterling against the major world currencies, offered the potential of savings up to 50% on peak prices for international buyers.

The response has been dramatic: wealthy international buyers who considered the market too hot a year earlier have come back strongly and the early evidence is that this demand has acted to place a floor underneath prices. An additional factor supporting prices is that supply is constrained when low prices are offered – the very wealthy do not need to sell their prized assets in a weak market.

The desire to own good property in the best markets is an enormous driver for the prime residential sector. The lesson to draw from the last two years is that no market, no matter how luxurious, can escape a bubble-and-bust scenario. However, when the market believes prices have returned to offer good value, activity will rise and the perennial factors that make a true prime market desirable will endure.

Liam Bailey is Head of Residential Research at Knight Frank.
A growing number of cities are staking their claim as the key location for the wealthy and influential. In this, the first edition of Knight Frank’s World Cities Survey, Liam Bailey provides the definitive guide to the ones that really matter.

Is there such a thing as a world city? Are there locations where the confluence of financial, creative and intellectual activity is so great that the city has an impact way beyond its national and regional borders? If the answer is yes, how should we recognise a world city when we see it? Several organisations have attempted to provide an answer, and the field of global surveys is crowded.

We asked ourselves whether there was space for yet another. A review of the competition showed that to date most have fallen into the trap of considering economic activity only, and do not place sufficient emphasis on the elements that make up the whole of a city’s attraction.

In our survey (see page 31 for the results), we attempted to create the most rounded picture of the world’s leading cities in order to provide an accurate measure of the locations that matter to wealthy individuals choosing first or second homes. We have considered much more than each city’s share of world financial flows, important though these are. We have assessed political influence, contribution to intellectual activity and liveability.

Our assessment criteria are grouped under four main themes. Firstly, we considered economic activity – including economic output, income per head, financial and capital market activity and market share, and the number of international business headquarters.

The broader non-economic influence exerted by each city has been captured by our second measure, which we loosely label ‘political power’. In this category we calculated the importance of each city to global political and intellectual thought and opinion – identifying the reality of where power is held and influence is exercised. Our ranking included the number of headquarters for national political organisations.

City living: A good quality of life, influential inhabitants and strong economic activity make Hong Kong a world city.
and international non-governmental organisations, together with the number of embassies and think tanks in each city.

Thirdly, we looked at intellectual influence. This was measured for each city in terms of its own knowledge base, including the education level of inhabitants and newly arrived migrants, together with the number of world-leading international educational facilities. In addition we looked at how much each city is able to transmit this knowledge. For this we considered the number of national and international media organisations and news bureaus, and the international market share of locally based media.

Finally, we assessed the quality of life offered by each city. This range of issues considered was extensive and included measures of personal and political security, freedom, censorship, personal security, crime, political stability, health facilities, public services and transport, culture and leisure, climate and the quality of the natural and man-made environment.

THE RESULTS

The 40 cities in our index are dominated by the established European, American and Asian urban centres. In fact, the top 10 displays a remarkable similarity to the most expensive residential cities revealed on page 26 in our Prime International Residential Index. While the top-tier cities are likely to remain relatively unchanged in the short term, we expect to see considerable change in the middle and lower end of our ranking, not least following the outcome of the current economic crisis, which is undoubtedly opening opportunities for other cities to ride market share in financial services.

The top of the table doesn’t really contain many surprises. The traditional powerhouses of New York, London (number one, New York (two) and Tokyo (four) heading their respective world regions. Nevertheless, finding the middle ground of the past 12 months, economic power ensures a top spot in all three cases.

New York once again scores top for political power and is second only to Washington (nine) on that measure. As the EU’s official capital, while weak on economic activity, Brussels (six) scores very highly on political power but cannot offer sufficient presence on the remaining themes to eclipse Paris (three), which is in effect Europe’s second capital.

Los Angeles comes in at number five, with high scores for knowledge and influence. While Hong Kong (14) scores in the top five for economic activity and knowledge and influence, its poor results in political power — where Beijing (12) takes precedence — and quality of life drag down its score. As a result, Singapore (seven) comes out ahead as the second Asian centre in our survey.

One of the key insights provided by the European centres in the middle of the table – Berlin (13), Frankfurt (15), Zurich (22) and Munich (23) – is that along with Toronto (eight), these are cities that have been able to develop successful world-class economies, and at the same time provide an excellent quality of life with a high quality public realm. With the added advantage of excellent cultural facilities, these are attractive places to live and work, and offer models for other cities to emulate.

