It is clear that 2015 will be a remarkable year in terms of political and economic fluctuations, making it harder than ever to predict investor sentiment and the resulting wealth flows.

We are fortunate in being able to draw not only on a network of over 350 offices, but also the views of thousands of active clients and investors, together with the expertise of our agency and consultancy teams, including those advising on alternative property sectors, such as healthcare, agriculture and student housing.

I am delighted that in this edition of The Wealth Report we share the first-hand investment perspectives and experiences of Massimo Ferragamo and Goodwin Gaw. In addition, the report also features the latest research from leading wealth analysts and commentators. Through our partnership with WealthInsight, for example, we can offer an analysis of wealth distribution trends covering almost 100 countries and over 100 cities. Contributions from NetJets, Fragomen and Ledbury Research allow us to focus on the critical issues of global travel and connectivity, wealth migration and luxury spending trends.

Our Attitudes Survey adds depth to our analysis by delving deep into the views of the wealthy regarding investment risks and opportunities. Our coverage of the world’s premier luxury residential markets has been expanded to include 100 cities and second-home destinations. And our focus on investment opportunities covers the world.

The scope and the ambition of the report is reflected by Knight Frank’s growth. In the last year we have formed a strategic residential relationship with Douglas Elliman covering New York and the key luxury home hotspots in the US. We have also established new offices in Chamonix, Provence, San Remo, Venice, Sardinia, Marbella and Taipei, as well as opening five new offices in the UK.

The reach and influence of The Wealth Report continues to grow. We hope you find our latest findings and forecasts both informative and inspiring.

If we can provide you with further research or advice we are of course happy to help and look forward to hearing from you.
World in numbers
Highlights from the key research findings of the 2015 edition of The Wealth Report, including Attitudes Survey; PIRI, Global Cities Survey and wealth distribution data

Attitudes Survey
WEALTH WORRIES
81% of advisors say their clients are worried about tax hikes — P10
NO PLACE LIKE HOME
Just over 25% of UHNWIs are considering buying a new home in 2015 — P12

Global wealth distribution
WEALTH RISE
The total number of UHNWIs rose by almost 5,100, or 3%, in 2014. Their population is set to grow by another 34% by 2025 — P18
AFRICAN SURGE
The Ivory Coast will see Africa’s largest 10-year increase in UHNWI numbers with forecast growth of 119% — P21

Global cities
WHERE THE RICH LIVE
A graphical representation of UHNWI wealth population data for over 100 cities across the world — P30

PIRI 2015
THE BIG APPLE SHINES
New York tops our PIRI 100 index with prime residential price growth of almost 19% in 2014. Overall, the index rose by just over 2% — P17
ROOM WITH A VIEW
Monaco once again tops our list of the world’s most expensive prime residential property. US$1m will buy you just 17 sq m of home there, compared with 204 sq m in Cape Town — P39

Growing wealth creation has led to an increasing number of buyers from ever-widening list of countries purchasing property in a growing number of global hubs — P38

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FOUNDER, DRIFT GROUP
Consultant and former US presidential advisor

Property investment
TANGIBLE ASSETS PROSPER
The total amount of money invested into commercial property rose to around $415bn in 2014. Private investors accounted for $153bn of that — P49

Luxury spending trends
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Wealth distribution data in detail — P66
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Final word
Liam Bailey, Knight Frank’s Global Head of Research, highlights the implications of The Wealth Report’s latest findings for UHNWI and their advisors
Highs and lows: key statistics from The Wealth Report 2015

- 18.8% The largest prime residential price rise, seen by New York
- 17.3 sq m The area of prime property US$1m will buy in Monaco
- 01 London’s ranking in our 2015 Global Cities Survey
- 03 Hong Kong’s ranking in our 2015 Global Cities Survey – the top Asian location
- 15% Of Latin American UHNWIs are thinking of changing their country of residence
- 52% The proportion of UHNWIs from the UAE who are considering buying a new home in 2015
- 61% Of Russian UHNWIs are sending their children overseas for their secondary education

- $20.8tn The total wealth held by UHNWIs
- 172,850 The total number of UHNWIs worldwide
- 3% Increase in the number of UHNWIs 2013 to 2014
- $153bn The intended commercial property investment by private individuals
- 82% % of wealth advisors reporting net worth of their UHNWI clients increase
- 50,767 The number of US UHNWIs predicted in 2024
- -15% The greatest drop in prime residential prices, seen by Buenos Aires

The Wealth Report contains a huge amount of data, not only from Knight Frank’s own research teams, but also from leading industry analysts and commentators. The map below includes a worldwide snapshot of the numbers drawn from our PIRI 100 Index; the wealth distribution data supplied by WealthInsight; the results of our Global Cities Survey and the findings of our unique annual Attitudes Survey.
A global guide to UHNWI wealth, attitudes and investments

The Wealth Report Attitudes Survey

The world is becoming increasingly preoccupied by the lives of the rich and famous; the more sensational the detail the better. Fueling this trend is the growing omnipotence of an internet that streams a non-stop flow of gossip and photographs, authorised or not. Some of the super-rich, those whose wealth derives from their celebrity status, actively encourage it, but for most the intrusion is unwelcome. No wonder then that the distinctly un-voyeuristic results of our own annual survey of the attitudes of the wealthy, discussed over the following pages, reveal that ultra-high-net-worth individuals are becoming increasingly concerned about the power of the web in terms of online privacy and cyber-crime.

Interestingly, however, given a potential economic slowdown in China and continued political and economic uncertainty in many parts of the world, it is family and business succession issues followed by a possible hike in wealth taxes that are the biggest concerns for UHNWIs, according to the wealth managers and private bankers who advise them. Putting these concerns aside, 2014 was a good year for the wealthy. The vast majority saw their net worth increase, and most of the respondents to the survey said this trend would continue for their clients in 2015. But with contributors from all parts of the world, the results of our Attitudes Survey highlight some revealing regional trends.

Generally, UHNWIs living in Australasia seem happiest with their lifestyles – only 4% want to change their country of residence or domicile, and very few send their children overseas to be educated. By contrast, a third of those from Russia and the CIS are considering a move, and over 60% dispatch their children abroad for their secondary education.

The results of the Attitudes Survey also cement the position of property as the cornerstone of many UHNWI investment strategies – it accounts on average for almost a third of UHNWI portfolios. But bricks and mortar are not the only tangible assets that are in demand. So-called investments of passion, such as art, wine and classic cars, continue to attract more interest.

While our survey doesn’t delve into the more personal facets of UHNWI lifestyles, it provides an invaluable glimpse of their attitudes towards property, investments and the factors affecting their ability to increase and safeguard their wealth, and how those factors vary around the world.
The latest findings from The Wealth Report’s annual Attitudes Survey of UHNWI advisors
ANDREW SHIRLEY, THE WEALTH REPORT EDITOR

The fifth installation of The Wealth Report’s annual Attitudes Survey is based on a detailed survey of almost 500 leading private bankers and wealth advisors from across the globe, and reflects the attitudes of their ultra-wealthy clients who have a combined wealth of over US$1.7tn.

Covering many aspects of the lifestyles of ultra-high-net-worth individuals (those with a net worth of over $80m), from wealth creation to philanthropy, from property investments to luxury spending trends, the survey’s findings offer a unique insight into the attitudes of the super-wealthy.

Last year proved to be a more profitable one for the world’s UHNWIs than expected by their advisors. In 2013 when we asked the survey’s respondents about their clients’ wealth creation prospects over the next 12 months, 63% said they thought their net worth would increase. A year later 82% said it had actually increased during 2014, with only 3% reporting a fall.

Looking forward, the outlook is still bullish. Despite concerns over the global economy, 80% of survey respondents expect their clients’ wealth to grow further in 2015 (see p18 for our detailed predictions on global wealth creation over the next 10 years).

Wealth trends

Wealth threats

However, the road to greater riches is not always smooth, and the survey results highlight a number of issues that UHNWIs believe could hinder their ability to generate more wealth. Interestingly, it was not the global geopolitical and economic issues that tend to spook stock markets that were of the most concern, but more personal issues.

On average, less than half of respondents said their clients were concerned about the impact of the Chinese economy dipping (although unsurprisingly this rises to over 70% in Asia and 67% in neighbouring Australasia). The same pattern was repeated for the ongoing turmoil in the Middle East and Ukraine.

Family succession issues were, in fact, the number one worry, with 88% of respondents saying their clients were concerned about the handover of family wealth to the next generation. A potential increase in wealth taxes (83%) and increased government scrutiny of wealth (80%) were the second and third most vexatious issues, according to our survey results. Respondents from Australasia were the least concerned about increased government scrutiny, with only 44% flagging it as a threat.

The growing power of the internet, both in terms of cyber-crime and the ability to invade privacy and damage reputations, led 76% of respondents to highlight it as an area of concern.

Philanthropy, shopping, flying

UHNWI attitudes to philanthropy remain largely unchanged. According to last year’s Attitudes Survey, 28% of respondents expected their clients’ philanthropic activities to increase, in this year’s survey the figure was 23%, with three-quarters predicting they would remain the same.

The outlook for a rise in giving was most pessimistic in more mature economies like Europe (17%), perhaps because philanthropy is already well established there, compared with emerging economies like Africa (56%).

As part of this year’s Attitudes Survey we have endeavoured to find out if younger UHNWIs have a different attitude to wealth than their parents’ generation. When asked if they were more philanthropic, 43% of respondents said “yes”.

By contrast, when we asked if they spent more on luxury goods, two-thirds of those taking the survey agreed that was the case, perhaps explaining why succession planning is considered such a big issue.

Overall, 30% of survey respondents are expecting their clients to splash out more on luxury goods this year, compared with 2014, with UHNWIs from Africa (39%) enjoying their wealth the most.

Family succession issues were, in fact, the number one worry, with 88% of respondents saying their clients were concerned about the handover of family wealth to the next generation.

Balancing the benefits of access to the world’s most luxurious lifestyle is the threat of privacy and security. Wealthy individuals have an incentive to make a generous donation, but they would not want this to make them a target for hackers.

Wealth worries

Wealthy people are acutely aware that their privacy could be compromised, with 76% of respondents flagging increased scrutiny of wealthy by government as a concern for their clients. The most vexatious issue for respondents was increased government scrutiny, in another 44% flagging it as a threat.

Wealth monitor

UHNWIs expect their wealth to increase further in 2015, according to the survey. As part of this year’s Attitudes Survey we have endeavoured to find out if younger UHNWIs have a different attitude to wealth than their parents’ generation. When asked if they were more philanthropic, 43% of respondents said “yes”.

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The use of private jets is growing steadily around the world, with demand rising most quickly in Asia – 38% of respondents said their clients were increasingly using them for business and leisure purposes (see our special feature on p40 for more).
 inversión y coleccionismo

Of course, property is not just a place where the wealthy live. It is increasingly seen as a mainstream investment class, accounting on average for 32% of an UHNWI’s investment portfolio. Globally, 37% of survey respondents said their clients increased their exposure to property as an investment in 2014 and 35% expect that trend to continue in 2015. Residential property is the most popular sector to invest in, with 81% of wealth advisors saying their clients were becoming more interested in property than their parents. One of the most revealing questions posed by the survey relates to the number of UHNWIs who are planning to permanently change their domicile or country of residence. Australians and New Zealanders are the least likely to want to up sticks. Only 4% of those surveyed said their clients were considering a move. By contrast, 40% of those surveyed said their clients were considering permanently changing their domicile or country of residence.

