THE WEALTH REPORT

A GLOBAL PERSPECTIVE ON PRIME PROPERTY AND WEALTH 2011

Knight Frank

Citi Private Bank

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A GLOBAL PERSPECTIVE
ON PRIME PROPERTY
AND WEALTH 2011

THE SMALL PRINT

TERMS AND DEFINITIONS

HNWI is an acronym for 'high-net-worth individual', a person whose investible assets, excluding their principal residence, total between $1m and $10m. An UHNWI (ultra-high-net-worth individual) is a person whose investible assets, excluding their primary residence, are valued at over $10m. The term 'prime property' equates to the most desirable, and normally most expensive, property in a defined location. Commonly, but not exclusively, prime property markets are areas where demand has a significant international bias. The Wealth Report was written in late 2010 and early 2011. Due to rounding, some percentages may not add up to 100.

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Much has changed since *The Wealth Report* was first published by Knight Frank and Citi Private Bank in early 2007. Indeed, given the small matter of a global credit crunch and a growing number of historic political events, how could the world not be a vastly different place?

In some aspects, it undoubtedly is. Egyptians look forward to a future without President Mubarak. Asia is the world's new economic powerhouse. Some of the US's most renowned banks are no longer in existence. The UK and other European countries face some of the most stringent government spending cuts ever seen. The French may have to retire at 62, not 60.

But, in the midst of this tumult, the resilience shown by the world's most exclusive residential property destinations remains constant. In some cases, it has even been enhanced. Our data on page 60 confirms the strength of the recovery in prime property values in London and New York. The performance in leading Asian cities has been nothing short of spectacular. Although, as we explore on page 26, this itself is cause for new concern.

As our wealth distribution map on page 10 illustrates, wealth is once again being created at a remarkably rapid rate, especially in Asia. And the factors that encourage the wealthy to seek out and buy the very best property in cities such as London have, if anything, become even more important.

Twin themes run through this year's report. The first is the ongoing rise of Asia. The second is the importance of education. This is the key driver when buying a second home for many Asian HNWIs. On page 41, in one of our exclusive HNWI interviews, one of China's richest men explains why it is so important to him.

This year, we can claim an even better understanding of what motivates UHNWIs around the world when it comes to their attitudes towards wealth and the decisions that shape their investments. The results of our unique *Attitudes Survey* are more global than ever before and reflect the sentiments of almost 5,000 UHNWIs worth on average more than $100m each.

Property clearly remains close to their hearts. According to the survey, it makes up 35% of the average UHNWI's investment portfolio and is their most important investment after their own business. Other results from the survey are highlighted throughout the report and a more detailed synopsis of its findings is contained in our new Databank section.

The Wealth Report continues to evolve. Apart from the extra information in the Databank section, our Prime International Residential Index on page 26 covers even more locations this year. There is more expert insight from leading property and investment advisers at Knight Frank and Citi Private Bank. And we also reveal the results of our new Vineyards Index on page 38.

I hope you find *The Wealth Report* more interesting and informative than ever before. If Knight Frank or Citi Private Bank can be of help, please do not hesitate to get in touch. You can find a full list of contacts on pages 66-67.

This year, we can claim an even better understanding of what motivates UHNWIs around the world when it comes to their attitudes towards wealth and the decisions that shape their investments

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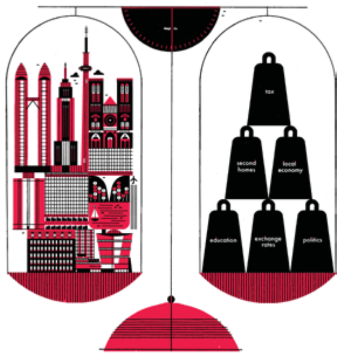


SIGNPOST

'Korea could be very interesting once North and South merge, as they inevitably will'

Jim Rogers p23

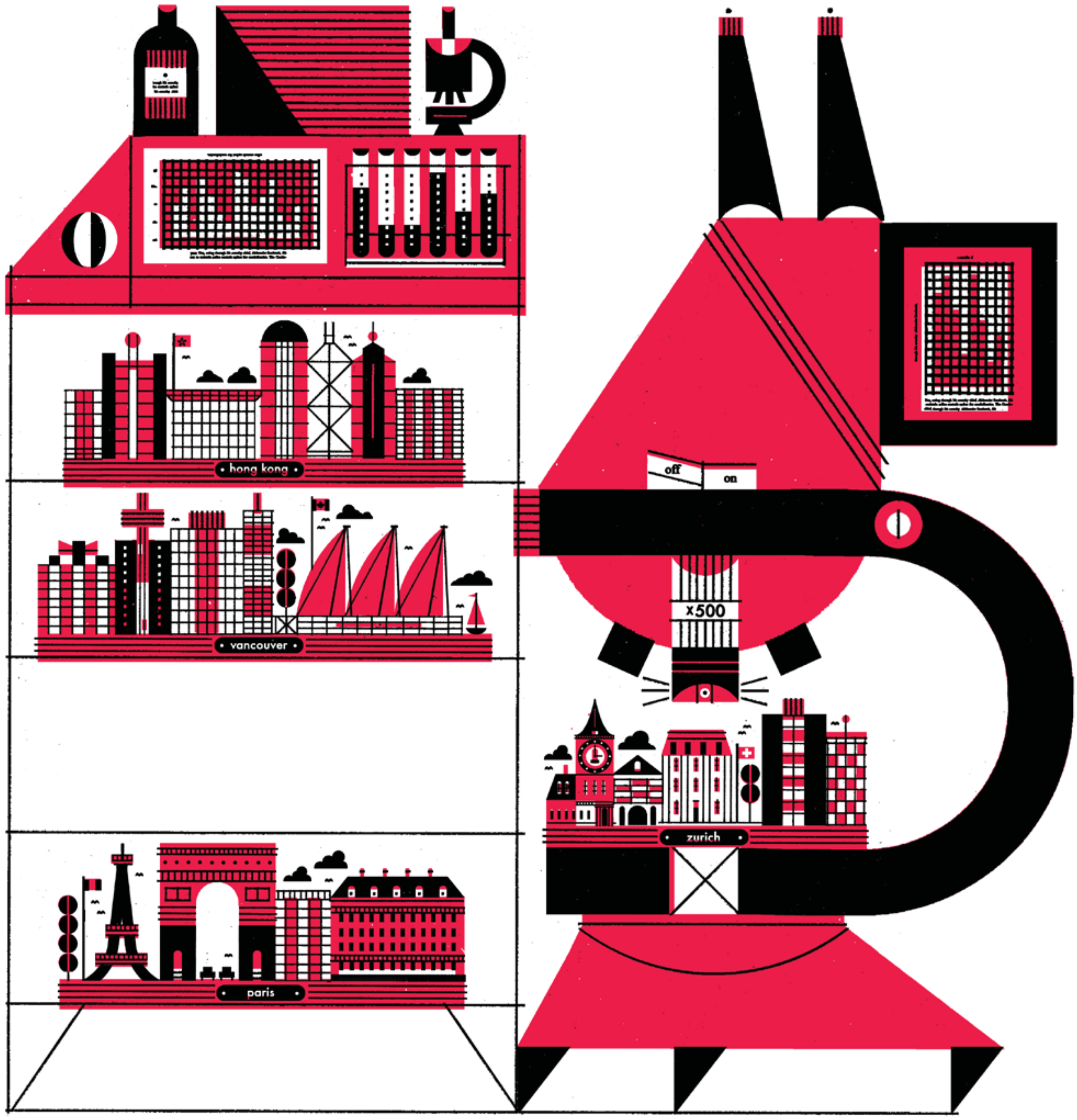
MONITOR

PERFORMANCE

'We've a big obligation to demonstrate our work's social impact'

Stephen Dawson p59

MONITOR



GEOPOLITICAL TRENDS AND LOCATIONS UNDER THE MICROSCOPE

EAST LEADS RICH REVIVAL

THE HUGE INCREASE IN CHINESE BILLIONAIRES IS LEADING A NEW RISE IN THE WORLD'S WEALTHY

STEPHEN WALL
SCORPIO PARTNERSHIP DIRECTOR

Taking the world's wealthy as one community, the collective wealth of high-net-worth individuals (HNWIs) shot back up last year by 22% as investment markets rebounded, confidence returned and opportunities resurfaced. Wealth creates wealth – for those already in the game, the good times were back. Very few needed to work too hard to see their numbers rise again.

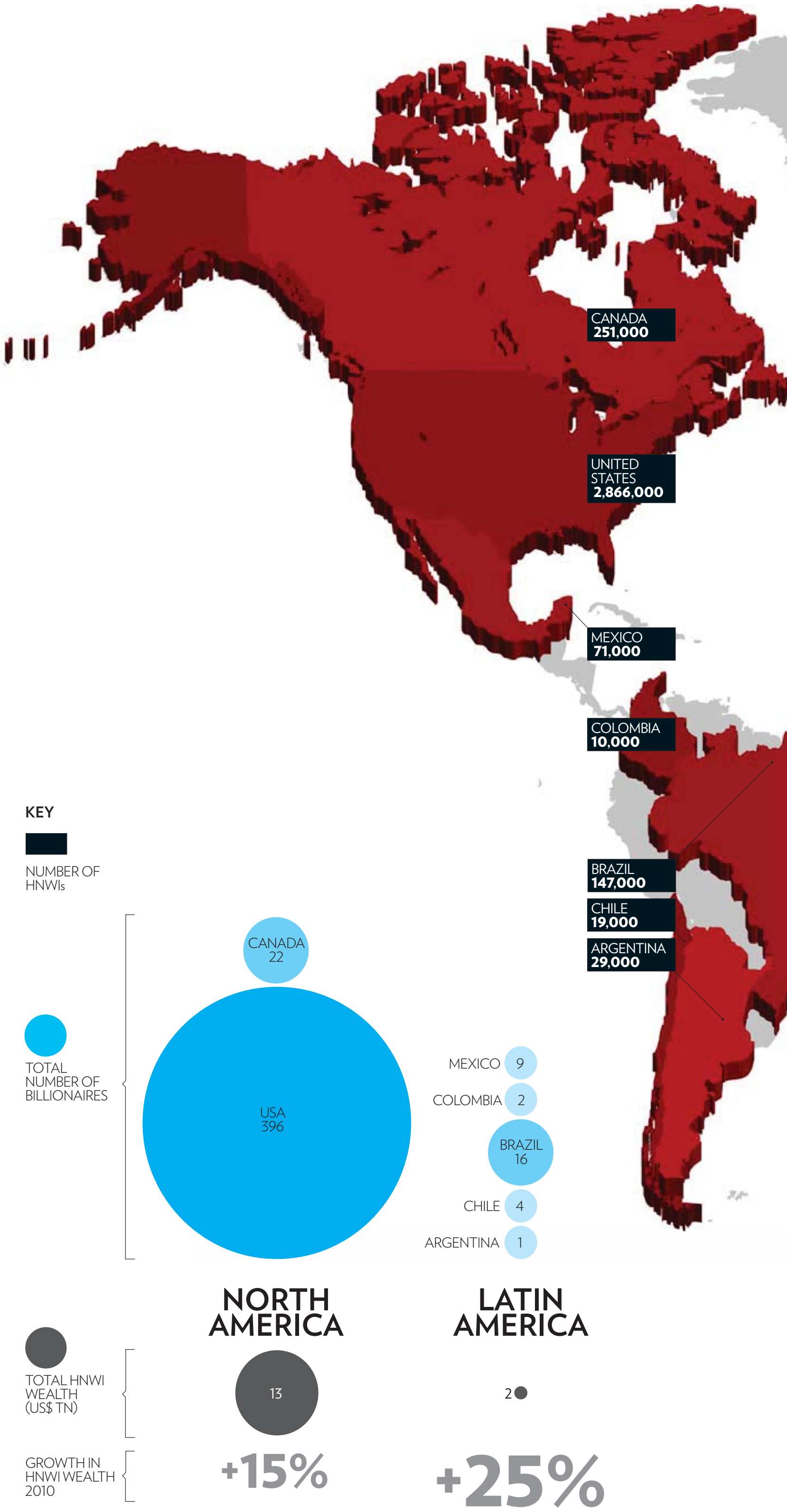
Our Wealth Distribution Model confirms that the big story is the money now sitting in Asia Pacific – $11tn. While still third behind North America ($13tn) and Europe ($11tn), it is fast catching up and contains two of the world's four largest wealth markets – Japan ($4tn) and China ($2tn). Bar a huge economic crisis nobody is predicting, it will snatch second spot from Europe by the end of the year. North America – and the world lead – is in its sights.

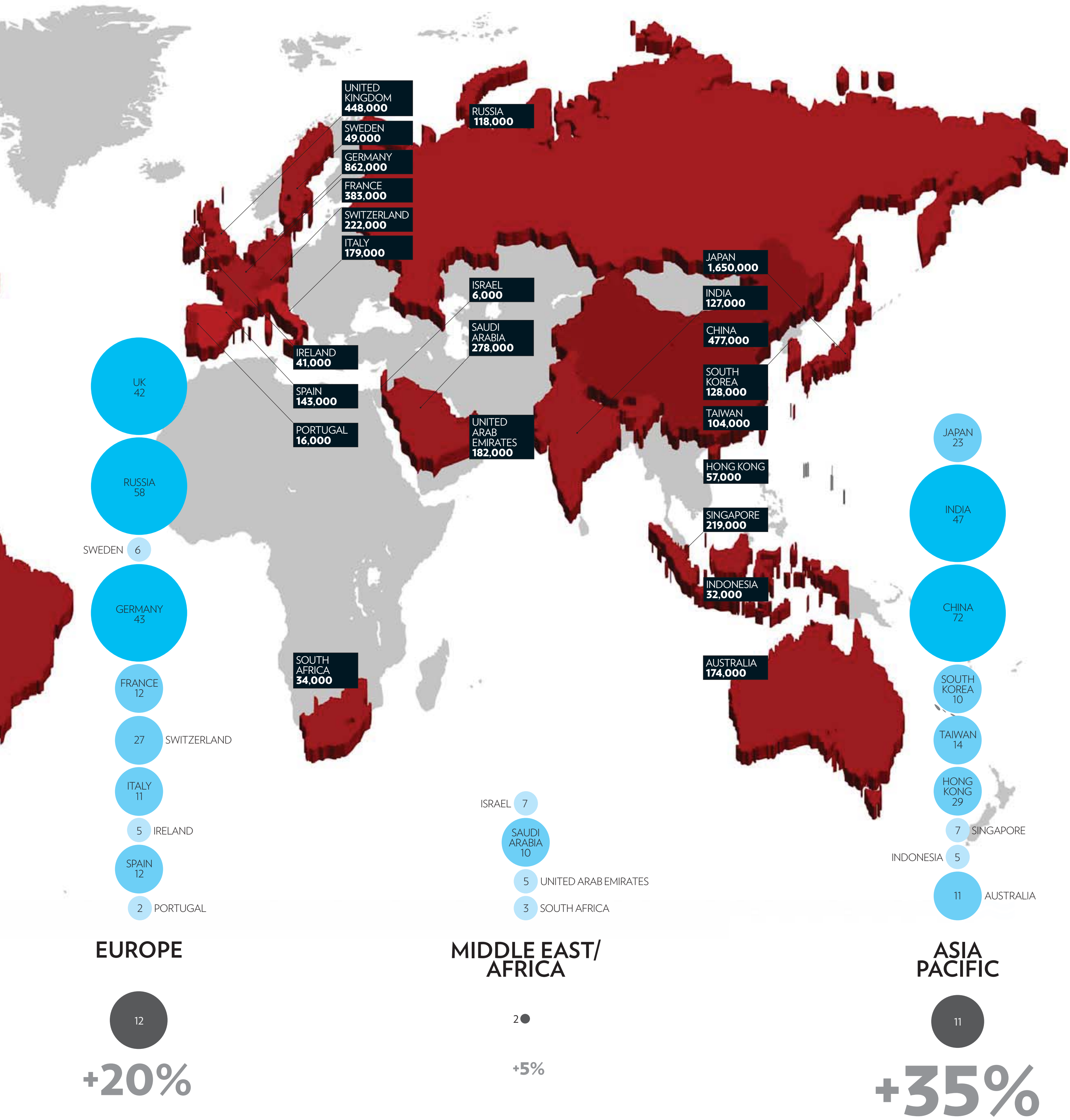
The market to watch in the Asia-Pacific region is China. One key metric is the huge rise in billionaires – up 140% over the year. According to Forbes, China was the 35th ranked country by number of billionaires in 2005. By 2010, it was second.

China may eclipse the US in billionaire numbers before Asia Pacific overtakes North America. That growth may be strengthened by the range of wealth sources driving economic growth. China will see more entering the billionaires' club, backed by a steadier pool of money that is less at risk from dramatic gains and falls than that in Russia, for example, with its volatile commodity markets.

Other markets aren't out of the global game, however, with more to the wealth story than just Asia Pacific. North America remains centre stage, but there is wealth to be made in Brazil, Australia, the Gulf states and, boring though it may be, old Europe.

The data is based on Scorpio Partnership's proprietary Wealth Distribution Model. This model combines macro-economic and micro-economic data to estimate the 'true' spread of wealth across different countries. The distribution data is based on parametric distributions of wealth, and builds in particular on the work of Vilfredo Pareto and subsequent academic developments in the fields of both economics and statistics. Parameterisation of the wealth distribution is validated against a number of statistical sources, including data from the IMF, UN, national household surveys, national balance sheets and rich lists. Growth figures are measured in both real terms and local currencies in order to allow for adjustment for inflation and exchange rate fluctuations. Scorpio Partnership is an international business consultancy firm to the wealth management industry. www.scorpiopartnership.com




UNITED KINGDOM 448,000
SWEDEN 49,000
GERMANY 862,000
FRANCE 383,000
SWITZERLAND 222,000
ITALY 179,000
IRELAND 41,000
SPAIN 143,000
PORTUGAL 16,000
RUSSIA 118,000
ISRAEL 6,000
SAUDI ARABIA 278,000
UNITED ARAB EMIRATES 182,000
SOUTH AFRICA 34,000
JAPAN 1,650,000
INDIA 127,000
CHINA 477,000
SOUTH KOREA 128,000
TAIWAN 104,000
HONG KONG 57,000
SINGAPORE 219,000
INDONESIA 32,000
AUSTRALIA 174,000
UK 42
RUSSIA 58
SWEDEN 6
GERMANY 43
FRANCE 12
27 SWITZERLAND
ITALY 11
5 IRELAND
SPAIN 12
2 PORTUGAL
EUROPE
12
+20%
ISRAEL 7
SAUDI ARABIA 10
5 UNITED ARAB EMIRATES
3 SOUTH AFRICA
MIDDLE EAST/ AFRICA
2
+5%
JAPAN 23
INDIA 47
CHINA 72
SOUTH KOREA 10
TAIWAN 14
HONG KONG 29
7 SINGAPORE
INDONESIA 5
11 AUSTRALIA
ASIA PACIFIC
11
+35%

A YEAR OF LIVING DANGEROUSLY

2011 HAS ALREADY WITNESSED SOME HISTORICAL POLITICAL EVENTS. CITI PRIVATE BANK'S TINA FORDHAM EXPLAINS WHY WE SHOULD GET READY FOR MORE TURBULENCE

Late last year, we identified 2011 as the Year of Living Dangerously. We believed increasing social and political upheaval and intensifying sovereign debt dynamics would converge, testing the strained political capital of world leaders.

Events since then have strengthened our view. In January, a US congresswoman was shot, changing the dynamics of the country's highly polarised political discourse. A middle-class revolution then removed a longstanding leader from power in Tunisia, followed quickly by Egypt. These developments highlight the potential for rapid political change – and perhaps signal the dawn of a new political era.

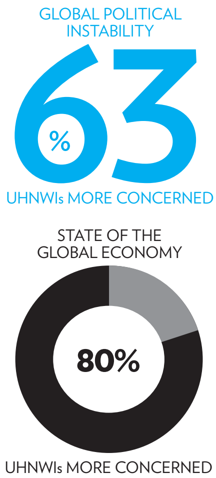
The year 2011 will feature a number of critical signposts for investors. In the European Union, regional and national elections from Ireland to Germany will determine the trajectory of the eurozone's political drama, while fierce partisan tensions will dominate US budget negotiations, and possibly trigger another government shutdown. A meeting between the US and China will set the agenda for the world's most powerful relationship. Nigerians will vote amidst heightened sectarian tensions and more volatile global oil markets. The political unrest in the Middle East and North Africa (MENA) will almost certainly continue.

According to *Attitudes Survey* data, investor concern about the state of the global economy and global political instability increased compared to last year, across regions. Similarly, the World Economic Forum's Global Agenda Council identified the world's shifting balance of power as the single most important trend defining the next 12-18 months. These surveys were taken before events in Tunisia triggered a series of political protests; such sentiment is likely to be stronger now.

As the post-global-financial-crisis balance between government, markets and society recalibrates, political and social factors will lag economic and financial indicators. At the core are a handful of cross-cutting themes: anti-establishment sentiment, sometimes leading to new political movements; growing social tensions; the influence of new technology; the globalisation of public expectations; and rising commodity prices, especially food.

How can investors adapt to this complex, fast-moving political environment? One way is to ensure their investments are politically diversified.

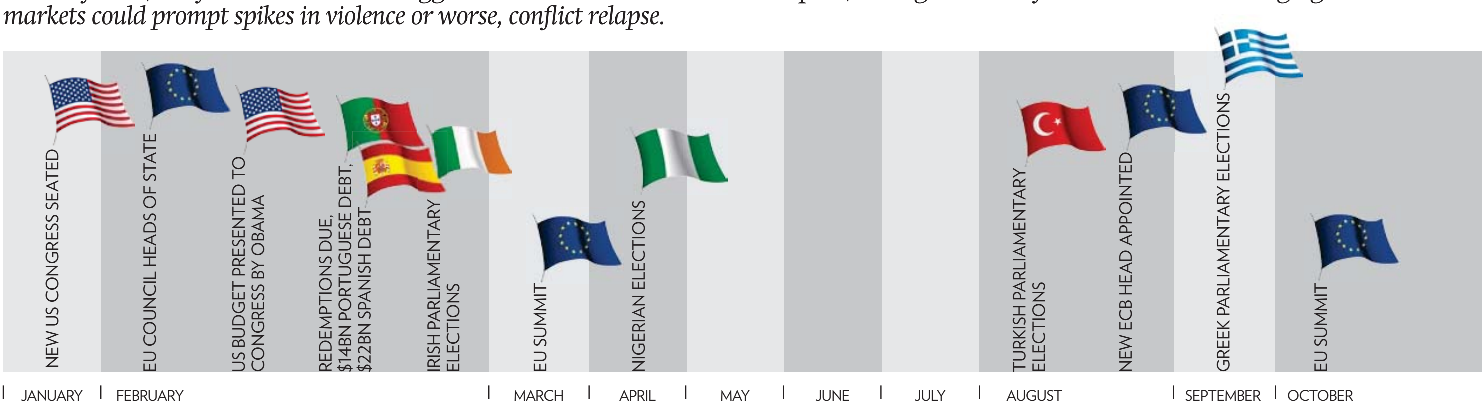
FEARS FOR THE FUTURE



For more *Attitudes Survey* results, and to find out which global locations should be on investors' radars, see Databank on p60

2011 POLITICAL SIGNPOSTS

Few major elections are scheduled for 2011, a welcome respite in the midst of continuing uncertainty. But political volatility in mature democracies will be inflamed by budget and debt limit disputes in the US and austerity and sovereign debt concerns in the EU. As austerity bites, early elections could be triggered in EU member states such as Spain, Portugal and Italy. Some contests in emerging markets could prompt spikes in violence or worse, conflict relapse.



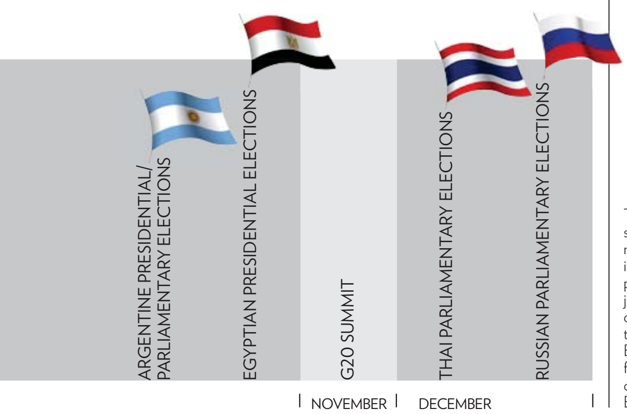
Previously, political risk analysis focused on assessing perceived higher risks in less transparent emerging market countries, mainly for developed world investors.

Since the global financial crisis, the tables have turned. Political risk is evident in both the developed world – as the role of the state has expanded – and in emerging markets, where events in MENA have exploded the myth of political stability. Investors now need to follow national and even regional eurozone elections, much as they used to track elections in Brazil or Russia. In MENA, initial suggestions that Tunisia's Jasmine Revolution would be an outlier were proved wrong. Instead, it has provided a remarkable demonstration effect for the phenomenon of 'people power', reversing decades of political apathy.

The uprisings in MENA are a reminder that economic growth doesn't necessarily ensure political stability, especially where gains are overly concentrated. Rising food prices – one trigger for the recent unrest – remain a risk factor that could see a return to the food riots of 2008. But, typically, it is the middle classes and not the poor who spearhead revolutions. The same population growth and new middle classes in the emerging markets that prompted so much foreign direct investment and helped power growth could now bring trade-offs.

The MENA unrest is likely to dominate the 2011 political agenda, continuing and possibly worsening before the region stabilises.

For leaders, courage and vision will be key to tackling these new demands, especially in an era of reduced state resources. For investors, in addition to monitoring political risks more closely, diversification to reduce their exposure to sometimes sudden political upheaval may be in order.



TINA FORDHAM
CITI PRIVATE BANK'S SENIOR POLITICAL ANALYST

Tina Fordham is Citi Private Bank's senior political analyst and has more than a decade's experience in international policy analysis and political risk assessment. Before joining Citigroup in 2003, she was director of global political risk at the international consultancy Eurasia Group. She is an associate fellow at Chatham House and chair of its Central and Eastern Europe task force.

RISK RUNDOWN

As the post-economic-crisis landscape evolves, new and old risks are intersecting, often in unexpected ways. Here are the most important

RISING FOOD PRICES

Food prices can be a trigger for popular uprisings. At the end of last year, food price inflation was running at 25%. Harvests have been hit by bad weather, and some crops have also become substitutes for energy in the form of biofuels.

CYBER WARFARE

The advent of cyber warfare heralds a new era of risk as well as new methods for combating it. The Stuxnet virus is thought to have eliminated as much as a fifth of Iran's nuclear capacity and slowed its suspected nuclear programme by years.

WAR & TERRORISM

A major war could set back the global economic recovery, especially if it were to disrupt global trade. The risk of conflict relapse increases during times of falling living standards. Meanwhile the threat of terrorism continues a decade on from 9/11.

PROTESTS & DEMONSTRATIONS

There is increasing evidence of rising social tensions and political violence, but the triggers vary. Austerity measures in many European countries could prompt larger-scale protests. Violence can also be a by-product of greater political polarisation.

