KNIGHT FRANK GLOBAL WEALTH ADVISORY

Helping you navigate the world's prime property markets

Knight Frank’s Global Wealth Advisory team leverages market-leading research and best-in-class advice to provide exceptional service to our global private clients

Connecting people & property, perfectly.

knightfrank.com
Definitions

(UMPW) Ultra-high-net-worth individual – someone with a net worth of over US$30 million excluding their primary residence

(UHNWI) High-net-worth individual – someone with a net worth of over US$3 million excluding their primary residence

PRIME PROPERTY

The most desirable and most expensive properties in a given location, generally defined as the top 5% by price per square foot. Prime properties often have significant international appeal in terms of buyers' profiles.

Global and Local Insight

The Wealth Report provides a platform for Knight Frank to examine and assess the global trends that matter to our clients. Behind this masterpiece, our research teams produce a wide range of local market reports and macro analysis to help our clients identify and understand the residential and investment opportunities available to them.

Leading this process is the Wealth Report City Series, the first of which was published in 2007 and focused on Shanghai. This year, the report looked at cities in China, providing a comprehensive overview of economic, property market and lifestyle trends.

The Dubai Edition covers:
• The impact of the Bureau International des Expositions' decision to award the World Expo 2020 to Dubai, making it the first city in the Middle East to host a world fair.
• Current residential market trends – having experienced headwinds in recent years, market performance is moving in a positive direction with annual price growth outstripping regional peers in the 12 months to December 2017.
• Dubai's expanding role as a hub location for Asia, the Middle East and Africa.
• Quality of life and business rankings – and their impact on property market performance.

This invaluable guide for anyone considering investing in Dubai is available to download at knightfrank.com.
In last year’s “Welcome”, I commented that the world appeared to be at a crossroads. Fast forward 12 months, and we are still waiting for strong global leadership to determine the direction of travel.

The range of events creating political turmoil is more diverse than ever: high-stakes verbal sparring between North Korea and the US; the EU’s need to help Spain navigate the Catalonian crisis and balance the growing East-West schism over migration; food security concerns; and ongoing unrest in the Middle East, to mention but a few.

Set against this backdrop, the health of the global economy surprised many in 2017 – and is likely to continue to provide more good news this year. Yet despite positive economic fundamentals underpinning many of our markets, reading through this edition of The Wealth Report, many articles – in particular our interview with eminent historian Niall Ferguson – confirm that it is the political risks that have the potential to cause upset, making the future ever harder to predict.

As an adviser to some of the world’s wealthiest people, life at Knight Frank is fast-paced and exceptionally interesting. Providing the best advice during constantly changing times is challenging. But by employing the best people, continuously enhancing our research capabilities and extending our global network, we aim to react quickly to events, ensuring our advice enables our clients to constantly recalibrate their investment strategies.

The desire to “take back control” is an increasingly important part of these strategies. Many of you are taking a more hands-on role when it comes to your investments, employing in part your own expertise, forming syndicates and building relationships with carefully selected trusted advisers who can offer bespoke advice on specific sectors. The growing influence of family offices as real-estate investors, described on page 53, is a clear example of this.

As ever, Knight Frank is listening and evolving to meet the needs of our clients. Our Family Office Forum brings like-minded private investors together, while a dedicated 26-strong high-net-worth focused team provides our most global clients with a single point of contact for all their property needs in the key markets worldwide.

I am confident that this year’s edition of The Wealth Report will both guide and reassure you. In addition to exploring the movement of wealth around the world and the fluctuations of the world’s luxury residential property markets, this year’s report offers some fascinating insights into luxury spending trends, be it investing in a record-breaking piece of art or, as in the case of one particular client, your own sports team.

It is likely that many of the articles will prompt further questions. Please do get in touch if you would like further information from our research team or guidance on your property portfolio. We are here to help you, and look forward to working with you in 2018.
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Around the world in 80 pages

The Wealth Report has always been a truly global document – and this year’s issue is no exception. Editor Andrew Shirley highlights the locations that exemplify some of the key trends and most interesting articles from our 2018 edition.

1. SILICON VALLEY
The hub of the social networks that are changing the world, for better or worse. Professor Niall Ferguson, now a senior fellow at Stanford University in the heart of the action, explains why Silicon Valley’s tech titans could do with a history lesson. Page 6

2. NEW YORK
The Big Apple scores big in our annual survey of the cities that matter to the world’s wealthiest people, taking top spot in the rankings right across the board. Nine other US cities join New York in the top 20, along with five urban hubs in Asia. Page 28

3. LONDON
Refusing to be bowed by Brexit, London is one of the biggest beneficiaries of the shifting flows of global capital. Our unique new analysis of data from the Bank for International Settlements shows where the money is coming from – and where it’s going to. Page 20

4. AMSTERDAM
Europe has been the recent global laggard in terms of prime property price growth. But in 2017 Frankfurt, Paris, Munich and Madrid all saw double-digit price rises. Amsterdam, however, led the way with a 15% annual surge in average values. Page 34

5. CAPE TOWN
Art, wealth and property have been bedfellows for millennia. Now, that relationship is creating exciting new synergies in the 21st century, as demonstrated in stunning style by Cape Town’s Zeitz Museum of Contemporary Art Africa. Page 70

6. MOHALI
Owning your own team is the ultimate investment of passion for sports-mad billionaires. The Wealth Report talks to one who saw early on the potential returns from the Indian Premier League, the cricket tournament redefining this most traditional of games. Page 62

7. GUANGZHOU
Government cooling measures may have dampened prime property markets in Shanghai and Beijing, but Guangzhou powers on. Sitting at the top of our benchmark PIRI 100 index, prices in the Chinese mainland’s third largest city rose by over 27% in 2017. Page 34

8. AUSTRALIA
Global demographics and consumption trends make farmland an investment sector to watch. On the doorstep of the fastest growing middle class in history, Australia offers tempting opportunities for those looking to invest in the most tangible asset of all. Page 58
Niall Ferguson is in high spirits when we meet at the Hoover Institution at Stanford University, California, where he is a senior fellow. He’s just become a father for the fifth time, his latest book has been getting good reviews – and I’m probably one of the last things standing between him and the Christmas holidays.

But over the next hour and a half, it becomes clear that Professor Ferguson is deeply concerned about the world we live in and what lies in store for future generations. Unsustainable levels of government debt, the implications of an increasingly connected world, religious fundamentalism and rising inequality are just some of the issues preying on his mind.

My first question is a very simple one, suggested by my ten-year-old son when I proudly told him I was interviewing somebody ranked as one of the world’s 100 most influential people by Time magazine: “Dad, just ask the professor why everybody in the world can’t live peacefully together.”

Initially it seemed like too naive a query to put to such an august figure. But reading Professor Ferguson’s new book The Square and the Tower, which examines the battle for power between traditional hierarchies and emerging social networks, I’m struck by the realization that some of the early proponents of the internet did, in fact, believe that they had found the key to creating one big happy global family.

Reformation 2.0

Niall Ferguson, one of the world’s most influential and controversial historians, talks exclusively to The Wealth Report’s editor Andrew Shirley about the big issues facing the world and its wealth creators.
“The same thing also happened 500 years ago in the Reformation. Martin Luther thought that if everybody could read the Bible and see his sermons thanks to the wonder of the printing press, then there would be a priesthood of all believers, as foretold in the gospels.

“Instead, what actually resulted was 120 years of religious strife, for the simple reason that not everybody agreed with Luther. Indeed, a great many people voluntarily deserted and that ultimately led to the Counter-Reformation. I think what we are seeing today is another version of that same story. The idea behind The Square and the Tower is a very simple one: It is that people in Silicon Valley know almost no history, and people who write history know almost nothing about network science.”

“It’s this that drew Professor Ferguson to Stanford in the heart of Silicon Valley, home to Google, Facebook, Uber and many of the other tech companies that have spanded our daily lives. “The history of our times, to some extent, is being written here,” he says.

The revolt against the cities

The more you consider the polarisation of opinions that Professor Ferguson describes in his book, the more it becomes apparent just how much of today’s news agenda is being driven by the phenomenon. The rise of populist movements around the world, from Brexit to Trump to political events in the Middle East, has been turbo-charged by social networks.

Surging populism is something that clearly worries the wealthy. “The results of The Wealth Report Attitudes Survey this year reveal that almost 50% of respondents believe it could impact their clients’ ability to create and preserve wealth.”

But what exactly is populism, and are the wealthy right to be concerned? On his Fox News show I hear Steve Hilton, once an adviser to former UK Prime Minister David Cameron, describe it in almost foksy terms: it’s the common man taking back power, embracing old-fashioned family values. To others, like Princeton’s Professor Jan-Werner Müller, it’s almost the opposite: anti-plurality, anti-debate, often dangerous and largely based on a false premise. Professor Ferguson says the populist wave that swept the US appears to be losing impetus, partly due to concerns over tax reform legislation. “It adds more than US$1 trillion to the deficit over ten years, which is nothing more than that countries want to consume, and it’s not populist.” So from a political point of view it seems to me the backlash is already gathering momentum. “It’s the backlash against the backlash, if you like: the backlash against populism.”

The professor is also sceptical about Brexit, which he likens to an extremely messy divorce. “I’m afraid that the outcome is bound to disappoint in one way or another. Either Britain is going to end up being de facto subject to European regulations, and perhaps even fall short in some way, or it’s going to have to pay quite a high price outside the EU.”

“I don’t think we’re too immediately obvious that Britain can do a better deal with other countries than the deals that it has with the EU. It’s highly unlikely that, in a short space of time, Britain can compensate for the hit of leaving the single market.”

“I understand why Remain lost, but don’t be naive about what this divorce is going to cost, how long it’s going to take, and where you’ll end up. One thing I have learned from my own experience is that it’s very easy to blame all your problems on the spouse that you’re divorcing, but there comes a moment when you realise that actually some of the problems are down to you. The low productivity of the British workforce is nothing to do with Brussels whatsoever.”

The arithmetic of debt

It seems an almost impossible time to be a politician, I suggest to Professor Ferguson. In order to win power you need to put forward populist policies, but in order to actually deliver them you need to raise taxes to politically suicidal levels. In a way that mature governments can break the circle so that giant leaps into the dark, the limits of a corrupt financial elite. “The populists of the right say, ‘You can never really get what you want with populism. Anything that’s promised is going to fall short’.”

You can never really get what you want with populism. Anything that’s promised is going to fall short.
It’s very, very hard to get out from under the nasty, fiscal arithmetic of debt,” he admits. “Most developed economies without large natural resources, and that includes most EU states and the US, have really substantial public debts, and often even more substantial unfunded liabilities that don’t appear on any national balance sheet.

“This is an extraordinary difficult question in political economy, because it’s about generational imbalances. Right now, the dice are loaded in favour of the baby-boomers, people like me who were born in the two decades after the end of World War Two, and they’re loaded against newborns, children and the unborn. This is a really striking pathology of modern times, this breach of contract between the generations. It’s very hard to fix because the unborn and children don’t get to vote, whereas the elderly now tend to stick around long after retirement age, and they vote in rather large numbers.”

When asked if he thinks the world has learned from the previous crisis, Ferguson says he hopes so, but he worries that the world is forgetting about the pathologies that we recognised in the West ten years ago, like shadow banking and real estate bubbles, you have to ask yourself, as the IMF did just the other day: are China’s big banks sufficiently well capitalised to cope if there was suddenly a downturn in the real estate market?

“So, China is definitely the place to watch. Of course, economists have predicted nine out of the last zero Chinese financial collapses. I’m about to add to the list of failed predictions, but I don’t think it’s much more likely that the US will be the epicentre of the next crisis.”

“We have a re-run of the Great Depression. If China hadn’t focused so heavily on innovation, I think we would have had a much tougher time globally. It was the stimulus package that worked.”

However, the flipside of China’s great crisis-fighting policies is a very high level of debt. “With the emergence in China of some of the pathologies that we recognised in the West ten years ago, like shadow banking and real estate bubbles, you have to ask yourself, as the IMF did just the other day: are China’s big banks sufficiently well capitalised to cope if there was suddenly a downturn in the real estate market?”

“I’m not saying there’s going to be a recession in January, February, or even December. We could sail through 2018 without any policy reverse, but I think the probability of that is rising, that there will be a fundamental change in financial conditions, and the higher political risk that I think we’re seeing more or less everywhere is bound to weigh on asset prices sooner or later.”

As to how bad the impending crisis might be, again Professor Ferguson won’t be drawn. “It’s impossible to say anything about the next economic or financial crisis, except that it won’t be like the last one. The more regulation you dream up to avoid the last crisis happening again, the more certain you can be that the next crisis will be quite different.”

A matter of opinion

Despite not wanting to predict the future – “I’m an historian, I don’t have a licence for that!” – Professor Ferguson certainly doesn’t just dwell in the past. Throughout the course of our conversation he is highly critical of the way certain recent political crises have been dealt with. He is particularly scathing about Barack Obama’s strategy in the Middle East, the West’s reaction to Islamic terrorism and Angela Merkel’s handling of the EU immigration crisis.

“I haven’t ever set out to be a contrarian for its own sake,” he stresses. “But from a relatively early age, I can remember feeling a strong urge to disagree with what seemed to me to be wrong-headed conventional views. So, I’ve tended to read my way through the past, going from one question to another, itching to show that what you the reader think, is wrong.”

My final question for him is what kind of world he thinks his new son will grow up in, if it’s not one where everybody lives in peace and harmony. The answer is not reassuring.

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“It will still be a frustrating world to be young in for our sons. All those oldies hanging on to their jobs for way too long and blocking upward mobility. I think it will be a very unequal world, where the returns on innovation have gone to a tiny proportion of humanity.” In this instance, I very much hope it’s Professor Ferguson who is wrong.
Global wealth

The big issues shaping the decisions of the wealthy

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New order

Super-rich populations are rising, but Europe is slipping down the ranks of the world’s wealthiest regions, according to new numbers compiled for The Wealth Report. Gráinne Gilmore investigates

The theme of the 2018 World Economic Forum in Davos was “Creating a Shared Future in a Fractured World”. While the world has faced an array of stiff economic and political challenges since global business leaders and policymakers first met in Switzerland back in 1971, the theme reflected a recognition that the threats faced by individuals, businesses and states are more widespread and diverse than ever.

But while delegates at the forum absorbed the cheery news about the re-emergence of “geostrategic fissures” on multiple fronts, the economic picture looked to be brightening. Indeed, investment bank Goldman Sachs chose to title its global economic outlook for 2018 “Goldilocks: Not Too Hot, Not Too Cold.”

For this edition of The Wealth Report, the focus is on those with US$50 million or more in net assets, as well as demi-billionaires (over US$500 million) and multi-millionaires (over US$5 million). The regional change in US$50m+ populations shows that the number of ultra-wealthy people (those with net assets of US$50 million or more) rose by 10% in 2017. This is in line with the results of The Wealth Report Attitudes Survey, in which 72% of respondents said that their clients’ wealth had increased during Q4 2016 to Q4 2017.

According to Vincent White, Managing Director at the Wealth-X Institute, this is an auspicious time for wealth creation. “We have been experiencing Goldilocks’ economic conditions: not too hot and not too cold. These make it easier to do business, provide a good environment to raise capital and, above all, encourage entrepreneurialism – the key to wealth creation.”