Outside property, equities are predicted to be the most popular investment class in 2015, with a net balance of 48% of those taking the survey expecting their clients’ exposure to stocks and shares to increase in 2015. This builds on the growing appetite for riskier investments that the Attitudes Survey flagged up last year. Investments of passion, however, remain firmly on the radar for the super-rich. Globally, 61% of our respondents said their UHNWI clients were becoming more interested in the likes of classic cars, art and wine. Art is the luxury asset where interest is rising the most – perhaps unsurprising given its accessibility – followed by watches, wine and classic cars. Stamps arouse the least passion around the world, but there is a noticeable difference in Africa and Asia, where 14% and 8%, respectively, of survey respondents noted increasing interest. Ditching down, the figure rises to 17% for China. This matches the recent rise in prices for Asian and Commonwealth stamps. For more on the performance of luxury investments turn to p62. Despite collectable assets commonly being described as investments of passion, personal pleasure is still the main reason UHNWIs would consider moving to a different country, but in Russia education and political issues were reported as two of the biggest drivers. Seeking out the best education abroad for their children is clearly very important for Russian and CIS UHNWIs. Over 60% are likely to send their offspring overseas for their secondary education, compared with a global average of 27%. This process also seems to be happening sooner, with 67% of respondents noting that their clients were sending their children overseas at an earlier age. In Africa (29%) and the Middle East (40% in the UAE) equine properties are more of a draw, while a ski chalet is the top priority for wealthy second-home seekers from Europe (38%) and North America (50% in the US).

EMIGRATING

Respondents were asked what percentage of their clients were considering permanently changing their domicile or country of residence.

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Investing, collecting

One of the most revealing questions posed by the survey relates to the number of UHNWIs who are planning to permanently change their domicile or country of residence.

Allocation to property in UHNWI investment portfolios

Source: The Wealth Report 2015 Attitudes Survey

How is the allocation changing?

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Source: The Wealth Report 2015 Attitudes Survey

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Allocation to property in UHNWI investment portfolios

Source: The Wealth Report 2015 Attitudes Survey

How is the allocation changing?
Leading wealth experts share their views on key findings from the Attitudes Survey

The results of The Wealth Report Attitudes Survey discussed over the preceding pages provide a unique glimpse into the attitudes, concerns and investment choices of UHNWIs from around the world. To look at some of the issues raised in more detail, we asked leading specialists from various sectors of the wealth industry, including private banking, investment, family offices, education and legal services, to share their own insights into specific trends and highlight what the implications could be for UHNWIs and their advisors.

**Philanthropic attitude change**

Millennials (to use the new parlance for under-40s) take seriously the notion of stewardship and social responsibility. This may not be news, exactly, but what differentiates millennials from their parents is the inclination to use robust and/or sophisticated management techniques for family philanthropy. The steel magnate model of philanthropy is giving way to that of measuring impact not only through the aforementioned implementation of business models for philanthropy, but also through the use of metrics to evaluate the potency of value-informed investments. While wealth managers still need to employ tax-efficient and long-term wealth management vehicles for UHNW millennials, they can also expect to implement values-based considerations into investment portfolios. Service providers supporting UHNWIs through intergenerational wealth management services (read here, family offices) can expect family giving to evolve from a focus on charitable giving to philanthropy under-40s) take seriously the notion of stewardship and social responsibility. This may not be news, exactly, but what differentiates millennials from their parents is the inclination to use robust and/or sophisticated management techniques for family philanthropy. The steel magnate model of philanthropy is giving way to that of measuring impact not only through the aforementioned implementation of business models for philanthropy, but also through the use of metrics to evaluate the potency of value-informed investments. While wealth managers still need to employ tax-efficient and long-term wealth management vehicles for UHNW millennials, they can also expect to implement values-based considerations into investment portfolios. Service providers supporting UHNWIs through intergenerational wealth management services (read here, family offices) can expect family giving to evolve from a focus on charitable giving to philanthropy.

**Overseas education**

Recently, leading public schools have started to insist overseas applicants complete at least two years in a UK-based preparatory school. Clients from areas that are already well represented in the independent system, such as Russia, Nigeria and the Middle Eastern states, have realised the dramatic effect that an earlier move to a UK school can bring. Leading public schools carry out rigorous preassessments when children are 10 or 11. Preparing for these tests is one of the system greatly increases a student’s chance of success. For all these reasons, we are seeing renewed interest in boarding preparatory schools and London day schools from most of our international clients.

**Luxury investment**

In our experience UHNWIs are becoming more and more concerned about paper assets such as bonds and equities, and are increasingly looking for tangible alternatives. The scarcity of luxury assets and their historic ability to hedge against inflation make them an appealing investment proposition - it is always possible to commission a new yacht, but nobody can paint another Monet or build a classic Ferrari. Increasing demand and limited supply suggest that capital growth could continue. There are risks, however, like fraud and poor portfolio diversification. To remove some of these risks, investors should express their views on luxury through a multi-asset solution.

**Attitudes to risk**

As an investor you should devote your attention to things that a) matter, and b) you can do something about. For succession, taxes, government scrutiny and privacy/security. Or at least their advisors think they are – which may not be quite the same thing.

**Online perils**

A reputation is an individual’s most valuable asset, and in an increasingly digital age, cyber-crime and online privacy are big concerns. We are increasingly being asked by high-net-worth individuals how they can go about protecting their reputation. It is vital to conduct a reputation management audit as soon as possible. This will focus on maintaining or taking control of an individual’s reputation. The first area to look at is information that the individual, or friends and family, has direct control over, such as social media accounts and personal websites. It’s also important that family and friends are aware of the risks of posting information online, as it could damage the individual. The more that can be done at the proactive stage, the better.

**As an investor you should devote your attention to things that a) matter, and b) you can do something about.**

**Philanthropic attitude change**

**Overseas education**

**Luxury investment**

**Attitudes to risk**

**Online perils**

The more that can be done at the proactive stage, the better.
A comprehensive analysis of how wealth is distributed around the world

Global wealth trends

With the help of data from WealthInsight, The Wealth Report provides a unique and comprehensive analysis of how global wealth distribution is changing and is predicted to change over the next 10 years.

Last year, around 15 people a day joined the ranks of the ultra-wealthy, or those worth over US$30m. This growth is set to continue in the coming decade, with the global population of ultra-high-net-worth individuals forecast to climb by 34% to a total of almost 231,000.

Our data also allows us to look at wealth distribution trends at a granular country level. As such, we can highlight specific wealth-creation hotspots, for example, Kazakhstan, where the number of UHNWIs is set to grow by 114% over the next decade. But topping the list of the almost 100 countries we examine is Vietnam, with a forecast uplift of 159% in its UHNWI population.

Taking a different angle on the data, we can see how evenly wealth is distributed within a country. While Monaco, unsurprisingly, perhaps, given that most of its residents are very wealthy, tops this list, with the equivalent of 874 UHNWIs per 100,000 people, the other countries that emerge at the top are perhaps more surprising. The US with 12.7 UHNWIs per 100,000 head of population, is some way behind countries in Scandinavia, New Zealand and the UK. Despite the sharp rise in the number of Chinese UHNWIs, there are still only 0.6 UHNWIs per 100,000 people in China because of the size of the country’s population.

Global wealth distribution

Wealth, or more specifically, its uneven distribution, has become an increasing subject of debate over the past few years. Some, such as the controversial French economist Thomas Piketty, argue that governments should take action and levy higher taxes on the rich in order to redistribute wealth. Others, like our contributor Dr Pippa Malmgren, believe that higher taxes could actually prove a barrier to economic growth, undermining the opportunity for wealth creation across every stratum of society.

In developing countries significant amounts of wealth are already being created by a growing and increasingly aspirational middle class. On p23 we examine the importance of this movement across the world, not only as a generator of wealth but also in terms of the increased political power it commands, and how this may be set to change the geopolitical landscape.
The global population of ultra-high-net-worth individuals grew by almost 5,200 last year, according to data prepared exclusively for The Wealth Report by the analyst firm WealthInsight. This latest increase means 65,385 people have joined the ranks of the ultra-wealthy over the past decade – a rise of 64%. In total, there are now 172,850 individuals in this cohort who hold total wealth totalling $20.8tn, an increase of $700bn during 2014.

At the top of the wealth tree 53 individuals became billionaires last year, pushing the world’s total population of ultra-high-net-worth individuals to 1,180 people became centa-millionaires in 2014, taking the world’s total population of ultra-wealthy to 172,850 individuals in this cohort who hold wealth totalling $20.8tn, an increase of $700bn during 2014.

The annual pace of wealth creation also quickened in 2014 compared with 2013, with a 6.5% increase for world output from 3.7% in the previous 12 months. But at a regional level the differences were more marked. Most notably, Asia overtook North America as the region with the second-largest UHNWI growth. Some 1,419 people moved past the $30m+ mark in Asia in 2014, after an increase of fewer than 1,000 in 2013. Europe held onto the top spot with the most new entrants into the ultra-wealthy bracket over 2014. The ultra-wealthy in Asia now also hold more in total wealth, with net assets of $5.9tn, than those in North America, with $5.5tn. However, with a $6.4tn treasure chest, European UHNWIs still control the most wealth.

The outlook for the rest of this year is also mixed. Although the IMF has downgraded its own forecasts for annual growth in world output from 3.8% to 3.5%, this is still slightly stronger than the growth in 2014. Emerging economies are expected to grow by 4.8%, compared with 2.4% for developed economies.

Uncertainty over the ramifications of withdrawing fiscal stimulus measures in the US affected sentiment in many regions. Towards the end of the year plunging oil prices and the strengthening dollar also hit emerging markets, as well as key natural resource exporters like Nigeria, Russia and Mexico.

Oulianna Vlasova, Head of Content at WealthInsight, says: “The positive outcomes for developed economies at the start of 2014 positively influenced wealth creation. However, that picture changed throughout the year. The growth in wealth could perhaps have been bigger had the world economy picked up more strongly in the second half of last year.”

The Wealth Report highlights growth continues
The Wealth Report highlights key current and future global wealth distribution trends

UHNWI population and total wealth by region in 2014

<table>
<thead>
<tr>
<th>Region</th>
<th>Predicted UHNWI population growth 10-yr</th>
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<td>Africa</td>
<td>56%</td>
<td>1,932</td>
<td>$0.7tn</td>
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<tr>
<td>Asia</td>
<td>48%</td>
<td>42,272</td>
<td>$5.9tn</td>
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<td>Australasia</td>
<td>23%</td>
<td>3,920</td>
<td>$0.6tn</td>
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<tr>
<td>North America</td>
<td>28%</td>
<td>44,922</td>
<td>$1.2tn</td>
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<tr>
<td>Latin America</td>
<td>38%</td>
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Global UHNWI population growth 2014 to 2024

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<td>9,902</td>
<td>$0.6tn</td>
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Economic headwinds
There is certainly evidence that beneath the economic headwinds, some central banks and governments have been getting to grips with the serious repair work needed in the wake of the global financial crisis. However, fears over economic weakness in the eurozone prompted the European Central Bank to start a programme of quantitative easing earlier this year, a signal of the headwinds still facing developed economies. Yet the longer-term forecast for wealth creation, anticipating how wealthy populations will have changed a decade from now, is still upbeat. Looking through the shorter-term uncertainties, WealthInsight predicts the number of ultra-wealthy people will grow globally by 34% between 2014 and 2024, up from a forecast of 28% growth between 2013 and 2023 (see graphic for regional predictions).

Ms Vlasova says: “We expect the measures that are being put into place to...
safeguard against another financial crisis will contribute to improved economic conditions over the next decade, coupled with government initiatives to create more entrepreneurs – one of the main drivers of millionaires growth. Asia is set to lead the way, with another 20,127 people likely to see their wealth move past $30m during the next decade. Looking in more detail at our data, which includes a comprehensive analysis of wealth distribution for over 100 countries, we see a number of other key trends emerge.

Despite the turbulence in some corners of the global economy as a result of renewed political tensions and fiscal uncertainty in 2014, some countries experienced particularly strong wealth creation last year, with UHNWI populations expanding by 5% or more in 15 countries (see chart on p21). Unsurprisingly, Monaco has become a greater draw for those concerned by discussions of increased taxes on wealth and assets. Indeed, our Attitudes Survey (p10) highlights that one of the biggest concerns for UHNWIs across the globe is a potential increase in wealth taxes.