NUCLEAR PROLIFERATION

Curtailing the spread of nuclear weapons has been a key priority for foreign policy for the Obama administration, which sponsored a major international gathering on the topic last year. Yet the pursuit of nuclear power by rogue states continues. This presents a largely hidden and yet powerful and potentially lethal risk at a time when there is a reduced will and means to tackle global problems.

CLIMATE CHANGE

Changing weather patterns or one-off environmental events such as floods or drought can put crop production and human populations at risk, especially in the developing world.

RADICAL POLITICS

New political movements have sprung from the global financial crisis: the Tea Party in the US and a host of ultra-rightwing parties in central Europe.

BACK TO THE OLD SCHOOL

RICHARD COOKSON SAYS ESTABLISHED LOCATIONS COULD BE A BETTER BET FOR INVESTMENT AT THE MOMENT THAN EMERGING MARKETS

RICHARD COOKSON
CITI PRIVATE BANK GLOBAL CHIEF INVESTMENT OFFICER

We are used, are we not, to crises blowing over? That is the lesson of these past 30 years, from the Latin debt crisis on. At the 11th hour, helped by aggressive policy action, the winds die down and the waves of the financial world begin to calm. What of this latest episode, probably the greatest financial crisis in history? During the past three years, policymakers have poured huge amounts of oil on the crashing waters. Developed-world central banks have cut short rates to their lowest level in recorded history and where this has been deemed insufficient, they have simply printed more money. With the private sector refusing to spend, governments did the job for them – governments the world over have massively loosened fiscal policy.

On the face of it, these policies have worked. Growth and consumer spending have mostly started to pick up. Company profits have soared. Stock markets have climbed vertiginously since their nadir in March 2009. Spreads on corporate bonds have almost normalised. Commodity prices have soared, due in part to growth in the emerging world that has returned with a vengeance.

But for many countries, especially those in the developed world, this is a crisis delayed, not solved – there have been many unintended consequences that are starting to hurt. The huge fiscal largesse has left governments the world over with

Problems with emerging markets, such as inflation, are starting to appear in their hitherto near-cloudless skies

huge amounts of debt. Since the over-indebted developed-world private sector wouldn't borrow and spend, governments did the job for them. But markets have become very nervous about their ability to service these debts in one way or another.

The problems are, of course, most acute in the eurozone, where countries have lost not just an independent monetary policy, but also the ability to devalue their way to growth. Policymakers have been treating what is, essentially, an insolvency problem with expensive liquidity support. That might work for a while, but if those hugely indebted countries aren't growing, borrowing rates that are higher than their nominal growth rates will mean that their debts (and worries about them) will continue to mount.

Even those countries that have kept their monetary sovereignty are likely to suffer at some point, for the simple reason that, when it comes to the likes of the US and the UK, the private sector – particularly households – is very likely to carry on deleveraging, because unemployment and household debts are still so high, thus providing a drag on growth. You can see this quite simply by looking at the continued fall in household credit.

Of course, such countries could export their way to growth – were the emerging world to continue to grow at such a giddy speed. Yet problems are starting to appear in their hitherto near-cloudless skies. Inflation is climbing worryingly fast. Much of this is food-price inflation, but certainly not all of it. The fact is that monetary policy is just too loose in most parts of the emerging world. China is a big concern here, not only because inflation – especially house-price inflation – is climbing, but because much of the rest of the emerging world is, in effect, a proxy China play, thanks to surging demand for imports, not least of all, commodities. In 1999, China accounted for 7% of global demand for industrial commodities; in 2009, the figure was 46%.

From an investment viewpoint, all this matters hugely. Investors have been more than a little enthusiastic about all things emerging-market for the past couple of years. While this seems sensible in the long term, given the structural problems in the developed world, inflation that is getting out of hand is likely to lead to a short-term reassessment of the allure of emerging assets. Investors are, we think, likely to turn again to developed-world assets that they have shunned, especially those in Europe and Japan. You don't need to believe that such countries are about to start motoring to buy their stock markets; they aren't.

All you need to believe is that it is not only those countries that have problems – and therefore that the difference in what, in effect, you pay for growth and value at the moment is extreme. We think it is. According to our sums, implied equity returns for even core European equities are twice as high as those for emerging equities.

Richard Cookson is the global chief investment officer of Citi Private Bank. He started his career as a bond trader for a Japanese bank before moving to journalism, including a total of almost 10 years at *The Economist*, for which he spent three years as its Japan correspondent and was, before he left for the second time, the paper's international finance editor and founder of the Buttonwood column.

*For more **Attitudes Survey** results, and to find out which global locations should be on investors' radars, see Databank on p60*

GOVERNMENTS BACKED TO HELP ECONOMIES

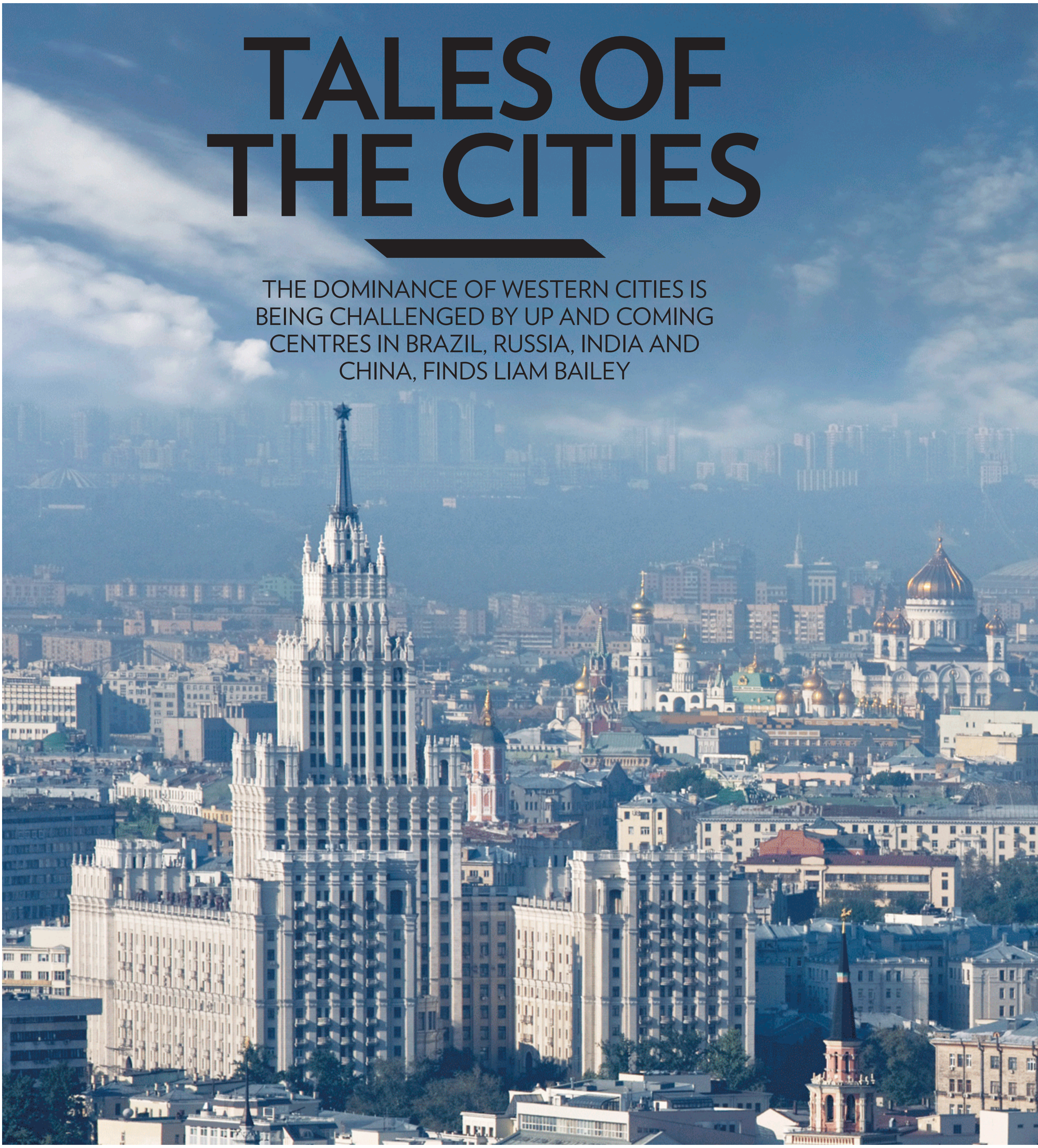
HOW WEALTH ADVISERS RATE THE CURRENT ECONOMIC POLICIES OF THE COUNTRY WHERE MOST OF THEIR CLIENTS ARE BASED

	Africa	Europe	India	Middle East	North America	Russia & CIS	Latin America	East Asia	Global
They offer a viable and long-term solution to the economic issues facing the country at the moment	33	57	50	38	28	50	10	38	39
They may improve the economic situation in the short term, but do not provide a long-term solution	67	17	19	23	48	50	50	35	33
They will improve an already good economic performance	0	0	31	23	4	0	40	27	18
They are unlikely to have any meaningful impact	0	9	0	8	16	0	10	16	11
They will hamper the country's ongoing economic recovery	0	13	0	15	16	0	0	0	7
They will make a bad situation worse	0	13	0	0	4	0	0	0	3

THE IMPACT WEALTH ADVISERS THINK THESE POLICIES WILL HAVE ON THEIR CLIENTS' WEALTH

	Africa	Europe	India	Middle East	North America	Russia & CIS	Latin America	East Asia	Global
They will make it easier for my clients to create wealth	33	4	75	50	21	50	45	40	35
The global economy is more important to their wealth than national economic policy	33	40	19	14	24	50	18	37	29
They will make it harder for my clients to create wealth	0	32	6	21	55	0	36	21	29
They could force my clients to relocate	33	24	0	0	0	0	0	2	6
They will actively reduce my clients' wealth	0	0	0	14	0	0	0	0	1

% of advisers in each region who agreed with the statement



TALES OF THE CITIES

THE DOMINANCE OF WESTERN CITIES IS BEING CHALLENGED BY UP AND COMING CENTRES IN BRAZIL, RUSSIA, INDIA AND CHINA, FINDS LIAM BAILEY

A rise up the ranks of global cities is on the horizon for Moscow

THE PRESENT

The *Knight Frank Global Cities Survey* has become a well-regarded monitor of city-level power shifts since it was created in 2008. As in previous years, our objective has been to assess key markets across the world in terms of their provision of investment opportunities and their influence on global business leaders and the political elite.

This year's survey reveals 14 cities sliding down the rankings and 16 moving up. The biggest movements, unsurprisingly, came in our Economic Activity category. The ongoing West-to-East shift in economic might is highlighted by the fact that eight of the 13 jumps in this area were by Asian cities, led by Shanghai and Kuala Lumpur.

But the West is not without its successes. Munich's rise in this category points to the new confidence in Germany – its star has been rising strongly during the Euro crisis. As we confirm on page eight, with a HNWI population double that of China, German wealth is likely to increasingly influence regional asset price performance.

When we look at Political Power, we can see a more nuanced version of the West-to-East narrative. The majority of risers in this category are claimed by North America. With San Francisco and Toronto leading the charge, it appears to be those cities with most appeal to Asian investors that are seeing improving fortunes.

Singapore's rise in this category might raise eyebrows. The city-state is a relative minnow in terms of its population, military and global economic power – its success in influencing regional powers is due to its skills of coercion and attraction.

Rises in our Quality of Life indicator from Sydney and Zurich will no doubt be greeted by weary acceptance from a world long inured to the superiority of Swiss and Australian city living. The rise in London's ranking may raise a few eyebrows. However, arrival at London's refurbished St Pancras station or to Heathrow's Terminal Five show that London has invested in infrastructure in recent years.

Some of the widespread changes in this year's Knowledge and Influence ranking, with 32 out of 40 cities changing place, can be attributed to improved datasets we have been able to rely on this year. However, this volatility is also an indication of the level of competition between cities that are seeking to exert power through investment in knowledge industries.

The overall winners this year are a diverse grouping, with Boston, Munich, Milan, Mumbai and Rio de Janeiro among the biggest climbers in our rankings. At the top of the table, however, there is no change – New York holds the pole it stole from London last year.

THE KNIGHT FRANK GLOBAL CITIES INDEX

2011 Overall Rank		City	Economic activity	Political power	Quality of life	Knowledge & influence	Change in ranking 2010-11
1		New York	1	2	9	1	0
2		London	2	5	5	2	0
3		Paris	4	6	1	4	0
4		Tokyo	3	7	7	3	0
5	△	Brussels	15	3	11	12	+1
6	▽	Los Angeles	10	16	10	7	-1
7		Singapore	6	13	18	8	0
8	△	Beijing	9	4	22	16	+1
9	△	Toronto	17	20	3	11	+1
10	▽	Berlin	23	12	2	15	-2
11		Chicago	12	19	15	6	0
12		Washington DC	31	1	12	10	0
13		Seoul	8	18	16	14	0
14	△	Frankfurt	11	25	4	20	+1
15	△	Sydney	14	33	13	9	+1
16	△	San Francisco	20	23	14	13	+1
17	▽	Hong Kong	7	32	27	5	-3
18	△	Shanghai	5	17	29	22	+1
19	△	Mexico City	29	10	23	25	+2
20	▽	Bangkok	18	14	30	24	-2
21	△	Moscow	16	31	19	21	+1
22	▽	Zurich	26	39	6	17	-2
23	△	Munich	25	27	8	30	+3
24	▽	Taipei	13	15	33	31	-1
25	▽	Sao Paulo	19	21	24	29	-1
26	△	Buenos Aires	34	11	26	23	+1
27	▽	Istanbul	28	9	36	27	-2
28	△	Milan	24	29	20	32	+2
29	△	Boston	27	38	21	19	+3
30	▽	Miami	30	22	28	26	-1
31	▽	Cairo	35	8	35	28	-3
32	▽	Dubai	22	37	37	18	-1
33	△	Kuala Lumpur	21	30	32	34	+1
34	▽	Tel Aviv	40	26	17	37	-1
35		Bogota	38	24	31	39	0
36	△	Rio de Janeiro	36	35	25	38	+1
37	▽	New Delhi	39	28	38	33	-1
38	△	Mumbai	32	40	34	35	+1
39	▽	Jakarta	33	34	40	36	-1
40		Johannesburg	37	36	39	40	0

ECONOMIC ACTIVITY

City	Rank 2010	Rank 2011	Change
New York	1	1	0
London	2	2	0
Tokyo	3	3	0
Paris	4	4	0
Shanghai	7	5	+2
Singapore	5	6	-1
Hong Kong	6	7	-1
Seoul	9	8	+1
Beijing	8	9	-1
Los Angeles	10	10	0

POLITICAL POWER

Washington DC	1	1	0
New York	2	2	0
Brussels	3	3	0
Beijing	4	4	0
London	5	5	0
Paris	6	6	0
Tokyo	7	7	0
Cairo	9	8	+1
Istanbul	8	9	-1
Mexico City	10	10	0

QUALITY OF LIFE

Paris	1	1	0
Berlin	2	2	0
Toronto	3	3	0
Frankfurt	4	4	0
London	6	5	+1
Zurich	7	6	+1
Tokyo	5	7	-2
Munich	8	8	0
New York	9	9	0
Los Angeles	10	10	0

THE FUTURE

Despite some improvements from our emerging market cities – particularly in the Asian behemoths – to some, the top of our ranking might look slightly too European and North American in flavour. So what of the future, how will our list look a decade from now?

In our *Attitudes Survey* (page 62), we asked our panel to nominate the leading cities, in terms of their importance to HNWIs – both now and in 2020.

The most reassuring element to note for New Yorkers and Londoners is that the two top spots don't look set to change over the next 10 years, although the current chasm between these two cities and the rest is set to close rapidly (see table below). With the exception of these two, all else looks set for a total makeover.

Some of the established Asian centres, such as Singapore, Hong Kong and Tokyo, appear at risk of relative weakening compared to China's rising stars of Beijing and especially Shanghai. The biggest fallers seem to be Geneva, Zurich, Washington and San Francisco, while Vancouver falls out of our future top 20 entirely.

The three biggest winners point to a rebalancing within the Brazil, Russia, India and China (Bric) grouping, with the main cities to watch being Mumbai, Moscow and Sao Paulo. They look set for a dramatic upswing in their status, with each expected to climb by between six and eight places over the next decade.

DO YOU AGREE WITH OUR GLOBAL CITIES RANKINGS NOW AND IN THE FUTURE? HAVE YOUR SAY AT KNIGHTFRANK.COM/GLOBALBRIEFING

KNOWLEDGE & INFLUENCE

City	Rank 2010	Rank 2011	Change
New York	1	1	0
London	2	2	0
Tokyo	5	3	+2
Paris	4	4	0
Hong Kong	3	5	-2
Chicago	8	6	+2
Los Angeles	6	7	-1
Singapore	7	8	-1
Sydney	11	9	+2
Washington DC	9	10	-1

THE WORLD'S LEADING CITIES IN 10 YEARS' TIME

Rank 2020	City	Score	Percentage change in score from 2010
1	New York	759	-8
2	London	611	-16
3	Shanghai	558	+91
4	Beijing	506	+39
5	Hong Kong	479	+1
6	Singapore	438	+4
7	Mumbai	225	+118
8	Tokyo	220	-14
9	Paris	129	-46
10	Moscow	117	+23
11	Dubai	113	-7
12	Sao Paulo	103	+66
13	Zurich	93	-39
14	Geneva	92	-55
15	Washington DC	91	-29
16	Berlin	84	-15
17	Sydney	72	-26
18	Los Angeles	59	-34
19	Seoul	52	+73
20	San Francisco	42	-54

Our *Attitudes Survey* asked which will be the world's leading cities in 10 years' time.

For more Attitudes Survey results, and to find out which global locations should be on investors' radars, see Databank on p60

HOW WE MEASURE THE WORLD

In our attempt to create the most rounded assessment of the locations that matter to the global tribe of footloose wealthy and influential HNWIs, we have tweaked and improved our survey methodology. As with previous years, we have considered much more than each city's share of world financial flows and economic activity – we have been convinced of the need to assess political influence, intellectual activity and, critically, liveability. As before, our assessment is divided into four themes, with each city ranked from one (strongest) to 40 (weakest). Aggregate rank determines the final position in the survey.

ECONOMIC ACTIVITY

First, we consider economic activity – including economic output, income per head, financial and capital market activity and market share, together with the number of international business headquarters in each city.

POLITICAL POWER

Broader non-economic influence is captured by our second measure, which we loosely label political power. Here, we calculate the importance of each city to global political thought and opinion, identifying where power is held and influence exercised. Our ranking includes the number of HQs for national political organisations and international non-governmental organisations, together with the number of embassies and think-tanks in each city.

QUALITY OF LIFE

Finally, we assessed the quality of life offered by each city. The range of issues considered was extensive and included measures of personal and political 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.

KNOWLEDGE & INFLUENCE

Next, we consider each city's knowledge base – assessing educational status and the number and ranking of educational facilities. We then consider how well each city is able to transmit this knowledge – by assessing the number of national and international media organisations and news bureaux, and the international market share of locally based media.

SOURCES INCLUDE...

UN, IMF, *Foreign Policy Magazine*, EIU, Globalization and World Cities Study Group and Network, AT Kearney, Chicago Council on Global Affairs, The Institute for Urban Strategies at The Mori Memorial Foundation, Y/Zen Group.

CITIES IN FOCUS

The Wealth Report asked people living and working in three of the cities going up in our rankings to describe why they are so successful

A dip in the River Limmat is just a short summer stroll from Zurich's central business district

ZURICH QUALITY OF LIFE

Metropolitan Population*	**965,000**
GDP Per Capita (US$ 2010)	**79,500**
Economic Activity rank	**26**
Political Power rank	**39**
Quality of Life rank	**6**
Knowledge & Influence rank	**17**

*Source: citymayors.com (2010)

THE BEST THING ABOUT LIVING IN ZURICH IS ...

… the absurdly benign location, which I think might surprise many people who think of it as a financial centre. It is an outdoor city with mountains on the doorstep – Simon Calder, senior travel editor, *The Independent*

… that in summertime, I walk 50m from my office in the central business district to swim in the River Limmat – Corine Mauch, mayor of Zurich

… the city has changed substantially in the past two decades due to intelligent legislation and an influx of global culture. At its best, it achieves an almost Mediterranean lifestyle, transcending its pragmatic Calvinist roots – Markus Schaefer, co-founder of Hosoya Schaefer Architecture

TO BECOME A TRULY GLOBAL CITY, ZURICH NEEDS TO ...

… build upwards rather than outwards to protect green areas – Christian Brandle, director, Museum of Design, Zurich

… rediscover its connectivity. Since the demise of Swissair, it has lost its place as a global aviation hub – Simon Calder

… obsess less about being such a small one – Haig Simonian, *Financial Times* bureau chief

… well, considering its growth, Zurich is already on the path to becoming a global city – Markus Schaefer

THE BIGGEST OPPORTUNITY FOR ZURICH IS ...

… to respect urbanism on a landscape scale. If its population were to rise significantly, it would lose many of its qualities – Christian Brandle

… to continue benefiting from the drift away from inefficient, strike-prone, and frustrating mega-cities like London and Paris – Haig Simonian

… that people from all over the world live here and make a real contribution to urban diversity – Corine Mauch

… to further develop its strengths as a knowledge society – Markus Schaefer

BUENOS AIRES KNOWLEDGE & INFLUENCE

Metropolitan Population*	12,924,000
GDP Per Capita (US$ 2010)	14,000
Economic Activity rank	34
Political Power rank	11
Quality of Life rank	26
Knowledge & Influence rank	23

BUENOS AIRES CAN MAXIMISE ITS GLOBAL INFLUENCE BY …

… participating in more international conferences. Argentina joining the G20 was a positive step forward – Michael Luongo, freelance journalist and author of the *Frommer's Buenos Aires* guide

… pushing forward its investment opportunities for global brands and investors in the real estate, hotel and infrastructure sectors – Rodolfo Milesi, Branding Latin America

… promoting its cultural offerings and cuisine – Ariel S. Gonzalez Levaggi, executive director, Argentine Centre of International Studies

WEALTHY SOUTH AMERICANS VIEW BUENOS AIRES AS …

… the best place to network in the region – Rodolfo Milesi

… a fun destination famous for its nightlife, European architecture, museums, theatre and film production, which few other South American cities can rival – Michael Luongo

… a good city to live in. Buenos Aires' cultural background and knowledge base is spread internationally – Belen Olaiz, research analyst, Citigroup

BUENOS AIRES IS A WORLD LEADER IN …

… commodity markets, due to Argentina's agricultural bounty, namely wheat, soy and other grains, as well as meat exporting and oil exploration – Michael Luongo

… the university experience. Universities such as Universidad de Buenos Aires (UBA) and Universidad Torcuato Di Tella (UTDT) receive students from all over Latin America – Belen Olaiz,

… lifestyle. I have never met anyone who hasn't enjoyed it here – Rodolfo Milesi

SEOUL ECONOMIC ACTIVITY

Metropolitan Population*	24,472,000
GDP Per Capita (US$ 2010)	24,200
Economic Activity rank	8
Political Power rank	18
Quality of Life rank	16
Knowledge & Influence rank	14

THE IMPROVEMENT IN SEOUL'S ECONOMY OVER RECENT YEARS IS DUE TO …

… its weak currency allowing strong exports, until it began appreciating in 2010. Other factors include high demand for technology – Lawrence White, Asia editor, *Euromoney* magazine

… the strong IT and manufacturing industrial growth, especially in mobile, semiconductor, auto and shipbuilding sectors – Zed Kim, managing director, Knight Frank South Korea

… the steady increase in consumption – Dalho Cho, research fellow, Seoul Development Institute

THE BIGGEST LONG-TERM ECONOMIC RISK FOR SEOUL IS …

… the appreciation of the Won – Lawrence White

… the policies of the US government – Jim Rogers, investor and author

… the first risk is inflation. Second is North Korea's threat. Third is uncertainty in real estate – Zed Kim

… the ageing population. The high rise both in healthcare costs and national pension payments may damage the nation's fiscal health – Dalho Cho

CHINA'S ECONOMIC AND POLITICAL INFLUENCE ON SEOUL IS LIKELY TO …

… grow significantly, notably through its close relationship with North Korea. China is Korea's most important economic trading partner, followed by Japan and then the USA – Zed Kim

… increase, in as much as China is becoming more influential to everyone, but Seoul is not as reliant on China as some other Asian countries – Lawrence White

… grow, especially when the North and South merge, which I envisage will occur within five years – Jim Rogers (see page 23 for more from Mr Rogers)

For more Attitudes Survey results, and to find out which global locations should be on investors' radars, see Databank on p60

THE ENTREPRENEUR

1 SHANGHAI
2 HONG KONG
3 BEIJING
4 NEW YORK
5 MUMBAI
6 SINGAPORE
7 LONDON
8 SAO PAULO
9 SAN FRANCISCO
10 PALO ALTO

THE HEDONIST

1 NEW YORK
2 HONG KONG
3 TOKYO
4 PARIS
5 LONDON
6 SHANGHAI
7 RIO
8 BARCELONA
9 SYDNEY
10 DUBAI

THE ROMANTIC

1 PARIS
2 NEW YORK
3 LONDON
4 ROME
5 TOKYO
6 SYDNEY
7 SHANGHAI
8 HONG KONG
9 SAN FRANCISCO
10 VANCOUVER

New York – is the Big Apple the best location for wealthy hedonists?

COOL AND COOLER

THE KNIGHT FRANK HOT LIST

THE WEALTHY'S CHOICE OF LOCATIONS FOR BUSINESS, FUN AND ROMANCE SPRUNG FEW SURPRISES. SO VICKI SHIEL SCOURED THE WORLD TO FIND SOME NEW LOCATIONS

Best for business? Shanghai. For hedonism? New York. For romance? Paris. The results of our *Attitudes Survey* were a little predictable (see left). The top location in our Hot List, Maputo, ticks all the boxes (see right).

