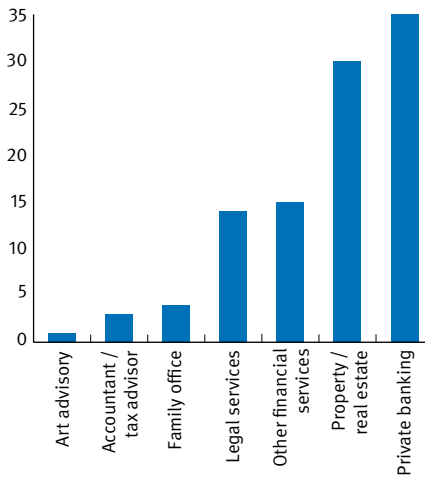


GLOBAL PROPERTY WEALTH SURVEY 2010

Knight Frank



Figure 1
A comprehensive view
 Respondents to the Knight Frank Global Property Wealth Survey 2010, by broad profession



Source: Knight Frank Residential Research

Global demand for prime residential property

The results of Knight Frank's first Global Property Wealth Survey confirm the growing internationalisation of demand for luxury residential property around the world. Liam Bailey, Knight Frank's Head of Residential Research, assesses the key findings.

Research in *The Wealth Report 2010* (published earlier this year) pointed to the fact that the wealthiest residents from a growing number of countries are investing more of their wealth portfolios in residential property across a widening range of locations.

This trend offers wealth and property professionals around the world a significant opportunity to generate new business. No attempt, however, has been made to analyse exactly who is buying, where they are buying, and how much they are spending. The Knight Frank Global Property Wealth Survey aims to fill this knowledge gap by providing an accurate picture of international trends and activity.

Analysis

Our survey was distributed in September 2010 and the results are based on the responses from more than 350 wealth and property professionals (figure 1). Respondents were based in 52 locations

in 33 countries* across Asia-Pacific, Africa, Middle East, Europe and North and South America. Our survey is concerned with cross-border, non-domestic, luxury residential market trends.

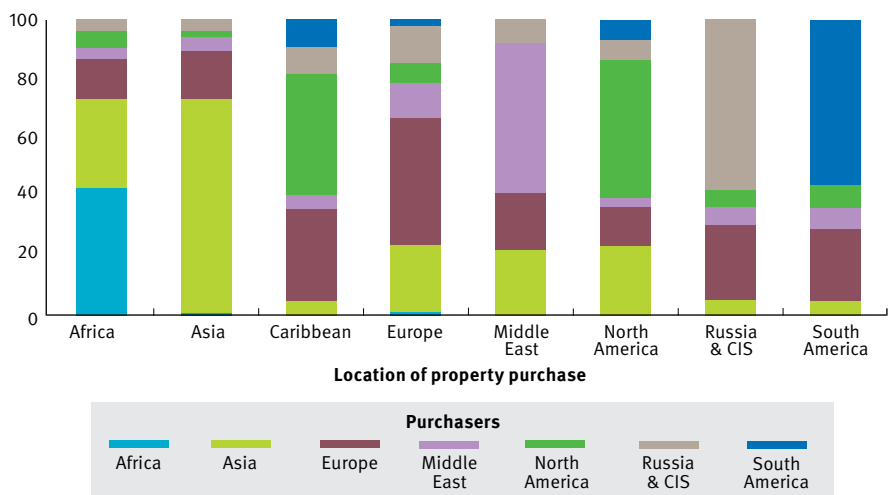
To demonstrate who is buying where, figure 2 provides a high-level view by world region. This chart provides an assessment of the relative split of buyers across different marketplaces.

At this level the markets with the most diversified demand tend to be those in Europe and the Middle East – where local buyers are joined by large numbers of international buyers. While the Caribbean attracts buyers from a wide range of locations, North American buyers still have a huge influence there. Asia's luxury housing market is the least diversified in that seven in every 10 purchases here are made by Asian buyers.

Taking this data a step further, figure 3 shows our attempt to quantify the

“Demand from European buyers for luxury residential property is particularly noticeable, accounting for almost a quarter of all cross-border luxury residential purchases.”

Figure 2
Who buys in your region?
 Split of cross-border luxury residential purchasers, by world region



Source: Knight Frank Residential Research

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Table 1
Top luxury global housing markets by purchaser motive

Education	Business	Tax	Lifestyle	Security	Investment
London	New York	Grand Cayman	St. Moritz	Monaco	Cape Town
Boston	London	UK Channel Islands	London	Geneva	Abu Dhabi
Zurich	Shanghai	Zurich	Paris	Zurich	Hong Kong
Hong Kong	Sydney	Singapore	Cap Ferrat	Singapore	Sydney
Singapore	Hong Kong	Monaco	Algarve	UK Channel Islands	London

importance of demand from different world regions. The dominance of the European buyer here is noticeable – accounting for almost a quarter of all cross-border luxury residential purchases, with Asian and North American buyers close behind.

When we look at where our survey panel expect future demand to come from, figure 4 provides an almost mirror image to figure 3, with very strong growth in demand forecast for South America and Africa (albeit from a relatively small base in both cases). While Asia sits between these two regions, the fact that Asian cross-border activity is already very high points to the huge influence that buyers from Asia will have over the next decade as they grow in wealth and increasingly look to invest that wealth overseas.