The quality of life elements displayed with such success in Germany, Switzerland and Canada are elements that cities in the Middle East and Asia are working hard to compete directly on. Despite significant investment, Dubai (28) struggles to score well on this measure, however we expect the city to climb further in the future.

The crux of the matter for many cities in emerging economies is that while they have benefited from government investment in infrastructure and facilities, issues surrounding personal freedoms and safety, as well as broader political tension, remain stumbling blocks to their development as world cities. Despite this, we asked our contributors to rank the key global financial centres – both now and how they imagine the order would be in 10 years’ time.

CONTRIBUTORS WERE ASKED TO RANK KEY GLOBAL FINANCIAL CENTRES – BOTH NOW AND HOW THEY IMAGINED THE ORDER WOULD BE IN 10 YEARS’ TIME.

Ranking now

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Ranking in 10 years

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HOW TO BUILD A WORLD CITY

The zeitgeist is that western capitalism has been found wanting, and a new form of economic leadership will evolve, with locations like London, New York and Tokyo losing their hold on world city leadership. However, evidence from our Attitudes Survey (on the opposite page, and examined in detail on page 12) reinforces a less dramatic view. We asked our contributors to rank the key global financial centres – both now and how they imagined the order would be 10 years hence. The results suggest that both New York and London will remain in first and second positions over the 10-year period.

One of the key reasons for selecting a wide range of criteria in our World Cities Survey is the recognition that economic drivers can only be part of the assessment. All three top cities – London, New York and Tokyo – share similarities in that they are fast and malleable. Planned in part, they are generally the result of organic growth, and have a crowded and chaotic character. The danger for some newly emerging world centres is that they concentrate on the wrong things. Excellent transport infrastructure is a good thing, and to some extent so too are shiny new business districts, stock exchanges and entertainment quarters, but the real underpinning of the current top-tier world cities is much more complex.

One of the significant conclusions to draw from our survey is that economic growth on its own is not enough. The importance of political and thought leadership in addition to a vibrant public sphere mean even medium-sized cities such as Brussels, Toronto and Munich can wield a greater influence in the world than the emerging economy behemoths.

The two cities that stand apart from all others are London and New York. Both have been hit hard by the credit crunch, but their networks remain largely intact and they should be able to recover from the current slump relatively well. The successful ingredients for both cities are in their acceptance of new ideas and invention, their open economies and free press and intellectual scenes – all of which bode well for the future. It will be fascinating to see locations like Shanghai and Dubai challenge this pre-eminence in the future.

Our survey results suggest that in order to make it as a world city, you need more than just success in a single economic field. It seems that the world only regards your city as indispensable if in addition to delivering on wealth creation, you provide an attractive built and natural environment, your universities are open to the best brains from around the world, think tanks and political activists feel free to discuss and disseminate ideas, the press can publish without fear or favour, public spaces are both well maintained and safe, and finally – and most importantly in some eyes – a city’s residents and visitors have somewhere pleasant to discuss its attractions over a decent lunch.
Growing concerns

While other property markets crumbled last year, global farmland values initially kept rising. But recently that resilience has been tested. Andrew Shirley investigates whether agriculture is still a good investment.

Agricultural land was the property market’s darling for much of last year. A massive land rush ensued as new farmland funds touted for business and governments from cash-rich but food-poor nations scrambled to secure productive farmland to feed their populations.

One of the key drivers was a surge in soft commodity prices. World cereal stocks were dwindling and the price of biofuels produced from crops like maize (corn) and sugar cane escalated in tandem with oil prices. Eager investors piled into anything to do with farming, acquiring land and commodities.

In undervalued areas this helped push prices to more realistic levels, but in others it created an overheated market that has now started to cool, as recession forces down commodity prices and potential investors struggle to access credit. In some cases the bubble has burst spectacularly.

Ukraine falls into this latter category. A country with countless under-utilised hectares of fertile black Chernozem soils, it seemed ripe for investment.

In their eagerness, many investors overlooked the issue of land tenure: in Ukraine there is no legal framework for the private ownership of land - you can only buy the right to rent it. Lease agreements of between two and 20 years were being for up to $1,000 per hectare at the beginning of 2008. Now, following an IMF bailout of Ukraine, they are worth only $250, according to Brown & Co, a company that advises on land deals in Eastern Europe and Russia.