MAPUTO, MOZAMBIQUE
WOULD SUIT: Beach-loving, risk-hungry investors.
Capital of one of Africa's best-performing economies. Average GDP growth of 8% between 1996 and 2008. Similar expected in 2011. Busy port. $1.2bn waterfront redevelopment with five-star Radisson Blu hotel. Close to the best beaches on the Indian Ocean.
8 7 8

MACAU, CHINA
WOULD SUIT: Gamblers.
Dubbed Las Vegas of the Orient. World's largest casino hub. Only legal gambling city in China. Casino revenue surged 33% in January. Luxury footprint more than doubled in 2010 as Cartier, Bvlgari and Burberry opened stores for wealthy Chinese gamblers*. Exclusive hotels including The Venetian and MGM Grand.
7 9 6

RIO DE JANEIRO, BRAZIL
WOULD SUIT: Glamour-seeking sports enthusiasts.
Host city for the 2014 World Cup and 2016 Olympics. Development projects are numerous. Copacabana's Museum of Image and Sound, designed by New York architects Diller Scofidio + Renfro, opening 2011. Income growth of 6.2% and employment growth of 3.2% in 2009-10.
6 9 7

BAKU, AZERBAIJAN
WOULD SUIT: Investors seeking stake in abundant mineral resources.
Azerbaijan's profitable trade relationship with China has seen its capital prosper. Growing HNWI population. Luxury brands including Bvlgari, Cartier and Gucci opened stores in 2010*. Iconic Flame Towers complex from the Fairmont hotel group opens this year.
7 7 5

ISTANBUL, TURKEY
WOULD SUIT: Culture lovers.
2010 European Capital of Culture. Istancool annual festival of fashion, film, art and literature. Le Meridien Istanbul Etiler opening this year. World's best-performing city in terms of income (5.5%) and employment growth (7.3%). Burberry opened three new stores in the city in 2010*.
6 6 8

TAIPEI, TAIWAN
WOULD SUIT: Fans of skyscrapers and high-speed trains.
Claimed tallest building, Taipei 101, until Burj Dubai opened in 2010. Bullet trains cut travel times by 60% or more. Long-standing tension with China easing. 2010 trade pact described as most significant agreement in 60 years of separation. GDP forecast to grow 9.3% this year.
8 6 6

SUZHOU, CHINA
WOULD SUIT: Wedding entrepreneurs.
Close to Shanghai. Popular with overseas companies. Possibly most affluent city in China. Per-capita income three times interior cities. Big silk producer and hub for wedding dress design, manufacturing and merchandising. Renowned market with 700 wedding-related outlets. Known as Venice of the East.
8 3 6

ULAN BATOR, MONGOLIA
WOULD SUIT: Mining investors who like the cold.
Temperatures can plummet to -50°c. Louis Vuitton unexpectedly opened a two-storey shop in 2009*. Massive mineral reserves. Huge overseas investment interest. Predicted as next Asian Tiger economy or "Mongolian Wolf". IMF predicts double-digit annual growth for years to come.
7 6 4

ASTANA, KAZAKHSTAN
WOULD SUIT: Budding oil magnates.
Key central Asia location. Huge energy resources. Capital city since 1997. Reported $30bn spent since. One of the world's fastest-growing cities. Designated Special Economic Zone. Growing number of impressive architectural projects. World's highest tensile structure, Norman Foster's Khan Shatyr entertainment centre, opened 2010.
7 6 4

DOHA, QATAR
WOULD SUIT: Football fans looking for the next Gulf hot spot.
World's richest country per capita. Massive energy reserves. 2022 World Cup host. Official estimated infrastructure spend around $55bn in next decade, but could reach $86.5bn. 2010 Arab Capital of Culture. Home to film festivals, museums and landmark architecture.
7 3 5

**Sources: *The Economist*, Bloomberg, World Bank, IMF, *Ledbury Research www.ledburyresearch.com
All location ratings are arbitrary. If you beg to differ then have your say at www.knightfrank.com/globalbriefing**

THE GLOBAL ADVENTURER

OUR GLOBAL CITIES INDEX REVEALS THAT EASTERN CENTRES ARE FIGHTING WESTERN DOMINANCE. LEGENDARY US INVESTOR JIM ROGERS TELLS ANDREW SHIRLEY WHY HE MOVED HIS FAMILY FROM NEW YORK TO SINGAPORE

WEALTH TALK

Jim Rogers likes to go against the flow. His reputation as one of the world's leading contrarian investors is well earned. The Quantum Fund, which he co-founded with George Soros in 1970, was one of the first truly international investment funds and gained 4,200% in value during its first 10 years. Christened the 'Indiana Jones of Finance' by *Time* magazine, his adventurous approach to life extends beyond his investments: he has twice driven around the world, once on a motorbike and once by car.

A firm believer in the economic future of China and certain other developing Asian nations, Mr Rogers moved with his family to Singapore in 2007. He is downbeat about the economic future of the US.

ANDREW SHIRLEY Many people talk about the rise of Asia, in particular China, but few actually go there to take advantage of the trend. Why did you feel that it was necessary to move to Singapore?
JIM ROGERS The main reason was so that my children would grow up speaking Mandarin and learning about China and its culture. If it was just a case of buying and selling commodities or stocks, I could do that just as well from back home. Moving here was an investment in my daughters' futures.

AS Did travelling around the world twice create a fundamental change in the way you viewed your investment strategy?
JR It makes you a better investor if you know the world. Being in countries that are changing helps you understand the implications of those changes.

AS China's GDP is fast catching up to the US', but will the region's major investment hubs such as Singapore, Hong Kong and Shanghai ever rival London and New York as the world's leading cities?
JR Absolutely. We have seen a gigantic volume of assets move to these cities. The statistics are mind-boggling. The largest creditor nations are in Asia now. Hong Kong is already the largest IPO centre in the world.

AS Do you think human-rights issues, lack of political freedom or even democracy will hold these cities back from really leading the world?
JR Certainly there are struggles for human rights and there will be setbacks along the way, but China and other parts of Asia are opening up more and more, while the US is starting to close up. Societies evolve. In the 19th century, the US had little rule of law, there was lots of deprivation and you could buy and sell politicians, but the country survived and had a pretty good 20th century. But now I don't think you can say that the US is a freer and fairer society than it was 10 years ago. It's the sort of thing that could bring the country down.

AS What is it about China that particularly impresses you as an investment opportunity?
JR In my view, China is going to be the most important country of the 21st century. The 19th century was the century of the UK and the 20th century was the century of the US. China's population saves and invests 35% of its income and people work from dawn to dusk – it has a lot of things going for it.

'Korea could be very interesting once North and South merge, as they inevitably will'

AS How do you view other locations in the region – do any have the same potential as China in your view? You have been quite downbeat about India, for example. Why is that?
JR Vietnam looks promising. Korea could be very interesting once North and South merge, as they inevitably will. India is not a real country – it's something that the English pushed together.

AS How do you view property as an investment?
JR I am very optimistic about farmland. There are staggering amounts of untouched potential farmland in Brazil, the Ukraine and parts of Eastern Europe. And in some parts of Africa ... oh my God, you sit by the road, plant something and it will start growing. Farmland in Africa offers untold wealth.

AS What has been your best investment?
JR My two little girls and teaching them Mandarin.

AS And the worst?
JR I've made plenty of mistakes, I sold oil short just before Saddam invaded Kuwait, but the worst has to be my first wife. The divorce cost me a couple of years of my life.

AS What's your advice to those who want to become HNWIs?
JR Buy low, sell high. Be curious and be sceptical. And make sure that your children and your grandchildren are fluent in Mandarin.

WWW.JIMROGERS.COM

KNIGHT FRANK'S PRIME INTERNATIONAL RESIDENTIAL INDEX
PIRI 2011

A PLACE IN THE WORLD

KNIGHT FRANK'S PRIME INTERNATIONAL RESIDENTIAL INDEX (PIRI) IS THE WORLD'S MOST COMPREHENSIVE ANALYSIS OF LUXURY RESIDENTIAL PRICE TRENDS. ENCOMPASSING MORE THAN 80 LOCATIONS IN 40 COUNTRIES, IT REFLECTS A GROWING NEED TO THINK INTERNATIONALLY, SAYS LIAM BAILEY

LIAM BAILEY
KNIGHT FRANK'S HEAD OF RESIDENTIAL RESEARCH

Almost a quarter of Citi Private Bank's European clients believe that they could be forced to relocate their principal residence as a result of national economic and taxation policies. Our *Attitudes Survey* also reveals that up to 37% are actively considering buying a second or third home in 2011. That is why, when it comes to luxury residential property, it is crucial that everyone involved thinks globally.

At first glance, the strongest markets in 2010 were Shanghai, Singapore and Mumbai, all with strong double-digit growth. The concern in these markets, and others in Asia – especially Hong Kong – is the impact of the huge new volume of investment funds in the market after ongoing global quantitative easing. Real concerns have developed among the region's governments over asset price bubbles. Their response is considered below.

Demand from investors has been pushed even higher in Asia as a result of underpriced local currencies, especially when considered against the US dollar. Currency has become a significant issue in determining prime market performance. While the euro did weaken during 2010, the pound remained so weak for so long it undermined the market recovery in several parts of Europe where the British second-home buyer has stayed away – noticeably in Spain, Portugal and Italy. Conversely, London's recovery has been aided to a large extent by the affordability that sterling's weakness offers international buyers.

Low-tax jurisdictions, which might have expected to capitalise on the back of perceived and actual wealth attacks in the major economies, saw an increase in interest from buyers. But, as Jersey and Guernsey's divergent performance suggests and our summary charts overleaf confirm, last year was not a one-way bet for those investing in these markets. Later, we consider the longer-term outlook for the tax-driven markets, and delve into two themes that drive luxury market performance – education and second homes.

While prices rose last year in 37% of the markets we track, there is no disguising the fact that the global residential market, even the luxury segment, is feeling some significant aftershocks from the global financial crisis.

In cities as diverse as Dublin, Chicago, Los Angeles, Hanoi and Abu Dhabi, oversupply and falling prices underline the readjustment for once-booming markets. In Edinburgh, the restructuring of the financial sector and tightening access to credit are acting to limit sales volumes in the prime market.

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THE KNIGHT FRANK PIRI INDEX

PAGE 29
THE BIG THEMES AFFECTING PRIME PROPERTY PERFORMANCE

PAGE 32
LUXURY MARKET PRICING IN DETAIL

PAGE 32
WHERE THE WEALTHY ARE BUYING

For more Attitudes Survey results, and to find out which global locations should be on investors' radars, see Databank on p60

A market more dependent on global trends creates increased risks for investors. It isn't just financial drivers – currency movements, interest rates and wealth shifts – that dictate market performance. Political and security concerns are also assuming a more critical relevance for purchasers. These have occurred most recently in the Middle East, but also in Asia – Bangkok suffered in 2010 from political instability. This had a dramatic impact on the level of foreign investment.

GOVERNMENT CONTROL

In last year's *Wealth Report* we predicted that the trend towards government micromanagement to cool overheating housing markets, which had tentatively started in Hong Kong and China, was about to go global. It did.

The major Asian markets led the way with higher stamp duty, tighter rules on mortgage accessibility, limits on the size of investment portfolios and strong incentives to increase new-build housing volumes. In Vietnam, 'Decree 71' in August last year effectively stymied off-plan sales to investors, and in Australia, new rules have bolstered existing limitations on foreign investment.

EU governments would find it very difficult, if not impossible, to push through stringent legislation affecting property ownership rights. Instead, they have concentrated on mortgage market reform and, in the case of Finland and Spain, the reduction or elimination of tax benefits for owner-occupation.

In other countries, the lingering after-effects of the 2008 crash mean that governments are actively considering ways of boosting the market. Ireland, the US and the UK are prominent examples of markets where governments are struggling to balance the need for restraint from previously bad lending practices with the need to encourage the banks to lend more money.

In much of the Middle East, and most obviously in Dubai, governments are working hard to underpin their residential markets with new investment in infrastructure and employment opportunities.

OUTLOOK FOR 2011

To my mind, while Asia continues to dominate in terms of activity and price performance, the real success stories in 2010 confirm the advantages of a global brand and a diversity of demand requirements. London, New York and Paris have seen strong demand, and reasonably robust price growth.

Demand for second homes has been augmented by employment, education and lifestyle-driven purchases. This has led to double-digit growth in these markets, despite ongoing national market uncertainty.

To assess the future luxury-home hotspots, we have assembled a world map of global market demand. Our map, on page 32, shows the centres of demand for the world's wealthy.

It has been said in previous editions of *The Wealth Report*, but I believe it is worth saying it again: tried-and-tested markets with security of infrastructure and political and legal stability will outperform in the long-term. No market is immune from a crisis, but these tend to have a depth of demand that creates a true liquid investment.

KNIGHT FRANK'S PRIME INTERNATIONAL RESIDENTIAL INDEX
PIRI 2011

SHANGHAI 1

MUMBAI 2

SINGAPORE 3

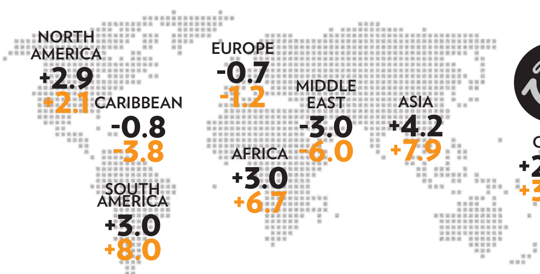
PRICE CHANGE 2010

RANK	LOCATION	COUNTRY	% CHANGE
1	Shanghai	China	+21
2	Mumbai	India	+20
3	Singapore	Singapore	+18
4	Helsinki	Finland	+18
5	Bangalore	India	+17
6	Paris	France	+15
7	Hong Kong	China	+15
8	New York	US	+13
9	Manila	Philippines	+12
10	Guernsey	Channel Islands	+11
11	Munich*	Germany	+11
12	London	UK	+10
13	Gaborone	Botswana	+10
14	Beijing	China	+10
15	Bali*	Indonesia	+10
16	Marrakesh	Morocco	+10
17	Auckland	New Zealand	+10
18	Geneva*	Switzerland	+9
19	Panama City	Panama	+8
20	Berlin*	Germany	+7
21	Ho Chi Minh City	Vietnam	+7
22	Kuala Lumpur	Malaysia	+7
23	Home Counties	UK	+5
24	Jakarta	Indonesia	+3
25	Bangkok	Thailand	+3
26	Brussels	Belgium	+2
27	Hanoi	Vietnam	+2
28	San Francisco*	US	+2
29	Christchurch	New Zealand	+1
30	Moscow	Russia	+1
31	Rome	Italy	+1
32	Lausanne*	Switzerland	0
33	Black Sea coast	Bulgaria	0
34	Phnom Penh	Cambodia	0
35	Dubrovnik	Croatia	0
36	Cyprus	Cyprus	0
37	Dominican Republic	Dominican Republic	0
38	Cap Ferrat	France	0
39	St Tropez	France	0
40	Cannes	France	0
41	Chamonix	France	0
42	Val d'Isere	France	0
43	Megeve	France	0
44	Courchevel	France	0
45	Meribel	France	0
46	Provence	France	0
47	Grimaud	France	0
48	Gascony	France	0
49	Lake Como	Italy	0
50	Amalfi Coast*	Italy	0
51	Monaco	Monaco	0
52	St Kitts and Nevis	St Kitts and Nevis	0
53	Phuket*	Thailand	0
54	Alderney	Channel Islands	0
55	Lusaka	Zambia	0
56	Zurich*	Switzerland	0
57	St Petersburg	Russia	-1
58	Abu Dhabi	UAE	-2
59	Chicago	US	-2
60	Los Angeles*	US	-4
61	Marbella	Spain	-4
62	Edinburgh	UK	-4
63	Barbados	Barbados	-5
64	British Virgin Islands	British Virgin Islands	-5
65	Dordogne	France	-5
66	Valbonne	France	-5
67	Cortina	Italy	-5
68	Tuscany	Italy	-5
69	Venice	Italy	-5
70	Florence	Italy	-5
71	Sardinia	Italy	-5
72	Mustique	Mustique	-5
73	Central Algarve	Portugal	-5
74	Madrid*	Spain	-5
75	Sydney	Australia	-5
76	Kiev	Ukraine	-5
77	Umbria	Italy	-6
78	Cayman Islands	Cayman Islands	-8
79	Western Algarve	Portugal	-10
80	South-west Mallorca	Spain	-10
81	Ibiza	Spain	-10
82	Dubai	UAE	-10
83	Jersey	Channel Islands	-10
84	Frankfurt*	Germany	-19
85	Dublin	Ireland	-25

*Munich, Berlin, Frankfurt – % changes based on Q2 2010 data.
Bali – % change based on vacant land and completed villas only, not apartments.
Geneva, San Francisco, Zurich, Lausanne, Los Angeles – % changes based on Q3 2010 data.
Amalfi Coast – limited data available due to largely private sales.
Madrid – % change based on asking prices given the lack of public information regarding closing prices.
Phuket – new developments only.

PRIME MARKET PRICE CHANGE

WORLD REGIONS



June to December 2010 % Year to December 2010 %

MARKET TYPES

CITY	SKI	SUN	TAX
+2.4	-1.0	-1.3	-0.4
+3.6	0.0	-1.7	-2.2

All Piri data Knight Frank except: Alderney, Mitchells and Partner Ltd. Aspen, BJ Adams and Company. Black Sea Coast, Black Sea Investment Trust. Chicago, Baird and Warner. Cyprus, Cybarco. Dubrovnik, Sanevis LLC. Guernsey, Swoffers. Helsinki, Orava Funds (Oikotie Orava Index). Jersey, Le Gallais Estates. Marbella, Diana Morales Properties. Marrakesh & Manila, Kingdom Hotels Investment. New York, Prudential Douglas Elliman in conjunction with Miller Samuel. Orlando, Tavistock Group. Tokyo, Colliers Halifax. Ulan Bator, Asia Pacific Investment Partners. Vancouver, Sotheby's International Realty Canada. Zurich and Geneva, Wuest & Partner.

EXPERT VIEW
SECOND HOMES

Demand for second homes by wealthy buyers has been a central driver of residential price growth in European, Caribbean, and North American sun- and snow-belts over the past two decades. Knight Frank estimates that more than 80% of all global second-home properties are found in these locations. However, with rapid growth in wealth and property investment in Asia, are we set to see the world's most populous continent take over as the luxury second-home hotspot?

EXPECT A GLOBAL REBALANCING

Matthew Georgeson,
head of sales at Elite Havens, Bali

There is no doubt that the Asian second-home market is smaller and, in some ways, almost embryonic when compared to the highly established European and US market hotspots.

Outside of Bali and Phuket, there are few significant markets in Asia that compare to the likes of Florida, the Cote d'Azur, Tuscany, Barbados or London as second-home destinations for the world's wealthy.

That said, the situation is changing very quickly. There is rapid growth in the number of new locations of interest to the wealthy second-home buyer.

Vietnam, has seen buyers from Europe and the US looking to buy before the market matures. Cambodia is a new market but is again seeing very strong interest from adventurous Asian and European buyers.

In China, Hainan Island has become rapidly established as a key second-home market – although it tends to be dominated by Chinese buyers with few other nationalities in the market. The example of the Japanese ski resort of Niseko, points to the future of Asian second-home markets, where the addition of excellent infrastructure, lifestyle amenities and high build-quality is attracting buyers from Australia, New Zealand and China, as well as generating very high prices.

However, to experience the most interesting trends in the second-home market in Asia we really need to look to Bali. No other location in Asia has developed such a global spread of demand.

Top-end villas in Bali now command $10m and above – an indication of how the broader Asian second-home market will develop. Some markets, especially in China, will remain domestic in appeal; other luxury second-home hubs will be globally attractive and will compete head-to-head with the more established US and European destinations.

ASIAN BUYERS WILL LOOK ABROAD

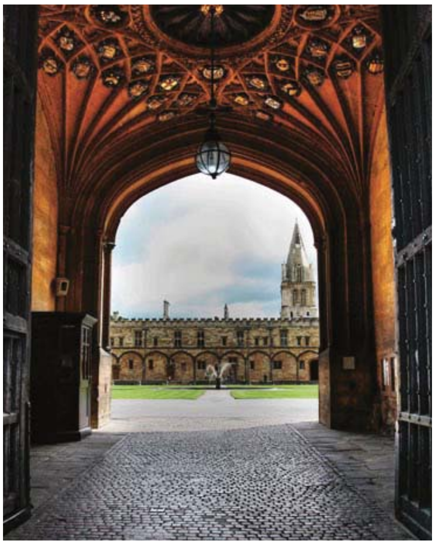
Rohit Talwar, global futurist and the founder and CEO of Fast Future Research

As Asia's economic miracle develops, there are some trends that we can be confident will develop along the lines already established in the West. For example, the desire for Asia's new middle class to buy a house, own a car, eat out and take foreign holidays is a given.

It is when affluence turns into serious wealth that significant differences in approaches between one part of the world and another become apparent. It is still rare, for example, for wealthy Asians to buy second homes in their domestic markets.

Why the difference? Asians have a thirst for travel and for foreign investment, which encourages wealthy purchasers to look to Europe, North America or the Middle East. The certainty regarding property titles and the high regard for property rights in countries such as Canada, the UK, Australia and New Zealand are also a significant draw.

That said, it appears that investment, rather than lifestyle, is driving most property purchases by wealthy Asian buyers in Singapore, Kuala Lumpur, Goa, Malaysia and Thailand.



EXPERT VIEW EDUCATION

In 2010, almost 63% of all new-build flats in central London were sold to international buyers. After investment, the single biggest driver of demand for these buyers was the desire from parents to provide accommodation for expat students during their studies. Top-tier universities are helping to shape residential market demand, and with elite schools acting to pull in requirements for luxury housing in cities across the US, the UK, New Zealand and Australia, education has become one of the most significant forces driving property performance.

EDUCATION IS BECOMING A GLOBAL SERVICE

Matthew Farthing, headmaster of Harrow Beijing

Since we opened Harrow Beijing in 2005, we have noted how important it is to have a school located close to the villa areas that are popular with more affluent and international communities. The impact of schools on the desirability and house rental or purchase costs of this admittedly already rather popular neighbourhood has been significant. There has been a growing demand from parents to secure property near to the school.

The fact that schools can have a positive impact on demand for property is being taken very seriously in several locations across Asia and the Middle East. In these examples, developers are trying to secure partnerships with UK and US international schools to act as neighbourhood schools, driving demand and property values. The development of high-quality international schools in China and across the emerging markets is a trend that has a long way to run.

International schools are able to offer places only to non-residents of the country in which they are located. So the presence of a growing number of international schools in China does not stem the flow of wealthy Chinese pupils to Europe or the US.

The quality of education in China and the rest of Asia is improving at a rapid pace and, on several measures, compares very favourably with the best on offer in the West. But my feeling is that despite this rapid growth in supply in Asia, there will not be a weakening in demand for the home schools in the UK or US. Growth in global wealth should ensure demand for the best institutions globally.

INTERNATIONAL SCHOOLING IS PART OF A BIGGER TREND

Rupert Hoogewerf, publisher of the Hurun Report

The Chinese entrepreneurial classes are increasingly looking to secure an overseas education for their children (see our interview with billionaire Mr Xu on page 41). It used to be that a postgraduate degree would be an acceptable level of international exposure. Now, children of dollar millionaires will be sent overseas from the age of 16 to UK sixth forms or US high schools. This will be followed by an undergraduate degree. Those worth more than $10m now have a growing tendency to send their children away to school at 11.

In terms of where the children go, the established view used to be safe, traditional England for girls and the competitive and driven US for boys. Now the divide is more based on age – England for schooling and the US for university.

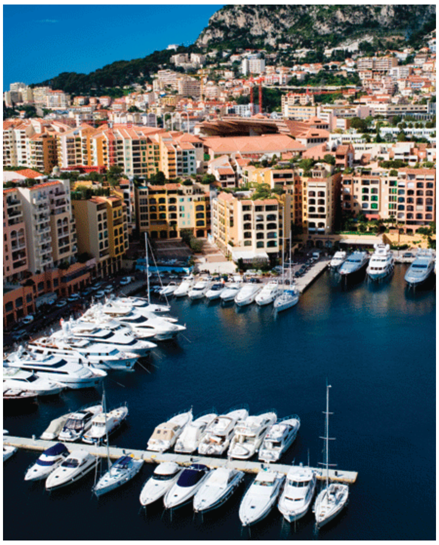
In terms of property takeover, this demand for schooling has a huge impact. If you send your 11-year-old to school in, say, London or Boston, and potentially on to university, you're making a decade-long investment there. The purchase of a house nearby for holidays and the requisite bimonthly mother's visit is a natural step. As a long-term investment, it also makes sense for the purchaser.

At university level, a property for children to live in is an obvious step to take and a very popular investment option. Anecdotal evidence indicates that the condition of property markets can be an influencing factor when universities are being assessed.

So where will the next locations be that this potent education and property mix will hit? While the UK and the US are already way ahead, Canada, Australia, New Zealand, Hong Kong and Singapore, and even France and Switzerland, are rising in popularity.

With China investing heavily in domestic education facilities and with more international education expertise coming into the country, one could say this educational exodus will be reversed in time. There is one great reason why I think this will not happen.

Education is only part of the appeal of the international route. The Chinese have an almost universal desire to become global citizens, which requires a foreign passport and dual nationality. Sending your children to school in another country and adding inward investment help hugely in securing this status.



EXPERT VIEW
TAXATION

Rising wealth taxes in the UK and Europe have led to reports of fleeing financiers opting for a lower tax bill in Switzerland, Monaco or the Channel Islands. The media thinks this wealth flight will lead to a depression in property values in London, Frankfurt and Paris. Certainly, a surge in prices in the low-tax destinations points to the close link between taxation of the wealthy and prime property performance. With governments piling pressure on 'tax havens', are property markets in these and other low-tax locations safe long term?

LOW TAX JURISDICTIONS ARE SET TO BOOM

Charles Douglas, Charles Douglas Solicitors, London

There is such a high level of – admittedly understandable – media animosity to the concept of a low-tax jurisdiction (LTJ), that we often ignore the question of whether they have anything positive to offer the global economy.

To my mind, the answer to that question is undoubtedly yes. At a macro level, LTJs facilitate very easy methods for cross-border business. They provide a degree of privacy, rather than secrecy, that is welcomed by many businesses, and which is hugely beneficial to businesses undertaking complex and protracted negotiations or restructuring.

At the individual level, of course, they offer lower taxation to residents and investors. But, more importantly, for lots of people who have a very international lifestyle, with business and property interests across the globe, they offer a degree of certainty and permit a rational way of conducting one's tax affairs. In addition, while not generally recognised, the majority of investors and retirees across the world have part of their investments held in an LTJ.

Ironically, the pressure from the bigger economies for greater transparency has pushed LTJs further into the mainstream of economic activity and they have become more relevant to more people. We have seen a growing globalisation of activity in LTJs, with new clients from emerging markets finding that the services offered fit their requirements very well. This is particularly so in the context of the increasing volatility of formerly stable and sound economies. For example, there has been a noticeable growth in South American interest in New Zealand as a favoured centre and an increase in interest from India in the Isle of Man, the Channel Islands and Mauritius. The outlook for LTJs as destinations for, and administrative centres of, wealth is more than safe.

TAX HAVENS MUST PLAY BY THE RULES

Jeffrey Owens, director of the Centre for Tax Policy and Administration, OECD

If LTJs existed purely to siphon tax revenues away from the larger economies, then they would have no future.

The reality is that, over the past two decades, leading LTJs have shifted their activities far beyond what is now a rather old-fashioned view of their role as centres of financial secrecy and tax avoidance.

LTJs are succeeding and prospering because they have specialised in the provision of niche, complex and high-value-added financial and professional services.

Our remit at the OECD is to push LTJs to recognise the concerns of the members of our Global Forum and to encourage the adoption of new internationally agreed tax standards. This is a powerful process; behind the forum stands the G20, which is committed to ensuring that LTJs comply with tax standards.

LTJs have the potential to continue to offer a valuable range of services to individuals and businesses, and their relevance to the global economy is arguably higher now than for some time. However, significant changes to taxation are occurring at a global level which, over the long term, could impact on the attractions of the LTJ, especially for residency.