In terms of sheer numbers, the US will still be the dominant force in terms of its ultra-wealthy population in 2024. Despite the turbulence in some corners of the global economy as a result of renewed political tensions and fiscal uncertainty in 2014, some countries experienced particularly strong wealth creation last year, with UHNWI populations expanding by 5% or more in 15 countries (see chart on p21). Unsurprisingly, Monaco has become a greater draw for those concerned by discussions of increased taxes on wealth and assets. Indeed, our Attitudes Survey (p10) highlights that one of the biggest concerns for UHNWIs across the globe is a potential increase in wealth taxes.

In terms of sheer numbers, the US will still be the dominant force in terms of its ultra-wealthy population in 2024, with the data forecasting a 25% increase in UHNWI numbers to almost 51,000, the biggest concentration in any single country (see chart on the right).

Wealth equality

But when looking at these wealthy residents as a proportion of the country’s total population, the US, with 12 UHNWIs per 100,000, is outgunned by 19 countries including New Zealand and the UK (see chart on p21). Unsurprisingly, Monaco tops the list with an equivalent rate of 574 per 100,000.

While Monaco is set to double its population of ultra-wealthy residents over the next 10 years, it will not quite keep up with the rate of growth in some other economies, including Vietnam, the Ivory Coast, Kazakhstan and Indonesia, which are forecast to see the largest increases in UHNWI populations over the next decade (see chart above). We identified Kazakhstan last year as a country to watch, and this is still the case. It is set for a 144% increase in UHNWIs over the next 10 years, much higher than the 46% growth forecast for neighbouring Russia. Indeed, most of the CIS countries are set to outperform Russia in terms of UHNWI growth – not only because of the military and fiscal turbulence in the country, but also because of the trend in Russia for those who have amassed wealth to base themselves overseas. Almost one-third of Russian UHNWIs would like to change their domicile, according to the Attitudes Survey.

Indonesia, which is expected to see 132% growth in the number of ultra-wealthy people by 2024, is the only MINT country where 10-year forecast growth exceeds 100%. Jim O’Neill, former Chairman of Goldman Sachs, popularised the acronym MINT for Mexico, Indonesia, Nigeria and Turkey, identifying them as the new engines of economic growth. Nigeria comes close to Indonesia with 90% forecast growth in UHNWIs. It is striking, however, that even this level of growth is not enough to clinch the top spot for Africa, which is taken by the Ivory Coast (+19%). Deon de Klerk, Head of International Private Clients at Standard Bank, Africa’s largest bank, says: “Africa has the highest potential for growth of any region at the moment. Reforms in Nigeria have been expedited, helping the country build credibility among foreign investors. It is an exciting time.”

When we look at the amalgamated expectations for growth in UHNWIs, the MINT countries, with average expected uplift of 76% over the next decade, narrowly defeat the BRIC countries (Brazil, Russia, India and China), which have an average forecast growth of 72%. However, they both far outstrip global average
forecasts growth (54%) and the average increase expected across the G8 (28%) over the next decade.

In China, policymakers are under increasing pressure with questions over economic growth mounting as well as political tensions surfacing in Hong Kong. However, Gabriel Sterne, Head of Global Macro Investor Services at Oxford Economics, says there is room for more education and financial deepening in the country. “We still see China as a success story, and it is flexing its independent ensurings interest rate rise by the country’s central bank, driving productivity as well as consumption in the coming years. This is reflected in our data, with many eurozone countries seeing a slightly lower level of growth in ultra-wealthy populations than the global average. However, the newest entrants to the eurozone – Latvia, Lithuania and Estonia – are set to outperform in the next decade, albeit from a low base. The UK, which had the fastest-growing economy in the G8 last year, is set to see 100 billionaries by 2024, making it the fifth-highest hub for billionaires in the world behind the US, China, India and Russia, each of whose overall population significantly outnumbers that of the UK.

The difficulties in the eurozone over the last year, with Germany narrowly avoiding another recession, are not yet over. The economic grouping faces a potential- ly painful re-balancing of the economy, driving productivity as well as consumption in the coming years. This is reflected in our data, with many eurozone countries seeing a slightly lower level of growth in ultra-wealthy populations than the global average. However, the newest entrants to the eurozone – Latvia, Lithuania and Estonia – are set to outperform in the next decade, albeit from a low base. The UK, which had the fastest-growing economy in the G8 last year, is set to see 100 billionaries by 2024, making it the fifth-highest hub for billionaires in the world behind the US, China, India and Russia, each of whose overall population significantly outnumbers that of the UK.

The problem of mass affluence

Millionaires. UHNWIs. Centa-millionaires. Billionaires. Their lives and lifestyles cause fascination worldwide, but the changes happening below the apex of the wealth pyramid, while less glamorous, are just as important to anybody interested in the country’s average wage, while others have set specific income thresholds. For example, influential economists Branko Milanovic and Shlomo Yitzhaki declared in 2000 that the global middle class were those who earned between $4,000 and $17,000 a year.

More recently, the idea of looking at the purchase and use of cars as a measure of disposable income and middle-class status has gained currency. Whatever the definition, there is no doubt that the middle classes have been expanding rapidly in emerging econo- mies in recent years. By Milanovic and Yitzhaki’s measure, there are more than 369 million middle-class people in G20 developing economies, such as China, Brazil and India, and around one billion in advanced economies.

Between 2000 and 2010, Africa’s middle-class population grew from 29% to 34% of the continent’s total population, while the OECD says that by 2030 Asia will account for 66% of the world’s middle-class population – 10 times larger than that of the US and five times bigger than Europe’s.

As well as indicating rising living standards in a country, the middle classes are also the engine of consumer spend- ing, with enough disposable income to purchase goods and services that can help pump money back into domestic and international economies.

The trend is particularly striking in the emerging economies, where private consumption is growing at around three times the rate of advanced economies. The developing world’s share of global private consumption climbed from 18% to nearly 30% between 2002 and 2012, according to In Search of the Global Middle Class, written by Uri Dadush and Shimelilt Ali. It is certainly no coincidence that the wealth data prepared for this report shows that some of the fastest rates of growth in the number of millionaires will be in Africa and Latin America over the next decade, with an expected increase of 43% and 48%, respectively.

Increased middle-class spending and investment power in developing econo- mies will have a huge impact on the potential for the creation of enterprising UHNWIs who can benefit from the rising demand for everything from consumer goods to financial services, technology and healthcare.

This has been well proved by the stratospheric success of Alibaba, which, together with its e-commerce services for websites and has propelled its founder, Jack Ma, to the top of China’s rich list. Its success has been the result of, in no small part, increased consumer demand and access to technology across China.

In Africa, Acacia Mall, a new high-end shopping mall in Kampala, Uganda, is just one example of how the middle classes are shaping retail, with Western-style shopping centres now providing good returns for their ENIFT backers. Judy Rugasa Kyanda, Managing Director of Knights Equity Uganda, says: “The mall is surrounded by areas populated by a strong middle class, who benefit access to luxury brands and services upmarket setting.”

In the US, the Spanish retail giant Zara, one of whose brands include Zara, Uterqüe and Massimo Dutti, has been expanding rapidly in China. It has been opening five Zara stores a month to satisfy the demand for its chic-yet-affordable fashion among the middle class.

A growing and strengthening middle class can often be accompanied by politi- cal challenges, however, as the growth in economic independence spurs greater demand for better services – especially education, political transparency and freedom of expression. In the past two years alone there have been protests in countries including Brazil, Hong Kong, Indonesia, Bulgaria, China and Turkey, which have, to some extent, been associ- ated with the increasingly vociferous demands of the middle classes.

Yet the increasing demands of the middle classes can also prove a great spur to innovation, encouraging entrepreneurs to start their own businesses to provide this emerging class with disposable income, which in turn provides good jobs to lift more people into the middle classes – resulting in a form of virtuous circle.

This ability of the middle class to grow itself is perhaps just as well, amid a cloudier outlook for the global economy, the eyes of the world are turning to the middle classes – and more importantly their wallets and purses. Their spending power is a crucial lever to help boost global demand.
The Wealth Report asks what the biggest risks and opportunities for wealth creation around the world are different stages of development. The ideal is that each of these countries stays on track towards economic development and growth. But if any of them, especially one of the major nations such as Nigeria, Kenya, South Africa or Angola, took a sudden change of direction, then that would pose a risk to Africa’s growth story.

Geopolitical events such as the escalation of Russia’s actions in Ukraine could lead to further loss of confidence and potentially a deflationary trap, particularly in Europe. At the other extreme, if economic growth is stronger than anticipated and central banks are wrong-footed by wage pressures on inflation, this could lead to tightening of policy and strong rises in yields. As investment advisors we worry more about these issues today, as loose monetary policies have helped push the valuation of many asset markets to levels that allow little room for disappointment.

I see the biggest risk at present being the disconnect between the pricing of bonds and commodity prices on the one hand, and equities on the other. While bond and commodity prices are pricing in weak global demand, recent stock market rallies seem to be factoring in the expectation of future profits based on rising demand. This year will certainly be a year to watch how the markets react.

One key risk, certainly in the US but also elsewhere around the world, is the continued expansion of government. There has been exponential growth in the size of the government in the US over the past eight to 10 years, and this has been marked by more taxes and regulation. These developments have an impact on the dollars people have to invest. When there is uncertainty about whether a tax regime will continue to change, or about expanding regulation, investment decisions change, which in turn can have an effect on economic as well as investment outcomes. The US’s approach to this is, in effect, a global issue, as its economic performance has international ramifications.

The opportunities for wealth creation, especially in India, are potentially huge, if policymakers can boost manufacturing, or, as I call it, the “missing middle”. There are signs of a stronger and more transparent policy system under the new Modi government, and, if successful, this will attract more overseas investment. India has the ability and the know-how to increase its global presence in terms of manufacturing, and it could benefit from the global links created by overseas investment. If allowed to flourish, a manufacturing sector in India could provide massive growth. Education is also more widespread than in other emerging economies.

Africa is one of the few regions in the world where there is huge potential for growth. It has a growing middle class, so demand is strong for basic needs. There is also a strong manufacturing sector.

In India, there is a strong argument that the stock rally has been fuelled by excess credit in developed and emerging markets, fuelled by quantitative easing. Instability is a risk to any form of economic growth, and this is particularly true in Africa. A major sustained political upheaval or a similar incident could detract from the important projects being implemented that should deliver growth. There are many countries within Africa, all at different stages of development. The ideal is that each of these countries stays on track towards economic development and growth. But if any of them, especially one of the major nations such as Nigeria, Kenya, South Africa or Angola, took a sudden change of direction, then that would pose a risk to Africa’s growth story.

Global wealth distribution

One of India’s largest private-sector banks

I see the biggest risk at present being the disconnect between the pricing of bonds and commodity prices on the one hand, and equities on the other. While bond and commodity prices are pricing in weak global demand, recent stock market rallies seem to be factoring in the expectation of future profits based on rising demand. This year will certainly be a year to watch how the markets react.
Global Cities Survey

What makes a city important to the wealthy, and what makes them want to live there? Researchers attempt to solve this conundrum by measuring and ranking quality of life and a host of other indicators.

Of course, if we measure a city’s importance by political power, Washington DC and Beijing will be at the top of the tree, followed closely by Brussels, the power base of the EU. If we assess quality of life, a clutch of northern European, Canadian and Australian cities, led by the likes of Melbourne and Toronto, will dominate. But, by and large, these cities do not boast the highest concentrations of UHNWI residents. You may need to lobby in Washington or Brussels, but you are less likely to want to live there.

