The Wealth Report 2010

Contributors

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Liam is The Wealth Report’s “editor at large” and also heads up Knight Frank’s residential research team. He likes to take a global view and in this issue reviews the market for prime residential property around the world.

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A leading authority on political risk and head of Eurasia Group, Ian offers Wealth Report readers his perspective on the factors shaping the world’s political landscape in 2010.

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China expert and co-founder of respected economics analyst Trusted Sources, Jonathan looks at Beijing’s changing global role as the nation’s economic power continues to grow.

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Adrian Wooldridge

As The Economist’s former Washington bureau chief, Adrian has experienced the unique nature of the US capital city. He shares his insights in the latest edition of our Global Cities Survey.

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Prime, prestige, luxury – all labels applied to the top end of the residential property market in different parts of the economic cycle. Some are booming to the point where overheating is once again a concern, while others are still struggling to shake off the impact of the global recession. Market drivers are also becoming more nuanced in the light of varying government responses to the credit crunch. Cities like Washington DC and Beijing, as The Wealth Report 2010 Global Cities Survey (page 34) discusses, now find themselves transformed into banking as well as policy hubs, attracting a new breed of buyer.

Despite this globalisation of property as the “must-have” asset class, it would still be wrong to talk about the marketplace for the world’s most desirable properties as a single entity. Just as the labels vary, so do the characteristics of individual markets, not only between continents and countries, but also from city to city and region to region.

Each market – as highlighted by the latest results from our Prime International Residential Index (page 6) – sits in a different part of the economic cycle. Some are booming to the point where overheating is once again a concern, while others are still struggling to shake off the impact of the global recession. Market drivers are also becoming more nuanced in the light of varying government responses to the credit crunch.

For The Wealth Report 2010, global cities’ economic power is discussed in our Global Cities Survey (page 34) and we find a mix of over-heating in the US and London, and signs of life returning to the Chinese market. Our focus on prime property in Asia Pacific (page 18), even the world’s smallest market, is still struggling to shake off the impact of the global recession.

Most of the survey’s respondents said they were interested in long-term capital growth from their property portfolios, rather than income. This has led to the continued growth of such property markets as the white collar suburbs of New York as well as the wealthy enclaves of the world’s capital cities.

The tangible and straightforward nature of residential property, especially when compared to other asset classes, makes it a popular choice for investors around the world. In particular, within the high-net-worth individual (HNWI) community it is an asset class that appeals to those committed to personal and financial security.

HNWI is an acronym for ‘high-net-worth individual’, a person whose investible assets, excluding that person’s principal residence, total between $1m and $25m. The Weath Report 2010’s attitudes survey shows that affluent investors around the world are more concerned about the growth and protection of their wealth than ever before.
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Exclusive interview with Trudie Styler about the Italian estate she shares with husband Sting
Three years into the global housing market downturn, and at the tail end of the world’s worst recession for 70 years, we might have expected to see the beginning of a slow and measured property recovery. Instead, on the one hand, we have strong growth in London and huge uplifts in key Asian markets. On the other, prices were still falling last year in three-quarters of the locations featured in our Prime International Residential Index.

Liam Bailey explores this ongoing paradox.

Global View

How we track the World’s Markets...

The Knight Frank Prime International Residential Index (PIRI) is the most comprehensive analysis of global luxury residential markets. Our index is compiled using data supplied by our global network. All annual price growth figures relate to the 12 months to the end of December 2009.

Prime property is the most desirable, and normally most expensive, property in a defined location. Commonly, but not exclusively, prime property markets will be areas where demand has a significant international bias.
An interesting divergence in performance can be seen when we split our results by location type. On an unweighted basis prices fell by around 5% in 2009 in the 56 prime markets we track. Coastal and country second home locations saw prices fall by 14% and 11.9%, respectively. European ski resorts were slightly more resilient – falling by 12%. But prime city locations were much healthier, posting an average rise of 0.4% over the year.

The market recovery in the cities at the top of our table shows renewed confidence in the performance of prime property, which is welcome, but there is a degree of concern around the speed and strength of the turnaround. The case for prime market outperformance, which we outline above, is well made – but there are other factors at play.

We have to consider the current support for market growth created by ultra cheap money. In fact it is not just property markets that have succumbed to exuberance – equities and commodities saw a similar price push in 2008.

Rock-bottom interest rates and the “creation” of money via government stimulus packages have led to an injection of liquidity into the world economy, which has found, inevitably, its way into asset markets, including property, gold and shares.

Low interest rates have protected particularly distressed owners and reduced the supply of property for sale. At the same time, low savings rates have encouraged the wealthy to move investments out of cash and into property in the search for acceptable yields. This has driven demand for property higher and, set against tight supply, has served to push values upwards in many locations.

Ironically, the unintended consequence of government economic stimulus packages has been to support demand and pricing in top-end residential markets – probably not something governments would readily admit.

We ought not, however, to be too pessimistic. The fundamentals in developing markets that we discuss in more detail in our Asia Pacific Focus are very impressive. The scale of demand in China, for example, confirms the need for new housing in the Asian powerhouse economies – 8.5m new homes were sold in China in 2009, compared with about 500,000 in the US.

Talking to Quak Kwang Meng, head of Asia Pacific real estate investments for CIT Private Bank, the power of this dynamic is reinforced. Quak says that even if economic growth slows, rural migration is likely to swell China’s urban areas by 200m people within 15 years.

In India the requirement for accommodation is growing as rapidly as in China. Despite strong property growth (Mumbai +11% in 2009) the market appears at little risk of over heating. The proportion of mortgage debt to GDP, which has hit 70% and more in countries in the developed world, still sits at around 10% in India – despite a quadrupling in the size of this mortgage market in a single decade.

In other, more mature, markets there are questions regarding the sustainability of booming price growth. In Hong Kong, for instance, the market grew strongly in 2009 on the back of a low interest-rate environment and an influx of capital and lending from the banks. All sectors saw an improvement. The HK$10m+ sector, in particular, benefited from a 44% growth in transaction volume to more than 6,700.

Government intervention

In light of this strong growth, the Hong Kong government has threatened measures to restrict the market – notably through mortgage lending restraint, reducing, for example, the mortgage limit for luxury property from 70% to 60%. Despite these potential restrictions the market continues to grow.

This example points to an interesting development. The crumbling impact of property bubbles bursting in Europe and the US has created a much more commercially interventionist approach in China, Hong Kong and Singapore (where cooling measures were introduced in September last year) among other markets.

There is a slightly troubling aspect to this. With governments brooding in the shadows, ready to burst incipient bubbles as soon as they emerge, a high degree of skill is assumed from policy makers. The ability of markets to justify current pricing depends to a large degree on continued credit availability. The security of pricing in these markets is yet to be tested. If banks were to restrict liquidity or push up the costs of finance there is an obvious risk of a correction.

This more aggressive government stance is not limited to Asia. From Europe to the US, governments have been making more active use of the economic tools at their disposal and as a by-product of bailing out banks in 2008 they have considerable influence over lending policies. We can expect to see more, not less, public sector control, at least over the short and medium term.

Future considerations

Last year we posed a question: was the downturn just one more bust-and-rebuild scenario, the evidence was building that when the market believed that prices had returned to offering good value, activity would return, and the financial factors that made a prime market desirable would endure. Namely, limited supply, the growth of demand in line with the emerging generation of wealth and the clustering of the wealthy in established markets.

This is exactly what happened. Supply fell in London and also in counties other markets where affluent owners or top-end property developers decided to refrain from selling at new lower prices. Demand then rose as buyers looked hopefully, but often in vain, to secure stock at bargain prices. As we have seen, those markets that appeared to be on the verge of collapse a year ago have bounced back from the ravages of the credit crash.

The issue for 2010 is how secure the renewed bounce in pricing is in the markets at the top of our table. Our view is that most prime markets are suffering from an undersupply of stock and this will help maintain prices in the short term. Looking further ahead, however, it is those locations that offer a genuine lifestyle attraction to the world’s wealthy, rather than just an investment opportunity, that will prove most sustainable.
A TALE OF TWO NATIONS

The Wealth Report looks into the contrasts between prime property markets in the world’s two largest economies.

China

The prime New York market, where prices fell 12.5% in 2009, is gaining strength, but the recovery is tentative, says leading New York property commentator Jonathan Miller.

The frozen market in Manhattan in the first half of 2009 gave way to a much stronger second half of the year. By the summer, the market began to see a recovery in sales activity following an improvement in economic confidence prompted by a revival in the stock market.

While the market has undoubtedly improved compared with last year, we ought not to get too excited. The recovery of late 2009 was a short-term uptick, due in large part to a release in pent-up demand. My view is that the surge in demand is not the start of a rising housing market. While sales are up sharply, prices have moved “sideways.”

I have some lingering concerns for the New York market in 2010. The market has been aided by government stimulus measures – tax credits for first-time buyers, in particular. This package will expire in mid-2010. While the US economy is growing, the high rate of unemployment – around 10% – and somewhat higher locally – as well as a tight mortgage lending environment do not provide a firm basis for ongoing growth in house prices. A real fear for 2010 is rising mortgage rates, currently at near record lows. The potential for growing foreclosures, which were not a problem in 2009, is another real factor.

