

THE WEALTH REPORT 2013



THE GLOBAL PERSPECTIVE ON PRIME
PROPERTY AND WEALTH

THE WEALTH REPORT 2013

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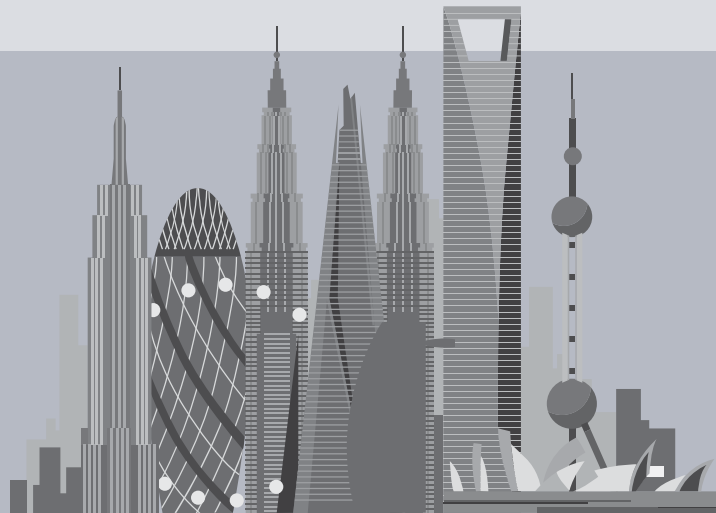
HNWI

Throughout this report, we use
HNWI as an abbreviation for
high-net-worth individual.
Unless otherwise stated, an
HNWI is defined as someone
with US\$30m or more in net
assets. Net assets include homes
and take into account debt and
liabilities where ascertainable.

PRIME PROPERTY

The most desirable and most
expensive property in a given
location. Prime markets often
have a significant international
bias in terms of buyer profile.

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WELCOME

Welcome to the latest edition of *The Wealth Report*, produced by Knight Frank and now widely recognised as the leading annual commentary on prime global property markets, wealth distribution and the attitudes of the wealthy towards property and investments.

Since we launched the report in 2007, the global economy has provided a turbulent backdrop to each edition. Last year was no different and we expect that 2013 will also have its share of uncertainty. Despite this, wealth continues to be created; our look at how the spread of HNWI is predicted to change over the next 10 years (p8) gives real food for thought.

One of the most fascinating pieces of research in *The Wealth Report* is the annual update to Knight Frank's unique Prime International Residential Index (PIRI). This year, PIRI (p26) shows how 80 of the world's leading luxury property markets are performing. While some are still falling, others are benefiting from their safe haven status, as the wealthy seek a secure location for their assets.

This search for safety has also seen the popularity of art, fine wines and other "investments of passion" increase. The results of our new Luxury Investment Index (p48) reveal just how well some of these asset classes have performed.

The report highlights the growing interest in commercial property among private investors (p36), while the results of our Attitudes Survey suggest that HNWI are slowly but surely regaining their taste for risk (p54).

London and New York are still the most influential cities for HNWI according to our Global Cities Survey (p16), but the key Asian hubs are catching up fast. This is reflected by the ongoing expansion of Knight Frank's Asia-Pacific network, enabling us to advise HNWI clients across the region.

We are fortunate to have led the international prime residential market in many key locations for the past 20 years, gaining a unique insight into the wealth arena and building long-term relationships with HNWI and their advisors around the world. For many, we are the trophy-asset advisor of choice.

This unique market knowledge, combined with our in-depth research, thought leadership and insight, enables us to produce publications such as *The Wealth Report* and helps explain why Knight Frank has become the world's leading independent real estate advisor. To find out more about our residential and commercial services, including our multi-lingual property search, go to knightfrank.com or contact me directly.

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wealth intelligence firm
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MONITOR

Creating wealth, it seems, is hardwired into us as a species. The total number of HNWIs around the world is increasing once more, despite the global economy still suffering from the aftershocks of the credit crunch and the ensuing financial crisis. Much of this wealth creation is taking place in the world's new economic powerhouses, but London and New York are still considered the most important cities for the super-rich – at least for now...

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ONWARDS AND UPWARDS

A REGION-BY-REGION ANALYSIS OF WEALTH CREATION
BASED ON DATA AND FORECASTS PREPARED EXCLUSIVELY
FOR THE WEALTH REPORT

GRÁINNE GILMORE

It has now been six years since the initial signs of the financial crisis started to emerge, but the global economy is still feeling the effects. In 2012, economic growth slipped to its lowest level since 2009.

While the signs are that growth will pick up this year, many major economies are still performing well below trend, with some struggling to achieve any improvement in economic output at all. But despite this gloomy economic backdrop, there was still room for wealth creation in 2012.

The number of people with US\$30m or more in net assets (referred to throughout this report as HNWIs) rose by 5% last year, or nearly 8,700, according to data prepared exclusively for *The Wealth Report* by Wealth-X, a wealth intelligence firm.

The combined wealth held by HNWIs also grew by 2%, or US\$566bn, to just over US\$26tr in 2012. Over the next 10 years, 95,000 people are forecast to break the US\$30m wealth barrier – a cumulative 50% rise, which will take the total number of HNWIs across the globe to around 285,665.

Mykolas Rambus, CEO of Wealth-X, says: “There are still opportunities in many markets around the world, especially for those who can look beyond the difficulties in some developed economies, and take a more global outlook.”

However, he admits there are challenges. “Credit is still much more difficult to come by in the wake of the financial crisis. The capital provided by central bankers’ stimulus packages has largely failed to trickle down into the economy where entrepreneurs can take advantage of it. The venture capital world used to be ‘frothy’; that is no longer the case. Having said that, individuals are still growing their businesses, but the broader financial conditions are unlikely to change in the near future.”

Economic headwinds, as well as the volatility that characterised the performance of equity and commodity markets during the year, have had an impact. The total net worth of HNWIs in Asia, for example, slipped slightly from US\$6.6tr to US\$6.4tr in 2012, but their numbers still rose by 3% overall. “The uneven performance of real estate and equity markets across Asia has led to the decline in wealth,” Mr Rambus says.

Key Asian stock markets underperformed compared with wider world indices for much of 2012, although there was a rally towards the end of the year. The FTSE world composite index of shares climbed modestly, although it ended 2012 some way below the highs seen in 2007.



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Mixed fortunes as some economies begin to slow, while elsewhere growth gathers pace



THE AMERICAS FOCUS ON WEALTH

- Increase in billionaires 2012-22 (region)
- HNWI population % change 2012-22 (region)
- Total HNWI wealth (US\$bn)
- Increase in billionaires 2012-22 (country)

NUMBER OF BILLIONAIRES BY REGION

	2011	2012	2022	Change (2012-22)
AFRICA	25	35	75	117%
ASIA	496	543	1191	119%
EUROPE	672	708	1115	57%
LATIN AMERICA	123	145	301	108%
MIDDLE EAST	128	140	203	45%
NORTH AMERICA	487	586	1146	96%
AUSTRALASIA	36	41	45	10%
TOTAL	1,967	2,198	4,076	85%

HNWI* POPULATION BY REGION

	2011	2012	2022	Change (2012-22)
AFRICA	2,099	2,488	4,197	69%
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EUROPE	53,538	54,170	70,864	31%
LATIN AMERICA	13,818	15,230	28,628	88%
MIDDLE EAST	4,377	4,675	7,378	58%
NORTH AMERICA	61,338	65,579	86,865	32%
AUSTRALASIA	3,548	3,967	5,364	35%
TOTAL	181,146	189,835	285,665	50%

* An HNWI is defined as having net assets of over US\$30m.

TOP 10 COUNTRIES FOR BILLIONAIRES

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UK	149	276	85%
INDIA	122	225	84%
BRAZIL	53	136	157%
RUSSIA	102	126	24%
HONG KONG	70	97	39%
INDONESIA	31	90	190%
SWITZERLAND	63	75	19%

HNWI POPULATIONS FOR SELECTED COUNTRIES

	2012	2022	Change
NORTH AMERICA			
CANADA	4,922	6,637	35%
UNITED STATES	60,657	80,228	32%

	2012	2022	Change
LATIN AMERICA			
BRAZIL	4,618	10,985	138%
ARGENTINA	1,000	1,743	74%
CHILE	549	850	55%
COLUMBIA	740	1,063	44%
MEXICO	3,373	4,842	44%
VENEZUELA	644	585	-9%

TOP 30 GLOBAL CITIES BY HNWI POPULATION

	2012	2022	Change
1 NEW YORK	7,580	10,306	36%
2 LONDON	6,015	8,202	36%
3 TOKYO	5,440	6,763	24%
4 SAN FRANCISCO	4,590	6,665	45%
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2012-22 FORECAST INCREASE IN
NUMBER OF BILLIONAIRES IN
NORTH AMERICA

MIXED FORTUNES

China is grappling with what Bert Hofman, Chief East-Asia and Pacific Economist at the World Bank, calls a “double whammy” of weaker exports and sluggish domestic demand. However, it is still expected to continue outperforming its rivals, overtaking the US as the world’s largest economy by the end of this decade, based on figures from the Economist Intelligence Unit (see chart below).

Likewise, wealth creation in China – and wider Asia – will continue, according to Wealth-X, with China’s ultra-wealthy population more than doubling by 2022. We examine China’s HNWIs and the role of its cities in wealth creation on page 14.

Indonesia is also expected to experience a relative boom over the next decade, albeit from a low base. HNWIs are tipped to climb by more than 400% to 5,161 by 2022, reflecting international confidence in the potential of the economy, as signalled by robust direct investment during the last year.

Despite recent economic concerns, the number of HNWIs in India is expected to more than double over the next 10 years, rising by 137% in Mumbai alone. This will give India – along with China and Japan – the highest number of HNWIs in Asia by 2022.

Intriguingly, Wealth-X figures suggest that one of the most noticeable jumps in HNWI numbers will be in Myanmar, underlining the link between wealth creation and an open economy. There are currently fewer than 40 HNWIs in the country, Wealth-X estimates, but this is expected to rise more than seven-fold over the next decade in the wake of sweeping political change. The easing of sanctions and pledges of funding for development projects underlines the fact that progress is now being recognised internationally. “Foreign firms are establishing a presence in Myanmar and opportunities to develop infrastructure, energy, international banking, and education should enable private enterprises to work with the government to develop the country,” Mr Rambus says.

Across Asia, the number of HNWIs is set to rise by 88% over the next decade, the joint highest rate of growth in any world region, matched only by Latin America. By 2022, there

Despite weaker exports and sluggish domestic demand, China is still on course to overtake the US as the world’s largest economy by the end of this decade

will be more than 82,300 HNWIs in Asia, with a combined wealth of US\$12.6tr, according to Wealth-X, making it the biggest hub for wealthy individuals outside North America.

CAUTIOUS OPTIMISM

Mr Rambus says that the US will remain dominant in terms of numbers of HNWIs and billionaires over the next 10 years, despite growth in the East. “The industrial revolutions in the US and the UK acted as a base for the large concentration of wealth still evident in these areas,” he says. North America will still have some 30% of the world’s HNWIs in 2022, although this is down from the current 34%.

Within the US, the biggest rise in the concentration of HNWIs is expected to be outside New York, despite its status as the world’s pre-eminent global city (see p16). Wealth-X’s survey of HNWI populations in the world’s leading cities shows that Houston, San Francisco and Dallas will see the most significant rise in HNWIs (see p9) in the US over the next 10 years. New York, however, will still boast the largest number of HNWIs of any city in the world in 2022.

Latin America is another growth story, Mr Rambus says. “There are huge opportunities in the region, thanks to the rise of the middle classes. The natural resources within the region are also a boost for wealth creation.”

The number of HNWIs in Brazil is expected to climb by nearly 140%. However, Venezuela is forecast to experience a drop over the next decade. “We see a diminishing story,” Mr Rambus says. “Unless there is political change, Venezuela will continue to face challenges to creating wealth.”

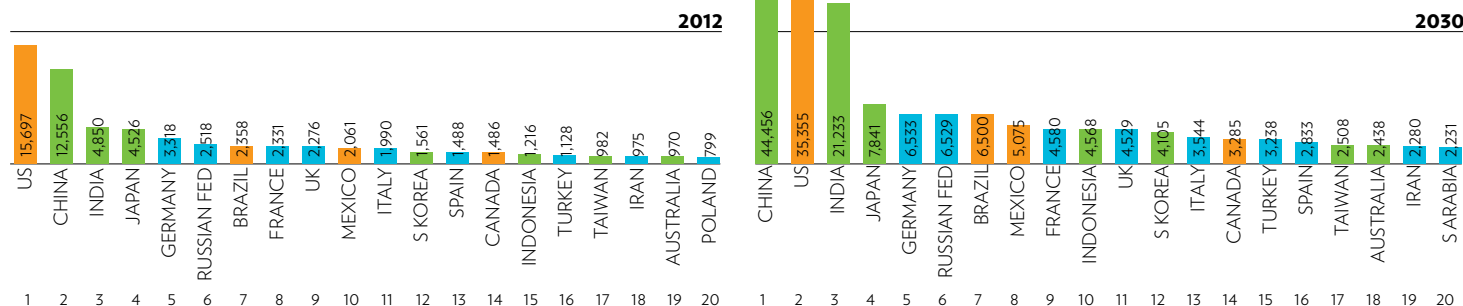
HNWI populations in Sao Paulo and Rio de Janeiro will rise by more than 140% over the next decade, putting them in the top 10 cities in terms of growth. By 2022, one in 10 of the world’s HNWIs will be living in Latin America.

Europe saw the most modest growth in the number of HNWIs last year, a symptom of the ongoing crisis in the eurozone. The total wealth held by the European ultra-wealthy also remained unchanged at around US\$7tr.

But Wealth-X forecasts that wealth creation will pick up over the coming years, with a 31% rise in the number of HNWIs by 2022. Russia and Ukraine will see the highest growth levels in Europe, but Germany will still be home to the largest population of HNWIs in 2022, followed by the UK.

This positive outlook is reflected in the Attitudes Survey carried out for *The Wealth Report*. The survey, based on the opinions of wealth advisors and private bankers, shows that respondents in Europe expect the local economic situation to have a less negative impact on their clients’ ability to create and preserve wealth this year than in 2012.

WORLD’S TOP 20 ECONOMIES BY NOMINAL GDP (US\$BN AT PPP*)





EUROPE, MIDDLE EAST & AFRICA FOCUS ON WEALTH

- Increase in billionaires 2012-22 (region)
- HNWI population % change 2012-22 (region)
- Total HNWI wealth (US\$bn)
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RUSSIA	102	126	24%
HONG KONG	70	97	39%
INDONESIA	31	90	190%
SWITZERLAND	63	75	19%

HNWI POPULATIONS FOR SELECTED COUNTRIES

	2012	2022	Change
EUROPE			
UKRAINE	397	690	74%
RUSSIA	1,123	1,694	51%
SPAIN	1,441	2,063	43%
POLAND	799	1,128	41%
CZECH REPUBLIC	265	367	38%
GREECE	441	603	37%
UNITED KINGDOM	10,373	14,150	36%
SWEDEN	990	1,344	36%
IRELAND	554	751	36%
PORTUGAL	735	984	34%
ROMANIA	137	183	34%
TURKEY	936	1,248	33%
NORWAY	1,397	1,790	28%
NETHERLANDS	1,181	1,512	28%
FRANCE	4,074	5,212	28%
AUSTRIA	539	687	27%
SWITZERLAND	5,657	7,171	27%
DENMARK	706	894	27%
GERMANY	16,192	20,286	25%
BELGIUM	750	933	24%
ITALY	1,892	2,294	21%
FINLAND	412	486	18%

MIDDLE EAST

	2012	2022	Change
IRAQ	162	365	125%
UAE	828	1,270	53%
SAUDI ARABIA	1,289	1,917	49%
IRAN	235	349	49%
ISRAEL	309	437	41%
AFRICA			
ZAMBIA	20	82	310%
UGANDA	20	81	305%
ZIMBABWE	16	61	281%
ALGERIA	34	111	226%
TANZANIA	118	329	179%
KENYA	142	248	75%
EGYPT	544	865	59%
NIGERIA	529	809	53%
SOUTH AFRICA	828	1,149	39%

TOP 30 GLOBAL CITIES BY HNWI POPULATION

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29 FRANKFURT	1,220	1,562	28%
30 ROME	1,130	1,351	20%

305%

2012-22 FORECAST INCREASE IN
HNWI NUMBERS IN UGANDA

CHALLENGING TIMES

The Attitudes Survey also shows that HNWIs across the globe remain concerned about the possible impact of punitive tax policies. France plans to hit high earners with a tax rate of up to 75%, while countries including Spain and Ireland have also imposed wealth or property taxes. Italy and Spain are the only countries where the number of billionaires is expected to fall over the next decade.

The tax landscape is a key risk for wealth creation in the coming years. "There are different motivations behind some of the recent tax rises," Mr Rambus says. "In Hong Kong and Singapore, they are designed to address specific concerns – such as an overheating housing market. In other countries, governments are searching for ways to repair their balance sheets. Coming down hard on the wealthy creates some 'political theatre'."

The growing generation gap, in both developed and developing economies, poses another risk. Rising youth unemployment creates the prospect of a "lost generation" with no hope of the same levels of financial or social success as their parents and grandparents. For former US Treasury Secretary Larry Summers, this is our most pressing long-term issue.

In Europe and the US, youth unemployment has risen sharply since the financial crisis. In Africa, it threatens to act as a drag on economic growth. Around 60% of Africa's unemployed

are aged between 15 and 24, and the rate of youth unemployment in North Africa is the highest in the world, according to the International Labour Organisation (ILO).

There is real impetus for policymakers to address this challenge. Economic growth in sub-Saharan African countries has been impressive in recent years, despite a slowdown in 2011 due to the political turmoil of the Arab Spring. Ethiopia, Nigeria, Ghana and Rwanda all posted GDP growth of between 6% and 8% last year, according to the latest estimates.

The number of young people in Africa is set to double by 2045, and harnessing their ability and skills is crucial to further bolster economic growth and to enable these fast-growing developing countries to realise their potential in terms of wealth creation. However, it is a sign of the opportunities on offer within Africa that HNWIs are expected to double if not treble (albeit from relatively low bases) in a number of countries (p11), contributing to HNW growth of 69% across the entire continent.

The economic crisis may have put the brakes on global wealth creation to some extent. But it is clear that the appetite to build wealth, particularly in ambitious, rapidly developing nations, remains as strong as ever.

For former US Treasury Secretary Larry Summers, youth unemployment is our most pressing long-term issue

THE BIG QUESTION

WHAT WILL HAVE THE BIGGEST IMPACT ON HNW WEALTH CREATION OVER THE NEXT 10 YEARS?

DR ELIZABETH STEPHENS



China's new leadership, headed by President Xi Jinping and Premier Li Keqiang, will shape the course of the country's economic and foreign policy for the next decade – and, in doing so, determine the state of wealth creation worldwide. The leaders are expected to focus on solidifying internal support rather than grandiose reform initiatives, and an anti-corruption drive is likely to be prioritised to help boost credibility within government and among the public.

Yet the real question – and the one with global ramifications – is not who China's new leaders are, or whether they will introduce far-reaching economic reforms or adopt a more assertive foreign policy, but whether they can remain united at a time when decisive leadership is required.

The new leaders' educational background and world view are more diverse than those of their predecessors, which may make consensus harder. A split would signal disunity and cast doubt on the party's ability to quell challenges from below, encouraging those calling for more rapid social change.

If it were to coincide with a sustained economic slowdown, friction at the top would temper the party's ability to manage public perceptions of the economy. The interpretation of economic statistics varies dramatically in all parts of the world in line with political expediency, and centralised dissemination of data helps to sustain an economic narrative.

The restructuring, or at least rebalancing, of China's economy has been deferred for a decade, due to the seismic shift involved in reducing dependence on exports and infrastructural investments and stimulating domestic consumption-driven growth. This implies handing over more resources to ordinary people, and letting them decide how to spend them, thus reducing the state's capacity to control the economy.

Such a move requires a united leadership willing and able to take risks. China's new leaders may be technically able, but they are as yet unproven in this department. The prospects for managed economic change remain uncertain.

Whatever happens, the global impact will be significant. China makes the largest global contribution to growth rates – an average of 10% since joining the World Trade Organization in 2001. Any slowdown will have a profound effect on investments and on the ability of HNWIs to create further wealth, not just in China and Asia, but around the world.

Elizabeth Stephens is Head of Credit and Political Risk Analysis at JLT Specialty and plays a leading role in the firm's World Risk Review ratings tool. Her PhD is on US foreign policy and the Middle East. She lectures at the University of Birmingham's Department of American and Canadian Studies.



ASIA-PACIFIC FOCUS ON WEALTH

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EUROPE	53,538	54,170	70,864	31%
LATIN AMERICA	13,818	15,230	28,628	88%
MIDDLE EAST	4,377	4,675	7,378	58%
NORTH AMERICA	61,338	65,579	86,865	32%
AUSTRALASIA	3,548	3,967	5,364	35%
TOTAL	181,146	189,835	285,665	50%

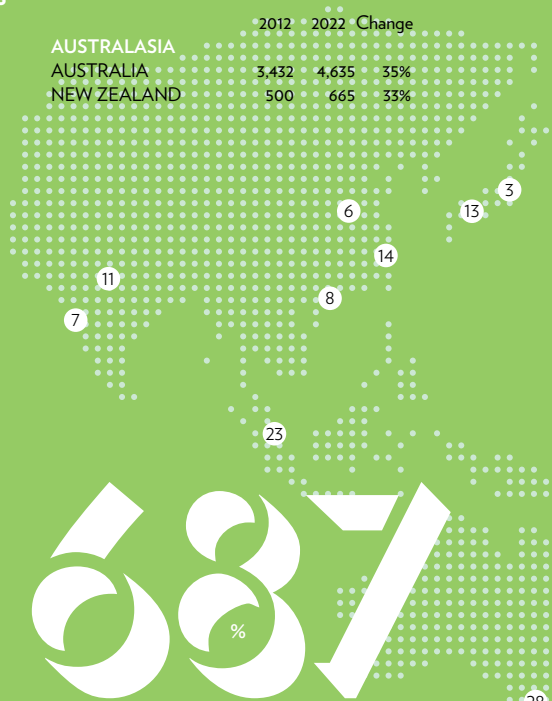
* An HNWI is defined as having net assets of over US\$30m.

TOP 10 COUNTRIES FOR BILLIONAIRES

	2012	2022	Change
UNITED STATES	543	1,101	103%
CHINA	154	483	214%
GERMANY	149	300	101%
UK	149	276	85%
INDIA	122	225	84%
BRAZIL	53	136	157%
RUSSIA	102	126	24%
HONG KONG	70	97	39%
INDONESIA	31	90	190%
SWITZERLAND	63	75	19%

HNWI POPULATIONS FOR SELECTED COUNTRIES

	2012	2022	Change
ASIA			
MYANMAR	39	307	687%
INDONESIA	1,029	5,161	402%
MONGOLIA	49	230	369%
CHINA	10,849	25,660	137%
CAMBODIA	54	112	107%
INDIA	8,481	17,032	101%
BANGLADESH	78	155	99%
SRI LANKA	64	120	88%
VIETNAM	186	344	85%
KAZAKHSTAN	135	244	81%
PHILIPPINES	662	1,079	63%
TAIWAN	1,181	1,871	58%
MALAYSIA	828	1,249	51%
THAILAND	681	1,018	49%
HONG KONG	3,206	4,778	49%
SOUTH KOREA	1,412	2,061	46%
SINGAPORE	1,343	1,932	44%
JAPAN	12,668	16,264	28%
PAKISTAN	368	446	21%



2012-22 FORECAST INCREASE IN
HNWI NUMBERS IN MYANMAR

TOP 30 GLOBAL CITIES BY HNWI POPULATION

	2012	2022	Change
1 NEW YORK	7,580	10,306	36%
2 LONDON	6,015	8,202	36%
3 TOKYO	5,440	6,763	24%
4 SAN FRANCISCO	4,590	6,665	45%
5 LOS ANGELES	4,520	6,075	34%
6 BEIJING	2,285	5,262	130%
7 MUMBAI	2,105	4,988	137%
8 HONG KONG	3,205	4,780	49%
9 SAO PAULO	1,880	4,566	143%
10 RIO DE JANEIRO	1,740	4,285	146%
11 DELHI	1,945	4,278	120%
12 MEXICO CITY	2,585	3,901	51%
13 OSAKA	2,970	3,813	28%
14 SHANGHAI	1,415	3,704	162%
15 CHICAGO	2,615	3,689	41%
16 PARIS	2,860	3,672	28%
17 HOUSTON	2,295	3,397	48%
18 WASHINGTON DC	2,395	3,188	33%
19 DALLAS	2,020	2,927	45%
20 TORONTO	1,765	2,367	34%
21 ZURICH	1,805	2,333	29%
22 MUNICH	1,670	2,117	27%
23 SINGAPORE	1,345	1,930	43%
24 SYDNEY	1,405	1,925	37%
25 DUSSELDORF	1,420	1,872	32%
26 HAMBURG	1,370	1,788	31%
27 GENEVA	1,360	1,724	27%
28 MELBOURNE	1,150	1,621	41%
29 FRANKFURT	1,220	1,562	28%
30 ROME	1,130	1,351	20%

FOCUS ON CHINA

As its population shifts from the countryside into the cities, fast-growing urban centres are driving China's rise to the top of the global economic rankings

While most countries can boast only a few large cities with more than a million residents, China has around 170, as well as five mega-cities with populations in excess of 10 million. Mass migration to towns and cities meant that last year the Chinese urban population overtook that in rural areas for the first time.