Soft searching

Land values in nearby countries with similar soils but more stable environments have fared better. In Russia, the primary land market consists of small blocks of land distributed to individuals following the fall of communism. This has remained stable, at about $300 per hectare, but large consolidated blocks have fallen by about 20% to $800 per hectare.

In countries where demand is also supported by indigenous farm businesses, there has been less of a slowdown. Within the EU, agricultural subsidy payments also help to level the market. In Poland, for example, arable land values have fallen since peaking last summer, but still ended 2008 at about 20,000 złoty per hectare ($4,800), about 10% more than they were at the beginning of the year.

New EU members, such as Romania, appeal to investors because they offer the prospect of an increase in capital values as land prices, bolstered by subsidies and access to EU markets, gradually catch up with those in countries such as the UK.

Investing is not without risk, however. Agricultural infrastructure lags behind Western Europe and land tenure, while legally binding, is less transparent. Much of the land remains in small post-communist parcels. In Romania, values stayed at about €3,500 per hectare during 2008, but are likely to weaken as potential investors struggle to access funds this year.

Currency considerations

When looking at potential investments, shifts in exchange rates make it important to not just consider changes in home currency values. Despite falling in value in the final quarter of 2008, English farmland increased by 16% overall to almost £12,000 per hectare, according to the Knight Frank Farmland Index. But sterling’s slide against the dollar and euro means land at the beginning of this year was 16% cheaper for US buyers and 11% down for those from the eurozone.

Brazil is another country where fluctuations are working in favour of outside investors. One US dollar bought 1.5 reals last August, now it will buy about 2.3. In reals, average values rose by 8% last year to R$4,330 per hectare ($1,850), according to the AgrafNP land price survey. But land used to grow sugar cane has been badly hit by falling ethanol values and prices in some areas are said to have fallen by up to 50%.

South America offers vast swathes of cheap, undeveloped land that can be converted into valuable cropping or pasture land and sold on for big profits. In Brazil it is still possible to buy 100,000 hectares of undeveloped land in a single block. Prices vary, but can be as low as $200 per hectare.

US land values are linked to farm profitability and have been rising strongly. The US Department of Agriculture estimates farm incomes reached almost $90bn last year, 42% above the 10-year average. Much of this was fuelled by a rash of new maize-hungry bio-ethanol refineries. Farmland values in the Midwestern breadbasket states rose rapidly as a result, with prices in Iowa up 14% to $11,000 per hectare. Further rises now seem unlikely, as falling ethanol prices threaten the viability of refineries.

While the credit crunch has affected demand for land in most parts of the world, the US, and particularly Canada and Australia, actually seem to be benefiting. The combination of relatively cheap land and a low-risk political and economic environment is attracting investors who might otherwise have considered South America or Eastern Europe. In the Canadian prairie states, average values rose 10% in 2008 to C$1,100 per hectare ($1,125), says fund manager Agcapita, while in Australia, productive cereal land rose 10% to A$4,950 per hectare ($3,450).

Long-term outlook

For the far-sighted investor, an agricultural downturn could be the ideal time to buy farmland. Most commodity analysts believe the current situation is a dip in a longer upwards trend driven by factors such as an increasing world population and a slowdown in agricultural productivity gains.

Deciding where to invest depends on your aversion to risk – some areas with the highest potential returns also offer the biggest challenges, particularly where the politics of food production are contentious.

Rich nations with limited agricultural resources have already been accused of neo-colonialism as they try to secure land in some of the world’s poorest countries. Escalating food prices prompted riots across the developing world last year, and foreign ownership of land may not sit well with poor populations struggling to feed themselves.

Andrew Shirley is Head of Rural Property Research at Knight Frank.

Farming in figures...

£182
Price, per tonne, of UK wheat at its peak in 2008. By January 2009 this had fallen to £97 per tonne, a drop of 47.5%.

48.7% The fall in the price of US corn (maize) from its 2008 peak of $7.60 per bushel to $3.60 to January 2009.

44.8% The fall in the price of ethanol, in dollars per gallon, from its 2008 peak to January this year (source: enagri).

Farmland focus
Tigers Take on the West

Will burgeoning Asian financial centres such as Singapore and Mumbai oust London from its place? Economist Joergen Oerstroem Moeller argues controversially for the East, while Stuart Fraser presents the counter view.