One segment of the market that has seen a noticeable uptick has been international demand, where the weak dollar has prompted interest from Asia, Europe and South America. Demand from South Korea has also become more noticeable.

Looking outside New York, both Boston and Washington DC have also improved, with rising resale volumes in both markets. On Long Island, the Hamptons luxury second home market has surprised everyone with its resilience to date. As a discretionary market, there was general concern that this region would see large declines in prices and sales from the 2008 and early-2009 market turmoil. In fact, both sales and price trends have remained in line with the Manhattan market.

Jonathan Miller is CEO of Miller Samuel Real Estate Appraisers, which provides market research for Prudential Douglas Elliman, Knight Frank’s New York associate.

MARKET-BY-MARKET INSIGHT

Prime Italy

RUPERT FAWCETT – HEAD OF ITALIAN DESK

The market in Italy has remained relatively robust over the past year. Prices have fallen, but not to the extent of other markets. Italy remains a long-term lifestyle-driven second home market rather than a shorter-term investment-driven one. There has been an increase in Italian buyers and those from other European countries taking advantage of lower prices, while sterling and dollar denomination buyers are more cautious due to the swing in exchange rates. The early signs for 2010 are that sales volumes are beginning to rise on the back of greater confidence.

I believe there are considerable opportunities from two particular markets. First, Chiavari as buyers revert to trusted markets. Second, Venice. Rental returns in Italy are never especially high, but Venice provides a good year-round rental market.

Cote D’Azur and Provence

PAUL HUMPHREYS – HEAD OF FRENCH DESK

In the core Cote d’Azur market prices have corrected. Despite lower levels of interest at the start of 2009, the second half of the year witnessed increased activity (20% to 30% higher) from Dutch, Norwegian, Danish, Belgian and Russian purchasers assisted by low interest rates and lower capital values.

At the top end the market remains contested, with transactions still sparse.

Inland, Provence saw the re-emergence of British buyers earlier than the Cote d’Azur. American and Australian buyers were also competing for the best villas.

While the whole of the Cote d’Azur attracts international demand, the most robust financially has been the St Tropez end of the coast. A recent planning law stating that no new planning consents are to be permitted within 300m of the sea has significantly restricted new supply.

Luxury New-Build Resorts

JAMES PRICE – HEAD OF INTERNATIONAL RESIDENTIAL DEVELOPMENT

The new-build market was one of the sectors most affected by the market downturn. Our estimates are that the completion of new-build resort accommodation fell by 65% between the 2007 property peak and 2009 in Europe and the Caribbean. Buyers and finance both disappeared in 2008 and left many developments stalled or cancelled. The result is that with fewer projects surviving, those with the strongest product offer are now more resilient.

Focus on the very best prime locations (Cote d’Azur, Swiss and Italian Lakes, prime Tuscany and west-coast Barbados). Transactions may be down, but values have not dropped significantly. For growth potential, look to locations with international interest and good transport and supporting infrastructure. For example, Catalunya (Sail-Mallorca Coast (Portugal) and Ligurian Coast (Italy)).

Switzerland

ALEX KOCH DE GOOREYND – HEAD OF SWISS DESK

There has been a considerable upturn in interest in Swiss property in recent months from international high earners looking to escape more exonerous taxation in and around Europe. This interest has been slow to convert into solid activity due to restrictions on foreigners buying residential property without the correct permits.

The central issue for the new arrivals in Switzerland has been property choice – or rather lack of it, especially in locations like Vaud and Geneva. As the lack of available property has come to light, increasing it has been smaller properties and apartments that have become the focus for demand for “tax homes.”

In Geneva strong interest is already being shown in and around Collex-Bossy, Versoix and Colignon, areas 10 to 15 minutes from the centre of the city that offer a real prospect for improvement and gentrification over time.

Luxury Caribbean

GEORGINA RICHARDS – HEAD OF CARIBBEAN DESK

The Caribbean has seen renewed activity. Reductions in Chamonix have meant that there has been renewed sales activity for well-located apartments, especially between €500,000 and €750,000.

There has been an increased evidence of buyer demand in core areas like Courchevel, Meribel, Megève, Chamonix and Val d’Isère. High-budget purchasers (€140 m+ appeared at the end of 2009 and were joining in January 2010 by those looking in the €550,000 to €1.1m mark.

Asking prices in prime locations have generally stabilised as there have been few forced sales in the past two years. Activity in these prime areas, Courchevel 1850 and Les Carats in Val d’Isère, for example, has been limited. Either look for an apartment in Chamonix, or a small chalet in the Tios Vallées.

Market trends

The Prime Market

As many high-net-worth individuals who were acquiring property on the smaller lesser-known islands. These were markets in their infancy yet to develop a substantial resale market. The downturn has seen a return to established markets with good infrastructure and, where possible, direct flights.

Most parts of the Caribbean saw price falls in the first half of 2009 – 20% drops were not uncommon. Demand only really began to return in the final three months of the year. Established sporting estates and beach-front property have proved the most resilient sector, in the Barbados parishes of St James and St Peter. On the British Virgin Islands, growth in demand for land and property has been very strong. Barbados, in particular the west coast, offer opportunities in 2010, land and build costs are down, making this the year to design and build your dream home.
Most property markets experienced a horrendous time during the 2008 global economic crash. The silver lining for investors has been the chance to return to markets at what hopefully represents the low point of the cycle.

For cash-rich investors ultra-low interest rates have meant bank deposits have looked distinctly unattractive, while the low yields on bonds and volatility in the stock market have given additional pause for thought.

Added to this, the impact of the financial crash has not been as hard on the typical ultra-high-net-worth buyer of prime property. This has meant that many wealthy owners of property are again looking for investments, says Michael McPartland, managing director and head of residential real estate at Citi Private Bank. “The wealth market is relatively insulated. Our clients look for opportunities when everyone else is circling the wagons. Buying becomes opportunistic in a downturn, particularly as people turn to hard assets such as property when other assets experience dilution.”

How to buy has never been more sophisticated, says McPartland: “There is a myriad of direct property investment options, funds and listed and unlisted companies, as well as more complicated instruments, such as derivatives, now on offer. This allows investors to build up a portfolio spread over asset classes and sectors, as well as risk and reward.”

Where and what to buy are obviously key questions given that some sectors and some regions are still seeing prices moving down, while others have bounced so hard that they are nearing the values of the 2007 boom.

For many, residential property remains the most attractive investment, given the dynamics that underpin key cities, such as London, New York and Hong Kong. There is a focus on the very prime areas, says McPartland, which are always in short supply and facing steady demand from buyers and tenants in global centres of finance and culture.

Liam Bailey, head of residential research at Knight Frank, agrees: “Residential investment makes a lot of sense over the long-term. In most locations supply of property either keeps pace or falls short of demand. Most high-net-worth investors tend to cluster around the best locations in the world, which provides its own support.”

Key cities such as London (prices up 15% in the 10 months from March 2009), and Hong Kong (up by around 41%) have seen a sharp bounce in prime values since reaching their nadir last year, benefiting from the limits on building, growing demand and sustained investor requirements. Although this could put downwards pressure on yields, rents are at last beginning to climb, adds Bailey.

But there is still uncertainty about short-term growth, says Bailey, particularly given the speed of recent growth. He points to the uncertain economic recovery, and the potential for rising unemployment and interest rates, as risks for house price growth.
Some recent analyst notes have suggested, however, that values could dip again, given uncertain occupier demand, in addition to the effects of reinvesting in quantitative easing again.

Values in continental Europe have held up relatively well compared with the UK and US, partly as rents have also not corrected as much. On average, European countries have seen falls of between 10% and 25% from peak. Established markets in Germany and France are tipped as good for stable, income-producing investment, although those with a higher risk focus may prefer markets such as Poland, or even Spain.

Paul Corcoran, director at Citi Private Bank, who oversees the bank’s EMEA real estate lending, says: “Lending is going to be a little more old-fashioned going forward.”

William Bendernagel, managing director and Citi Private Bank global commercial real estate product head, says that US real estate markets remained depressed given a lack of transactions to spark any recovery. The market has fallen by between 30% and 50% from the peak in 2007, he adds, depending on asset class and location.

He says: “To make a market, there needs to be buying and selling. The large scale of refinancing has pushed problems down the line, so at the moment the holders of distressed properties are not being forced to deal with their issues.”

The continued deterioration in fundamentals such as rents and occupation could pressure cash flows, which would then lead to a shakeout of the market. Many investors in direct property are waiting until this happens, he adds, which is unlikely to manifest until the back end of 2010. Mr Bendernagel predicts that the quality assets in business districts such as New York, Boston and San Francisco will be the first to recover.

For many, residential property remains the most attractive investment, given the dynamics that underpin key cities such as London, New York and Hong Kong.