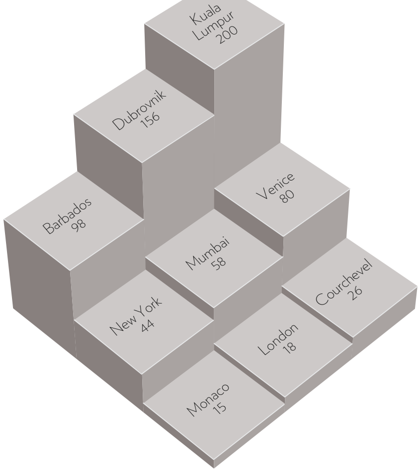
Despite a recent tightening in response to the global recession and unparalleled levels of public debt, the direction of travel for most Western economies has been towards a reduction in direct taxes and an increase in indirect taxation. As an example, 30 years ago, average taxation on corporate profits in developed economies was 50% – now it is 26%. For taxes on personal income, the typical higher rate 30 years ago was 70% – now it is rarely higher than 40%.

Our view is that this broad shift in taxation, away from personal income and corporate profit and towards consumption is to be welcomed, and will contribute to an ongoing reduction of the pressure on individuals and businesses to seek a traditional tax haven option.

PERFORMANCE

WEIGHING UP THE WORLD'S MOST EXCITING PRIME PROPERTY MARKETS

WHAT $1M BUYS
(SQ M)

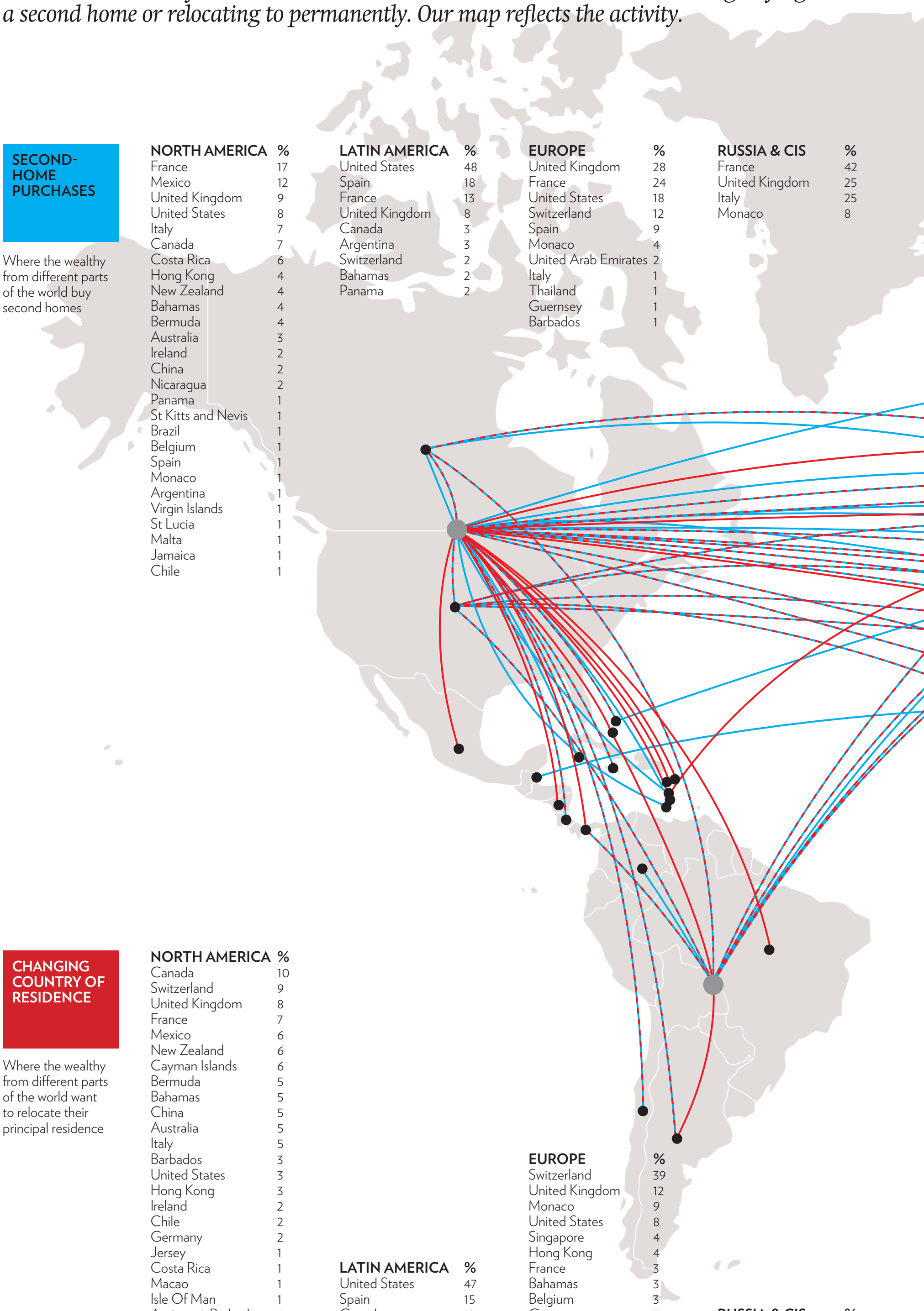


LUXURY MARKET PRICING

RANK	LOCATION	COUNTRY	US$/SQ M
1	Monaco	Monaco	65,600
2	London	UK	56,300
3	Cap Ferrat	France	54,600
4	St Tropez	France	40,800
5	Paris	France	40,500
6	Courchevel	France	38,800
7	Cannes	France	31,900
8	Tokyo	Japan	28,300
9	Hong Kong	China	27,300
10	Singapore	Singapore	27,100
11	Cyprus	Cyprus	25,100
12	Sardinia	Italy	24,000
13	Guernsey	Channel Islands	23,900
14	Geneva	Switzerland	23,700
15	Aspen	US	22,900
16	Moscow	Russia	22,800
17	New York	US	22,600
18	Cortina	Italy	21,600
19	Mustique	Mustique	21,500
20	Meribel	France	20,000
21	St Petersburg	Russia	18,600
22	Rome	Italy	18,200
23	Shanghai	China	17,700
24	Megeve	France	17,500
25	Mumbai	India	17,100
26	Salcombe	UK	16,400
27	Beijing	China	16,000
28	Helsinki	Finland	15,500
29	Jersey	Channel Islands	14,400
30	Lake Como	Italy	13,700
31	Florence	Italy	13,700
32	Venice	Italy	12,500
33	South-west Mallorca	Spain	12,500
34	Sydney	Australia	11,500
35	Chamonix	France	11,400
36	Madrid	Spain	10,500
37	Barbados	Barbados	10,200
38	Tuscany	Italy	9,600
39	Valbonne	France	9,100
40	Cayman Islands	Cayman Islands	9,000
41	British Virgin Islands	British Virgin Islands	8,400
42	Edinburgh	UK	8,200
43	Prague	Czech Republic	8,000
44	Dubrovnik	Croatia	6,400
45	Provence	France	5,900
46	Central Algarve	Portugal	5,700
47	Ibiza	Spain	5,700
48	Kuala Lumpur	Malaysia	5,000
49	Dordogne	France	4,900
50	Western Algarve	Portugal	4,900
51	Ho Chi Minh City	Vietnam	4,800
52	Bangalore	India	4,300
53	Christchurch	New Zealand	4,200
54	Hanoi	Vietnam	4,100
55	Gascony	France	4,000
56	Umbria	Italy	3,800
57	Jakarta	Indonesia	2,800
58	Ulan Bator	Mongolia	2,300
59	Phnom Penh	Cambodia	2,100
60	Gaborone	Botswana	1,300

WHERE THE WEALTHY WANT TO BUY AND MOVE TO

The network of international prime property sales is becoming increasingly complex. Our Attitudes Survey asked wealth advisers where their clients were considering buying a second home or relocating to permanently. Our map reflects the activity.



SECOND-HOME PURCHASES

Where the wealthy from different parts of the world buy second homes

NORTH AMERICA	%
France	17
Mexico	12
United Kingdom	9
United States	8
Italy	7
Canada	7
Costa Rica	6
Hong Kong	4
New Zealand	4
Bahamas	4
Bermuda	4
Australia	3
Ireland	2
China	2
Nicaragua	2
Panama	1
St Kitts and Nevis	1
Brazil	1
Belgium	1
Spain	1
Monaco	1
Argentina	1
Virgin Islands	1
St Lucia	1
Malta	1
Jamaica	1
Chile	1

LATIN AMERICA	%
United States	48
Spain	18
France	13
United Kingdom	8
Canada	3
Argentina	3
Switzerland	2
Bahamas	2
Panama	2

EUROPE	%
United Kingdom	28
France	24
United States	18
Switzerland	12
Spain	9
Monaco	4
United Arab Emirates	2
Italy	1
Thailand	1
Guernsey	1
Barbados	1

RUSSIA & CIS	%
France	42
United Kingdom	25
Italy	25
Monaco	8

CHANGING COUNTRY OF RESIDENCE

Where the wealthy from different parts of the world want to relocate their principal residence

NORTH AMERICA	%
Canada	10
Switzerland	9
United Kingdom	8
France	7
Mexico	6
New Zealand	6
Cayman Islands	6
Bermuda	5
Bahamas	5
China	5
Australia	5
Italy	5
Barbados	3
United States	3
Hong Kong	3
Ireland	2
Chile	2
Germany	2
Jersey	1
Costa Rica	1
Macao	1
Isle Of Man	1
Antigua & Barbuda	1
Monaco	1
Spain	1
Austria	1
Argentina	1
Finland	1
Anguilla	1

LATIN AMERICA	%
United States	47
Spain	15
Canada	12
United Kingdom	8
France	5
Portugal	5
Switzerland	3
Panama	3
Colombia	2

EUROPE	%
Switzerland	39
United Kingdom	12
Monaco	9
United States	8
Singapore	4
Hong Kong	4
France	3
Bahamas	3
Belgium	3
Guernsey	3
Jersey	3
India	3
Canada	2
United Arab Emirates	2
Spain	1
Bulgaria	1

RUSSIA & CIS	%
Monaco	25
France	25
Switzerland	17
Italy	17
United Kingdom	8
Spain	8

KNIGHT FRANK'S PRIME INTERNATIONAL RESIDENTIAL INDEX

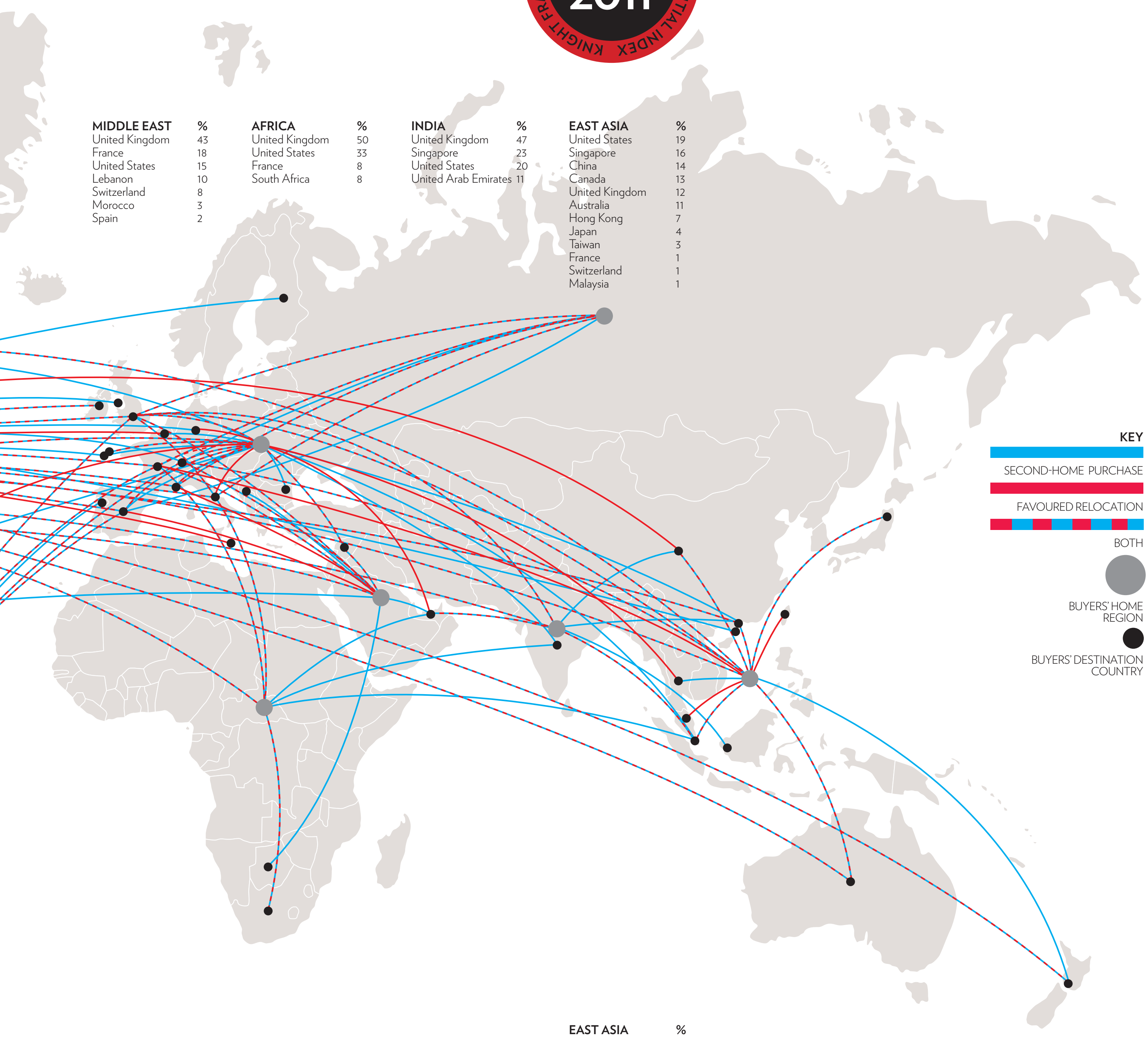
PIRI 2011

MIDDLE EAST	%
United Kingdom	43
France	18
United States	15
Lebanon	10
Switzerland	8
Morocco	3
Spain	2

AFRICA	%
United Kingdom	50
United States	33
France	8
South Africa	8

INDIA	%
United Kingdom	47
Singapore	23
United States	20
United Arab Emirates	11

EAST ASIA	%
United States	19
Singapore	16
China	14
Canada	13
United Kingdom	12
Australia	11
Hong Kong	7
Japan	4
Taiwan	3
France	1
Switzerland	1
Malaysia	1



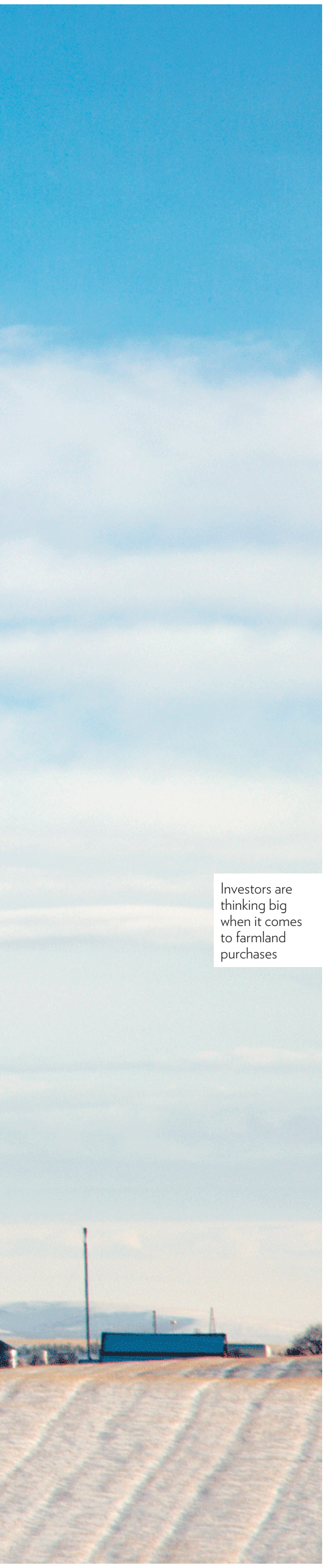
MIDDLE EAST	%
United Kingdom	40
Lebanon	18
United States	13
United Arab Emirates	8
Switzerland	7
Belize	5
France	3
Bosnia & Herzegovina	3
Botswana	2

AFRICA	%
United Kingdom	25
United Arab Emirates	25
United States	17
Singapore	17
South Africa	8
India	8

INDIA	%
Singapore	37
United Kingdom	27
United Arab Emirates	19
United States	10
Indonesia	4
Hong Kong	2
China	2

EAST ASIA	%
Singapore	22
Canada	17
Australia	17
China	14
United States	11
Hong Kong	9
United Kingdom	3
Switzerland	2
France	1
Japan	1
New Zealand	1
Thailand	1

For more Attitudes Survey results, and to find out which global locations should be on investors' radars, see Databank on p60



Investors are thinking big when it comes to farmland purchases

HOW THE LAND LIES

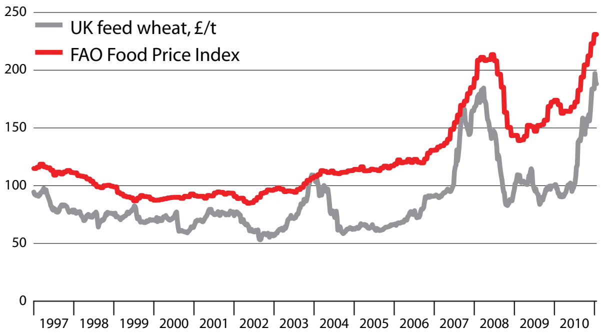
AGRICULTURAL LAND IS ONCE AGAIN ATTRACTING GLOBAL INVESTORS. BUT THE SECTOR IS FAR FROM RISK FREE, SAYS ANDREW SHIRLEY

The arguments for investing in farmland seem compelling. Food and soft commodity prices have hit record highs (see graph, below). The OECD estimates that food production will need to increase by 70% before 2050 to satisfy global population growth and changing consumption trends.

The increasing use of crops for biofuel production – around 40% of the US maize crop, some 14m hectares, will be used to produce ethanol this year – as well as soil degradation and urbanisation, is putting pressure on land for food production.

Acquiring areas of farmland to address food-security concerns is also key for countries with rapidly growing populations, such as China, India, South Korea and cash-rich, land-poor Gulf states.

Food and soft commodity prices



ANDREW SHIRLEY
KNIGHT FRANK'S HEAD OF RURAL PROPERTY RESEARCH

OLD WORLD

Anybody who bought land in England at the beginning of the century has seen their investment almost treble in value, driven by a shortage of supply and keen demand from farmers, investors and lifestyle buyers. During 2010 alone, values rose by 13%, according to the Knight Frank Farmland Index. But high capital values mean annual operating yields of under 2% are standard. Many long-term investors view this as an acceptable trade-off given the security of the asset, availability of quality management and potential capital appreciation, but the lack of land on sale makes it hard to amass a portfolio of any size.

Funds and investors with tens, if not hundreds of millions of dollars to spend, need to look to areas of the world where vast swathes of land are for sale or lease. Often, however, these are the areas with the greatest risk attached. Russia and Ukraine, for example, possess some of the world's most fertile soils, hundreds of thousands of hectares of which are currently under-utilised, but both countries are considered to have high levels of political and operational risk. Acquiring the freehold of land is complex in Russia and impossible in Ukraine where there is a moratorium on land ownership. But the opportunity to acquire land cheaply combined with the operating returns available, will outweigh the risks for some investors.

"We are starting to see some renewed interest from institutions, pension funds and family offices that are looking at a buy-and-hold strategy with annual returns of 15-18% before any capital appreciation," says Adam Oliver of property consultant Brown & Co's Poland office.

>

He admits that farming in Ukraine is "about as tough as it gets", but argues that the ability to acquire five- to 10-year lease rights for just $150/ha means the land is inherently significantly undervalued. "In Russia and Ukraine, there is a serious mispricing of risk in the market at the moment," he says. "In Brazil, where recent events surrounding foreign land ownership legislation have also demonstrated country risk, values are $4,000 to $8,000/ha for similar quality land."

There is speculation that Ukraine's moratorium on land ownership will be lifted, but factoring this into investment plans could be unwise. "I am sceptical," says Mr Oliver.

Russia has phenomenal potential, but is for investors who understand the country and its risks. "In many ways, selecting where to invest is the easy part," confirms Richard Warburton of Investment AB Kinnevik, a listed Swedish investment house that has farming investments in Russia through its shareholding in Black Earth Farming, as well as Ukraine and Poland. "The real challenge facing investors is getting the operations to work properly and this is where our focus is right now."

Central-Eastern Europe provides a good combination of risk and return. Poland and Romania are of particular interest due to their high-quality land and good logistics, says Mr Warburton. "Both are within the EU and benefit not just from the underlying sector fundamentals, but also a convergence play. Farmland values are still well below those of Western Europe."

DEVELOPING WORLD

South America also offers farming on a massive scale and remains a preferred target for many investors because of its productive climate and soils, but values in more popular areas have started to climb. The spectre of farmland nationalisation, as seen in Venezuela, also worries some investors.

Argentinean farmland in the central provinces around Buenos Aires is now fully priced at $5,000 to $10,000/ha. Charles Whittaker of Brown & Co says new investors and existing operators are looking further north to provinces such as Chaco and Formosa where land under production is priced from $1,200 to $2,500/ha. Uncleared land is available for upwards of $200-$300/ha.

Argentina does levy large export taxes on most agricultural commodities and has a reputation for political instability, but most investment models factor in the taxes and returns of 10% can be achieved on the right land, according to Mr Whittaker. "Given that we can double crop on at least half the holding in most locations, all operating costs can be sub £100/ha. Ownership is clear and foreign ownership of freehold land is welcomed."

Foreign investment into Brazilian farmland, of which an estimated 100m hectares remains to be opened up, has largely stalled. This follows a recent government move that could see land purchases by overseas buyers capped to around 5,000 hectares. "Until the middle of last year, there had been a lot of interest," says Stuart Donald, managing partner of AgriFrontiers, which advises on agribusiness investments in Brazil.

But the restrictions will have a limited effect on land values, says Mr Donald. This is because most sales in the country are to Brazilian farming companies or investors. Prices also tend to be more influenced by the market for soft commodities such as soya beans. Given the benefits of overseas investment, he expects the restrictions will probably be reviewed to differentiate private investors who will develop the land from speculators and sovereign funds.

Renato Cavalini, managing partner of Brookfield Brazil, part of Ontario-based Brookfield Asset Management, which has just closed its $330m Brazilian Agriland Fund, agrees. He believes the government is responding to unfounded public fears that sovereign wealth funds could operate huge areas of farmland "under their own rules", repeating what they are doing in Africa.

Overseas investors, who spent $2.4bn on farmland between 2002 and 2008, according to Brazil's central bank, have so far concentrated on the regions around Sao Paulo and the farming frontier states of Mato Grosso and Bahia. Some are now moving into less developed areas such as Piaui and Maranhao where land values are cheaper and infrastructure is improving, according to Mr Donald.

40% of the US maize crop, equivalent to 14m hectares, will be used for ethanol production this year

Africa polarises investors. For many the political risk is simply too great with every nation viewed as a potential Zimbabwe. To others, parts of the continent represent an agricultural Xanadu.

Zambia, for example, has huge potential. Harmony Chiboola of Knight Frank Zambia says increasing investment by individuals and funds in established farming areas has led to a shortage of commercial farms to buy and a hike in values.

Critics of foreign land ownership in Africa, especially deals where most of the crops are shipped back to the investing nation, call it a new form of colonialism of little benefit to hungry populations. The political upheaval in Tunisia was partly driven by the rising cost of food.

Indeed, Stephen Johnston of Canadian fund manager Agcapita prefers to keep his investors' capital closer to home. "We could have gone anywhere," he says. "But I don't think you can make a long-term case for investing in developing countries. Poor people vote and politicians listen. At some point, somebody will get elected who will nationalise farmland."

NEW WORLD

Canada is unique because it offers farmland at emerging-economy prices without the risks, says Mr Johnston. Farmland in Saskatchewan, one of the country's three prairie provinces, is available for under $1,300/ha. This makes grain grown there some of the cheapest in the world to produce.

However, land values are so low because tight ownership restrictions make it complicated for those from overseas to invest in the province.

In the US, land values rose by as much as 16% last year on the back of increased commodity prices and rents. But some of the biggest agricultural states, such as

Iowa, restrict farmland ownership by investors and corporations. This does not mean investors have to sacrifice double-digit returns, according to Jeffrey Conrad, president of Hancock Agricultural Investment Group, which is the largest institutional owner of US farmland and also has interests in Canada and Australia.

Careful selection of assets across a diversified range of crop types – Hancock is a leading producer of nuts and cranberries – has enabled the group to deliver 15-year annualised total returns of 11.5% for row crops and 14% for permanent crops, says Mr Conrad. Clients, such as pension funds, do not buy into pooled funds, but have portfolios tailor-made for them to match their investment objectives, he adds.

Australian farmland is attractive to investors because it combines the benefits of first-world governance and stability with the scale and prices of developing nations. Ownership is also not restricted. "I think land here is fundamentally undervalued," says Australia-based Philip Jarvis who advises foreign investors, including sovereign wealth funds worried about food security.

As a major exporter of agricultural commodities, profitability can, however, be affected by market and exchange rate volatility. The recent strength of the Australian dollar combined with comparatively high interest rates has, for example, contributed to a flattening in land value growth, which was running at plus 10% per annum prior to 2010.

Mr Jarvis, however, expects overseas interest to pick up again. "There is a growing desire to spread risk," he says. "There is an inverse weather correlation between Australia and South America. When we have the rain of La Nina, they have the drought of El Nino. They're a good hedge against each other."

The value of New Zealand farmland is even more closely related to global markets, particularly the dairy farm sector, with 90% of the country's milk output going for export. Weak international prices hit demand for dairy farms in 2009 and 2010, but this trend could be reversed if the recent strengthening of global commodity markets is maintained, says Sarah Davidson, a research analyst at property firm Bayleys.

The growing demand from overseas for land – one of China's richest men is currently trying to buy a portfolio of 16 dairy farms – has prompted the NZ government to recently introduce new measures that will allow it to veto foreign acquisitions it thinks are not in the national interest. But, Ms Davidson says, it is unlikely that these changes will have a significant impact upon the rural market as the majority of farm sales fall well outside the new criteria set by the government.

Despite this, the fact that a politically and economically stable first-world country such as New Zealand is concerned, highlights how controversial overseas investment in farmland can be. The investment rationale is indeed compelling, but the very factors that make it so will ensure that the controversy is unlikely to abate any time soon.