For this edition of The Wealth Report, the focus is on those with US$50 million or more in net assets, as well as demi-billionaires (over US$500 million) and multi-millionaires (over US$5 million). That 10% rise in the ultra-wealthy population marks a notably more rapid rate of growth than in the previous five years, when there was a cumulative 18% increase – indeed, The Wealth Report reported that ultra-wealthy populations actually fell in 2015. It mirrors the growing momentum of the global economy since the financial historian Niall Ferguson, predicting headwinds for other commentators, including this report’s keynote interviewee, the re-emergence of “geostrategic fissures” on multiple fronts, the economic picture looked to be brightening. Indeed, investment bank Goldman Sachs chose to title its global economic outlook for 2018 “Goldilocks: Not Too Hot, Not Too Cold.”
ECB is set to taper its quantitative easing programme this year. Roberts, Knight Frank’s Chief Economist, explains on page 56, the central banks in the UK, Canada and the US. However, as James Central Bank (ECB) also held off tightening monetary policy, unlike the UK and US economies in terms of GDP growth. The European region. Yet many European countries saw a marked upswing in 2018. “Many currencies gained strength against the US dollar last year, which has resulted in a net increase in our estimates,” confirms Mr White. “However, the relationship is not linear. There is an interplay between this and other factors affecting wealth growth.”

Regional variations When it comes to assessing how ultra-wealthy populations have fared between 2012 and 2017, the picture is mixed. While the number of people with US$50 million or more in net assets rose in North America (+38%), Asia (+37%) and Europe (+19%), there were falls in the remaining five regions, most notably in Latin America and the Caribbean (-25%) and Russia and CIS (-37%).

Some of these trends reversed in 2017. Russia and CIS bounced back by 26%, coinciding with Russia’s exit from recession at the start of the year. However, the number of people with US$50 million or more in net assets is still 37% lower than at the start of 2012. At 2.070, the number of ultra-wealthy individuals living in Russia and CIS accounts for around 2% of the global total.

North America remains the world’s largest wealth region. Some 34% of the world’s ultra-wealthy are based there, and their ranks rose by a further 5% last year, taking the total to 4,000.

Asia sets the pace Europe, however, failed to find off a strong Asian challenge, narrowly losing its second place spot despite a 30% rise in the number of people with US$50 million or more in net assets that took the total population to 35,880.

In China, the ultra-wealthy population will more than double in the next five years, according to Wealth-X. There will also be strong growth in Japan (+31%), India (+71%), Indonesia (+66%) and Malaysia (+65%). Overall, the outlook for the Asia region is “highly optimistic”, Mr White says.

Agathe L’Homme, Asian Analyst at the Economist Intelligence Unit, adds: “We have revised up our economic outlook for the region owing to a reassert Chinese growth forecast in the short term. Steady demand from final consumer markets and rising commodity prices will support exporting countries in the region, while expectations of a very gradual monetary tightening will underpin growth overall.”

Europe’s 3.3% growth in its ultra-wealthy population last year may seem counterintuitive given the political challenges facing the region. Yet many European countries are a marked improvement in economic performance last year, with the euro zone outperforming the UK and US economies in terms of GDP growth. The European Central Bank (ECB) also held off tightening monetary policy, unlike central banks in the UK, Canada and the US. However, as Simon Roberts, Knight Frank’s Chief Economist, explains on page 56, the ECB is not to tap its quantitative easing programmes this year.

Latin America and the Caribbean also saw a bounceback in ultra-wealthy population in 2017, with a 29% rise after the 22% decline seen since 2012. The total number of ultra-wealthy individuals in the region (4,220) is still lower than in 2012 (5,380), but the figure is expected to grow by 30% over the next five years. Brazil, the biggest wealth hub in the region, also saw strong growth last year.

Ian Bremmer, Head of Eurasia Group, a leading political risk consultancy, told The Wealth Report: “It’s largely an economic recovery story. The stock and bond markets have performed extraordinarily well this past year. While the ultra-wealthy took a hit in 2016, there was a clear rebound in 2017. Note that this was happening at the same time as the Brazilian real was going through an important devaluation. So in dollars, there was a real improvement.”

In the US, new tax policies aimed at trying to encourage more corporates to move money overseas may have ramifications for the whole economy and, in turn, for ultra-wealthy populations. In late 2017, President Donald Trump announced a raft of tax changes, including an ultra-low 13.5% tax rate for companies bringing their money overseas. He also cut corporation tax to 20%, as well as cutting some income tax rates and boosting family allowances. Under current economic forecasts, the US is expected to see a 10% rise in its ultra-wealthy population over the next five years. However, the change to corporation tax could have an impact in the

POSITIVE THINKING

Proportion of wealth advisers who say that their clients’ wealth increased in 2018

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<th>Region</th>
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<tr>
<td>North America</td>
<td>87%</td>
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<td>Latin America</td>
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INCREASE OR STABLE

INCREASE OR STABLE
In finding the number of HNWIs living in the world, says Wealth-X's Mr White. “The switch from using hotels to investing in property is triggered by many factors, such as nationality, age and the industry in which they are involved. Culture and lifestyle also play a very significant part.”

The global footprint of the ultra-wealthy is noticeable in such countries as Monaco. There are around 50 people worth over US$50 million with a primary residence in the principality, according to the Wealth-X model. However, once the definition of residence is extended to all those with a permanent presence in the country, this number rises to 514, making Monaco one of the most densely populated countries in the world in terms of ultra-wealthy people as a proportion of the total population.

Looking ahead, there are likely to be an increasing number of economic and geopolitical headwinds, not least monetary tightening across the board. However, ultra-wealthy populations are expected to continue to grow in the medium term. “Even when conditions are negative, we’ve traditionally seen more resilience among ultra-wealthy populations,” Mr White says.

However, he also adds a note of caution, echoing some of the themes discussed at Davos. “There are societal changes taking place over the longer term - the reaction to wealth inequality is a pressure that shouldn’t be ignored. There may well be a point where the growth in ultra-wealthy populations doesn’t automatically continue on its current trajectory.”

breaking the cycle

Afghanistan, unsurprisingly, doesn’t feature in our study of global wealth populations. No reliable figures exist as to the number of HNWIs living in the country, but one thing is certain: although there is plenty of money circulating among an elite group of wealthy individuals and businesses, very little of it is trickling down to the rest of society, especially those living outside the capital Kabul.

Seema Ghani, a former deputy government minister turned anti-corruption campaigner and NGO leader, says that there are a number of reasons why the normal model of wealth creation, whereby the poor gradually become better off, even in countries with high levels of wealth inequality, appears to be failing in Afghanistan.

“What is happening is that we are becoming a nation of importers. Those with money invest in importing change from other countries. Money not being used to produce anything here that would generate employment. From basic agricultural productivity declining.”

A culture of short-termism and corruption is to blame, says Ms Ghani, who has calculated that private businesses pay only one third of the tax that they owe. “Despite the billions of dollars of aid that the government has received over the past 16 years, and which now accounts for about half of our national budget, it hasn’t managed to tackle systemic corruption and fraud.”

A lack of well-educated young people with new ideas to help take the country forward isn’t part of the problem, Ms Ghani points out. “Lots of aid money has been spent on education and almost six million children now attend school, a significant achievement, but when they graduate there simply aren’t enough jobs and so poverty levels remain high, especially outside Kabul.”

Another problem is the fact that very little investment flows out of the capital to the rest of the country. “All the government contracts are awarded to businesses based in Kabul. And even when they are working on projects in the provinces they hire labour and sub-contractors from Kabul, too,” says Ms Ghani. Indeed, Ms Ghani, who was deputy minister of
Follow the money

Over the next six pages, Liam Bailey and Flora Harley track the movement of wealth around the world, starting with a unique analysis of global money flows.

Understanding wealth flows

Chinese funds deposited in reporting locations rose by US$272 billion, a staggering 72%, in the three years to June 2017. Over the same period, deposits held by Russian non-banks grew by US$6 billion, up 26%. The outward flow of funds from China in particular, but also from other locations including Russia, has been a key trend affecting global asset markets over recent years. Despite official attempts to rein in these flows, the BIS data confirms that the trend looks likely to continue.

One subject we discuss at length later in this article is the growth of legislation aimed at improving financial and tax transparency globally. The OECD-inspired Common Reporting Standard (CRS) leads the way in this area.

Anecdotally, some investors appear to remain outside the scope of the regulations. The US and Taiwan are in the minority of major economies that have not committed to the CRS, and over the three years to June 2017, ahead of its implementation.
non-bank deposits held in each of these places increased by US$32 billion and US$25 billion respectively. In the US there was a rise of US$10 billion in the 12 months to June 2017 alone.

The impact of Chinese government policy has affected Hong Kong and Macau in different ways. While Macau has seen a 10% decline in deposits in the 12 months to June 2017, Hong Kong has become increasingly popular as an investment destination, with mainland Chinese investors increasing their deposits here by US$3 billion over the same period. Bahamian non-bank deposits, in both locations that report on them, fell by 25% in the past year. The data shows that deposits held by Panamanian non-banks also dropped by 25% in the last year. Deposits held in the Channel Islands declined markedly in the three years to June 2017, falling by 15% in Guernsey and 14% in Jersey. In the Isle of Man, the drop was 28%.

The above changes can in part be explained by currency shifts, in particular for the Channel Islands. But some commentators interpret these declines as supporting the narrative that the advent of the CRS and other transparency measures is eroding some of the benefits offered by traditional low-tax jurisdictions, leading to an outflow of funds.

Over the three years to June 2017, the amount of money held in Switzerland covered by this analysis has fallen by 8%. Once again, the introduction of the CRS and wider moves against bank secrecy could be contributory factors. In addition, it should be noted that Switzerland’s interest rates became negative in 2015, meaning that investors were effectively paying to keep money in the bank, prompting an exodus of funds.

As more countries join the CRS and its scope potentially widens, the global pattern of wealth movements is likely to become ever more tangled.

The wealth of individual investors continues to grow, and with it comes the desire to move assets to countries with more attractive tax regimes. The CRS may be an important step towards revealing where wealthy people hold their wealth and ensuring that taxes are being paid. In addition, the CRS is making it harder to hide offshore wealth, with the advent of CRS-driven changes in corporate tax regimes and other measures.

The growth of global wealth flows has also led a number of jurisdictions to introduce or extend tax targeting affluent investors.

The government of New Zealand has proposed changes that will require property investors to pay tax on capital gains if they make disposals within five years of purchasing, up from the current two. And in November 2017, the UK government announced plans for capital gains tax to apply to non-residents on commercial as well as residential property. We explore the development of property taxation in detail on page 39.

Transparency drive

Increasingly, government action is moving beyond taxation and into attempts to map the extent and movement of global wealth flows.

The OECD’s big idea, the CRS, was launched in September 2017. Almost 30 countries formed the first wave with more joining earlier this year, bringing to more than 100 the number of nations now automatically sharing data on foreign accounts.

The CRS may be an important step towards revealing where wealthy people, as well as businesses, are placing their investments – but it is only the beginning of the story. The standard does not currently cover property ownership, but the support recently stated by the OECD for proper ownership registers suggests that future iterations may well do so.

Trends at a national and intergovernmental level point towards a more comprehensive shift in the power of governments to independently assess who owns what. While the UK and Germany have taken action aimed at providing greater clarity on the ultimate beneficial ownership of trusts and international companies, in addition, both the EU and the Financial Action Task Force have echoed the OECD’s call for a register of property owners.

As we stated in last year’s edition of The Wealth Report, full transparency and total disclosure is coming. But for now, the desire for privacy remains a factor influencing UHNWI behaviours. In some cases, this is leading individuals to reconsider their place of residence.

Targeted taxations

The growth of global wealth flows has also led to a number of jurisdictions to introduce or extend taxes targeting affluent investors.

In July 2017, the government of New South Wales, Australia, raised the stamp duty surcharge from 4% to 8% for foreign buyers, as well as increasing annual land surcharge from 0.75% to 2%. In the same month, Australia’s treasury released a draft paper detailing proposed legislation to remove the main residence exemption for capital gains tax for foreign residents withdrawing more than US$200,000 of foreign currency in a single day, and from the beginning of this year, the Chinese government capped annual overseas withdrawals from Chinese bank accounts at US$40,000.

With authorities aiming to maintain a weaker yuan to promote exports, overseas investments, including property, have become more expensive. Any prospect of a further weakening may act as an additional push factor for investors.

In India, the Liberalised Remittance Scheme (LRS) allows US$250,000 per head per year to be moved out of the country. The pace of money transfers increased by 60% in the year to September 2017, and by almost 1,800% over the past decade. The rapid growth in transfers coincides with increased scrutiny by the Reserve Bank of India of dealings under the LRS.

Targeted taxation

The growth of global wealth flows has also led to a number of jurisdictions to introduce or extend taxes targeting affluent investors.

In its current guise, the CRS may encourage investment into property, at least in the short term. Under the existing rules, there is no requirement to report on property assets unless they are mortgaged. Some commentators have linked the growth in price of foreign real estate in the Middle East, for example, to the desire to move to countries with a lower Tax rate or one-off contributions to hurricane relief or economic development funds.

Wealth migration

The result has been a bidding war, as more countries offering high standards of privacy and security emerging as favoured investment hubs.

In the Caribbean, for example, several islands have recently slashed the level of investment required by as much as 50%, or linked citizenship to one-off contributions instead of long-term financial commitment; but there are others with less onerous programmes or which are relaxing their requirements.

As the sector matures, it will provide a major source of future revenue for countries that lack alternative exports – but, as we discuss elsewhere, reputational risks are rising too. Less drastic than a change of residence but perhaps similarly effective, at least for now, is to place money in a country outside the CRS network.

Switzerland, for example, has delayed the exchange of information with Middle East countries. IRS data confirms that financial non-bank deposits from Saudi Arabia and the United Arab Emirates into Swiss bank accounts are up by 44% and 53%, respectively over the past three years, running counter to the trend of overall fall in global deposits held there.

This urge for privacy is also steering flows within the CRS countries, with those offering high standards of data security emerging as favoured investment hubs.

In one important case, this is prompting individuals to reconsider their place of residence.

Citizenship for sale

This trend is reflected in the growth in demand for second passports and residencies. Data from our Attitudes Survey reveals that 34% of UHNWIs are likely to hold a second passport and 29% are planning to purchase one, while 23% are considering emigrating permanently.

The result has been a bidding war, as more countries seeking new sources of revenue try to encourage
on the amount of capital coming into the most notable non-CRS signatory, but portfolio managers and fiduciaries put it in the hundreds of billions of dollars. This looks realistic in the light of data from the National Association of Realtors, which confirms that foreign buyer activity increased by over US$50 billion year on year in the 12 months to March 2017. As money becomes more mobile and scrutiny of offshore wealth increases, governments are trying to encourage money back onshore. Tax authorities have raised tens of billions of dollars for governments across the world. From Indonesia to Italy, France and Fiji, at least US$86 billion has been clawed back.

The tension between the growing globalisation of wealth and the desire for governments to provide controls will not easily be resolved, in large part because governments are conflicted in their desire to protect existing tax revenues at the same time as attracting new sources of wealth.

## Points of view

A panel of leading industry experts assess the risks and opportunities posed by the growth of citizenship by investment schemes, and the implications of international transparency drives

### Transparency drives

#### Data security risks

Perhaps unsurprisingly, the advent of the electronic exchange of financial information is pushing the issue of cyber-security to the top of the agenda. The unprecedented amount of financial data being shared between governments is also raising concerns about the implications of cyber-security to the top of the agenda. The transparency drives a relatively new trend and those that have been introduced to date are generally not well drafted. Financial institutions are now having to disclose information about clients’ assets and interests in structures, while often not understanding the requirements in full. There is a real risk of duplication and inconsistency. So far, we have not seen clients venturing into unregulated activity in order to escape disclosures. Those with the understanding – and the appetite for risk – may decide to invest in Bitcoin, say, but it will typically be for financial rather than tax or disclosure reasons. They might then also benefit from greater confidentiality under current rules, although, in the light of the recent popularity of Bitcoin, this benefit may be short-lived as we would expect transparency regulations to catch up with investment trends. For microstates with small economies, the benefits of citizenship and residency by investment programmes can be substantial. In certain Caribbean islands, programme revenues account for upwards of a third of GDP. The potential profitability of the channel has led to investment migration policies spreading, allowing small economies to formalise and scale up previously informal offerings of residency and citizenship. Nonetheless, the overall effectiveness of the programmes depends on their soundness. They may be expected to support long-term economic growth, align with educational opportunities, medical facilities, pensions and other forms of social support, but such assurances are typically not written into the policies themselves. Whether or not the programme delivers the benefits it promises is ultimately a question of implementation and oversight.