Our focus, as highlighted so graphically on pp30-31, is to consider the number of UHNWI residents who actually choose to live in each city.

To provide a more rounded picture we have also assessed responses from our Attitudes Survey, in which we asked wealth advisors around the world to name the cities where their clients spend time for business and leisure.

“Follow the money” was the sage advice from the Watergate mole, and it holds true at the top of our rankings. London and New York, the world’s dominant financial centres, take the first two positions in our latest rankings. Although the total wealth held by UHNWIs is now greater in Asia than in North America, no single city can claim to be the region’s economic hub and really challenge the dominance of London and New York.

Within the Asia-Pacific region, Hong Kong is now the most important city largely because of its close economic affinity with China, although Singapore has the biggest UHNWI population.

Some of the most interesting results are not found at the top of city ranking tables – new candidates rarely emerge – and up-and-coming locations offer some of the most interesting opportunities for entrepreneurial UHNWIs or those looking to join the ranks of the super-rich. On p32 and p33 we highlight four cities around the world that could be worth a closer look.
### The world’s top 40 cities

The latest results from our Global Cities Survey, which monitors the cities that matter to the world’s wealthy

Liam Bailey, Global Head of Research

Changing fortunes across our rankings over the past 12 months have seen Hong Kong and Singapore continue to shut it out for pole position in Asia.

This year Hong Kong edges ahead, moving from fourth to third position in our global top 10. With Shanghai maintaining its steady rise, Asia holds four of the top 10 slots in our list. Although Geneva loses ground this year, Zurich’s strengthening helps maintain European representation.

Focusing purely on the population of wealthy residents, our data confirms that London remains the single biggest centre for global UHNWIs, followed by Tokyo, Singapore and New York. Ten years hence and the expectation is that London will retain its top spot, but Singapore will have closed the gap with a 54% growth in its UHNW population over that period.

With the exception of London, European cities will see a relative decline in their rankings based on the size of their UHNWI populations over the next decade, despite an average 27% growth in wealthy residents.

Europe’s relative, if not absolute, decline is reflected in North America, Australasia and even the Middle East, with one standout reason – the dramatic growth of wealth in Asia. On average, cities across that region will see a 91% growth in their UHNWI populations over the next decade.

The most rapid growth in wealth will be seen in the likes of Ho Chi Minh City, Jakarta, Mumbai and Delhi. One-fifth of the cities assessed are expected to see greater than 100% growth over the next decade, all of which are in Asia or Africa. Geographic concentration of wealth remains a key facet with 10% of all additional growth in UHNWIs taking place in just five cities – Singapore, Hong Kong, New York, London and Mumbai – over the next decade.

When we focus on the broader measure of dollar millionaires, or HNWIs, rather than UHNWIs, we see some resilience in the performance of cities in the developed world. Tokyo contains the biggest single cluster of HNWIs today. At 466,000 the HNWI population is nearly a fifth larger than the number two city, New York, with a little under 400,000.

In 10 years we will see a reversal, with New York expected to be home to the biggest global total, with over $20.000 HNWIs, and Tokyo slipping to second place with 508,000.

By this point Beijing will sit in third position, with 380,000 dollar millionaires, a rise of 55% over the decade. Despite the US and Japan hanging on with the two biggest city counts, growth even at this wealth level will be dominated by Asian centres, with six of the 10 biggest growth cities in absolute terms being in Asia.

Collectively they are expected to add 600,000 new HNWIs to their populations over the period to 2024. In Mumbai alone forecast growth is a phenomenal 123,000 – a 128%.

Our Attitudes Survey points to the cities that UHNWIs believe will yield the best investment opportunities in 2015 – led by New York, London, Berlin and Los Angeles.

Looking to the future, one constant remains: the rise of the Asian powerhouse cities, the relative decline of the European centres and the tussle between the two global bohemios – New York and London, with New York expected to be the most important city for global UHNWIs in 2025.

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#### Top 40 most important cities to UHNWIs in 2015

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#### Top 10 cities in 2025

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### How we measure the world

Our analysis confirms the most important global cities to the world’s wealthy. Our measure includes an assessment of unique city-level UHNWI population counts, provided by WealthReport; in addition, our Attitudes Survey contributes rankings covering the importance of cities for their business links, economic activity and lifestyle offer. In short, these are the cities where the wealthy congregate, work, invest, are educated and spend their leisure time. Future forecasts for wealth populations and judgements of the changing influence of cities from our Attitudes Survey underpin our forecast for the top 10 cities in 2025.

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### Source

Source: Knight Frank Global Cities Survey

Source: Knight Frank Research

Source: WealthReport; See pp30–31 for more city-level UHNWI population data

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### Map showing growth in UHNWI population

- **Singapore**: +1,752
- **Hong Kong**: +1,251
- **New York**: +1,013

ASIAN TIGER: Singapore is set to gain the most UHNWIs of any city over the next 10 years

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**Prime mover**: London is the world’s most important city for UHNWIs.
Where UHNWIs really live

Our Global Cities Survey touched on the locations with the highest concentration of UHNWI residents; here we take a wider graphical look at city-level populations around the world in 2014.

Source: Wealth Insight
Cities of the future

The Wealth Report picks locations with a potentially bright future

The cities featured on this spread are not those about to be listed among the world’s top 10 or even top 20 most important cities. Indeed, none of them yet boasts any billionaire residents, according to data from WealthInsight, but their HNWI (millionaire) and UHNWI populations are rising, and they are locations whose influence we believe is growing strongly at a regional level. Even if they are unlikely to be on the second-home list of most UHNWIs, they should certainly be on their radars in terms of the wealth creation opportunities they will present.

Belgrade, Serbia
As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes. While seeing only a steady 12% rise in the strength of Belgrade’s economic fortunes. As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes. As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes. As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes. As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes. As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes. As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes. As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes. As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes. As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes. As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes. As with all our featured cities, rising wealth is a key illustration of the growing strength of Belgrade’s economic fortunes.

Panama City
The unique geography that has blessed Panama with its canal has also aided economic growth and wealth creation in its capital, Panama City, by bridging the divide between Latin and North America. With a near doubling in the number of HNWI residents since 2007 to 8,700 in 2014 and nearly 7,000 by 2024, the Economist’s decision to label it “a Singapore for Central America” seems increasingly prescient. In a Central American context Panama offers a high degree of economic and regulatory stability. Investors are attracted by the strongest economic growth offered in the region and also a very competitive tax environment – all of which have contributed to foreign direct investment levels hitting 9% of GDP in recent years. Tourism and retirement developments have added to the attractions of the city. High-quality transport and healthcare and a growing presence of global hotel brands have drawn investment from entrepreneurs looking to expand on a strong food and lifestyle scene.

Yangon, Myanmar
With its number of HNWI residents set to more than double over the coming decade, hitting in excess of 3,500 US dollar millionaires by 2024. Myanmar’s former capital and largest city, Yangon, is a classic example of emerging market wealth creation.

The Economist’s decision to label Panama “a Singapore for Central America” seems increasingly prescient.
Virtually everybody likes to talk about house prices, particularly the value of their own home. But for ultra-wealthy individuals who may own houses around the world, keeping track of their portfolio’s worth is not that simple.

However, Knight Frank’s newly enlarged Prime International Residential Index (PIRI) now includes performance data for 100 of the world’s key luxury city and second-home markets, and is recognised as the sector’s most comprehensive performance benchmark.

So what does the PIRI 100 tell us about prime market performance in 2014 – which UHNWI property owners will be rubbing their palms, and who will be less cheerful? Well, the picture is certainly mixed around the world.

Those lucky enough to have property in the US are unlikely to have any complaints, as domestic and international demand fuelled price growth. European destinations fared less well, with values dropping on average by 0.4% across the continent. Overall, city markets around the world outperformed second-home sun and ski destinations.

Of course, the analysis over the following pages is about more than just what happened last year. While past performance is interesting, what the astute property owner will be more concerned about is future trends.

Although isolated issues such as the Swiss government’s surprise decision to unpeg its currency from the euro in January – house prices in effect became 20% more expensive overnight for foreign buyers – will clearly impact markets, we see two main opposing trends at play at the macro level. How they play out will have a profound impact on prime property markets. On one hand, the growing globalisation of wealth means there are more UHNWIs from more countries looking for luxury homes in an increasingly diverse number of international destinations; on the other, there is burgeoning government scrutiny of wealth and levels of protectionism.

The globalisation theme is highlighted by the rising number of UHNWIs who are looking to shift their domicile; with the help of immigration specialist Fragomen we explore this trend in more detail on page 42. The growing usage of private jets for business and personal purposes is another reflection of rising wealth mobility. Using exclusive data from NetJets we highlight the most popular and fastest-growing routes for the ultra-rich traveller.

And finally, Massimo Ferragamo, of the Italian fashion house Ferragamo, shares some of his own perspectives on luxury property ownership.
US shines as global growth falls
Analysis of the latest trends to emerge from Knight Frank’s unique Prime International Residential Index (PIRI)

KATE EVERETT-ALLEN, HEAD OF INTERNATIONAL RESIDENTIAL RESEARCH

The value of luxury residential property around the world rose by just over 2% on average in 2014, based on the performance of the 100 locations covered by our PIRI rankings. With reversals in markets as far apart as Asia, the Middle East and Europe, growth was lower than the 2.6% seen in 2013.

The US dominates the top of our table, taking four out of the top 10 positions, with New York (+18.8%) and Aspen (+16%) in first and second place respectively. The disparity with Europe’s cities is stark. Luxury prices rose by almost 13% on average across US cities last year, compared with an average of only 2.5% in Europe.

Bali, the leading Asian second-home market, and the emerging Middle Eastern urban powerhouse of Istanbul were standout performers, with luxury prices up by 15% on year in both markets.

Our previous front runner, Jakarta, which led the rankings in 2012 and 2013, slipped to 12th place this year, an indication of the housing market slowdown evident across many Asian cities last year.

Some previously strong markets such as Dubai (17% growth in 2013) saw prices slow markedly (0.3% in 2014). This is in part because of the mortgage cap of the Central Bank of the UAE, which is stricter than those purchasing properties above five million dirham. The dampening impact of this kind of prudent macro policy also explains the ongoing weak growth in Hong Kong and Singapore. Government policy has been deliberately aimed at limiting price rises through higher taxation and mortgage market intervention.

Mainland China mirrored this trend with prime price growth in Shanghai (0%), Beijing (-0.3%) and Guangzhou (0.6%) proving lacklustre at best.

Buenos Aires proved our weakest performer, but with GDP growth in negative territory in 2014, the city’s housing market tribulations are less than surprising. While the threat of Mayor de Blasio’s so-called pied-a-terre tax doesn’t appear to have dampened growth in New York, recent hikes in stamp duty (a purchase tax) have curtailed the rate of price growth for properties worth over £2m in London, holding overall prime price growth at 5.1% for the year.

The latest changes to UK Stamp Duty mean higher costs for those purchasing a property priced at £327,000 or above, this may cap growth above this threshold in the near term.

Despite the more muted performance of the PIRI 100 this year, luxury housing markets continue to outperform their mainstream counterparts. The average price of a luxury home in our index is 58% higher than it was at the index’s lowest point in the second quarter of 2009; the average price of mainstream global property has risen by just 14% over the same period.
Opposing forces
The tension between protectionism and globalisation in residential markets is impacting market performance
Liam Bailey, Global Head of Research

Since Knight Frank published the first edition of The Wealth Report in 2007, a relatively simple narrative – underpinned by ever the global financial crisis – has dominated our analysis of global luxury residential markets. Growing wealth creation has led to an increasing number of buyers, from an ever-widening list of countries, purchasing property in a growing number of global hubs.

The report in 2014 of significant volumes of wealthy Chinese investors in residential markets around the world, it seems an odd time to question the sustainability of volumes of wealthy Chinese investors in global hubs.