For commercial investors the quality of the location, building and tenant is the main consideration, rather than any specific property type. Even so, such requirements have meant that the focus remains on modern city offices, particularly in London, Munich, Hamburg and Paris in Europe, New York and Washington in the US, and the major cities of Asia such as Hong Kong, Singapore and Shanghai.

In addition, there is strong interest in high-end street retail and top regional shopping centres, although there are few bargains to be had any longer given the return of interest in commercial property.

Quak Kwang Meng, head of real estate investments in Asia Pacific for Citi Private Bank, tips retail malls in China, especially where there is a good comestron tenant like Tesco or Wal Mart. He says Chinese consumers are migrating from street markets to a more Western shopping model.

Others are turning to less popular asset classes, such as secondarily listed distribution centres, as well as niche sectors including student housing, self storage, data centres, retirement homes, social housing, healthcare facilities and infrastructure. “Green” development is gaining interest, particularly with the compulsory energy efficiency ratings being introduced for buildings in Europe.

John Styles, head of investment management at Knight Frank, believes that 2010 will be an interesting year for the commercial property investment market: “There is currently a large volume of equity chasing prime assets which are in limited supply,” he says. One of the key issues for Styles is that it is the actions of the banks that will determine how much new stock is released to the market to meet this demand. “Initial indications are that there is more stock coming via this route,” he comments.
The market has rallied more than 100% since March, says March, saying, the sector’s equity market capitalization from a trough value of about $100bn to about $230bn today. But there are still attractive opportunities, he says, particularly by choosing stock carefully.

This has meant that the REIT sector is generally in a far more robust state than last year and versus the private market. With capital values back on the rise, there is reason to see further share growth despite higher prices. Bilerman says: “The public real estate sector has shown tremendous strength compared with the private real estate market. Stock selection will be key to driving excess returns. REITs weathered a stormy start in late 2009 and early 2009 and came out stronger. They are now being reassessed as the solution rather than the problem to issues around the globe.”

The market is expected to continue its growth trajectory, with many analysts predicting returns of around 10-15% over the next few years. However, it is important to note that real estate investment is subject to various risks, including market fluctuations and economic conditions.

Reinvestment Trusts (REITs), which are basically companies that buy, develop and hold income-producing properties, are an easy alternative for investors to gain exposure to the commercial real estate market, says Bilerman. “They are tax efficient and have to distribute much of their income as dividends – generally a minimum of 90% – to shareholders. They are also professionally managed, offering considerable liquidity, transparency and diversification benefits.”

Global REITs had a broadly successful year in 2009, rising along with the general market after a large slide from peak valuations, demonstrating access to capital – granted at a significant dilutive cost. A number of companies around the world pursued emergency rights issues, primary equity offerings and assets sales to raise new equity to de-leverage. More than $220bn of common equity was raised in the US, more than £7bn in the UK and more than A$13.2bn in Australia, says Bilerman.

There are also indirect ways to invest in property, most obviously through a fund structure. Those have generally had a very difficult time during the past two years, with the high leverage carried in many vehicles, but many managers are once again launching funds in the hope of tapping into a recovery and buying good low-leverage stock. McPartland says that many wealthy clients prefer to explore the use of equity stakes in partnerships, or funding a company directly, rather than paying large fees and relying on managers to invest on their behalf. Trading in property derivatives – which are financial products whose value is derived from the value of an underlying real estate asset – is also starting to grow again. The UK is still by far the most mature market, accounting for the majority of the £76bn worth of contracts made globally in the third quarter of 2009.

Richard White, a partner at Knight Frank, who specialises in property derivatives, says that they provide investors with an efficient means of accessing investment against commercial property, avoiding frictional costs such as stamp duty, fees and management. White adds that this is the case with REITs, which are also an easy alternative to investing in areas such as alcohol, arms, drugs, gambling, pornography and pork, which are also subject to the use of debt and interest on investments, he explains.

Islamic real estate investment is a particularly hot area for wealthy clients, given the strong interest in property among many Muslim countries. The market is still at a fledgling stage, however, with a gap between the Islamic real estate financial model and Islamic real estate product development. The rise in Islamic real estate investment in recent years has been driven by the growing interest in Islamic finance and the strong performance of the Islamic finance industry, which has shown resilience in the face of the global financial crisis.

Islamic real estate investment is expected to continue to grow, driven by the increasing demand for Sharia-compliant investment options. However, there are challenges to be overcome, such as the development of standard Islamic real estate investment products and the need for more Islamic real estate investment vehicles. Despite these challenges, the Islamic real estate investment market is expected to continue its strong growth trajectory in the coming years.
Property, along with gold, is one of the most popular investments in Asia Pacific, according to Quek Kwang Meng, head of real estate investments in the region for Citi Private Bank. “People love hard assets.” In China, for example, a newly married couple will buy gold then, once they have saved enough, a house. After that they will maybe consider looking at other less tangible investments such as equities, says Quek. This view is echoed by Clive Betts, Singapore-based head of Knight Frank’s Asia Pacific region. “It’s why we see so many opportunities across the region. We’ve just opened offices in South Korea and Vietnam and are looking at other countries as well.”

When you combine this desire to own and invest in property with some of the world’s fastest-growing economies – predicted GDP growth for 2010 puts the West to shame – it is easy to see why prime property markets have gained such momentum in the Asia Pacific region. Some of the most expensive properties in Hong Kong, Singapore and, increasingly Shanghai, are approaching the levels seen in cities like London and New York.

Even in Cambodia, where the average income is only US$600 per year, according to the World Bank, speculation has pushed up prices far higher than would be expected.

Of course, you can’t write about any market in Asia Pacific without talking about the influence of China. When, for example, Beijing put the brakes on bank lending earlier this year in response to concerns that asset bubbles may be developing, shares in Australian natural resource companies fell immediately. China’s power can be epitomised not just by its phenomenal GDP growth – almost 11% in the final quarter of 2009 – but by the impact of its response to the credit crunch. China put in place an aggressive multi-trillion yuan financial stimulus package and, while US and European measures helped rescue their domestic economies, much of this extra Chinese liquidity was invested in assets overseas, including Asia Pacific property markets.

“China is increasingly a source of capital in the region,” confirms Johanna Chua, chief economist Asia Pacific for Citi Investment Research and Analysis. Although some commentators now question the sustainability of China’s economic growth, Chua believes its economic fundamentals are strong enough for the trend to continue. “By the end of the decade China’s economy could be 80% the size of the US.,”

Not all prime markets in the region are recovering at the same pace, but with an economy as big as China’s at the heart of the region, the Asia Pacific prime property story looks set to continue.

### Asia Pacific Prime Property Price Changes

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<thead>
<tr>
<th>Country</th>
<th>Prime Property % Price Change 2010</th>
<th>Prime Property % Price Forecast 2010</th>
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<tbody>
<tr>
<td>Australia</td>
<td>-10 to -15</td>
<td>0 to 10</td>
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<tr>
<td>Cambodia</td>
<td>-40</td>
<td>0 to 10</td>
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<tr>
<td>China</td>
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<td>-10 to 10</td>
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<td>4</td>
<td>10 to 15</td>
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<tr>
<td>India</td>
<td>-10 to -10</td>
<td>12 to 15</td>
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<td>Indonesia</td>
<td>-10 to -10</td>
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<td>Malaysia</td>
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<td>Singapore</td>
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<td>Thailand</td>
<td>5</td>
<td>10 to 15</td>
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<tr>
<td>Vietnam</td>
<td>-2 to -10</td>
<td>8 to 10</td>
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Source: Knight Frank regional offices
CHINA
Chinese housing statistics make incredible reading. In 2009 a staggering 8.5 million new residential units were sold, compared with about 500,000 in the US. Last year, the average prices of new homes in urban Shanghai, Beijing and Shenzhen increased by 87%, 63% and 66%, respectively. This growth was driven by knee-lending policies and a massive government fiscal stimulus package.

Xavier Wong, Knight Frank’s head of research for Greater China and Hong Kong, says by the end of 2009, prices had already surpassed their peaks of the previous upturn before the outbreak of the recent global financial crisis by substantial amounts. Shanghai has comfortably China’s biggest prime residential market with 1.648 million units sold through RMB550 (US$73,500) sold in 2009, following by 80,089 in Beijing and 2,309 in Shenzhen.

As a proportion of total sales, this top-end bracket accounted for 5.5% of deals in Shanghai against a more modest 4.6% in Beijing and 3.6% in Shenzhen. Guangzhou had the fourth highest luxury sales at 1.261, but the proportion was only 1.6%, slightly lower than Hangzhou’s 1.7%, according to a report jointly published by Knight Frank and Holswade.

HONG KONG
The prime property market in Hong Kong tends to be particularly volatile as there is no capital control and it is susceptible to the shocks of unexpected flow of international capital. Foreign investors are increasingly coming from Mainland China, accounting for about 10% of total sales and up to 30% in some new prime developments, according to Xavier Wong, Knight Frank’s head of research for Greater China and Hong Kong.

Luxury residential prices have risen by over 40% since hitting a trough in December 2008, driven by a huge Chinese financial stimulus package, low interest rates and the general economic recovery, says Wong. The number of luxury sales worth over HK$10m rose by 45% last year, he adds.