Dr Kristin Surak
Professor of Economics, University of London

### Citizenship schemes

#### Only the best regulation is acceptable

Citizenship and residency by investment programmes are big business; currently, the industry is worth an estimated US$2 billion each year. However, it is beginning to draw concern and criticism. Lax tax rules take advantage of the strength of official data security rules and the locations where their wealth is held, in the light of increasing international transparency drives.

Concern is also growing that the acquisition of a new nationality may be a vehicle to avoid FATCA, the CRS and various other international efforts to stem tax evasion. If this idea gathers momentum, it could potentially create problems for the countries involved. Furthermore, there is the fear of terrorists being found to have travelled on a new passport before committing an atrocity. It is not hard to imagine how this could lead to governments being reluctant to accept “purchased” passports, restricting their use or denying access to those who bear them. Clearly, there is great – and growing – demand. As the market matures, it would therefore be inappropriate for governments to adopt stringent criteria in order to guard against such passports being acquired for improper or criminal purposes.

Joseph A Field
Partner, WilmerHale worldwide

#### Technology will be required

There is a dichotomy at the heart of the global drive for transparency. Although the exchange of information will simplify dealings with cross-border authorities, there remains a real reluctance to provide governments with information due to a basic lack of trust. The growth of new technology infrastructure platforms like Blockchain could help alleviate fears and facilitate exchange. Blockchain provides the most secure infrastructure for housing this type of data, allowing access to a fixed number of parties and ensuring that any actual or attempted changes to data are embedded in the audit trail. For microstates with small economies, the benefits of citizenship and residency by investment programmes can be substantial. In certain Caribbean islands, programme revenues account for upwards of a third of GDP. The potential profitability of the channel has led to investment migration policies spreading, allowing small economies to formalise and scale up previous informal offerings of residency and citizenship. Nonetheless, the overall effectiveness of the programmes depends on their soundness. They may be expected to support long-term economic growth, align with educational opportunities, medical facilities, pensions and other forms of social support, but such assurances are typically not written into the policies themselves. Whether or not the programme delivers the benefits it promises is ultimately a question of implementation and oversight.

Dr Christian Kälín
Group Chairman, Henley & Partners

#### Revenues must be spent responsibly

For microstates with small economies, the benefits of citizenship and residency by investment programmes can be substantial. In certain Caribbean islands, programme revenues account for upwards of a third of GDP. The potential profitability of the channel has led to investment migration policies spreading, allowing small economies to formalise and scale up previous informal offerings of residency and citizenship. Nonetheless, the overall effectiveness of the programmes depends on their soundness. They may be expected to support long-term economic growth, align with educational opportunities, medical facilities, pensions and other forms of social support, but such assurances are typically not written into the policies themselves. Whether or not the programme delivers the benefits it promises is ultimately a question of implementation and oversight.

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Dr Christian Kälín
Group Chairman, Henley & Partners

#### Only as strong as their weakest link

Global families – and their businesses – today span countries and even continents. Acquiring alternative residence or citizenship is a means of participating in and moving through this interconnected world with greater ease, and we expect that the value of this kind of mobility and access will only increase as the tendency towards isolationist, immigration-hostile policies becomes more prominent worldwide.

Programmes are only as strong as their weakest link, and the most appealing are those with the most stringent processes in place. The only programmes worth considering are those that uphold high standards of due diligence and are free of corruption. These are the ones that draw credible, wealthy, and talented individuals with valuable business networks and entrepreneurial expertise to a country, enriching its social and economic capital.

Dr Christian Kälín
Group Chairman, Henley & Partners

#### A panel of leading industry experts assess the risks and opportunities posed by the growth of citizenship by investment schemes, and the implications of international transparency drives

### Trading places

<table>
<thead>
<tr>
<th>TRANSPARENCY DRIVES</th>
<th>TRADING PLACES</th>
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<tr>
<td>Data security risks</td>
<td>RUSSIA &amp; CIS</td>
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<td>Transparency drives</td>
<td>NORTH AMERICA</td>
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<tr>
<td>Only the best regulation is acceptable</td>
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<tr>
<td>Technology will be required</td>
<td>LATIN AMERICA</td>
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<tr>
<td>Revenues must be spent responsibly</td>
<td>ASIA</td>
</tr>
<tr>
<td>Only as strong as their weakest link</td>
<td>AUSTRALASIA</td>
</tr>
</tbody>
</table>

**Notes:**

- **TRADING PLACES:** A list of the world’s top passport destinations, ranked on the basis of their relative value.
- **TRANSPARENCY DRIVES:** A discussion of the risks and opportunities posed by the growth of citizenship by investment schemes, and the implications of international transparency drives.

**Sources:**

- SOAS University of London

**Further reading:**


**About the authors:**

- **Joseph A Field** is a partner at WilmerHale worldwide.
- **David Friedman** is a partner at Taylor Wessing.
- **Dr Christian Kälín** is the group chairman at Henley & Partners.

**Further information:**

- For more information on the latest trends in citizenship and residence by investment, please visit [www.knightfrank.com/wealth-report](http://www.knightfrank.com/wealth-report).
Urban power

The Knight Frank City Wealth Index identifies the cities that matter to the wealthy, now and in the future. Liam Bailey shares the latest results.

Wealthy investors help to drive demand for property across global markets. The decision where to purchase is driven by a range of factors, but familiarity and knowledge are tangible pull factors when it comes to city locations, as is an understanding of market and economic dynamics.

This year we have built on our City Wealth Index, which was introduced in last year’s report, extending our analysis to provide the most rounded picture of the cities that matter to the world’s wealthy. Our assessment covers a broad canvas, including where the wealthy live, spend and invest, where they enjoy their downtime and where they educate their children.

The Index is built around four themes, each covering a range of critical measures.

Wealth – We have considered current and future populations of wealthy residents. Our analysis looks at both HNWI and UHNWI populations and – crucially – at the expected rate of growth in wealth creation at city level.

Investment – To understand where the wealthy are investing, we looked at data on major property investments – those worth the equivalent of US$10 million or more – across both commercial and residential markets. We only considered investments made by private individuals or family offices. Our ranking takes into account the volume of investment, and its diversity in terms of the number of different nationalities investing.

Lifestyle – We have included a broad range of items under our lifestyle theme, including the number of luxury hotels and the number and quality of leading restaurants, as well as average visitor spend. Education, a significant driver for purchases of first and second homes globally, has been accounted for by considering the number and quality of universities in each city.

Future – Future economic performance will influence and shape investment decisions. To understand how cities are likely to fare over the medium term, we have considered predicted GDP, and city-level innovation.

Over the following pages, we explore the findings of this year’s City Wealth Index.
THE KNIGHT FRANK CITY WEALTH INDEX 2018

WEALTH
New York is a dominant centre for HNWI’s (based on households earning more than US$250,000 annually), with almost double the population of Los Angeles in second place. The top five places on this measure all go to North American cities, with London filling the ninth spot. Over the next five years this is expected to change with Atlanta and San Francisco seeing the biggest increase in this bracket, followed by New York, Los Angeles and Delhi.

INVESTMENT
While New York leads in terms of the largest annual average private investment into property over the five-year period to the end of 2017, London takes top spot for diversity of demand, measured by the number of different nationalities making investments. European cities compete closely with North American hubs on this measure, with Hong Kong leading the pack in Asia.

FUTURE
In terms of future GDP (per square mile), measured in constant prices, New York again comes out on top, followed closely by Tokyo and Los Angeles. Looking to the future, North American cities took it to retain their supremacy, accounting for four of the top ten cities for future GDP.

LIFESTYLE
London is top of the hotel rankings, with 75 five-star hotels as listed on reservations website Five Star Alliance, comfortably topping Dubai’s 65. Dubai’s overnight visitors were the biggest spenders, with a total expenditure of US$263.5 billion. New York was in second place, with visitors matching up US$271 million spend. In terms of average overnight visitor spend, Melbourne was on top with an average of US$1,225 per person, followed closely by Dubai at US$1,217.

THE KNIGHT FRANK CITY WEALTH INDEX 2018


1. NEW YORK
2. LOS ANGELES
3. CHICAGO
4. SAN FRANCISCO
5. DALLAS
6. PARIS
7. MUNICH
8. MIAMI
9. HONG KONG
10. MELBOURNE

CITIES WITH THE MOST TOP 100 UNIVERSITIES (2017)

1. NEW YORK
2. LONDON
3. MUNICH
4. LOS ANGELES
5. MELBOURNE
6. HONG KONG
7. PARIS
8. SINGAPORE
9. MUNICH
10. SHANGHAI

CITIES WITH THE MOST TOP 100 UNIVERSITIES (2018)

1. NEW YORK
2. LONDON
3. HONG KONG
4. MUNICH
5. LOS ANGELES
6. BEIJING
7. SINGAPORE
8. SHANGHAI
9. MELBOURNE
10. CHICAGO

AVERAGE SPENDING PER OVERNIGHT VISITOR (2016) (US$)

1. MILAN
2. NEW YORK
3. AMSTERDAM
4. SYDNEY
5. ANTWERP
6. MADRID
7. DUBAI
8. HOUSTON
9. MILAN
10. TAIPEI

CITIES WITH THE HIGHEST FORECAST GDP FOR 2022 (US$BN)

1. NEW YORK
2. LONDON
3. MUNICH
4. LOS ANGELES
5. MELBOURNE
6. PARIS
7. MIAMI
8. HONG KONG
9. CHICAGO
10. SAN FRANCISCO

A SELECTION OF ELEMENTS IN EACH CATEGORY

NUMBER OF NATIONALITIES INVESTING

1. LONDON
2. NEW YORK
3. MUNICH
4. HONG KONG
5. MELBOURNE

RANK OF CITIES BY THE AVERAGE SPEND PER OVERNIGHT VISITOR (2016) (US$)

1. NEW YORK
2. LONDON
3. SYDNEY
4. PARIS
5. MILAN
6. MADRID
7. DUBAI
8. HOUSTON
9. MILAN
10. TAIPEI

HOUSEHOLDS EARNING US$250K+ (2017–2022)

1. NEW YORK
2. LONDON
3. PHILADELPHIA
4. BOSTON
5. HOUSTON
6. WASHINGTON DC
7. SAN FRANCISCO
8. CHICAGO
9. LOS ANGELES
10. NEW YORK

WORLD’S FINEST HOTELS - HOSPITALITY ALLIANCE, MASTERCARD, MICHELIN, TIMES HIGHER EDUCATION, 2THINKNOW INNOVATION CITIES TM INDEX 2016–2017

1. NEW YORK
2. PARIS
3. BERLIN
4. AMSTERDAM
5. NEW YORK

CITIES WITH THE HIGHEST FORECAST GDP FOR 2022 (US$BN)

1. NEW YORK
2. LONDON
3. LOS ANGELES
4. MUNICH
5. MELBOURNE
6. PARIS
7. MIAMI
8. HONG KONG
9. CHICAGO
10. SAN FRANCISCO

GLOBAL CITIES - ECONOMICS, TIMES MIB, TIMES MIB EDITION, ECONOMIC INNOVATION GROUP Y 2017
The results of The Wealth Report Attitudes Survey consistently show that passing wealth to the next generation is a major concern for wealthy individuals. Fear that their children will fritter their inheritance away, the worry that passing on too much, too soon will dampen their offspring’s entrepreneurial spirit, or simply concerns about how to treat siblings fairly all weigh on their minds.

To test the overall impact of these worries, we decided to ask the respondents to this year’s Attitudes Survey how many of their clients have a robust succession plan in place. Globally, the response was just 53%, with a high of 65% in the US and a low of 40% in Kenya. The results of the survey show that succession planning is important for every family, because of the desire to preserve wealth for future generations and to leave a lasting legacy.

With such a sensitive and important issue, there is no “one size fits all” solution. Some families want to preserve their dynasty, for example, while others wish to ensure their philanthropic endeavours endure. It is said that family fortunes fail to last for more than three generations. Our research into wealth transfer found that a significant number of wealthy families are unprepared to pass on their legacy and knowledge to the next generation. Just 26% have a full wealth transfer plan in place and the findings showed that the next generation is not being educated early enough about the management of wealth.

Given the complexity, wealthy individuals would benefit from identifying clear objectives for the future and drawing up a well-defined succession plan. In a world where regulation is constantly evolving, it is essential that global families are aware of the key issues and start planning as early as possible with advisers who can help to make the process as smooth as possible.

Money

Succession transition is a high stakes game for family businesses and their owners. Getting it wrong – by choosing the wrong successor, mismanaging the handover, being under-prepared, or failing to get stakeholders’ buy-in to the succession plan – could mean severe repercussions, to the detriment of both the continued success of the business and family harmony.

Furthermore, family businesses today are also facing competitive challenges as a result of rapid globalisation and new technologies that are disrupting the world of business. Set against this backdrop, a poorly executed transition is potentially a recipe for disaster.

An increasing number of families have the expertise to help family business leaders develop governance frameworks to enable better decision-making, drive the family’s role in society and, of course, ease succession issues. However, we do see an initial reluctance by some families, particularly from certain cultures, to take external advice, mainly because such issues are seen as very personal.

Amit Kotha

Head of Global Wealth Management, British Isles

Today’s wealthy families have unique needs and varying priorities, making succession planning a highly complex area of concern. What we do know is that succession planning is important for every family because of the desire to preserve wealth for future generations and to leave a lasting legacy.

Prateek Pant

Managing Director, Citi Private Bank

Succession transition is a high stakes game for family businesses and their owners. Getting it wrong – by choosing the wrong successor, mismanaging the handover, being under-prepared, or failing to get stakeholders’ buy-in to the succession plan – could mean severe repercussions, to the detriment of both the continued success of the business and family harmony.

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The proponents of Blockchain are nothing if not audacious in their promotional hype. Some describe the technology as the biggest change to finance since the Medici family laid the foundations for modern banking back in the 15th century, while others believe it is set to be as transformative as the internet.

Such claims may seem far-fetched for something as mundane-sounding as a decentralised and immutable online ledger designed to simplify the trading of assets, including real estate. But as national land registries start to use Blockchain technology, it is time to look beyond the hype and explore how it could influence buyer behaviour and pricing in real estate markets.

The role of liquidity is key here. Real estate trades at a relative discount to stocks and bonds because it is less liquid, but Blockchain could theoretically close that gap in two ways.

**Oiling the wheels**

First, transaction times and frictions would reduce as more of the legal process moves onto the Blockchain. The United Arab Emirates, Georgia, Honduras and the UK are among the countries exploring the use of Blockchain technology for property transactions, while Sweden has already trialled it. “We found that it’s possible to shorten the process a lot, but one of the most successful aspects of the trial was security and the verification of contracts,” says Mats Snäll, Chief Digital Officer at the Swedish Land Registry.

Mr Snäll expects the use of Blockchain to grow over the next several years, but emphasises that it remains an emerging technology. His view is underlined by the results of our Attitudes Survey, where 41% of respondents – the most common response – said that their clients had heard of Blockchain, but had not yet considered its impact.

The second way that Blockchain could increase liquidity in property markets is through a process of “tokenisation” or “unitisation”. Enabling buyers to trade “units” in real estate online would have an impact on markets and pricing potentially far greater than that of removing frictions from the sale process. The argument is that Blockchain provides the platform for something that is possible today, but which has not yet been implemented on a meaningful scale. Ambitions are not limited to real estate and there are plans to grow tokenised trading in many financial markets, including luxury investments. However, whether this represents the property industry’s very own “disruptor” moment depends on who you ask.