The Wealth Report
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FLY AWAY
Using exclusive NetJets data, The Wealth Report looks at the most popular private jet routes and assesses their impact on wealth migration and property investment destinations.

With its density of wealth and internal economic linkages, the US remains the world’s most important private jet market by some distance, according to private aviation provider NetJets. This dominance is borne out when we consider the globe’s busiest private jet routes, where 60% of the traffic starts and ends in the US.

NetJets confirms that Europe is the second-largest market, at around 25% of the US. Russia continues to represent a significant portion of overall European traffic from Brazil to Europe has grown 20% each year since 2010, with the main destinations including France, Spain, Portugal and the UK – reflected by luxury property investment purchases by Brazilian buyers during 2014.

Africa is a more fragmented market, although Nigeria has become a major private jet hub – with flights to and from Lagos making it into our list of the top 10 private jet hubs – with flights to and from Lagos making it into our list of the top 10 fastest-growing global routes.

NetJets shines some light on the latest trends. There is a clear synergy between established market routes and investment flows – with London and New York playing one of the closest prime property flows – with London and New York playing one of the closest prime property relationships as well as flight paths.

The most insightful data comes when we look at emerging-market demand. Latin American investment in Europe, for example, has long been overshadowed by the huge waves of investment flowing into Miami and other US hotspots. The breadth of routes flown into key EU markets from Brazil, but also Argentina and other key southern American hubs, reveals a closer relationship between these markets than is often recognised.

The huge potential for demand for property in Europe, and also in North America, from investors based in Asia, Africa, the Middle East and Latin America is hinted at by the new growth routes highlighted by the NetJets data. 

WHO IS FLYING?
Over 80% of private jet passengers are men. The typical age for flyers is 40-55. Private entrepreneurs dominate in terms of profession. Source of wealth tends to be from finance and the oil and gas sectors. NetJets reports that flyers from the property industry have returned in the past 12 months, joined by owners of technology companies.

Source: NetJets/Eurocontrol/SAS
PASSPORTS, PLEASE

HNWI migration is a major influence on the global luxury property market. Using research provided by global immigration specialist Fragomen, we examine the directions of travel

Anyone watching London’s stellar residential market performance will be unsurprised to hear that the UK has been a top recipient of mobile HNWIs over the past decade.

According to Nadine Goldfoot, a partner at Fragomen, over 60% of these have been from Europe, but with substantial numbers also coming from China, Russia, India, the Middle East (especially Saudi Arabia, Syria and Turkey) and Africa (led by South Africa, Nigeria and Egypt). More recently, 30% of the 700 applications in the first nine months of 2014 for the UK’s Tier 1 investor visa were from China, with 162 coming from Russia.

Singapore has seen strong migration of HNWIs from China, India and Indonesia. Flows into the US predominantly come from the UK, India and Russia, although Fragomen’s worldwide client practice notes a number of HNWIs who had been domiciled in Switzerland for tax purposes have relocated to Singapore, the UK or the UAE.

There has been growing speculation over the success of the more recent entrants to the investor immigration market – most of them in Europe. Fragomen has noticed a sizeable uptake in programmes linked to property purchases in Europe – across Spain, Portugal and Latvia.

Malta’s Individual Investor Programme introduced in February 2014 had received over 200 applications by August 2014, with applicants from 30 countries, but mostly from Russia.

Official figures show over 1,936 visas were issued in the first 12 months of Portugal’s Golden Visa programme. Here the vast majority of applicants have been from China, representing close to 80% of total demand.

The biggest story in terms of wealth-exporting nations is undoubtedly China. It is estimated that 76,200 Chinese millionaires emigrated or acquired alternative citizenship over the 10 years to 2013. They are a significant force in Europe and dominate Asia-Pacific schemes – with around 90% of applicants for Australia’s Significant Investor visa coming from China.

India’s wealthy migrants tend to favour the UK and Australia. French and Italian HNWIs prefer the UK and Switzerland. Some 73,000 Russians received foreign passports in 2014/15, the majority of the HNWIs among them focusing on the UK and the US.

The world’s largest residential developers, led by players from China, Hong Kong and Malaysia, continue to diversify into new markets. Where Greenland Group, Swire, China Vanke Co and Lodha Group lead, they are followed by private compatriot investors looking to dip their toe into international investment – with the reassurance of purchasing from a familiar brand. Watch for Hong Kong buyers in Miami, and Chinese buyers on the Australian Gold Coast and the US West Coast – and just about every nationality in London and New York.

Some buyers will find the market less welcoming

Pressure from any number of bodies – the EU, the US and the OECD included – on low tax jurisdictions to comply with transparency rulings is acting in concert with ever tighter regulations aimed at reducing the risk of money laundering. Similarly, while EU and US restrictions on Russia over the Ukraine crisis may have been tightly drawn in terms of named individuals with whom to avoid doing business, the somewhat vague wording in the regulations has caused professional advisors to become increasingly risk-averse in terms of whom they work with. Banks in particular will simply not risk falling short of regulatory standards. There are a small but growing number of potential buyers who will find it increasingly difficult to access foreign property markets.

Countries with the biggest inflows of HNWIs (past 10 years)

<table>
<thead>
<tr>
<th>Country</th>
<th>HNWIs 2013</th>
<th>HNWIs gained from 2003 to 2013 (as a percentage of total HNWI population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>114,100</td>
<td>22,200 (20%)</td>
</tr>
<tr>
<td>Singapore</td>
<td>198,000</td>
<td>19,700 (10%)</td>
</tr>
<tr>
<td>US</td>
<td>273,000</td>
<td>24,100 (8%)</td>
</tr>
<tr>
<td>Australia</td>
<td>171,400</td>
<td>13,600 (8%)</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>166,500</td>
<td>10,100 (6%)</td>
</tr>
<tr>
<td>Canada</td>
<td>156,500</td>
<td>7,000 (5%)</td>
</tr>
<tr>
<td>UAE</td>
<td>158,800</td>
<td>6,500 (4%)</td>
</tr>
</tbody>
</table>

Countries with the biggest outflows of HNWIs (past 10 years)

<table>
<thead>
<tr>
<th>Country</th>
<th>HNWIs 2013</th>
<th>HNWIs lost from 2003 to 2013 (as a percentage of total HNWI population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>154,500</td>
<td>10,600 (7%)</td>
</tr>
<tr>
<td>India</td>
<td>183,000</td>
<td>10,400 (6%)</td>
</tr>
<tr>
<td>France</td>
<td>180,400</td>
<td>7,200 (4%)</td>
</tr>
<tr>
<td>Italy</td>
<td>155,700</td>
<td>6,200 (4%)</td>
</tr>
<tr>
<td>Russia</td>
<td>179,500</td>
<td>14,900 (8%)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>109,800</td>
<td>4,800 (4%)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>178,400</td>
<td>3,800 (2%)</td>
</tr>
</tbody>
</table>

Source: Fragomen using data from New World Wealth survey

Future prime property trends

The main factors that are likely to drive prime residential markets over the short and long term

LIAM BAILEY, GLOBAL HEAD OF RESEARCH

Demand will increasingly be driven by international developers

The world’s largest residential developers, led by players from China, Hong Kong and Malaysia, continue to diversify into new markets. Where Greenland Group, Swire, China Vanke Co and Lodha Group lead, they are followed by private compatriot investors looking to dip their toe into international investment – with the reassurance of purchasing from a familiar brand. Watch for Hong Kong buyers in Miami, and Chinese buyers on the Australian Gold Coast and the US West Coast – and just about every nationality in London and New York.

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Government stimulus will be with us for longer

That ultra-low interest rates and government stimulus measures have aided demand for residential property, as with just about every other tangible asset, is a given. A year ago the assumption was that it was only a matter of time before interest rates would begin to rise across the developed world. A year on and the continued fragility of the eurozone recovery and broader concerns over the global economy have meant that policy tightening has been pushed further into 2015 and even into 2016. It appears that the support for global demand and the ability of purchasers to push prices higher will be with us for some while yet.

Technology will reinforce the globalisation of demand

In last year’s edition of The Wealth Report we discussed the potential impact of sub-orbital travel on property demand over the next 10 to 20 years. More immediate support for global demand is likely to come from improvements to traditional jet technology. Several companies such as Aeron, Spike Aerospace, Lockheed Martin and Boeing are working to reintroduce a more affordable and sustainable supersonic replacement for Concorde.

Reducing the London to New York travel time from seven hours to three and a half is the first ambitious objective.

New buyers will help boost demand in established and emerging prime markets

Mexico, Indonesia, Nigeria and Turkey will be among the biggest suppliers of HNWIs hungry to buy luxury international property. Although Mexican nationals tend to move into the US, they are positive about European opportunities, with some notable investments made in Spain and Germany in 2014. Turkey is a growth market, although because of ongoing problems around banking licences and restrictions on capital flows, real demand has been held below potential levels. Indonesian buyers will become a much more serious force in Australia and the wider Asia-Pacific region in 2015. While Nigerian buyers will still form a strong sector of the market in key cities like London and New York, they will increase their activity closer to home in South Africa and Mauritius.
Personal perspectives on property

The Wealth Report Editor Andrew Shirley talks to Massimo Ferragamo about homes, property investments and an unusual collection

Massimo Ferragamo’s life seems to divide neatly in two. Not only does he split his time between Italy and the US – “I was sent there to work for the Ferragamo business when I was 25” – but in each country, he likes to move between homes in the city and the countryside.

In Italy he owns a house in Florence – “the most beautiful city in the world, where I was born” – as well as Castiglion del Bosco, a 4,000-acre estate in the Val d’Orcia region of Tuscany. Stateside he has an apartment in Manhattan and a country house in Millbrook, a small village in upstate New York referred to as a low-key version of the Hamptons.

“I love the contrast between the city and the countryside,” he explains. “They are quite different, and I really like that.”

But, I ask, if you had to make a choice? “If I was forced to choose I would say I prefer the countryside,” he concedes after a moment’s thought.

He brushes off my surprise that he doesn’t also own a waterside property like many other UHNWIs or a ski chalet, “I was born” – as well as Castiglion del Bosco in the Val d’Orcia – but in each country he likes to move between homes in the city and the countryside.

“As a family we don’t speculate. There is not a speculative piece of DNA in our bodies. When you speculate it’s like musical chairs,” he says.

“Be honest, a collection of houses can also be a collection of headaches,” he says. “There are so many lovely places around the world to stay and ski. The whole family is also a great lover of travel, so we prefer to actually be on the water, not just looking at it.”

Helping people avoid the problems often associated with second-home ownership can be a huge labour of love. “You cannot own a property like this without it having a purpose. You have to create a synergy for all its elements – the land, the buildings, the vineyards – to bring it back to life again.”

After we’ve talked and just as The Wealth Report goes to press, Mr Ferragamo gets in touch to let me know that Rosewood Hotels and Resorts, after careful consideration, has been appointed to manage the estate’s hotel and villas.

Given that Mr Ferragamo has such a personal lifestyle, I wonder if he has time for any other investments of passion apart from property – maybe art or classic cars. “As a family we own art, although I’m not really a collector myself,” he says. But as benefactor somebody who likes to make his own rules when investing in property, it turns out that he does have a suitably individual collection that takes pride of place in his Florentine study.

“I do love sports, so I like to buy antique silver trophies. You can get a nice surprise when you turn them over and see they were made by Mappin & Webb, Asprey or Garrard.” His favourite, he says, is a huge 1904 silver charity shield from England, once competed for by a team called the Corinthians against the winners of the then equivalent of the Premier League.

Although he “hates to overpay” for anything, Mr Ferragamo says, as with property, you have to like what you buy and be prepared to hold it, and then in the long term it will prove to be a good investment.