Limited supply of new stock and continuing low interest rates should mean the market continues to rise through 2010, he predicts. Luxury rents are also forecast to rise by 15% this year and could push up prices by a similar amount. Downsides could be a clampdown on capital flows from Mainland China and interest rate rises in the US that could dampen demand for Chinese goods.

SINGAPORE
Last year saw a dramatic recovery by the Singapore residential market, but this was driven initially by the mass market and it was only towards the end of 2009 that prime market started to follow. According to Peter Owe, head of Knight Frank Singapore’s residential division, the price of top-end residential properties ended 2009 still 15% to 20% down from the peak seen at the end of 2007. Because of this, Owe forecasts that there is potential for prime prices to climb a further 10% to 20% this year and outperform the overall market, which the government has taken measures to cool down.

Much of the increased demand for prime properties has come from abroad, says Owe, with many buyers from China, Indonesia and India. The City’s Districts 9, 10 and 11, which include the Orchard Road area, will remain the focal point for prime properties, but the Marina Bay and Sentosa areas are starting to gain prominence.

Owe says the imminent opening of giant Integrated Resorts (IRs), which combine luxury hotels, casinos and entertainment complexes, will attract more visitors from the rest of the region and boost prime property markets in the vicinity with the effect gradually rippling out to other prime areas of the city. Marina Bay and Sentosa, where the first of these resorts are due to open, should start to benefit from this year, he predicts.

THAILAND
There is a clear city and sea split between Thailand’s prime property markets. Bangkok remains the only city in the country to have developed a urban luxury market, while Phuket island is still the place to go if you are looking for truly top-end holiday villas.

Bangkok’s prime market is focused on luxury condominiums clustered either along the CBD or on sections of streets like Sukhumvit Road. However, the high price of land means that the exclusive sublots of Sukhumvit and Phahonyothin and along Eakamai-Ramindra Road are also emerging, with accommodation in single detached houses and townhouses as well as condominiums, says Phoomorn Kanjanadechitham, managing director of Knight Frank Thailand.

Foreign investment into Thai real estate is restricted when it comes to land purchasing and 2009 was not a very good year for the prime markets, he says. Developers, however, have so far been able to ride out the downturn, caused by domestic political instability as well as the global recession, without cutting prices significantly. Kanjanadechitham says this is because many new developments were put to 80% pre-sold before the worst of the economic problems struck and other new projects have been put on hold.

VIETNAM
Vietnam has an established top-end apartment market in its capital Hanoi and also its main commercial centre Ho Chi Minh City. A number of luxury beach-front developments are opening along China Beach in Danang.

Real estate is a popular investment with the Vietnamese who are not allowed to invest overseas and prefer hard asset classes, says John Gallander, head of Knight Frank’s newly opened office in Hanoi.

“Buying top-end condominiums and letting them to expats is a popular investment, although it is not a very deep market. In Hanoi, for example, there are maybe only a dozen high-quality serviced apartment developments of 150 units or larger.”

THAILAND

Sea locations, such as Koh Samui and further flung islands, have tried to develop a luxury villa market to match Phuket’s, but none have really been successful, says Frank Khan, head of residential for Knight Frank Thailand. “There are either been issues with land ownership or the infrastructures simply haven’t been good enough. People spending millions on a villa generally don’t want to be too isolated in case anything happens like a medical emergency,” he explains.

Phuket’s west coast is the island’s preferred location attracting people from around the world. The most exclusive villas can cost up to 150 Baht (around $5,000), although very few units were sold in 2009, says Khan.

The Phuket and Bangkok prime markets are expected to gain ground in 2010 as the country’s economy recovers.
CAMBODIA

Although Cambodia is probably five to 10 years behind its neighbour Vietnam in terms of economic development, the country's fledging prime residential property market has already seen rapid price swings over the past few years, says Tan Hong Kiat, head of Knight Frank Cambodia. Speculation, driven partly by the return of wealthy Cambodians who fled the country during the Khmer Rouge era, combined with significant levels of investment by Korean developers, caused a spike in property values during the latter half of 2008 and the beginning of 2009. “Local people were buying land with the hope of flipping it to make a profit,” says Tan.

Although values have fallen back by as much as 40%, some of the prices being paid for the most expensive addresses remain “quite scary”, he says. “Apartments in Golden Tower 42, which will be Phnom Penh’s tallest building upon completion, are still making $3,500 sq m.”

Other similar developments in the pipeline include DeCatal’s projects, Pravo River and Cambco City. The Boeng Kang Kang, Chamkarmon and Daun Penh areas of the capital Phnom Penh, which retains much of its attractive colonial architecture and boulevards, are Cambodia’s principal prime residential areas, but there is increasing development in the tourist town of Siem Reap that services the Angkor Wat temple ruins. The government is also trying to attract more investment to coastal towns like Sihanoukville.

In terms of overseas buyers, Cambodia does not yet have the equivalent of luxury second home coastal resorts like Thailand’s Phuket or a significant ex-pat community because ownership of buildings is currently restricted to a 99-year lease. Tan, however, said that draft legislation that allows foreigners to own strata properties in Cambodia has already been approved.

INDIA

India’s prime property market is being watched down by demographic change. According to the National Council of Applied Economic Research, the number of households described as “rich” will have risen from 35m in 2003 to 13m by 2013. Meanwhile, the number of middle class “aspirers” is predicted to leap even more dramatically, from 40m to 124m.

“The number of HMNs in India is growing at 20% a year, second only to Singapore,” says Pranab Dutta, head of Knight Frank India. Foreign residents are not permitted to own property in India, but this rule does not apply to the huge community of wealthy non-resident Indian’s living overseas, many of whom are also keen to invest back home, he points out.

Although there are growing prime markets in every Indian city, south Mumbai and south New Delhi are ahead in terms of prices, with Bangalore, Chennai and Hyderabad the nearest competitors, says Arind Narayanan, head of residential sales for Knight Frank India.

AUSTRALIA

Australia may be very different in terms of geography and culture from other Asia Pacific locations, but much of its economic wealth derives from exports to countries like China, India and Indonesia. A growing number of prime or “prestige” properties are also being sold to buyers from the rest of the region.

After falling by 20% to 25% in 2008, prices at the top end of the Delhi and Mumbai markets are expected to return to pre-crisis levels this year as people take advantage of easy access to credit, says Narayanan. Developers are responding with a slew of new projects that could lead to an oversupply in Mumbai. “At the moment there is only one 60-storey building in the city, but there are plans for 10 more.”

When markets are booming developers need to supply the more profitable top end of the market, when the biggest story is really the huge demand for affordable housing from middle-income families, says Dutta. “We estimate 2m houses are needed – 11 of 2011 – a potential market of US$66bn.”

In terms of luxury holiday homes, Goa was traditionally the favoured destination, but many rich Mumbai residents are now buying seaside properties in the resort of Alibaug and a two-hour drive south of the city or a 15-minute hop by helicopter. Five-acre properties can cost up to US$10m to US$15m, says Narayanan.

TYPICAL PRICES FOR AUSTRALIAN PROPERTY LOCATION Auction (US$m) BELLEVue HILL, SYDNEY 7-10 (4.4-7.0) TOORAK, MELBOURNE 5-9 (4.5-9) SWIMN RIVER, PERTH 3-6 (2.7-3.3)

MALAYSIA

Malaysia’s prime property market is mainly limited to the capital Kuala Lumpur, although there are several fledging high-end holiday home projects under development in Peninsular Malaysia and East Malaysia.

INDONESIA

Indonesia has two main prime property markets – top-end houses and apartments in the nation’s capital Jakarta and luxury holiday villas on Bali, the only Hindu island in this predominantly Muslim archipelago.

Despite strong economic growth, neither market has experienced the huge price swings that have been seen in other countries in the region, says Fakky Hidayat, head of research for Knight Frank Indonesia. This is partly because property ownership is limited to local residents, although this could be relaxed in the future.

NEW DEVELOPMENT IN KUALA LUMPUR
LOCATION 360 sq ft (US$5.75 sq m) PRICE THE SWAY ON THE PARK (KLC) $1,250 (7,414) THE LAZARUS $990 (6,167) VERTICAS TOWER $1,050 (6,432) MONT KARIS CONDOMINIUM $1,100 (6,875)

Even though demand is currently well down, with Indonesians preferring to put their money into other investments, Hidayat says that it is very difficult to find significant price reduction advertisements. Although developers will offer prospective purchasers some incentives to buy, the majority would rather hold out for an upturn in the market, although the recent lack of new completions in the first half of 2010, he says. “No new completed projects were handed over over the second half of 2009.”

In Bali, demand has been hit hard by the global economic crisis as most buyers – using local nominees or right-to-use leases – are overseas expatriates living in Asia. Despite this, a new-ha development was launched by Bulgari Residences last autumn with prices ranging from US$36m to US$39m. Again, asking prices have not been reduced, but Hidayat says incentives are available. “Now is probably a good time to buy on Bali.”