KNIGHT FRANK INTERNATIONAL FARMLAND INDEX

LOCATION	PRICE NOTES	AVERAGE PRICE/HA	PRICE CHANGE 2010	LAND VALUE RISKS**
ENGLAND	Average all land types	$22,000	+13%	
ROMANIA	Price dependent on size of holding	$1,560-$3,250	0%	
POLAND	Price dependent on size of holding	$4,550-$8,125	0%	
UKRAINE	Five- to 10-year lease rights	$150-$350	0%	Political, Economic, Climate
RUSSIA	Price dependent on size of holding and progress of freehold application	$300-$1,000	-10%	Political, Economic
ZAMBIA	Long leasehold	$1,000-$1,500**	–	Political, Climate
BRAZIL	Dryland double-cropping in Mato Grosso	$7,000	+20%*	Political, Economic
BRAZIL	Top sugar cane land in Sao Paulo	$12,000	+24%*	Political, Economic
BRAZIL	Dryland double-cropping in west Bahia	$6,000	+6%*	Political, Economic
BRAZIL	Native bush with high cattle potential in Para	$300	+11%*	Political, Economic
ARGENTINA	Northern provinces	$1,200-$2,500	+10%	Political, Economic
ARGENTINA	Central provinces	$5,000-$10,000	+10%	Political, Economic
CANADA	Saskatchewan province	$1,300	+7%*	
AUSTRALIA	Dryland arable with reliable rainfall	$1,600-$1,700	+2%	Economic, Climate
NEW ZEALAND	Dairy farms	$23,000	-3%	Economic
UNITED STATES	Quality dryland in cornbelt states	$16,000	+8%	Economic

Prices are indicative and will vary widely depending on soil type, local climate and infrastructure. Price changes in local currency could vary widely from stated. *Price change mid 2009-mid 2010. **Risks exclude normal climate and commodity price fluctuations. Sources: Knight Frank Research, Knight Frank Zambia, Quotable Value, Brown & Co, AgriFrontiers, Philip Jarvis Associates, USDA, Statistics Canada, Farm Credit Canada, Hancock

POLITICAL
ECONOMIC
CLIMATE

LIQUID GOLD

THE DESIRE TO OWN A VINEYARD CONTINUES TO GROW. SO WHAT ARE THE PROSPECTS FOR WEALTHY WINEMAKERS?

Villa Malva, near Orvieto in Italy, is for sale through Knight Frank

VICKI SHIEL
KNIGHT FRANK
RESIDENTIAL RESEARCH

When businessman Bruno Conci and wife, Roz, bought a 12th-century vineyard estate near Siena in Italy 23 years ago, they had no idea that they would one day sell their boutique Chianti Classico wine to high-end establishments around the world, including The Savoy hotel in London.

Once owned by the Vatican, the property was in need of substantial refurbishment. The couple saw the purchase as an exciting project and aimed to create a beautiful place to live and to produce enough wine for themselves, family and friends.

But with each successful stage of the estate's restoration came a growing desire to improve the quality of the wine. After years of hard work and millions of euros, their 100-hectare estate now boasts olive groves, vineyards and apartments popular with wine tourists.

For those thinking of buying a vineyard, such success can only add to the appeal. "Demand has gathered pace in the past five years," says Knight Frank's Bill Thomson, who sells vineyards in Italy. "We receive about 20 enquiries a year – the number is growing."

The Conci's success is not uncommon, but experiences vary. For every handful of triumphs, many aspiring winemakers end up with broken dreams and a financial hangover. "It does require a certain sort of person," says Mr Thomson. "I've known buyers to sell up when they realise the effort required."

One of the simplest ways to experience the vineyard life without the heartache is to buy a property on one of the growing number of fully serviced luxury residential vineyard schemes around the world. The resident's level of involvement varies from one development to the next: with one scheme, you might simply receive an annual allocation of bottles; in another, you might design your own label and work with the production team.

Most wealthy vineyard owners can be split into two groups. The majority are lifestyle buyers looking for a holiday house with a few hectares of vines – in France, about 70% of vineyard sales are to people from outside the industry. Then there are those who want to produce on a larger scale. These range from film stars to Chinese industrialists. Of course, a grey area between the two also exists. As the viticulture bug bites, more owners like the Concis turn a hobby into something serious.

But most experts agree that lifestyle vineyard purchases should be seen as just that – lifestyle purchases. Any success above and beyond making a palatable wine for you, your friends and perhaps a small distribution network should be viewed as a bonus.

Vineyard values vary enormously, but the new Knight Frank Vineyard Index (overleaf) shows what your money can buy. The majority of the value of many lifestyle vineyard properties in Europe will be largely tied up in the main house, meaning prices will move in line with residential markets rather than the value of the vines. But the overall prices can also be affected by commercial vineyard land values, says Mr Thomson, and these move in line with bulk wine prices. Although areas producing the best quality wines experience less volatility, bulk wine price moves are likely to affect the property value of boutique wineries.

Those looking for a blank canvas can buy huge parcels of cheap land in New World wine regions, such as Chile and Argentina, where building costs are low and there are few planning restrictions.

Chile arguably offers the world's most diverse terroirs, with huge scope to develop an estate meeting the owner's exact requirements, says Matt Ridgway, director of consultancy Chile Investments.

For more Attitudes Survey results, and to find out which global locations should be on investors' radars, see Databank on p60

"Adventurous, aspiring winemakers have started to take advantage only recently," he says.

Though there are many potential pitfalls, the upsides to owning a vineyard are many. Aside from spending balmy evenings with friends, sampling straight-from-the-barrel Syrah, many boutique winemakers also like to organise wine tastings and pitch to restaurants.

Mr Thomson says the outlook for these producers is promising: "There is a lot of mediocre wine produced in large quantities. The successes will be the boutique operators."

For those tempted, Mr Conci, 71, has decided to sell his estate*, but his advice will be close at hand. He plans to spend his retirement in a former monastery in the area and use his discerning palate to monitor the wines he helped establish.

*The Concis' estate is for sale through Knight Frank

THE KNIGHT FRANK VINEYARD INDEX

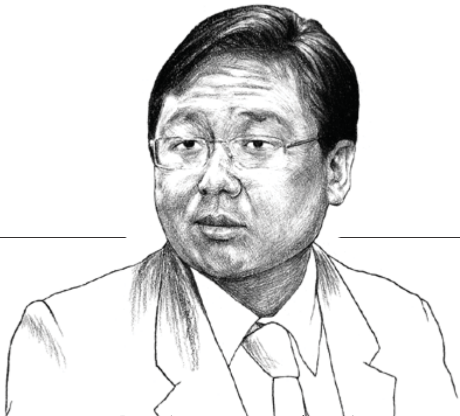
What £5m ($8m) will buy you around the world

LOCATION	TYPICAL PROPERTY	TYPICAL LAND AREA (OF WHICH VINES)	PROPERTY PRICE CHANGE 2010	REPUTATION/PEDIGREE	VINEYARD VALUES ($/HA)	WOULD SUIT ...
BORDEAUX AND THE DORDOGNE, FRANCE	Classic chateau-style, 17th- or 18th-century, six bedrooms	4-32ha (2-30ha)	-14%	World renowned	$642,000	Hobby producer, Boutique producer
NAPA VALLEY & SONOMA, US	Ranch-style, five bedrooms, swimming pool	14ha (12ha)	-25%	World renowned	$296,000	Boutique producer, Commercial producer
MONTALCINO, ITALY	Small farmhouse, recently restored, four bedrooms	10ha (5ha)	-18%	Excellent	$259,000	Hobby producer, Boutique producer
CHIANTI, ITALY	18th-century farmhouse, six bedrooms, staff house	30ha (5ha)	-16%	World renowned	$128,000	Hobby producer, Boutique producer
VAR, FRANCE	Classic 18th- or 19th-century bastide with seven bedrooms, outbuildings	10-15ha (2-3ha)	-15%	Established	$104,000	Hobby producer, Boutique producer
WESTERN CAPE, SOUTH AFRICA	Developed property with good buildings, possibly Cape Dutch-style	20-30ha (10-15ha)	0%	Excellent	$82,000	Boutique producer, Commercial producer
HAWKE'S BAY, NEW ZEALAND	Large modern residence and estate, guest accommodation	20-40ha (15-30ha)	-23%	Excellent	$74,000	Boutique producer, Commercial producer
AUSTRALIA	Large modern residence and estate, guest accommodation	110ha (30ha)	-11%	Excellent	$59,000	Boutique producer, Commercial producer
COLCHAGUA VALLEY, CHILE	A self-built luxury home and winery with micro-valley	1,000ha (160ha)	+8%	Excellent	$49,000	Commercial producer
MALLORCA, SPAIN	Four to five bedrooms, new-build, character *finca*-style country house	3ha (3ha)	0%	Emerging	$44,000	Hobby producer, Boutique producer
WEST ALGARVE, PORTUGAL	Large quinta, swimming pool, staff accommodation	10ha (8ha)	-13%	Emerging	$37,000	Hobby producer, Boutique producer
WASHINGTON, OREGON, TEXAS, US	Six-bedroom ranch with conference centre, commercial kitchen	40-50ha (20-30ha)	-20%	Emerging	$37,000	Boutique producer, Commercial producer
SOUTH-EAST ENGLAND	Period house, secondary accommodation	50ha (25ha)	-3%	Emerging	$32,000	Boutique producer
COSTA BRAVA, SPAIN	Stone-built, 17th-century, refurbished five-bedroom house	60-70ha (10-20ha)	-10%	Established	$27,000	Hobby producer, Boutique producer
MENDOZA, ARGENTINA	Large, modern style, five bedrooms, swimming pool, spa	60ha (30ha)	+13%	Excellent	$27,000	Commercial producer

All measurements are quoted in metric 1ha = 2.47 acres. 1sq m = 10.76 sq ft. Sources: Knight Frank, Hugo Skillington Immobilier, Anne Porter Properties, Classic French Homes, Mallorca Gold, Sadler's Property, Bergman Euro-National, Remax Wine Country Real Estate, Gaetjens Langley, Chile Investments, Vineyard Agent International, Lucas Fox and Los Angeles SRL. With thanks to: Byron Lutz and Jurds Real Estate.

WORLD RENOWNED · EXCELLENT · ESTABLISHED · EMERGING

HOBBY PRODUCER · BOUTIQUE PRODUCER · COMMERCIAL PRODUCER



THE EASTERN ANGLOPHILE

OUR PIRI SECTION SHOWS THAT EDUCATION CAN BE KEY IN LURING THE WEALTHY. BILLIONAIRE MR XU TELLS RUPERT HOOGEWERF WHY HIS SON WILL BE SCHOOLED IN ENGLAND

WEALTH TALK

"I believe there are opportunities everywhere," says Mr Xu. "The real challenge for all of us is how to grab them in a timely manner." This 40-year-old, Chinese billionaire entrepreneur and philanthropist, knows a little bit about taking opportunities. Born in Dalian in Liaoning province, Mr Xu started out in the construction sector 20 years ago, and now boasts a business empire that has grown into one of China's largest conglomerates. It produces chemicals, building materials and electrical appliances, as well as providing healthcare, insurance and financial services. Since 2000 he has also been the owner of one of the most successful clubs in the Chinese professional football league.

RUPERT HOOGEWERF You are sending your 13-year-old son to a famous boarding school in England in September this year. Why is that?
MR XU Just like many other Chinese parents, I am a deep believer in the importance of education to the younger generation. I have always wanted my children to receive a British education. The quality is recognised and respected around the world. I'm so glad to be sending my son to a school where many famous celebrities and prominent leaders send their children. Students who graduate from this school find themselves well positioned for their future development.

RH Is a university education overseas also important?
XU Success comes from having a plan and following it persistently and naturally. I have made a 10-year educational plan for my son in which he will spend the first five years in boarding school, followed by another five years of university life.

RH Is it true that you are also thinking of studying in the UK one day?
XU That is my ambition. There is a Chinese saying: "You are never too old to learn." Wise people always read widely and never stop learning. In recent years, many of London's best houses have been sold to Chinese people who have sent their children to be educated in England.

RH Is that also on your agenda?
XU According to my plan, my family will be spending plenty of time in England for at least the next 10 years. It would make sense to purchase a house there as a long-term residence for them. If a family plans to stay in England for quite a few years, buying a house will be a good, practical idea. The family will have a decent place to stay where they can receive friends and guests.

RH In this year's *Wealth Report Attitudes Survey*, East Asians placed more importance on the standard of local education when choosing their second home than HNWIs from any other region. However, investment was still rated the number-one driver. Is that an important consideration for you?
XU Sending my son to study in England is a strong driving power behind my potential purchase of property in England. However, I am not going to make such a decision if it is not a profitable investment in its own right. A good property will maintain and very likely increase its value over time. This is a traditional financial measure to fight against inflation. The key is to find the right property. What kind of house? Which location? How to source it? It's a very complicated and time-consuming process for most people. I always consult a reliable third-party adviser. With efficient assistance from an expert, I don't think that I will have trouble finding what I am looking for in London.

'There are opportunities everywhere. The real challenge for all of us is how to grab them'

RH You own one of China's most successful football teams. Will spending more time in England tempt you to follow the path of other overseas HNWIs who have bought Premiership teams, such as Roman Abramovich?
XU My name is closely linked with football and I have made an enormous investment into my team here in terms of capital and time – the side has won China's national championship six times. In light of this success, and my passion for Premier League football, it has been rumoured that I have been interested in purchasing a first-class British football club for a number of years. Whether or not this rumour is true, my son's education is my priority at the moment.

For more Attitudes Survey results, and to find out which global locations should be on investors' radars, see Databank on p60

Rupert Hoogewerf is the founder of Hurun Report Inc, a leading luxury publishing house based in Shanghai, China. Among its publications is the Hurun Rich List, released every October and considered to be the de-facto *Who's Who* of Chinese business. Now listing 1,363 Renminbi billionaires (equivalent to £100m), it is the largest rich list in the world. In 2009, the Shanghai government presented Rupert with the Magnolia Award, the highest honour bestowed by the city on foreigners who have "contributed significantly to Shanghai's economic performance, international relations, business environment, management standards and community development".

PORTFOLIO

OUR GLOBAL PERSPECTIVE ON INVESTMENT AND SPENDING OPPORTUNITIES

VIEW FROM THE TOP

PROPERTY REMAINS THE MOST FAVOURED TYPE OF INVESTMENT FOR THE WEALTHY. WE EXPLORE TEN EXCITING GLOBAL OPPORTUNITIES

The only thing that UHNWIs would rather put their money into besides property is their own business, according to the results of our *Attitudes Survey*. Property accounts for 35% of their investment portfolios.

Direct investment into residential and commercial real estate is the most favoured option, while office and retail space is the most popular commercial property choice. We show the results on our graphic on page 48.

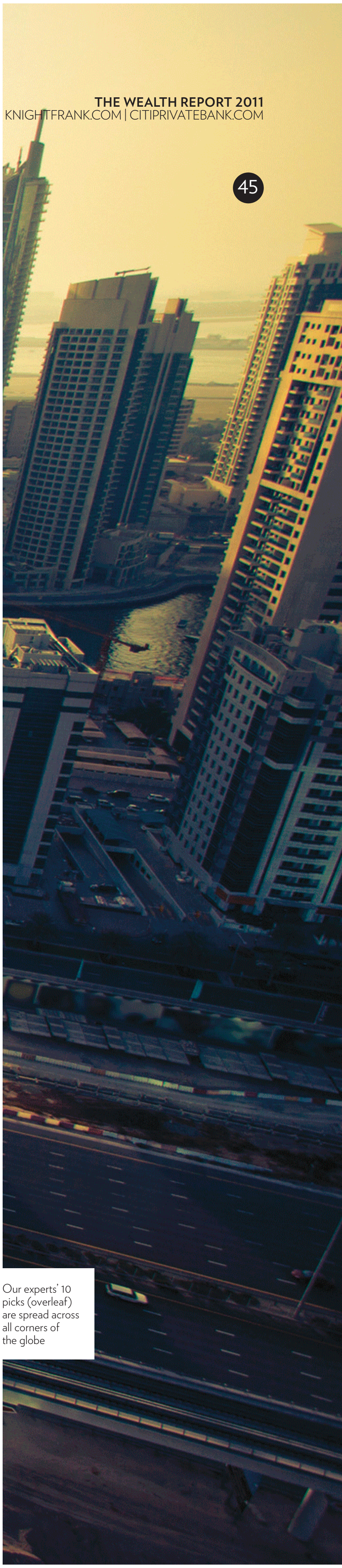
John Styles, head of fund management at Knight Frank Investors, says confidence is returning. But he has noticed a change in the way HNWIs are investing in property: "They want more control of their exit strategy. Small groups of investors can have a much closer relationship with fund managers."

Prime assets with the best tenants in the most desirable locations are still top of most investors' shopping lists, but investors who are looking for slightly more interesting returns are beginning to emerge. "These investors are prepared to take a bit more of a risk," says Mr Styles, "as long as the fundamentals stack up."

One very interesting opportunity we highlight in our round-up overleaf is investing in Zambian development land. It might seem unorthodox, but good returns are available.

The Wealth Report asked 10 property investment experts from Knight Frank and Citi Private Bank to select a property sector or location for HNWIs' portfolios. Each rated their choice out of 10 based on risk, potential yields and the potential for capital growth.

Our experts' 10 picks (overleaf) are spread across all corners of the globe



KEY

7
LOCATOR

MAP LOCATION

COMMERCIAL

DEVELOPMENT

RESIDENTIAL

LOGISTICS

DEMOGRAPHIC

RATINGS

RISK FACTOR
1 low risk
10 high risk

YIELD FACTOR*
1 poor yield
10 high yield

CAPITAL APPRECIATION
1 low potential
10 high potential

V variable
X not applicable

*Yield refers to annual return on investment excluding capital appreciation

Please note that the ratings are based on personal opinion and are meant to be indicative only. They should not be used for any form of benchmarking

COMMERCIAL REAL ESTATE IN EMERGING ASIA

1

RISK FACTOR 8
YIELD FACTOR 8
CAPITAL APPRECIATION 8

I keep two pictures on my desk. One is a postcard of Hong Kong in 1972. The other is a photograph taken from the same location in 2007. Today's city is almost unrecognisable from the 1970s version, thanks to a sea of high-rise buildings, roads and port facilities. It was all achieved in less than 35 years. For me, the pictures are an important daily reminder of the explosive growth available in Asia's emerging markets.

Most investors are well aware of the growth of the Chinese and Indian economies, but overlook equally impressive economies in the region, such as Indonesia and Vietnam.

We like emerging Asia for one simple reason – real-estate returns are driven by economic growth and very favourable demographics, rather than leverage and yield compression. Greater trade and industrialisation drives demand for logistics facilities; growing incomes swell the middle class, which creates opportunities in retail and leisure; an expanding services sector opens up opportunities for offices; while a young, growing population needs modern residential accommodation.

Emerging markets typically have high levels of corporate real estate ownership and limited securitisation alternatives. These factors will feed the flow of deals as corporates free up balance sheets to pursue new growth initiatives and developers will look to monetise stabilised projects.

Investing into emerging markets has traditionally been considered high-risk, but debt problems in Europe have put this perception into context. Many economies have dramatically evolved from their own financial crisis in 1997 to become well-managed, conservatively run and politically stable.

MARC GIUFFRIDA, ASIA PACIFIC CAPITAL TRANSACTIONS MD, KNIGHT FRANK

DEVELOPMENT LAND AROUND LUSAKA, ZAMBIA

2

RISK FACTOR 7
YIELD FACTOR 8
CAPITAL APPRECIATION 7

A recent analysis by *The Economist* found that over the past 10 years, six of the world's 10 fastest-growing economies, including Zambia, were in sub-Saharan Africa. The country has just recorded its 12th consecutive year of economic growth with average annual GDP increases of 6.9% predicted up to 2015.

This has had an impact on the capital Lusaka. Large tracts of farmland have been sold and subdivided for residential and commercial development. Similar opportunities will continue as the city expands and development land values overtake agricultural values.

Zambia has a serious housing shortage – it needs to build at least 150,000 housing units a year. Construction is a major contributor to the country's economic expansion. Growth in the sector is expected to have reached 10% in 2010, driven by strong demand for residential and commercial developments, energy, mining and transport infrastructure.

A new area of Lusaka developing fast is south along the Kafue Road. Recent sales of former farmland with road frontage for commercial use have achieved prices of more than $150,000/ha. Residential land sales are in the region of $50,000/ha. Land is often sold with limited services and the opportunity exists to develop serviced estates. Plans to construct ring roads around Lusaka may help establish new areas of development.

Investors need to take good local advice as the limited choice and competition for prime buildings has led to property owners seeking prices that do not justify the potential yields. Despite this, the fundamentals of a growing demand for modern accommodation in all property sectors should be investigated.

TIM WARE, MANAGING DIRECTOR, KNIGHT FRANK ZAMBIA

SECONDARY UK RESIDENTIAL INVESTMENTS

3

RISK FACTOR 5
YIELD FACTOR 7
CAPITAL APPRECIATION 7

The best opportunities often arise in the least popular markets. An extreme example of this is when, in the second half of 2008, we were unable to find interest in a deeply discounted prime block in Belgravia. The confidence of investors had been shaken to such an extent that there was uncertainty as to whether the prime London market would ever recover. Two-and-a-half years on and the block has appreciated by 50%. It has yielded the one brave investor we found more than a 100% return.

Looking now, we would highlight two particular markets. First, go for secondary stock in good locations in central London. Headline figures demonstrate the strength of the recovery in the London market, but they also mask that secondary properties, even in good residential areas, are trading at a deep discount to the best stock. They offer some of the best rental returns and improvement can often add value.

Second is development stock in good regional cities, such as Manchester, Birmingham and Bristol. There remains a large amount of unsold development stock in these locations, which the market is largely avoiding. This is because of perceptions of oversupply and the stigma attached to large blocks of flats built in regional cities at the peak of the market. However, we see very good opportunities to buy this stock selectively, so long as it is of a sufficient quality, and in the right location. We are seeing some deals at levels lower than it would have cost to construct the properties in the first place. Investors in each of these markets need to take a five- to seven-year view. Nevertheless, both of these property classes should provide a healthy yield.

JAMES MANNIX, HEAD OF UK RESIDENTIAL INVESTMENT, KNIGHT FRANK

Poland is the largest and most mature market in Central and Eastern Europe. Its recent economic performance has helped strengthen its position as a key gateway location for investment into the area

COMMERCIAL PROPERTY IN POLAND

4

RISK FACTOR 5
YIELD FACTOR 7
CAPITAL APPRECIATION 6

Poland's economy proved to be Europe's star performer throughout the recent downturn. Alone among EU economies, Poland avoided entering recession, recording GDP growth of 1.7% in 2009, followed by an estimated 3.5% in 2010. Growth of around 3.9% is forecast for 2011.

Having experienced a lull in investment activity during 2009, when commercial property transactions totalled just \$0.95bn, there was an upswing in activity in 2010, with the investment volume reaching nearly \$2.45bn, driven primarily by increased cross-border investment, especially from Germany. Poland's recent growth has helped strengthen its position as a key gateway location for investment into the Central and Eastern European (CEE) area. It is the largest, most mature property market in the region.

The Warsaw office market has avoided the overdevelopment that it experienced during previous market cycles, keeping the vacancy rate well below those of other CEE capitals, at 9% at the end of 2010. Warsaw's rental growth prospects are among the best in Europe – forecasts say that prime office rents will increase by 3.2% in 2011 and 4.7% in 2012.

Improved investor sentiment pushed prime office yields in Warsaw down by around 50 basis points over the course of 2010, taking them to 6.8%. However, these yields still offer an attractive premium when compared with markets such as central London and central Paris.

Poland's retail and logistics property markets also offer opportunities. Strong consumer spending has helped the retail sector in the past year, while the logistics market is well developed.

MATTHEW COLBOURNE, SENIOR ANALYST, KNIGHT FRANK COMMERCIAL RESEARCH

DISTRIBUTION AND INDUSTRIALS IN THE UAE

5

RISK FACTOR 6
YIELD FACTOR 8
CAPITAL APPRECIATION 5

Dubai's real estate market suffered more than many during the global recession as a glut of unsold developments, both residential and commercial, dragged heavily on prices already under pressure from a sharp slowdown in investor activity.

In some sectors values have fallen by as much as 60%, but away from high-profile offices, glittering shopping malls and alluring waterside residential schemes, the understated "shed" sector can provide robust income returns. Values have fallen along with other property assets, meaning that now could be the time to take advantage of a sector that looks undervalued, yet is supported by strong market fundamentals.

The UAE port of Jebel Ali, close to the boundary of Dubai and Abu Dhabi, is the world's seventh busiest container seaport. This 134sq km facility features the world's largest manmade harbour and a million sq m container yard. The port will connect to a new international airport that will eventually feature five runways, permitting a four-hour transit from ship to aircraft.

The surrounding free zone permits occupiers to trade easily with light regulations. More than 6,000 companies have taken advantage of this.

Unlike some locations across the region, barriers to entry are removed as the free zone status permits overseas parties to acquire and trade long-leasehold real estate title. These factors provide investors with access to reasonable lot sizes and comparatively cheap capital values. Combine this with attractive running returns secured to mature multinational tenants and the rationale for investing is compelling.

JAMES LEWIS, DIRECTOR OF INVESTMENT, KNIGHT FRANK MIDDLE EAST

LUXURY NEW HOMES IN PRIME EUROPEAN CITIES

6

RISK FACTOR 1
YIELD FACTOR 2
CAPITAL APPRECIATION 5

The smart money going into the European residential market is likely to keep a clear focus on property that offers both the very best quality, and for which there is a marked scarcity. A beautiful private home in a sought-after location will always attract interest. The appeal is to owner-occupiers and the commitment is long term. The enjoyment of ownership is equal to the performance of the investment.

Similarly, in the new home projects sector in Europe, some projects are starting to stand out by virtue of offering limited – and thereby exclusive – stock, and also as a result of European developers starting to match the quality of design, interior finish and services that have driven demand in such global cities as London and New York.

One such project is the *Belle Epoque*-style No 23 Boulevard de Belgique in Monaco. With just 21 private residences, the project certainly offers a limited opportunity. With entrance lobbies finished by renowned designer Jacques Garcia, it can also offer the very highest quality of design and specification.