As a family the Ferragamo Museum in Florence...
In the 2014 edition of The Wealth Report, almost half of the wealth advisors who took part in our annual Attitudes Survey said that their UHNWI clients would potentially increase their investment allocation to property during the year. In this year’s survey, almost 40% of respondents said that had actually happened. Property is definitely back on the agenda for private investors, who accounted for around a quarter of all commercial property deals last year, as well as residential investments. Tracking the exact proportion is difficult because many transactions, while essentially funded by an UHNWI, are fronted by a family-owned fund, company or private office.

The tangible nature of property, especially when located in leading cities such as London, is one of its enduring attractions. But UHNWIs are now looking beyond prime or trophy offices and retail space as a safe haven for their funds; they are prepared to look up the risk curve to non-core locations. This may mean moving outside a capital city’s CBD area, where yields have become increasingly compressed, or heading into secondary cities where better value and higher returns are available. Increasingly for many UHNWIs it also means investing overseas. The results of our Capital Markets Survey show that wealthy investors are allocating more of their funds to property investments outside their own country. More peripheral markets such as Ireland and Spain are benefiting from this trend.

Demand for alternative property assets is also growing, and is leading to more private investment into business-critical opportunities like health care and student accommodation. UHNWIs are adopting increasingly sophisticated investment strategies, and sometimes this approach involves the kind of active management previously restricted to institutions and funds. Examples include refurbishment and development projects.

Goodwin Gaw, who we interview at the end of this chapter, is one of Asia’s leading property investors and exemplifies this value-add approach. Where others may see down-at-heel neighbourhoods, he sees opportunities for regeneration and social change.

According to our latest Attitudes Survey results, the UHNWI hunger for property as an investment remains undimmed. Falling oil prices should free up more capital to be spent on consumer goods, which should in turn present more property opportunities to feed the increasingly hungry private investor.
The slump in oil prices may be bad news for producers, but it is good news in commercial real estate. In 2014, global commercial real estate investment volumes were US$619bn, up 22% from 2013. In 2015 we expect to see further growth. The fall in price of oil is a game changer for the economy.

For me the slump in oil prices that started in the Middle East is uncertainty over the situation in Iraq and Syria. To the European or Japanese investor it is the move towards QE and whether this will end stagnation. Conversely, the American or Briton faces uncertainty on how best to invest to capitalise on an unfolding recovery.

A real estate investor knows that if the lean years are to continue, one buys the safe prime assets, like offices in Manhattan or shops on the Champs-Elysées. If the economy is about to improve, the riskier but higher-yielding properties are where opportunities lie. The game changer is about to unfold in 2015.

Where next?

In the cities that have led the recovery, like London, New York and San Francisco, the skylines are peppered with cranes. Since the Olympics London has added seven new skyscrapers. In these cities higher-risk investment strategies are now in play, so real estate investors are asking where next they should buy to best ride the recovery.

A good starting point has to be the places that have been struggling up to now.

Commercial property sales in Asia-Pacific fell by 8% in 2014. The region’s two rising giants, India and China, are indicative of trends in the broader region.

In China the land market has seen sales drop by 22%, which is understandable in a country that has built “ghost cities” in the past. China is adapting to a new pace of growth, but the country’s projected GDP increase this year from the IMF is about 7% in 2014 to around US$619bn in 2014, meaning the market will still be a significant player. However, office rents are showing tentative signs of recovery. China is transitioning from an economy based on manufacturing to one based on services. China has 286 names on its FTSE 500, but it also has more than 500 companies with revenues the size of General Motors. China is comfortable with a higher-risk profile. This could offer opportunities to those investors re-entering the markets that suffered most in the 2010 to 2012 period, like Spain and Ireland. In 2012 Spain saw just three deals of over €100m; last year there were 16.

Europe enjoyed an impressive rebound in investment last year, with investors re-entering the markets that suffered most in the 2010 to 2012 period, like Spain and Ireland. In 2012 Spain saw just three deals of over €100m; last year there were 16. The core eurozone economies of France and Germany were largely stagnant in 2014. However, property in the gateway city of Paris has mostly defied the gloom, and plans to develop new rail infrastructure will create future development hotspots. Berlin has a vibrant technology scene and a relatively low cost of living for young workers. I see more incubators for start-ups being developed.

UHNWIs are a new and important force in the commercial property world and are operating at all levels - prime, secondary, development and change of use. Opportunities are opening up as the global economy moves into a new cycle. Development in particular is rising up the agenda in the real estate world, and UHNWIs will be part of the new wave of building.

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Where to look for long-term opportunities.

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### UHNWI property investment goes global

**Source:** The Wealth Report Global Capital Markets Survey

<table>
<thead>
<tr>
<th>Location</th>
<th>UHNWI commercial property portfolio allocations</th>
<th>Has this changed over the past five years?</th>
<th>Outward UHNWI investments</th>
<th>Inward UHNWI investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Den. currency</td>
<td>Other currency</td>
<td>Den. currency</td>
<td>Other currency</td>
</tr>
<tr>
<td>China</td>
<td>90% 10%</td>
<td></td>
<td>95% 5%</td>
<td></td>
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<tr>
<td>France</td>
<td>80% 20%</td>
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<td>80% 20%</td>
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<tr>
<td>Germany</td>
<td>60% 40%</td>
<td></td>
<td>60% 40%</td>
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<tr>
<td>Hong Kong</td>
<td>80% 20%</td>
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<td>80% 20%</td>
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<tr>
<td>India</td>
<td>90% 10%</td>
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<td>90% 10%</td>
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<tr>
<td>Kenya</td>
<td>70% 30%</td>
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<tr>
<td>Malaysia</td>
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<td>UK</td>
<td>80% 20%</td>
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<tr>
<td>US</td>
<td>80% 20%</td>
<td></td>
<td>80% 20%</td>
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</tr>
</tbody>
</table>

#### MARKET PERFORMANCE

Looking at the ongoing performance of commercial property markets, most of our capital markets teams expect prices to hold firm or increase slightly this year. But the outlook for Russia is more bearish, with commercial values predicted to increase significantly in 2015. At the other end of the spectrum, Spanish markets are set to continue their rebound with prices increasing significantly. Australia is also expecting an upturn buoyed by strong demand from local and offshore property investors. It will be interesting to see how the European Central Bank’s quantitative easing experiment unfolds. In other parts of the world US measures have driven significant investment flows into alternative asset classes, such as property. From my own experience, I think property investment will increasingly be considered more mainstream and less alternative by UHNWIs.

The uncertainty around the extent of the Chinese economic slowdown is clearly having an impact. For the UK and France, the Middle East is the source of most private investment, although those from other parts of the world are making their presence felt, notably Brazilian billionaire Joseph Safra who purchased London’s “Gherkin”. In Australia, the US and Africa, wealthy Chinese investors are currently the most significant overseas investors.

### UHNWI property investment goes global

**Key trends from the results of The Wealth Report Global Capital Markets Survey**

#### EXPERIMENTATION

- **Investment currency:** UHNWI investors are using currencies other than the US dollar, such as the Chinese renminbi, for property investment.
- **Mode:** There is increased experimentation, with some investors choosing different modes of property acquisition, such as acquisitions through joint ventures or direct acquisitions.

#### LOCALIZATION

- **Location:** UHNWI investors are increasingly looking to invest in property in their own country, with investments in the US, UK, and China being the most common.
- **Sector:** There is a shift towards more diversified investments, with investors looking beyond traditional real estate sectors.

#### INVESTOR DIVERSIFICATION

- **Diversity:** UHNWI investors are diversifying their portfolio exposure, with some investing in both residential and commercial property segments.
- **Diaspora:** Investments are not only occurring in traditional investment locations, but also in diaspora countries, such as the US for Indians and Kenya for Kenyans.

#### INVESTMENT MOTIVATION

- **Motivation:** UHNWI investors are motivated by factors such as diversification of assets, economic stability, and the perception of property as a hedge against inflation.
- **Portfolio Allocation:** There is a focus on diversifying portfolios, with a shift towards more alternative asset classes, such as property.
The Wealth Report asks 10 property investment experts from across Knight Frank’s global network to highlight trends that private UHNW investors should be watching closely.

Investor interest in farmland continues to grow for a number of reasons. First, demographics. Everybody has to eat, and the world’s population is set to hit nine billion by 2050. Investing in farmland in a simple way to buy into the demand created by this trend. But not only will there be more mouths to feed; those mouths are demanding more meat and dairy-based foodstuffs, which require more land to produce per unit of energy than traditional grain-based diets. Second, tangibility. Off the back of the financial crisis, farmland is increasingly being seen as a safe-haven inflation-hedging asset. In the UK values have risen almost 200% over the past 10 years, according to the Knight Frank Farmland Index. Third, the ability to add value to underutilised land. For the more hands-on investor this offers the opportunity to substantially boost capital values, particularly in areas with a higher-risk profile, and is something our experts in Zambia are helping a number of UHNWI investors achieve.

This year should see the opening of around 1.8m square feet of First World shopping malls in Nairobi. The decline of Cairo's commercial influence at the northern end of Africa, and the realisation by international businesses that they cannot run the entire continent from Johannesburg in the southern tip, has created a vacuum that Nairobi is eagerly filling. With the arrival and expansion of a string of multinationals, the city is now firmly established as one of Africa's leading hubs. Local developers have responded by building Grade A quality office space that is attracting top-quality tenants paying dollar-denominated rents with leases that include fixed annual increases. Generally, rents are perceived as good value by international firms, suggesting there is room for healthy future rental growth and also yield shift, which in turn is attracting global investors. In addition, newly discovered oil and gas deposits are creating something of an energy boom, while all sectors of Kenya’s economy, apart from tourism, are growing — GDP is rising at around 5.5% each year. This is largely being driven by a burgeoning middle class hungry for Western-style goods and shopping experiences that, by and large, seems impervious to political controversies and terrorism activities. This year should see the opening of around 1.8m square feet of First World shopping malls in Nairobi, with new international retailers committing to the region for the first time.

They may have already made their first billion or 10, but changing the world with one wildly successful idea like Twitter or LinkedIn isn’t enough. Tech entrepreneurs who have seen their companies mature to the point of initial public offering are continuing to reinvest their intellectual and monetary capital into new start-up companies with their own requirements for office space. However, while the hunger to discover the next game-changing technology remains undiminished, the location of the search has shifted. We are seeing a move away from the Silicon Valley into San Francisco proper as firms recognise the latest generation of tech talent wants to live, socialise and work in the centre of the action. Cash-rich companies like Google are also buying space, not renting it. In addition to the renowned SOMA district and burgeoning Mid-Market area, neighbourhoods such as the Mission and Potrero districts are being targeted by smaller and start-up tech firms. A growing sector in the town is the establishment of luxurious private tech clubs such as The Battery, where entrepreneurs and developers can hang out and share ideas.

Chinese investors diversifying their portfolios

Neel Brookes
Head of Capital Markets, Asia-Pacific

Wealthy Chinese investors have been expanding from luxury residential properties into office buildings, shopping malls and hotels. The latest example is the high-profile joint-venture purchase of the General Motors Building in New York by Zhang Xin, chief executive of office landlord Soho China. After several initial waves of Chinese institutional capital outflow, China is now becoming part of the so-called Fourth Wave of investors, which also consists of insurance companies, small- to mid-cap state-owned enterprises and private developers. After heavy investment into gateway cities and trophy buildings, Chinese UHNWIs have established a familiarity with transacting in these markets, and we expect that they will start to pursue higher yields in other commercial property sectors. We will see them moving beyond the gateway cities of London, New York and Sydney and investing into other key cities, such as Frankfurt, Brisbane, Miami and Manchester. In fact, cities like Miami are already firmly on the radar of the wealthy Chinese investor as the prices of apartments there are up to 25% lower than in Shanghai. A key trend remains the cultural diversity of the city, and of growing importance is the quality of life offered. These factors will continue to drive in Chinese UHNWIs.