By 2025, the country's urban population is forecast to be around one billion, and the push towards urbanisation shows no signs of slowing. A recent report by McKinsey & Company estimated there would be 202 Chinese cities with more than one million residents by 2025. At present, there are 35 such cities in the whole of Europe.

As cities expand, so opportunities for wealth creation grow, and this is borne out by forecasts for growth in the numbers of ultra-wealthy, especially in the so-called Tier 1 cities, such as Beijing, Shanghai, Guangzhou and Shenzhen (see opposite). Shanghai's HNWI population is expected to rise by more than 160% over the next decade to 3,704; more than in Washington DC, Paris or Chicago. Beijing is expected to see growth of 130%, putting it sixth in the world city rankings. The four Tier 1 cities will be home to more than 140 billionaires, with a combined wealth of nearly US\$300bn.

But it's not all about Tier 1. Tier 2 and Tier 3 cities are growing rapidly, and their wealthy populations are also expected to expand. The total combined wealth held by HNWI in Hangzhou, capital of Zhejiang province in eastern China, and Chengdu, capital of Sichuan province in the south-west, is forecast to be US\$345bn in 2022, more than the combined wealth of HNWI based in Zurich.

Yet, as Rupert Hoogewerf – publisher of the *Hurun Report*, a monthly wealth magazine produced in China – explains, some of the smaller cities face a struggle to hold on to their wealthier entrepreneurs.

"There is a real attraction to the Tier 1 cities for the Chinese wealthy. These cities offer so much in terms of lifestyle and education. The social environment is more vibrant, and the fact that there are already plenty of other wealthy individuals living there is also a draw. This is a trend we have seen particularly in the last couple of years."

A recent report estimated there would be 202 Chinese cities with more than one million residents by 2025 and, as cities expand, so too do opportunities for wealth creation

GLOBAL WEALTH RISKS

ANALYSIS BY WORLD RISK REVIEW

As Elizabeth Stephens highlights in "The Big Question" on page 12, events in China over the 10-year lifespan of the country's new government could have a major impact on global HNWI wealth creation. However, there are risks in other parts of the world as well. Here, analyst World Risk Review provides an overview and brief analysis of the key threats from across the globe.

INTENSIFICATION OF THE EURO CRISIS

Even core eurozone countries saw their economies shrink in the second half of 2012. An intensified eurozone crisis could destroy growth in core European states and further stifle economic recovery in the UK, potentially sending the country back into recession.

SOVEREIGN DEFAULT IN ARGENTINA

Risk of a technical default lingers while Buenos Aires wrangles with the US courts over US\$1.3bn that US investors say is still owed to them following Argentina's US\$100bn default in 2002. This, combined with the currency devaluation imminent in 2013, will entail significant destruction of value.

RIVALRY BETWEEN POLITICAL PARTIES IN THE LEVANT AND NORTH AFRICA

The renaissance of Islamist parties in the region is fuelling rivalry between the ruling families of Qatar and Saudi Arabia for the hearts and minds of the Sunni world.

GROWING INEQUALITY IN THE US

In the US, Karl Marx's maxim that capitalism contains the seeds of its own destruction is coming into stark relief. The inevitable danger of ever-greater wealth disparities is the risk that they will destroy the open system that made America rich and allowed its HNWI to flourish.

BARRIERS TO INVESTMENT IN RUSSIA

An independent judiciary and legal framework is a prerequisite for creating a vibrant investment environment to attract the billions of dollars required to develop infrastructure

and diversify Russia's economy. Without it, the country risks ending up as a simple commodity exporting nation.

SOURCE: WORLDRIKEREVIEW.COM

The movement of HNWI across China does not come without problems, however. The loss of wealthy entrepreneurs is the tip of the iceberg of the "brain drain" from many Tier 2 and 3 cities. "The second tier cities are finding it hard to compete," Mr Hoogewerf says. "The challenge is to keep the top business people in these cities, so authorities and residents can benefit from the economic activity they generate."

While the movement in populations between cities may create local economic difficulties, the overall migration of Chinese people from rural areas into cities will mean that cities account for an even larger share of China's economic output in the years to come. As such, it will be cities that will underpin the economic growth which will see China overtake the US as the world's largest economy by 2030. ▽

CHINA CITY WEALTH WATCH

2235

HNWIs in Beijing 2012

TOP 20 CITIES BY HNWI POPULATION

	2012	2022	Change
1 BEIJING	2,285	5,262	130%
2 SHANGHAI	1,415	3,704	162%
3 SHENZHEN	1,070	2,289	114%
4 GUANGZHOU	955	2,261	137%
5 HANGZHOU	775	1,736	124%
6 CHENGDU	435	1,139	162%
7 XIAMEN	385	903	135%
8 CHANGSHA	330	674	104%
9 FUZHOU	275	577	110%
10 SUZHOU	270	588	118%
11 TIANJIN	230	535	133%
12 NINGBO	225	533	137%
13 CHONGQING	195	445	128%
14 FOSHAN	125	296	137%
15 DONGGUAN	120	269	124%
16 JIANGMEN	115	246	114%
17 ORDOS	110	316	187%
18 WUHAN	110	233	112%
19 TAIZHOU	105	246	134%
20 NANJING	105	237	126%

Source: Wealth-X (wealthx.com)



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Predicted HNWIs
in Beijing 2022

MONITOR

GLOBAL WEALTH DISTRIBUTION AND LOCATIONS FAVOURED BY THE SUPER-RICH

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BRAVE OLD WORLD

POWER MAY SHIFT AND
COMPETITION INTENSIFY, BUT OUR
GLOBAL CITIES SURVEY SHOWS
THAT NEW YORK AND LONDON
ARE STILL ON FIGHTING FORM

Battered but not bowed – New York remains the world's financial powerhouse

WEATHERING THE STORM

New York has beaten off both the elements and stiff competition from other cities to claim pole position in The Wealth Report's latest Global Cities Survey

LIAM BAILEY

Towards the end of 2012, New York was battered by Hurricane Sandy. Such was the ferocity of the onslaught that much of the city's subway was flooded and thousands of households were left without electricity. With just days to go before the presidential elections, campaigning in the hard-fought contest between Barack Obama and Mitt Romney even had to be suspended.

But triumphing in the face of adversity is the true marker of a global city. Think of London's resilience after The Blitz and, of course, New York's own refusal to be cowed following the 9/11 terrorist attacks.

It therefore came as no surprise to see the Big Apple quickly back on its feet post-Sandy, nor that it secured top slot in *The Wealth Report's* annual Global Cities Survey, beating off its arch-rival London as well as a veritable pack of baying Eastern urban tigers. For the full top 40, see page 22.

The survey was launched in 2008 to monitor city-level power shifts. Its objective is to assess the key urban centres across the world in terms of investment opportunities and the influence they have on global business leaders and decision makers.

As a leading academic explains in "The Big Question" (opposite), and the results from our own Attitudes Survey of global wealth advisors on page 21 also reveal, data-led rankings such as the Global Cities Survey can only tell us so much about a city. But they offer an intriguing snapshot of the world's shifting urban hierarchy.

Cities are where wealth is created, where networks develop, where ideas are incubated and knowledge curated. In short, they matter.

Although New York and London hold on to the top two spots, Asia-Pacific has the tightest grip on the top 10

EAST VERSUS WEST

Our Global Cities Survey's four-part assessment of performance (explained in detail on p22) is designed to give the most rounded picture of the places that matter to the wealthy and influential. The survey focuses on four categories: economic activity; political power; quality of life; and knowledge & influence.

While New York and London hold on to the top two spots, the Asia-Pacific region, with four entries, has the tightest grip on the top 10. Europe and North America also feature, with three cities each. The Middle East's first entry, Dubai, is at number 29, while South America's leading cities, Buenos Aires and Sao Paulo, only just scrape into our top 40.

New York's strength is reflected in its consistent showing across all four of our categories. The city is particularly strong in economic activity (being the wealth and financial centre for the world's richest economy undoubtedly helps) and knowledge & influence, where the power of US media firms shines through. Indeed, there is a close relationship between economic activity and overall ranking, with New York, London, Paris and Tokyo occupying the top four slots for both.

When we turn to political power, Washington DC unsurprisingly leads the field, followed by Beijing and then Brussels – a small city in many ways, but one that punches above its weight politically as the headquarters of the European Union. Berlin sits just one place lower down, highlighting the growing tensions within the world's largest economic bloc.

The fact that Berlin has scored so highly for political power will come as no surprise, given the tempestuous conditions within the eurozone and Germany's status as Europe's powerhouse economy. While the EU's main institutions are still based in Brussels, Berlin is now to all intents and purposes its *de facto* capital and is where the key decisions affecting the future of the union are increasingly being made.

This shift in power has been accelerated by the euro crisis and German Chancellor Angela Merkel is now arguably the most important leader at the table; so much so that TIME magazine named her as one of the most influential people in the world in 2012.

News that German and Chinese leaders have pledged to increase trade between their countries – the largest economies in Europe and Asia respectively – is also a boost for Berlin, which is likely to reap the rewards of improving relations with the world's other leading manufacturing-dependent surplus economy.

GETTING PERSONAL

Perhaps the most contentious indicator in the survey is quality of life. No two people will share the same idea of what makes the perfect lifestyle. For some, it will come down to hip nightlife and stylish shops. For others, the most important criterion might be art and culture, or proximity to the great outdoors.

Measuring cool and other intangible factors is pretty much impossible, so we have based our findings on elements that can be measured, such as crime levels and environmental quality. Based on these criteria, our table is topped by the usual suspects: those northern

European, Australian and Canadian cities with an international reputation for providing the ultimate urban utopia. Zurich comes first, followed by Melbourne, Sydney and Toronto.

Residents of New York and London might bridle at the thought that such locations can push their own cities into sixth and eighth places respectively, but these towns do have the data to back up their claims to urban bliss, even if they wouldn't necessarily get the vote of the fashionista or sybarite.

Melbourne is a case in point; the city topped the Economist Intelligence Unit's most recent global liveability report on the best and worst living conditions around the globe. The city scored a near-perfect 97.5%, making it the most liveable of the 140 cities surveyed, only losing points for climate, culture and petty crime.

However, rising temperatures and sea levels are expected to drive up the cost of living in Melbourne over the next few years. In fact, a recent report released by the Melbourne Community Foundation identified climate change as one factor that has the potential to have a dramatic negative impact on quality of life in the city by 2030.

BRAIN POWER

For the last of our four measures, knowledge & influence, the table was led by London with its proliferation of leading education and media outlets. With one of the largest concentrations of universities and higher education institutions in the world, the UK capital is widely recognised as a global leader in education.

According to the UK Council for International Student Affairs, London's student population includes 102,735 international students, while Imperial College London was named as the eighth best institution in the world by *The Times Higher Education World University Rankings*.

For media, London has few rivals. Most of the UK's national media, whether broadcasting, press, online or advertising, is based there. The BBC, which has its headquarters in central London, is the world's largest media organisation.

THE BIG QUESTION

DO GLOBAL CITY RANKINGS MATTER?

PROFESSOR PETER TAYLOR

There is a debate among those who study cities as to whether success depends on cities fruitfully competing, or co-operating. The answer is that the most successful do both.

Much commentary, however, focuses on competition, often stoked by rankings – how well is my city doing in the latest list? This may be important to mayors, but does it matter to the businesses responsible for creating and developing a city's economy?

This reminds me of the unfounded furore a little over a decade ago, when it was announced that the European Central Bank was to be located in Frankfurt. There was much speculation about whether Frankfurt would overtake London as Europe's leading financial centre, and the media was full of stories anticipating London's imminent decline. But were the two cities really in competition with each other?

For financial workers in the two cities, the question seemed ludicrous. Typically, their firms had offices in Frankfurt and London, and used them for different types of business. They were complementary centres, and most emphatically not rivals.

It was this example that convinced me that cities are inherently co-operative; they connect through city networks where success depends on mutuality. Competition between cities is a contingent occurrence, depending on specific circumstances.

Competition is often related to national boundaries that define a market where there is a limited demand for key business services. Small state economies can usually only support a single major city: for example, Portugal and Lisbon, Ireland and Dublin and Austria and Vienna.



In larger countries, the demise of second stock exchanges commonly leads to a competitive advantage for one city over another. Instances of this include Sao Paulo and Rio de Janeiro, Sydney and Melbourne, and Toronto and Montreal.

But while cities may be competing at a national level, internationally they appear to be getting closer. In fact, one analysis identifies the United States plus London as a single central region of economic globalisation, coining the compound name "USAL".

It is true that London is not only more connected to New York through its business service firms than it is to other major British cities, it is also closer to Chicago and San Francisco.

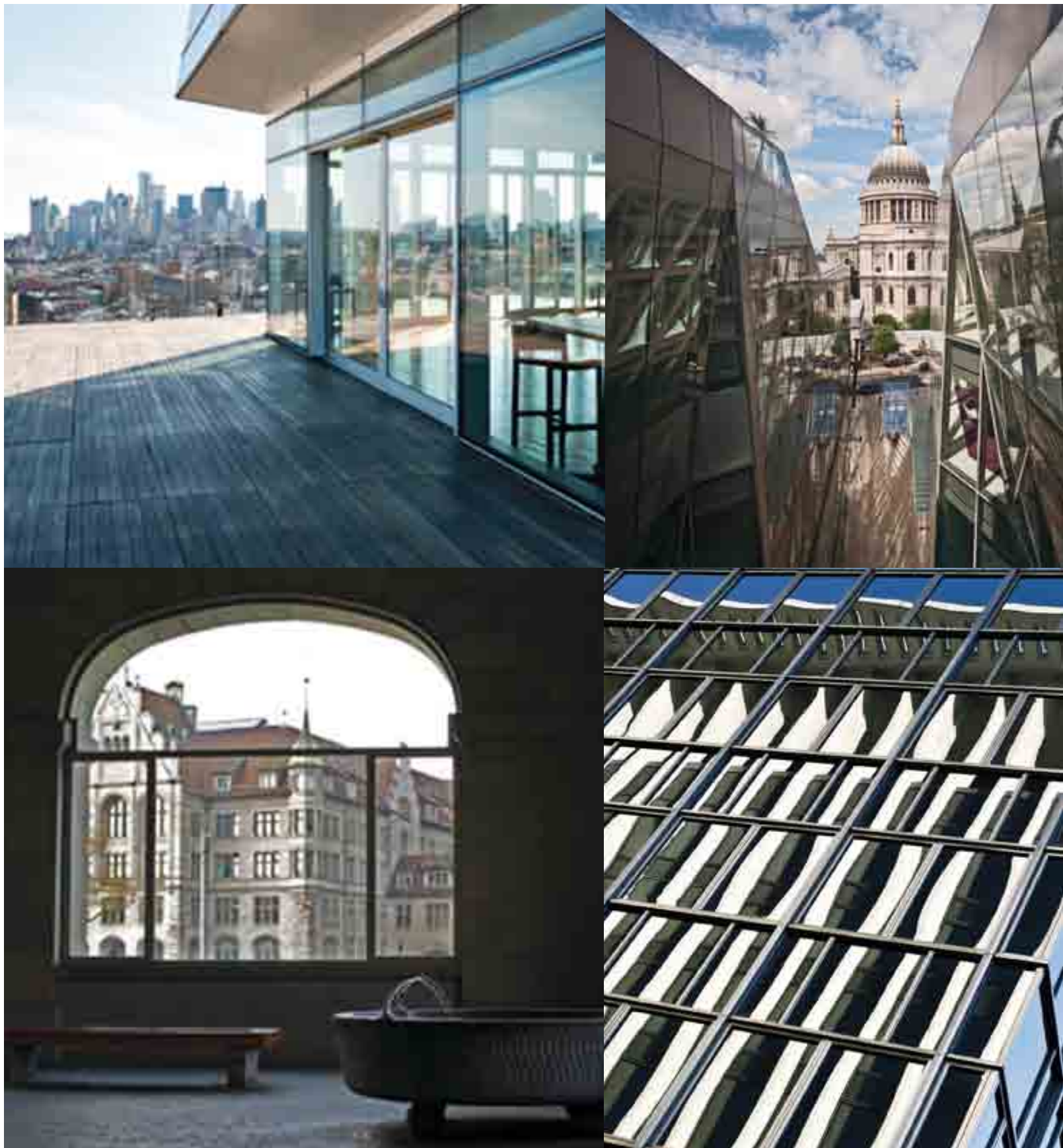
But while London's tendency to cleave to USAL – rather than to other parts of the UK – sums up the difficulties facing those who want to harness all British cities to boost future UK economic growth, it also suggests that leading cities may have less to fear from their so-called competitors than some might imagine.

Founder of the Globalization and World Cities Research Network at Loughborough University, Peter Taylor is now Professor of Human Geography at Northumbria University. His latest book, *Extraordinary Cities: Millennia of Moral Syndromes, World-Systems and City/State Relations*, was published in early 2013.

MONITOR

GLOBAL WEALTH DISTRIBUTION AND LOCATIONS FAVOURED BY THE SUPER-RICH

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GALLERY STOCK/C. TAYLOR CROTHERS/HOWARD KINGSNORTH/DAVID REINFELD/MARSHALL JOHNSON

Clockwise from top left: New York, economic powerhouse and top global city; London leads in education and the media; Washington DC, global hub of political power; Zurich is first for quality of life.

GLOBAL CITIES SURVEY: CATEGORY WINNERS FACT FILE

NEW YORK		LONDON	
Economic activity	1	Knowledge & influence	1
Overall Global Cities ranking	1	Overall Global Cities ranking	2
Political power	7	Economic activity	2
Quality of life	6	Political power	5
Knowledge & influence	2	Quality of life	8
Population (m)	18.9	Population (m)	8.6
Nominal GDP (\$bn)	1,243	Nominal GDP (\$bn)	536
Fortune 500 companies	26	Fortune 500 companies	20
Weekly international flights	1,667	Weekly international flights	4,186
Google search results (bn)	6.5	Google search results (bn)	2.2
Globally renowned think tanks	13	Globally renowned think tanks	20
HNWI population	7,580	HNWI population	6,015

ZURICH		WASHINGTON DC	
Quality of life	1	Political power	1
Overall Global Cities ranking	10	Overall Global Cities ranking	8
Economic activity	11	Economic activity	14
Political power	24	Quality of life	19
Knowledge & influence	22	Knowledge & influence	23
Population (m)	1.2	Population (m)	5.6
Nominal GDP (\$bn)	87	Nominal GDP (\$bn)	399
Fortune 500 companies	7	Fortune 500 companies	5
Weekly international flights	2,319	Weekly international flights	430
Google search results (bn)	0.1	Google search results (bn)	0.97
Globally renowned think tanks	3	Globally renowned think tanks	41
HNWI population	1,805	HNWI population	2,395

For full results, see page 22.

CHINA RISING

Returning to our main ranking, the real question is, how long can it be before one of mainland China's leading cities occupies a top five spot?

Ticking the economic box is unlikely to be a problem. In the past 10 years China's economy has quadrupled in dollar terms and Shanghai already ranks fifth for economic activity in our survey, with Beijing in sixth place.

The Shanghai Statistics Bureau reported that Shanghai's economy expanded 7.4% year on year in the first three quarters of 2012. Its GDP, which was 1.44tr yuan (US\$228.5bn) in the first nine months of the year, accounted for over 4% of total Chinese output. The city is also home to the headquarters of 19 of the world's largest public corporations, according to the Globalization and World Cities Research Network, up from 15 in 2009 and just four in 2006.

A significant number of Chinese cities, not just Shanghai and Beijing, are already economic giants in comparison with most Western centres. However, as already discussed, other factors determine what makes a truly global city.

The real challenge for China's new leadership will be how it tackles the country's pressing social issues, such as decreasing the widening wealth gap. These issues are closely intertwined with the future of its powerhouse cities.

London, Paris, Tokyo and especially New York will continue to benefit from their legacy infrastructure, and to trade on their open societies, transparent governance and status as safe havens and knowledge hubs, as well as their technological and travel connections, for some time. But is it realistic to assume that they can retain their leading status, with relatively miserly economic and demographic growth?

WHAT HNWI_s REALLY THINK: THE ATTITUDES SURVEY

As we have already suggested, much of what makes a city important in the eyes of an individual comes down to personal preference as well as local and regional attitudes. These factors are difficult, if not impossible, to measure and quantify.

So, with our Attitudes Survey of global wealth advisors, we have chosen an alternative approach to the detailed and diligent data analysis that informs our Global Cities Survey. We asked our respondents which cities are really considered the most important by their HNWI clients and how that view is likely to change over the next 10 years.

Based on global sentiment alone, London leapfrogs New York, which lags behind by some distance. Geography must play a part in this. While statistics make New York the global leader, its distance from the wealth hubs of the Middle East, Russia and Asia-Pacific puts it at something of a disadvantage compared with the more centrally located London.

London was considered the most important city across four of our seven world regions (see p62 of Databank for the full listings). But, unsurprisingly, it lags behind New York in the opinion of North American HNWI_s. From an Asian perspective, it sits firmly in second position – behind Singapore, and only slightly ahead of Hong Kong and New York. For wealthy individuals in Asia, London and New York are the only two cities from outside their home region to make the grade.

Our global top 10 comprises three European centres (London, Geneva and Paris), two from North America (New York and Miami), four from Asia (Singapore, Hong Kong, Shanghai and Beijing), with Dubai as the sole Middle East representative.

The main difference from last year's Attitudes Survey is the weakening of the European centres. Paris drops to ninth place in the popular vote and Berlin falls out of the top 10 altogether. Once again, Singapore has had a very strong year, eclipsing Paris and even Hong Kong, which it had previously lagged.

Further signs of Asia's growing strength are confirmed by the 10-year forecast from our global panel of wealth advisors. London hangs on in pole position, but New York finds itself relegated into third place by Singapore.

Shanghai and Beijing also power up the rankings, pushing Geneva and Paris further down the list. Even Dubai is knocked down the table by the anticipation of the influence that will be wielded by the Asian behemoths.

THE CITIES THAT MATTER TO HNWI_s – ATTITUDES SURVEY

Rank	2013	% of responses	2013	% of responses
1	London	25%	London	22%
2	New York	14%	Singapore	12%
3	Singapore	11%	New York	11%
4	Hong Kong	9%	Hong Kong	9%
5	Geneva	4%	Shanghai	6%
6	Shanghai	3%	Beijing	4%
7	Dubai	3%	Miami	3%
8	Miami	3%	Geneva	2%
9	Paris	3%	Dubai	2%
10	Beijing	3%	Paris	2%

HOW WE MEASURE THE WORLD: THE WEALTH REPORT'S GLOBAL CITIES SURVEY

In our attempt to create the most rounded assessment of the locations that matter to the world's wealthy, our Global Cities Survey examines four key themes: economic activity; political power; quality of life; and knowledge & influence.

To create each ranking we have scoured the world of urban academia and research and analysed the results of the most authoritative studies from the likes of the Economist Intelligence Unit and the United Nations.

For each theme, every city is ranked from one (strongest) to 40 (weakest). Aggregate rank determines each city's final position in the survey.