ILLUSTRATIONS BY LUKE WILSON

Trading places
Joergen Oerstroem Moeller

The US, European and Japanese economies are likely to contract by 5-2% this year as the global recession bites. By contrast, most of Asia will probably be capable of maintaining growth, albeit at a slower rate than the last decade. China and India will expand by about 6% – perhaps higher with some luck – and a number of other economies in Southeast Asia will grow by 3-5%.

A hot issue has been whether or not Asia has decoupled from the US economy. That is mainly a question of vocabulary. Asia has been less hit by the calamities haunting the US economy than it would have been five or 10 years ago, and under half of the lower growth can be subscribe to a drop in net exports. Out of this ctdiron, the US, Japan and Europe will emerge weaker while rising Asian powers such as China and India will grow stronger.

Financial centres like Shanghai will topple New York and London from their positions as undisputed global financial hubs.

Asia has for many years stood for the world’s savings. The flywheel for the global economy was China’s readiness to allow the US to consume beyond its means. China put its savings at the disposal of the US consumer and was paid with two trillion dollar greenbacks, which accumulated in its coffers. China’s own financial system, however, was weak, not only making foreign assets attractive, but also disqualifying Chinese financial institutions as players on the global financial markets.

Consequently, the Chinese authorities concluded that their interests were best served by asking Western, primarily US, financial institutions that domiciled in the region. These will primarily be Asian financial centres such as Shanghai and Mumbai, but maybe also Singapore, Hong Kong and Tokyo. It is too early to predict exact locations. Asia will follow in the footsteps of Europeans in the 19th century and the US in the 20th century, combining manufacturing and high technology with financial power to create a real power base for exercising global leadership.

It is an inescapable conclusion that financial power moves to where production takes place. The world has never seen any other model. The answer is no longer blowing in the wind. It is right here before our eyes, telling us that Asia will take over establishing the world’s coming financial centres.

The third reaction will be to transfer power from Western institutions partly owned by Asian investors, including Asian governments through sovereign wealth funds, to genuine Asian financial institutions domiciled in the region. These will primarily be Asian financial centres such as Shanghai and Mumbai, but maybe also Singapore, Hong Kong and Tokyo. It is too early to predict exact locations. Asia will follow in the footsteps of Europeans in the 19th century and the US in the 20th century, combining manufacturing and high technology with financial power to create a real power base for exercising global leadership.

It is an inescapable conclusion that financial power moves to where production takes place. The world has never seen any other model. The answer is no longer blowing in the wind. It is right here before our eyes, telling us that Asia will take over establishing the world’s coming financial centres. It will not happen overnight. It will take time, but it will happen.

Joergen Oerstroem Moeller is Visiting Senior Research Fellow at the Institute of Southeast Asian Studies, Singapore and Adjunct Professor at Copenhagen Business School and Singapore Management University.

City stickler
Stuart Fraser

The financial services sector: the world over is still reeling from the turmoil of the credit crunch. The City of London Corporation supports and promotes the Square Mile – and we know that nothing can be taken for granted as we move forward. But we must remember the City’s many advantages in an increasingly competitive world.

To prepare for the recovery, we must invest now to attract global business. We all know what firms look for in a financial centre: a friendly and predictable tax regime; good regulation; a pool of skilled and talented people; a pleasant living and working environment; and good transport. That is why projects such as Crossrail, a large rail infrastructure initiative that the City of London Corporation has championed for over 15 years, are so important.

Our international residents particularly enjoy the openness and tolerance of UK society. This is why so many have taken advantage of our diverse and transparent residential and commercial property market to establish permanent homes.

The eastward shift of the global economy will continue, and financial centres in Asia will grow in importance, but this is not necessarily bad for London: we can position ourselves as the partner of choice for these growing centres. London has exceptional expertise to offer – in traditional areas such as the English legal system as well as innovative new fields such as carbon trading. Our language, accepted as the mother tongue of business, is a strategic advantage and, as a full member of the EU, we can act as a bridge between the world’s largest trading block and the rest of the globe.

Taxation is one of the most important factors businesses consider when choosing where to locate. The government’s decision last year to tax profits where they are earned could make the UK a highly attractive location for headquarters. Research shows companies want not only low rates, but also predictable tax regime enforced consistently.

In our eyes, the growth of the East is an opportunity to build strong partnerships with Asia’s leading financial centres, which can only strengthen the financial services sector here.