Rebalancing of economic power in Africa

Anthony Havelock
Head of Agency, Nairobi

The change in power in Africa is far from complete, as the decline of Cairo’s commercial influence at the northern end of Africa, and the realisation by international businesses that they cannot run the entire continent from Johannesburg in the southern tip, has created a vacuum that Nairobi is eagerly filling. With the arrival and expansion of a string of multinationals, the city is now firmly established as one of Africa’s leading hubs. Local developers have responded by building Grade A quality office space that is attracting top-quality tenants paying dollar-denominated rents with leases that include fixed annual increases. Generally, rents are perceived as good value by international firms, suggesting there is room for healthy future rental growth and also yield shift, which in turn is attracting global investors. In addition, newly discovered oil and gas deposits are creating something of an energy boom, while all sectors of Kenya’s economy, apart from tourism, are growing — GDP is rising at around 5.5% each year. This is largely being driven by a burgeoning middle class hungry for Western-style goods and shopping experiences that, by and large, seems impervious to political controversies and terrorism activities. This year should see the opening of around 1.8m square feet of First World shopping malls in Nairobi, with new international retailers committing to the region for the first time.

Changing population and food consumption trends

Tom Raynam
Head of Agricultural Investments, London

Investor interest in farmland continues to grow for a number of reasons. First, demographics. Everybody has to eat, and the world’s population is set to hit nine billion by 2050. Investing in farmland in a simple way to buy into the demand created by this trend. But not only will there be more mouths to feed; those mouths are demanding more meat and dairy-based foodstuffs, which require more land to produce per unit of energy than traditional grain-based diets. Second, tangibility. Off the back of the financial crisis, farmland is increasingly being seen as a safe-haven inflation-hedging asset. In the UK values have risen almost 200% over the past 10 years, according to the Knight Frank Farmland Index. Third, the ability to add value to underutilised land. For the more hands-on investor this offers the opportunity to substantially boost capital values, particularly in areas with a higher-risk profile, and is something our experts in Zambia are helping a number of UHNWI investors achieve.
Owning their own home still remains a key aspiration for most people in the UK, but a growing number of young professionals now see renting as a long-term option rather than as a stopgap. Although some commentators are saying that Australian commercial property is now fully priced, partly on the back of continued demand from Asian institutions and private investors, I believe the market still offers opportunities for UHNWIs. While current premium (trophy) yields in Sydney’s CBD are almost comparable to the 2007 nadir, yields are still relatively high on a global basis and there is the expectation that local funding costs will fall to their lowest levels on record in 2015 and remain “lower for longer”. This means a substantial positive spread between property yields and funding costs is opening up. This is most accented for non-CBD secondary grade, suburban and provincial office stock. Cross-border capital flows will increase further because of the depreciation of the Australian dollar, driving even higher sales volumes and asset prices. This will be complemented by a more positive outlook in the occupier market, particularly in east coast cities where stock levels are falling because of conversion of former commercial space into hotels and residential accommodation.

Although the total property return is predicted to exceed 36% in 2014, property values are still approximately 20% below their peak, offering potential for attractive investment returns. Investor demand, buoyed by the strength of the dollar against the euro, is largely from US private equity funds that have targeted both large-scale asset and loan portfolios. Although they have now been joined by some of the European pension funds and Middle Eastern investors, demand from UHNWIs has so far been limited to some Asian interest in the hotel sector. With a number of trophy residential and commercial assets still to be traded, the market offers international private investors a stable environment with potential for attractive returns.

A change in consumer behaviour and societal trends, and the increasing rise of the internet, has made property investors look more closely at traditionally non-core options. While the three main sectors of logistics, offices and retail continue to dominate, specialist property sectors, predominantly comprising student accommodation, hotels and health care, have substantially increased their impact on the investment landscape, particularly with UHNWIs. The main rationale is that the physical properties themselves in these sectors are business-critical assets – without the building the operator will not have a business – and will generally benefit from long-term leases to good covenants, with fixed or inflation-linked increases contained within the leases. This provides the UHNWI investors with an asset class they will generally be familiar with, combined with an easy-to-manage and hands-off investment that requires little active property asset management. With all occupational markets within these subsectors seeing robust high-calibre demand for best-in-class locations, there should continue to be a pipeline of good-quality supply from tenants in solid occupier markets. This all signals sound investment opportunities for investors looking for wealth preservation and wealth generation.

Generational shifts in UHNWI investment strategies

I am increasingly seeing the second or third generation of UHNW families being allocated a proportion of the family’s investment portfolios to invest into commercial real estate. These generations are generally more globally educated – often in the UK or the US – than their parents or grandparents and are approaching investment in a fashion more akin to a professional fund or wealth manager. There is more of a focus on cash-flow analysis of the investment, and on analysis of tenant covenant strength and local market drivers. They are looking for performance over trophy assets.

Capital gain through development is popular, as are higher-income yields, possibly through buying offices in strong regional, rather than capital, cities or looking at different sectors such as logistics. Overall there is uncertainty about going into property funds to achieve exposure to this sector – the younger generation want control and believe that they will achieve as good, if not better, returns if they handed over capital to a fund manager. There is a culture of wanting to prove to their fathers or grandfathers that they can grow and protect the family wealth for future generations.

Owning their own home still remains a key aspiration for most people in the UK, but a growing number of young professionals now see renting as a long-term option rather than as a stopgap because of conversion of former commercial space into hotels and residential accommodation. Annual net yields of over 5% are available.
Personal perspectives on property

The first thing I notice when talking to Goodwin Gaw in his Hong Kong office is that property development is clearly more than just a business for him. It is something he is deeply passionate about at a very personal level.

“I was always into building things and architecture as a kid. I even thought I wanted to be an architect. So my dad sent me off to work with one, but then I realised something: apart from a few very successful ones, and even then only later on in their careers, architects generally build what their clients want, not what they want to.”

For many in the real estate industry, it’s the deal that is their livelihood, but I don’t get the impression that this is what makes Goodwin Gaw tick. For him it’s the chance to take something unloved, recycle it and bring it back to life.

Take his very first investment, for example. In 1995 he bought Hollywood’s iconic Roosevelt Hotel, bankrupt and a shadow of its former life, which witnessed some of Tinseltown’s most historic events, including the Academy Awards and Marilyn Monroe’s first modelling shoot.

Not only is the hotel again the cool place to be seen, but the deal spurred a slew of further investments, including the conversion of over 40,000 square metres of empty historical buildings into trendy residential lofts, that variety.”

“I like to invest in markets with constraints,” he says – places like London, Hong Kong and New York, where physical boundaries and planning policies create zones where people want to live or businesses need to be located.

“Houston was never a market that I liked. There’s no zoning, and if you look out from the top of a tall building all you can see is land. But I thought that if I redeveloped the building I could charge higher rents, but people just go and build somewhere else. It taught me that if a market is high enough for you to want to sell something, then just pay the tax.”

He adds, “The Philippines wasn’t an easy place to do business, it’s really an insider’s market.

Although his family bought and redeveloped one of Yangon’s best hotels – “My grandfather was brought up in Burma, my father was born there” – investors aren’t generally flocking towards emerging markets now, he says.

“Asian HNWIs are looking for safety rather than pure upside at the moment, and that means markets with liquidity – places like London and New York.”

Having cut his property teeth on a hotel redevelopment, Mr Gaw continues to be drawn to hospitality and lifestyle opportunities around the world, but I’m not surprised to hear he still likes something with a bit of an alternative angle to it. He helped, for example, bring renowned hotelier Nick Jones’s arty Soho House concept to Chicago and is also looking at Hong Kong.

As we wrap up the interview I ask him where he chooses to live and why. He succinctly lists Hong Kong and Los Angeles – “Those are the places where I do business.” But he gets more animated when I ask about second homes. “We do have a house in a members-only club in the Montana mountains, he says. “The air is so clean up there.”

He pauses, thinks and then adds: “I think that is a concept that could really develop in China. People are becoming more and more interested in healthy lifestyles and organic food.” Watch this space.

Asian HNWIs are looking for safety rather than pure upside at the moment, and that means markets with liquidity – places like London and New York

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The aim is to change neighbourhoods, make them better places to live, to take an ugly duckling and turn it into something sexy and trendy

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And now for the fun stuff. So far in The Wealth Report we’ve talked about big and important themes like global wealth distribution, the world’s most important cities, property markets and investments.

In this chapter we look at exciting things like luxury goods, classic cars, art, jewellery and fine wine.

Of course, this being a serious research publication we naturally look at such purchases from an investment perspective. The latest results from the Knight Frank Luxury Investment Index, which tracks a theoretical portfolio of 10 investable luxury assets, show that many of these investments of passion have seen their values continue to rise.

Although, according to the results of our Attitudes Survey, the personal pleasure they provide is the main reason most UHNWIs like to collect beautiful and pleasurable things, one suspects that even the most epicurean collectors would prefer that their treasures grow in value.

Coloured diamonds are the latest addition to our index. Given that jewellery has historically been a common way to store and transfer wealth in many cultures, diamonds are perhaps one of the most multifunctional assets in the index.

We list some of the most high-profile sales in our special feature on p64. Pearls, which until recently were considered rather old-fashioned, are also rising rapidly in value. This trend is being helped by the almost total lack of supply of new natural pearls coupled with strong demand from the Arabian Gulf, where many of the world’s finest pearls were originally harvested.

Indeed, much of the recent demand for luxury goods and investments has been driven by wealth creation in regions with burgeoning economies like Asia and the Middle East. It is therefore intriguing to see that the UK tops our new Big Spenders Index, compiled for The Wealth Report by Ledbury Research.

The index tracks the countries likely to see the strongest growth in spending on big-ticket luxury items by their own UHNWI populations and visitors from abroad. It would be fair to say that the UK secured poll position off the back of the many visitors who flock to London’s luxury stores and increasingly out-of-town designer outlets like Bicester Village – the second-most visited destination in the UK for wealthy Chinese tourists and part of a string of similar ‘villages’ around the world.
Hey, big spender

The results of a new index compiled for The Wealth Report by Ledbury Research's Luxury Analysis team

MADELEINE OLLIVIER, LUXURY ANALYST, LEDBURY RESEARCH

The general outlook for luxury spending continues to be positive. Almost a third of respondents to The Wealth Report’s Attitudes Survey expect their wealthy clients to spend more on luxury goods in 2015, compared with just 8% who expect it to decline.

But how does the short-to-medium-term outlook compare for individual countries, and where in the world might luxury brands look to expand? The new Big Spenders Index, compiled exclusively for The Wealth Report, provides some of the answers by identifying the locations likely to see strong growth in big-ticket spending by their own ultra-wealthy populations and visiting UHNWIs.

Topping the list for 2015 is a very well-established centre of wealth, the UK. The country scores well, in terms of both the fortunes of its domestic UHNWI population, thanks to the relative strength of the UK economy, and our tracking of the drivers and indicators of high-end spending. The finding underlines the importance of the UK for luxury brands, which sold over £8bn of goods in the country last year, according to Ledbury’s estimates.

China fills the second slot in our ranking table. The Chinese are already the single biggest consumers of luxury goods around the world, accounting for some 29% of the global luxury spend, according to consultants Bain & Altagamma. Although recently much has been said about the impact of the Chinese government’s anti-graft measures on luxury demand, Ledbury has consistently argued that the fundamentals of the Chinese luxury market remain very attractive, given the burgeoning wealthy population and rapidly growing middle class. China’s high ranking in the Big Spenders Index reflects the underlying robustness of its UHNWI population.

While overall sales performance of luxury goods in the Greater China region has been muted over the past few years, there is no denying that there is still a strong demand for luxury brands, which isn’t going to change. However, what is certainly changing is where Chinese consumers are choosing to buy luxury (the vast majority of Chinese luxury spend is outside mainland China), the selection of luxury brands they are buying, and the profiles of the consumers themselves, which are rapidly evolving because of the varying attitudes that exist towards luxury within the different Chinese cities.