ECONOMIC ACTIVITY

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

POLITICAL POWER

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

QUALITY OF LIFE

Next we assess the quality of life offered by each city. This covers a wide range of issues, including measures of personal and political freedom, censorship, personal security, crime, political stability, health facilities, public services and transport, culture and leisure, climate and the quality of the natural and man-made environment.

KNOWLEDGE & INFLUENCE

Finally, we examine each city's knowledge base, assessing educational status and the number and ranking of educational facilities. We then look at how well each city transmits this knowledge, looking at the number of national and international media organisations and news bureaux, and the international market share of locally-based media. ➡

SOURCES INCLUDE WORLD BANK, UNITED NATIONS, INTERNATIONAL MONETARY FUND, ECONOMIST INTELLIGENCE UNIT, AT KEARNEY, THE INSTITUTE FOR URBAN STRATEGIES AT THE MORI MEMORIAL FOUNDATION AND THE Y/ZEN GROUP.

THE CITIES THAT MATTER TO HNWIs – THE GLOBAL CITIES SURVEY TOP 40

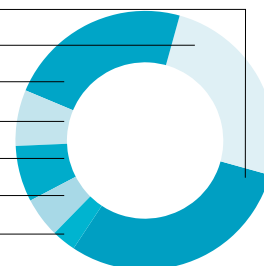
City	Region	Overall rank	Economic activity	Political power	Quality of life	Knowledge & influence
New York	North America	1	1	7	6	2
London	Europe	2	2	5	8	1
Paris	Europe	3	4	8	11	4
Tokyo	Asia	4	3	6	23	13
Hong Kong	Asia	5	7	10	26	6
Singapore	Asia	6	8	23	22	3
Sydney	Australasia	7	17	12	3	7
Washington DC	North America	8	14	1	19	23
Toronto	North America	9	12	15	4	15
Zurich	Europe	10	11	24	1	22
Berlin	Europe	11	10	4	18	9
Brussels	Europe	12	27	3	25	21
Seoul	Asia	13	28	11	28	10
Boston	North America	14	19	25	24	5
Beijing	Asia	15	6	2	40	27
Vancouver	North America	16	38	19	7	16
Chicago	North America	17	13	29	20	14
Vienna	Europe	18	23	27	13	8
Amsterdam	Europe	19	16	26	14	19
Los Angeles	North America	20	21	30	15	10
Stockholm	Europe	21	22	28	9	18
Melbourne	Australasia	22	30	35	2	12
Frankfurt	Europe	23	9	33	5	36
Shanghai	Asia	24	5	17	39	35
San Francisco	North America	25	15	34	27	20
Miami	North America	26	29	20	17	34
Geneva	Europe	27	26	38	10	24
Oslo	Europe	28	20	32	21	32
Dubai	Middle East	29	18	18	36	29
Moscow	Russia & CIS	30	24	9	37	31
Montreal	North America	31	37	31	16	17
Auckland	Australasia	32	33	40	12	33
Tel Aviv	Middle East	33	39	13	30	38
Milan	Europe	34	31	37	29	25
Buenos Aires	Latin America	35	40	14	35	28
Sao Paulo	Latin America	36	32	16	33	37
Abu Dhabi	Middle East	37	25	21	38	40
Mumbai	Asia	38	36	22	32	39
Kuala Lumpur	Asia	39	34	36	31	30
Bangkok	Asia	40	35	39	34	26

TOP FIVE CITIES BY THEME

Rank	Economic activity	Political power	Quality of life	Knowledge & influence
1	New York	Washington	Zurich	London
2	London	Beijing	Melbourne	New York
3	Tokyo	Brussels	Sydney	Singapore
4	Paris	Berlin	Toronto	Paris
5	Shanghai	London	Frankfurt	Boston

RANKINGS BY REGION

Region	Top 40 entries	% share
Europe	12	30.0
North America	10	25.0
Asia	9	22.5
Middle East & Africa	3	7.5
Australasia	3	7.5
Latin America	2	5.0
Russia & CIS	1	2.5



HNWI INTERVIEW

DR CHANCHAI RUAYRUNGRUANG CHAIRMAN, THE REIGNWOOD GROUP



With major projects currently under way in London, New York, Singapore and China, Dr Chanchai Ruayrungruang is perfectly placed to compare the world's established wealth centres with some of its fastest-growing markets. The verdict? Plenty of new opportunities for investors – and huge scope for East and West to learn from each other.

THE WEALTH REPORT How does property compare as an investment with other asset classes?

CHANCHAI RUAYRUNGRUANG The history of property shows its inherent strength. It is also ever-changing and evolving, a reflection of personal taste and culture that cannot be replicated by assets such as gold or foreign currency.

TWR What property schemes are you currently working on?

CR Reignwood Group is working on a number of real estate investments worldwide: 10 Trinity Square, a multi-purpose development in central London; a commercial venture on Times Square in New York; and Hamilton Scotts and Ritz-Carlton Residences in Singapore. In China, we are planning eco-resorts at Dali and in the Hubei province.

TWR Where will be the best future opportunities for property investors?

CR There are many cities that offer good opportunities for investors, especially in Asia. However, I believe New York and London will remain strong, as they are the global centres for finance and culture.

TWR What has been your best investment?

CR My team. Finding and investing in people who are as passionate about your vision as you is crucial to achieving your goals and adds huge value to any business.

TWR How important is it for property investors and developers to consider the environmental aspects of their projects?

CR Ecological and sustainable development was once a niche sector. Now it's mainstream, and pressure to consider the environmental impact of projects is coming not just from regulators but also from buyers and industry demand. In China, we are currently developing "Eco-resort Communities", low-carbon demonstration zones that will transform the way we build and live in cities in the future.

TWR Do you think it is getting harder or easier for young entrepreneurs in China and the rest of Asia to create wealth?

CR Competition is increasing. That means more opportunities. But it's important to note that 20% of people hold 80% of the world's wealth. That, coupled with the fact that more new pioneers are coming forward all the time, makes it harder for entrepreneurs to tap into that upper 20%.

TWR You are keen to build bridges between East and West. Do you think there is still a large gap between the two cultures?

CR The gap is narrowing, as travel becomes more frequent and accessible, and as expats and investors put down roots across the East and West. Parts of the East are still very segregated from Western society, while others are extremely multicultural. We are seeing how some Eastern values are making their way West, raising the benchmark for luxury hospitality and service. Our own principles are based on making friends, building bridges and opening doors to business opportunities in China and Asia.

TWR You have invested in London. What do you most like about the city?

CR London has so much to offer, but its history and culture is what I most appreciate. To have the chance to restore an important historic building like 10 Trinity Square is an honour. The building's heritage and landmark status was a key factor in our decision to pursue this development.

TWR Will cities such as Singapore, Hong Kong and Shanghai ever overtake the likes of London and New York in terms of their overall importance to the world's HNWIs?

CR London and New York are still the top financial capitals and will remain important as global platforms, but Singapore, Hong Kong and Shanghai are growing economies that offer a wide range of opportunities for wealthy investors. They will be instrumental as HNWIs seek new bases across key markets.

TWR According to the *Hurun Report*, the flow of investment, including residential property purchases, from Chinese HNWIs into the West has only just begun. Do you agree?

CR The relationship between Asia and Europe, especially London, is not new. However, international investment in London has proliferated recently for multiple reasons, including currency, capital returns and growth and relative stability.

TWR How important do you think it is for HNWIs to get involved in philanthropy?

CR I feel it's very important for HNWIs to give back both on a local and global level.

TWR Where do you focus your own philanthropic activities?

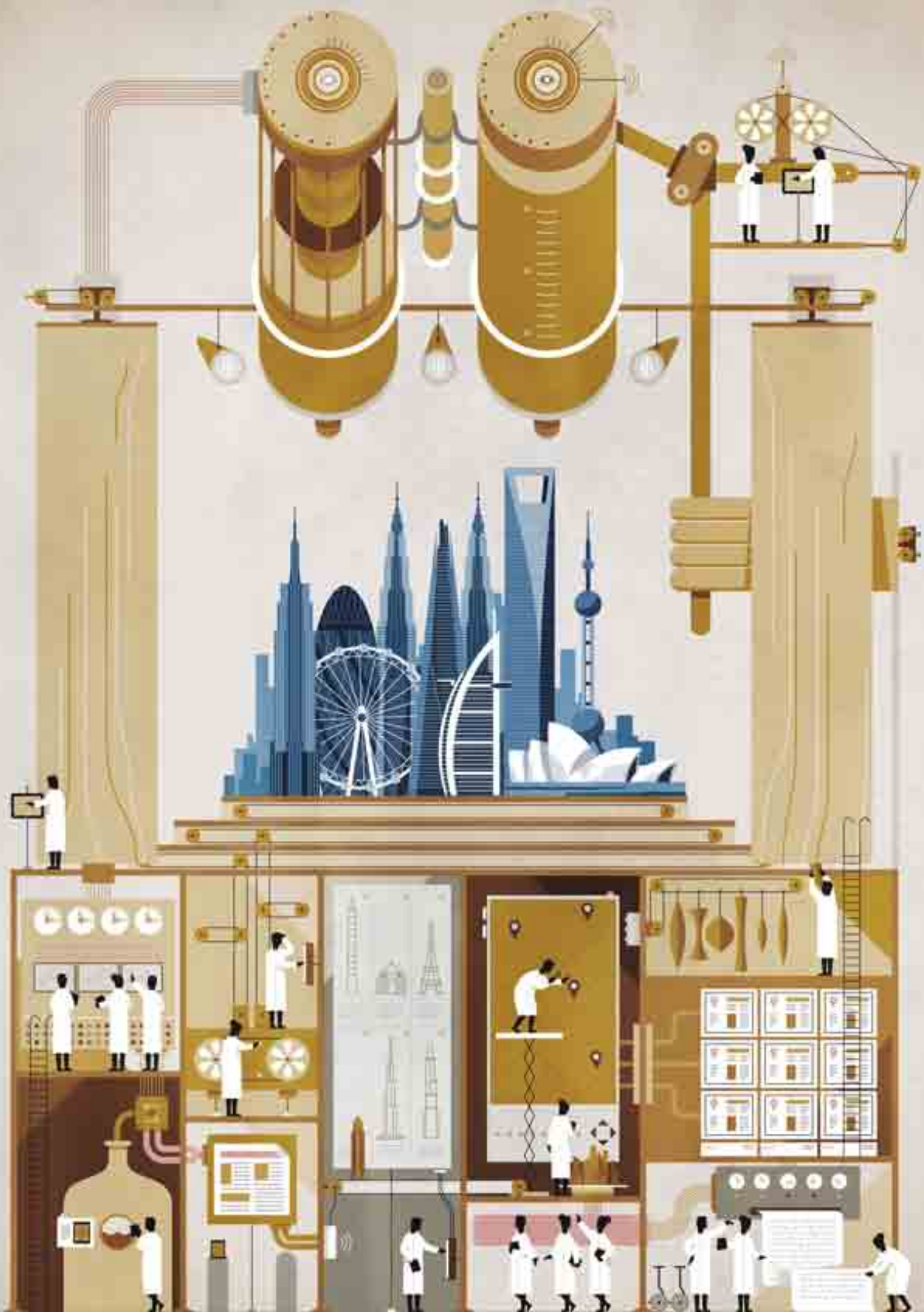
CR On cultural exchange between the East and West and the advancement of Chinese culture, and on education and training in sports and the arts, particularly for young people. My company is committed to investing in projects that lead the way in creating a high quality of life in China and, hopefully, the world as we expand.

TWR Do you have any personal favourite investments of passion?

CR I love fine wine, timepieces and jade, and I have a treasured collection of Ming pottery.

REIGNWOOD.COM

Singapore, Hong Kong and Shanghai offer a wide range of opportunities and will be instrumental as HNWIs seek new bases across key markets



PERFORMANCE

Prime residential and commercial property in relatively risk-free locations has always attracted investors in times of economic and political turbulence. There is something comforting about tangible assets that, barring natural disaster, will retain their inherent value over time, even if prices dip in the short term. This flight to safety continues around the world and is helping to drive up prices in the most sought-after locations; so much so that certain governments are desperately trying to cool their housing markets down. But wealthy investors are also starting to buy into recovery, breathing new life into previously moribund markets such as Dubai and Dublin.

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SAFETY FIRST

KNIGHT FRANK'S PRIME INTERNATIONAL RESIDENTIAL INDEX (PIRI) IS THE MOST COMPREHENSIVE BAROMETER OF THE PERFORMANCE OF THE WORLD'S TOP MARKETS. WE REVEAL HOW 80 LEADING LUXURY LOCATIONS HAVE FARED IN THE PAST YEAR

LIAM BAILEY

Several key themes emerge from our annual survey of the world's luxury residential markets. The search for safe haven investments has continued to propel prices higher in key global cities; some of the markets worst hit by the global financial crisis appear at long last to be recovering; and the impact of growing global wealth flows has kept governments busy in their attempts to limit price growth and deflate nascent real-estate bubbles before they explode.

Our analysis reveals a polarised global market. Around a third of the locations in our Prime International Residential Index (PIRI) showed positive price growth during 2012, but about half reported negative growth. Prime markets still face considerable issues, especially in the main European second-home hubs, although even here lower pricing is beginning, albeit tentatively, to attract new investment.

Asia-Pacific remained the main source of positive news for the luxury residential sector in 2012, with five of the year's top 10 growth markets. Indonesia led, with stellar performance in both Jakarta (+38%) and Bali (+20%).

Jakarta benefited from continued strong GDP growth, which has stood at or above 6% for five out of the past six years and, in particular, from rapid growth in middle-class wealth. Increased access for non-resident purchasers could

help sustain the trend through 2013. Thailand delivered respectable growth of 9.4% in Bangkok and 4.7% in Phuket, driven by low supply and rising investment interest.

In last year's edition of *The Wealth Report*, we commented on the importance of the Chinese housing market to the global economy because of the huge influence the country's construction sector has on commodity demand. In 2012 the prime Chinese centres saw mixed results, with ongoing double-digit growth in Guangzhou and Shanghai set against significantly lower growth in Beijing.

The Chinese capital, along with other Tier 1 cities, has had to accommodate increasingly severe purchase restrictions. These include limits on multiple home ownership, restrictions on mortgage availability and, in some cases, a prohibition on non-resident purchases.

Despite these new controls, the weight of money chasing prime property in Shanghai and Beijing has been sufficient to ensure continued price growth in both cities throughout 2012. The situation is similar in Hong Kong where, despite new restrictions – most notably an additional 15% stamp duty for foreign buyers, including those from mainland China – the rate of price growth almost doubled from 4.6% in 2011 to 8.7% in 2012.





COMPUTER GENERATED IMAGE



The Lancasters,
Lancaster Gate,
Hyde Park, London

RECOVERING MARKETS, SAFER HAVENS

Shifting focus to the Middle East, Dubai stands out with strong growth of 20% in the price of luxury villas during 2012. The epitome of the global downturn between 2008 and 2009, the emirate rebounded in 2012 on the back of a resurgence in demand. This was aided by lower prices and underpinned by its location as a strategic hub, able to attract wealth from the Middle East, North Africa, the Indian subcontinent and central Asia.

Rapid price growth in 2012 was enough for the Central Bank of the UAE to impose new mortgage restrictions on the market in early 2013.

While the prime market will undoubtedly be insulated by the higher volume of cash purchases, there is some nervousness over the potential impact of these rules on the mainstream market, which has only just begun to show signs of recovery.

Dubai's revival presaged another upturn. Dublin's prime market, also a victim of the global financial crisis, saw prices fall 60% between 2006 and 2011. In 2012, rising investment interest saw values rise modestly by 2.5%.

The micro-recovery now apparently under way in Dublin gives hope to even the most embattled of property markets

Following the economic downturn, Miami, London and New York came to epitomise the so-called safe haven market, with overseas buyers looking to escape currency, economic, political and security crises by putting equity into tangible assets that appeared safe from government sequestration. This trend gathered pace in 2012.

In London, European wealth continued to fuel the market, at least in the first half of the year. As fears that the euro might collapse dissipated during the summer, Europeans were increasingly replaced by Middle Eastern, Asian, African and Russian and CIS buyers.

Russians, long an important driver of the London market, became a growing force in both New York and Miami, alongside ever-rising demand from Latin America. In New York in particular, Russians faced increasing competition from Chinese and Hong Kong buyers. The substantial housing market downturn during the original 2008 credit crunch means that US luxury markets are now appealing to global investors looking for value opportunities. In New York prime sales volumes hit their highest level for 25 years in the final quarter of 2012, as the looming fiscal cliff and potential capital gains tax rises weighed on vendors' minds.

New York's performance over the past year has been aided by the growing availability of high-quality new-build developments. This contrasts with the dearth of stock in the years after the financial crisis.

TURMOIL IN THE EUROZONE

There is no escaping the fact that the lower half of our price growth table (p29) is dominated by European centres. For several of the continent's second home markets, 2012 represented the sixth consecutive year of declining prices.

In France, Spain, Portugal and Italy, the euro crisis provided the inescapable backdrop to the market, creating uncertainty for buyers regarding their own economic prospects and, just as importantly, uncertainty regarding the political reaction to the crisis.

This reaction was most keenly felt in France, where President Hollande's wealth tax proposals caused more than a few potential buyers to reconsider. In reality, while prices slipped in some French hotspots, the biggest impact was reduced trading volumes. The sub-€5m market in key French locations performed relatively well, but the top of the market saw buyer interest shift to Monaco, the Italian Riviera and Switzerland. Some buyers also moved their focus to Barcelona and other key markets in Spain.

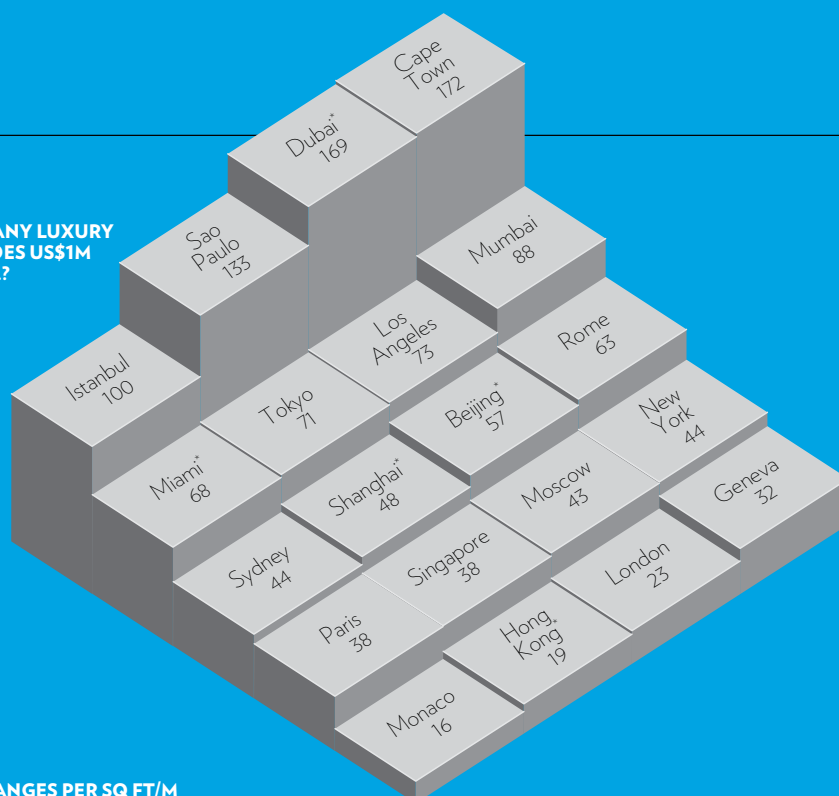
Overall demand for prime residential property, for investment or lifestyle reasons or as a safe haven asset, remained strong through 2012. In the majority of locations across Asia-Pacific, the Middle East and Africa, this demand helped to push prime prices higher, in some cases to such an extent that governments felt it necessary to curb demand.

The prime markets in North America appear to be on the rise, benefiting from the export of wealth from emerging economies. European markets have been held back by the euro crisis and dismal economic activity. London's performance, however, confirms that the region is well able to attract inward investment, and the micro-recovery now apparently under way in Dublin gives hope to even the most embattled of markets.

PIRI UPS AND DOWNS IN 2012

AVERAGE PRICE CHANGE

Rank	Location	Country/area	2012 change
1	Jakarta	Indonesia	+38.1%
2=	Bali	Indonesia	+20.0%
2=	Dubai ¹	UAE	+20.0%
4	Miami	US	+19.5%
5	Sao Paulo	Brazil	+14.0%
6	Gstaad ¹	Switzerland	+13.2%
7	Auckland	New Zealand	+12.7%
8=	Guangzhou	China	+12.5%
8=	Los Angeles ¹	US	+12.5%
10	Shanghai	China	+10.8%
11=	Nairobi	Kenya	+10.0%
11=	Istanbul	Turkey	+10.0%
13	Verbier	Switzerland	+9.6%
14	Bangkok	Thailand	+9.4%
15	Munich	Germany	+9.3%
16=	London	UK	+8.7%
16=	Hong Kong ¹	China	+8.7%
18	San Francisco ¹	US	+8.1%
19	St Petersburg	Russia	+7.2%
20	Aspen ¹	US	+5.3%
21	Phuket	Thailand	+4.7%
22	Toronto	Canada	+4.3%
23	Tel Aviv ¹	Israel	+3.7%
24=	Dublin	Ireland	+2.5%
24=	Washington DC	US	+2.5%
26	Beijing	China	+2.3%
27	Monaco	Monaco	+2.0%
28=	Kuala Lumpur ¹	Malaysia	+1.0%
28=	Cape Town	South Africa	+1.0%
30	Singapore	Singapore	+0.6%
31	Mumbai	India	+0.5%
32	St Moritz ¹	Switzerland	+0.4%
33=	Sydney	Australia	0.0%
33=	Mustique	Caribbean	0.0%
33=	St Barts	Caribbean	0.0%
33=	Cap Ferrat	France	0.0%
33=	St Tropez	France	0.0%
33=	Cannes	France	0.0%
33=	Courchevel	France	0.0%
33=	Italian Riviera	Italy	0.0%
33=	Beirut	Lebanon	0.0%
42	New York	US	-1.4%
43	Florence	Italy	-2.0%
44	Moscow	Russia	-2.3%
45=	Zurich	Switzerland	-2.5%
45=	Vienna	Austria	-2.5%
47=	Brussels	Belgium	-3.0%
47=	Cyprus	Cyprus	-3.0%
49	Home Counties	UK	-3.8%
50=	Provence	France	-4.0%
50=	Paris	France	-4.0%
50=	Tokyo	Japan	-4.0%
53	Megeve	France	-4.2%
54=	Cayman Islands	Caribbean	-5.0%
54=	Evian	France	-5.0%
54=	Tuscany	Italy	-5.0%
54=	Lake Como	Italy	-5.0%
54=	Marbella	Spain	-5.0%
54=	Mallorca	Spain	-5.0%
54=	Barbados	Caribbean	-5.0%
54=	Amsterdam	Netherlands	-5.0%
62	Meribel	France	-5.6%
63=	Chamonix	France	-6.0%
63=	Geneva	Switzerland	-6.0%
65	Madrid	Spain	-6.1%
66	Vancouver	Canada	-7.9%
67=	Barcelona	Spain	-8.0%
67=	Marrakesh	Morocco	-8.0%
69	Val d'Isere	France	-8.8%
70=	Ho Chi Minh City	Vietnam	-10.0%
70=	Bahamas	Caribbean	-10.0%
70=	Dordogne	France	-10.0%
70=	Venice	Italy	-10.0%
70=	Umbria	Italy	-10.0%
70=	Central Algarve	Portugal	-10.0%
76	Sardinia	Italy	-11.0%
77	Western Algarve	Portugal	-12.5%
78	Rome	Italy	-14.0%
79	British Virgin Islands	Caribbean	-15.0%
80	The Hamptons	US	-15.1%

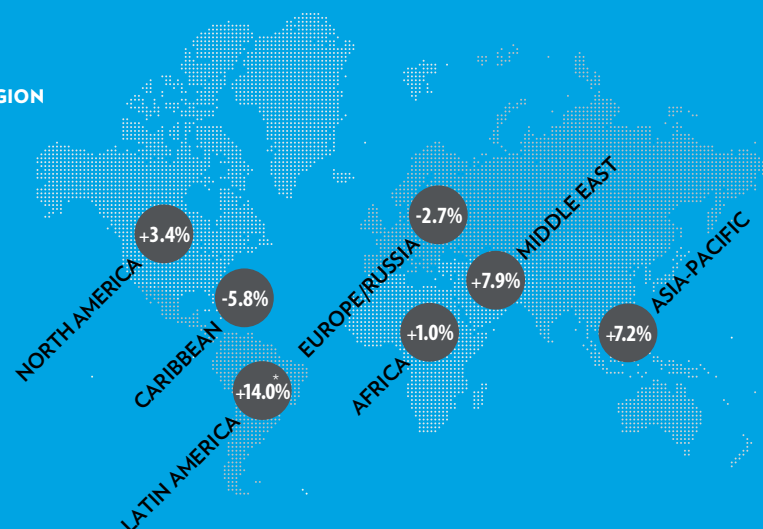
HOW MANY LUXURY
SQ M DOES US\$1M
BUY IN...?