When we asked respondents about the key reasons for buying property, ‘lifestyle’ was the most important factor, followed by ‘security’ and ‘investment’. These categories alone accounted for over 60% of the scores awarded (figure 5). The least important driver for cross-border luxury residential purchases was ‘taxation’, or rather the lack of it, although this was cited by 11% of respondents as being a primary driver.

Our panel ranked luxury global housing markets according to their demand drivers. The top five in each category are provided in table 1.

Table 2
Future high growth luxury residential markets

European sun and snow belt	France, Switzerland, Italy, Portugal and Spain, with Croatia and Montenegro
Anglo-sphere	UK, US, New Zealand, Canada, Australia
Asian centres	China, Japan, India, Vietnam, Singapore, Malaysia
Low tax jurisdictions	Monaco, Channel Islands, Switzerland, Caribbean, Dubai
South American hotspots	Brazil, Argentina
Middle East and North Africa	Gulf states, North Africa (Egypt to Morocco)

Future buyers and locations

We asked our panel to identify the locations they felt would be significant sources of future buyers of luxury homes. We allocated a simple score to each location based on the number of mentions each received in our survey. Figure 6 provides a summary of the relative position of the top 10 locations mentioned.

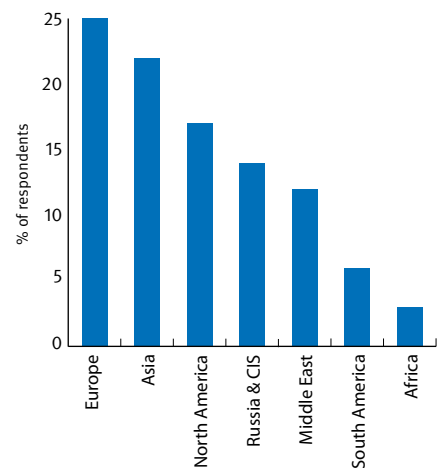
Reviewing figure 6, we can see that the usual suspects – at least three of the BRICs for example – are present. But some unexpected locations also appear. While Eastern Europe has been hit hard by the recession, countries there had only just begun to develop serious wealth in recent years and, despite the current hiatus, that process is expected to continue. Scandinavian countries that were less-affected by the recession have also provided a growing number of individuals on global rich-lists in recent years, according to our survey results this process is also expected to continue.

The group of countries we have loosely labelled ‘North Africa and the Levant’ (including Lebanon and Syria, but extending from Morocco through Libya to Egypt, through the Levant and even up to Turkey) were tipped by many contributors as being an important source of new wealth and therefore of luxury market demand.

Figure 3

Dominant buyers

Demand for cross-border luxury residential purchases by origin of purchase



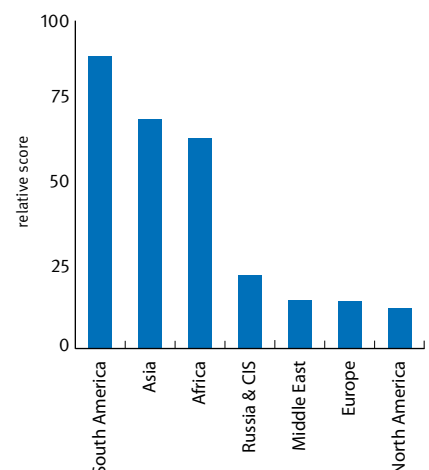
Source: Knight Frank Residential Research

“Asian buyers will command huge influence over the next decade as they grow in wealth.”

Figure 4

Future buyers

Forecast growth in buyers of luxury residential property by world region (relative score)



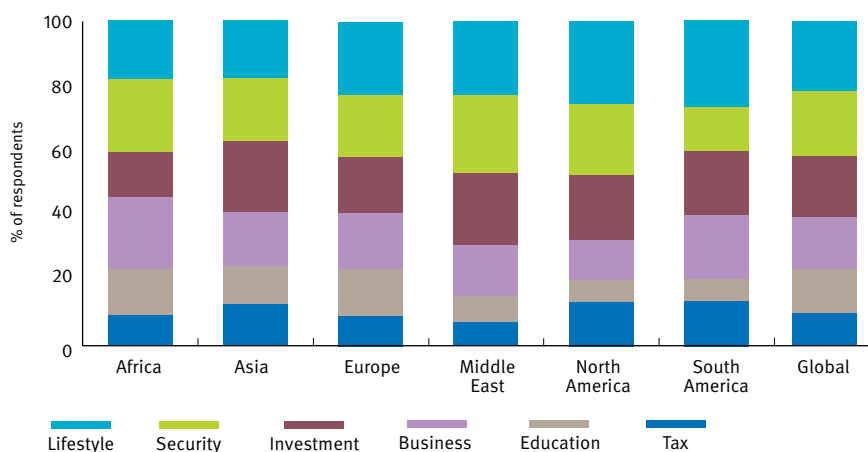
Source: Knight Frank Residential Research



Figure 5

Demand drivers

Relative importance of different demand drivers by world region



Source: Knight Frank Residential Research

Finally, we asked our panel to nominate locations for future growth as luxury market destinations. There were some common themes in our responses and we have grouped the responses into six categories – see table 2.