India, one of the lower-profile BRIC economies, is in fifth place in our rankings. Over the past year the rise in wealth and the number of wealthy has been impressive – the number of UHNWIs is increasing rapidly, according to our Wealth Model. Aligned to this wealth growth is an equally substantial increase in luxury consumption: the value of champagne imports rose 19% year on year, according to the most recent data from Le Comité Interprofessionnel du Vin de Champagne, despite total exports being flat.

We expect international luxury goods to be particular beneficiaries of this new wealth in India, rather than more traditional, local brands. For example, research by the Kotak Mahindra bank has shown that among the wealthy, the traditional Indian wedding gift is fast evolving away from silver plates towards top Western designer brands.

We also anticipate that wealth creation, and luxury consumption, will be neither quite as controversial nor quite as hampered by social inequality or austerity agendas as has been the case in Brazil and Ireland, formerly, latterly, China. With India’s long-standing caste system, wide gaps in incomes and wealth are an accepted norm in the country, according to Kotak Mahindra.

Reflecting on the regional make-up of the top countries, it is interesting to see Europe, Asia and the Middle East all well represented. Africa is noticeably absent this year, reflecting some weakening on the continent, notably in commodity-fuelled wealth, which had propelled the growth of the continent, notably in commodity-fuelled wealth, which had propelled the success of a number of countries.

APPAREL

Wearable technology and luxury overlap

With the wearable tech trend continuing, fashion brands have been collaborating with tech companies to help break into the market. But fashion brands are also choosing to make their own wearable, style-conscious tech. Ralph Lauren is pioneering this strategy through its newly unveiled line of smart clothes dubbed Polo Tech. Embedded technology in the clothes allows users to monitor their bodies on smartphones.

WATCHES AND JEWELLERY

Women’s watches boom

Women have traditionally been more interested in smaller, unobtrusive styles unable to accommodate the complexity and multifunctionality of traditional men’s watches. But a fashion for slightly larger watches and jewellery, combined with the growing purchasing power of women, particularly in luxury strongholds such as China, is helping drive sales. The share of female watches in the market has risen to around 20% from 20% in 1995 (Bain & Altagamma).

ACCESSORIES

Pre-owned luxury

Pre-owned luxury goods sales are booming. The second-hand market for luxury apparel, accessories, watches and jewellery is valued at some £9bn (Bain & Altagamma). Leather goods and clothing make up 54% of that, and the segment is growing faster than the luxury industry overall (Bloomerg). Some products sold on these marketplace achieve prices higher than retail, as customers bypass waiting lists for items such as new Hermes bags.

CARS

India lags

Manufacturers had been hoping that India would follow in China’s footsteps for luxury car demand, but most have seen disappointing sales and sluggish demand. Only 250 supercars are estimated to have been sold in the country in 2014 (HSB). Import duty hikes and currency declines aren’t helping, but a more fundamental obstruction comes from India’s roads. However, manufacturers could benefit from increasing levels of luxury SUVs.

YACHTS

Market recovers

At the 2014 Monaco Yacht Show, shipbuilders, brokers and outfitters all said that the market was improving – 38% more superyachts were sold in the first half of the year compared with the same period in 2013 (Camper & Nicholsons Interna- tional). This is despite some caution in the industry because of the political uncer- tainty within Russia and the Middle East, traditionally seen as the strongest markets for superyachts.

LUXURY SPENDING TRENDS

Drawing on extensive monitoring of luxury markets around the world, Ledbury Research picks out interesting developments within the main luxury goods categories

The Big Spenders Index 2015

Top 10 highest-scoring countries according to the Big Spenders Index, based on scores in the following categories

<table>
<thead>
<tr>
<th>Country</th>
<th>Wealth growth</th>
<th>Spending on luxury imported items</th>
<th>UHNWI population</th>
<th>Luxury store budget</th>
<th>Pre-owned travel and spending</th>
<th>Big-ticket luxury goods spending</th>
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<tbody>
<tr>
<td>Japan</td>
<td>9</td>
<td>6</td>
<td>5</td>
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<td>Kuwait</td>
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<tr>
<td>Switzerland</td>
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Source: Ledbury Research
There is no doubt that so-called investments of passion are still catching the imagination of the wealth management sector and the media. I continue to be pleasantly surprised by the press coverage devoted to KFLII since it was launched two years ago.

One question I have often been asked is why we don’t include gold or diamonds in the index. Gold to me has always seemed more of a conventional investment that tends to sit mainly in a bank vault, while the pricing indices available for white stones command very high prices at auction and seem to fall more readily into the category of investments of passion. (See our special focus on diamonds on p64 for more details.)

So how has this newcomer to KFLII performed compared with the other asset classes that we track? Since January 2005 the Fancy Color Diamond Price Index has increased by 467% in value, which interestingly is almost exactly the same rise as the wider jewellery index that we use. Christie’s jewellery consultant Raymond Sancroft-Baker, who compiles the index on behalf of Art Market Research, says that demand for top-quality coloured gemstones is also very strong. “We’ve seen a million dollars a carat paid for a Burmese ruby recently, and £200,000 a carat for a Kashmir sapphire.”

The market for pearls is also extremely buoyant, says Mr Sancroft-Baker. “There is a lot of demand from the Gulf States, who are buying back their heritage. I recently valued a pair of natural pearl earrings at a million pounds.”

Once again classic cars have been the strongest performer in KFLII over both the long and short-term, with the value of the Hagati Top Index rising by an astounding 167% in value, which increased by 167% in value, which increased by 167% in value, which increased by 167% in value, which increased by 167% in value, which increased by 167%.

The 10-year performance of the Knight Frank Luxury Investment Index

**Sparking returns**

The latest results from the Knight Frank Luxury Investment Index (KFLII), which now includes coloured diamonds.

ANDREW SHIRLEY, THE WEALTH REPORT EDITOR

The 10-year performance of the Knight Frank Luxury Investment Index

**Going, going, gone**

Some of the record-breaking or most significant luxury investment auction results of 2014

*Performance of the Knight Frank Luxury Investment Index by asset class, Q4 2004 to Q4 2014*

*The 10-year performance of the Knight Frank Luxury Investment Index*
Multifaceted investment opportunity

To coincide with the introduction of coloured diamonds into the Knight Frank Luxury Index, industry expert CLAIRE ADLER explores the growing appeal of diamonds as an investment of passion.

There is nothing quite like holding a 30-carat D-Flawless diamond in the palm of your hand. This tiny thing could assure the financial security of a couple of generations of an entire family.

Robust returns on diamonds of more than one carat, mounting demand from Asia and the prospect of mines running dry are pointing to the increased attractiveness of precious natural diamonds as an investment asset. Global diamond supply is expected to plateau by 2020 and drop off significantly in the following decade, according to mining giant De Beers.

Since 2009 the average polished price of a diamond has risen 5%,” says Ari Epstein, CEO of Antwerp Diamond Exchange partner with banks offering private clients purchasing, valuation and certification services.

Asset management firms including Diamond Capital Fund sell shares in stores of physical diamonds. Sciens Colored Diamond Fund, owned by UHNWI John Rigas, invests in red, pink, blue, green, orange and yellow diamonds sourced from mines for individuals and institutions.

"Since the 1990s the price of the diamonds we invest in has never dropped," says Mahyar Maktoumi, Co-Managing Director at Sciens Colored Diamond Fund.

Investing in diamonds poses challenges. Unlike gold, diamonds are not fungible – one carat is not equal to another. Although the internet has brought about increased pricing transparency, there is no standardised pricing index that classifies the many thousands of different qualities of diamonds, which incorporate a spectrum well beyond the traditional four Cs of cut, carat, colour and clarity, while also offering easy access to individuals beyond the diamond industry.

Menacho-based diamond expert Ehud Arye Laniado believes increased transparency will prove transformative. “A fully transparent pricing system will unlock an opportunity for savvy consumers to view diamonds as a store of wealth in ways not yet possible, ushering in a new era in which informed buyers will be able to make confident purchasing decisions,” says Mr Laniado, the principal of Mercury Diamond, which advised Cora International, a New York jeweller specialising in rare diamonds, on acquiring the 29.6-carat Blue Moon for $25.6 million. London-based, Russian-born jeweller designer Yana Zaikin, founder of Emily H, has noticed her UHNWI clients increasingly hedging their bets on top-quality diamonds, while adorning themselves in the meantime.

“Five years ago my clients preferred investing in gold rather than wear able diamond jewels,” says Mrs Zaikin. “With currency fluctuations, they’re now diversifying with diamonds. Some keep jewels in the safe, but most wear them. One bought three identical brilliant stones for three rings, which they keep in each of their homes, in Palm Beach, London and New York.”
### Regional wealth distribution

<table>
<thead>
<tr>
<th>Region</th>
<th>Millionaire populations</th>
<th>% change</th>
<th>Centa-millionaire populations</th>
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<tbody>
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Source: WealthXight

### The numbers behind the trends

**Comprehensive wealth distribution data and regional Attitudes Survey results**

By its very nature, a printed publication such as *The Wealth Report* can only hope to describe and analyse trends in any detail at a fairly broad level. However, over the following pages we have included two highly granular tables and a huge amount of information for those interested in global wealth distribution and the results of the report's annual Attitudes Survey.

The wealth distribution data, provided by WealthXight, includes historic, current and 10-year predictions for US$ and centa-millionaire and billionaire populations in almost 100 countries. Regional millionaire population data is included, but is also available on request at a country level. City wealth numbers for over 100 locations can also be requested.

In terms of the 2015 Attitudes Survey (pp8–15), we have included the results at a national level for the majority of the survey’s findings, but further data for selected countries is also available for those wanting to delve deeper. To take part in next year’s survey please contact: Edward.Parry-Jones@KnightsFrank.com
What percentage of your clients do you think are considering purchasing another home in the next 12 months?

- Africa: 23%
- Asia: 22%
- Australasia: 15%
- Europe: 24%
- Latin America: 29%
- Middle East: 30%
- North America: 31%
- Russia/CIS: 31%
- Global: 21%

Are your clients becoming more interested in the following types of homes? (Percentage = respondents who said yes)

- Prime residential property
  - offices: 60%
  - retail: 64%
  - universities: 48%
  - hotels: 60%
  - vineyard: 25%
  - ski property: 12%

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  - retail: 64%
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Housing affordability is moving up the investment agenda

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One of the biggest trends we are monitoring across pretty much all the markets we focus on is the ongoing globalisation of demand for property. The biggest counter-trend I see at play is protectionism (pp38–39). Compared with other capital flows, money moving into residential property often attracts controversy. New demand is accused of hiking prices, as well as creating market access and affordability issues for local residents. The counterargument, that new investment flows lead to new supply in precisely the places where demand is highest, appears to be falling on deaf ears. As a result, taxes on expensive homes and property investments are being extended.

This renewed focus on the impact of wealth on world property markets is to some extent misplaced. Not because affordability and accessibility issues are overstated, but rather because, by focusing solely on demand, the arguments are too narrowly drawn. Access to high-quality, truly affordable housing is set to be a dominant political theme globally for the next decade. As The Economist magazine noted earlier this year, 60 million rich-world households spend more than 30% of their income on housing; in the emerging world 200 million households live in slums. With rapid urbanisation, these numbers will only grow.

Opportunities for investors in this area are enormous. Innovations in housing design, funding, land assembly and construction are developing rapidly. And this is an area where the flow of ideas and experience is moving both ways, between developed and emerging economies.

We are already working with a number of developers who are assessing every stage of the development process to see how they can design and deliver better homes, more cheaply and more rapidly. In my view, this area will become an increasingly dominant area of focus for our clients. As challenges and opportunities come, they don’t get much bigger, or more important. Please contact me if you would like to discuss this or any of the issues raised in this year’s report.

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Final word