Pros could pick up by 2011, he predicts.
### Geography

Size isn't always everything when it comes to economic power and wealth in Asia Pacific.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (US$ bn)</th>
<th>GDP % Change (Est)</th>
<th>Population (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>131,040</td>
<td>2.7</td>
<td>24,040</td>
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<td>Cambodia</td>
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<tr>
<td>Hong Kong</td>
<td>9,300</td>
<td>2.4</td>
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</tr>
<tr>
<td>India</td>
<td>61,000</td>
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<td>1,221,000</td>
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<tr>
<td>Indonesia</td>
<td>34,000</td>
<td>5.4</td>
<td>291,000</td>
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<tr>
<td>Malaysia</td>
<td>391,000</td>
<td>3.6</td>
<td>30,900</td>
</tr>
<tr>
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<td>141,000</td>
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### GDP

The region has the world's second-largest economy, and also some of the smallest.

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP (Est)**</th>
<th>GDP % Change (Est)**</th>
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<tbody>
<tr>
<td>Asia Pacific</td>
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</tr>
</tbody>
</table>

### In Numbers

#### Geography

- Size isn't always everything when it comes to economic power and wealth in Asia Pacific.
- GDP: The region has the world's second-largest economy, and also some of the smallest.

#### Population

Three out of the world's top five most populous nations are in Asia Pacific.

<table>
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<td>1,221,000</td>
</tr>
<tr>
<td>Indonesia</td>
<td>291,000</td>
</tr>
</tbody>
</table>

#### Economics

Vital statistics for potential investors in the region.

<table>
<thead>
<tr>
<th>Country</th>
<th>Current Account Balance (Est)**</th>
<th>CPI Inflation (Est)**</th>
<th>Exchange Rates (FEB 1, 2010)</th>
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</thead>
<tbody>
<tr>
<td>Australia</td>
<td>-5.5</td>
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<td>Cambodia</td>
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<td>China</td>
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<tr>
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</tr>
<tr>
<td>Malaysia</td>
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<td>6.2</td>
<td>7.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>22</td>
<td>1.2</td>
<td>9.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>33</td>
<td>1.7</td>
<td>9.3</td>
</tr>
<tr>
<td>Vietnam</td>
<td>46</td>
<td>0.8</td>
<td>15.0</td>
</tr>
</tbody>
</table>

#### Foreign Ownership


**Sources:**
- World Bank
- IMF
- World Federation of Exchanges
- Domestic market capitalisation is local currency.
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- All estimated changes from IMF, World Economic Outlook, October 2009, except China, India, UK and US, updated in January 2010.
RECENT EXCEPTIONAL AUCTION RESULTS FOR CONTEMPORARY ART OFFER INTERESTING PARALLELS WITH LONDON’S PRIME PROPERTY MARKET.

ANDREW SHIRLEY INVESTIGATES

On September 15, 2008, in the midst of the banking crisis, the London auction house Sotheby’s raised £110m with its Beautiful Inside My Head sale of works by the UK’s Damien Hirst. To many, this is the final defiant stand of an overheated contemporary art market that will not be repeated for many years.

Fast forward just 18 months to February 3, 2010, when the global economy is recovering, but hardly in rude health. L’Homme Qui Marche I, a bronze by Swiss sculptor Alberto Giacometti, beats the previous record for a single work – Picasso’s 1906 portrait Boy with a Pipe – when it is sold by Sotheby’s to an anonymous buyer for an astonishing £65m, four times its high estimate. The Giacometti sale is not alone in achieving stellar prices. In November 2009, 12 bidders push Andy Warhol’s early Pop painting 200 One Dollar Bills past its US$88m to US$121m estimate to almost US$44m.

Over a similar timescale, prime property in London, driven by a shortage of stock and a surge in interest from overseas buyers, increases in value by 15% from its credit-crunch nadir.

Jonathan Binstock, an expert on contemporary art at Citi Private Bank’s art advisory service, says similar drivers are at play in the art world: “Volumes are down very dramatically. There hasn’t been an overwhelming number of forced sellers, and people who don’t have to sell aren’t.”

Auction houses are also being very conservative about what they sell and how they set their pre-sale estimates to help encourage competitive bidding, he adds.

What has really helped sustain the contemporary market, however, is the globalisation of demand on the back of rapid wealth creation in developing nations, Binstock emphasises. “Buyers are not just coming from the UK and US.”

According to Oliver Barker, senior director of contemporary art at Sotheby’s, the art market is more international than ever before. “Buyers of lots that sold for over US$1m came from 27 countries in 2004. In 2008 to 2009 this doubled to 54 countries.” The same pattern has been seen for prime London property. In 2007 Knight Frank sold houses to 33 nationalities. Last year it was 49.

“Art follows commerce,” says Peter Boris, executive vice president of leading New York-based gallery Pace Wildenstein. “Without doubt, artists from the world’s new economies will play an increasingly important role in the history of art. New art-making centres are springing up around the world. It is happening in China and India, but also Latin America, Africa and the Middle East.”

Lung Lin, president of Pace’s Beijing gallery, says more Chinese collectors are now paying attention to contemporary art. “The number is small, comparatively, but they are beginning to play a more important role. More attention is paid to local artists, but Chinese collectors are never narrow-minded as the country itself has been deeply involved in globalisation.

“There are more and more good artists, but during the past decades wealth has grown at an even higher speed in China and, as a result, the money overflowing from the local art market will go into the international market.”

Another parallel between art and property markets playing out now, in contrast to the frenzied, and some might say undiscerning, buying rush witnessed in both sectors at the height of the boom, is the focus on quality. “Masterpieces and works that rarely enter the market are aggressively sought after,” says Boris.

Extremely wealthy art collectors are prepared to pay top prices, but only for the very best works from top-drawer artists, confirms Binstock. “This approach is much more reminiscent of the purchase of a primary residential property. People are not buying on spec or looking for the next hot artist.”

Lin, who has played a key role in the development of Chinese contemporary art as a dealer, curator, critic and artist, says that contemporary art is no longer being judged purely by its financial value since the economic crisis.

According to Lin, the art that emphasises humanity and spirituality, the work that shows a connection and awareness of history, is most valued. The more conservative artists, those who have a direct hand in the art-making process, have performed better. The new trend will be opposing making art entertaining or fashionable. It will be focusing more on purified forms.

Extrapolating this trend to property markets may be stretching the parallels too far, but the similarities and lessons from the past are clear. Art or property of the very highest quality will always be attractive to the discerning buyer, but specialist at your peril.
Our survey of global wealth distribution points to a sharp drop in the numbers of HNWIs. Sebastian Dovey, head of Scorpio Partnership, looks ahead at the areas destined to nurture the future wealth leaders.

Few corners of the world were left untouched by net asset value erosion, such was the global reach of the economic downturn. But the fact that asset prices have recovered strongly since mid-2009 should not obscure the fact that asset prices have recovered strongly since mid-2009.

However, thinking beyond movements in asset pricing, we can begin to make some informed statements on how our map will look at the end of the new decade.

If I could point to one thing that poses the biggest risk to wealth creation for the UK, it would be access to capital. New business ventures and the growth of small enterprises are being stifled – it is worse in Europe and the US, but only marginally better in Asia. There is a real risk of a demographic ‘hole’ emerging, with the future ‘wealth class of 2010 and 2011’ missing the opportunity to start their projects that in normal circumstances would lead to them joining the ranks of the HNWI in a decade hence.

To my mind the prospects for the US are too often overlooked in the search for the next new location. Every decade or so the US seems doomed and, whether it is the tech boom or the financial services boom, something comes along to salvage the economy.

The UK lacks a substantial depth of wealth creation outside the London hinterland. Strong as it is, one city is not enough to sustain wealth creation for the whole country. The UK would do well to consider how Germany has supported regional wealth creators.

In many Eastern European countries it is not clear whether they will follow the German Mittelstand model, with the growth of a strong mid-wealth tier of small and medium-sized business owners, or a more Russian or plutocratic model with a greater concentration of extreme wealth among fewer individuals.

In Russia, these plutocrats have been joined by a tier of wealthy individuals – professional services experts in particular – who specialise in providing services to the super rich consumes. With assets between US$1m to US$5m, they have added slightly more depth to the wealth population.

Asia will be much more dominant – the rate of economic growth emanating from China will ensure that. But there is more to the region than China. South Korea, Taiwan and Indonesia have all been very impressive through the recent downturn – their governments managed their economies much better than during the Asian Crisis of the early 2000s.
The value of prime property is intrinsically linked to the creation of new wealth. In an exclusive interview with THE WEALTH REPORT, Ian Bremmer, president of Eurasia Group, the world’s leading political risk research and consulting firm, looks at

an exclusive interview with

Knighfrank.com, as we kick off a new decade

creation of new wealth. In

Eurasia Group, the world’s

president of

New York?

inflicted on Wall Street this year in the form of a
tough regulatory environment, especially because
President Obama and the Democratic leadership
will need a resonant, populist issue to win back
electorate bruised and battered by a rough economy.
But US tax rates are considerably lower than in
other OECD countries. Financial players in New
York can afford to absorb some pain, and they will
do just that. The problem is more acute in London,
and some hedge funds have moved. But the fear
that major financial players will exit either city
in large numbers is exaggerated. There is nothing new
in these bowls of indigination, and a move is more
implied than accomplished.