Our survey respondents gave us no doubt that the key centres to benefit from ongoing cross-border purchase activity are the established European centres – the south of France, Tuscany, the Algarve and the French and Swiss Alps. These are mature markets where the environment, reputation and existing stock keep drawing in new buyers. Our survey responses point to ongoing high demand from every world region for these locations.

The second grouping covers the countries we have labelled as the Anglo-sphere – locations which have close historic, legal and cultural links to the UK. Demand here is led by business, culture and also education, but with the English language and legal systems providing a real attraction for purchasers.

Asian cross-border activity has been driven in large part by ex-pat purchases, and also investment-led activity. According to our panel, future purchases will increasingly be driven by lifestyle opportunities, which in turn will lead to a number of new cross-border hubs developing.

Investment into South American locations like Brazil and Argentina tend to be led

by North American and European buyers, although Asian investors have become more visible. Lifestyle purchases have led the market in Brazil, with agricultural and business investments driving activity in Argentina.

The potential for the Gulf states to continue attracting increasing inward investment has been challenged by the downturn. With the centre of the world's economy shifting towards Asia, the Middle East is still a logical node between Europe and certainly India and China. As we note above, the expansion of economic activity along the southern coast of the Mediterranean and also towards Egypt and Turkey, reinforces the view from our survey (highlighted above), that these countries will become centres that will attract foreign inward investment into residential property.

Future issues

In terms of themes to watch over the next year or so, one of the most significant issues to come out of the survey was the impact of new taxation in some of the more affluent western economies, especially the UK, but also France, Germany and even the US, which is pushing demand into lower tax locations.

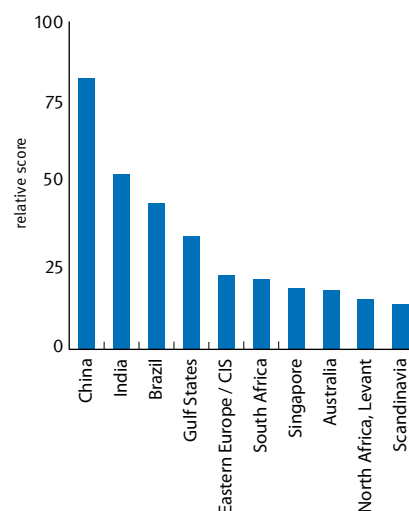
The biggest beneficiary of the above process so far was thought to be Switzerland. The UK Channel Islands were also felt to have benefitted from significant

“The key centres to benefit from ongoing cross-border purchase activity are the established European centres – the south of France, Tuscany, the Algarve and the French and Swiss Alps.”

Figure 6

Future demand in detail

Most important countries/country groupings for future luxury property demand (relative score)



Source: Knight Frank Residential Research

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* Argentina, Australia, Austria, Barbados, Botswana, Brussels, Canada, Cayman Islands, China, Czech Republic, France, Germany, Grand Cayman, Guernsey, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Jersey, Malaysia, Mexico, Monaco, Portugal, Russia, Singapore, South Africa, Spain, Switzerland, Thailand, UAE, UK, US, Vietnam and Zambia.

inward investment on the back of tax hikes elsewhere.

Monaco is considered to be thriving for the same reason. Ironically the boom in the market here is beginning to feed through to demand in the Cote d'Azur and the north Italian coast, where new arrivals in Monaco commonly look to buy a second home in a less-pressured environment.

A concern was alluded to – from more than one respondent – that a more hawkish stance from the EU and the US could undermine the main low-tax markets. There was even a suggestion that a popular backlash could be brewing from within Switzerland, where local residents are having to cope with increasing demand and affordability problems.

The UK received good marks by many survey respondents for its tough – and what were viewed by many as unavoidable – tax rises and spending cuts. Unlike several other locations, the view garnered from the responses was that the UK was getting to grips with its deficit. The concern, which was mentioned by several respondents, was that France, Italy and even Germany could face problems in the next year or two if they fail to deal appropriately with their deficits now. The

concern was that tax rises down the line could be very high due to insufficient action now.

Many comments concerned potential currency battles, which were felt could determine the attractiveness of many key luxury housing markets. This factor seems reasonable, given the huge boost given to the London luxury market following the 2008 devaluation of the pound. With what appears to be every country in the world looking to devalue at the current time, how this will play out over the next year or two is difficult to gauge.

A final issue which was raised was that of access to markets. The comments raised in relation to India, were largely speculative thoughts around the potential impact of capital import and export rules. The same debate is raging across much of Asia, South America and the rest of the developing world.

Ironically, in Switzerland, Australia and Singapore, the issue is now in reverse – with serious moves being made to restrict access to the market to determine who can buy, where they can buy and what they can buy. In a more globalised world, we can expect these debates to become more prevalent over time.

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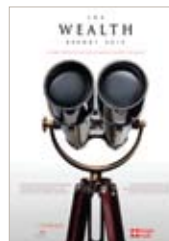


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