Monaco, of course, is already hugely attractive for HNWIs. Boulevard de Belgique stands out even within this market, however, as a whole new residential building of an exceptional standard. The prime apartments here with views over Monaco and its harbour seem to represent an opportunity for the individual who wants to have the best quality in the best location. Of course, this comes at a price, but long-term security and stability is the key here. The project is being launched in late spring – early birds may register for information at www.no23monaco.com

JAMES PRICE, HEAD OF INTERNATIONAL RESIDENTIAL DEVELOPMENT, KNIGHT FRANK

EDUCATION REAL ESTATE IN ASIA

7

RISK FACTOR 5
YIELD FACTOR 0
CAPITAL APPRECIATION 8

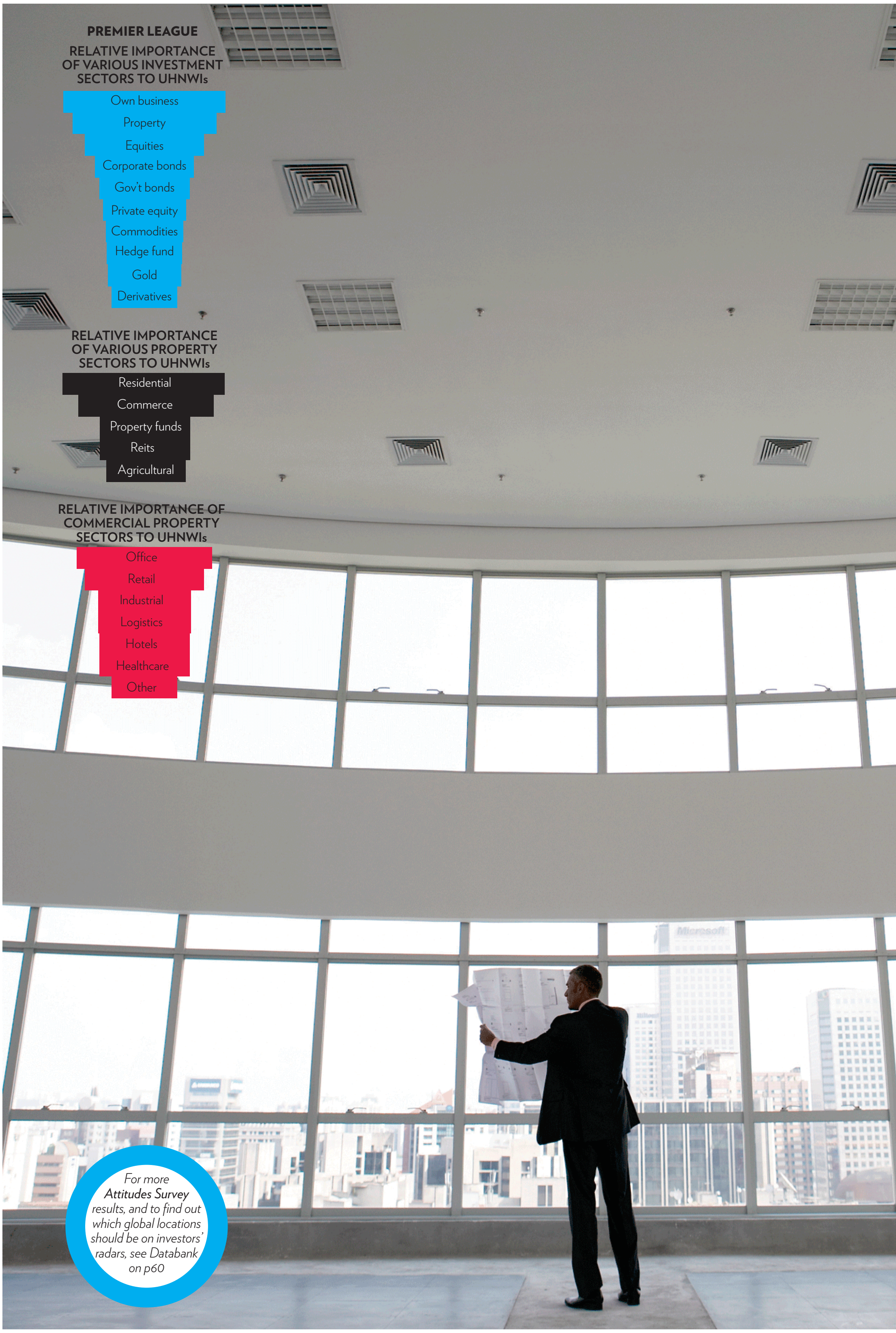
Local governments of major cities in many developing Asian countries are focusing on new ways to suit the growing population's social needs. Investments that follow these government plans, while addressing end-user demands, may have the potential to capitalise on market dynamics while mitigating the risk of an overheated sector.

Quality education is a key focus of today's developing economies. These countries are experiencing a structural change in demand for labour – from primarily labour-based industries to tertiary value-added or service-oriented businesses. Families with school-age children are willing to pay a significant premium to live close to good schools, given the long school hours and the worsening traffic in new cities. Priority entrance and proximity to quality schools in a community are a big draw to homebuyers. Developers have yet to learn to combine neighbourhoods with quality schools.

There are opportunities in the market for UHNW investors to invest with developers in China and India, as they are beginning to build such communities. Some investments may offer the choice to reinvest a portion of the gains from residential development to the education business within the communities, expanding the investment purpose.

Investments in education real-estate demand the same selection discipline and risk appetite by investors as with any other residential real-estate investments in developing countries. For long-term visions of such projects, investors should choose to work with developers who are not only locally rooted, but also understand the education needs of the community.

CAROLINE SIA, REAL ESTATE INVESTMENT SPECIALIST, CITI PRIVATE BANK



For more Attitudes Survey results, and to find out which global locations should be on investors' radars, see Databank on p60

RESIDENTIAL DEVELOPMENT IN EASTERN MUMBAI

8

RISK FACTOR 6
YIELD FACTOR 4
CAPITAL APPRECIATION 8

India's population of HNWIs rose by more than 51% in 2009. And a disproportionately large portion of those Indians who have recently graduated into the top tier of wealth live in Mumbai.

The Indian residential market has traditionally been a hotspot for investors. Higher home ownership, driven by infrastructure development, easy availability of credit, low interest rates and a growing per-capita income, are all set to drive up asset values over the medium to long term.

The coming decade will see most infrastructure spend and development in Mumbai to the east of the city and on enhancing connectivity with the west. Infrastructure projects, such as enhancements to the Eastern Express highway, the Versova-Andheri-Ghatkopar Metro rail project and the proposed new airport at Panvel are expected to benefit the eastern corridor more than the west. This is likely to accelerate change in residential and commercial markets in eastern Mumbai.

But only Indian citizens or people of Indian origin may buy into individual residential units in the country. Foreign nationals and foreign institutional investors are permitted to invest in India only where schemes are in excess of 50,000 sq m or development projects of over four hectares. There is a minimum investment value of $5m and a three-year lock-in.

It may, therefore, be best for foreigners to subscribe to funds registered in their country with an investment objective of investing in Indian real estate – rather than attempt to navigate the difficult regulatory environment in India.

ANAND NARAYANAN, NATIONAL DIRECTOR OF RESIDENTIAL AGENCY, KNIGHT FRANK INDIA

DISTRESSED US REAL ESTATE AND PROPERTY DEBT

9

RISK FACTOR v
YIELD FACTOR x
CAPITAL APPRECIATION x

As of September 2010, there was an estimated $13.8tn in outstanding mortgage debt recorded by the US Federal Reserve. Various industry data sources estimate that around $1.5-$2tn of that $13.8tn will need recapitalisation in coming years. This distress is burdening commercial bank balance sheets, as shown by the rising number of banks on the Federal Deposit Insurance Corporation watchlist.

In addition to the sheer volume of distressed assets on their balance sheets, commercial banks are facing increased regulatory pressures. Specifically, the Basel Committee on Banking Supervision is updating their guidelines via Basel III. This updated set of regulations will create a stricter definition of Tier 1 capital, increase the required Tier 1 capital ratio, and require commercial banks to hold a capital buffer of 2.5% of common equity. These increased capital requirements are also expected to contribute to the velocity of asset disposals. As earnings improve, commercial banks will be better able to absorb loan losses and, as a result, loan dispositions are expected to accelerate.

The next two years could provide opportunities for investors seeking to exploit the challenges many financial institutions face. These asset dispositions should create attractive investment opportunities in underperforming and non-performing loans. Non-performing loans can often be purchased at an attractive discount to par value.

Several non-performing residential mortgage pools were acquired at discounts of 50-55% of par value. These investments could generate internal rates of return in the mid- to high-teens.

DANIEL O'DONNELL, GLOBAL HEAD OF PRIVATE EQUITY, CITI PRIVATE BANK

COMMERCIAL PROPERTY IN SAO PAULO, BRAZIL

10

RISK FACTOR 6
YIELD FACTOR 8
CAPITAL APPRECIATION 5 (Office-space scores)

Foreign direct investment flows into Brazil are expected to remain strong as investors want to take advantage of offshore oil reserve exploration, the development of mining, agribusiness projects, and infrastructure projects associated with the 2014 Fifa World Cup and 2016 Olympic Games. This is reflected in one of Brazil's most dynamic real estate markets – the city of Sao Paulo.

The demand for A+ and A-grade office space has been exceeding supply as newcomers are establishing activity in the country or expanding their operations. Sao Paulo is experiencing a vacancy rate of 2.8% and as of October 2010, about 105,000 sq m have been absorbed in the A+ and A-grade office market. Private equity and real estate funds have been very active, as they expect further increases in lease rates and price per sq m. Cap rates of about 11% have proved attractive to foreigners.

The warehouse market is also expanding as federal and state governments prioritise new infrastructure. Sao Paulo's ring road – which connects all the city's highways – is transforming the industrial landscape.

A foreigner willing to invest in Brazil should consider using Real Estate Investment Funds as an investment vehicle. Their advantages include tenant and geography diversification and liquidity, specialised management of the properties in the funds and tax exemption on the capital gain. Nevertheless, for a foreigner based in a non-low-tax jurisdiction, income, which is usually distributed on a monthly basis, is taxed at 15%. Today, there are more than 40 listed funds with total assets under management of $4bn.

JAN KARSTEN, HEAD OF LATIN AMERICA MANAGED INVESTMENTS, CITI PRIVATE BANK

POWER PLAY

ENERGY IS THE KEY INVESTMENT SECTOR FOR THE FUTURE, SAYS ANDREW SHIRLEY

Energy and natural resources are the leading themes that should be shaping the future investment portfolios of HNWI investors, according to wealth advisers. About 90% of respondents to the *Wealth Report Attitudes Survey,* say the two sectors will become "more" or "far more important" to their clients over the next 10 years (see graphic). The results come as no surprise to Malay Ghatak, head of investment for Citi Private Bank's Europe, Middle East and Africa division. "We will see huge incremental increases in the demand for energy from emerging nations," says Mr Ghatak. Last year, global GDP growth was about 3.7% but, he points out, "half of that was from economies growing at 6-10%."

Indeed, countries with large populations, such as India and China, are growing at a scorching pace. These countries are home to significant pent-up demand for better transport, manufactured goods and infrastructure. These result in increased energy use in the medium term. "Increased consumerism and improved social mobility also lead to greater demand for resources down the line," says Mr Ghatak.

Even in developed nations where GDP growth is much slower, the demand for energy remains inelastic, even during times of economic austerity, says Mr Ghatak. Moreover, a lot of potential investment into the sector was put on hold after the credit crisis. "Capacity increases take a while and projects face long gestations," says Mr Ghatak. "As a result, supply hasn't stepped up."

Investors looking to take advantage of the global demand for energy should try to get as close to the asset as possible, advises Mr Ghatak. Go for oil futures, for example, rather than the equity of energy companies, he says: "It takes away the unforeseen risks and management issues that can affect this sector – what happened to BP in the Gulf of Mexico being an extreme example. There can be a huge difference in the performance of the underlying commodity and the equity of the companies involved."

Gains in the commodity sector are also being driven by demand from emerging economies – copper was up 25% in value last year – and also from financial investors looking to trade the momentum, and as a hedge against debasement. Investors, however, need to manage their exposure carefully as this asset class is characterised by price volatility. "Several choices are available," says Mr Ghatak. "The selection process should be based on understanding the client's knowledge, experience and risk tolerance."

Food production was listed by 72% of survey respondents as a sector that would become more important. "I think it should be higher than that," says Mr Ghatak. "*The Economist*'s Agricultural Index was up 27% last year, and global population growth and changing wealth patterns in emerging markets support the investment case."

A lack of knowledge about how to invest in food production could explain its relative lack of popularity, he believes. "There aren't the same number of investments that allow you to access the sector," says Mr Ghatak. "I can understand a client's propensity not to jump on a tractor (see page 34), but they do understand large corporations. One could create a diversified investible basket of high-quality global corporations that derive 30-50% of their profits from emerging markets, and have a track record of being able to expand profit margins as a way of accessing this theme. Some of our investors do move in and out of soft commodities or exchange traded funds, but you can be exposed to very large swings."

Green and low-carbon technology was also ranked highly by respondents, but creating a successful investment strategy in the sector is not easy, says Mr Ghatak.

FUEL UP

ADVISERS' KEY FUTURE INVESTMENT AREAS

92%

SAY ENERGY

89%

SAY NATURAL RESOURCES

For more Attitudes Survey results, and to find out which global locations should be on investors' radars, see Databank on p60

"Much of it is underpinned by government-specific initiatives," he says, "which makes it hard to invest with any long-term certainty."

Opportunities in the sector do exist, however, for those who want to make property-based investments, says David Goatman, Knight Frank's head of sustainability (see right).

Mr Ghatak says healthcare, which almost 80% of our respondents said would become more important for investors, is an area that requires detailed market knowledge. "Globally, the market is undoubtedly increasing," he says. "It is reported that 60% of adults in India have diabetes, for example. However, one has to be careful, as the performance of the sector's sub-streams can vary considerably. The trends aren't always easy to spot, and new drugs take a long time to develop."

Healthcare trends are not always easy to spot and new drugs take a long time to develop. But we can predict that we are getting older

One trend you don't need to be an expert to predict is that we are all getting older. Julian Evans, head of healthcare at Knight Frank, says this makes care homes a good long-term investment: one that can even be inflation-linked in the UK (see right). Although, as Mr Ghatak points out, investors will need access to a reliable vehicle to access this sector.

Technology is another arena that offers widely varying opportunities. "It is amazing what's happening in that space," he says. "But given high volatility in equity prices and dispersion in performance, it may be unwise for most investors to buy into this sector on the basis of stock selection or high concentration," adds Mr Ghatak. He recommends a diversified approach by sticking to a technology-based index such as the Nasdaq, which was up 15% in 2010.

Yet, despite all the various types of investments available, Mr Ghatak says: "One of the questions I get asked the most is: how is the luxury residential market in London doing?"

CLEAN TECH

David Goatman, head of sustainability consultancy, Knight Frank

2010 was an important year for carbon-reduction legislation in the UK. April saw the advent of both the carbon reduction commitment (CRC) energy efficiency scheme and the clean-energy cashback scheme. Initially viewed as another compliance burden, the CRC scheme may turn out to have far-reaching implications for property values. Associating a carbon cost with the ownership and occupation of commercial property represents a first step towards property values reflecting the carbon efficiency of a building. Specific green property funds are increasingly being set up to target a market where tenants will pay more for the most sustainable commercial space, as they will save money through energy and tax savings.

A more immediate investment opportunity was opened up by the introduction of feed-in tariffs (FITs) via the clean-energy cashback scheme. Through guaranteeing an income stream for small-scale renewable energy projects, the government has provided the opportunity for investors to benefit from security of income for up to 25 years. The guaranteed FITs have, in turn, opened up investment routes that include direct investment, technology-specific funds, venture capital trusts and enterprise investment schemes.

CARE

Julian Evans, head of healthcare, Knight Frank

The UK's healthcare sector was affected far less by the global downturn than other commercial property sectors, and is expected to continue to attract robust investment demand during 2011.

According to Investment Property Databank (IPD), care homes recorded modest total returns of 2.1% per annum between 2007 and 2009 – relatively impressive when viewed against all property total returns of -8% a year over the same period.

Healthcare's long leases and relative independence from discretionary spending are key strengths. Care homes typically provide investors with lease lengths of 25 to 35 years, which compares with a falling average of almost 10 years for all property, including retail, offices and industrial. Care-home rents are also typically linked to annual RPI uplifts.

Investment interest will remain restricted to high-quality care homes in relatively affluent areas, where occupancy rates are strong and dependence on local authority funding less significant. Those leased to established operators with solid trading performance are of particular interest. Prime care-home yields are expected to remain stable at around 6% in 2011, although secondary and tertiary assets may see continued yield softening after declining occupancy rates and fee pressures.

CONFLICT

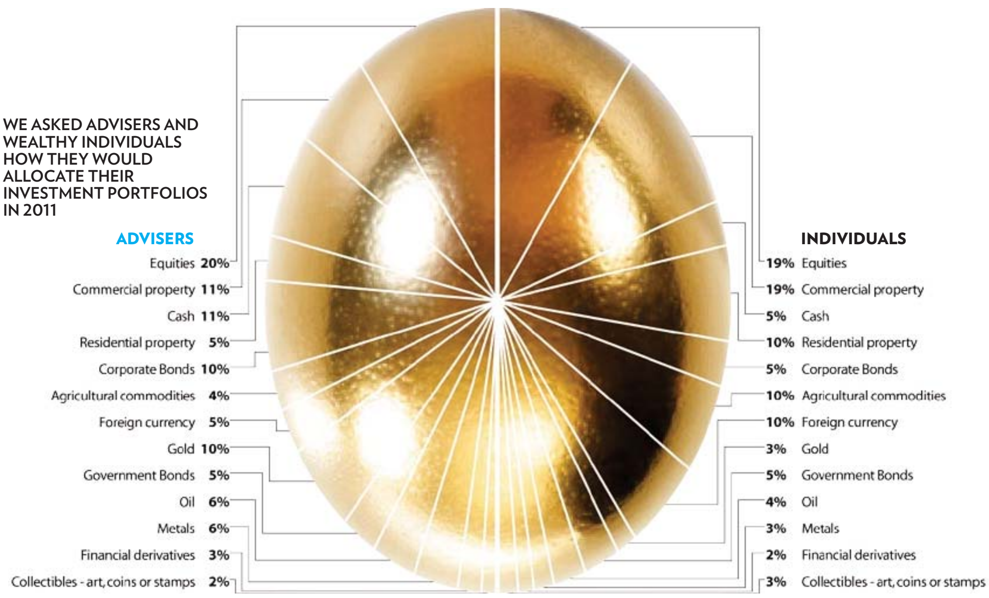
David Murrin, chief investment officer, Emergent Asset Management

Conflict, epidemics and climate change are some of the key geopolitical trends that will define the world in the 21st century, says David Murrin, chief investment officer of Emergent Asset Management, in his recently published book *Breaking the Code of History*. He believes defence contractors in Western and emerging economies, especially shipbuilders, will benefit from increased military spending – particularly in Asia where a naval race is already under way.

History also highlights that empires in decline – and Mr Murrin believes the US falls into this category – suffer from more disease epidemics. This opens up investment opportunities in pharmaceutical companies, but not necessarily Western corporations. They are becoming more vulnerable to attacks on their intellectual property, says Mr Murrin, who suggests generic drug producers could be a better option.

THE GOLDEN EGG RACE

THE WEALTHY BELIEVE THEY MAKE BETTER INVESTMENT CHOICES THAN ADVISERS. SO WE CHALLENGED THEM TO BEAT THE EXPERTS. LIAM BAILEY REPORTS



The results of our *2010 Attitudes Survey* of wealthy investors confirmed that, when it comes to allocating their wealth portfolio, UHNWIs value their own experience first, then the advice of their friends and family and, finally, professional advisers.

This year, *The Wealth Report* has decided to put this finding to the test. If wealth investors trust their own judgements over those of their advisers, are they right to do so and what are the consequences of this confidence?

During January 2011, we interviewed 70 professional advisers and 40 UHNW private investors from across the globe, and asked them two key questions: what assets would they be investing in during 2011 and how would their allocation be divided between different world regions?

The results of the selection, including some surprises, are exclusively revealed in our egg graphic above. Meanwhile, our graphics and analysis opposite explore some of the findings from our challenge.

ANALYSIS

Philip Watson, head of Citi Private Bank's Investment Lab EMEA, analyses the results of our survey

LIAM BAILEY Are wealthy individual investors right to rate their own judgement so highly?

PHILIP WATSON To the extent that you have got to trust your own views. I do suspect that the claim that individuals trust their own judgement over that of professional advisers is clouded by the fact that investors commonly downplay the influence of other views when they are devising their own strategy. There has to be a concern that investors who rely on their own views alone – to the exclusion of all others – will have portfolios that are skewed towards asset classes, sectors and regions with which they are most familiar. No individual can have access to the research and strategic resources available to the larger professional wealth advisers.

LB Did the credit crunch undermine clients' trust in advisers?

PW Without doubt. This has been well documented. However, the extent to which this occurred varies significantly, and depends on the unique experience of each client – many of whom feel that their advisers were able to shield their portfolios from the worst of the crisis. In my experience, clients are now beginning to place more trust and reliance on their advisers now than they were before the crash.

LB Really, why would they do that?

PW The definition of managing portfolio risk has always been open to interpretation. The credit crisis simultaneously exposed investors to the broadest possible range of risks – high volatility, rising correlations, absence of liquidity, foreign exchange risk, and so on. Attitudes to risk have changed to reflect these experiences.

Conservatism rose sharply. Investors want to be better informed – transparency is the buzzword. Advisers with the ability to identify risk and provide actionable, timely and informed advice are valued by investors. As well as ongoing client profiling, Citi Private Bank runs Portfolio Diagnostics through its Investment Lab for clients. These are designed to unveil and manage risk exposures across the portfolio, from the overall asset allocation to singular investments.

LB Does new technology offer chances for advisers to engage with clients?
PW Yes, but it opens opportunities and risks. Citi Private Bank was the first private bank to launch an iPad app, an example of how technology has opened new methods of communication with our clients. With the fast evolution in technology, the risk of falling behind is ever-present. The importance of intergenerational wealth planning means engaging with clients in ways that they know and are most comfortable with.

The web, and blogging in particular, has to some extent democratised the provision of wealth advice. There are lots of contrarian bloggers who have substantial followings, for example. This does not pose problems for established wealth managers; investors are interested in comparing the house view of an organisation against the wider marketplace. Investors respect an adviser who sets out a well-articulated view and stands by it.

LB Are there any surprises in the first results of our *Fantasy Finance* survey?
PW The first thing I would say is that both the advisers and the investors have selected fairly diverse portfolios. However, I would also note that neither portfolio is defensive – this is interesting given the recent bout of conservatism.

There are certain survey findings that point to the benefit of the advisers' experience. The higher interest in agricultural commodities from investors, a high-profile sector in the media over recent months, could be one such example. Prices have risen fast across the sector and advisers, conscious of liquidity and an expensive roll yield, may have shown caution in their allocations – futures prices are higher than spot prices.

The higher representation of gold in the adviser portfolio is interesting. There has already been high investor community take-up within the gold markets. Markets are also beginning to price in a higher real interest rate environment, traditionally a time when gold would be expected to underperform.

The fact that advisers are looking to be more heavily invested in North America and Europe, compared to the more emerging market make-up of the investors' portfolio, suggests that it is the advisers who are recognising that the strength of an economy and the performance of local financial assets may not necessarily mirror each other. Instead, they are looking for value opportunities in the developed world.

The top-left graphic is also interesting, suggesting that individual investors are looking to secure more exotic and unusual investments. My hunch is that there is a marked difference between wanting to hear about opportunities and then actually putting money to work in these investments – which helps explain the differential between the adviser and the investors on this one. The definition of exotic may be different from one to the other – highlighting the importance of educating clients on their choice of investments.

CASH CLASH

UNUSUAL SPENDING OPPORTUNITIES

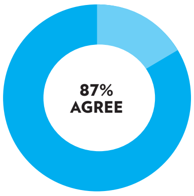
32%

OF ADVISERS SAY THEIR CLIENTS WANT MORE

72%

OF UHNWIs SAY THEY WANT MORE

INVESTORS HAVE BECOME MORE RISK-AVERSE IN RECENT YEARS

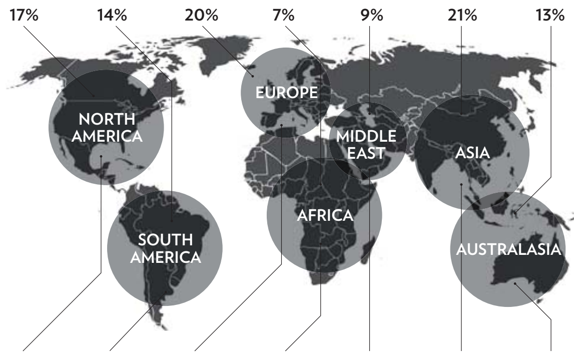


ADVISERS' VIEWS ON CLIENTS

UHNWIs' VIEW ON THEMSELVES

HOW WOULD YOU ALLOCATE YOUR PORTFOLIO? GO TO KNIGHTFRANK.COM/GLOBALBRIEFING TO ENTER OUR ONLINE FANTASY FINANCE COMPETITION

WE ASKED ADVISERS AND INDIVIDUALS HOW THEY WOULD ALLOCATE THEIR INVESTMENT PORTFOLIOS IN 2011



ART IN HEAVEN

INVESTING IN ART NEED NOT BE FRIVOLOUS. INDEED, IT MAY BE A SMARTER MOVE THAN PLACING ALL YOUR WEALTH IN STOCKS AND BONDS, SAYS RANDALL WILLETTE

Untitled by Roy Lichtenstein © The Estate of Roy Lichtenstein/DACS 2011

RANDALL WILLETTE
FINE ART WEALTH MANAGEMENT
MANAGING DIRECTOR

The recent trend for investment diversification has extended to art, as investors shift their concern from weathering the financial crisis to anticipating the inflationary effects of struggling Western governments' rising debt. Art, like gold and commodities, is considered to be a 'real asset' and has a proven record as an effective hedge against inflation. The launch of a number of art investment funds and clubs – which offer investors the chance to invest indirectly into the art market – has also resulted in art attaining its own status as an alternative asset class.

According to research by Capgemini and Merrill Lynch last year, HNWIs are returning to investments of passion. With financial markets still in flux, many HNWIs surveyed indicated that they considered art a good financial investment, and sought out those items perceived to have tangible long-term value. The report highlighted that art investors in places such as India, China and the Middle East have a higher predilection to hold tangible assets – such as art – as a possible inflation hedge. Although there has been surprisingly little research into art's appropriate allocation in an investment portfolio, we do know that the demand for investments of passion overall is likely to increase in 2011 as wealth levels rebound. The trend is confirmed by the fact that auction houses, luxury good manufacturers and high-end service providers are all reporting signs of renewed demand.

Art is increasingly becoming a small part of the portfolios of HNWIs who are searching for alternative assets. Two distinct strategies in this regard are emerging.

The first is designed to emulate the world's top collectors who tend to focus on specific sectors of the broader art market. Under this approach, investors pursue their goal of medium- to long-term capital appreciation by managing portfolios that cover the most established art sectors – such as Old Masters, Impressionist, modern and contemporary. These sectors are identified for having significant size and maturity of collector base; independent market behaviour, including price performance and volatility; and a long transaction history allowing greater predictability.

The second strategy is pursued by those leading art dealers and auction houses that seek superior short-term returns. Transactions of this nature are considered propositions with increased risks and rewards and often involve the creation of trading opportunities that allow investors to buy and sell works quickly, so they can achieve an immediate return.

An investment approach to managing an art portfolio should combine traditional portfolio management with art world best practice, by drawing on a combination of research, expertise and market intelligence.

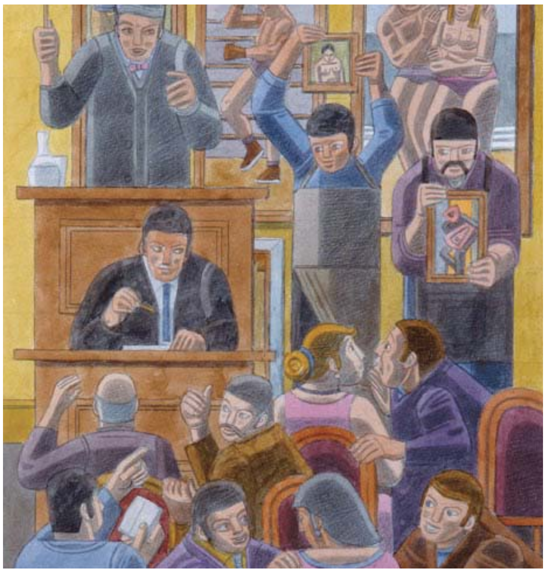
The process of determining where assets should be allocated should include a thorough assessment of art market conditions, global economic conditions, the availability of attractive investment opportunities, and suitability of investments to the risk/return profile of the investor. Similar to industry analysis in traditional fund management, the investment process should include a review to determine how trends in each sector are likely to influence the future performance and risk-management benefits of the portfolio.