Stuart Fraser is Chairman of Policy at the City of London Corporation, www.cityoflondon.gov.uk
Luxury assets increasingly serve two purposes. They are to be enjoyed, savoured, admired and sometimes even consumed, but commonly their owners also expect a more tangible return. Wine, art and cars are now all considered, by some at least, as investment classes in their own right. Indices track their performance and funds buy and sell them without enjoying or even appreciating the desirability of their assets. So how have the markets for these luxuries been performing while the credit crunch sliced and diced its way through more traditional investments? If you believe the headlines, some markets have virtually collapsed. Speak to the experts, however, and it becomes harder to generalise.

Like property, the art market has suffered a very public fall from grace. Breathless commentators followed prices ever higher and then gleefully unleashed their gloomy headlines when the market turned. However, the Mei Moses index, which tracks auction results, reveals prices actually fell on average by a relatively modest 4.5% last year. But this comes after five years of stratospheric growth averaging 20% a year and masks a sharp downturn in certain sectors of the market.

Contemporary art has suffered most, with many works failing to sell at auction at the end of 2008. But, as Henry Wyndham, Chairman of Sotheby’s Europe, admits, the market—which reached a spectacular zenith with his firm’s £111m Damien Hirst sale last September—had become overheated. “Since 2006, prices had doubled or even trebled in some cases.” Contemporary prices have got to be readjusted back to levels seen in 2005 or 2006, he states. “I think now could be the time to buy.”

Other sectors and even some relatively modern artists are still delivering strong results, says Wyndham. “There is definitely still a market out there and there are still a lot of people with a lot of money.” Last November, for example, a 1916 work by Russian artist Kazimir Malevich achieved $60m at auction by Sotheby’s in New York. Works by Degas and Munch also sold for over $30m at the same sale.

The market for Old Masters is far less dictated by fashion and tends to be dominated by serious collectors who have been buying for many years. Market estimates for this year’s sales will reflect this.
Despite losing its grip on the mass market, France is still king when it comes to the very top of the market. Fine wine is another area that has experienced its share of its share of volatility in recent years. With the credit crunch hitting the wine market, many producers have been forced to sell off their inventory at bargain prices in order to stay afloat. However, the market has shown signs of recovery in recent months, with prices slowly starting to rise once again.

In the world of classic cars, the market has been highly volatile in recent years. The economic downturn has had a significant impact on the market, with many people choosing to sell their luxury vehicles at a loss. However, the market has shown signs of recovery in recent months, with prices slowly starting to rise once again.

From a collector's perspective, the market has been highly volatile in recent years. The economic downturn has had a significant impact on the market, with many people choosing to sell their luxury vehicles at a loss. However, the market has shown signs of recovery in recent months, with prices slowly starting to rise once again.

For many collectors, the market has been highly volatile in recent years. The economic downturn has had a significant impact on the market, with many people choosing to sell their luxury vehicles at a loss. However, the market has shown signs of recovery in recent months, with prices slowly starting to rise once again.

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hen fashion guru Karl Lagerfeld of Chanel says that bling is over and has been replaced by something he terms the “new modesty”, you know that even in the rarerfied world of the super stylish the credit crunch is having a dramatic impact. From fashion to design, the new emphasis is on recessionary luxury, and there is a tangible shift towards something more considered in terms of consumption and lifestyle – more suited to these crisis-ridden times. Inconspicuous consumption does not mean that the luxury lifestyle has vanished. The move is towards something more thoughtful, more sophisticated and of course much better for us.

Property
In difficult economic times we can expect a return to the safe and familiar. As the trend spotters at the New York-based Luxury Institute noted recently, “Wealthy customers will opt for classic luxury that is unique and exclusive.” This trend is mirrored in the international second homes market, where Patrick Dring, Head of International Sales for Knight Frank, says the tried-and-tested playgrounds and investment hot spots of the rich and famous are still the places to be. The list of sought-after locations reads like a classic guide to the traditional world of the international super-rich. In Europe, it’s Saint Jean-Cap-Ferrat, Cap D’Antibes, Cannes, St Tropez, Mallorca, Ibiza, Portofino, Capri, Tuscany and Como. In the US and Caribbean it’s New York, The Hamptons, Palm Beach, Barbados and Mustique. The credit crunch has reinforced a trend towards downshifting in terms of lifestyle, which has fed a greater interest in both provenance and authenticity. Although the wealthy have long sought out bucolic boltholes, these are
becoming more than just places to relax and consume. Celebrity exponents of a luxury grow-your-own lifestyle include rock star Sting and his wife Trudie Styler who have developed both their UK based Lake House organic brand, supplied from their farm in Wiltshire, and sales of honey and extra virgin olive oil from their Il Palagio estate in Tuscany. On a smaller scale, the ever-glamorous Elizabeth Hurley manages to combine her various ventures with a new business. She has started supplying British pork from heritage breed Gloucester Old Spots to local butchers and retailers from her 400-acre Gloucestershire estate.