PRICE RANGES PER SQ FT/M

Rank	City	US\$ per sq m – Q4 2012	US\$ per sq ft – Q4 2012	£ per sq ft – Q4 2012	€ per sq m – Q4 2012	Local currency/area** Q4 2012
1	Monaco	57,600 – 63,700	5,350 – 5,920	3,340 – 3,700	43,400 – 48,000	EUR 45,900/sq m
2	Hong Kong ¹	49,200 – 54,400	4,570 – 5,050	2,850 – 3,150	37,100 – 41,000	HKD 37,320/sq ft
3	London	41,900 – 46,300	3,890 – 4,300	2,430 – 2,690	31,600 – 34,900	GBP 2,540/sq ft
4	Geneva	29,300 – 32,400	2,720 – 3,010	1,700 – 1,880	22,100 – 24,400	CHF 28,200/sq m
5	Paris	25,300 – 28,000	2,350 – 2,600	1,470 – 1,620	19,100 – 21,100	EUR 20,160/sq m
6	Singapore	25,200 – 27,800	2,340 – 2,580	1,460 – 1,610	19,000 – 21,000	SGD 3,100/sq ft
7	Moscow	22,000 – 24,300	2,040 – 2,260	1,270 – 1,410	16,600 – 18,300	RUB 702,700/sq m
8	New York	21,800 – 24,100	2,030 – 2,240	1,270 – 1,400	16,400 – 18,200	USD 2,140/sq ft
9	Sydney	21,700 – 24,000	2,020 – 2,230	1,260 – 1,390	16,400 – 18,100	AUD 22,000/sq m
10	Shanghai ¹	19,600 – 21,700	1,820 – 2,020	1,140 – 1,260	14,800 – 16,400	RMB 130,500/sq m
11	Beijing ¹	16,500 – 18,300	1,530 – 1,700	960 – 1,060	12,400 – 13,800	RMB 109,800/sq m
12	Rome	15,000 – 16,600	1,470 – 1,550	920 – 970	11,400 – 12,600	EUR 12,000/sq m
13	Miami ¹	14,000 – 15,500	1,300 – 1,440	810 – 900	10,600 – 11,700	USD 1,370/sq ft
14	Tokyo	13,300 – 14,700	1,240 – 1,370	770 – 860	10,000 – 11,100	JPY 1,200,000/sq m
15	Los Angeles	13,000 – 14,400	1,210 – 1,340	760 – 840	9,800 – 10,900	USD 1,270/sq ft
16	Mumbai	10,700 – 11,900	990 – 1,110	620 – 690	8,100 – 9,000	INR 57,800/sq ft
17	Istanbul	9,500 – 10,500	880 – 980	550 – 610	7,200 – 7,900	USD 10,000/sq m
18	Sao Paulo	7,100 – 7,900	660 – 730	410 – 460	5,400 – 6,000	BRL 15,390/sq m
19	Dubai ¹	5,600 – 6,200	520 – 580	320 – 360	4,200 – 4,700	AED 2,000/sq ft
20	Cape Town	5,500 – 6,100	510 – 570	320 – 360	4,100 – 4,600	ZAR 49,500/sq m

AVERAGE PRICE
CHANGE BY REGION
AND SECTOR

City +3.3%

Second home (ski)
+0.4%Second home (sun)
-4.2%

Notes: ¹Dubai – based on villas only; Aspen – based on single family homes; Vancouver – based on detached homes; Hong Kong, Kuala Lumpur and Singapore – provisional data; Gstaad and St Moritz – Q2 2011 to Q2 2012; San Francisco, Tel Aviv and The Hamptons – Q3 2011 to Q3 2012; Tokyo – based on properties priced above JPY 100m (houses and apartments); price ranges for Beijing, Shanghai and Hong Kong are for properties considered 'super prime'; price ranges for Miami are based on South Beach values. All currency exchange calculations based on the rate prevailing on 31 December 2012. Price change by region for Latin America based on Sao Paulo. **Spot figure.

Sources: All data from Knight Frank's global network with the exception of: New York and Miami – Douglas Elliman/Miller Samuel; Aspen – Andrew Ernemann (BJ Adams and Co); Tokyo – Ken Corporation; St Moritz and Gstaad – Wüest & Partner; Sao Paulo – Howells & Partners Ltd; Los Angeles – Victor Kaminoff; Washington DC – RealEstate Business Intelligence (RBI), an MRIS company; Vancouver – Macdonald Realty Group and the Real Estate Board of Vancouver.

GOVERNMENT CONTROL

Another of the main themes to emerge from this year's PIRI is the power of global capital flows not only to affect market performance, but also to cause governments to attempt to control and limit this influence.

Counterintuitively, one of the biggest risks for global luxury residential markets is actually their popularity, which encourages a deep concentration of investment.

Our analysis of global wealth trends (p8) confirms the scale of this issue. The number of HNWIs – individuals with more than US\$30m of investable assets – is forecast to rise by 95,000 globally over the next decade.

To put this in perspective, the combined annual GDP growth of Brazil, Russia, India and China is equivalent to the creation of a new economy the size of Italy each year. The combined growth of the top 15 emerging economies equates to the creation of a new Greece (albeit hopefully without the debt) each month.

The result of this is that, each year, there are more and more new people who want and, more importantly, can afford luxury property, whether that be a house in London's Holland Park, a villa on The Peak in Hong Kong, an Upper East Side apartment in Manhattan or a ski chalet in France's Courchevel.

And there's the rub: demand is ever rising while the stock of desirable locations remains virtually static, and so global capital flows continue to concentrate on a few key hubs.

The resulting lack of local affordability becomes a political issue and, in an attempt to slow down price growth, governments are imposing new rules. In markets from Dubai to Sydney, by way of Shanghai and Singapore, restrictions are being placed on multiple property purchases and caps imposed on loan-to-value ratios.

Even in Europe, a 20% cap on second homes in Switzerland, as well as new regulations targeting London's £2m+ market, have been introduced. As wealth creation grows, we can only expect more attempts by governments to control the flow of money into residential property.

London's new £2m+ stamp duty tax regime highlights a related theme. For governments that badly need to raise revenue, the luxury property market is looking like a suitable – and voter-friendly – target. France, Italy, Spain and Portugal have all joined the UK in introducing new or enhanced taxes on the sector over the past year.

For some politicians ideology has no doubt been a driving force; for most, however, the objective has been to maximise tax take without undermining the market.

Hopefully, if the UK coalition government – which scaled back the new £2m+ proposals last December following a negative reaction from the market – is anything to go by, last year may well represent the high watermark for attempts to squeeze revenue from the sector.

Demand is ever rising, while the stock of desirable locations remains virtually static – so global capital flows continue to concentrate on a few key hubs



Ski chalets in premier resorts are popular with HNWIs. Image: Sub Zero, Courchevel Moriond

CROSS-BORDER TRAFFIC

We discussed earlier how wealthy Russians retained their position as the dominant force at the top of the prime markets in 2012. London estate agents in particular welcomed their spending power through the year.

As France temporarily fell out of favour with Russian buyers, due to Hollande's sabre-rattling, Monaco – with its more predictable tax environment – benefited. Elsewhere in Europe, Vienna consolidated its position as a serious destination for Russian wealth, which is leading new demand for super-luxury development.

Outside Europe, Dubai has recovered some of its popularity with Russians, but competition from buyers from North Africa, Pakistan, India and Iran has been an important factor in helping to drive prices higher this year.

In the US, Russians have increased their activity. But the real story in 2012 was the rise of demand from China. After Canadians, buyers from China and Hong Kong jointly vied with Brazilians for second place as the largest foreign buyer group looking to invest in the States.

London may have attracted the super-rich Chinese, but overall the US took a larger share of wealthy buyers from China, as the euro crisis and relative affordability made it look a safer haven in 2012.

The power of this type of Chinese buyer looks set to continue into 2013. Already strong in Hong Kong, Singapore, Malaysia and Australia, and growing in Canada and the US, their influence is now spreading to London too.

Our web traffic analysis (p34) confirms the widening demand for luxury property. In the US last year, for example, buyers from Brazil, Argentina and Venezuela rubbed shoulders with buyers from Asia and Europe. This rise in cross-border activity points to the desire among wealthy individuals to diversify their assets and to provide an insurance policy for themselves and their family should economic or political problems escalate in their home country.

In 2012, there was no shortage of drivers for safe haven demand. The list includes the change in leadership in China, the continued turmoil in Egypt and the Middle East, the ongoing economic chaos in the southern eurozone and rising concerns over Argentina's economic performance. It appears unlikely that 2013 will be any calmer.

THE SEARCH FOR VALUE

It seems clear that global economic stimulus measures have continued to aid property values. Even in locations where values fell in 2012, these falls would have been larger without low interest rates. Monetary easing may be creating an inflation risk, but this still appears to be some way in the future. For now, asset values, including property, have been supported by cheaper debt and the increased volume of money flowing around the world in search of a home.

The risk of higher inflation and the associated impact of rising debt servicing costs means that there are future risks to prices. As a result, strategies for maximising returns on investments, including second home purchases, are becoming more critical.

Attempts to take advantage of currency fluctuations have become more important for investors. The 25% fall in sterling in late 2008 was the catalyst for London's revival and set in train a 54% price rise over the next four years. Chinese buyers in the US have seen a 20% saving in headline prices over the past five years due to currency shifts alone.

Even in the prime sector investors are searching for value as some markets begin to look expensive or taxation undermines the attractiveness of others. One trend we expect to become more established over the next 12 months is for HNWIs to start taking long-term positions in markets that until recently were considered too distressed. European centres such as Milan, Madrid, Barcelona and Dublin will become more sought after.

Such cities have the potential to join Munich, Berlin, Zurich, Geneva and Vienna as core European investment targets. The European city with the most obvious potential to compete with London for inward investment is Paris. However, its success in this regard will be determined by evolving political attitudes to wealth in France.

Demand for prime property in key locations around the world is likely to remain high as wealth creation, especially in the emerging world, thrives. This, along with the continued search for sheltered havens to protect assets, is likely to drive prime prices up in the short to medium term. Of course, there are countless factors, such as currency fluctuations, tax changes and the availability of finance, which could change patterns of demand and supply in the world's prime markets. But the fundamentals are likely to remain unchanged. Global demand is rising fast, and the supply of luxury homes remains limited.

THE BIG QUESTION

WHAT IMPACT WILL ASIAN HNWIs HAVE ON INTERNATIONAL PRIME GLOBAL PROPERTY MARKETS OVER THE NEXT 10 YEARS?

SUDHIR VADAKETH



The amount of private wealth generated in Asia is increasing in tandem with the region's rapid economic growth and this is leading to huge demand for everything from Alba white truffles to Malaysian durians. But Asian HNWIs are more than just voracious consumers. They are also savvy investors who see huge potential in prime global property.

Asians love property. In October 2012 the Economist Intelligence Unit surveyed 160 private bankers around the world on the outlook for their industry and various asset classes. In Asia, respondents expected demand for property to outstrip other assets. One banker noted that investors in Asia are keen on property no matter what the state of the economy.

However, there are two reasons to believe that over the next decade Asian HNWIs will become relatively more interested in overseas properties. First, portfolio diversification. Asian investors are increasingly concerned with macro risks to their domestic economies, after several years of stellar growth. These include political issues – such as the standoff between China and Japan over the Diaoyu/Senkaku islands – and policy risks, like further cooling measures triggering a property price correction in cities such as Hong Kong and Singapore.

The second reason is growing comfort levels. As more Asian companies expand abroad, so owners and senior managers are becoming more familiar with foreign cultures and

business practices, moderating the risk premium hitherto attached to these markets and asset classes.

So, which nationalities are most likely to venture abroad? In addition to Chinese investors, the next decade will likely see more investors from emerging markets such as India, Indonesia, Mongolia, the Philippines and Vietnam. Expect HNWIs from frontier markets like Myanmar and Sri Lanka to become more prominent as they seek safe havens for their newfound wealth to mitigate the risk of renewed political tensions at home.

And where might Asian HNWIs invest? In destinations with adequate liquidity, transparency, and an existing Asian population, such as London, Melbourne, New York, San Francisco, Sydney and Vancouver. There will be opportunities in emerging markets where Asian firms are doing more business, including Brazil, the Middle East, Russia, South Africa and Turkey. And more will venture out of the cities to rural and beachfront properties, driven by a desire for vacation homes and by perceived value.

Sudhir Vadaketh is a senior editor for the Economist Intelligence Unit in Asia and an adviser on the region. He wrote *Floating on a Malayan Breeze: Travels in Malaysia and Singapore* and has a masters in public policy from the Harvard Kennedy School and degrees in Business Administration and South & South-East Asian Studies.

FUTURE TRENDS

The results of The Wealth Report's Attitudes Survey provide a unique insight into how HNWIs view property now and in the future. Oliver Knight of Knight Frank's Residential Research team analyses a selection of the key findings

While wealth creation is booming in the emerging world and the developed world is mired in debt and austerity, residential property continues to appeal to the world's wealthy. But will this trend continue?

The fallout from the global financial crisis is still very much evident around the world. Further global challenges emerged in 2012: the ongoing political volatility resulting from the Arab Spring; economic uncertainty in Europe; and the prospect that the US might topple off the fiscal cliff. Responses to our Attitudes Survey of private bankers and wealth advisors (p62) show that amid such insecurity, residential property managed to retain its global appeal, with HNWIs increasing their exposure to real estate.

TANGIBLE ASSETS

In 2012, demand for luxury homes in key cities worldwide showed no sign of abating. Rather, the instability of the global economy has promoted luxury homes to safe haven status among the world's wealthy. Last year, on average, just over a quarter of HNWIs' total net worth was accounted for by their main residence and their second homes.

The attraction of storing wealth in tangible assets looks set to continue. A net balance of 25% of respondents indicated that their clients will add to their residential portfolios in 2013, compared with 19% in 2012.

We can expect to see regional variations. For example, a net balance of 40% of respondents in the Middle East & Africa and 34% in Asia said their clients were likely to purchase a new home over the coming 12 months. In Europe and the US, the figure was 17%.

As the wealthy consider their options, it is important to note that, as a result of the actions of policymakers and wider political rhetoric in Europe, Asia and the Middle East, property markets around the world have new challenges to overcome in 2013, not least adjusting to new tax rules.

The instability of the global economy has promoted luxury homes to safe haven status among the wealthy ... The attraction of storing wealth in tangible assets looks set to continue in 2013

Our survey suggests that wealthy clients are prepared to take action in response to higher levies and a lack of transparency in their current places of abode. Some 60% of Europeans, 61% of Middle East and African clients, 67% of those based in Russia & CIS and 73% of Latin Americans were said to be considering, however tentatively, changing their country of residence or domicile (see opposite).

LIFESTYLE CHOICE

In reality, however, tax forms only part of the picture for the super-rich when it comes to property. What they really value, the Attitudes Survey shows, is the lifestyle that comes with an open, cosmopolitan environment and both personal and property security (p63).

The second most important factor when choosing a second-home location was its potential to provide a long-term safe haven for capital. This suggests that cities such as London and New York, which have been able to withstand economic headwinds and can boast additional lifestyle benefits, will profit from the transfer of wealth from one area of the world to another.

Given the increased importance that buyers now place on their children's education – 85% of Asian and 81% of Latin American clients are likely to send their children to university overseas – the ongoing popularity of homes in cities with a number of prestigious universities should come as no surprise.

Overall, almost 50% of HNWIs have a second-home townhouse or apartment, compared with 20% owning waterfront homes and 10% ski properties. Globally, some 43% of clients are expected to show an increased interest in purchasing more city property this year. The trend looks likely to be led by clients based in the Middle East & Africa (67%) and Russia & CIS (50%).

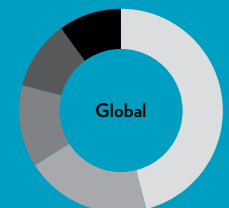
Broadly speaking, the Attitudes Survey reveals three key themes influencing the performance of prime residential property markets over the short to medium term: the scale of global wealth generation; the ongoing search for safe haven investments; and the widening economic gap between East and West.

From the responses to our latest Attitudes Survey, it seems clear that the appetite of wealthy individuals for acquiring prime property is still strong. Moreover, it looks unlikely to diminish any time soon.

GLOBAL MOBILITY HNWIs ON THE MOVE



POPULARITY OF PRIME PROPERTY TYPES (% OF HNWIs WHO OWN EACH TYPE OF PROPERTY)



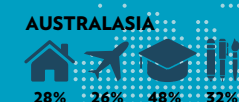
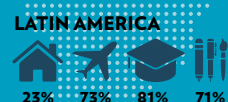
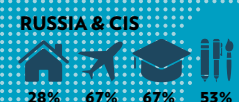
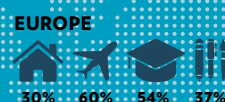
City property	46%
Waterfront property	20%
Country/sporting estate	13%
Farm	11%
Ski property	10%

THE MOST IMPORTANT FACTORS TO HNWIs WHEN CHOOSING A SECOND HOME LOCATION

Factor	Rank
Lifestyle	1
Safe haven for capital	2
Investment	3
Education for children	4
Tax	5
Business links	6

For more Attitudes Survey data on residential properties, see Databank (p63)

HNWI ATTITUDES: A GLOBAL OVERVIEW



Key
 % of HNWI wealth accounted for by the value of their homes.

% of Attitudes Survey respondents whose clients were thinking of changing their country of residence or domicile for tax or other reasons.

% of Attitudes Survey respondents whose clients would send their children abroad to be educated:

Higher education, and School.

Source: The Wealth Report Attitudes Survey

WEB OF INTELLIGENCE

Knight Frank's Global Property Search is available in eight languages and, with visits from over 170 countries annually, offers an intriguing snapshot of demand for luxury property around the world

The total number of searches for luxury residential property on Knight Frank's website rose by around 35% in 2012 compared with 2011. Breaking this total down by world region (see map opposite) provides a practical illustration of some of the key themes discussed elsewhere in this section.

South America leads the upswing by some margin, with an 82% uplift in searches. With Africa following (with 48% growth), it seems likely that we are starting to see the impact of emerging-market wealth creation and its transfer into prime property, especially considering the rate of growth in Brazil and Argentina. Growing political uncertainty may be an associated driver for Venezuelan buyers' sudden upsurge in interest in luxury property.

Perhaps more surprisingly, we find Europe third in our regional ranking. Lower growth might be expected from an already well-established buyer market, but this illustrates another of our global themes: growing demand for safe havens.

The upturn in searches from Spain, Portugal and Italy, each almost double the average global growth rate, suggests that economic uncertainty in the eurozone is leading prospective buyers to consider investing in locations outside their home countries.

The cluster of Middle East countries in our table – Kuwait, Qatar, Lebanon and Saudi Arabia – confirms the growing impact of wealth originating in this region on the global property market.

The danger of making sweeping assumptions based on web trends is illustrated by Germany's position in our table of top web search markets. Is it the fear of a eurozone collapse that is driving Germany's wealthy to consider purchasing luxury property in the safe havens of London and Switzerland? Or was the 60% growth in search volumes

It seems likely that we are starting to see the impact of emerging-market wealth creation and its transfer into prime property

simply the result of the need to invest the fruits of the recent Teutonic export boom?

Turning to consider those locations most in demand, all the cooling measures in the world have not weakened Singapore's appeal. The Caribbean hotspots also performed well, with strong growth in searches for Bermuda, Barbados and the Cayman Islands.

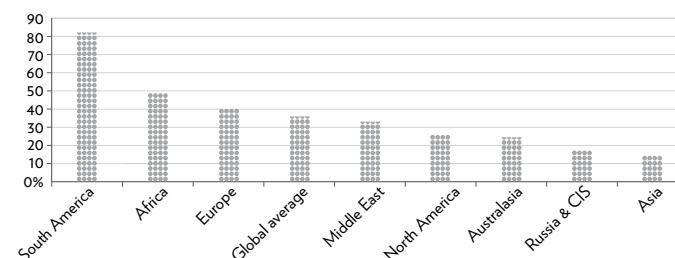
The spike in interest in Belgium may be a sign of new French interest in their conveniently placed neighbour – according to the media, a number of high-profile individuals have already moved over the border.

Overall, our record of leading target markets points to growth in demand for ever-popular locations: the US, Switzerland, Monaco and Australia. ▴

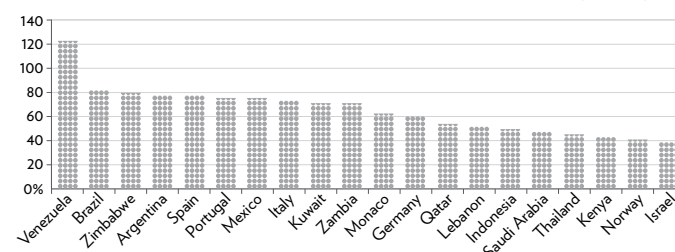
WHO'S SEARCHING WHERE INSIGHTS FROM ONLINE

LUXURY PROPERTY SEARCH VOLUMES

SEARCH ORIGINATION BY WORLD REGION ANNUAL % CHANGE (2011-12)



SEARCH ORIGINATION BY COUNTRY ANNUAL % CHANGE TOP 20 (2011-12)



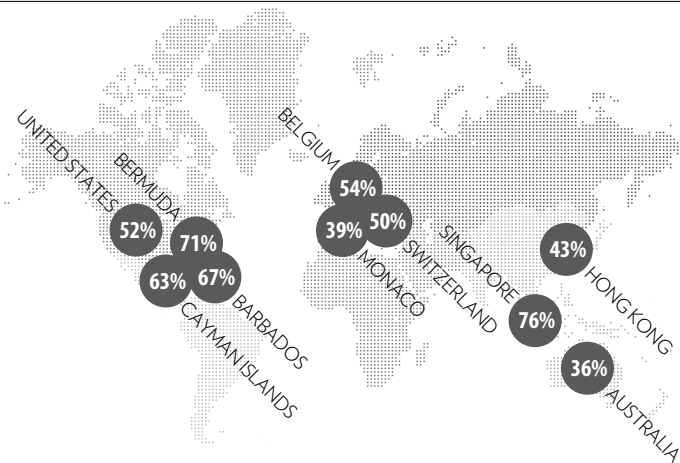
Source: Knight Frank Global Property Search (knightfrank.com)

MARKETS IN DEMAND 2012'S TOP 10 MOVERS

📈 Increase in online property searches (2012 v 2011)

Prices show average value (US\$) of properties searched for in 2012

Source: Knight Frank Global Property Search (knightfrank.com)



SINGAPORE \$2.7m



SWITZERLAND \$3.4m



AUSTRALIA \$1.3m



HONG KONG \$6.6m



MONACO \$10.9m



BELGIUM \$3.9m



BARBADOS \$1.4m



BERMUDA \$3.1m



CAYMAN ISLANDS \$1.9m



US \$3.3m

BACK TO BUSINESS

COMMERCIAL PROPERTY IS BACK AS PRIVATE INVESTORS LOOK TO INCREASE THEIR EXPOSURE TO THE GLOBAL ECONOMIC RECOVERY. THE WEALTH REPORT LOOKS AT WHERE THE SMART MONEY IS HEADING

JAMES ROBERTS

As the systemic threats in the global economy begin to recede, we believe that more private investors will start to view the low returns on triple-A government bonds and cash in the bank as unacceptable.