To create the sort of ecosystem in which a
financial centre can grow and thrive you need
specific political, economic and social conditions.

You need a politically stable environment, a
stable legal system, relatively effective policing of
corruption, baseline social harmony, a well-
educated local workforce, a broad economic base,
and a liberal policy environment that encourages
the cross-border flow of ideas, information, people,
money, goods and services. Outside the United
States and Western Europe, only Tokyo meets
these requirements. But Japan holds to elements
of a closed economy, and the Japanese workforce
doesn’t have the international orientation you’ll
find in New York, London, Zurich or Berlin.

For the moment, I expect that London’s losses
will be New York’s gain. But I also expect financial
players in both capitals to do their grumbling and
fight their regulatory fights on familiar ground.

Not at all. First, for New York, Pain will be
inflicted on Wall Street this year in the form of a
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That’s not at all unlikely, and several European
states appear quite vulnerable. We’re seeing the
return of serious political risk to the Eurozone,
and the line that separates developed from
developing states is not as distinct as it was
before the financial crisis began. Markets may
be underestimating risks of default in some EU
member states, and the reality is that EU support
for them is not a sure thing. Even without a default,
governments may respond to economic stagnation
with budget-busting spending meant to prop up
shaky sectors. Greece, Ireland, Spain, Portugal and
perhaps even Italy appear the likeliest suspects.

In addition, lingering high unemployment is an
especially serious problem in Eastern Europe,
where elections in several countries over the
next few months could persuade anxious political
officials to appease the angry unemployed with
protectionist, populist, and even xenophobic policy
plans. Ukraine, Hungary and Latvia are especially
vulnerable, but even Poland could take a hit.

Another worry: If one of the big Western European
banks active in Eastern Europe gets itself in
trouble, rescue efforts could quickly become
quite complicated.

We could also see a bit more turmoil in
Japan if the DPJ government presses ahead
with ambitious spending projects that ignore
the country’s fiscal problems.

We should expect China to continue to invest.
There is still enormous potential for them to
continue to build infrastructure and an enormous
value proportion with so much urban infrastructure
left to build and an increasingly well-educated
and affordable workforce to build it. China, India,
and Brazil will all benefit from this trend and from
stronger baseline political stability within all of them.
For Brazil, add the new resources that will come
on line over time, and the state will have deeper
reserves at its disposal for investment.

The United States would respond by trying to
create a G3, a system that relies on cooperation and
collaboration with Japan and the European
Union. We’re already seeing this emerging dynamic
on the financial side between the US Federal
Reserve, the European Central Bank, and the
Bank of Japan. The domestic distractions created
by the financial meltdown have limited greater
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THE WEALTH REPORT

**FIVE**

**CITIPRIV A TEBANK.COM**

And as long as the oligarchs support the political leadership, the Kremlin approach to Russia’s economy?

First, Beijing has neither the means nor the desire to match US military spending dollar for dollar. There is much deeper Chinese investment in asymmetric capabilities – in cyber-warfare, for example. But China will remain far too preoccupied with its greatest domestic challenge – sustaining the pace of job creation necessary to safeguard the Communist Party’s hold on political power – to allow itself to be distracted by too many foreign entanglements or burdened with geopolitical responsibilities. The US would love for China to accept some international burden-sharing. The Chinese leadership is far too risk averse for anything that smacks of “adventurism.”

The transition from a US-dominated unipolar order will one day create more of a multi-polar order. But that’s a long-term development. For the next several years, we’re likely to see something that looks more like a “non-polar” order, one in which the US retains from some of its international commitments, but with other emerging powers too preoccupied with domestic challenges to want to try to fill the vacuum.

**SEVEN**

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In your recent report looking at the top 10 risks facing the world in 2010, you don’t mention food security. As world populations increase and more food is demanded or used for development do you foresee that food security will become a more significant political risk as the decade progresses?

Food security shouldn’t be considered an immediate risk for 2010. Longer term, I would bet on technological improvements and the ability of some of the most vulnerable states to import needed infrastructure. I’m more concerned about water security, an essential part of the food production process, but also an underappreciated element in energy production and power generation. Some forecasts call for a 40% increase in global demand for water over the next 15 years. Conditions are especially severe in northern and eastern Africa, the Middle East, and South Asia. There are plenty of fights brewing over this issue in India and China, in particular, where it’s easier to import food than water. In general, the world is going to need solid long-term planning on how best to use energy in the water production process and water in the energy production process. These issues we really have to get right.

**EURIASIA GROUP’S 10 LEADERS TO WATCH IN 2010**

1. Wen Jiabao (China) Chinese premier has to reconcile rapid economic growth with inflationary pressures
2. Barack Obama (US) Mounting domestic and foreign policy issues will test the US president in 2010
3. Ichiro Ozawa (Japan) Scandal-limited politician whose survival could be key to electoral success for the Democratic Party of Japan
4. David Cameron (UK) Has huge economic issues to deal with if he wins Parliament next year and that we’ll see a turnaround
5. Luit Aicinula Lula da Silva (Brazil) Popular ex-president pushing for a greater international role for Brazil
6. Ali Akbar Hashemi Rafsanjani (Iran) Former president could play key role in shaping trajectory of Islamic republic in 2010
7. Ashraf Karayani (Pakistan) Pakistan’s top sender will have significant impact on US counterinsurgency campaign in Afghanistan
8. Vladimir Putin (Russia) Prime minister and former president remains Russia’s most popular and powerful political figure
9. Sheikh Khalifa bin Zayed al Nahyan (UAE) Abu Dhabi leader and the UAE’s president with close ties to Washington is set to consolidate power in the region
10. Oli Rehn (EU) European Commissioner for Economic and Monetary Affairs must manage growing EU fiscal problems

**EURIASIA GROUP’S 10 POTENTIAL GLOBAL RISKS IN 2010**

1. US-China Relations Can the world’s largest economies get along?
2. Iran Iranian regime looking increasingly like a cornered, wounded animal
3. European fiscal divergence Political risks return to the eurozone as government debt mounds
4. US financial regulation Could new regulatory powers go too far?
5. Japan Since 2010 mark the start of a new “lose decade”?
6. Climate change Copenhagen failure could harm global approach
7. Brazil Inflation concerns mount in October election run off
8. India-Pakistan Islamic extremists could reignite old conflicts
9. Eastern Europe, elections Upcoming elections could increase instability
10. Turkey Ruling Justice and Development Party (AKP) under threat on all sides

See full details on eurasiagroup.net
WINNERS AND LOSERS Our latest results confirm that London saw the number one spot wrested from its grasp by New York. The UK’s capital has suffered more than many financial centres during the recent financial downturn and there is growing concern among thefootloose international elite over the city’s previously relatively stable tax environment.

Despite this reversal of fortune at the top of the table, the gap between the top four cities (New York, London, Paris and Tokyo) and the next city (Los Angeles) is still substantial, suggesting it will be some time before the emerging city contenders will pose a serious challenge to the top grouping.

Unsurprisingly, one of the key themes this year is the strengthening power of the emerging centres, with big gains experienced by the likes of Beijing, Singapore, Shanghai, Kuala Lumpur and Mumbai. Driven by their improvements in political power and influence, but also by economic drivers – in particular the astonishing rate of growth of financial sector activity in Shanghai and Beijing, for example – all these cities are beginning to gain in stature and power.

In amongst the big Asian winners are success stories from the developed economies, with strong results in locations like Berlin, Brussels, Sydney and Boston. In Berlin’s case it recorded an improved showing across the board, benefitting from greater political confidence within the EU, its consolidation of economic leadership within the Eurozone and also broader cultural and intellectual influence.

It is noticeable that it is the more hard-edged measures, economic and political power, for example, where the emerging market centres are gaining ground. This year Beijing rose to fourth place in political power, leaping ahead of London, Paris and Tokyo, while Singapore, Shanghai and Beijing all saw improved rankings for economic activity.

Where the emerging centres still fall short is on the softer issues of quality of life and knowledge and intellectual influence. These are strong cards for many cities in the developed world – especially in the US, northern Europe and Japan. Berlin, Paris, Zurich and Tokyo saw improved rankings on quality of life measures. Again, even though they delivered strong results in last year’s survey, the real leadership in terms of knowledge and influence has come from the US and Europe, with improved rankings for New York, Paris and Washington DC amongst others.

The changes over the last year in our rankings shouldn’t really cause any great surprises. The main emerging market cities are beginning to claim the political and financial influence and leadership that their newly developed economic power justifies. However, there is a more complex story playing out here.

For the rising cities of Asia, economic growth and greater political clout on their own will not succeed in propelling them to the top of the table in terms of locations where the world’s most influential citizens want to have a first or even a second home.