Even on a determinedly non-commercial scale, international buyers are looking to get the maximum lifestyle value out of their country properties by installing beehives for home-grown honey, establishing fruit orchards and creating the most elegant but also productive of old-fashioned kitchen gardens. For the super-rich, simple entertaining at home, serving truly home-grown produce, wins hands down in the glamour stakes over the latest celebrity chef’s restaurant. Seasonal, sustainable, good for the planet and very eco-chic.

If one of the joys of having serious amounts of money is the luxury to indulge one’s passions then, for wealthy wine aficionados, seeking out the perfect chateau with accompanying vineyards is still high on the agenda. Whether it’s in Europe, the US, Argentina, Chile, South Africa, New Zealand or Australia, buying a vineyard is an increasingly popular venture. Amanda Skinner, from UK wine experts, Private Cellar, says, “Although there’s no doubt that this is a capital-hungry occupation, you end up with a lifestyle that money alone can’t buy.”

And don’t miss Klauser & Carpenter, whose work is often held in global design forums, Design Miami, saw a perfect example of this, with a select group of collectors ordering Dutch artist Pieke Bergmans’ ‘Light Bulb’ chandelier from the Netherlands-based Privekollektie Contemporary Art/Design gallery. Swarovski Crystal Palace showcased a chandelier-based installation comprising a chandelier and table entitled ‘Liquid Space’, by world-renowned British industrial designer Ross Lovegrove, which sums up the mood for 2009: it celebrates uniqueness, movement, rarity, simple organic forms, modest designs and natural materials combined with cutting-edge – albeit hidden – technology. The chandelier and table ‘Liquid Space’ were deemed counter-intuitive in terms of enhancing a property’s value – for example, by adding a structural double-height conservatory made of frameless glass – however it works because it makes daily living indulgent. Uber-bip designer Martin Brudnizki has a self-termed signature style of ‘minimalism deluxe’ that reflects the design trend for comfort and indulgence alongside pared-down purity and simplicity. As he puts it, “It’s all about sumptuous materials with straightforward architecture and you’ll have the ultimate refuge.”

Among contemporary art has taken a hit recently (see page 36), contemporary furniture is still highly fashionable. Names to watch include Ron Arad, Donald Judd, Danny Lam and acclaimed architect Zaha Hadid, who has extended her reach into the world of furniture, lighting and bathroom fittings.

Design and interiors

The main themes in design and interiors are very simple – quality and sustainability. Good design has always been an international currency. The world of luxury homes and interiors hasn’t disappeared beneath the radar but has evolved into something beyond brands and definitely doesn’t come blazing a logo.

The Luxury Index believes consumers will look extensively to their own peers for guidance of what is, and what is not, true luxury. Craft has returned, with a focus on longevity. The new interiors are heavily influenced by the qualities of a Savile Row suit – beautiful materials, textures and fabrics, exquisite detail and bespoke design. The wealthy are still buying, just less but better.

Textile designer Geraldine Larkin is a perfect example of this new ethos. She has a world-class reputation for designing highly luxurious and understated hand-embroidered textiles that are used by many of the most famous fashion and couture houses and interior decorators. Larkin says: “The top end of the market is still spending but in an understated way, where the textiles speak before the label. The very wealthy don’t want mass-branded products and they don’t want statement designs any more. They want style and simple luxury: now it’s all about wealth whispering.”

Karen Howes, of Taylor Howes Design, which won the prestigious Andrew Martin Interior Design Award in 2006, is currently working on Imperial Wharf, a riverside development in London. She says: “Understated quality and discreet luxury are the trends moving forward at the high end of the market.”