For the first time, a wealth of data is providing investors with a better understanding of the risk/return potential of art investment. Established techniques used in the management of all types of asset can now be employed in art investment – allowing investors to incorporate art into their alternative investment strategy.

The last few years have seen the development of art price indices that have aided the comparison of art to other assets such as equities, bonds and gold. The MeiMoses All Art Index and Art Market Research are among the most widely quoted. However, both are reliant on data from the sales at the main auction houses – due to an absence of data from the dealer market and private sales.

Investment in art, as with other investments, involves a substantial risk loss. Economic movements and market trends that could affect future buying behaviour should be constantly analysed and reviewed. For example, precipitous art market declines are often the result of bursting bubbles within geographic regions or market sectors, such as the one we have just experienced in the contemporary art market.

Equally, investors must make themselves familiar with the risks associated with the purchase of individual works. These include questions of authenticity, title, condition and provenance. Expert advice from both the commercial and academic art world is often required and experts' credentials should include membership of officially approved associations; vetting committees for major international art fairs; and their acting as consultants to major museums and collectors.



The Art Auction, 1975 (w/c), Roberts, William Patrick (1895-1980) / Wolseley Fine Arts, London, UK / The Bridgeman Art Library

Investors can spread the risk in a way that is difficult to achieve with direct investment in individual works

DIRECT INVESTMENT VERSUS ART INVESTMENT FUNDS OR CLUBS

As interest in art as an alternative investment by HNWIs has grown in recent years, so has the emergence of investment funds and clubs focused on this unique asset class. When considering whether to invest directly in art, there are important factors to consider:

1 Using the expertise and market intelligence of a fund manager, risks associated with art can be spread across a larger and more diversified portfolio. In theory, investors can spread the risk in a way that is difficult to achieve with direct investment in individual works.
2 An art fund structure can reduce transaction and other costs by investing in art on a "pooled" basis. In selling art at auction, these costs may be considerable, often approaching as much as 25-30%, after the buyer's premium and the commission paid by the seller.
3 Works of art acquired by an art fund are typically selected by leading experts in their field. Locating the right works of art to buy and disposing of them at the right time requires expert advice that may not always be available to individual investors. Expertise and being close to the market is a significant competitive advantage.
4 An art fund may have unique access to works of art that are fresh and rarely seen on the market, adding to their investment value.
5 There can be tax advantages to being in a fund. An art fund may be structured for a tax-efficient means of investing.

Of course, this is achievable only if the investment vehicle is well managed and the decisions to buy and sell are made by experienced, independent and objective advisers. Vitally, the potential long-term benefits of art to a portfolio must be balanced with other client-specific requirements, such as liquidity needs and time frames. Riskier assets such as art require longer holding periods for positive returns.

WWW.FINEARTWEALTHMGT.COM

Randall Willette is the founder and managing director of Fine Art Wealth Management – he established the company in 2003

The Men in Her Life by Andy Warhol

MARKET TRENDS

ANDERS PETTERSON OF INDUSTRY ANALYST ARTTACTIC OFFERS SOME EXPERT INSIGHT ON KEY ART MARKETS

US & EUROPE

Despite a mid-year wobble in 2010, the US and European contemporary art market ended the autumn season with confident sales in New York totalling $554m, which quelled some worries about a possible double-dip scenario.

Sotheby's London and Christie's New York contemporary evening sales raised a total of $923m in 2010, up 193% from 2009. Pop Art and Abstract Expressionism accounted for 68% of the total value. The market for Andy Warhol continues to generate strong demand, and his market accounted for 32% of the total overall evening sales value in November 2010. Evening sales tend to feature auctioneers' premium items.

RISK
› Success and sustainability of the market needs an ongoing supply of top-quality art
› Uncertainties remain about the strength of the US and European economic recovery

INDIA

The total auction value for modern Indian art at Sotheby's, Christie's and Saffronart came in 20% below the pre-sale estimate. Overambitious valuations and lack of quality works failed to generate buyer interest. But the total was 125% higher than 2009.

RISK
› Autumn estimates were too aggressive and buyers reacted negatively; the market is price-sensitive
› Speculation

MIDDLE EAST

The Christie's Dubai sale totalled $11.6m against a pre-sale estimate of $6.7m to $9.2m. This was 8% lower than April 2010, but 112% higher than October 2009. The 2011 outlook is positive.

RISK
› The Middle-Eastern art market is only five years old – so, although the art infrastructure in the region is in the process of being built, the collector base remains shallow

TOP SELLING ARTWORKS IN 2010

US & Europe

Andy Warhol — Phillips de Pury
Men in her Life — Nov 10
$56,500,000

Roy Lichtenstein — Christie's
OhhhAlright — Nov 10
$38,000,000

China

Zhang Xiaogang — Sotheby's
Chapter of a New Century — Oct 10
$5,980,000

Lui Xiadong — Poly
Disobeying the Rules — Dec 10
$4,975,000

India

Syed Haider Raza — Christie's
Saurashtra — Jun 10
$3,024,000

Syed Haider Raza — Christie's
La Terre — Sep 10
$1,650,000

Middle East

Mahmoud Said (Egypt) — Christie's
The Whirling Dervishes — Oct 10
$2,200,000

Mahmoud Said (Egypt) — Christie's
Les Chadoufs — Apr 10
$2,100,000

Latin America

Wilfredo Lam — Sotheby's
Les Abalochas Dansent Pour Dhambala — Nov 10
$1,850,000

Fernando Botero — Christie's
Family Scene — Nov 10
$1,450,000

ArtTactic was set up by Anders Petterson in 2001, as a response to an increasing interest for responsive and dynamic art market research and commentary. www.arttactic.com. All graphics ©ArtTactic Analytics.

CHINA

The overall autumn season for the big four auction houses (Christie's, Sotheby's, China Guardian and Poly) raised a record total of $2.2bn (for all art categories), with the two domestic auction houses seeing the strongest growth supported by regional buyers.

In terms of the Chinese contemporary art market, Christie's Hong Kong raised $24m in November 2010, which was at the top end of the pre-sale estimate of $17m. The total was 54% higher than spring 2010. The result supported the strong positive trend set out by Sotheby's Hong Kong the month before. The strongest growth, however, has been among Chinese auction houses.

RISK
› Investor- rather than collector-driven market
› Speculative, short-term buying increases volatility in prices and increases the risk of a new bubble

Chapter of a New Century – Birth of the People's Republic of China II by Zhang Xiaogang

LATIN AMERICA

The Latin American art market is back to 2007 levels, after a gradual recovery since the market correction in autumn 2008. However, recent November sales in New York were disappointing. Both Christie's and Sotheby's failed to reach their low pre-sale estimates. Results were helped by high-quality lots. We expect the Brazilian modern and contemporary art market to pick up in 2011, as a primary driver of the Latin American art market.

RISK
› Political and economic risks have unsettled the art market in Latin America, but the economic outlook appears optimistic for 2011

APRES LE DELUGE, MODERATION

EDITOR OF *SPEAR'S*, JOSH SPERO, TAKES A WRY LOOK BACK AT HOW THE GLOBAL RECESSION HAS TEMPERED THE LIVES OF THE SUPER RICH – IN SOME CASES

The cloudless horizons of 2006 were deceitful. Looking back from 2011, we must almost view those days with detached bemusement or horrified fascination. What came so easily then – both spending and earning – is harder now: the concept of value-for-money is back, and with it a whole series of disciplines. From making money to giving it away, the purse strings of 2011 are held significantly tighter than those of 2006.

PHILANTHROPY

As conspicuous consumption approached its height in 2006, those spending big had created the perfect offset: conspicuous charity. From charity auctions where tables were £100,000 each to donations to galleries whose perpetual requital was having your name carved over the lintel, giving privately fell out of fashion. Today, high-visibility charity auctions are viewed as pre-credit-crunch relics, their ostentatiousness exposed.

But this was the showiest, not the smartest, way of giving. Family foundations have been the bedrock of philanthropy for a century now, providing long-term funding for good causes in a discreet manner. In 2006, however, most private banks had yet to work this into their business model, distinctly failing in their holistic claims, which is why today they are moving towards establishing philanthropic advisory services. Family offices need to outsource expertise too: according to New Philanthropy Capital (NPC), nearly two-thirds want more advice, especially about monitoring charities' long-term performance and educating the next generation. About 85% of philanthropic families now involve their children, says NPC.

This idea of monitoring performance has been adopted from venture philanthropy, as pioneered by groups such as Impetus (whose founder is interviewed on page 59), where charities are treated as socially positive businesses that must follow sound business practices. Plum Lomax, senior consultant at NPC, agrees that this is the key change in approach. "People are moving away from being mere chequebook writers to being more active," she says. "Funding charities that work rather than just big-name charities."

Now the largest acts of largesse are not done in pride, but in humility, or so Bill Gates and Warren Buffett would have us believe. Their Giving Pledge, which applies moral pressure to billionaires to give a majority of their fortune to charity, has highlighted how, in 2011, philanthropy is an obligation for the wealthy and a valid subject in the public discourse. Incidentally, Mr Buffett said that he will give away 99% of his fortune – which will leave him with a mere $470m.

WEALTH MANAGEMENT

The commodity not even the biggest private bank can buy is trust. All will admit that business in 2011 is

JOSH SPERO
SPEAR'S WEALTH MANAGEMENT SURVEY EDITOR

substantially different from that of 2006. Then, the key was acronymic innovation: if you could come up with the new CDO or CDS, reducing risk to zero, deferring debt to infinity, both clients and colleagues would love you. It was easy for everyone to look smart and make money.

The crash ended that. In 2008 and 2009, millionaire wealth fell by over 30% in Hong Kong, Russia and the UK, according to James Lawson of Ledbury Research. But the crash rebased the game, giving every bank – well, those that had survived – a chance to remake its image and reputation, becoming much more receptive to clients' needs, lifestyles, assets and opinions. Several are still well-known product-pushers, and some private banks are now being taken inside sister investment banks for aggression and convenience, but equally some are moving to more open architecture platforms.

This move has been helped along by the proliferation of multi-family offices. However, every new one-man-and-his-dog operation, as one senior banker put it to me, is calling itself a multi-family office – stretching, perverting and sometimes ruining the term. UHNWIs still tend to desire the privacy that comes with a single-family office.

Things are looking up for 2011, says Mr Lawson: "By the end of this year, the number of millionaires in the world will have grown 4% to 15.8m." Seeing as there were 2.7m in 2006, it seems wealth managers of all denominations will be busier than ever.

ART

Surprisingly, contemporary art is now rather old-hat. In 2006, cabinets of multicoloured copper pills and arrays of neon tubes were still hot off the block; art-lovers could not buy enough work by the Young British Artists. Impressionist and modern works rode the rising tide – 2006 was the year of a Klimt going for $135m – but there was an unprecedented surge for the shock of the new.

The mania for contemporary peaked the day after Lehmans fell in September 2008, with Damien Hirst's Beautiful Inside My Head Forever sale fetching £111m, and since then only the highest end of that market has been sustained. Impressionist and modern, however, have put up a sterling fight: a Picasso for $106m, a Giacometti for $104m. Buyers have placed their trust in artists with established reputations – liquidity is key.

The crash changed motives for buying art, says Suzanne Gyorgy, head of Citi Private Bank's art advisory service: "When the market was rising so quickly in 2005-07, there were more speculators with an eye on buying art as an investment. Many were hurt when the market adjusted; however, collectors who were knowledgeable weren't as affected in the downturn."

WINE

Wine, ironically, has always been rather an illiquid asset. Nevertheless, it too has been reaching record prices: whereas $100,000 for a 1787 Chateau d'Yquem was pricey in 2006, Sotheby's sold three bottles of 1869 Lafite-Rothschild in October 2010 for $230,000 each. What is perhaps most notable about this is not the price, but the location: the sale was in Hong Kong. The recent rise of Asian wealth has made the East thirsty, seemingly unquenchably so. This rally appears to be self-perpetuating, as reports suggest that Asian buyers of these wines are not keeping them to re-sell later but are drinking them for pleasure, making any remaining bottles even more valuable.

A key change since 2006 has been the growth of fine wine funds. Andrew della Casa, director of the Wine Investment Fund, says that the future is sparkling: "Supply at the point of production remains fixed and diminishes over time as wine is drunk," he says. "Meanwhile, demand increases. These characteristics tend to push up prices."

PRIVATE JETS

Before the crunch, you could upgrade your plane quicker than you could refuel it, but UHNWIs are now trying to get better value out of their frequently underused asset. According to Mary Schwartz, global head of aircraft finance at Citi Private Bank, "Ultra-high-net-worths are not buying new planes as quickly as they were – they used to trade up every three to five years, and they're not any more." The fractional ownership firms, which seized on an abundance of credit to order jets, flew high in 2006, but now charter firms have started to climb in favour, especially those with their own terminals at private airfields.

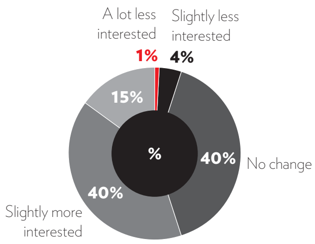
RICH SWITCH

UHNWIs' EXPECTATION OF THEIR SPENDING ON PHILANTHROPY

27%

INCREASE SIGNIFICANTLY

UHNWIs' CHANGE IN ATTITUDE TO SETTING UP OR JOINING A FAMILY OFFICE



For more Attitudes Survey results, and to find out which global locations should be on investors' radars, see Databank on p60

WHAT'S NEW IN THE WEALTHY'S SHOPPING TROLLEY

Facelift fellas
It's not just the ladies having cosmetic surgery – male CEOs are now going under the knife

Boutique businesses
Firms with the personal touch are thriving after concierge services overextended themselves

Extreme exclusivity
Limited edition 1,000-run handbags give way to one-offs with craft and charm

Spear's is a bimonthly magazine for high-net-worth individuals and those in the financial service industries. It has been called "the *Bible* of the banking fraternity" by *GQ* and "a European rival to *Forbes*" by the *Evening Standard*, and goes to 30,000 of Europe's decision-makers and wealth-creators. spearswms.com

THE SOCIAL CAPITALIST

MANY OF THE SUPER RICH WANT THEIR CHARITABLE DONATIONS TO WORK HARDER. STEPHEN DAWSON TELLS VICKI SHIEL ABOUT HIS BUSINESSLIKE APPROACH TO PHILANTHROPY

WEALTH TALK

Can the skills of making money for yourself be used to help others? Stephen Dawson thinks so. One of the pioneers of venture capitalism in the UK, Mr Dawson worked with private equity firm ECI Partners for 25 years. In 2002, he applied the principles of venture capital to philanthropy and co-founded the charity Impetus Trust.

Impetus, which has received backing from venture capitalists including Guy Hands, Sir Ronald Cohen and Jon Moulton, was the first UK charity to actively adopt venture philanthropy (VP) as a means of fundraising. VP provides not just financial assistance, but also the quality of management support and specialist expertise that donors use to create their own wealth. The aim is for a social rather than financial return, although new VP models claim to offer the potential for both.

In 2008, Mr Dawson co-founded the Jacana Venture Partnership, which aims to tackle poverty in Africa by building a venture capital industry on the continent. He was named Personality of the Year at the Private Equity Awards in April 2007 and was awarded an OBE for services to the voluntary sector in 2010.

VICKI SHIEL What led you to co-found Impetus in 2002?
STEPHEN DAWSON Most of my career had been spent working with small, dynamic, growing businesses – I wanted to do the equivalent in the charity sector. I found out about something taking place in the US called venture philanthropy, established by people with similar backgrounds to mine, so it looked like a very good match. It appealed because, although I often donated to charities, it was always reactive and there was no feedback on how effectively the money was being spent.

VS Why should HNWI donors consider giving via VP schemes over other, more traditional methods?
SD Because of its effectiveness. People like to donate to causes they have a personal affiliation with, but most people also want to know that their donation will be effective. With VP, you give through an organisation that is geared up to assessing the effectiveness of those donations. Some donors to good causes also give their time and expertise on a pro bono basis.

VS Isn't it difficult to measure the return on investment and prove its effectiveness?
SD We've a big obligation to demonstrate our work's social impact. We first agree the metrics with the charity. The results are proven. Charities and social enterprises supported by Impetus have increased their income by 30% a year – more than eight times the sector average – and they have increased the number of people they help by 40% a year on average.

VS There are various models of VP. How does the Impetus model differ?
SD The spectrum runs from pure philanthropy, as adopted by Impetus, to social investment, as with Jacana. One can begin with a philanthropy approach and evolve to become a social investment provider, with a possible long-term financial return.

'We've a big obligation to demonstrate our work's social impact'

WWW.IMPETUS.ORG.UK
WWW.JACANA.ORG

VS What impact has the global recession had on VP?
SD Charities are under greater pressure due to government cutbacks and a decline in donor funding. But HNWIs can make their reduced donation go further through VP. Tougher climes stimulate innovation.

VS Social impact bonds are gaining momentum. What are they?
SD Investors buy the bonds, usually from a government department, to fund social schemes on a repayment-by-results basis. They have potential, because if the bond delivers to an agreed target, the government repays the investor with interest. The investors will then be encouraged to invest more the next time.

VS What is Jacana's goal?
SD Jacana aims to expand the provision of growth capital funding and expertise to small- and medium-sized enterprises in sub-Saharan Africa. We invest in growing businesses there, from fast-moving consumer goods to hydroelectricity and pharmaceutical companies in Kenya, Ghana, Tanzania and Uganda. We help them establish management and financial systems as well as access to international markets. The hope is this will create a generation of entrepreneurs. In turn, the area will become attractive to investors. Africa could be the new China.

VS What's been your biggest feat as a venture philanthropist?
SD Impetus pioneered VP in the UK. That people would contribute and that it would work were just hypotheses, and the result was a resounding 'yes'.

DATA ANALYSIS

KNIGHT FRANK'S INTERNATIONAL NETWORK OF RESEARCH TEAMS COLLECTS AN UNRIVALLED RANGE OF DATA ANALYSING THE PERFORMANCE OF A WIDE VARIETY OF PRIME RESIDENTIAL AND COMMERCIAL MARKETS

The statistics on this page offer a snapshot of how a selection of these markets has performed over the past five years – one of the most turbulent economic periods of recent history. As a benchmark we have also included data on the performance of other investments, such as equity and commodity markets. For ease of comparison, all the data has been indexed to the beginning of 2006. For more details of how the data was compiled and how to contact Knight Frank's research teams, please see below.

PRIME RESIDENTIAL MARKETS AND PRIME OFFICE RENTS

PRIME RESIDENTIAL MARKETS

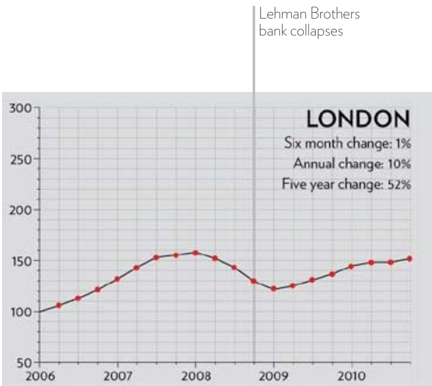
	London	Hong Kong	Moscow	New York	Sing'
2006 Q1	100.0	100.0	100.0	100.0	100.0
2006 Q2	106.4	101.1	110.9	119.3	104.6
2006 Q3	112.6	102.2	127.3	111.5	110.2
2006 Q4	121.3	104.2	147.1	110.9	115.5
2007 Q1	131.8	109.1	147.8	113.0	122.0
2007 Q2	143.1	115.2	145.5	112.9	131.6
2007 Q3	153.7	142.8	148.9	130.1	142.5
2007 Q4	155.9	138.8	159.6	144.0	153.3
2008 Q1	158.7	150.0	175.4	165.5	159.1
2008 Q2	151.5	155.1	191.4	147.8	158.9
2008 Q3	143.0	142.8	203.0	134.4	154.6
2008 Q4	129.5	103.5	185.2	138.0	144.6
2009 Q1	120.8	108.1	172.5	128.9	121.2
2009 Q2	125.4	122.1	171.4	119.7	114.8
2009 Q3	130.3	137.7	177.4	107.2	132.3
2009 Q4	137.5	145.4	173.6	120.9	142.0
2010 Q1	144.5	154.0	189.6	121.8	148.3
2010 Q2	149.8	156.8	184.0	119.4	156.2
2010 Q3	148.8	164.8	178.7	122.9	158.7
2010 Q4	151.7	166.5	175.8	136.1	162.3
Six-month % change	1	6	-4	14	4
Annual % change	10	15	1	13	14
Five-year % change	52	66	76	36	62

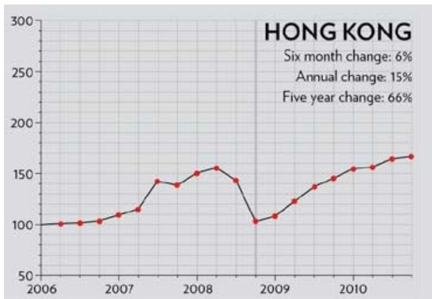
PRIME INTERNATIONAL RESIDENTIAL MARKETS

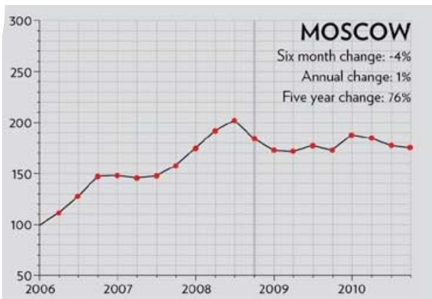
Our Prime International Residential Index tracks the performance of over 80 luxury markets across the globe, seven of which are featured here. It represents the largest and most comprehensive survey of prime market performance, covering every world region and markets in 40 countries. It is a critical resource for property and wealth professionals allowing the analysis of this vital asset class.

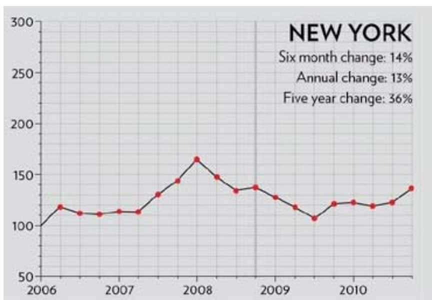
KNIGHT FRANK'S PRIME INTERNATIONAL RESIDENTIAL INDEX
PIRI 2011

KATE EVERETT-ALLEN, SENIOR GLOBAL RESIDENTIAL RESEARCH ANALYST KATE.EVERETT-ALLEN@KNIGHTFRANK.COM

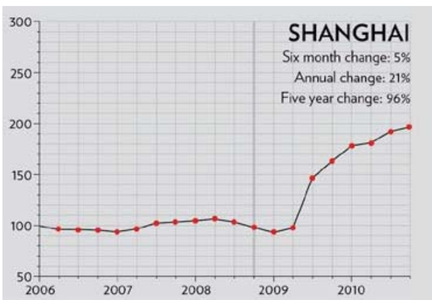


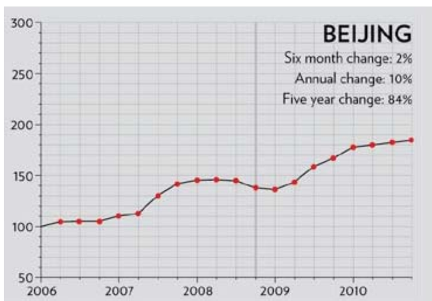




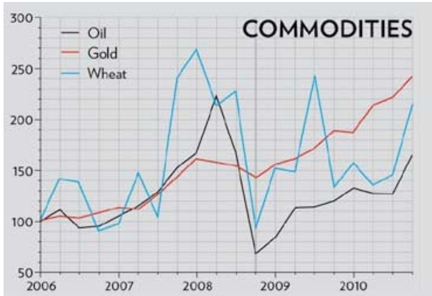


The Singapore time series is based on the top 15%-20% of the market





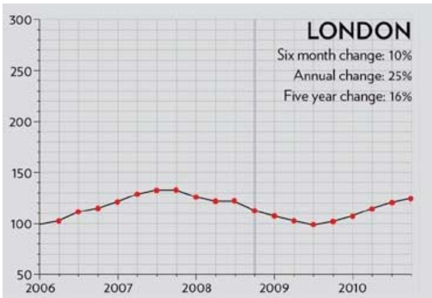
		PRIME OFFICE RENTS							STOCK MARKETS			COMMODITIES		
Shanghai	Beijing	London	Paris	Sing'	Shanghai	Hong Kong	Moscow	New York	FTSE 100	Dow Jones Ind Ave	Shanghai (SSE 50)	Oil	Gold	Wheat
100.0	100.0	100	100	100	100	100	100	100	100.0	100.0	100.0	100.0	100.0	100.0
96.3	104.8	103.16	104.29	104.73	96.91	105.37	103.36	106.78	97.8	100.4	127.9	110.7	105.4	141.3
96.5	106.4	110.53	105.71	115.12	100.19	109.56	107.72	117.04	99.9	105.1	126.9	93.4	103.0	138.8
95.3	106.5	115.79	105.71	125.50	103.48	113.76	112.08	121.00	104.3	112.2	202.5	95.2	109.2	90.7
93.5	110.3	121.05	108.57	140.39	103.93	130.73	117.11	120.80	105.8	111.2	265.5	105.1	113.7	98.4
97.2	112.2	129.47	114.29	155.27	104.38	147.71	122.15	134.14	110.8	120.7	358.4	115.4	111.8	147.2
102.5	130.1	133.68	120.00	176.76	111.47	153.37	139.60	145.23	108.4	125.1	492.1	129.1	127.7	105.8
103.0	142.8	133.68	120.00	198.24	118.56	159.02	157.05	140.05	108.6	119.4	496.5	152.7	143.3	240.2
105.3	145.6	126.32	120.00	212.91	127.58	179.90	167.11	144.19	95.4	110.4	331.8	168.9	160.5	269.1
107.0	145.7	121.05	120.00	227.58	136.60	200.78	177.18	144.57	92.7	102.2	257.6	223.5	158.0	214.9
103.5	144.1	121.05	120.00	219.78	133.71	192.78	148.99	147.33	85.3	97.7	215.2	168.1	155.0	227.7
99.4	138.2	112.63	120.00	211.99	130.82	184.78	120.81	121.33	71.9	79.0	164.8	69.7	143.6	93.7
93.4	137.4	97.89	120.00	193.92	119.07	157.46	100.67	102.78	65.4	68.5	217.8	85.2	158.8	151.6
97.9	143.1	92.63	112.86	173.29	115.05	130.15	80.54	101.40	71.1	76.0	285.7	115.1	161.9	149.7
147.9	159.1	89.47	105.71	156.99	112.89	137.17	81.88	102.19	85.2	87.4	264.7	114.9	170.4	245.3
162.4	167.6	92.63	101.43	150.95	108.56	144.20	83.22	94.87	87.1	93.9	307.5	120.1	189.8	134.0
178.6	178.7	97.89	101.43	155.99	112.27	150.34	91.95	94.87	95.6	97.7	283.1	132.0	188.4	147.2
186.3	180.6	105.26	101.43	160.47	112.58	156.49	100.67	97.42	84.6	88.0	220.5	127.7	215.5	136.0
191.9	182.3	110.53	107.14	179.13	114.74	174.49	101.34	97.85	93.9	97.1	233.5	127.8	222.9	146.4
196.1	184.5	115.79	107.14	191.67	116.69	192.50	102.01	100.62	98.9	104.2	241.3	154.1	241.5	216.8
5	2	10	6	19	4	23	5	3	17	18	9	21	12	59
21	10	25	6	27	7	34	23	6	14	11	-22	28	27	62
96	84	16	7	92	17	93	2	1	-1	4	141	54	141	117

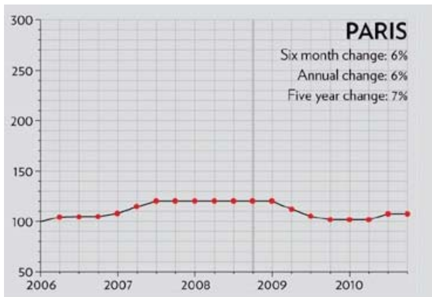


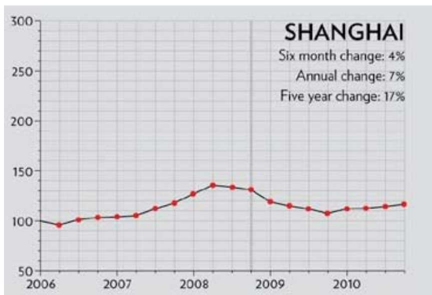
PRIME INTERNATIONAL OFFICE MARKETS

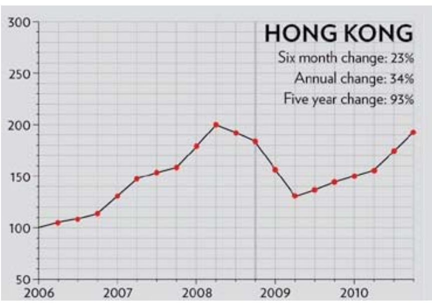
Knight Frank's prime office rent indices track the movement of headline rents for Grade A space in a selection of international cities, showing how global office markets have reacted differently to the recent economic downturn and recovery. The London, Hong Kong and Singapore markets have followed a volatile path, with rents dropping sharply in 2008-09 but subsequently rebounding strongly. In contrast, Paris has seen a shallower fall and rise, while New York recorded only a modest recovery of rental values in 2010. Knight Frank's international commercial researchers monitor office, retail and logistics property markets globally and provide data and consultancy services to a wide range of clients.