Abhimanyu Dayal is Chief Executive of Estatechain, a company that acts as a marketplace for the tokenisation of property and which plans to carry out its first transaction this year. Complex algorithms create an exchange through which vendors can sell tokens in residential property without needing to find a buyer. This is possible because investors pay for a finite reserve of tradable tokens on top of the value of the property itself; in other words, a liquidity premium.

**LINKED IN**

Wealth advisers’ views on Blockchain*

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most of my clients are aware of Blockchain but haven’t considered what impact it might have on them</td>
<td>41%</td>
</tr>
<tr>
<td>I doubt many of my clients have heard of Blockchain</td>
<td>36%</td>
</tr>
<tr>
<td>I don’t think Blockchain will have an impact on my clients</td>
<td>19%</td>
</tr>
<tr>
<td>Blockchain has the potential to significantly change how my clients will manage their wealth</td>
<td>14%</td>
</tr>
<tr>
<td>A significant number of my clients are currently working out what Blockchain means for them</td>
<td>11%</td>
</tr>
<tr>
<td>Blockchain is already having a tangible impact</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Respondents could choose multiple options

SOURCE: THE WEALTH REPORT ATTITUDES SURVEY 2018, KNIGHT FRANK

Though the technology determines the pricing of a transaction, this happens within the framework of quarterly valuations by a chartered surveyor.

**100% liquidity**

“This could revolutionise the real estate market because it provides 100% liquidity 24/7,” says Mr Dayal. “If you want to invest in London residential property today, you will need to spend £700,000-plus and be locked in for seven to nine years. Now you can enter and exit whenever you want, which is how people want to invest.” While the regulation of tokenised assets is still evolving, the rollercoaster ride that cryptocurrencies have experienced on the currency markets will not affect values, Mr Dayal says. While investors need a cryptocurrency to trade, assets will be denominated in the home currency.

For others, the more fundamental question is whether a more liquid property market is feasible or even desirable. Professor Andrew Baum of the Said Business School at the University of Oxford has been involved in various attempts to unitise real estate and recently authored a research document, *PropTech 3.0*.

“It is not obvious that everyone wants a more liquid real estate market,” he says. “If real estate traded more like a stock or a bond, prices might rise due to increased liquidity, but equally they might fall because of greater volatility and risk. The global banking system has survived over the last decade because it has not been forced to mark property assets to market.” Professor Baum points out too that higher levels of liquidity would mean real estate losing its inherent appeal for many investors seeking a stable return by diversifying away from stocks and bonds.

While Professor Baum concedes that Blockchain is likely to reduce frictions and costs around transactions, he believes its impact will ultimately be comparatively limited. “If you accept the argument that Blockchain will be as big as the internet all over again, ask yourself how much the internet changed liquidity in property markets. Perhaps a bit, but nothing seismic.”

For now then, believe only a fraction of the hype.
Property

An insight into the markets where UHNWIs live and invest

A fine balance
The latest results of the Knight Frank Prime International Residential Index – page 34

Firm foundations
Private investors are driving investment property markets and global mega-deals – page 48

Peak performers
Prime residential markets set to outperform – page 42

Leading lights
Top locations and sectors for private property investors to consider – page 56
he latest results of our PIRI 100, which tracks the performance of the world's leading prime second homes and city residential markets, confirm two significant trends. First, the scale of the slowdown in China's top-tier cities and, second, the extent to which Europe is seeing positive growth after a decade of weak results.

In 2017, the overall index increased by 2.1%, compared with 1.4% in 2016. This reflects the expansion of the global economy last year, when heightened political tensions were unable to dent growth.

In 2017, four of the top ten performing prime residential markets were in Europe: Amsterdam, Frankfurt, Paris and Madrid. Heightened domestic interest has combined with capital flight from turbulent markets overseas. Latin American buyers now account for over 18% of prime purchases in Madrid’s exclusive enclaves, while Turkish and Middle Eastern buyers are active in both Paris and Berlin.

Prime property prices in Marbella rose 3% during 2017, and the PIRI 100 paints a very different picture. In 2016, a number of prime European residential markets were in the top ten, with prime prices up by over 27%. However, unlike in 2016 when Guangzhou was joined by Beijing and Shanghai in occupying PIRI’s top three positions, this year it is China’s only entry in the top ten.

 Tighter macro prudential regulations introduced by the government have achieved their goal of deterring speculative activity and curbing price inflation across large parts of China. Shanghai and Beijing registered growth of just over 5% and almost 7% respectively; lacklustre by recent standards. Guangzhou’s prime market continues to grow because of its relative affordability; prime prices average 70,000 yuan per sq m, compared with 120,000 yuan in Shanghai.

The weakening in Beijing and Shanghai contributed to a slight drop across the Asia-Pacific region as a whole, with markets averaging 4.4% growth in 2017, down from 5.2% the previous year. Seoul (13.2%) and Hong Kong (7.3%) continue to perform strongly, despite stringent cooling measures. Both markets face limited supply and, in Hong Kong’s case, significant investment flows from the Chinese mainland. After reaching its peak in the fourth quarter of 2013, a string of government cooling measures drove down private residential home prices in Singapore, but 2017 marked a turning point with prices ending the year almost 6% higher. A brighter economic outlook, rising household wealth and limited supply are supporting price growth.

In India, however, monetary and policy interventions have proved challenging for residential markets. Demonetisation, the Goods and Services Act and the Real Estate (Regulation and Development) Act all left their mark in 2017, with luxury prices rising by just 0.6% in Mumbai. But market confidence is now improving. A lack of supply pushes Sydney’s prime market (30.7%) ahead of Melbourne’s (9.8%), with the gap between luxury and mainstream price performance widening in both cities. Foreign buyer application fees and stamp duty hikes have led to slower rates of annual growth, but a strong appetite for luxury bricks and mortar remains.

In 2016, a number of prime European residential markets were still in “recovery mode.” Twelve months on, the PIRI 100 paints a very different picture. In 2017, four of the top ten performing prime residential markets were in Europe: Amsterdam, Frankfurt, Paris and Madrid. Heightened domestic interest has combined with capital flight from turbulent markets overseas. Latin American buyers now account for over 18% of prime purchases in Madrid’s exclusive enclaves, while Turkish and Middle Eastern buyers are active in both Paris and Berlin.
PRIME MOVERS

A global overview of this year’s PIRI 100 results

Los Angeles
A strong regional economy, shrinking inventories and limited supply have protected prices in Los Angeles, despite three rate rises in 2017. Domestic demand has proved steady and although the appetite of international buyers dipped marginally due to the strength of the US dollar, UK and European buyers remain active. Prime prices ended 2017 just over 5% higher, with gated communities in Beverly Hills and Malibu outperforming the city average.

Hong Kong
Prime prices increased by 7.3% in 2017. Tight supply and strong outbound capital flows from the Chinese mainland have boosted price growth, despite more stringent capital controls and taxation changes. Neighbourhoods such as The Peak, which set a new record price in 2017, and Mid-Levels are among the most desirable. Further US interest rate rises in 2018 may slow but are unlikely to stall price growth.

Berlin
A prospering economy and its relative value have propelled Berlin high up the wishlist of global investors. An historic undersupply of new homes combined with low home ownership rates, a stable political landscape and high quality of life have boosted demand. Prime prices typically start at €10,000 per sq m. Investors are seeking apartments in waterfront and central areas.

Sydney
Although Sydney’s mainstream residential market has cooled, in part due to tighter lending rules for investors, the prime end experienced strong growth of close to 11% in 2017 as a lack of stock, in particular detached homes, put pressure on prices. A transformation of the Sydney Harbour foreshore is under way with an impressive array of infrastructure and super-prime residential projects scheduled.

Cape Town
In 2017, Cape Town’s luxury residential market outperformed the city’s wider mainstream market by some margin. The area near Table Mountain, including the Atlantic Seaboard and City Bowl, attracted strong inward migration from other parts of South Africa, to add to already significant foreign buying activity. Against a backdrop of constrained supply – landlocked between the mountain and the coastline, development opportunities are scarce – prime prices increased by almost 20% year on year.

A global overview of this year’s PIRI 100 results

Sources: All data comes from Knight Frank’s global network with the exception of Tokyo (Ken Corporation); São Paulo and Rio de Janeiro (Fundação Instituto de Pesquisas Econômicas); Oslo (Torbjørn Ek); Boston, Chicago, San Francisco, Los Angeles, Miami, New York, Seattle and Washington DC (S&P CoreLogic Case-Shiller); Barcelona (Ministerio de Fomento); Tel Aviv (Israel Central Bureau of Statistics); Jersey (States of Jersey); Berlin and Frankfurt (Immobilien Scout24); Mexico (Sociedad Hipotecaria Federal); Cape Town and Johannesburg (First National Bank); Stockholm (Svensk Mäklarstatistik).

highest-ranking second home markets, recording annual growth of 6.4% and 6.5% respectively. Both markets were hit hard by the global financial downturn and the fallout from the euro zone debt crisis: values tumbled by 30–40% in peak-to-trough terms.

In Spain, tighter supply has helped cushion prices across the country. In 2016, around 34,300 homes were completed nationwide. The figure was close to 50,000 a decade earlier, according to Spain’s Ministry of Development. Barcelona, Madrid, Marbella and Mallorca all registered positive price growth, only three saw a decline in 2017. Emmanuel Macron’s presidential victory buoyed France’s prime residential markets. In 2017, the 11 French benchmarks tracked by the PIRI 100 recorded a 1% price growth on average, compared with just 0.1% in 2016. For Monaco, 2017 was a year of two halves. Prices tumbled by 30–40% in peak-to-trough terms. Chamonix leads the Alps region, with prices ending the year 4.5% higher. The strength of the Swiss franc and cost pressures on European trophy buyers explains the weaker performance of some Swiss resorts.

American beauty
US markets posted a steady performance in 2017. Aspen sits third in our overall rankings, recording 19% growth. The top end of this upmarket ski resort saw sales volumes strengthen, but the scale of growth is a reflection of its weaker performance in 2016. Los Angeles, New York and Miami saw moderate growth of 5.1%, 4.6% and 2.2% respectively in 2017. In New York, the 4.6% rise reflects the conclusion of a number of high-end sales as vendors across New York City (not just Manhattan) displayed greater flexibility on price in both the resale and new home markets. Despite the strong US dollar, foreign buyers were active in 2016/17, spending over US$35.3 billion on US residential property between April 2016 and March 2017, according to the National Association of Realtors.

TAXING TIMES
Cooling measures and rules on who can buy what, and when, are nothing new. After all, through the number and stringency of these measures is actually redirecting wealth, as buyers look to gain a foothold before markets start to pull up the drawbridge.

With global wealth flows and house prices rising in tandem, policymakers are walking a fine line between trying to attract investment at the same time as ensuring affordability for residents, reining in house price bubbles and managing tax revenues. In some markets, overseas buyers have borne the brunt of these measures, in others, domestic buyers have also seen their range clipped. In areas of low growth, the option of monetary tightening has largely been off limits for over a decade. Instead, cooling measures have become the go-to means of controlling price inflation, gradually undoing the notion of truly open markets. The latest set of interventions arguably started in Asia in 2010, when Hong Kong, the Chinese mainland and Singapore embarked on a programme of macroprudential measures to deter speculative investment. Prices at this point had risen by 50%, 51% and 15% respectively from their post-Lehman lows. Since then, other countries have followed suit, including Malaysia (stamp duty increased), the United Arab Emirates (cap on mortgage lending and variable rate), the UK (changes to stamp duty and Australia (foreign buyer fees, stamp duty and land tax changes). Hong Kong, the Chinese mainland and Singapore have also made numerous modifications to their original rules in the interim.

More recently, the provincial governments of British Columbia and Ontario in Canada have imposed a 5% foreign buyer stamp duty on purchases in parts of Vancouver and Toronto. The effect on prices has been immediate. Just three months after its introduction, annualised price growth in Vancouver had declined from almost 32% to 14.5%, and in Toronto from just under 30% to 15%. In New Zealand, a ban on overseas buying existing homes is expected in early 2019, but the restrictions will not apply to Australian purchases, given that New Zealanders are exempt from home ownership restrictions in neighbouring Australia.
First, the good news. The global economy started 2018 in a very good place, with healthy growth in most leading markets. It was the strongest coordinated growth spurt for almost a decade, and indicators from the first quarter point to more of the same for the rest of the year. But before we get too excited at the prospect of economic growth supporting higher property values, there are some not insignificant clouds on the horizon.

The Chinese and US economies in particular are showing signs of capacity constraints, which will lead to more rapid inflation. This, together with ongoing debt accumulation, not just in China but around the world, where total private, corporate and public debt is now estimated to equate to a record 325% of global GDP, means rate rises and a more general monetary tightening will be the main economic story over the coming year. This will dent growth into 2019, and weigh on property performance in the medium term.

With rates most likely in the US, China and Canada, and potentially the UK, and with the European Central Bank beginning to taper its quantitative easing purchases, the process of unwinding economic stimuli will accelerate.

Despite those moves towards tighter monetary policy, though, borrowers will still be able to lock into incredibly cheap rates of debt in 2018. The fear of higher future interest rates and higher prices may spur action by investors to crystallise purchases, partly in the hope that property lives up to its reputation as a strong hedge against inflation.

Leading the charge

With the US set to lead the charge on global rate rises, the US dollar is likely to strengthen against most major currencies, in particular the euro, sterling and Chinese yuan. For dollar-pooled or denominated investors, UK and European property markets will be likely to appear better value by the year end, while those from the Chinese mainland will find US or Hong Kong property investments more expensive.

The yuan faces another big issue in that a larger than expected decline in its value versus the US dollar could slow efforts to liberalise and internationalise the currency, or even stall them altogether. Any slowing of this process would reduce the flow of investment funds out of China.

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Despite tighter monetary policy, borrowers will still be able to lock into cheap rates of debt in 2018

Despite tighter monetary policy, borrowers will still be able to lock into cheaper rates of debt in 2018. This process will become more noticeable in 2018, as some recent policy moves come into operation during this year.

American rising

Tax reform in the US should prompt an increase in inbound investor interest. There is a general consensus that the reforms will spur additional economic growth. While this growth will act to raise property performance, it will be offset by rising rates and the strengthening dollar.

Brexit negotiations between the UK and the EU will undoubtedly influence investor behaviour across much of Europe, with some anticipating an uplift in residential and commercial property demand in Dublin, Paris and Frankfurt should bankers begin to relocate from the City of London. If 2017 is anything to go by, though, they are in for a long wait as only a trickle of jobs so far have been reported as set for a move.

The big news to influence all global markets will be the shift in monetary policy. But even this is unlikely to offset the impact of strong global economic growth and wealth creation in the short term, both of which should act to support demand for property.
Perhaps the question Knight Frank’s residential research teams around the world are most frequently asked by clients and journalists is: “where next?” The ability to identify the hotspots of the future is arguably the one superpower most investors and second home buyers would choose to be blessed with to enable them to stay one step ahead of the crowd.

Over the next six pages, our global teams share their local market insights, pinpointing the neighbourhoods they think will outperform their wider city or regional markets over the next five years. For some, transport improvements play a significant role; for others, new industries or an area’s comparative value explain their selection.

To assist international purchasers, we have included not only the 2017 price change in local currency from the PIRI 100 (see page 34) for the wider city areas, but also displayed the price change in other key currencies.

**Perth, Australia**

Bradley van der Wilk, Knight Frank Australia

-5.0% +0.6% +4.1% +11.7%

**The Wealth Report 2017**

Kate Everett-Allen curates a selection of urban districts whose location, infrastructure and vibe mean they’re set to outperform the competition.
Kwan Tong, Hong Kong
David J, Knight Frank Greater China

HK$14,000 per sq ft today. This price is already being felt: apartment prices are rising as companies look to move away from financial centres like Central and obtain more space in areas such as Western District – stretching from the west to Porte Saint-Denis in the east – as a neighbourhood very much on the up. Trendy bars and chic restaurants are flooding into the area – already a magnet for new tech companies — along with small retail shops and concept stores.