What lessons can these contenders take from the cities at the top of our survey? It would seem that to matter as a world city you need to score well on all measures; you need a broad base of appeal – something clearly demonstrated by both Paris and Tokyo.

World cities are connected, in terms of transport and communications, but more importantly, in terms of ideas. These are the locations where the world’s most influential people want to congregate because these are the locations where the ideas and values that define the global agenda and shape the world are settled.

Even a city like Shanghai, with phenomenal economic expansion year after year, struggles to move rapidly up the table. To be successful, cities must attract the best and the brightest and influence the world. The ability to react to changing circumstances is also critical – London will no doubt take lessons from the downturn and look to improve its performance.

WORLD CITIES IN 2020 Taking a longer-term perspective – it is unlikely in our view that the current quartet of top cities will be pushed down the rankings by the emerging contenders by the end of the decade. The risk for the current Western top performers is really one of relative decline. Growth, but slower growth than that experienced in the emerging world. In addition, there is the real impact of the current budgetary crisis, with a rising tax burden and fiscal squeeze – especially acute in New York and London.

To our mind, the opportunities for the leading emerging market cities are huge. These locations will create wealth at a more rapid rate than the established cities. It is likely that over time intellectual leadership will begin to follow.

But this final requirement for real power is not guaranteed – without the colossuses of the East we will allow relative minnows like Berlin, Toronto and Brussels to dominate in influencing and shaping ideas and events.

In this, the second edition of the Knight Frank Global Cities Survey, Liam Bailey reports on the winners and losers emerging from the aftermath of the credit crunch, and discovers that the shift in leadership between global cities is more nuanced than the simple west-to-east narrative would at first suggest.

Liam Bailey is head of residential research at Knight Frank.

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THE TOP 40 CITIES............................... PAGE 17
THE TOP 10 CITIES KEY FEATURES........ PAGE 17
EYEWITNESS.................................. PAGE 18

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THE NEW POWER BROKERS
As before our assessment is divided into four themes, with each city ranked have been exercised by the need to assess political influence, intellectual matter to the global tribe of footloose wealthy and influential, we built on H.

**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**

Broaden 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.

**THE TOP 40 CITIES**

### 2019 RANKING

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**THE TOP 10 CITIES**

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**ECONOMIC ACTIVITY**

Singapore has risen from 6 to 5 in our “economic power” rankings. International property developer Dr Stanley Quek says the city’s economic ambition is backed up by its high-quality environment and political stability in an otherwise turbulent region.

Singapore has had to respond to the seismic shift in economic power from West to East over the past decade. It could also be like China, where entrepreneurs assessed its traditional industries and then replicated them, only on a much bigger scale and with much lower costs.

The government’s response over a decade ago was to concentrate on supporting the development of economic sectors that reinforced the unique selling points offered by the city. The low-tax environment in professional and high-value-added industry and transport are delivered with minimal upheaval or fuss. And, transport is delivered with the immediate location in Asia that has been the government’s uncanny ability to deliver on the elements which matter – it has proved to be very responsive in ensuring that infrastructure, security and transport are delivered with minimal upheaval or fuss.

The immediate location in Asia is sited very well. With Malaysia, Thailand and the Philippines as neighbours there is an ever-present risk of importing political or security problems. This fact led to the strategic shift in Singapore’s foreign policy – close ties with the US, Australia and the UK are as important as ever – but China has been counted much more closely.

The expansion of Singapore’s economy has not been without its problems. The cost of housing has risen, and policies have been developed to try to maintain pricing levels for the 80% of the population living in government-affordable housing. Population growth has been rapid over the past five years in particular. With 5m residents now and a government policy of a maximum of 6m, I believe we will see the island hitting its population capacity by 2030 at the latest.

My view is that the “Switzerland of Asia” has a bright future. The continued growth of the Asian economy will continue to support Singapore’s service sector. With more HRMs in the region there will be more wealthy people looking to secure a second or even a first home in this city.

Dr Stanley Quek is managing director and CEO of Piares Property UK and Australasia Freeproperty.com

**POLITICAL POWER**

**BEIJING**

Beijing has risen from 7 to 4 in our ranking of “political power”, but commentator Jonathan Fenby says the city will find it harder to increase its influence in other areas.

The typical Beijing resident has a high regard for their city’s new-found status. The 2008 Beijing Olympics was a pivotal moment in the development of a sense of civic pride and expectation for China’s capital. Significantly improved middle-class housing and new infrastructure mean that Beijing looks and feels a lot more like a true global city.

Beijing is also an imperial city — the main-satellite pieces of the forbidden city, Tiananmen Square, for example, help to define the sense of superiority the Beijing resident has over someone from the commercial hubs of Shanghai or Guangzhou.

We should not, however, underestimate its economic ambition. The fact that much of China’s financial sector activity takes place in Shanghai and Hong Kong is no barrier to Beijing’s economic influence. Five years ago, if you wanted to meet the top decision makers at the top banks in China you would have travelled to Shanghai, now you would be as likely to go to Beijing. The “Shanghai clique”, which dominated the top of the Communist Party in the 1990s, has been replaced by a more Beijing-centred leadership. In everything from trade, finance, media and culture — Beijing is on the rise in China.

But as the capital of a one-party state, it lacks the more chaotic, creatively experienced in locations like London or New York suggesting that the democratic, deficit does matter when it comes to an attempt to create a vital and vibrant city life. Public protests have become more numerous and more accepted — but only when they are seeking to address economic issues.

As to whether Beijing will ever become a global leader in terms of exporting ideas and values, and attracting the world’s creative class — I am not optimistic. There is tremendous intellectual curiosity in the city — but again this is expressed at a private and not a public level.

In terms of Beijing’s ambition to share global values — I don’t see this happening. There is a lot of talk around the Beijing Consensus, as alternative to the Western democratic model for emerging economies to follow. I am not persuaded. Beijing does not want to export its values globally — China is big enough for the moment.

Jonathan Fenby is a co-founder of Trusted Sources trustedsources.co.uk which provides analysis on emerging economies. He was formerly editor of the South China Morning Post.

**KNOWLEDGE & INFLUENCE**

**WASHINGTON DC**

Washington DC’s cluster of influential think tanks means it will continue to rank highly for “knowledge and influence”, says The Economist’s Adrian Wooldridge.

The most important thing for us to understand about Washington DC is that it is unique. The cluster of universities, institutes, foundations and, most importantly, the world’s largest concentration of political think tanks, lends the city an intellectual dynamism that is wholly lacking in other world centres.

Every shade of opinion, from neo-conservative to left-left, is represented — this sheer variety of thinking is invigorating. If anything, the scale and importance of the think tank industry is actually growing, despite the economic downturn. To some, the Washington tank industry is actually growing, despite the economic downturn. To others, the Washington tank industry is actually growing.

Adrian Wooldridge is The Economist’s Washington bureau chief.

**QUALITY OF LIFE**

**BERLIN**

Berlin is moving up our “quality of life” rankings. The city may lack the wealth and economic firepower of London and New York, but it offers a cultural environment equally as rich and influential, argues journalist and resident Gerrit Wissmann.

Even two decades after unification Berlin is still a city that suffers from high unemployment and a remarkable degree of poverty. Plans in the early 1990s to shift the German stock exchange and the country’s banking headquarters to the new capital of the unified Germany came to nothing.

This has been a slow process, but Berlin is asserting itself, not just within Germany, but also across Europe. If you want to access the best young architects, designers, photographers and even writers, this city is increasingly the place to come to find talent.

Looking to the future you have to be positive — unemployment and poverty will not disappear in the short term, but the city’s cultural life will keep growing in talented residents. Will the city be as vibrant and influential in 2020 as it is now? Yes. Will the city be more of a centre of trade and transactions? Unlikely. Gerrit Wissmann is the Berlin Correspondent for The Financial Times.

**EYEWITNESS**
With growth returning to many asset classes over the past year, the results of our 2010 Attitudes Survey allow us to understand the thinking of wealthy investors and where they think performance is likely to be strong in 2010, as world growth picks up. Andrew Shirley, editor of THE WEALTH REPORT, looks at the numbers...

High-net-worth individuals (HNWIs) have a fondness for tangible assets, with property making up the largest share of their investment portfolios. Of the HNWIs who participated in The Wealth Report 2010 Attitudes Survey, property, on average, accounted for one-third of their assets. Only 8% of those questioned had no property investments at all.

Equities made up a quarter of the respondents’ investments, with cash and bonds the third and fourth most popular investments at 17% and 13%, respectively. Gold, despite its reputation as the safest of havens in turbulent economic environments, still appears a fairly specialist investment and can claim only a 0.5% share of the average HNWI investment portfolio. This desire to invest in tangible and transparent assets was further reinforced when we asked those respondents with property investments to break down their holdings by asset class. Residential and commercial were the clear leaders, with an average combined property portfolio share of over 90%. Agriculture and forestry investments accounted for another 5%, but property funds and Real Estate Investment Trusts (REITs) were still being treated cautiously with a combined allocation of under 6%.