Prime offices in a range of major global business centres now offer premiums of over 200 – and, in some cases, 300 – basis points above 10-year government debt in their respective markets (see p43). Government bonds trading at yields below inflation are loss-making in real terms. So, investors may well ask themselves, why not seek a real-terms profit, where you can also drive greater returns by adding value?

Jeremy Waters, Head of International Investment at Knight Frank, says institutional investors are leading the way. “The big sovereign wealth funds have been active in property investment for the last couple of years, and global private equity funds were much more active in 2012. Private investors will draw confidence from this, and look to invest themselves.”

The Wealth Report's Attitudes Survey of wealth advisors and private bankers confirms that HNWIs are taking a greater interest in commercial property. Globally, a net balance of 25% of respondents said their clients planned to invest more this year, with the strongest increases reported in the Middle East & Africa (52%), Australasia (33%), North America (33%) and Russia & CIS (33%). The increase was second only to that for equities.

“This shows private investors plan to increase exposure to traditional recovery-play investments in 2013. Property in a rising economy can provide steady growth to balance against the volatility that equities experience,” says Deborah Watt of Knight Frank's Global Wealth team.





Such sentiment should help global property investment to stabilise in 2013 after falling by 7% in 2012 to US\$403bn. Market conditions will remain difficult in the first half of the year, but recovery in North America and Asia should counterbalance subdued activity in Europe. Knight Frank then predicts global investment to increase by 8% to US\$434bn in 2014, as the economic recovery spreads.

However, not all locations and asset classes will benefit immediately. Private investors will assess markets based on their appetite for risk, taking into account factors such as a potential target's position in the economic recovery cycle. A move away from residential property investments and the impact of exchange rates will also have an effect in different parts of the world, as discussed later.

GIMME SHELTER

Some cities retain the ability to lure investors from around the globe, even when their host countries are putting in a lacklustre economic performance. These are what we call safe havens and they often benefit when there is economic and political turmoil in other parts of the world.

Throughout the euro crisis, for example, international investors continued to buy into London, which in 2012 defied the downturn and recorded a year-on-year rise in investment activity. According to data from specialist analyst Real Capital Analytics (RCA), only New York and Hong Kong attracted more private investment into commercial property (see p39).

London owes its resilience to foreign investors, who accounted for 70% of office purchases by value, according to Knight Frank's *Central London Quarterly* report. Deal volume in the central London investment market has been rising steadily since early 2009.

As well as offering investors a perceived safe haven for their investments, London continues to benefit from a currency advantage. Thanks to the devaluation of sterling in 2008, when priced in US\$ a prime office building in London's City financial district is 38% cheaper today than back in June 2007, the peak of the last market upswing.

Consequently, investors from countries with dollar-pegged currencies have made a series of major acquisitions. Plantation Place, an office building near Lloyd's of London, sold to Brazilian investor Moise Y Safran for US\$792m. The Qatar Investment Authority bought the Credit Suisse building, 1 Cabot Square, for US\$528m, while China Investment Corporation bought the London headquarters of Deutsche Bank for US\$387m and Blackrock for US\$456m.

London also gains from its perceived status as a safe place to invest money, particularly among those seeking low-risk, wealth-preservation investments. In 2012 Sorgent Group, which is backed by private Italian money, bought Queensbury House on Old Burlington Street for US\$267m. CapInvest, which is also backed by private Italian investors, purchased 60 Sloane Avenue for US\$206m. The owner of Spanish retailer Zara, Amancio Ortega, purchased

In 2013, property investment will be increasingly driven by a desire to gain exposure to economic recovery around the world

the group's flagship London store, 333 Oxford Street, for US\$248m, further demonstrating the interest in London from southern Europe.

"Private investors are featuring more in London's City district, with £3.7bn worth of deals in 2012, up 43% on 2011," confirms Stephen Clifton, Head of Central London Offices at Knight Frank.

The relatively small size of buildings in London's West End is pushing investors with larger sums of money over to the City, adds Mr Clifton. "Freeholds are easier to acquire than in the West End, and yields are typically higher."

Paris is also popular with overseas private investors, particularly from the Middle East. After London, Paris saw the highest level of investment transactions of European cities in 2012, and office yields remained stable at 4.5%. High-quality product in prime locations outside Paris is also in demand, as shown by the sale of 65 Boulevard de la Croisette in Cannes, whose tenants include Burberry and Jimmy Choo, to Thor Equities.

The Nordic states, which, barring Finland, remain outside the euro, saw a rise in investment transaction volume in 2012 to an estimated US\$19bn, up from US\$15.6bn in 2011. Prime office yields held steady at 4.75% in Stockholm, 5% in Copenhagen, and 5.5% in Helsinki, reflecting robust domestic economies. These property markets are dominated by domestic buyers; recent currency strength does not favour outsiders. However, for those seeking stability they could offer interesting alternative safe haven opportunities.

Certain property sectors are also building a reputation as emerging safe havens. Farmland may not be as glamorous as prime retail or top-end offices, but its highly tangible nature is proving to be a strong draw for HNWIs, says Andrew Shirley, Head of Rural Property Research at Knight Frank.

"We have advised a number of individuals and family offices who are considering investing in agriculture. They like the security farmland offers, but also see it as a way of buying into future commodity price growth."

RECOVERY PLAY

While safe havens will retain their lustre, we see property investment in 2013 being driven increasingly by a desire to gain exposure to economic recovery around the world.

Those looking to invest will divide cities into those where recovery looks imminent, and target prime properties, and those that will see no recovery this year, which they will avoid. Globally, market conditions vary hugely. In New York, London, Paris, Hong Kong, San Francisco and Sydney property investment markets are moving into recovery, while in Madrid and Milan prices remain under pressure.

Investors may see values drop a little further before they rise. However, the lesson from London (among the first cities to recover) is that some investors will accept a small loss in order to secure the right asset before the turning point, rather than wait until the market is crowded with bidders.

Dublin is an example of a city in a country that has only recently sought a bail-out, but which is now attracting international investors: a clear sign that even apparently unpromising markets will eventually reach a buy-in point.

Dubai is another market that three years ago was in the news headlines for mostly the wrong reasons and is now seeing a turnaround. The prime residential market has

PRIME MOVERS WHERE PRIVATE INVESTORS ARE PUTTING THEIR MONEY

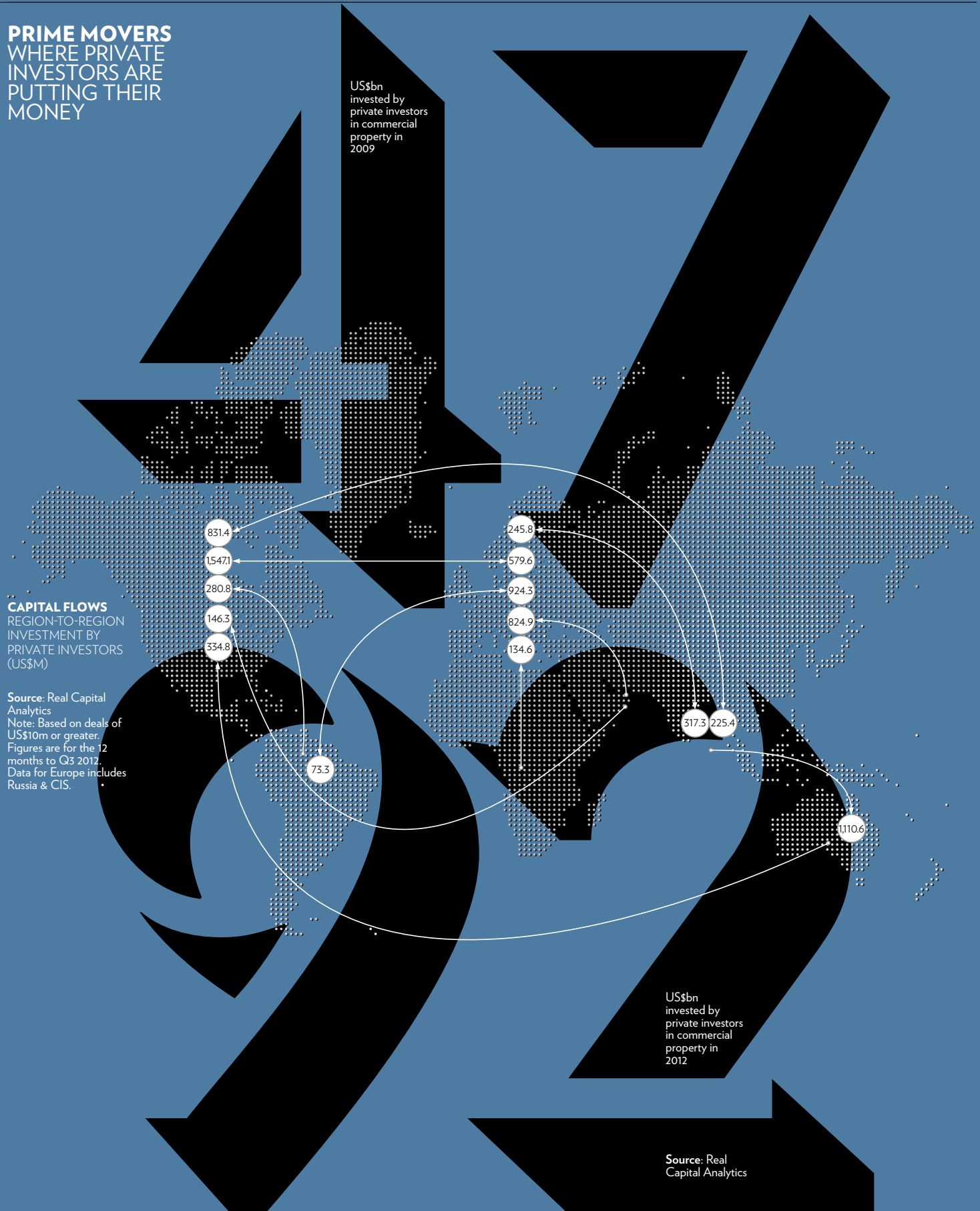
US\$bn
invested by
private investors
in commercial
property in
2009

CAPITAL FLOWS REGION-TO-REGION INVESTMENT BY PRIVATE INVESTORS (US\$M)

Source: Real Capital
Analytics
Note: Based on deals of
US\$10m or greater.
Figures are for the 12
months to Q3 2012.
Data for Europe includes
Russia & CIS.

US\$bn
invested by
private investors
in commercial
property in
2012

Source: Real
Capital Analytics



rebounded, following positive movement in the hospitality and retail sectors. The office and industrial property market has stabilised and, while office vacancy levels remain high, supplies of the best stock are shrinking, as strata ownership structures make it harder to acquire large amounts of prime space for single occupation. Standard Chartered Bank had to pre-commit to lease a new development before it was complete to get the size and specification it needed.

Joseph Morris of Knight Frank's UAE office says Dubai stands to benefit quickly from the economic recovery, in terms of both trade and tourism. "It is an aviation hub, with almost every major global city within reach. The time zone bridges East and West. Dubai's free zones, such as the Dubai International Financial Centre, allow 100% foreign ownership, full repatriation of profits, a zero tax environment and even a Western-style legal structure."

This has created a relatively transparent off-shore centre with a significant head start over rivals in the region, adds Mr Morris. "We are also starting to see institutional investment into the local real estate markets with the emergence of investment vehicles such as the National Bank of Abu Dhabi's real estate investment trust (REIT)."

International investors remain generally wary of the eurozone, with the exception of certain safe havens. Of the 25 major city centres monitored in Knight Frank's European Market Indicators, seven reported rising yields for prime offices in 2012; a concern, given that prime is the most resilient in a downturn. Investment in European commercial property fell 19% in 2012 compared with 2011, based on our estimate of US\$136bn using data from RCA.

Nevertheless, recovery-play opportunities are emerging around Europe. These can be found in Germany, the stronger Eastern European economies like Poland, and the Nordic states. In all three, economic growth held up well for much of 2012 and, while the near-term outlook is frosty, in the long run they have shown resilience in difficult times, positioning them as early-stage recovery investments.

"Germany's economy did much to support the eurozone's GDP figures in 2012. Historically, Germany has been popular with Middle Eastern investors. Now, investors are showing interest in buying into the four leading cities, Munich, Hamburg, Frankfurt, and Berlin, probably in that order. Munich is considered a mainstay of the German economy, and commands higher prices. Berlin is more for the investor who is attracted to its future growth story," says Andrew Sim, Head of European Investment at Knight Frank.

Poland's economy has defied the credit crunch and the euro crisis to avoid recession altogether. Rents for prime offices in Warsaw have risen 13% since 2009, although in 2012 they remained steady, with yields unchanged at 6.25%. This compares well with the falling rents and rising yields seen in places like Madrid and Milan, and consequently we expect Poland to rise up the pecking order in the eyes of property investors looking at Europe.

LAND OF OPPORTUNITY

Commercial property investment in the US held up well compared with other regions, supported by steady GDP growth. The estimated full year commercial property investment volume in North America for 2012 was US\$158bn, in line with 2011, compared with a 19% fall

THE BIG QUESTION

HOW WILL THE RISE OF NEW TECHNOLOGIES AFFECT INVESTMENT IN COMMERCIAL PROPERTY?

DR PETER HAYES



Businesses are continually looking for competitive gains and by adopting new technologies they can cut costs, improve the quality of their products and produce entirely new outputs.

IT is about gathering, processing and sharing information. Effective implementation leads to lower costs, faster operations and new goods and services. Improvements in IT have contributed to rapid globalisation – the world is certainly getting smaller.

Commercial property is an input to the production process; new technologies have an impact on how property is used by occupiers and perceived by investors. They also boost productivity, and with it demand for commercial property.

But while the benefits are evident, their impact on the property industry will not be equally distributed. Demand for some types of property will rise while demand for others will decline, a pattern that has repeated itself throughout history. The rise of the motor car generated demand for gas stations but directly contributed to a steep decline in train stations, which had already driven stables and coaching inns out of business.

In much the same way, new information technologies are changing the nature of demand for real estate. Offices are continually adapting to meet the needs of an increasingly mobile, 24/7 workforce. Many shops are now effectively showrooms in a multi-channel retail environment. Advances in inventory management

are changing the size and location requirements of logistics property.

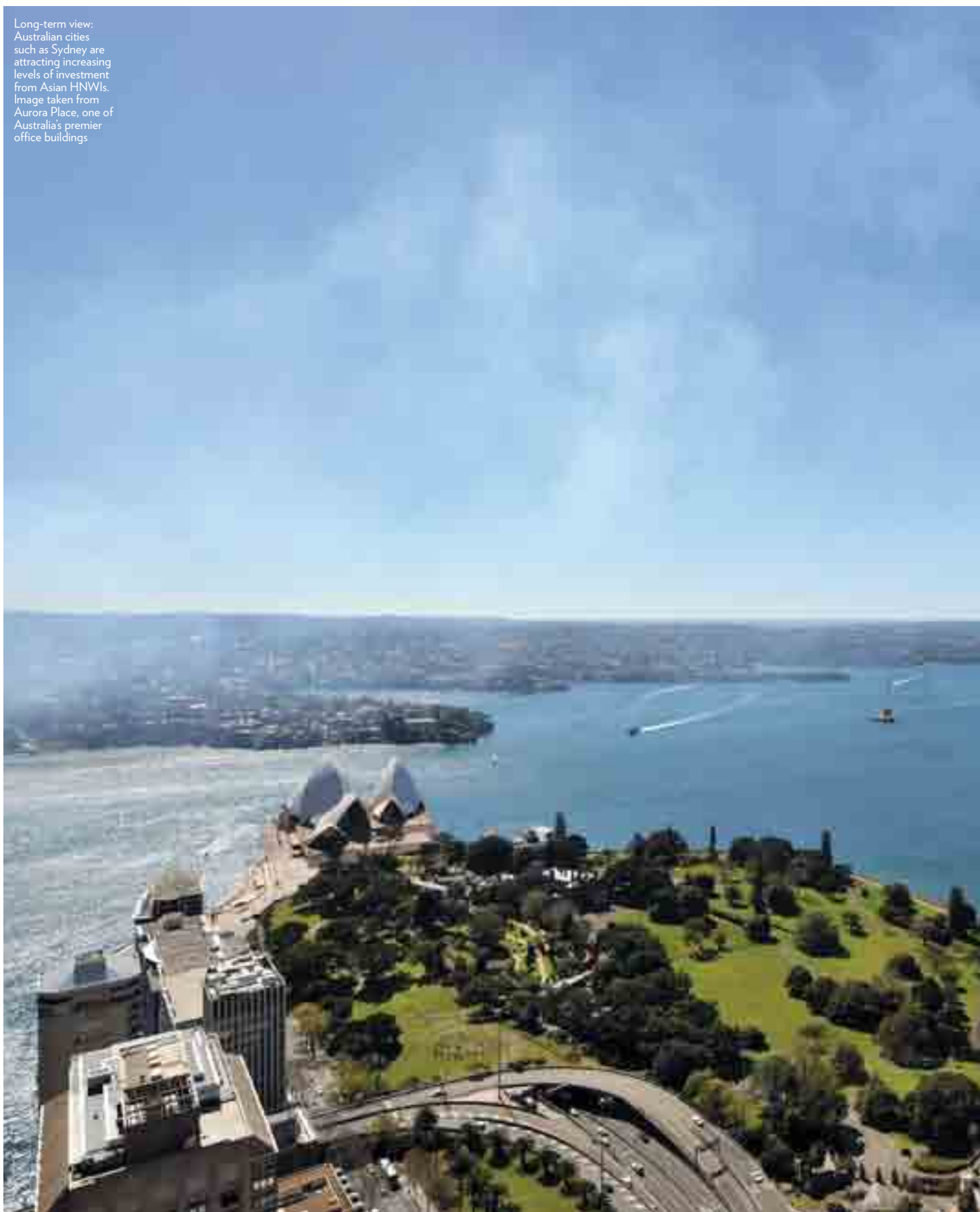
Real estate investors will have to adapt their allocations accordingly. Investment horizons will become more global, with growing opportunities in logistics as distribution networks become more integrated and adapt to online sales growth. Investment in new IT-related real estate classes, like data centres, will continue to rise.

However, investors face a number of threats from technology. More efficient use of space means that while office and retail property will become more valuable per unit, less of it is ultimately needed. Depreciation rates are rising, along with functional and locational obsolescence. Asset management expertise is growing in importance and will be a key factor in future investment performance.

The rise of new information technologies means lower costs and improved global reach of occupier and investor activity. Changing technology is an opportunity for investors that are able to recognise and embrace it; and a major threat to those that are slow to respond.

Peter Hayes is Head of European Investment Research at Pramerica Real Estate Investors and has a PhD in Applied Economics. He was UK Economist at the Bank of England and a Lecturer in Economics at the University of Sheffield and King's College London.

Long-term view:
Australian cities
such as Sydney are
attracting increasing
levels of investment
from Asian HNWLs.
Image taken from
Aurora Place, one of
Australia's premier
office buildings



in activity in Europe. Of the top 10 cities in the world by investment volume six are in the US, and New York holds the number one spot, according to RCA (see p43).

Last year saw a revival of commercial mortgage-backed securities in the US, which has combined with improving economic news to support property investment. Private investment in the US is dominated by domestic buyers, but the country's comparatively stronger GDP figures may encourage more overseas private investors to consider investing there rather than in Europe.

RCA data shows that over US\$1.5bn of private investment flowed from Europe to the US last year, the largest region-to-region movement (see p39). There was also significant interest from other parts of the world. "For Asia-Pacific-based investors, the US is now on the wish list," says Mr Waters. "They are interested in key business locations, and I expect them to be focused on the west coast, where there are long-established economic connections with Asia."

Our forecast for total 2013 investment volume in North America is US\$160bn (up 1%), and US\$169bn in 2014 (up 6%).

SECTOR SHIFTS

The rising demand for recovery-play investments will see a focus on specific sectors, as well as locations.

The class of commercial property that traded best in 2012 was the type the industry refers to as "dry" or "core" assets. This is trophy-type property, such as offices fully let on long leases to blue chip or government tenants, and retail space on the world's premier shopping boulevards. However, in 2013, we believe those cities that are already in recovery will see a switch in investors' priorities away from "dry" and towards higher-yielding development opportunities.

Development or refurbishment offers the property investor something that no government bond can – an opportunity to increase their income stream by achieving a higher rent on the open market and creating upside in capital value. This also brings out property's great advantage over equities: the ability to directly manage the asset, even rebuilding it or changing its use.

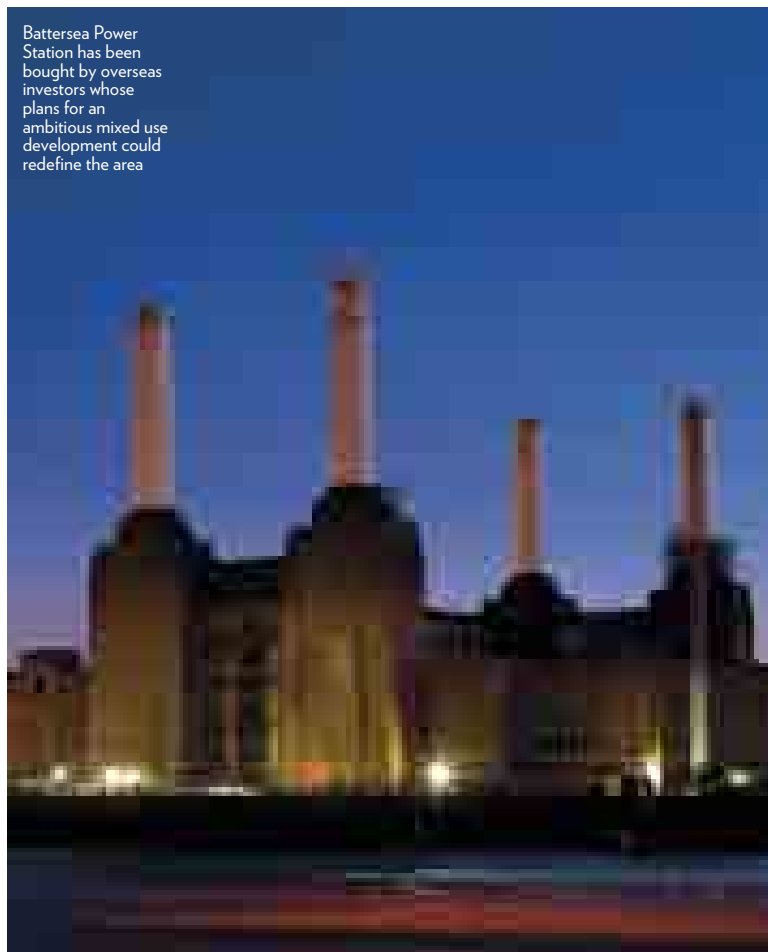
London's Battersea Power Station deal is a good example of how global investors are thinking, according to Peter MacColl, Global Head of Capital Markets at Knight Frank.

"An overseas consortium is planning to build an entire new district with homes, shops, leisure facilities and offices, having bought in when the news on the UK economy was still gloomy," he says. "Opportunities on this scale are rare, and the cycle timing looks ideal."

Mr MacColl believes more cross-border investors will increase their exposure to property in the coming years, targeting big, global cities. "Very strong demand for core trophy well-let assets in the key gateway cities will remain, but there will be a move away from defensive investments, moving up the risk curve in order to improve returns."

In 2013, those cities already in recovery will see a move towards higher-yielding development opportunities

Battersea Power Station has been bought by overseas investors whose plans for an ambitious mixed use development could redefine the area



A cyclical economic upswing can also boost demand for hotel accommodation. London should benefit from the after-effects of the 2012 Olympics: already, redundant office stock is being converted to hotel use. Admiralty Arch, near iconic Trafalgar Square, recently sold to a Spanish investor who plans to convert it into a luxury hotel.

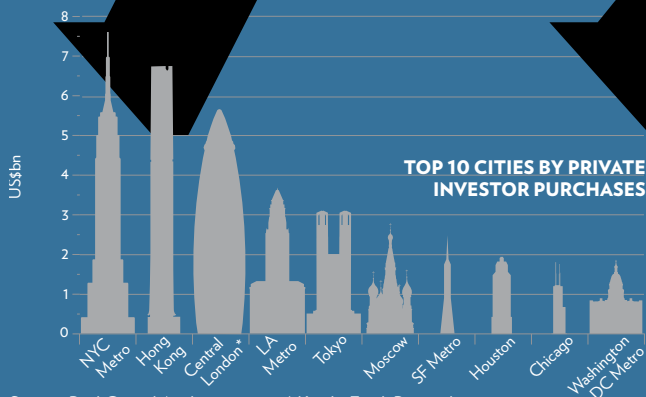
CHANGING ALLEGIANCES

Demand for commercial real estate has been generally robust in Asia, where markets have been largely driven by high savings levels, negative real interest rates and a desire to find safe havens due to volatility in the equity and residential markets. Now a new impetus is buoying demand.