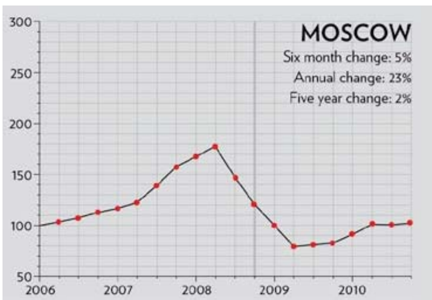
MATTHEW COLBOURNE, SENIOR COMMERCIAL RESEARCH ANALYST MATTHEW.COLBOURNE@KNIGHTFRANK.COM

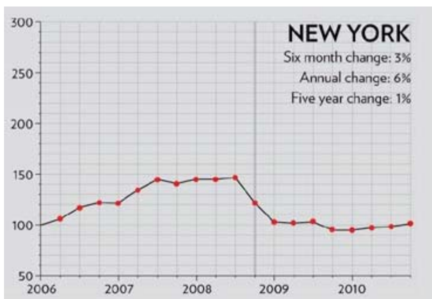












ATTITUDES SURVEY

The Wealth Report Attitudes Survey 2011 was completed online at the beginning of 2011 by 160 Citi Private Bank wealth advisers representing almost 5,000 UHNWIs from 36 countries and worth on average more than $100m. Responses were based either on the adviser's own opinion or their understanding of their clients' attitudes.

For the purposes of the survey, the East Asia region includes responses from advisers who said they had clients in China, Taiwan, Korea and South East Asia. Latin America includes Mexico. There were a limited number of responses from Russia and the CIS and Africa. The data relating to these regions should be treated with care.

The majority of the results are included over the following pages. For further details, please contact andrew.shirley@knightfrank.com

THE TOP 20 CITIES FOR ...

	THE ENTREPRENEUR		THE HEDONIST		THE ROMANTIC
1	Shanghai	1	New York	1	Paris
2	Hong Kong	2	Hong Kong	2	New York
3	Beijing	3	Tokyo	3	London
4	New York	4	Paris	4	Rome
5	Mumbai	5	London	5	Tokyo
6	Singapore	6	Shanghai	6	Sydney
7	London	7	Rio	7	Shanghai
8	Sao Paulo	8	Barcelona	8	Hong Kong
9	San Francisco	9	Sydney	9	San Francisco
10	Palo Alto	10	Dubai	10	Vancouver
11	Dubai	11	Bangkok	11	Rio
12	Rio	12	Beijing	12	Venice
13	Moscow	13	Singapore	13	Las Vegas
14	Sydney	14	Rome	14	Buenos Aires
15	Delhi	15	Las Vegas	15	Barcelona
16	Istanbul	16	Monaco	16	Istanbul
17	Jakarta	17	Vancouver	17	Beijing
18	Lagos	18	San Francisco	18	Dubai
19	Dallas	19	Prague	19	Milan
20	Bangalore	20	Miami	20	Miami

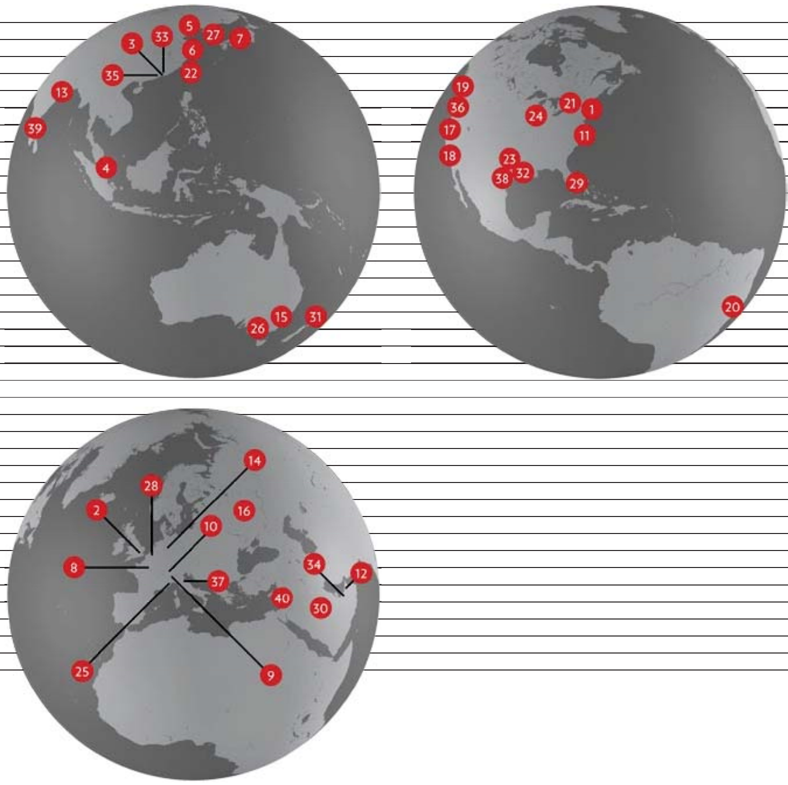
Respondents were asked to choose their top three cities in order of priority in each category. Cities were assigned three points for a top ranking, two for second, and one for third.

GLOBAL CITIES

PAGES 16-22

THE WORLD'S TOP 40 CITIES FOR UHNWIs

Now		10 years' time		Score*	Change (2010-20) Rank	Score %
1	New York	1	New York	759	0	-8
2	London	2	London	611	0	-16
3	Hong Kong	3	Shanghai	558	+3	+91
4	Singapore	4	Beijing	506	+1	+39
5	Beijing	5	Hong Kong	479	-2	+1
6	Shanghai	6	Singapore	438	-2	+4
7	Tokyo	7	Mumbai	225	+6	+118
8	Paris	8	Tokyo	220	-1	-14
9	Geneva	9	Paris	129	-1	-46
10	Zurich	10	Moscow	117	+6	+23
11	Washington DC	11	Dubai	113	+1	-7
12	Dubai	12	Sao Paulo	103	+8	+66
13	Mumbai	13	Zurich	93	-3	-39
14	Berlin	14	Geneva	92	-5	-55
15	Sydney	15	Washington DC	91	-4	-29
16	Moscow	16	Berlin	84	-2	-15
17	San Francisco	17	Sydney	72	-2	-26
18	Los Angeles	18	Los Angeles	59	0	-34
19	Vancouver	19	Seoul	52	+8	+73
20	Sao Paulo	20	San Francisco	42	-3	-54
21	Toronto	21	Rio	33	+39	+725
22	Taipei	22	Dallas	28	+1	-22
23	Dallas	23	Vancouver	28	-4	-56
24	Chicago	24	Chicago	24	0	-29
25	Monaco	25	Melbourne	23	+1	-26
26	Melbourne	26	Brasilia	19	+16	+111
27	Seoul	27	Brussels	19	+1	-30
28	Brussels	28	Jakarta	19	+20	+171
29	Miami	29	Monaco	19	-4	-44
30	Riyadh	30	Taipei	18	-8	-53
31	Auckland	31	Toronto	18	-10	-63
32	Houston	32	Auckland	17	-1	+6
33	Shenzhen	33	Delhi	17	+13	+143
34	Abu Dhabi	34	Abu Dhabi	16	0	+7
35	Guangzhou	35	Bangalore	15	+4	+25
36	Seattle	36	Istanbul	13	+23	+225
37	Milan	37	Seattle	13	-1	-13
38	Austin	38	Doha	12	+28	+500
39	Bangalore	39	Houston	12	-7	-25
40	Beirut	40	Beirut	11	0	-8



*Respondents were asked to choose their top 10 cities in order of priority. Cities were assigned 10 points for a top ranking, nine for second, and so on.

POLITICAL AND ECONOMIC ISSUES

PAGES 14-15

HOW DO YOU RATE GOVERNMENT ECONOMIC POLICIES IN YOUR REGION?

	Africa	Europe	India	Middle East	North America	Russia and CIS	Latin America	East Asia	Global
They offer a viable and long-term solution to the economic issues facing the country at the moment	33	57	50	38	28	50	10	38	39
They may improve the economic situation in the short term, but do not provide a long-term solution	67	17	19	23	48	50	50	35	33
They will improve an already good economic performance			31	23	4		40	27	18
They are unlikely to have any meaningful impact		9		8	16		10	16	11
They will hamper the country's ongoing economic recovery		13		15	16				7
They will make a bad situation worse		13			4				3

WHAT EFFECT WILL GOVERNMENT ECONOMIC POLICIES HAVE ON YOUR CLIENTS' WEALTH?

	Africa	Europe	India	Middle East	North America	Russia and CIS	Latin America	East Asia	Global
They will make it easier for my clients to create wealth	33	4	75	50	21	50	45	40	35
The global economy is more important to their wealth than national economic policy	33	40	19	14	24	50	18	37	29
They will make it harder for my clients to create wealth		32	6	21	55		36	21	29
They could force my clients to relocate	33	24						2	6
They will actively reduce my clients' wealth				14					1

Numbers refer to the % of wealth advisers in each region who agreed with the statement

SOLID STATE

GOVERNMENT POLICIES OFFER A VIABLE AND LONG-TERM SOLUTION TO THE ECONOMIC ISSUES FACING THE COUNTRY

57%
ADVISERS IN EUROPE AGREE

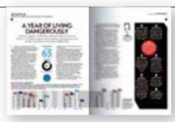
10%
ADVISERS IN LATAM AGREE

GOLD RUSH

GOVT POLICIES WILL MAKE IT EASIER FOR MY CLIENTS TO CREATE WEALTH

75%
ADVISERS IN INDIA AGREE

21%
ADVISERS IN NORTH AMERICA AGREE



PAGES 12-13

HOW HAVE UHNWIs' ATTITUDES TOWARDS ECONOMIC AND GEOPOLITICAL RISKS CHANGED OVER THE PAST FIVE YEARS?

GLOBAL SUMMARY	A lot less concerned	Less concerned	No change	More concerned	A lot more concerned
Local or regional political instability	3	20	28	39	10
Global political instability	1	10	27	51	12
The state of the local or regional economy	1	15	19	49	16
The state of the global economy	1	8	11	55	25
Terrorism	2	15	44	31	8
Climate change and environmental issues	1	13	50	33	3

LOCAL OR REGIONAL POLITICAL INSTABILITY

	A lot less concerned	Less concerned	No change	More concerned	A lot more concerned
Africa		33	33	33	
Europe		4	32	52	12
India	13	31	19	38	
Middle East		14	21	57	7
North America	7	17	31	34	10
Russia and CIS		50			50
Latin America		45	9	27	18
East Asia		19	35	35	12
Global	3	20	28	39	10

GLOBAL POLITICAL INSTABILITY

	A lot less concerned	Less concerned	No change	More concerned	A lot more concerned
Africa		33	33	33	
Europe			28	56	16
India	6	31	6	44	13
Middle East		7	36	57	
North America		7	21	62	10
Russia and CIS		50		50	
Latin America		9	27	45	18
East Asia		7	35	44	14
Global	1	10	27	51	12

THE STATE OF THE LOCAL OR REGIONAL ECONOMY

	A lot less concerned	Less concerned	No change	More concerned	A lot more concerned
Africa		33	67		
Europe		4	8	60	28
India		44	19	31	6
Middle East		7		71	21
North America	3	7	17	45	28
Russia and CIS		100			
Latin America	9	18	45	27	
East Asia		12	23	56	9
Global	1	15	19	49	16

GLOBAL ECONOMY

GLOBAL ECONOMY	A lot less concerned	Less concerned	No change	More concerned	A lot more concerned
Africa			33	67	
Europe		4	4	64	28
India		13	6	44	38
Middle East	7		7	71	14
North America		3	7	69	21
Russia and CIS				100	
Latin America		18	27	36	18
East Asia		12	16	42	30
Global	1	8	11	55	25

TERRORISM

	A lot less concerned	Less concerned	No change	More concerned	A lot more concerned
Africa		33	33	33	
Europe		16	40	44	
India			31	50	19
Middle East		7	71	14	7
North America		17	45	24	14
Russia and CIS			50	50	
Latin America	9	36	45	9	
East Asia	5	16	42	30	7
Global	2	15	44	31	8

CLIMATE CHANGE AND OTHER ENVIRONMENTAL ISSUES

	A lot less concerned	Less concerned	No change	More concerned	A lot more concerned
Africa		33	33	33	
Europe		8	44	48	
India	6	6	31	56	
Middle East		21	79		
North America	3	14	62	17	3
Russia and CIS			50	50	
Latin America			82	18	
East Asia		19	35	40	7
Global	1	13	50	33	3

Numbers refer to the % of wealth advisers in each region who agreed with the statement

UHNWIs AND THEIR INVESTMENTS

PAGES 50-51

WHAT IS THE IMPORTANCE OF THE VARIOUS CLASSES OF INVESTMENT TO UHNWIs?
(10 = highest degree of importance)

	Africa	Europe	India	Middle East	North America	Russia and CIS	Latin America	East Asia	Global
Own Business	5.0	8.1	9.0	7.3	7.5	10.0	8.3	9.1	8.3
Property	5.5	7.4	7.6	7.0	6.5	7.0	7.1	8.1	7.3
Equities	4.0	5.4	6.4	4.9	6.5	7.5	6.0	6.4	6.1
Corporate bonds	4.5	5.3	4.9	5.2	4.5	7.5	5.6	4.9	5.0
Government bonds	1.5	5.2	4.6	4.7	5.1	6.0	5.1	4.1	4.7
Private equity/venture capital	1.5	4.5	3.7	5.8	4.8	6.0	3.2	3.8	4.3
Commodities	2.5	3.8	3.7	4.5	4.1	6.5	3.1	4.2	4.0
Hedge funds	2.5	4.1	2.4	5.0	4.5	3.0	3.8	3.8	3.9
Gold	3.0	3.8	5.4	3.6	3.4	8.5	2.2	3.6	3.8
Derivatives	2.0	3.2	3.4	4.0	3.1	5.0	2.0	3.8	3.3

HOW WILL THE IMPORTANCE OF DIFFERENT ECONOMIC SECTORS TO UHNWI INVESTMENT STRATEGIES CHANGE OVER THE NEXT DECADE? (% of respondents)

	Not important	Limited importance	More important	Far more important
Energy	1	7	44	48
Natural resources	1	10	50	39
Healthcare	1	21	51	27
Green/low-carbon technology	2	21	58	19
Hi-tech industries	1	23	58	18
Food production	5	23	54	18
Education	5	39	39	17
Utilities	5	43	42	10
Communication	3	30	58	10
Leisure	8	50	35	7

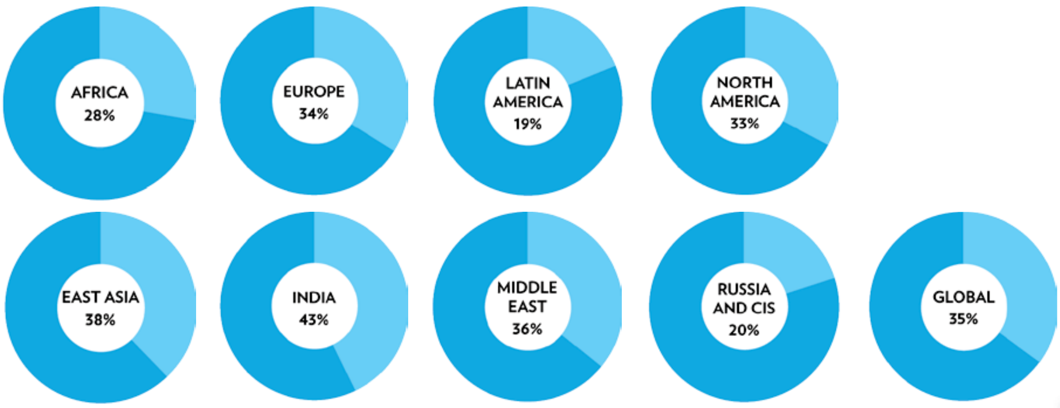
WHAT HAS BEEN THE CHANGE IN ENTHUSIASM OF UHNWIs TO INVEST IN ASSET CLASSES OVER THE PAST FIVE YEARS?
(5 = much more willing to invest)

	Africa	Europe	India	Middle East	North America	Russia and CIS	Latin America	East Asia	Global
Property	4.0	3.2	3.9	3.8	3.4	2.5	3.0	4.0	3.9
Equities	3.0	2.7	3.4	2.7	3.0	3.5	3.0	3.7	3.6
Government bonds	2.0	2.9	2.6	3.3	2.4	3.0	3.4	2.4	3.2
Corporate bonds	4.0	3.1	2.6	3.3	2.6	3.5	3.5	2.8	3.1
Commodities	3.0	2.9	2.8	2.6	2.9	4.5	3.0	3.2	3.0
Derivatives	2.0	2.1	1.9	2.2	2.3	3.0	1.6	2.7	2.9
Private equity/venture capital	1.5	2.1	2.7	2.2	2.5	2.5	1.8	2.3	2.7
Hedge funds	1.5	2.2	1.9	2.2	2.8	3.0	2.2	2.5	2.4
Own business	5.0	3.6	4.5	4.1	3.6	4.0	4.0	4.0	2.3
Gold	2.5	3.3	4.0	3.0	2.6	4.5	2.9	3.1	2.3

HOW WILL GLOBAL REGIONS CHANGE IN IMPORTANCE FOR UHNWI INVESTMENT STRATEGIES IN THE NEXT DECADE? (% of respondents)

	Much less important	Less important	No change	More important	Far more important
India	0	2	12	46	40
China and East Asia	0	0	4	64	31
Africa	5	13	30	42	10
South America	2	8	24	60	6
North America	1	17	56	21	5
Australasia	2	6	43	43	5
Russia and CIS	2	17	30	48	3
Europe	7	38	43	10	2
Central America	4	22	50	23	2

WHAT % OF UHNWI INVESTMENT PORTFOLIOS IS ALLOCATED TO PROPERTY?



PAGES 44-49

HOW INTERESTED ARE UHNWIs IN PROPERTY INVESTMENTS?
(5 = highest level of interest)

	Africa	Europe	India	Middle East	North America	Russia and CIS	Latin America	East Asia	Global
Direct ownership of residential property	4.5	4.2	4.6	4.8	4.0	4.0	3.3	4.6	4.3
Direct ownership of commercial property	3.0	3.4	4.0	4.1	3.4	3.0	3.4	3.7	3.6
Property funds	1.0	2.2	2.6	2.8	2.4	1.5	1.9	2.5	2.4
Reits	1.5	2.2	2.5	2.1	2.6	1.0	1.6	2.7	2.4
Agricultural land	2.5	1.6	2.7	2.3	2.0	3.0	2.1	2.1	2.1

HOW INTERESTED ARE UHNWIs IN COMMERCIAL PROPERTY INVESTMENTS?
(5 = highest level of interest)

	Africa	Europe	India	Middle East	North America	Russia and CIS	Latin America	East Asia	Global
Office	3.0	3.6	4.2	3.7	3.4	4.0	3.5	3.4	3.6
Retail	2.5	3.0	3.3	3.6	2.7	4.0	3.2	3.3	3.1
Industrial	1.0	2.4	2.6	2.5	2.6	4.0	2.6	2.3	2.5
Logistics	1.0	2.5	2.5	2.8	2.7	1.5	2.8	2.3	2.5
Hotels	2.5	2.1	2.6	3.0	2.3	2.5	2.4	2.5	2.4
Healthcare/retirement	1.0	2.1	2.6	2.8	2.5	2.0	1.9	2.4	2.4

UHNWI SPENDING PATTERNS AND ATTITUDES TO WEALTH MANAGEMENT

PAGES 54-59

HOW HAVE UHNWI SPENDING PATTERNS CHANGED OVER THE PAST FIVE YEARS?
(% of respondents)

PHILANTHROPY AND CHARITABLE GIVING

	Clients not interested	Decreased significantly	Decreased slightly	Stayed the same	Increased slightly	Increased significantly
Africa					50	50
Russia and CIS					50	50
India				29	43	29
Latin America			30	30	20	20
Middle East	10		10	50	20	10
East Asia	3			42	45	10
North America		7	32	29	25	7
Europe	6	6	35	29	24	
Global	3	3	17	33	32	12

ART AND OTHER COLLECTABLES

	Clients not interested	Decreased significantly	Decreased slightly	Stayed the same	Increased slightly	Increased significantly
Africa				50		50
India			7	36	7	50
East Asia	3			39	35	23
Europe		6	12	35	29	18
Middle East	10		20	40	20	10
Latin America	10	10		40	30	10
North America			36	39	21	4
Russia and CIS					100	
Global	3	2	13	38	26	18

FINE WINE

	Clients not interested	Decreased significantly	Decreased slightly	Stayed the same	Increased slightly	Increased significantly
East Asia	6			39	26	29
India	21			36	21	21
Latin America	20			40	20	20
Europe	12		12	53	12	12
North America		4	46	32	14	4
Africa				100		
Middle East	30	10	20	30	10	
Russia and CIS	50				50	
Global	11	2	15	39	18	15

PRIVATE JETS AND YACHTS

	Clients not interested	Decreased significantly	Decreased slightly	Stayed the same	Increased slightly	Increased significantly
India	7			14	29	50
Russia and CIS					50	50
Middle East			30	10	20	40
Europe		12	24	29	18	18
North America		21	36	29	11	4
East Asia	19	6	3	39	29	3
Africa			50		50	
Latin America	20		20	20	40	
Global	8	9	18	26	24	15

HOW WILL UHNWI SPENDING PATTERNS CHANGE OVER THE NEXT FIVE YEARS?
(% of respondents)

PHILANTHROPY AND CHARITABLE GIVING

	Decrease significantly	Decrease slightly	Remain the same	Increase slightly	Increase significantly
India			14	29	57
Africa				50	50
Russia and CIS				50	50
Latin America			20	30	50
East Asia			29	35	29
North America		7	29	46	18
Middle East			40	40	10
Europe	6	12	47	29	6
Global	1	4	29	37	27

ART AND OTHER COLLECTABLES

	Decrease significantly	Decrease slightly	Remain the same	Increase slightly	Increase significantly
Africa				50	50
India		7	29	14	50
Latin America			10	60	30
East Asia			33	33	30
Europe		6	29	47	18
North America		4	46	43	7
Middle East		10	50	30	
Russia and CIS			50	50	
Global		4	35	38	22

FINE WINE

	Decrease significantly	Decrease slightly	Remain the same	Increase slightly	Increase significantly
India			21	21	36
Latin America			40	30	20
East Asia		3	33	33	20
Europe			59	24	6
North America		4	71	21	4
Africa	50		50		
Middle East	10	10	40	10	
Russia and CIS				100	
Global	2	3	46	26	13

PRIVATE JETS AND YACHTS

	Decrease significantly	Decrease slightly	Remain the same	Increase slightly	Increase significantly
India			7	29	64
Africa			50		50
Latin America		10	10	60	20
North America		7	43	32	18
East Asia	7		27	27	17
Middle East		10	20	60	10
Europe		18	59	12	6
Russia and CIS		50		50	
Global	2	7	31	32	21

UHNWI ATTITUDES TOWARDS RESIDENTIAL PURCHASES

PAGES 26-33

	Africa	Russia and CIS	Middle East	Europe	East Asia	India	Latin America	North America	Global
What % of UHNIWIs already own a second home outside their country of residence?	100	95	82	71	61	59	57	26	57
What % of UHNWIs not owning a second home outside their country of residence plan to buy one?	100	51	51	40	39	37	18		37
What % of UHNWIs are considering buying another second home outside their country of residence?	70	50	37	37	37	27	16	9	28
What % of UHNWIs are actively considering changing their main country of residence?	5	17	3	3	3	10	17	11	9

WHAT IS THE PRIMARY REASON DRIVING UHNWI SECOND-HOME PURCHASES?
(% of respondents)

	Africa	Europe	India	Middle East	North America	Russia and CIS	Latin America	East Asia	Global
Lifestyle reasons such as a holiday home	50	59	21	60	54		60	6	37
Property was purchased as an investment	50	41	43	30	11		20	53	34
Purchase related to client's business			14		29			9	11
Purchase was due to education of children			7	10	4			29	11
Insurance against political or economic instability at home			14		4	100	20	3	7

WHAT IS THE PRIMARY REASON THAT UHNWIs CHANGE THEIR COUNTRY OF RESIDENCE?
(% of respondents)

	Africa	Europe	India	Middle East	North America	Russia and CIS	Latin America	East Asia	Global
Tax		59	7	20	39		10	21	27
Lifestyle		35	14	40	32	50		21	25
Business			36		7			18	11
Political worries	50		14	20	4	50	10	15	11
Personal safety worries							80	3	8
Education								18	5
Economic worries		6		10	7				3

SCHOOL RUN

PRIMARY REASON DRIVING UHNWI SECOND-HOME PURCHASES

EDUCATION

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