Asian investors hold the biggest share of residential property at almost 70%, while in North American HNWIs, commercial property (55%) had the edge over residential bricks and mortar (40%). South Americans were the most reticent, with only just over 10% of their investments in the property sector.

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When asked, however, which would be the best-performing asset class of the year, 31% of HNWIs chose equities, with 21% opting for property. Hedge funds were also expected to do well with 25% putting them at the top of their performance list. Within the property sector, half of the survey respondents said residential property would be the star performer in 2010, followed by commercial property, which was picked by 35%.

73% of respondents were not keen on investing this year – while only 38% would recommend buying more gold. Suggesting that most HNWIs think the precious metal’s recent stellar performance has reached a peak.

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Andrew Shirley, editor of THE WEALTH REPORT, looks at the numbers...
When choosing your secondary residences, Guiding the ten most important factors for making investment decisions.

1. **Proximity to Schools**
2. **Stability of Asset**
3. **Proximity to Local Transport Links**
4. **Capital Growth**
5. **Amenities**

When making investments please rank the importance of the following factors:

1. **Proximity to Schools**
2. **Stability of Asset**
3. **Proximity to Local Transport Links**
4. **Capital Growth**
5. **Amenities**

When choosing your primary residence, please rank the five most important factors:

1. **Proximity to Schools**
2. **Stability of Asset**
3. **Proximity to Local Transport Links**
4. **Capital Growth**
5. **Amenities**

How do you think your overall net worth will change during 2010?

1. **The Same**
2. **Increase**
3. **Decrease**
4. **Not sure**

The Weath Report - Long-term capital appreciation is very much the objective of HNWIs when they consider what property to invest in, according to the results of our survey. When asked to rank the factors that influenced their investment decisions, capital growth was considered most important, followed closely by asset stability and then by yields.

There were, however, regional variations. After capital appreciation, yields were most important to HNWIs in the Middle East and South America. In terms of where to invest in property, North Americans preferred to stay close to home, with 88% of respondents saying they would spend it in their own country if they were offered a significant amount of money to invest. Reflecting a lack of investment opportunities within the Middle East, and possibly also concerns arising from the Dubai property clamp, only 17% of HNWIs from the region said they would invest there.

When it comes to making their investment decisions, the wealthy seem very self-confident and when they need advice will turn to their peers first. The majority of those who took part in the survey ranked their own expertise as the most important source of information, with their colleagues in second place. South Americans, however, do look first to their personal bank or wealth manager. The huge amount of information available online was not considered very reliable, with the internet considered the least important source of advice.

Interestingly, despite strong rallies by global equity and property markets, which is where HNWIs have most of their investments, the survey respondents were not particularly bullish about the prospects for their personal wealth in 2010. Although only a small proportion (4%) expected their overall net worth to decline during the year, just 5% believed it would increase significantly, with most of the positive sentiment coming from the Middle East. Almost 20% felt it would stay at about the same levels, with the vast majority (72%) forecasting a slight shift upwards.

Such a view suggests widespread caution among HNWIs about the sustainability of the current economic recovery process, and reflects the view of many commentators who believe that some asset classes in certain locations may already be overheating. Looking at the threats to their wealth, most respondents chose the economy, either in their own country or globally, as the biggest dangers. In South America, political instability was more worrying than the global economy, while changes to the taxation regime were more of a concern in Europe than anywhere else.

Despite this relatively cautious outlook, a significant number of the respondents feel confident enough to consider buying another residence this year. Of those, 13% said they were planning to purchase a new primary residence, while 37% said they would be looking to acquire a secondary house. Only 53% said they would be financing their purchases with extra debt.

Unexpectedly, the factors considered most important when choosing a primary or secondary residence were the economy and climate. One surprising factor is that proximity to workplaces is not ranked in even the top-10 most important reasons for choosing a primary residence. This seems to back up the premise that today’s successful HNWI is likely to be doing business globally and has less need than it predecessors generations to be near any one particular place of work.

The results of The Wealth Report 2010 Attitudes Survey indicate that HNWIs are starting to feel more confident about the future. They generally believe that they will be better off at the end of the year than they are now, but there is, however, still a sense of caution. Tangible assets are still too much to the fore and, following sharp price corrections in many markets property is considered a very desirable asset to own and invest in.
Some of the most enduring love affairs seem to happen by chance, springing almost out of nothing, arriving in our lives when we least expect them or have even given up hope.

For Trudie Styler and Sting, finding Il Palagio, their 900-acre Tuscan estate south east of Florence, was one of those moments. It was the culmination of a search that had taken seven years, having fallen in love with Italy after spending three months there around the time their daughter Coco was born.

“Since then we’d kept dreaming of finding the perfect Tuscan property. Whenever Sting toured Italy I’d go and meet him and we’d do a few days of house hunting. So one day, I cajoled Sting into the car to look at yet more houses, but nothing was right. The ceilings were too high or the walls too frescoed. With just one house left to see, we were disillusioned and ready to give up. I really was starting to believe that what we were looking for didn’t exist,” recalls Trudie.

Luckily, Knight Frank’s head of international sales Paddy Dring persuaded the couple to give Il Palagio a chance, and what could have been a forgotten footnote at the end of a fruitless day looking for the perfect house turned, instead, into love at first sight. He was the matchmaker, laughs Styler. “As soon as we saw the property the whole mood changed. It went from ‘let’s go home’ to ‘we could actually be buying a house today’. There was something really special about the atmosphere – it was very positive, very benign. A stroke of luck or something more?”

“I do believe that you can feel when you belong somewhere,” she says.

Il Palagio was built as a hunting lodge so the rooms are very human in scale, “a perfect place for a family to spend time together.” But the estate also had something else that the couple wanted desperately – land. Not just to admire the views over, but land to form a deep symbiotic relationship with, the kind of relationship that Styler believes is now largely missing from agriculture as farmers increasingly rely on artificial chemicals to boost output and yields.

Working with nature, not against it, is a key part of the couple’s spiritual outlook on life and explains why they are passionate advocates of organic farming. “It’s common sense, food is better when fewer things are added, not more,” she explains. “You can just taste it.” Although she claims not to be a hands-on farmer, “I just don’t have the time,” the enthusiasm in her voice is palpable when talking about the food that they grow.

She and Sting were already producing a range of organic food from their 60-acre Lake House estate in Wiltshire, England, when they bought Il Palagio. There was, however, little opportunity to acquire more land there, meaning the potential for new projects was limited. Il Palagio offered a whole new horizon.
Choosing a lifestyle

Community that both she and Sting believe is vital.
while maintaining a relationship with the local brings a calming sense of continuity to the estate, with the help of farm manager Paolo Rossi. They coax from its 75 “families” of bees with the help of consultant Alan York, who also enriched and fermented composts, manures and sprays. Growing cycles are also often aligned to the earth’s phases. Styler believes this controversial, but increasingly popular technique, deserves a wider audience and hopes that the wine from Il Palagio will enable more people to share its benefits and encourages others to adopt a similar approach.

Fittingly, the new wine will be called Sister Moon, reflecting not just its method of production, but also the title of one of Sting’s songs. Although conventional farmers are sceptical about biodynamics, Styler maintains that it improves the taste of the wine as well as the health of the soil and has helped make the atmosphere of Il Palagio even calmer than it was before. “I have noticed a difference since the soil has cleaned, I just want to stay there.”

Talking to Styler, it is clear that Il Palagio is not just a house to her, Sting and their family, but also a way of life. While they may have breathed new life into an old estate with their sympathetic restoration of the house and rejuvenation of its farmland, it has also clearly given a lot back. Much of Sting’s music has been created on the estate or been inspired by it, she says, adding wistfully that it could be the place they retire to. “It’s a house we are still absolutely head over heels in love with.”

Since buying the estate 13 years ago from a local Duke and gradually acquiring back some of the original land that had been sold off over the years, Styler and Sting have produced award-winning virgin oil from its olive groves and garnered prizes for the honey they coze from its 75 “families” of bees with the help of farm manager Paolo Rossi. Rossi and his sister Biva, who runs the house, were born in Il Palagio and their presence, says Styler, brings a calming sense of continuity to the estate, as well as maintaining a relationship with the local community that both she and Sting believe is vital.

This year or early 2011 will see the culmination of their biggest project yet: Around 30,000 bottles of a Super Tuscan Merlot that is shaping up well but is currently maturing gently, ready to be released to the market. It could not be seen as a gamble. Small Italian producers are struggling to compete with cheaper wine from much bigger wineries in the New World, but turning a profit – and she admits it will only be a small one if anything – is just one of the project’s aims, says Styler. The wine from Il Palagio is produced in a very different way to most wine from Tuscany, or, indeed, anywhere else.

With the help of consultant Alan York, who also converted the Benziger family winery in California, the vines are grown using biodynamic agriculture, a system pioneered by Rudolf Steiner in the early 20th Century. Treating the soil as a living organism is key to biodynamic farming and the earth is reinominated and cleansed with special naturally enriched and fermented composts, manures and sprays. Growing cycles are also often aligned to the earth’s phases.

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