"In Hong Kong and Singapore, particularly, we are seeing more private investors who previously favoured residential investment looking at lower price point commercial property," says Nicholas Holt, Asia-Pacific Research Director at Knight Frank. "Cooling measures, such as taxes and lending restrictions, intended to decelerate house price growth, have generated more interest in 'strata' commercial investments, where a commercial building is sold off in floors or sub-units that are affordable to private buyers."

A growing desire to diversify is resulting in more cross-border investment, adds Mr Holt. "We expect Asian investors to continue to look for investment opportunities abroad. Many of those holding prime income-producing commercial assets in key Asian cities are reluctant to sell at present, pushing investors to look outside their domestic markets."

BIG DEALS 2012'S HEADLINE INVESTMENTS



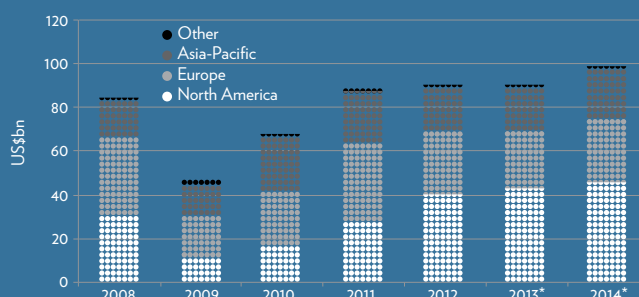
Source: Real Capital Analytics, except * Knight Frank Research

TOP 10 PRIVATE INVESTOR PURCHASES IN LONDON IN 2012

Building	Buyer	Price (US\$m)
1 Plantation Place, 30 Fenchurch Street	Moise Y Safra	792
2 Peterborough Court & Daniel House, 133-140 Fleet Street	QInvest	449.6
3 Queensberry House, 3-9 Old Burlington Street	Sorgente Group	267.2
4 5 Stratton Street	Sirosa Liberty	265.6
5 333 Oxford Street	PonteGadea Immobiliaria	248
6 60 Sloane Avenue	CapInvest	206.4
7 Aviation House, 125 Kingsway	Private Chilean investor	174.4
8 85 Fleet Street	Private Russian	112
9 Seven Dials Warehouse, Covent Garden	Allgre	99.2
10 7 Howick Place	Private Russian	86.4

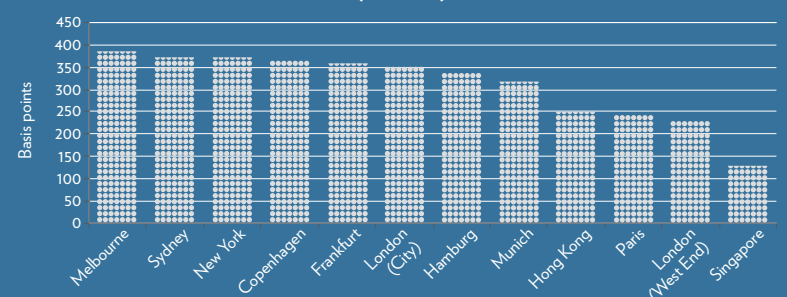
Source: Knight Frank Research

PRIVATE INVESTMENT IN COMMERCIAL PROPERTY BY REGION



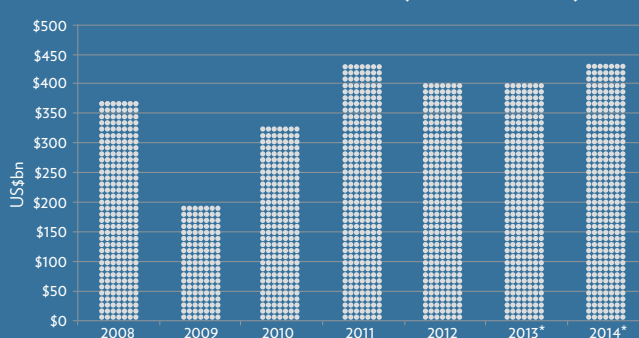
Source: Real Capital Analytics/Knight Frank Research *Forecast

PRIME OFFICE YIELDS TO DOMESTIC (10-YEAR) GOVERNMENT DEBT SPREAD



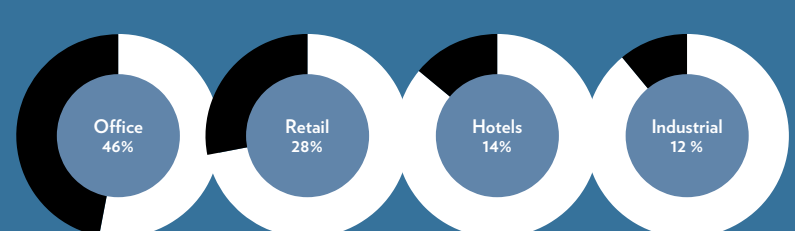
Source: Knight Frank Research/Financial Times

INVESTMENT IN COMMERCIAL PROPERTY (ALL BUYER TYPES)



Source: Real Capital Analytics/Knight Frank Research *Forecast
Note: RCA data for Europe includes Russia & CIS.

COMMERCIAL PROPERTY INVESTMENT BY PRIVATE INVESTORS BY SECTOR IN 2012



Source: Real Capital Analytics.

I would expect Japan to continue to draw investment as it remains Asia's second largest economy, with a large volume of investable property stock. Tokyo is a liquid market, and one of the region's big financial hubs and gateway cities."

Australia is a popular location with investors from Asia-Pacific, Europe and North America. Economic links are strong, and business and legal structures are similar to those in many Asian markets. The flow of capital from private investors in Asia into Australasian commercial property was the second largest inter-regional movement in 2012, according to RCA (see p39).

"Overseas investors continue to trawl the Sydney market, predominately for large, prime CBD assets, which have been favoured by offshore groups," says Matt Whitby, Head of Research for Knight Frank Australia. "However, recent evidence suggests that they are also prepared to look at more core, value-added opportunities, as in MGA Asia Fund III's acquisition of 6 O'Connell Street, Sydney for US\$105m. We expect investment demand from offshore groups to continue building in 2013."

VALUE ADDED

So what do these trends mean for commercial property values? We expect a graph of future prices to resemble a tick: a small initial drop followed by a gradual recovery, as investors buy recovery-tracking investments.

The shape of the tick will vary, with a steeper initial decline for peripheral European cities, say, than for Tier 2 cities in triple A-rated European countries.

Gateway international cities like London and New York, as well as cities in some emerging markets, are already past the drop and on the rise. Knight Frank is forecasting a gradual acceleration of central London office rents over the next few years, as economic growth combines with low availability in the leasing market. We forecast rent rises of 16% in the City and 10% in the West End over the next three years. The market will therefore in our view refocus on redevelopment opportunities in 2013 and 2014.

As Ker Gilchrist, Head of West End Investment at Knight Frank, points out: "In Mayfair and St James's, a building let as new in 2003 would have fetched a rent in the mid-£60s per square foot. By the end of 2012, prime rent in these districts was £95 per square foot, so an expiring 10-year lease is an opportunity to significantly increase income."

We see the business environment becoming gradually stronger in 2014 and 2015, creating opportunities for investors to buy into recovery in economies that for the next year will likely remain the preserve of the experienced investor. As already mentioned, Dublin is again attracting interest; Barcelona, Madrid and Milan's time will come.

The last two years have seen Asia-Pacific, Russian, Middle Eastern and Southern African HNWIs investing in Western property markets. To date, Latin American investors have

New technology hubs present opportunities for property investors prepared to adopt a higher risk profile, and for HNWIs with a background in IT or venture capitalism

SILICON CITIES

THE NEW URBAN HI-TECH HUBS

In London, the northern districts of the City have earned the label Tech City, thanks to the growing number of new technology companies occupying office space there. Shoreditch is popular with start-ups; more established technology and media firms favour Clerkenwell and Farringdon. The new Crossrail stations at Farringdon and Liverpool Street will be well placed to serve this technology cluster and provide the transport infrastructure to support future growth.

Tech City's growth has been driven by the popularity of WiFi, smart phones and tablet computers; trends we expect to continue. Google's office in Tech City is an incubator, supporting new start-ups and assessing them for future venture capital investment. Google's Berlin incubator, The Factory, is being developed by venture capitalists JMES Investments and property company S+P Real Estate. In Paris part of the former stock exchange building, Le Palais Brongniart, now houses an incubator called Le Camping.

Many tech firms are taking the view that they need to establish offices and incubators wherever the most talented techies are found around the globe. Apple is expanding its presence in Austin, Texas, and Google and Facebook have opened offices in New York's "Silicon Alley".

Unlike the original Silicon Valley, where business park offices sit in a suburban environment, the new wave of tech hubs is largely urban. Motorola Mobility, which is owned by Google, announced plans in July 2012 to relocate 3,000 jobs from suburban Illinois to downtown Chicago, demonstrating the industry's preference for housing tech jobs in big city centres.

Robert Bach, National Director of Market Analytics at Newmark Grubb Knight Frank, says this makes sense for all sectors: "Recent years have seen a rise in the popularity of city centres as places to live and work. Companies are basing offices where young professionals want to be, and this sort of high value worker increasingly favours the vibrant lifestyle of the big city. The markets for offices, shops, and leisure property are falling into line with these new trends, leading to a significant change in character for the typical city centre, mirroring European habits of urban living and café culture."

The emergence of new technology hubs presents opportunities for property investors prepared to adopt a higher risk profile (see "The Big Question", p40). This sort of investment may particularly appeal to HNWIs with a background in IT or venture capitalism, who will be better placed to sort the wheat from the chaff among the growing ranks of tech start-up firms.

been less prominent, although the largest single investment of 2012 was the Brazilian Moise Y Safra's purchase of Plantation Place in London. When Spain and Portugal emerge from recession, we believe that they could become a target for a new wave of Latin American investment.

As we move into a more normalised global economy, property investors will be looking for development opportunities beyond the big international gateway cities. For private investors venturing across borders to seek high returns, partnering with local developers may be the best way into a new market. Bank finance could remain hard to obtain for years as banks work to meet new regulatory targets on capital levels. In this context, private investors could become the venture capitalist investors of property, filling the development finance void left by the banks. ▀

HNWI INTERVIEW

IRVINE SELLAR CHAIRMAN, SELLAR PROPERTY GROUP



Irvine Sellar started his entrepreneurial career as a retailer in the 1960s, selling groovy threads to London's bright young things. In the decades since, he's scaled the heights of the UK property market, culminating in the Shard – at 310m, one of the tallest buildings in Europe. In its 12-year gestation, architect Renzo Piano's jagged glass icicle has divided critics, defied the credit crunch, and put the redeveloped London Bridge Quarter firmly on the map.

THE WEALTH REPORT Your first business successes were in retail. How did you come to get involved in property development?

IRVINESELLAR At our peak we were opening a store per month, so we were looking at property continually. Property development was part of running a retail group. When the brand was at its strongest I decided to sell, which might or might not have been the right decision, but there were bigger numbers in property development, and I find it more fun than the retail business.

TWR How do you see property as an investment compared with other classes of asset, such as equities?

IS Property is an attractive asset to hold provided it ticks the right boxes, such as location. It doesn't matter whether it's office, industrial or retail. It doesn't have to be prime central London as long as it is well let on long leases to good tenants. It's an asset you can feel and touch, although it has less

flexibility than equities. It's less risky than some other assets and gives you a feeling of wholeness; you feel that it is something you own. I'm a particular fan of geared property as it makes your equity work.

TWR Most of London's towers are either mostly residential or mostly office. What made you pursue such a genuinely mixed-use high-rise project as the Shard?

IS We bought the original building as a pure investment. It was let to PricewaterhouseCoopers as their headquarters building for 90 years, with a rent review every 14 years. It was safe and boring, but great for the portfolio. After we'd bought it, a government White Paper emerged encouraging high-density development provided it was close to transport links – and of course the Shard was practically on top of London Bridge station. We wanted to maximise density, and multi-use spreads risk as there is less dependence on any one sector. We've managed to get more than 111,000 square metres on just 0.4 hectares, which I believe may be one of the highest densities in the world.

TWR Are there any other areas besides property development where you think you could be tempted to use your entrepreneurial skills in the future?

IS Historically, I've bought lots of companies and in the future I can see myself buying corporate businesses with a property flavour. I've always found it stimulating, particularly compared with the aggravation of property development. Each development is a business in its own right; you need a separate team to manage, run and complete each scheme. I have a £500m portfolio of pure investment property, but also have around 93,000 square metres of assets ready for development where planning permission has already been granted or an application is being worked up.

TWR Where do you see the biggest opportunities for the next generation of HNWI entrepreneurs? And will it be more difficult to create wealth in the future?

IS The world's population is increasing and communication is improving rapidly, so in theory business success should become easier. Now, new products can potentially reach millions of customers within minutes via the internet. Money will also be made by feeding people. Our growing – and ageing – population has to eat and drink, and innovations in farming will create opportunities for some entrepreneurs to make a fortune.

TWR How has London changed since you started doing business?

IS London was very insular. It was grey and dirty. It wasn't global in the way it is now. Throughout the 1960s, it became more exciting as fashion and music brought more colour to the place. Gradually England, and particularly London, turned into an attractive place to do business.

TWR Given the growing competition from the East, what do you think London has to do to remain one of the world's leading cities?

IS First, we are lucky to be in the right time zone. Second, English is the most widely spoken language on the planet. We need to encourage the kind of immigration that will add value and we need to encourage dynamism. We also need the right political climate to stimulate employment, wealth and growth. Don't hit the growth-makers!

TWR How important do you think it is for HNWIs to get involved in philanthropy?

IS It is important, but you have to be choosy. Often, philanthropy is used as a way to look good and not pay tax. I also worry about the skimming that takes place before the money reaches its destination. If someone needs something and I can help, I'll help them directly. For me, philanthropy is about doing good directly, not talking about it.

TWR Do you have any favourite investments of passion, such as art?

IS I should, but I don't. Art must be a pleasure to invest in and generally it has performed better than some other areas. But you need time to do it and I haven't got time.

TWR What is the most important business lesson you have learned during your career?

IS Never be complacent. Just when you think you are at the top, you need to watch out for the rustling in the bushes.

THE-SHARD.COM

We need to encourage dynamism... we need to create a climate that stimulates employment, wealth and growth



PORTFOLIO

There has been a tendency to think of the world's HNWIs as a single, homogeneous tribe but, as the results of our Attitudes Survey highlighted over the following pages show, the reality is rather more nuanced. In terms of spending and investing, clear differences remain between the old and the new world. And while some things – like the willingness to give, and the desire to collect – are universal, the motivation and behaviour behind the figures are anything but.

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WEALTH AND WELL-BEING

From stamps to fine wines, the collectable investment assets finding favour with the rich

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THE RETURN OF RISK

The signs are that HNWIs investors are slowly but surely regaining their appetite for risk

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HNWI INTERVIEW

Vector Group Ltd's Howard M Lorber on weathering the American real estate storm

WEALTH AND WELL-BEING

WEALTHY INVESTORS WORLDWIDE ARE LOOKING FOR ASSETS THAT SATISFY BOTH HEAD AND HEART. OUR LATEST INDEX MAPS THE PLACE WHERE INVESTMENT MEETS PERSONAL PASSION

ANDREW SHIRLEY

Last year was a combination of relative moderation and charitable deeds for the global rich, according to the results of *The Wealth Report's* annual Attitudes Survey of private bankers and wealth advisors. A net balance of almost 10% of respondents said their clients had increased their spending on philanthropic activities in 2012, while globally just 1% increased their spending on luxury goods.

The slowdown in overall spending levels is hardly surprising, given the economic uncertainty gripping large parts of the world. Russia, North America and Europe all saw a drop in luxury retail therapy. More unexpected, perhaps, was that philanthropy did not follow suit.

However, Maya Prabhu, who heads up Philanthropy Advisory Services at Coutts, does not see a discrepancy. "The wealthy don't live in a vacuum; having a healthy society around them is good for their well-being as well as their wealth. You could call it a mixture of enlightened self-interest and compassion."

Increasingly, philanthropy is also being used as an important tool to help the children of wealthy individuals develop their financial skills in readiness for taking over the family fortune or business, says Ms Prabhu. "This approach can be very beneficial for families as it helps them to work out what they really care about."

Newer forms of hands-on philanthropy, such as impact investing and venture philanthropy, are attracting younger,

entrepreneurial HNWIs who relish combining their charitable activities with their business skills, she adds.

Of course, the whole world hasn't stopped spending. Across Asia, a net balance of 19% of HNWIs spent more last year on luxury goods than in 2011, helping to make Chinese liquor brand Moutai the world's fourth most valuable luxury brand with a value of \$12bn, according to China's *Hurun Report*.

James Lawson, head of industry analyst Ledbury Research, says this is also clearly reflected in the number of new luxury store and boutique openings around the world.

The firm's research shows that Asia-Pacific's share of the world's leading luxury brand outlets increased from 39% in 2009 to 44% in 2012, while North America's fell from 30% to 24% (see p53). Although Europe's quota remained relatively stable, this was "not due to European consumers, but to tourists and their passion for shopping in the luxury capitals of Milan, Paris, and London," says Mr Lawson.

Australia's luxury market also benefits from this trend, with an increase in spending by tourists from China and other regional hotspots like Indonesia and Malaysia, according to Melinda O'Rourke, Managing Director of Sydney-based luxury consultancy MO Luxury.

However, Ms O'Rourke says Australians still account for 65% of luxury purchases, and relying too heavily on overseas wallets is a risky strategy. "The industry here learned a hard lesson after the Japanese economy stagnated."





GETTY

GETTING PERSONAL

Investments of passion, such as art, wine and classic cars, occupy a unique and fascinating niche that combines aspects of luxury spending with collecting and investing.

The wealthy have always enjoyed collecting precious or interesting objects, often on an epic scale, but the desire to acquire has become even more widespread following rapid wealth creation in emerging markets (see p8). According to China's *Hurun Report*, 64% of the country's millionaires are currently building collections.

A number of super-prime developments targeting the global super-rich, such as Oliver Burns' Walpole Mayfair near London's Ritz Hotel, are integrating display cabinets for art and collectables into their designs. Janine Stone of the eponymous architectural and interior design firm says one of her most interesting briefs was to incorporate a gallery for a Russian client's modern art collection into a project.

However, as Dr Rachel Pownall, an expert on passion investments, points out in "The Big Question" (p51), it is their potential as an alternative to traditional investment asset classes that is raising the profile of collectables. But, despite this flurry of interest, they still only account, on average, for 4% of HNWIs investment portfolios, according to *The Wealth Report's* annual Attitudes Survey of private bankers and wealth advisors.

This relatively low proportion highlights the grey area occupied by these "emotional" assets. To some HNWIs and their advisors they will be pure investments, to others they will be personal passions, while for many they will be a combination of the two.

Coins and stamps may not be the most popular investments, but for performance they're hard to beat: Stanley Gibbons' indices have more than tripled in value over the past 10 years

To some HNWIs these "emotional" assets will be pure investments, to others they will be personal passions

When asked to select the most collected passion investments, respondents in all regions of the world chose fine art (see p53 for the full rankings). Art was also the sector where spending activity increased the most last year, with a net balance of 19% of respondents predicting clients to spend more on art in 2012 and 13% expecting the trend to continue into 2013 (see p53).

The next most-collected asset overall was watches. The average Chinese super-rich male owns six luxury timepieces, according to *Hurun*. In November 2012, an Asian collector bought a platinum chronograph Patek Philippe wristwatch owned by British rock guitarist Eric Clapton for the equivalent of US\$3.6m at a Christie's sale in Geneva. Wine was the third most popular passion investment, scoring highly in all areas bar the Middle East. Jewellery and classic cars complete our global top five.

Although in most parts of the world stamps ranked as the least collected investment of passion, Keith Heddle, Investment Director at Stanley Gibbons, says philately is definitely on the up among HNWIs, including in China. "Chairman Mao banned stamp collecting as bourgeois; now there is a resurgence," he says.

As with art, collectors in emerging nations tend to be patriotic when choosing what to buy and this can cause local markets to overheat, adds Mr Heddle. By contrast, most serious investors have very little interest in the stamps themselves, he says. "They have often just been badly burned by more traditional investments."

PICTURE THIS

One of the main trends driving the markets for investments of passion is the ever-increasing globalisation of wealth, and no asset sector epitomises this better than the world of fine art, according to data compiled for *The Wealth Report* by art advisory firm 1858 Ltd.

“China is now the world’s largest market for art,” says Viola Raikhel-Bolot, the firm’s Head of International Art Advisory. China’s share of the global market in 2011 was 30%, up from 23% in 2010, compared with 29% for the US (down 5%) and 22% for the UK.

The huge spending power of HNWIs from China and other growing economies has helped the art market recover rapidly from the credit crunch, says Mrs Raikhel-Bolot. “It took almost 10 years for things to return to normal after the 1990s recession, but sales in 2011 were already almost back to the 2007 peak of US\$66bn.”

Although the spending power of the Chinese is waning slightly, this has given collectors from other parts of Asia and further afield the opportunity to flex their muscles in the Hong Kong sale rooms, says Mrs Raikhel-Bolot. “Two of the top lots in Sotheby’s Contemporary Asian sale last autumn went to Westerners. The top lot, Zhang Xiaogang’s *Tiananmen No. 1*, sold to a European collector for US\$2.7m.”

Modern art (from 1863 to 1945) accounts for over 50% of auction sales in both China and the rest of the world (see p53). The world’s two top-selling artists at auction in 2011 were both Chinese modernists: Zhang Daqian and Qi Baishi. Other Asian artists are also selling well: *Fortune and Longevity* by Indonesia’s Lee Man Fong fetched US\$4.4m last year, a new South-East Asian record.

In terms of prices, contemporary art (1970 to the present) has seen the biggest growth over recent decades and this trend continued in 2012. Sotheby’s (US\$375m) and Christie’s (US\$412m) set new sale records at their November auctions in New York. Personal bests were also achieved by a number of artists including Jackson Pollock (US\$40m), Franz Kline (US\$40m) and Jeff Koons (US\$34m), while Mark Rothko’s *No. 1 (Royal Red and Blue)* made over US\$75m (see p53 for the top 10 most valuable contemporary and modern artworks sold at auction).

The past 12 months have seen a slight shift towards other previously undervalued sectors and genres, like contemporary Indonesian art, says Mrs Raikhel-Bolot. “Asian buyers are actively collecting older works, not only from their own culture. They are acquiring the finest examples of Western art, with 17th-century Dutch paintings particularly popular.”

Picasso, though, remains a firm favourite in the region, she notes, with his *Femme Lisant (Deux Personnages)* selling for US\$21.3m to an Asian bidder at Sotheby’s New York in May 2011.

THE BIG QUESTION

WILL INVESTMENTS OF PASSION EVER BE SEEN AS A MAINSTREAM ASSET CLASS?

DR RACHEL POWNALL

As the name suggests, investments of passion involve investing in an asset that yields more than just financial returns. That could mean wine, art, stamps, coins, or even silver and gold. For some investors there is a fine line between investing for financial return and collecting for passion; for others, the difference is fundamental.

We can buy assets to satisfy our desire to express ourselves: to convey, both to ourselves and others, our values and tastes, our position in society and even our status or wealth. Investments of passion enable us to tick some, or all, of these boxes.

Taken to one extreme, some collectors are willing to forgo financial reward for emotional return and love of the asset – wine can be drunk, and art offers an emotional and aesthetic dividend. These positive effects offer benefits that may subsume the desire for financial reward.

At the other end of the spectrum, reasons for investing in passion assets can be purely rational. Their performance tends not to fluctuate with that of stocks and bonds and they can hold their value during periods of expected inflation. They therefore offer an alternative form of portfolio diversification across assets and economic cycles.

As a result, the number of investment and other boutique funds specialising in passion investments, actively investing and trading solely for financial gain, has grown significantly over the last few years. These funds offer a number of advantages, including pooling transaction costs and diversification across genres in a market where knowledge is key.