According to acclaimed interior designer Janine Stone, “We are seeing a new level of refinement in the artisanal quality and specification that high net worth clients expect.” She predicts that this year “textures and finishes will be understated luxe, moving away from lavish detail to show honesty, simplicity and integrity. There will be a focus on properties and objects that reflect a sense of authenticity, craftsmanship, heritage and skill.”

Houston Morris, of contemporary design company Houston Morris Architects, believes that quality and light is at the heart of enhancing his clients’ way of living. Adding volume rather than just floor space may once have been deemed counter-intuitive in terms of enhancing a property’s value – for example, by adding a structural double-height conservatory made of frameless glass – however it works because it makes daily living indulgent. Uber-bip designer Martin Brudnizki has a self-termed signature style of ‘minimalism deluxe’ that reflects the design trend for comfort and indulgence alongside pared-down purity and simplicity. As he puts it, “It’s all about sumptuous materials with straightforward architecture and you’ll have the ultimate refuge.”

Although contemporary art has taken a hit recently (see page 36), contemporary furniture is still highly fashionable. Names to watch include Ron Arad, Donald Judd, Danny Lam and acclaimed architect Zaha Hadid, who has extended her reach into the world of furniture, lighting and bathroom fittings. And don’t miss Klaus & Carpenter, whose work was showcased at last year’s London Frieze Art Fair. Some celebrated names have led the field, such as Sam Neil, the New Zealand actor, who produces Pinot wines under the Kiwi Two Paddocks label, and film director Francis Ford Coppola, who sells under the Niebaum-Coppola label from Napa Valley.
Alejandro Gutierrez speaks calmly as we discuss the issues facing cities today – the pollution, the congestion, the vast carbon footprint hastening the process of global warming. He doesn’t raise his voice or gesticulate, unlike many environmental campaigners when they start to proselytise, but the visionary young architect and urban designer leaves you in no doubt as to how serious he thinks the consequences will be for urban areas, which by 2050 will house two thirds of the world’s population, if we don’t start addressing their problems now. Climate change and dwindling or polluted natural resources will threaten both cities and mankind’s ability to survive. It’s a fairly bleak assessment that leaves no room for complacency.

Gutierrez, who works for engineering and design giant Arup, also makes it clear that he’s not anti-city. In fact, the Chilean-born Hampstead resident loves cities, which probably explains why he wants to help save them. What inspires him is the ability of the public parts of cities to improve the lives of their inhabitants. “The parks, the pavements, public transport, the way city dwellers procure their energy are all so relevant to quality of life,” he says. “We tend to focus on the quality of our private and commercial space, where we work and live, but as anybody in the real estate industry knows, the context of where you put a thing, whatever that thing may be, is as important as the thing itself.”

As a student of both economics and architecture, Gutierrez is fascinated by how the relationship between built form and the way it is shaped by economic, social and environmental drivers is crystallised in cities. Medium-sized ones – Verona in northern Italy is a favourite – are the most interesting, he says. “They have a scale that allows you to do things in much quicker, faster and easier ways and to have social contact while at the same time, having the diversity and resilience as an economic entity to allow the supply of good jobs, retail opportunities and services. Big cities work less well in the sense that regardless of the level of wealth or development, the sheer distance you have to go through makes them difficult.”

Despite its size, London is one of the few big cities that works, he says. “It’s more a collection of villages and because of that you can at least partially get the life of a medium-sized city. It can cycle around in 15 minutes and do everything I need to do around where I live.”

Acknowledging that not everybody is so lucky, Gutierrez believes one of the key things for the future will be to start making, or helping, people make the right choices by pricing carbon or fuel in different ways. London’s congestion charge, which he applauds, is an obvious example, but some of the ideas he mentions go much further than that. In the US, for example, the idea has been mooted of mortgaging where the interest rate becomes more expensive the further you live from your place of work. “When you start looking at things at that level, it will start to cluster people around their work places in a highly efficient way. These are the things that will start to change the future of cities.”

Ideas like this may sound uncomfortable to most of us now – uneasy as we already are with the growing influence of politicians and regulators on our lives – but something has to be done, says Gutierrez. “We are already experiencing a traditional economic meltdown, but I think the biggest challenge we will have is how we get hold of resources to fuel our lifestyles – and that includes the Chinese, the Brazilians, the Russians and all those other countries that are fast developing. As we produce things today, as we create energy today, the way we move around cities today, there are not enough resources. There needs to be a fundamental change in how we use resources, how we reduce resource consumption and we need to stop depleting the elements that support life, like water and air. It sounds simple but we are not doing it.”