The eclectic vibe, combined with classic Haussmannian architecture, is attracting demand from a new clientele of hipsters, fashionistas and well-to-do “bourgeois bohemians”, including UK buyers attracted by the proximity of the Gare du Nord and the area’s location just ten minutes’ walk from Les Halles and Montmartre, and close to Drouot and Le Marais. With interest strong among Swiss and US buyers too, €10,000 per sq m is no longer an aspirational price threshold.

The opening of Kempinski International Airport in 2008 has helped tune the airport, a hamlet in the suburbs of Bengaluru’s north-eastern fringes, into a prime real estate opportunity. Its proximity to the airport and fast-developing physical infrastructure have proved attractive to business, with IT parks and special economic zones transforming the skyline, and hotels, education institutions and shopping malls following hot on their heels. Now, developers are looking to capitalise on the area’s strategic location with modern, high-spec apartments designed to appeal to young IT professionals who will house their families in Brentwood – an upscale residential area

Le Grandes Boulevards and Bonne Nouvelle, Paris
Roddy Aru, Knight Frank International

Noted between the 2nd, 9th and 10th arrondissements, the area around Le Grandes Boulevards and Bonne Nouvelle – stretching from Opera in the west to Porte Saint-Denis in the east – is a neighbourhood very much on the up. Trendy bars and chic restaurants are flooding into the area – already a magnet for new tech companies — along with small retail shops and concept stores.

The eclectic vibe, combined with classic Haussmannian architecture, is attracting demand from a new clientele of hipsters, fashionistas and well-to-do “bourgeois bohemians”, including UK buyers attracted by the proximity of the Gare du Nord and the area’s location just ten minutes’ walk from Les Halles and Montmartre, and close to Drouot and Le Marais. With interest strong among Swiss and US buyers too, €10,000 per sq m is no longer an aspirational price threshold.

Thanisandra, Bengaluru
Deepa Grove, Knight Frank India

The Western Suburbs – it is already home to affluent families, as well as celebrities, athletes and politicians. This pocket of the city has always been high-end, but recently there has been an influx of new restaurants and high-end boutiques — the long-established boutiques — the long-established boutiques – the long-established boutiques – the long-established boutiques – the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the long-established boutiques — the 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Perched in the hills overlooking the Bay of St Tropez, the village of La Garde-Freinet is characterised by its surrounding forests of oak and cork trees - historically, the source of much of its wealth. Typical of its cobbled streets and offering traditional bastides, estates, and large villas, the region attracts international buyers looking for Provencal charm within striking distance of both Nice International Airport and the sea – but without the hustle, bustle and stratospheric price tags of Cap d’Ail. Around €1.5 million will buy a four-bedroom house with one hectare of private gardens, while €2.5 million will secure an extra-ordinary six-bedroom home with large grounds and an unusual view.

CIB, Cape Town
Richard Hardie, Knight Frank

A world-renowned business address, Cape Town’s CIB is now emerging as a sought after residential postcode too. The city’s central core extends from the Harbour, with Strand Street and the railway station at its heart. Once dominated by high-rise office blocks, an injection of new capital and innovative ideas is changing both the atmosphere and the skyline. Initiatives such as First Thursday, when galleries and museums stay open late, the area’s world-class restaurants and its views of Table Mountain and Cape Town Harbour have led to an upsurge in interest from CBD workers anxious to stay close to their offices. This promises to provide the “hub” that has been lacking hitherto, and will complete the gentrification of Westbourne Grove. We expect to see a significant impact on prices, with the location materially outperforming the Knight Frank Prime Central London Index over the next few years.

Palm Jumeirah, Dubai
Tamur Khan, Knight Frank Middle East

The Palm Jumeirah, the world’s first series of artificial archipelagos, has quickly established a global reputation. Traditionally the island, which is shaped like a palm tree, has featured luxury apartments on its stem and sprawling garden homes and villas on its 16 fronds, attracting young professionals and families respectively. Now, with the development of The Pointe and Dubai Mall, offering some 5.9 million sq ft of entertainment, dining and retail, the appeal of the stem is set to broaden. A two-bedroom apartment starts at US$750,000, while garden homes and villas start at US$3 million.

Bayswater, London
Ian Harris, Knight Frank

There has been much speculation over the past ten years about Bayswater’s potential as a prime address. To date, though, it has not performed as forecast; surprisingly, given its position close to Hyde Park and when compared with neighbouring Notting Hill and Marylebone. However, things may be about to change, following the announcement of plans for a major redevelopment of the Westbourne Road and shopping centre and the northern end of Queenway. Architects Foster + Partners have been appointed to create a major mixed-use scheme, with a transformative mix of retail and amenity facilities centred around a large courtyard and anchored by a five-star boutique hotel offer alongside residential accommodation. This promises to provide the “hub” that has been lacking hitherto, and will complete the regeneration of Westbourne Grove. We expect to see a significant impact on prices, with the location materially outperforming the Knight Frank Prime Central London Index over the next few years.

Financial District, New York
Andrew Wachtel, Douglas Elliman

Manhattan’s southern tip is home to the Financial District, or FDI. Long sidelined as a purely residential area, Wall Street at its heart, FDI is now one of the most stylish and sought-after pockets of residential real estate in Lower Manhattan. Crop up or universities, from upscale food halls and chic boutiques to lively neighbourhood bars and power lunch spots, have been added to the area’s existing charms, like the cobblestone streets and 19th-century red-brick buildings of the South Street Seaport, which fuel a world away from New York’s bustling streets. Unlike neighbouring Tribeca, where converted industrial buildings dominate, sleek and contemporary high-rise apartments populate FDI’s streets and sit alongside key landmarks such as the World Trade Center, One World Observatory and the popular 25-acre Battery Park. A two-bedroom apartment at 125 Greenwich Street starts at US$2.26 million, while a larger three-bedroom penthouse apartment at 1 Seaport Residences starts at US$7.15 million.

Paya Lebar Central, Singapore
Alice Tan, Knight Frank Singapore

Located on the eastern fringe of the city, the former swamp of Paya Lebar was originally cleared to make way for an airport in the 1950s, along with housing, schools and factories. Now, the area is seeing a new wave of gentrification, thanks to its rich cultural heritage, array of public and private housing along with department stores, commercial and community facilities and excellent transport links to both the East Coast MRT and Circle underground lines. Riding on the momentum of recent commercial developments in Paya Lebar Central, further urban regeneration is now under way with the completion of Paya Lebar Quarter. A four-hectare integrated development by Landlease that is set to transform the area into a regional business and lifestyle hub. The average price of a typical two-bedroom private condominium is from S$900,000 to S$1.2 million, while a three-bedroom condominium ranges between S$1.1 million and S$1.5 million.

Karen, Nairobi
Ben Woodhams, Knight Frank Kenya

Karen is a wealthy suburb of Nairobi some ten miles west of the CBD, named after Karen Blixen, the Danish expatriate who lived here in the early 20th century and famously wrote about her experiences in the book Out of Africa, subsequently made into an Oscar-winning film. From the early 2000s, growth was rapid, with many of the original five- and ten-acre plots developing into large villas, the region attracts international buyers looking for Provencal charm within striking distance of both Nice International Airport and the sea – but without the hustle, bustle and stratospheric price tags of Cap d’Ail. Around €1.5 million will buy a four-bedroom house with one hectare of private gardens, while €2.5 million will secure a...
Firm foundations

Solid fundamentals are underpinning record levels of private buyer interest in commercial real estate as investors chase assets across the world’s super-cities. Anthony Duggan takes a detailed look at the trend.

A robust global economy with synchronised regional growth is supporting the dynamics of the world’s commercial property markets. And investors, both private and institutional, continue to see real estate as an attractive part of their overall investment portfolios. The benefits include a stable income return, the potential for capital value growth, diversification and, in particular, its status as a relatively high-yielding asset class in a world that is on the hunt for returns.

A key pillar supporting investor sentiment is the healthy state of occupier markets. This drives demand for floor space, supporting rents and ensuring the security of income return. Structural shifts, often driven by technological change, are behind trends such as the rapid expansion of logistics operators into distribution space to satisfy the shift to online retail.

Demand for flagship retail units on prime pitches is also strong as retailers look to provide a unique experience to promote their brands, while serviced office providers benefit from companies increasingly embracing new, flexible, space-as-a-service offerings. Moreover, evolving demographics underpin the ongoing institutionalisation of specialist real estate sectors, such as student housing, elderly accommodation and healthcare.

Technology firms in particular are growing rapidly and are supporting leasing markets across property sectors. Amazon, for example, added nearly a quarter of a million employees during 2017, primarily by creating new jobs in its fulfilment centres (driving logistics demand), call centres and in software development and engineering (driving office demand). As part of this rapid growth, the business is currently finalising plans for a second headquarters location. It has received bids from 238 cities and regions across North America, eager to compete for the 50,000 or so jobs and significant investment the move will bring.

Global performer

Commercial real estate remained a favoured asset class for global investors during 2017, with transaction volumes robust at US$840 billion and above-average returns recorded across many sectors and markets.

MONEY BLOCKS

How property investments were allocated in 2017 by region and city

<table>
<thead>
<tr>
<th>Region</th>
<th>Investment (US$BN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NORTH AMERICA</td>
<td>46%</td>
</tr>
<tr>
<td>EUROPE</td>
<td>36%</td>
</tr>
<tr>
<td>ASIA</td>
<td>17%</td>
</tr>
<tr>
<td>OTHER</td>
<td>2%</td>
</tr>
</tbody>
</table>

TOP 10 CITIES

Investment (US$BN)

1. LOS ANGELES 21.3
2. CENTRAL LONDON 20.8
3. MANHATTAN 20.2
4. DALLAS 19.7
5. ATLANTA 14.2
6. CHICAGO 14.0
7. BOSTON 12.8
8. HOUSTON 12.1
9. WASHINGTON DC 10.9
10. BERLIN 10.4

Online image sources, one office at Principal Place, the City of London.
Transaction volumes were supported by a strong year for outbound capital flow. London was a focus for a large proportion of this overseas capital, and the city’s office market saw a record number of large deals transacted, driven by a huge wave of private money chasing big single-asset transactions. London’s leading position as a global metropolis, its landlord-friendly lease structure, the ability for buyers to secure large lot sizes and the recent weakness of sterling have all outweighed any apprehensions investors may have had over potential fallout from the UK’s decision to leave the EU.

From strength to strength
Hong Kong also saw a surge in activity as domestic investors bought heavily into office and retail markets. While some investors are building at the pricing of Hong Kong assets and are looking to other global super-cities, many see Hong Kong’s tight supply, strong demand and high liquidity as justification for the high price of securing exposure to the market. Conversely, New York saw a fall in the volume of deals, with concerns about interest rate rises and changes to fiscal and regulatory policy causing both domestic and international investors to pause their buying strategies. With the underlying real estate and economic drivers in the US remaining positive, we expect the market to pick up again in 2018.

Investment in the main European cities has also risen over the course of the past few quarters as clear signs of an economic recovery combine with improving occupier markets. Europe will continue to move up many global private investors’ target lists as fundamentals go from strength to strength. One clear trend over the past few years has been the increasing globalization of many real estate investment portfolios. As private investors become progressively more exposed to their domestic market, through either business ownership or real estate investments, there is an increasing propensity to look to other core geographies for asset diversification.

Super-cities
The top targets are primarily those locations that can provide deep, liquid and transparent real estate markets, so it is unsurprising that the top ten global super-cities attract nearly 30% of total annual investment transactions each year. These super-cities, such as London and New York, are a compelling prospect for investors looking to invest outside their domestic markets for the first time. Transparency and liquidity, as well as language, law, best-in-class advisers and currency stability, all provide reassurance for those on a new journey.

Given the continued growth in global wealth and allocations to real estate highlighted in this report, it is perhaps unsurprising that private investors continue to be a significant buying force in commercial real estate. Indeed, during 2017, private investors accounted for a third of all purchases; the highest proportion for over ten years. Appetite for real estate continues to increase globally, as investors grapple with the global low-yield, low-return environment and shore signs of shifting allocations away from some fund types such as hedge funds. In addition, there are worries around perceptions of stretched valuations across many publicly traded bonds, while record-breaking equity markets are making some nervous. As a result, money is moving towards alternative investments, with real estate a prime target for a large proportion of this capital because of its relatively high yield.

Understanding all these drivers are commercial real estate’s fundamentally attractive attributes: a relatively stable return profile with opportunities for improvement; potential for capital value growth; and the opportunity to diversify from existing assets or geographies. In particular, real estate provides the ability to fine-tune and control an investment strategy – buyers can tailor purchases in terms of geography, sector and tenant type, as well as lot size, ownership structure, business plan and risk profile. We expect that strong global demand from private investors will continue to build.

Liquidity assets

Mega-deals are on the rise around the world, says William Matthews – and private capital is fuelling the growth

Few purchases come with a billion-dollar price tag, even in the world of real estate. As recently as the previous decade, just a handful of buildings breached this threshold each year, the majority of them offices in Manhattan, bought by institutional investors and property companies. The market for these mega-deals is changing rapidly, however. The past five years have seen the total value of US$1 billion-plus transactions jump from US$42 billion in 2012 to over US$240 billion in 2017. Asia has emerged as the predominant source of demand, accounting for just under two thirds of purchases by volume.

The types of investor has been evolving, too. While just a few years ago no private capital was involved in any US$1 billion-plus purchase, private investors were behind three such deals in 2017. In fact, thanks to the US$1.1 billion purchase of The Center office building in Hong Kong by a consortium of domestic investors, private capital backed over 40% of mega-deals by value in 2017.
For those with the means, the allure of investment at this scale is clear. Typically, buildings that can command such a high price are landmarks, defined by world-class architecture or instantly recognisable silhouettes, and famous in their own right. Purchasers of such buildings gain instant global recognition as “serious” investors, and can potentially use this to enjoy preferential access to further deals.

There are also practical reasons for considering very large lot sizes. Commercial real estate transactions take time and energy, potentially making a single large purchase more efficient than a number of smaller ones. A larger scale also provides interesting asset management opportunities. And, while many trophy buildings are bought as part of a long-term holding strategy, their status is such that when the time comes to sell there is likely to be a waiting list of eager bidders.

Above the billion-dollar threshold, most transactions involve office buildings. While the source of demand for these offices is increasingly global, the drivers behind pricing are most certainly rooted in local markets. Simply put, a billion dollars will buy a lot more in some markets than it does in others, and we use the Knight Frank Skyscraper Index to monitor the extent of this gulf. The analysis reveals one reason why even investors with some of the largest budgets, including those from Hong Kong or Singapore, may be looking to invest beyond their domestic markets in comparably less expensive locations such as London.

Broadening the criteria to include deals worth US$500 million-plus, a somewhat different picture starts to emerge. The same overall trend of rising investment is evident, with purchases growing from US$21 billion in 2012 to US$53 billion in 2017, but the mix of assets is broader, featuring shopping centres, hotels and industrial facilities.

Regardless of pricing, single-asset transactions are not the only way for private investors to gain large-scale exposure to commercial real estate. Platform deals – in which purchasers buy the operational business as well as the underlying real estate – are proving increasingly popular with a wide range of investor types seeking to deploy capital quickly.

Such deals represent an alternative way to make acquisitions of scale. They also come with the advantage of a management team in place to look after day-to-day operations, which can be especially helpful when entering unfamiliar markets.

Although traditionally the preserve of sovereign wealth funds, private equity and institutional investors, some private investors also appear to be following this path. For example, in 2017 it emerged that Hong Kong investor Samuel Tak Lee, whose portfolio includes the 14-acre Langham Estate in central London, had increased his share of Shaftesbury, a real estate business listed on the London stock exchange, prompting speculation regarding a possible takeover bid.