But there are risks. Liquidity is at times extremely low, particularly at the high end of the market. The market is still in its infancy, so funds and fund managers generally lack track records. Information on how performance is measured is limited, with disclosure often kept to the minimum required. Transaction costs are high, so fees mitigate short-term performance. Fakes and forgeries are rife.

Because of these factors, investments of passion may not become a mainstream asset class for large institutional investors. But they are increasingly becoming available to the general public, and not just to the wealthy few. For private individuals who are in it for the longer haul, and want sustainable, less actively managed funds, they are already considered as an asset class in their own right.

Many investors want to invest with their hearts. The financial rewards may not be as high, but investments of passion often yield the most valuable premium of all – a good night’s sleep.

Rachel Pownall is Associate Professor of Finance at Tilburg University, and specialises in art finance and alternative investments. Her PhD was on Rethinking Risk Management in International Markets. Her work has been widely published, including in the Journal of International Money and Finance.

THE LUXURY INDEX

Our new index brings a scientific approach to the art of passion investment, providing vital data on the performance of the most popular assets

We put together the Knight Frank Luxury Investment Index based on the weighted performance of existing indices for nine classes of collectable asset: fine art; Chinese ceramics; classic cars; coins; furniture; jewellery; stamps; watches; and fine wine.

Over the 10 years to the end of Q3 2012, the index grew by 175%, considerably better than the 54% rise in the UK's FTSE 100 index of leading shares over the same period, even taking into account the value of any dividends paid.

Equities did perform better in the shorter term, rallying 10% year-on-year against a 6% rise for the index. However, where investments of passion really seem to show their value is when mainstream investments are most vulnerable.

Over the past five years, which have included the collapse of Lehman's and the ensuing credit crunch and economic slowdown, the index returned solid growth of 64%. During the same period the value of equities fell 6%.

Looking at the constituent parts of the Luxury Investment Index, all but one asset type increased in value over 10 years (see table above), with the Historic Automobile Group International (HAGI) classic car index up by a staggering 395%.

Dietrich Hatlapa, HAGI founder and author of *Better Than Gold: Investing in Historic Cars*, says a relatively small pool of truly investment grade cars, plus growing global demand, has helped to push up prices.

Unlike some other investments of passion, cars can also act as a ticket to a particular lifestyle, says Mr Hatlapa. "Buyers from overseas will often leave their cars where they were bought and then fly back to drive them at rallies and events."

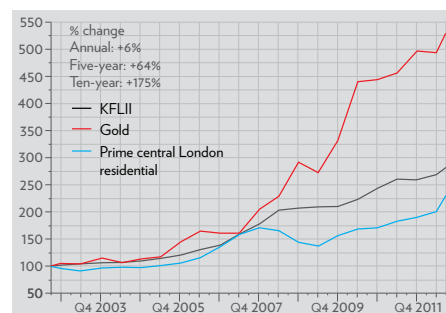
THE KNIGHT FRANK LUXURY INVESTMENT INDEX (KFLII)

% change in sterling value to end Q3 2012

	1 year	5 year	10 year
Classic cars	+23%	+115%	+395%
Coins	+25%	+93%	+248%
Stamps	+9%	+72%	+216%
Fine art	0%	+92%	+199%
Fine wine	-19%	+7%	+166%
Jewellery	+9%	+77%	+140%
Chinese ceramics	+0.4%	+54%	+85%
Watches	+8%	+27%	+76%
Furniture	-9%	-12%	-18%
KFLII	+6%	+64%	+175%

Benchmarks

Prime central London residential prices	10.0%	18.6%	103.5%
Gold	5.6%	200.9%	433.6%



For index details, see Databank (p65).

Sources: HAGI, Stanley Gibbons, Liv-ex 100, Art Market Research. Art Market Research tracks sculpture, silver, porcelain, stamps, coins, toys, wine, carpets, clocks, photography, prints, classic cars and other collectables. artmarketreport.com artmarketresearch@easynet.co.uk +44 20 8968 9999

Also more than tripling in value were the Stanley Gibbons coin index (248%) and its GB30 stamps index (216%), while a composite index of the most collectable art genres produced by Art Market Research only just missed out at 199%.

But performance doesn't always go hand-in-hand with popularity. In our Attitudes Survey, stamps and coins were the least collected items by HNWI's. Watches polled second only to art, but showed a comparatively lowly 10-year rise in value of just 76%. The disparity shows the often blurred dividing line between investments and passion. While many HNWI watch collectors may believe, or at least hope, that their acquisitions will be a good investment, the reality may disappoint.

"The actual number of watches that will increase in value is somewhat limited and largely restricted to vintage watches and some modern models by Rolex and Patek Philippe," says Paul Maudsley, head of the watch department at auctioneer Bonhams. "Paying £150,000 retail for a new watch is rather like buying a luxury car. Its value will fall as soon as it leaves the showroom and, with the exception of a Patek Philippe, is unlikely to ever be as high again."

CAVEAT EMPTOR

Although the returns may look attractive, Greg Davies, Head of Behavioural Finance at Barclays Wealth and Investment Management, says potential investors need to look beyond the headlines before diving into investments of passion.

"People often think these types of investments are more transparent and less complicated than traditional investments. In reality, they are generally less regulated, and can be illiquid, expensive to trade and sometimes actually more difficult to understand unless you have a high level of expertise or inside knowledge," he says.

Art is a classic example, he adds. "The huge diversity of the market, the fact that no two original works of art are the same, changes in taste and fashion and the lack of repeat sales mean even the most rigorously constructed index can only provide a small, and curated, glimpse of the market."

Fittingly, fine wine can be one of the more liquid and transparent investments of passion, according to Dr Davies. That statement is backed up by Andrew della Casa, Director of The Wine Investment Fund. "Every day a case of each of the wines we include in our fund is sold somewhere around the world," he says. "This ensures that there is always

a bid/offer spread and it is easy to sell at any time."

Although the Liv-ex 100 Index dropped 19% in the 12 months to September 2012, this was mainly due to the performance of one wine. "The biggest constituent in the index – and its biggest faller – was Chateau Lafite. It was the brand of choice for Chinese buyers and they and other buyers drove prices up, creating a bubble. Now they have broadened their palates, the market has over-corrected and we see this as a good buying opportunity," says Mr della Casa. ▽

THE KNIGHT FRANK LUXURY INVESTMENT INDEX WILL BE UPDATED REGULARLY. FOR THE LATEST RESULTS, GO TO KNIGHTFRANK.COM/WEALTHREPORT

INVESTED WITH MEANING

TRENDS IN PASSION INVESTMENTS AND LUXURY SPENDING

Net balance of Attitudes Survey respondents who said their Chinese clients would spend more on art in 2013

%



**TOP 10
MODERN AND
CONTEMPORARY
AUCTION
RESULTS***

ATTITUDES SURVEY RESULTS

MOST POPULAR HNWI* INVESTMENTS OF PASSION

- 1 Fine art
- 2 Watches
- 3 Fine wine
- 4 Jewellery
- 5 Classic cars
- 6 Sports teams
- 7 Furniture
- 8 Coins/others
- 9 Stamps

CHANGING POPULARITY OF INVESTMENTS OF PASSION**

	2012	2013 (predicted)
Fine art	+19%	+13%
Watches	+18%	+14%
Classic cars	+17%	+11%
Jewellery	+12%	+11%
Fine wine	+10%	+8%
Sports teams	+2%	-8%
Coins/others	-1%	+1%
Stamps	-5%	-3%
Furniture	-6%	-1%

*An HNWI is defined as having net assets of over US\$30m.

**Net balance of responses when participants were asked if HNWI spending would increase (+) or decrease (-).

Source: The Wealth Report Attitudes Survey. For a regional breakdown of results, see Databank, p64.

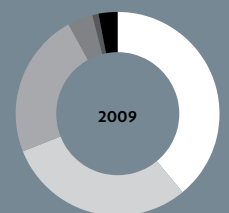
ART MARKET

AUCTION SALE REVENUE BY GENRE AND REGION (2011)

	Asia	Rest of world	Total sales (US\$)
Old masters (13th-early 18th century)	13%	8%	\$1.2bn
19th century	13%	4%	\$1bn
Modern art (1863-1945)	54%	51%	\$6.1bn
Post-war (1946-1970)	10%	25%	\$2bn
Contemporary (1970 onwards)	10%	11%	\$1.3bn

Source: artprice.com

LUXURY SPENDING SHARE OF LEADING LUXURY BRAND OUTLETS (EXCLUDING CONCESSIONS)



	2012	2009
Asia-Pacific	44%	39%
North America	24%	30%
Europe	21%	23%
Middle East	5%	4%
Latin America	3%	1%
Rest of the world	3%	3%

Source: Ledbury Research

*To November 2012 (US\$) Source: artprice.com

THE RETURN OF RISK

WITH ECONOMIC
UNCERTAINTY HERE TO STAY,
ARE WEALTHY INVESTORS
PREPARING TO TURN THEIR
BACKS ON SAFETY?

ANDREW SHIRLEY

Safety first was still very much the motto of HNWI investors in 2012, according to *The Wealth Report's* annual Attitudes Survey of wealth advisors and private bankers. The global pattern, however, was far from homogeneous, with clear regional differences emerging.

Respondents were asked how their clients' investment portfolios were allocated across the main asset classes in 2012, whether the allocation of each asset had increased or decreased during the year and what changes were likely in 2013 (see p57). Unsurprisingly, given the continued economic uncertainty in much of the world, more tangible assets – often seen as safe havens – retained their popularity last year, compared with those considered to carry a higher risk.

Property accounted for the largest share of HNWI investment portfolios, averaging 22%

globally, with portfolio allocations increasing sharply and predicted to rise further this year (for more on commercial property markets, see p36). Equities, on average, still made up 15% of portfolios, but a net balance of 10% of respondents said their clients reduced their exposure to stocks and shares last year.

Investors in emerging markets were some of the most vigorous in pruning their portfolios, with respondents reporting a net balance of 29% and 42% respectively of Asian and Middle Eastern clients cutting back. Europeans (-1%) and North Americans (+11%) were more sanguine.

"In most cases, the capital that clients place with private banks tends to be their safer assets. The majority of clients feel that they take enough risks in their business on a day-to-day basis," says Ashraf Mazahreh, Head of Private Banking in the UAE for the National Bank of Abu Dhabi.

Survival in the bullring is a matter of calculated risk: investors are following suit



THE BIG QUESTION

WHERE SHOULD HNWI INVESTORS LOOK FOR GROWTH IN A LOW-GROWTH ENVIRONMENT?

DR RICHARD JERRAM

The outlook for global growth is not as dire as the enduring troubles of developed economies might suggest, simply because developing economies have become much more important.

As recently as 1990, developing Asian economies accounted for only 14% of global production; now, that figure is 30%. Mathematically, their contribution to global growth is much larger than 20 years ago, even though growth has slowed. The IMF forecast for global growth of 3.6% in 2013 is close to the average for the past two decades, with a much larger proportion coming from developing economies. So growth is happening.

That said, we would question the advisability of would-be investors looking solely at growth. Of course it matters for areas such as commodity demand and, by implication, the currencies of commodity exporters. However, it is less clear that it will be a good guide to investment returns.

If you want growth, it is to be found in several ASEAN economies. Indonesia has been notably unaffected by the global financial crisis, while the Philippines, Thailand and Malaysia have all proved impressively resilient over the past year, thanks to positive developments on the domestic front.

However, financial markets are reasonably efficient mechanisms for discounting future events, and expectations of stronger growth in ASEAN are now reflected in high equity market valuations. Similarly, bond yields are low as markets expect that solid growth and better economic management will reduce the risk of holding ASEAN debt.



Investors should focus on the growth of their own assets, rather than that of the firms or countries they are investing in. History shows that income is an important part of this growth, not just capital gains. Initial valuations are crucially important as well, which is where the concept of GARP (growth at a reasonable price) comes from.

China could be an interesting example of this: over the past decade the economy has grown over 10% per year, but the equity market has gone nowhere. Now, with growth slowing structurally as a result of demographic changes and attempts to rebalance the economy, the equity market offers a lot of value: slower growth, but a better investment proposition.

The broader problem is that even with moderate global growth, generating returns in line with most people's targets is likely to be difficult over the next few years. An abundance of global liquidity has already driven up asset prices, where interest rates or earnings yields are relatively low. For now, it seems that having realistic expectations is more important than seeking growth.

Richard Jerram is Chief Economist at the Bank of Singapore. He began his career in Tokyo in the 1980s boom, and has gone on to work for the Economist Intelligence Unit, forecasting in Asia-Pacific, and as Head of Asian Economics at Macquarie Capital Securities.

STRONG BONDS

At least part of this discrepancy can be accounted for by the availability of acceptable alternatives. In Europe (-30%) and North America (-17%), for example, there was a sharp drop in the popularity of government bonds. By contrast, confidence in government-backed securities was extremely high in Asia-Pacific, with a net balance of 22% of respondents saying their clients had increased their allocation.

The launch of renminbi-denominated government bonds in Hong Kong in 2010 has helped fuel this trend, according to Lawrence Wong, Alternative Chief Executive at Bank of China International. "They are seen as pretty safe and the yield is not bad compared with cash. But our clients do not favour European or US bonds."

Investment in mainland China – such as corporate bonds in state-owned businesses – offered via Hong Kong are an attractive proposition for investors, because they combine the economic backing of China's capital reserves with the established reputation of Hong Kong's investment market, says Mr Wong.

Globally, a net balance of 30% of respondents reported a rise in corporate bond allocations last year, with Asian (63%) and Middle Eastern (50%) HNWI's particularly keen. Mr Mazahreh says that makes sense "given the opportunities available in the region and the familiarity of the client base with these opportunities".

Gold and cash proved universally popular in 2012, with virtually all regions reporting an uptick in allocations toward these traditional safe havens. Commodities did less well, with drops across all regions and a net balance of 8% of all respondents reporting less interest from their clients. Venture capital was also out of favour in most parts of the world.

THE LONG VIEW

Although the rationale that drove many investors towards cash and gold and away from equities in 2012 may have seemed logical, some investment experts believe that such a strategy was actually flawed.

"Last year looked like a year to be in equities," says Arnaud de Servigny, Global Head of Discretionary Portfolio Management and Investment Strategy at Deutsche Bank (see p57 for figures on historic asset returns and stock market performance). "It is hard to see as much growth in 2013."

"People tend to have high anxiety levels at precisely the time they should be investing, which is when markets are low," says Greg Davies, Head of Behavioural Finance at Barclays Wealth and Investment Management. "Some investors become emotionally focused on the journey, making good investment decisions feel very uncomfortable."

WHERE THE MONEY GOES INVESTMENT ALLOCATION AND PERFORMANCE

Net balance of Attitudes Survey respondents who said their Indonesian clients had increased their exposure to corporate bonds in 2012

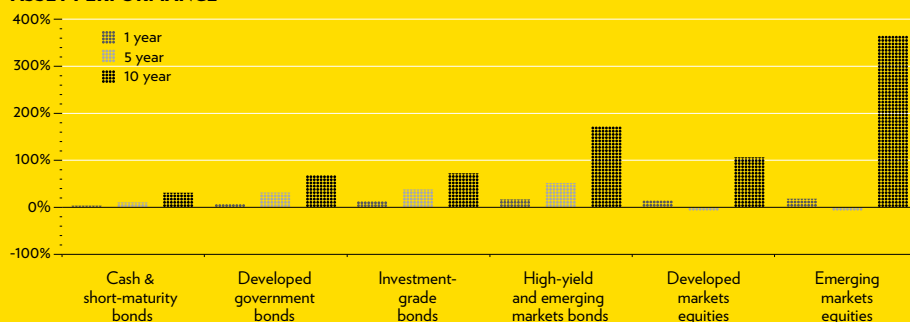
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ATTITUDES SURVEY CHANGE IN PORTFOLIO ALLOCATIONS*

	Equities		Cash		Gold		Gov't bonds		Corporate bonds	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Europe	-1%	+35%	+28%	-3%	+23%	+4%	-30%	-26%	+22%	+1%
Russia & CIS	-13%	+38%	+33%	-27%	-18%	-8%	-43%	-14%	0%	+13%
Middle East & Africa	-42%	+23%	+40%	-24%	+25%	+35%	+22%	+2%	+50%	+21%
Asia	-27%	+38%	+20%	+2%	+49%	+23%	+22%	-14%	+63%	+17%
Australasia	+5%	+30%	+36%	+12%	+38%	+35%	+32%	-35%	+13%	-8%
North America	+11%	+15%	+30%	0%	+38%	+17%	-17%	-22%	0%	-13%
Latin America	-33%	+84%	+31%	-52%	+34%	+55%	+21%	-56%	+53%	+52%
Global	-10%	+34%	+27%	-6%	+33%	+18%	-4%	-22%	+30%	+7%

* Net balance of respondents reporting an increase (+) or decrease (-) in allocations. For more details see page 64 of Databank.
Source: The Wealth Report Attitudes Survey

ASSET PERFORMANCE



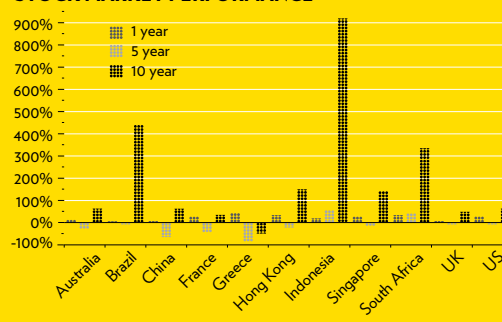
Source: Barclays

ATTITUDES SURVEY INVESTMENT PORTFOLIO ALLOCATIONS - GLOBAL AVERAGE

Investments of passion	4%
Commodities	5%
Venture capital	5%
Gold/precious metals	6%
Currencies	7%
Government bonds	8%
Cash	12%
Corporate bonds	15%
Equities	15%
Property bought as an investment	22%

Source: The Wealth Report Attitudes Survey

STOCK MARKET PERFORMANCE



Source: Yahoo! Finance

They may not be quite ready to throw caution to the wind, but wealthy investors are accepting a new definition of "safety"



GALLERY STOCK/OLIVER FURRER

There is a shift away from allocating assets based on a rigid formula toward a more responsive, flexible approach

The most important thing is to put your money to work, diversify and invest for the long term, advises Dr Davies. "If you put aside cash over time it will, on average, be at the expense of a foregone yield of around 4-5%. At times when anxiety is high this can be substantially higher. Investors in equities last year not only earned a risk premium, but also an anxiety premium."

With equities performing better than might have been expected in 2012, a growing number of HNWIs seem keen to join the party. When Attitudes Survey respondents were asked how clients' asset allocations might change in 2013, there was a noticeable switch in sentiment.

For example, a net balance of 34% of wealth advisors said exposure to equities would increase, while 6% reckoned cash on deposit would fall. The taste for gold, however, shows no sign of abating, with a balance of 18% of respondents expecting investment this year.

Mr Wong predicts that a huge supply of liquidity, due in part to quantitative easing in the US, will help accelerate the move back into

equities by investors in China and Hong Kong. "There is so much money coming in, it will either go to equities or real estate."

Government bonds are set to lose more of their lustre this year, with 22% of advisors on balance expecting a cut in allocations.

Will Hobbs, Head of Equity Strategy at Barclays Wealth and Investment Management, says that is to be expected. "Bonds remain incredibly expensive and although the bull market has outlived many of its obituarists, investors may start to tire of losing real money as some of the more visible risks subside."

Mr Hobbs says he has seen value in shares for some time. "A move from bonds and cash to equities makes sense. I think the market continues to exaggerate some of the downside threats, with the investment community possibly still haunted by the spectre of Lehman's and all that followed."

Part of the issue, reckons Mr de Servigny, is that investors have grown accustomed to looking for safety, but that the definition of safety has changed dramatically. "What was considered safe four to five years ago would be completely the wrong investment now."

TAKING CONTROL

A clear trend that emerged from the Attitudes Survey is the desire on the part of HNWIs to have more control over their investments. In all regions bar Australasia, a net balance of around three-quarters or more of respondents said their clients were taking a more hands-on approach.

According to Dr Davies, this is partly an emotional response to economic uncertainty and volatile markets. "People want to move their investments into things they feel they know and understand," he says, which would go some way to explaining the growing interest among HNWIs in investments of passion (see p48).

Mr de Servigny says clients are also taking much more interest in how their money is being invested, although that tends to be done through close monitoring of their wealth manager's overall investment portfolio strategy rather than by focusing on specific asset picks. According to Mr Wong and Mr Mazahreh, younger HNWIs are the most likely to become more involved.

Both Dr Davies and Mr de Servigny advocate a fundamental shift away from traditional strategies, such as Modern Portfolio Theory, that allocate assets based on a rigid formula, and towards a more responsive, flexible approach. "It is clear that dynamic rebalancing is better," says Mr de Servigny. "If the industry is being paid simply to apply a static recipe, it is not really adding a lot of value." ▴

FOR A FULL REGIONAL BREAKDOWN OF RESULTS FROM THE ATTITUDES SURVEY, SEE DATABANK, PAGE 64.

HNWI INTERVIEW

HOWARD M LORBER PRESIDENT AND CEO, VECTOR GROUP LTD



As CEO of Vector Group Ltd, Howard M Lorber's business interests span hotels, property management and real estate ownership and brokerage, as well as tobacco. He shares his insights into the US real estate market and his plans for the future.

THE WEALTH REPORT You own a large chunk of Douglas Elliman, one of New York's leading real estate agencies. What attracted you to invest in a property company?

HOWARD M LORBER As the owner of several properties, I'd had an interest in real estate for many years. I felt that a real estate brokerage company would be a good investment and also provide access to market information that would enhance my knowledge of investment opportunities.

TWR How were you affected by the slump in the US property market?

HL At the top of any market everyone seems over-invested, whether it be in stocks, bonds, or real estate. Real estate is fairly simple if you're not over-leveraged and can wait for recovery. In Miami, for example, it was predicted in 2008 that it would take 10 to 15 years to sell the unsold residential condominium projects, but just over four years later the inventory is already nearly all gone.

TWR Which are the up-and-coming districts in New York?

HL NYC is amazing – there are no bad areas to live. Currently, some of the most valuable residential real

estate is downtown: from Chelsea and the High Line to SoHo, the Village, the West Village, Tribeca and the Financial District. While the highest-priced residential sales in NYC have been uptown, on or near Central Park, sales below 34th Street include the US\$42m penthouse at 18 Gramercy Park, where we represented the buyer.

TWR What else do you invest in and why?

HL I also invest in stocks and bonds of publicly traded companies and, to a lesser extent, in small private companies.

TWR What has been your best investment?

HL Buying Douglas Elliman in 2003.

TWR Are there any new sectors you're looking to get involved in?

HL We currently have a relatively small commercial brokerage business which will be expanded during 2013.

TWR How did you earn your first dollar as a businessman?

HL As a stockbroker, straight out of college. I worked in finance for a while before moving into insurance and then real estate.

TWR Do you think it's easier or more difficult to create wealth now than when you first went into business?

HL In my view, it's definitely more difficult. My children's generation may be the first since the Great Depression who will not exceed their parents' accomplishments. Of course there are exceptions, and the best and brightest will always do well. But competition today is global, and the costs of starting up a business far exceed what they were 40 years ago. It may also be the case that, because my generation did so well financially, we did not do a good enough job instilling the same work ethic we were taught by our parents into our own children.

TWR Do you think a Republican victory in last year's presidential election would have made it easier to create wealth?

HL Whether the president is Republican or a Democrat, he should govern from the middle. I believe that Mitt Romney would have done that. Unfortunately, I have not seen President Obama move in that direction yet, at least not during his first term. I hope it will happen during his second term.

TWR What advice would you give anybody starting out in business today?

HL One thing I learned early on is to work with – and try to be friends with – people

who are smarter than me. Many people have trouble doing this because of their own insecurities.

TWR How long do you think it will take for Asia's urban tigers to become the world's most important cities?

HL There is no question that Hong Kong, Shanghai, and Singapore are goliaths in the world today. However, I am confident that in my lifetime we will not see them overtake New York and London.

TWR How important do you think it is for HNWIs to get involved in philanthropy?

HL I find it hard to understand how anyone with the means to be involved with philanthropy does not embrace it. I think it's good for the soul. Philanthropy should be an important part of one's life.

TWR Where do you focus your own philanthropic activities?