Such things sound expensive, especially during a global recession, but Gutierrez envisages a new greener economy where environmental measures will shift from becoming a burden to creating new investment sources and industries, offering the opportunity to tackle both the economic downturn and the climate crisis. “That could be the most powerful thing to happen in the next 10 years. We need to have environments of a sufficient scale to test the new technologies and systems.”

He says there is already an investment case for reducing carbon emissions, which could provide avenues for the wealthy investor looking for sustainable, yet profitable, opportunities. “Studies in the US show that buildings certified by the Leadership in Energy and Environmental Design scheme [which meet certain sustainability standards] attract a higher rent per square metre, because people value their energy security, energy efficiency and lower operational costs, as well as the prestige of being able to say in the annual shareholder report that they reduced their carbon emissions by taking space in those buildings.”

Although initiatives such as the Clinton Foundation’s C40 alliance, which has persuaded 40 of the world’s leading cities to commit to reducing their carbon footprints, are encouraging, Gutierrez despairs when he sees so much unsustainable development continuing around the world. “But if we focus on those disasters we could be crying. We need to focus on those things that could get us out of the very risky position the planet is in today.”

Again, Gutierrez comes back to the need for the right incentives or legal frameworks that allow governments to make the right decisions. “The moment you put a price to carbon, however you do it – through trade, tax or pricing it at a personal level – you will see behaviour change and that change will be at all scales, from personal, to metropolitan, to national,” he says.

Saving the world may sound a slightly ambitious addition to the daunting task of the planner or architect, but that is what makes integrated urbanism – the idea that cities need to adapt into more habitable places to live, which Gutierrez and his colleagues pioneered at Arup – different. “People are doing design better or worse, but they’re not addressing the central problem of this age, which is resource efficiency, and how it relates to cultural, social and economic development.”

Talking, of course, is easy but as the lead designer of Dongtan, the world’s first major eco-city designed completely from scratch, Gutierrez has shown, on paper at least, how his ideals can coalesce into a viable, attractive and environmentally sustainable urban environment. Ironically, his creation is in China, the world’s fastest growing polluter. But even China, it seems, recognises that the detrimental side effects from rapid and unchecked growth are the real carbon footprint.
industrial growth eventually start to put the brakes on further wealth creation, as natural resources become polluted and unusable. Located on an island in the Yangtze Delta close to the financial powerhouse of Shanghai, Dongtan was supposed to be part of the country’s solution, a blueprint that other developing Asian nations can copy, though the city remains unbuilt at the present time.

Arup’s brief for the new city left little room for compromise. In addition to the inherent challenge of building a large settlement on a low-lying marsh, all Dongtan’s power needed to come from local renewable energy sources and the delicate ecology of the island, home to the rare black-faced spoonbill bird, could not be harmed.

Settling on the right population density was key to Gutierrez’s master plan. He wanted to avoid unsustainable high-rise developments while ensuring there were sufficiently dense population clusters to make local renewable power generation viable and to encourage walking or cycling between home, leisure and work spaces. The result was surprising. Despite limiting buildings to a maximum of eight storeys, 500,000 people could be fitted into an area originally mooted for just 50,000. Commuters would reduce, on average, travelling time by 20 days a year, but 65% of the land could still be devoted to parks, farmland and the ponds and flood cells needed to cope with changing water levels.

A centrally located power plant burning rice husks, a common agricultural by-product in China, would heat and cool the entire city, while at the micro level homes would be fitted with energy performance meters, coupled with usage-based price tariffs, to help homeowners reduce their consumption. What is proposed is a totally integrated urban ecosystem with its own environmental rhythms, far removed from a conventional planning blueprint.

Dongtan looks like an impressive model for the future, however the biggest challenge is retrofitting the existing cities that account for the majority of built stock, says Gutierrez. “It should, for example, be the norm for energy service companies to export energy from new developments into surrounding districts.” Economics will also force change – not necessarily by changing the physical structure of cities, but by altering how we use it.

“It will be based on a different paradigm,” says Gutierrez. “Cheap oil has generated this way we move around cities, but it is now becoming depleted. I don’t think commuting from any distance will make sense. Instead of everybody travelling to work in the same place, more people will work from home and firms will have smaller offices in different locations.

“People laugh at me when I talk about cities being carbon neutral within 40 years, but we have seen changes of this magnitude before.”

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