For those private investors willing to take a more hands-on approach, there is no reason to be constrained by the availability of existing platforms. Creating new portfolios of prime assets is one route that has proved attractive to family offices globally. The rise of Pontegadea Real Estate, a multi-billion-dollar portfolio assembled by Inditex owner Amancio Ortega, shows that this can be done with speed and at scale.

We predict that the volume of US$1 billion-plus and US$500 million-plus deals – single buildings or portfolios – will continue to grow as the real estate asset class matures globally and investors, ranging from institutions to sovereign wealth funds, gradually ratchet up allocations. Yet even with the current pace of growth, it would be a stretch to characterise this tier of the market as truly liquid. And therein lies the opportunity for private investors: free of the timing constraints of commercial rivals, their patient capital can wait for the right opportunities to acquire some of the world’s best real estate.
Family offices are flexing their muscles when it comes to the search for better returns. Tom Bill takes a closer look at their evolving investment strategies.

A nine-year period of ultra-low interest rates has inevitably affected how investors deploy capital. For private family offices, it means shaking off their sleepy reputation, taking a more hands-on approach to investment, and increasing their exposure to higher-yielding assets such as real estate.

It represents a natural evolution for an investment model that only became widespread in the 1980s, but also follows greater scrutiny of traditional asset managers. Institutional funds and hedge funds have battled against an outflow of investors’ cash as they struggle to justify investment methods and fee structures in markets that have become more difficult to second guess.

“Family offices have become sexy,” says Russ D’Argento, founder and CEO of FINTRX, a family office asset-raising platform based in Boston, US. “Running parallel to their sheer growth has been the increased sophistication of those running them. Not only are the folks who are pulling the strings regarding investment decisions better versed in the process, they’re also positioned to make quicker decisions when they see unique opportunities.”

Assets under management (AUM) at family offices have grown as the model becomes more popular and the capital invested works harder. Family offices accounted for US$1.8 trillion of AUM in 2016 according to FINTRX, a figure that grew 29% from US$1.4 trillion in 2015.

The Landon family office is an example of one that has adopted the kind of sophisticated approach referred to by Mr D’Argento. It has clubbed together with other European family offices to invest directly in real estate and private equity opportunities in the US, where it manages a combined US$550 million of market equity.

Creative thinking
“We were once invested in around 25 private equity funds, but the overall returns were being corroded by the fee structure,” says Rupert Edis, Chief Executive of JPS Finance, the Landon family’s London-based office. “Most were charging an annual 2% fee on capital that had not even been deployed.” The more adverse global tax landscape has also played its part, says Mr Edis. “Increasingly, to preserve capital you have to grow capital.”

While not all offices are taking quite such an innovative approach, many are scrutinising their use of external asset managers. One executive at a family office with about US$1.7 billion of AUM said that they had switched away from active stock-picking funds into cheaper, passively managed exchange-traded funds in recent years, because finding returns that justified the high fees was...
difficult in a market inundated with capital from quantitative easing. It has also wound down its exposure to bonds because of the low returns and, in line with many other family offices at this stage in the investment cycle, has reduced its use of hedge funds. “The idea was that hedge funds would make a lot of money in the downturn,” says the executive, “but many simply didn’t.”

All of which means real estate is typically at the centre of any strategic rethink, representing an increasingly important asset class for family offices. Some 53% of global offices had some exposure to real estate in 2016, up 6% on the previous year, FINTRX data shows. Indeed, private buyers accounted for 54% of global commercial real estate investment in 2017. 

Knight Frank’s Head of Global Capital Markets Andrew Sim concurs. “There is a huge volume of private investor and family office money looking for real estate returns and new global channels of investment. From merchant banks to industrialists in tier-three Chinese cities, more investors are waking up to the benefits of real estate investments.”

**A saver approach**

Families are hiring more expertise and using alternatives to traditional office investments, such as lease terminations or rent reviews as they arise, often in sync. The approach is now far savvier.”

By way of example, Mr Eds says that the average total annual return on JPS’s real estate investments in the US has been 23% since 1994. “These are emerging market levels of return in the most developed economy on the planet,” he says. “Our current strategy is based around offices and mixed-use developments with rental apartments. We are surfing the demographic wave of the millennial generation who want to reside in city centres in places like Boston, Atlanta, Washington DC, Charleston and Savannah.”

“Family offices like real estate because they can closely manage risks,” says Anthony Duggan, Head of Capital Markets Research at Knight Frank and a strategist on the company’s Family Office Forum initiative. “If you buy a FTSE 100 share, you are exposed to many different dynamics. There are far fewer variables when you buy an office in Berlin, and families like that.”

The sheer pace of wealth creation in places like Asia has also played a part, says Bunny Wang, Knight Frank’s Head of Global Capital Markets in China. “Rapid growth of wealth means careful thought about diversification and steady returns,” she points out. “We worked with a family office from the tech sector who did this by avoiding traditional office investments, instead targeting a WeWork-type serviced office development in Boston.”

An executive from a third family office, with about US$5 billion of real estate AUM, said that a sense of control over wealth, which is often destined for the next generation, was a key consideration for family offices. “Funds can look you into an investment for several years,” they say. “No institution is going to fully understand the needs of an individual family office and we found that when we wanted liquidity to do deals that were consistent with our strategy, the lock-in period meant we couldn’t.”

**Patient capital**

The results of The Wealth Report: Attitudes Survey underline the link between real estate and this growing and increasingly professionalised pool of private capital. Stock markets rose to record highs in 2017 due to US tax reforms among other factors, so it is unsurprising that 62% of the survey’s respondents said that their clients had increased their exposure to equities. However, the second largest rise was in real estate, with 56%, on average, reporting an increase across the globe. Some 38% of the wealth managers taking the survey said that UNHRI investors were happy to take more risk, compared with 32% who reported that they were less willing - underlining the importance of higher returns.

The relative safety and liquidity of offices remained the most attractive sector for investors, with 80% declaring a growing interest. However, Mr Duggan believes that this will change in coming years as private wealth becomes even more sophisticated in its approach to investment. “The 1990s were all about the wave of institutional capital hitting real estate markets. That was followed by waves of private equity and sovereign wealth capital. The next ten years will be all about the impact of private wealth.”
Economic outlook

James Roberts, Knight Frank’s Chief Economist, shares his take on the key trends set to shape the property investment landscape in the year ahead.

The global economy moved into a new cycle in 2017, following the sluggish performance seen in the years after the global financial crisis. The election of President Trump did not derail US growth, the euro area saw output strengthen and unemployment fall, while rising commodity prices helped lift mineral-exporting nations out of the doldrums.

In 2018, we see growth strengthening further. The International Monetary Fund is predicting that the global economy will expand by 3.7%, which is correct. This will probably be the highest rate of growth since 2011. In this context, UHNWIs need to think of moving away from safe haven investments and towards risk-facing assets, which typically perform strongly in cyclical upswings. Here are four economic trends for investors to consider in 2018.

A rebound for office-based industries

Many emerging market nations are now seeing rapid growth in service industries, most notably China. This reflects the growing economic strength of the country’s middle classes, and its increasingly sophisticated economy.

Meanwhile, after years of consolidation, many service firms in developed economies are new right-sized and looking for opportunities. Consequently, we expect growth coming in 2018 for office-based service industries, as expansion in the tech sector and more cross-border investment creates demand for professional and financial services.

Analyst and forecaster Oxford Economics is predicting worldwide GDP growth for 2018 of 3.7%, which if correct would be the highest rate of growth since 2011. In this context, UHNWIs need to think of moving away from safe haven investments and towards risk-facing assets, which typically perform strongly in cyclical upswings. Here are four economic trends for investors to consider in 2018.

The cyber-security arms race

In 2017, cyber-attacks were frequently in the news, ranging from the global repercussions of the WannaCry virus, believed to have infected over 300,000 computers in 150 countries, to the attempt to hack the email accounts of members of the UK Parliament. Research firm Gartner estimates that global corporations spent over US$86 billion on cyber-security in 2017, up 7% on 2016, a figure it is forecasting to rise to US$93 billion in 2018.

As we move into an age where computers are starting to drive cars, and will soon control all the appliances in our homes, the potential for cyber-attacks to cause damage is going to increase exponentially. We see demand for cyber-security software and services further boosting the already robust economic growth seen in those cities that are popular with tech firms. This will probably result in nervous conditions in European investment markets across asset classes, similar to the “taper tantrum” seen in the US when the Fed wound down its QE purchases. It is popularly said that markets hate uncertainty, and this could present investors who are prepared to look past short-term nerves with an opportunity to buy assets in the euro area at a discount.

Europe’s taper tantrum

During 2017, the central banks of Canada, the US and the UK all increased their policy rates, in what was seen as the beginning of the end for exceptionally low interest rates in those nations. By contrast, the European Central Bank (ECB) continued to pursue quantitative easing (QE). However, some of the euro area nations, in particular Germany, have not needed such emergency policy measures for several years now.

With unemployment now falling and growth picking up across the currency bloc, the ECB is widely expected to begin gradually turning off the QE tap in 2018. The cyber-security arms race

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Digital Asia

The latest wave of the tech revolution has been closely associated with major Western cities like San Francisco, New York City, London and Berlin. However, it is worth noting that the top ten list of global internet firms ranked by revenue contains three Chinese companies. The most recent edition of Knight Frank’s Global Cities report found that e-shopping was flourishing in Asian cities such as Bangkok and New Delhi. Many Chinese cities are rapidly going cashless, via mobile phones and QR codes. Even buskers accept e-payments.

UHNWIs looking to capitalise on the rise of digital Asia should examine how the trends unfolded in the West for clues on how to invest. The rise of e-shopping in the West has boosted demand for courier companies, and pushed up the value of the warehouses they operate from. Also, there is ample evidence that in the US and Europe the tech phenomenon has been stronger in those cities with the best universities and the most vibrant social scenes. This will probably be the case in Asia, too.
Leading lights

From urban hotspots to dynamic new sectors and transformational infrastructure projects, Knight Frank’s investment advisers around the world identify seven exciting opportunities for private property investors in 2018 and beyond.

Picking investment winners in any asset class depends on a number of elements coming together. In real estate, for example, the key factors might include a dynamic location, a sector that’s in growth mode, and positive demand from both occupiers (to provide the income) and investors (to drive up prices).

Here, we identify seven areas where we see all these elements aligning, and that we believe have the potential to outperform the competition over the next few years. They include three cities highlighted by our global network as having significant economic momentum and positive property market dynamics, three sectors with strong occupier demand driven by structural shifts and, last but by no means least, a vision and strategy with the potential to have a truly transformational impact on locations and markets around the world.

Hot cities

Amsterdam: The Netherlands increasingly appears on the radar of investors seeking exposure to the economic and property market recovery in Europe. In Amsterdam, high vacancy rates in the office sector have been a concern for those looking to deploy capital, but availability is now tumbling – office leasing reached a nine-year high in 2016, and 2017 was equally strong – and supply shortages are emerging in the most sought-after districts. At the same time, the city’s vibrant and expanding technology sector is driving demand, and rents are rising. While Amsterdam draws significant investment volumes, positive market dynamics in Rotterdam are also attracting interest from global investors. Indeed, with investors looking to the Netherlands as an appealing alternative to more expensive European markets such as Paris and Berlin, demand for assets is expected to remain robust.

Manila: The Philippines is seeing significant growth in its real estate markets, with Manila – home to nearly 13 million residents – at the heart of this expansion. Strong economic fundamentals, an investment-grade rating and an increasingly transparent real estate market are attracting growing interest from investors around the world. Office vacancy rates remain constrained despite ongoing development activity as local and offshore occupiers drive robust levels of office demand. With further significant infrastructure projects planned, Manila is growing into a significant regional hub and, increasingly, a destination for global real estate investment.

Pittsburgh: Now emerging from the shadows of the giant US technology centres of Silicon Valley and San Francisco, Pittsburgh is establishing itself as a tech centre capable of attracting the world’s biggest firms. Household names with an office in the city include Amazon, Apple, Facebook, Google and Uber. Indeed, more than 70 major tech-focused firms with headquarters in Silicon Valley have opened local offices in Pittsburgh over the past ten years, helping drive its status as a key technology hotspot and, in particular, as a centre for the development of artificial intelligence and autonomous vehicles. In its turn, this growth is triggering regeneration and increasing interest from real estate investors.

Sectors on the rise

Logistics: The strong growth of online consumer spending continues to drive high levels of leasing activity of logistics units by retailers (both traditional and online) and third party logistics providers. This active demand is driving robust income returns through strong rental value growth in locations that can offer low vacancy rates and modest development pipelines.

This is not a new topic for The Wealth Report; we discussed the trend in some detail last year. However, we continue to expect significant growth to come from the structural changes ongoing across...
the globe. For example, in the UK, logistics property returns, as measured by MSCI’s IPD Property Index, exceeded 20% in 2017 – and industry consensus forecasts predict that it will again be the top performing commercial property sector in the UK in 2018.

While the UK has a relatively more advanced online sales platform (around 18% of retail sales are online), other countries are at a much earlier stage of adoption (10% in France and 5% in Spain, for example) and are expected to continue to grow at pace. Amazon is well established in markets such as the UK and the US, but only opened a full retail offering in Australia in December 2017. There is plenty more mileage in this real estate story.

**Flagships:** As a larger proportion of retail spending moves online, and retailers shift their strategy to ensure that they thrive in the world of multichannel retailing, a clear – if perhaps counterintuitive – trend is the growing importance of the bricks-and-mortar store. Retailers recognise the value of a physical presence that acts as a showcase, drawing customers in and creating an experience that encapsulates their values in a tangible way and brings their brand “story” to life.

Big brands such as Apple, H&M, Louis Vuitton, Uniqlo, Samsung, Nike and others cluster in premier locations, with many brands having multiple flagships around the world – and often more than one per city. Suitable assets are seeing strong demand as retailers place greater value on these “destination” flagship stores and compete for space in the prestigious locations that best reflect their brand and ambition.

**Agriculture:** Global demographics and changing consumption trends all point to agriculture as a sector brimming with opportunity over the short and long term. It is estimated that population growth, land degradation, the impact of climate change and lack of access to water will require an additional cropping area equivalent to three times the size of France by 2030.

Where and what to invest in will very much depend on an individual’s attitude to risk and their investment horizon. For those looking for large-scale land holdings with security of tenure, top-quality management, significant energy and environmental diversification potential, and convenient access to water will require an additional cropping area equivalent to three times the size of France by 2030.

In Africa, where the population is set to grow by almost 500 million people by 2030 and the sub-Saharan middle class is growing rapidly, Zambia offers both existing agricultural units farmed to Western standards and opportunities to purchase significant tracts of undeveloped land at much lower prices. In the UK, Brexit may well pose a challenge for some farmers, but it will undoubtedly also offer plenty of opportunities for innovative and forward-thinking agri-entrepreneurs.

**China’s game-changer**

Spanning 69 countries and encompassing around 60% of the world’s population and 40% of global GDP, the Belt and Road Initiative (BRI) is an ambitious Chinese vision aimed at driving economic growth, expanding global influence and promoting interconnectivity and integration. The BRI – which is scheduled to be complete by 2049 – will provide a platform for new trade routes, economic links and business networks across six economic corridors from China to Central and South Asia, the Middle East and Europe and along a maritime route from South-East Asia and Oceania to the Middle East, Africa and Europe.

With the majority of BRI countries already undergoing rapid modernisation and urbanisation, the need for investment in roads, railways, ports, airports, pipelines and technology infrastructure is growing exponentially. At the same time, the growth of new domestic and multinational companies in the BRI is also attracting Chinese investment, with merger and acquisition activity growing significantly year on year. For many Chinese firms, the BRI will become a core part of their business strategy and, increasingly, Chinese brands will become global.

As an opportunity for real estate investors, the development of the built environment alongside the BRI, through infrastructure, logistics and new urban settlements over the coming decades will be considerable. The initiative will drive substantial new capital investment alongside a major increase in the activity of Chinese businesses that will bring exciting prospects for development, investment and value growth.

Of the 69 countries named as part of the initiative, the Knight Frank New Frontiers report scored locations such as Singapore, Qatar, New Zealand, Estonia and Malaysia highly on our Belt and Road Development Index. There will be significant benefits for those real estate owners who can identify the right assets and harness the momentum that the BRI will undoubtedly bring.
Luxury spending

Investments of passion
and objects of desire

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Face-off
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Home is where the art is
The evolving links between art and property
- page 70
Mohit Burman is a mixture of nerves and excitement as we chat about cricket in a private members’ club in London’s Mayfair. And understandably so. In just a few weeks the latest player auction for the Indian Premier League (IPL), the annual 20-over, big hitting cricket tournament that has revolutionised the game, is set to get under way.

This will be Mr Burman’s chance to bid for the players that he’d like to play for the team in which he holds the majority share, the Mohali-based Kings XI Punjab, over the next three years. If it were simply a matter of having deep pockets Mr Burman might be feeling more relaxed – his family owns the Dabur group, one of India’s largest consumer goods companies, and is the JV partner of Aviva PLC in India. In the IPL, rather like a fantasy football league, strict rules govern how much can be spent.

The owners of each of the league’s eight franchises have a purse equivalent to around US$12.5 million to spend at the auction. However, with the most in-demand Indian or overseas players commanding multi-million-dollar price tags – Royal Challengers Bangalore set a record by retaining India’s national captain Virat Kohli for US$12.7 million – it’s a balancing act to assemble a team that has sufficient local and international star power to pull in the crowds and sponsors, but also enough depth to win games consistently. Teams can also only field four overseas players in any one game.

“You do need the names, but the trick is to identify up-and-coming young Indian players who will be your stars of the future,” says Mr Burman, who co-owns the team with Bollywood actress Preity Zinta and Indian businessmen Ness Wadia and Karan Paul. He plays his cards close to his chest when I ask who he’ll be targeting at the auctions. “I’m going to discuss it with my co-owners and team manager and then we’ll decide who we want.”

20/20 VISION

Buying your own sports team is one of the most exciting, but also one of the riskiest, investments of passion. An Indian billionaire shares the rollercoaster ride with Andrew Shirley
Ultra-wealthy investment into sports teams is a growing phenomenon. According to the latest Billionaires Insights report from bank UBS, over a 140 of the world’s top sports teams are owned by just 109 billionaires. The majority – 65 – are from the US, but 20 come from Asia, and Asian billionaires were behind over half of club acquisitions in the past two years.

I ask Mr Burman what’s driving the trend and why he got involved with cricket. “If you look at the US and the UK, affluent people buying sports teams is nothing new, but now huge amounts of wealth are being created in other parts of the world it’s become much more global.” There’s also been a shift in social attitudes, he adds. “Previously it wouldn’t have been considered acceptable to be seen spending a lot of money on a sports team, but that is changing now.”

Although most owners like himself are passionate about sport and love the thrill of owning their own team, nobody wants to lose money. “Of course I’m a huge cricket fan, but I definitely saw it as an investment when I bought my stake in the franchise,” says Mr Burman, who has been involved with the IPL since its inception ten years ago. “The team is run like any other business with a proper board and CEO. At the same time, I knew it could be difficult to make money owning a sports team – I was well aware of what I was getting into. You shouldn’t invest into sports that you can’t afford to lose,” he stresses. Even though the IPL is now one of the world’s richest sports leagues, profits are not a given. “We lost money for the first six years; it’s been a long learning process,” admits Mr Burman. “To begin with it was difficult to get sponsorship and some people assumed that the team owners didn’t care how much money they spent. It was easy for costs to spiral.”

Retaining sponsors can also be a challenge. Mr Burman adds: “Everybody is chasing the same companies and generally there are no specific benefits for a sponsor to be associated with one particular team. There is a lot of brinkmanship that goes on when you are negotiating.”

The high point of Mr Burman’s IPL involvement came in 2014 when the Kings XI won the round robin league part of the competition, just missing out on victory in the final knock-out game, despite scoring a highly respectable 200 runs. But even success doesn’t guarantee more money. “When you win games your players want to be paid more, although when they don’t do so well, the opposite certainly doesn’t apply,” he jokes.

Each team, for example, is allowed to retain three of their most valued existing players and strike individual deals rather than bidding for them in the three-yearly auction. But Mr Burman has let players go, because they asked for too much money. “You never know, I might get the chance to buy them for less in the auction.”

A model for success

Other sports in India have tried to copy the IPL model – Mr Burman himself has owned badminton and hockey franchises – but have not enjoyed the same success. “There’s just not the domestic and international interest to make it work financially,” he explains. Even an equivalent football competition would struggle here, he says. “Technology now means everybody can access every sport in the world, so why would they want to watch retired stars playing here when they can watch the world’s best players in the English Premier League? A senior 12-year-old kid wants to see world-famous teams and players.”

That’s not to say Mr Burman isn’t interested in owning a football team. He’s been asked to get involved with several English teams, but never felt confident enough to take the plunge. “Maybe one day the right opportunity will come along.”

At the moment, the main area he is focusing on is creating a marketing strategy to boost revenue streams from the Kings XI.
Face-off

A contrasting pair of record-breaking portraits helped art to drive wines off the top of the Knight Frank Luxury Investment Index in 2017. Andrew Shirley is blown away by the numbers.

One is the serene face of Christ, the other a contorted slash of colour. One was painted in the 15th century by an Old Master, the other by a New York graffiti artist who died of a heroin overdose in 1988. Both made over US$100 million at auction in 2017.

If Untitled by Jean-Michel Basquiat, sold via Sotheby’s to the Japanese collector Yusaku Maezawa for US$110.5 million – setting a new record for an American artist – had been the most expensive painting to go under the hammer last year it would still have been an amazing story.

However, it was Christie’s sale of Salvator Mundi by Leonardo da Vinci that really focused the world’s attention on the art market. Some experts decried its condition, while others doubted whether it was even by da Vinci, yet that didn’t stop a buyer from the Middle East deciding it was worth a staggering US$450 million, smashing the previous world record of US$179 million set by Picasso’s Women of Algiers in 2015.

These two headline grabbers are clearly extreme examples, but the wider art market also performed very strongly. For some time now art has lagged behind asset classes such as classic cars and wine in the Knight Frank Luxury Investment Index (KFLII), but 2017 was the year of its comeback. According to data from Art Market Research (AMR) that we use to track its performance, the average value of art sold at auction rose by 21%.

“Volatility in the art market has been driven by the prices of post-war and contemporary art in the last few years,” says AMR’s Sebastian Duthy. “After a depressed market in 2016 caused widespread concern, consignors were tempted back by auctioneers last year. The desire among wealthy art enthusiasts to add to their new museums carried on through 2017, while the appetites of great institutions such as the Louvre, which opened a new franchise in Abu Dhabi, put more pressure on supply.

“As prices for the very best 19th- and 20th-century art continue to hit the headlines, there is hope within the industry that the sensational da Vinci sale could attract a wider audience to Old Masters in 2018.”

Wine, which was KFLII’s top-performing asset class in 2016 with growth of 24%, put in another double-digit performance last year to clinch second place. The value of the Knight Frank Fine Wine Icons Index, compiled for us by Wine Owners, rose by 11%.

“Since the summer the currency effect caused by sterling’s devaluation has dropped out of the picture, and this could in part account for the moderated growth in the index for 2017,” points out Wine Owners’ Nick Martin.

Scarcity-driven markets remain particularly strong, he adds. “Burgundy markets rose 16.5% on the back of more or less insatiable global demand for the top wines, and a series of short harvests culminating in the 2016 release where some communities were down in volumes by as much as 70% due to frost damage.”
Much of the increase in demand is coming from Asia, says Andrew Gordon, Managing Director of Private Cellar, which provides a bespoke cellar management service for high-net-worth collectors. “The Fine Wine List has seen unprecedented turnover in recent months with particularly strong demand for stock with perfect provenance from discerning Asian customers,” says Mr Gordon.

“While partly due to the devaluation of sterling against other currencies, I do not believe that it’s a simple currency issue – buyers in the Far East have extremely sophisticated tastes and an ever increasing depth of knowledge, which makes it an exciting time for buyers and sellers alike. Demand for top Burgundies is stronger than ever, driven by the scant quantities produced in recent vintages, but blue chip wines from Bordeaux, Italy and California do not linger on our list for long.”

Record breakers

Even those asset classes that didn’t perform as strongly overall as art or wine in 2017 produced some record-breaking sales.

Classic cars, which are still by some way the best performing asset class in KFLII over a ten-year period, saw a number of striking auction results, with Bonhams dispatching a 1995 McLaren F1 for US$15.6 million, while a 1959 Ferrari 250GT California Spider LWB made US$18 million through RM Sotheby’s. But it was a 1956 Aston Martin DBR1, raced by legendary driver Stirling Moss, that was the year’s top seller when it was auctioned by RM Sotheby’s for US$22.5 million.

Although it has been suggested for some time that the classic car market might fall significantly, Dietrich Hatlapa of analyst HAGI, which provides our KFLII car data, isn’t too downbeat. “It’s hard to make predictions, but what I can be fairly confident about is that strong prices will be paid for the best cars by knowledgeable collectors this year.” The results from the year’s first major classic car auctions in Scottsdale, Arizona, seem to bear this out.

Luxury investments don’t need four wheels to benefit from the glamour surrounding motor racing. The cherished Rolex Daytona worn by actor and keen racing driver Paul Newman was another record breaker. Given to him by his wife Joanne Woodward and inscribed “Drive carefully”, the watch, guided at US$1 million, was sold by Phillips for US$17.8 million.

Chinese luxury investments and buyers were firmly among the record-breaking action in 2017. Hong Kong jeweller Chow Tai Fook paid a record price for a piece of jewellery, snapping up the Pink Star, a 59.6-carat vivid pink diamond, for HK$553 million (US$71 million), while a strikingly small and simple 1,000-year-old Ru guanyao ceramic brush-washing bowl doubled its pre-sale estimate by fetching HK$295 million (almost US$40 million). Sotheby’s handled both sales.

Even furniture, which brings up the tail of KFLII, has the power to defy expectations. Bonhams sold an exceptionally rare set of four 16th- or 17th-century Chinese huanghuali folding chairs, estimated at around £250,000, to an Asian buyer for almost £5.3 million.

Whether we will see records broken at the same rate in 2018 remains to be seen, but it will take some work of art to overtake Salvator Mundi.
Through history, prosperous individuals have built majestic homes for their prized collections. The Medici family supercharged the Italian Renaissance with its patronage of artists such as Leonardo da Vinci, Michelangelo and Raphael, while British art and architecture were transformed during the 17th and 18th centuries when the upper echelons of society returned from their Grand Tours of Europe. An array of impressive stately homes were constructed or, in some cases, reimagined as inspired owners endeavoured to incorporate these new European influences, both through the design of the buildings themselves and the newly acquired collections within. Today, a new generation of UHNWIs is taking over the mantle, creating new spaces designed to place much-loved collections at the centre of the home.

“I call them the modern-day Medicis,” says Charu Gandhi, Director of Elicyon, a Chelsea-based interior design studio. Mrs Gandhi has worked with an impressive list of clients, including numerous famous faces and one of the world’s wealthiest art collectors – who, incidentally, has just acquired the penthouse in a development on London’s increasingly fashionable Chiltern Street.

“Luxury collections are all about private enjoyment,” Mrs Gandhi says. “My clients want to be able to enjoy their favourite pieces with their loved ones every day in the comfort of their home.”

This focus on displaying beloved collections often takes precedence over all else. Mrs Gandhi frequently designs homes around her clients’ collections – even when the collections in question do not yet exist.

“One of my favourite recent projects was a four-bed apartment in London’s One Hyde Park development. The client had a clear design vision centred on art,” explains Mrs Gandhi. “But he didn’t yet have a collection – so creating that became a key part of my role too.” Mrs Gandhi went on to consult experts in New York and the Middle East, attend art fairs and auctions, and commission artists whose aesthetic she felt would fit in well with both the apartment’s design and the owner’s vision.

“For me, it was very important that my home at One Hyde Park reflected my passion for art,” says the apartment’s owner, a European entrepreneur. “It now has the perfect mix of well-established artists and rising stars, with stunning pieces from Andy Warhol, Damien Hirst, David Hockney, Joan Miró, Antony Gormley and Helaine Blumenfeld.”

Art was the top-performing asset in the Knight Frank Luxury Investment Index during 2017, rising by 21% to overtake recent front-runners wine and classic cars. To mark its resurgence, Sophia King explores the evolution of the long-established links between art and property.

Home is where the art is

Art was the top-performing asset in the Knight Frank Luxury Investment Index during 2017, rising by 21% to overtake recent front-runners wine and classic cars. To mark its resurgence, Sophia King explores the evolution of the long-established links between art and property.

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Aiming high

“It’s almost a prerequisite that super-prime buyers seek a home with a main room ceiling height of three metres or more,” says Rupert des Forges, Knight Frank’s Head of Prime Central London Developments. “That’s the minimum height you need to display serious artwork; something that many of our clients are factoring into their decisions.”

James Carter-Brown, Head of Knight Frank Residential Building Consultancy, agrees. “I’m finding that our clients are increasingly interested in contemporary art, particularly because of its investment potential. However, it can be challenging, to display from a structural point of view. As part of a major recent property refurbishment, one of my clients wanted help with the installation of a spectacular Dale Chihuly glass sculpture in their new development. We had to arrange for the ceiling to be reinforced to support it.”

A global quest

The quest for a home filled with impressive art is a global phenomenon. In the US, Knight Frank’s residential real estate partner Douglas Elliman frequently sees an overlap between its clients and residential real estate partner Douglas Elliman

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The quest for a home filled with impressive art is a global phenomenon. In the US, Knight Frank’s residential real estate partner Douglas Elliman frequently sees an overlap between its clients and those who attend high-end auctions and art shows, such as Art Basel Miami.

One example of this fusion of property and art is 75 Emmerson in New York’s NoLita neighbourhood. With exterior design by renowned New York architect André Kikoski and interiors by Kravitz Design – the design firm founded by American rock star Lenny Kravitz – the new development merges art, architecture and style with its richly textured façade and artful interiors.

In Switzerland, luxury interior design firm Accouter Design worked on a €20 million property on Lake Geneva centred on a particularly remarkable art collection, “The client owned priceless pieces, including sketchbooks by Picasso and Van Gogh,” says Mia Kitsinis, a senior interior designer at Accouter. “We referenced the unique style of these artists to create a scheme that conveyed opulence, paying particular attention to lighting, colours and contrasts to ensure that the interior architecture and decor enhanced – but didn’t overpower – these splendid artworks.”

Of course, art isn’t the only luxury collectible around which UHNWIs are building their homes. Mrs Gandhi has created projects inspired by collections of whisky, antiquarian books, jewellery, Bacarat crystal and even rare ceremonial robes which, following discussions with experts at the V
opera and Albert Museum in London, are now presented as museum-quality installations in the main living areas of one particular client’s house.

“Ultimately, collections are an extension of their owners,” Mrs Gandhi says. “An expression of who they are and what they enjoy.”

Place and space

Sometimes, however, even those with the largest of houses run out of room to display all their objects of desire; or, of course, they may decide for other reasons that the time has come to share their particular passion with the wider world.

Former commodity trader Christian Levett has been collecting ever since he was a child buying old coins and medals with his pocket money. Over the years he has amassed thousands of works of art and antiques, including the world’s largest privately owned collection of ancient armour. Since 2011, the bulk of his internationally acclaimed collection has been on display at the Musée d’Art Classique, a museum he created from a medieval building in the French Riviera town of Mougins.

Mr Levett says that place and space were the key aspects that inspired the project. A number of the artists whose works hang in the museum lived in Mougins, or were inspired by the countryside around it. Picasso, for example, spent the last 12 years of his life there. The town’s pre-Roman origins also form a suitable historic home for the antiques on show.

“I think the synergy between the collection and its surroundings add to the visitor experience,” explains Mr Levett. “The original interior had been entirely stripped out by a previous owner, so it offered the perfect blank canvas on which we could create four floors of open galleries and glass vitrines without upsetting the French heritage agencies,” adds Mr Levett.

A similar process, albeit on an industrial scale, was undertaken by London-based design and architecture practice Heatherwick Studio during its transformation of a giant disused concrete grain silo into the Zeitz Museum of Contemporary Art Africa (Zeitz MOCAA), which opened in Cape Town in September 2017.

In 2011, the owners of the city’s Victoria & Alfred Waterfront approached Heatherwick to develop ideas for the run-down site – home to a grading tower and...
In a stroke of serendipity, German philanthropist and former Puma chief executive Jochen Zeitz happened to be looking for a permanent home in which to share his private art collection.

“The technical challenge was to find a way to create spaces and galleries within the ten-storey high tubular honeycomb without completely destroying the authenticity of the original building,” says designer and studio founder Thomas Heatherwick.

42 silo towers – as a place of contemporary culture. In a stroke of serendipity, German philanthropist and former Puma chief executive Jochen Zeitz happened to be looking for a permanent home in which to share his private art collection.

“Passers-by typically can’t engage with a billboard in the same way that they can with an urban real and social media,” says Mrs Raikhel-Bolot. “By taking traditional advertising and transposing it to mural-size artwork, we’ve seen companies make significant increases in both their brand awareness and profit.”

Viola Raikhel-Bolot, Managing Director of independent art advisory firm 1858 Limited, works with agencies and brands to select the right artist for their campaigns and has seen at first hand the impact that graffiti advertising can achieve.

“Purchasers typically pick pieces of art on display that particularly complement the overall aesthetic of a property,” explains Mr dos Forges. “We’ve had some buyers request to purchase every piece of art on display; it’s rare, but it happens.”

Such a request is no small investment. Artwork displayed in show homes is borrowed from local galleries and tends to be of a value proportionate to the property itself. A prime new show home, for example, could be expected to be displayed at an estate of £400,000.

And show homes aren’t the only properties using art to enhance the overall visitor experience. In Christian Lavois’s three luxury ski chalets in the French resort of Courchevel 1850, a good number of Old Masters and more contemporary works can be found ensuring their keep on the walls.

“It definitely adds value to the chalets as a whole,” says Mr Lavois. “At this kind of level (rents hit up to £400,000 per week for Edelweiss, the biggest chalet in the French Alps), people expect to have the perfect experience in every sense, which includes being surrounded by great works of art.”

In Madrid, developer Italimmuebles has worked in collaboration with Carlos Cruz-Diez – hailed by some as one of the greatest artistic innovators of our time – to create Montalbán 11, an ultra-luxury development that integrates art and architecture to a level never before seen in the city. Kinetic art pieces by Mr Cruz-Diez feature in the foyer and elevator, and a unique piece of art is included in the sale price of each apartment.

“It's standard for quality luxury developments to be in a great location with high-end finishes,” says Maximilian Pizzorni, managing partner at Italimmuebles. “But UAVWVs are sophisticated people looking for more than that. We made sure that Montalbán 11 provides extra parking space for cars, extensive wall space for art, and spacious cellars for storing wine – all control around the incredibly unique project of Mr Cruz-Diez.”

City walls

Art isn’t only being hung on walls to add value to residential real estate. In cities around the world, it is increasingly being combined in an even more symbiotic way with property. Global brands including Louis Vuitton, Unicef and Coca-Cola are working in collaboration with talented artists to harness the power of what many would call graffiti, but is now known as street or wall art.

Gucci executed a particularly successful wall art project last year – GucciGeeks – in partnership with British illustrator Angelica Hicks. Featured on the sides of buildings in the fashion capital of New York and Milan, the campaign resulted in huge engagement across social media and resulting sales of its accompanying merchandise.

Collections offer a great deal of enjoyment, but their investment value can also rub off onto their surroundings

Luxury collections offer a great deal of enjoyment, but their incredible value as an investment asset can also rub off onto their surroundings. In some cases, the mere presence of a well-placed piece of art can boost property prices. One project in particular – a property for storing wine – all centred around the incredibly unique project of Mr Cruz-Diez.

For building owners, what was previously just an external wall can now generate its own revenue stream. “Clearly it depends on the location, but the ‘rents’ could be significant,” says Mrs Raikhel-Bolot.

Malversation - the illegal or unethical use of official power for personal gain. It is a behavior that is widely condemned around the world, but unfortunately, it is not uncommon. Malversation is a violation of trust and can result in serious consequences for both the individuals involved and the organizations they are associated with. It is a serious offense that can have far-reaching implications, including legal repercussions, reputational damage, and financial loss. The people involved in malversation may face criminal charges, fines, and imprisonment, while the organizations they work for may face penalties and a loss of public trust. Malversation is a complex issue that requires careful consideration and action to prevent and address. It is essential to promote ethical behavior and hold individuals accountable for their actions to ensure a just and fair society. The consequences of malversation can be severe, and it is crucial to take steps to prevent and address this behavior.
Sales of new private jets remain relatively flat, says Rolland Vincent, Director of JETNET iQ, which analyses the global jet fleet. However, a turning point could have been reached in 2017 with growth in private flight activity, in particular charter flights – up 10% in Europe – says Richard Koe, Managing Director of flight activity analyst WINGX Advance. The superyacht market is also recording growth, driven by the US, according to Merijn de Waard, Director of SuperYacht iQ.
The Wealth Report contains a plethora of data from many different sources, including Knight Frank’s own proprietary indices. But two datasets deserve more space than is available in the main body of the report. These are the results of The Wealth Report’s unique annual Attitudes Survey and a detailed breakdown of global wealth distribution figures, which this year has been provided by Wealth-X.

The Attitudes Survey
The 2018 Attitudes Survey is based on responses from over 500 of the world’s leading private bankers and wealth advisers who between them represent around 50,000 wealthy individuals with a combined wealth of more than US$3 trillion. The data on the following pages represents the aggregated findings of the survey at a regional and global level.

For access to more in-depth regional and selected country-level responses, please contact siobhan.leahy@knightfrank.com. If you would like to participate in next year’s survey, please get in touch using the same email address.

Wealth distribution data
Our wealth data tracks the number of individuals at three wealth bands and at different geographic levels. Wealth-X is a leading global wealth information and insight business, partnering with prestige brands across the financial services, luxury, not-for-profit and higher education industries. It has developed the largest collection of hand-curated dossiers on UHNWIs available anywhere in the world today. The wealth distribution data featured in The Wealth Report is based on Wealth-X’s Wealth and Investable Assets Model, which produces statistically significant estimates for total private wealth and population size by level of wealth and investable assets for the world and each of the top 70 economies, which between them account for over 97% of global GDP.

For more details about the model, and any enquiries regarding the data in The Wealth Report, please contact press@wealthx.com

**Regional wealth distribution**

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<thead>
<tr>
<th>Region</th>
<th>US$5M+ Individuals</th>
<th>% Change</th>
<th>US$50M+ Individuals</th>
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Wealth distribution data

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Middle East includes Turkey; Africa includes Egypt.

SOURCE: WEALTH-X
Country: territory & provincial wealth distribution

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*Data excludes second-home owners. Total residents per wealthband significantly higher in 2022 compared to previous years.*

Source: WEALTH-X

The Wealth Report DataBank
**THE WEALTH REPORT Databank**

**THE WEALTH REPORT**

**Investment trends**

**THINKING OF BLOCKCHAIN TECHNOLOGIES, PLEASE CHOOSE THE OPTIONS THAT MOST REFLECT YOUR VIEWS AND YOUR CLIENTS’ POSITION**

*% = Difference between respondents reporting an increase in exposure and those reporting a decrease

**HOW HAS YOUR CLIENTS’ EXPOSURE TO THE FOLLOWING INVESTMENTS CHANGED OVER THE PAST 12 MONTHS?**

**THINKING OF BLOCKCHAIN TECHNOLOGY, PLEASE CHOOSE THE OPTION(S) THAT MOST REFLECT YOUR VIEWS AND YOUR CLIENTS’ POSITION**

**EQUITIES**

<table>
<thead>
<tr>
<th>% EQUITIES</th>
<th>% PRIVATE EQUITY</th>
<th>% REAL ESTATE</th>
<th>% PRIVATE DEBT</th>
<th>% CRYPTO/MONETARIES</th>
<th>% BONERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>26%</td>
<td>78%</td>
<td>41%</td>
<td>52%</td>
<td>62%</td>
<td>48%</td>
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</table>

**WHAT IMPACT IT MIGHT HAVE ON THEM**

**WHAT IMPACT DO YOU THINK THE FOLLOWING ISSUES ARE HAVING OR WILL HAVE ON YOUR CLIENTS’ ABILITY TO CREATE AND PRESERVE WEALTH?**

**WHAT PERCENTAGE OF YOUR CLIENTS SEND THEIR CHILDREN OVERSEAS FOR THEIR EDUCATION?**

<table>
<thead>
<tr>
<th>% SEND OVERSEAS</th>
<th>% WITH ROBUST SUCCESSION PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>3%</td>
<td>25%</td>
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</table>

**Next generation**

**WHAT PERCENTAGE OF YOUR CLIENTS HAVE A ROBUST SUCCESSION PLAN TO PASS THEIR WEALTH TO THE NEXT GENERATION?**

<table>
<thead>
<tr>
<th>% WITH ROBUST SUCCESSION PLAN</th>
<th>% SEND OVERSEAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>3%</td>
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**WHO ARE THE FACTORS THAT YOU THINK WILL CONTRIBUTE TO THE INCREASE/DACREASE IN YOUR CLIENTS’ WEALTH OVER THE NEXT 12 MONTHS?**

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<table>
<thead>
<tr>
<th>% BUSINESS PERFORMANCE</th>
<th>% GLOBAL ECONOMIC CONDITIONS</th>
<th>% LOCAL POLITICAL CONDITIONS</th>
<th>% LOCAL ECONOMIC CONDITIONS</th>
<th>% BUSINESS TERRORISM</th>
</tr>
</thead>
<tbody>
<tr>
<td>38%</td>
<td>51%</td>
<td>11%</td>
<td>5%</td>
<td>14%</td>
</tr>
</tbody>
</table>

**WHAT PERCENTAGE OF YOUR CLIENTS WANT TO INCREASE THEIR PRIVATE EQUITY INVESTMENTS OVER THE NEXT 12 MONTHS?**

<table>
<thead>
<tr>
<th>% WANT TO INCREASE</th>
<th>% WANT TO DECREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td>29%</td>
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</table>

**THE COMMON REPORTING STANDARD, FATCA AND SIMILAR TRANSPARENCY STANDARDS**

<table>
<thead>
<tr>
<th>% FATCA &amp; SIMILAR TRANSPARENCY STANDARDS</th>
<th>% WANT TO INCREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>54%</td>
<td>32%</td>
</tr>
</tbody>
</table>

**ON BALANCE, HOW DO YOU THINK YOUR CLIENTS’ WEALTH IS LIKELY TO CHANGE IN 2018?**

<table>
<thead>
<tr>
<th>% INCREASE</th>
<th>% NO CHANGE</th>
<th>% DECREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>57%</td>
<td>88%</td>
<td>91%</td>
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</table>

**ON BALLANCE, HOW HAVE YOUR CLIENTS’ EXPENSES CHANGED OVER THE PAST 12 MONTHS?**

<table>
<thead>
<tr>
<th>% LESS EXPENSES</th>
<th>% NO CHANGE</th>
<th>% MORE EXPENSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>28%</td>
<td>72%</td>
<td>0%</td>
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</table>

**ON BALANCE, HOW IS YOUR CLIENT’S ATTITUDE TO INVESTMENT RISK CHANGED OVER THE PAST 12 MONTHS?**

<table>
<thead>
<tr>
<th>% LESS WILLING TO TAKE RISK</th>
<th>% NO CHANGE</th>
<th>% MORE WILLING TO TAKE RISK</th>
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</thead>
<tbody>
<tr>
<td>14%</td>
<td>23%</td>
<td>63%</td>
</tr>
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</table>

**ON BALANCE, HOW DO YOU THINK YOUR CLIENTS’ ATTITUDE TO INVESTMENT RISK CHANGED OVER THE PAST 12 MONTHS?**

<table>
<thead>
<tr>
<th>% LESS WILLING TO TAKE RISK</th>
<th>% NO CHANGE</th>
<th>% MORE WILLING TO TAKE RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>14%</td>
<td>23%</td>
<td>63%</td>
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</table>

**ON BALANCE, HOW DO YOU THINK YOUR CLIENTS’ RISK TOLERANCE CHANGED OVER THE PAST 12 MONTHS?**

<table>
<thead>
<tr>
<th>% MORE RISK TOLERANCE</th>
<th>% NO CHANGE</th>
<th>% LESS RISK TOLERANCE</th>
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<tbody>
<tr>
<td>35%</td>
<td>45%</td>
<td>20%</td>
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**ON BALANCE, HOW DO YOU THINK YOUR CLIENTS’ RISK TOLERANCE CHANGED OVER THE PAST 12 MONTHS?**

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<th>% LESS RISK TOLERANCE</th>
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<tr>
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### Property Investments

#### What percentage of your clients are considering migrating permanently to another country?

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<thead>
<tr>
<th>AFRICA</th>
<th>ASIA</th>
<th>AUSTRALASIA</th>
<th>EUROPE</th>
<th>LATIN AMERICA</th>
<th>MIDDLE EAST</th>
<th>NORTH AMERICA</th>
<th>RUSSIA &amp; CIS</th>
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The slow death of cheap money

Asset prices have been rising over the past decade, supported by cheap credit. The manner of its removal will determine property market performance, argues Liam Bailey.

With interest rates on the rise in the US, and central banks stepping back from asset purchase programmes that have largely served their purpose, the cost of money is beginning to rise. It is therefore a fairly safe bet that the next decade will not see a repeat of the double or even triple-digit property price growth we have seen in leading markets over the past ten years.

To gain a better understanding of how property prices are likely to perform, we need to consider the likely shape of the unwinding of quantitative easing (QE). This is not just the usual story of central banks setting out to tame surging economic growth.

In the current cycle, a key objective is the normalisation of monetary policy, so that there is room for manoeuvre to cut rates again when the next downturn comes. It’s a balancing act that means central banks will tread carefully as they withdraw the economic sugar hit of QE. Indeed, just how cautiously they move will determine the impact on asset prices.

It’s fair to say that the pace of action so far has been incredibly slow. In the US, the Federal Reserve first signalled the end of QE in March 2013 but only began tapering, slowing the purchase of assets, in December 2013, famously sparking a “taper tantrum” on the financial markets. Despite this process, total assets held by the Fed at the end of 2017 were still US$425 billion higher than when tapering began. At the same time, it took two years for the US Federal Funds Rate to rise from 0.25% to 1.5% in December 2017.

The inference is that the era of low borrowing costs will be with us for some time to come – but also that the pace of the rise should allow property markets time to adjust. For investment property, as long as rental growth is outpacing the rise in the cost of capital, investors should be able to ride the shift away from ultra-low rates.

There will undoubtedly be changes to market behaviour. It will become harder to generate exciting returns. Opportunities for added value through active management of property are already much more sought after. This is, after all, the great advantage of property compared with passive equity or bond investment: the ability to influence returns through improvements, development and leasing strategy.

Accepting the average returns on offer in a market will simply not be enough – because the average will be underwhelming. Location and property selection and active management will be the key to success, and so too will be the need to be alert for inflection points. Central banks will no longer be doing the heavy lifting.

Investors should be able to ride the shift away from ultra-low rates.