HL I am involved with St Jude Children's Hospital in Memphis which does an amazing job for children with cancer. My son and I help to fund homes for parents that allow them to stay close to their children who are being treated for serious illnesses. I also support numerous educational institutions.

TWR Are there any particular investments of passion that you like to collect?

HL My main investments of passion are homes that I purchase to enjoy, but which hopefully will also turn out to be good investments. I also collect watches, but with no thought as to investment. My collection is diverse, from some of the finest watches made to what I call "fun watches" that I buy simply because I enjoy the way they look.

VECTORGROUPLTD.COM

I find it hard to understand how anyone with the means to be involved in philanthropy does not embrace it... Philanthropy should be an important part of one's life



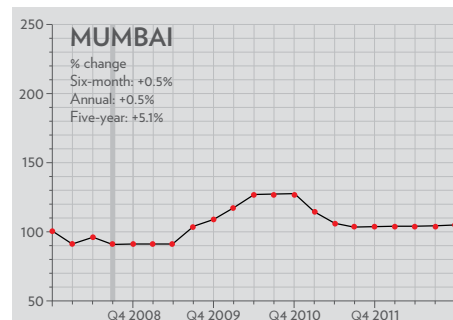
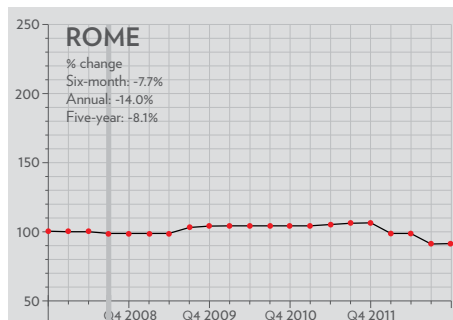
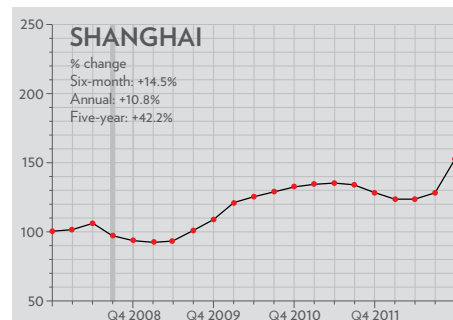
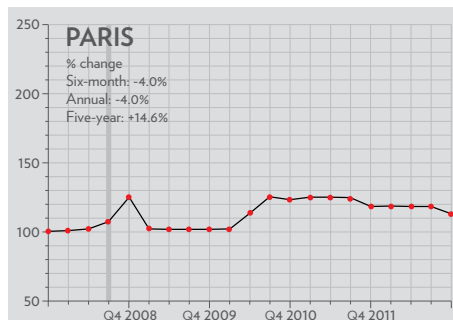
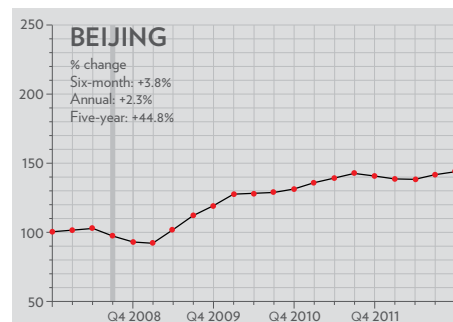
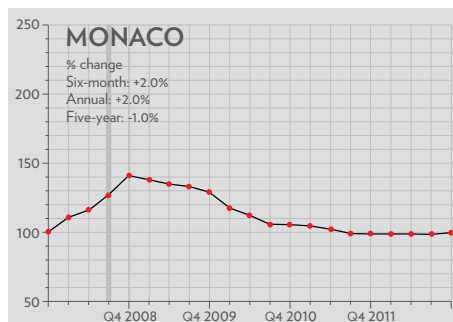
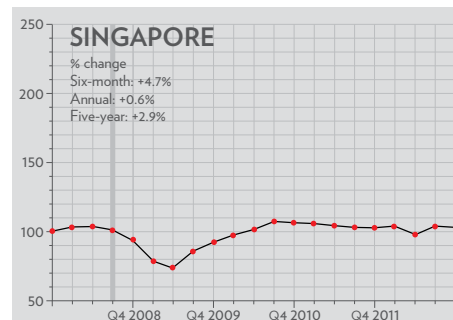
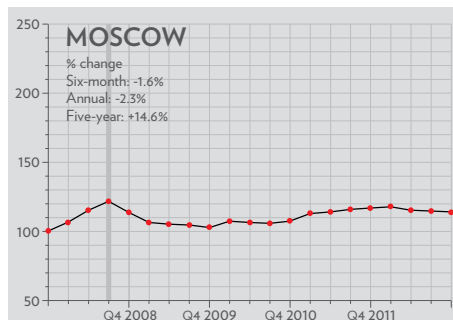
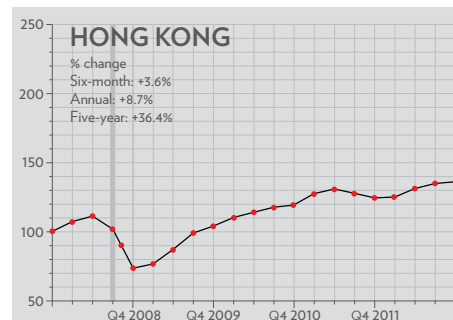
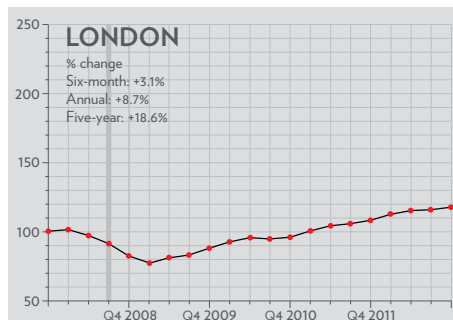
PROPERTY PERFORMANCE

Knight Frank's international network of research teams collects an unrivalled range of data analysing the world's most important prime residential and commercial property markets. The graphs on the following pages illustrate the five-year change in capital values of luxury homes in selected locations and the change in rental values of office space in the world's most important financial centres.

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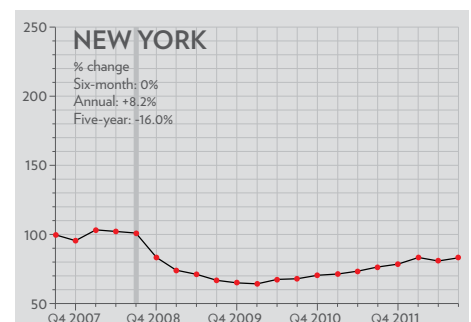
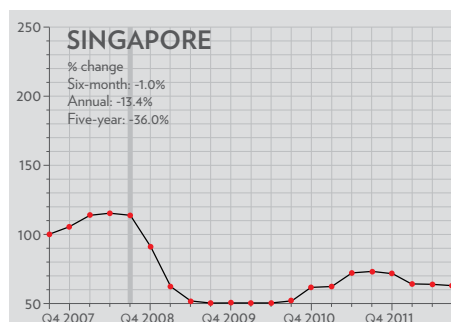
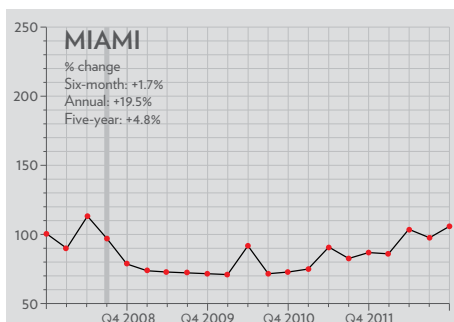
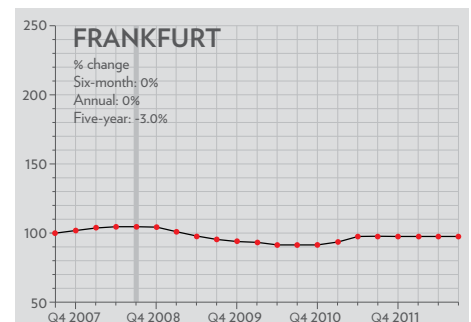
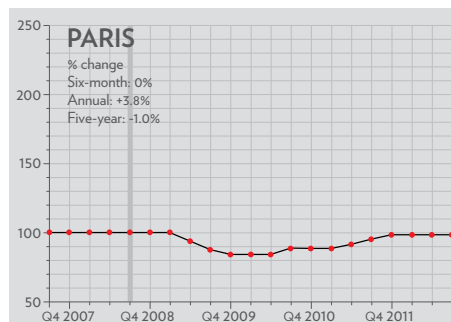
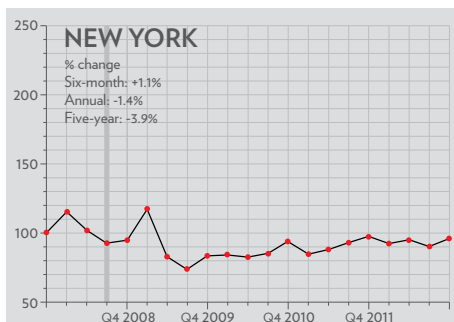
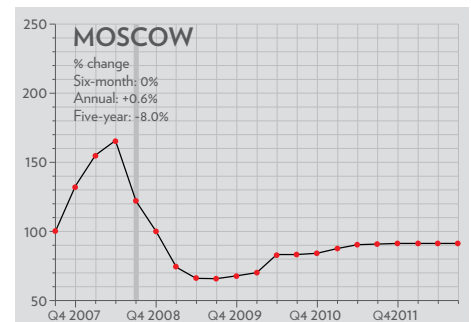
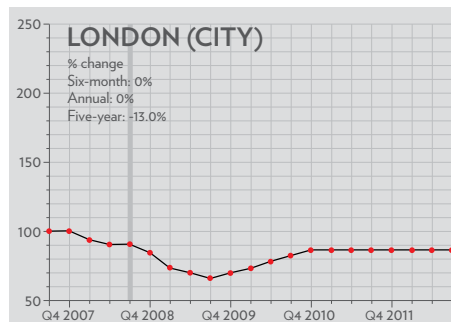
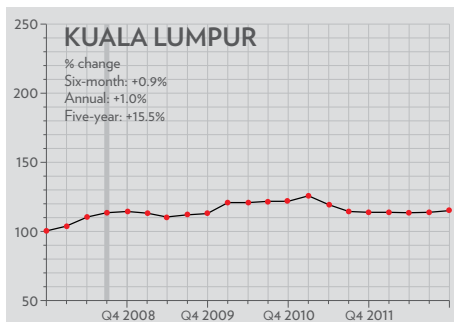
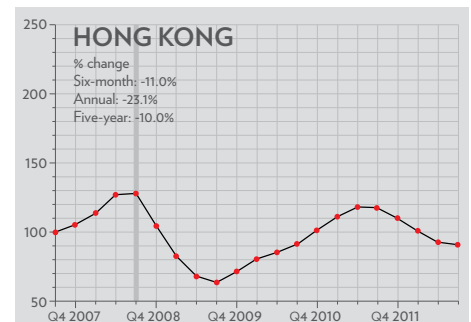
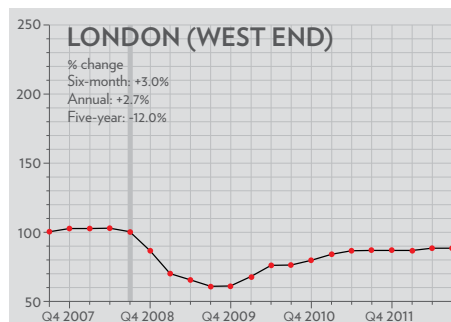
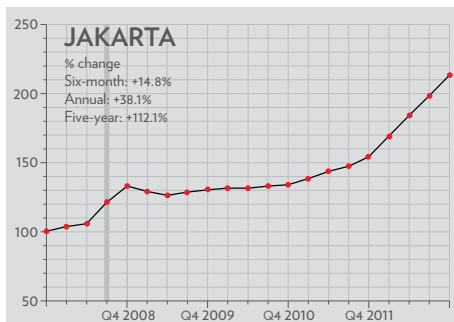
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PRIME INTERNATIONAL RESIDENTIAL MARKETS PAGES 26-35 Q4 2007 TO Q4 2012



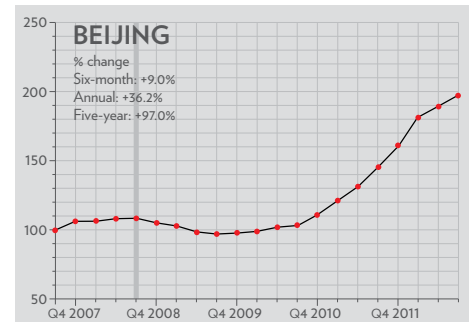
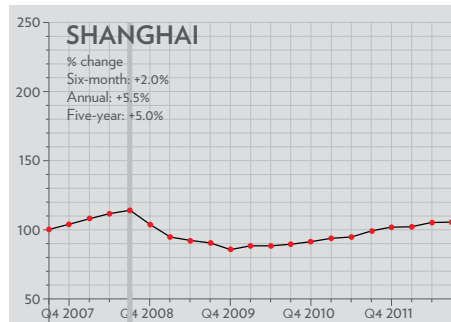
Index | Lehman Brothers bank collapses

PRIME INTERNATIONAL OFFICE MARKETS PAGES 36-44 Q3 2007 TO Q3 2012



To find out about the full range of markets analysed by our international research teams, including farmland and healthcare, please go online, download our app or follow us on Twitter.

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Index | Lehman Brothers bank collapses



THE WEALTH REPORT ATTITUDES SURVEY 2012

At the end of 2012, The Wealth Report asked 400 private bankers and wealth advisors around the world to give an insight into their HNWI clients' attitudes to a wide range of topics, including their homes, investments and ability to generate further wealth. The results represent the views of around 15,000 HNWI's worth on average US\$65m and in total almost US\$1tr.

This year, the depth of our data has added greater clarity to our analysis. Asia-Pacific is split into two regions: Asia and Australasia. Country-level data is available for selected locations on request. Globally, responses are weighted to reflect HNWI wealth patterns.

Where we refer to a net balance of responses, this is the difference between the number of respondents indicating a positive movement in behaviour or sentiment and those suggesting a negative movement, taking into account those with a neutral position. So if 30% of respondents said their clients were planning to invest more in commercial property, 10% said their position would remain neutral and 60% said they were planning to invest less, that would give a net balance of -30%.

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WEALTH TRENDS AND THREATS PAGES 8-15

DID THE INFLUENCE OF THESE FACTORS BECOME MORE POSITIVE OR MORE NEGATIVE DURING 2012 IN TERMS OF THEIR IMPACT ON YOUR CLIENTS' ABILITY TO CREATE AND PRESERVE WEALTH?

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Climate and environmental conditions	-7%	+2%	-12%	-41%	-8%	-12%	-21%	-13%
Global economic conditions	-40%	-54%	-55%	-69%	-37%	-52%	-58%	-50%
Global political situation	-30%	-56%	-47%	-87%	-55%	-52%	-58%	-47%
Local economic conditions	+3%	-15%	-18%	+56%	+9%	-12%	-42%	-4%
Local political situation	-16%	-13%	-30%	-55%	-43%	-41%	-77%	-33%
Local tax conditions	-4%	-4%	-58%	-74%	-16%	-38%	-46%	-33%

IS THEIR IMPACT LIKELY TO BECOME MORE POSITIVE OR MORE NEGATIVE IN 2013?

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Climate and environmental conditions	-1%	+13%	-7%	+38%	-9%	+6%	-17%	+2%
Global economic conditions	-22%	-17%	-5%	+36%	-22%	0%	-13%	-7%
Global political situation	-16%	0%	-16%	-72%	-35%	-30%	-13%	-24%
Local economic conditions	+3%	+6%	-1%	+39%	+15%	+6%	-13%	+6%
Local political situation	-9%	-11%	-9%	+27%	-26%	0%	-39%	-6%
Local tax conditions	-3%	-11%	-53%	-84%	-20%	-39%	-35%	-33%

DID YOUR CLIENTS' NET WORTH INCREASE OR DECREASE IN 2012?

	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Decreased	17%	19%	19%	0%	15%	16%	13%	15%
Stayed the same	24%	38%	41%	25%	32%	31%	35%	31%
Increased	59%	43%	41%	75%	53%	53%	52%	53%
Balance of opinion	+42%	+23%	+22%	+75%	+38%	+38%	+39%	+38%

ARE YOUR CLIENTS NEGATIVE OR POSITIVE ABOUT THEIR WEALTH CREATION PROSPECTS IN 2013?

	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Negative	11%	8%	18%	0%	11%	6%	14%	11%
Neutral	53%	58%	45%	25%	54%	68%	52%	53%
Positive	36%	33%	37%	75%	35%	26%	33%	36%
Balance of opinion	+25%	+25%	+18%	+75%	+25%	+19%	+19%	+26%

GLOBAL CITIES PAGES 16-23

WHAT ARE CURRENTLY THE MOST IMPORTANT CITIES TO YOUR CLIENTS?

Rank	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
1	Singapore	Sydney	London	London	London	New York	London	London
2	London	London	New York	New York	Dubai	London	Zurich	New York
3	Hong Kong	Melbourne	Singapore	Madrid	New York	Singapore	Paris	Singapore
4	New York	New York	Geneva	Barcelona	Abu Dhabi	Hong Kong	Moscow	Hong Kong
5	Beijing	Auckland	Paris	Miami	Paris	Miami	Monaco	Geneva
6	Sydney	Wellington	Hong Kong	Hong Kong	Geneva	Shanghai	Geneva	Shanghai
7	Shanghai	Perth	Zurich	Singapore	Singapore	Los Angeles	Singapore	Dubai
8	Mumbai	Beijing	Sydney	Zurich	Hong Kong	Sydney	New York	Miami
9	Melbourne	Hong Kong	Melbourne	Sydney	Los Angeles	Geneva	Dubai	Paris
10	Jakarta	Singapore	Dubai	Geneva	Beirut	Zurich	Beijing	Beijing

WHAT WILL BE THE MOST IMPORTANT CITIES TO YOUR CLIENTS IN 10 YEARS' TIME?

- 1 London
- 2 Singapore
- 3 New York
- 4 Hong Kong
- 5 Shanghai
- 6 Beijing
- 7 Miami
- 8 Geneva
- 9 Dubai
- 10 Paris



RESIDENTIAL PROPERTY PAGES 26-35

WHAT PERCENTAGE OF YOUR CLIENTS' TOTAL NET WORTH IS ACCOUNTED FOR BY THEIR MAIN RESIDENCE AND ANY SECOND HOMES THAT ARE NOT OWNED PURELY AS AN INVESTMENT?

	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Average	26%	28%	30%	23%	19%	25%	28%	26%

HOW MANY HOMES DO YOUR CLIENTS OWN ON AVERAGE?

	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Average	3.4	3.3	2.9	3.5	3.4	3.6	3.1	3.3

IS THE NUMBER OF HOMES YOUR CLIENTS OWN LIKELY TO INCREASE OR DECREASE?

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
2012	+30%	0%	+9%	+59%	+22%	+4%	+19%	+19%
2013	+34%	+23%	+17%	+42%	+40%	+17%	+19%	+25%

WHAT % OF YOUR CLIENTS OWN THE FOLLOWING TYPES OF HOME?

	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
City property	48%	48%	42%	33%	48%	42%	48%	46%
Countryside/sporting estate	7%	12%	14%	13%	8%	17%	16%	13%
Farm	8%	14%	14%	13%	12%	11%	5%	11%
Ski property	5%	10%	12%	20%	10%	9%	12%	10%
Waterfront property	18%	24%	18%	20%	21%	20%	19%	20%

IS YOUR CLIENTS' INTEREST IN THE FOLLOWING PROPERTY TYPES INCREASING OR DECREASING?

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
City property	+45%	+24%	+36%	+42%	+67%	+45%	+50%	+43%
Countryside/sporting estate	+16%	+7%	+13%	+19%	+2%	+25%	+7%	+15%
Farm	+22%	-3%	+11%	+16%	+3%	+20%	-8%	+14%
Ski property	+3%	0%	-3%	+7%	+12%	+11%	0%	+4%
Waterfront property	+32%	+22%	+8%	+16%	+48%	+13%	+33%	+20%
Vineyard	+16%	-4%	+2%	+9%	+2%	+11%	+8%	+9%

HOW IMPORTANT ARE THE FOLLOWING FACTORS TO YOUR CLIENTS WHEN CHOOSING A SECOND HOME LOCATION? (1 = MOST IMPORTANT)

	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Lifestyle	3	1	1	3	1	4	1	1
Capital safe haven	2	2	2	5	2	2	2	2
Investment	1	3	3	4	3	3	3	3
Children's education	4	6	5	1	5	1	6	4
Tax	5	4	4	1	4	5	4	5
Business links	6	5	6	5	6	6	5	6

ARE A SIGNIFICANT PROPORTION OF YOUR CLIENTS THINKING OF CHANGING THEIR COUNTRY OF RESIDENCE OR DOMICILE FOR TAX OR OTHER REASONS?

	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Yes	43%	26%	60%	73%	61%	33%	67%	47%

ARE YOUR CLIENTS LIKELY TO SEND THEIR CHILDREN OVERSEAS FOR THEIR EDUCATION?

% respondents saying yes	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
University	85%	48%	54%	81%	79%	47%	67%	61%
School	66%	32%	37%	71%	43%	28%	53%	43%

COMMERCIAL PROPERTY INVESTMENTS PAGES 36-44

DID YOUR CLIENTS' ALLOCATIONS TO THE FOLLOWING SECTORS INCREASE OR DECREASE IN 2012?

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Agricultural land	+35%	+16%	+29%	+14%	+6%	+28%	+8%	+22%
Development land	+39%	+19%	+9%	+20%	+16%	+17%	+17%	+18%
Hotel property	+28%	-10%	+14%	+22%	+39%	-5%	+27%	+12%
Industrial/logistics	+19%	0%	+2%	+5%	+15%	+9%	0%	+7%
Infrastructure	+5%	-10%	+4%	+10%	+15%	+9%	+18%	+6%
Office property	+42%	+21%	+6%	+14%	+16%	+9%	-6%	+17%
Residential property (as an investment)	+54%	+24%	+38%	+56%	+74%	+36%	+63%	+46%
Retail property	+30%	-13%	-11%	+23%	+28%	0%	+23%	+9%

WILL ALLOCATIONS TO THE FOLLOWING SECTORS INCREASE OR DECREASE IN 2013?

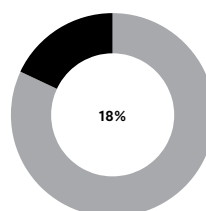
Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Agricultural land	+22%	+23%	+25%	+16%	+19%	+12%	+17%	+17%
Development land	+29%	+28%	+15%	+21%	+15%	0%	+23%	+13%
Hotel property	+19%	+14%	+13%	+27%	+41%	+13%	+42%	+17%
Industrial/logistics	+19%	+13%	+9%	+6%	+22%	+5%	0%	+9%
Infrastructure	+12%	+6%	+21%	+18%	+10%	+18%	+30%	+15%
Office property	+24%	+22%	+7%	+18%	+30%	+4%	+15%	+13%
Residential property (as an investment)	+32%	+23%	+44%	+24%	+68%	+27%	+19%	+32%
Retail property	+17%	+4%	0%	+19%	+28%	-13%	+25%	+5%

WHICH SECTOR IS RISING IN POPULARITY THE MOST RAPIDLY WITH YOUR CLIENTS?

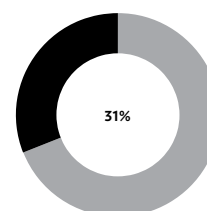
	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Residential property (as an investment)	45%	29%	46%	37%	36%	46%	31%	43%
Office property	14%	27%	8%	16%	21%	12%	13%	13%
Development land	12%	10%	11%	9%	2%	15%	13%	12%
Agricultural land	10%	12%	14%	8%	8%	12%	6%	11%
Retail property	9%	2%	5%	10%	3%	4%	19%	7%
Hotel property	4%	2%	6%	12%	19%	0%	13%	5%
Industrial/logistics	4%	10%	4%	3%	5%	8%	0%	5%
Infrastructure	3%	7%	6%	5%	7%	4%	6%	5%

HOW DO YOUR CLIENTS FUND PROPERTY INVESTMENTS?

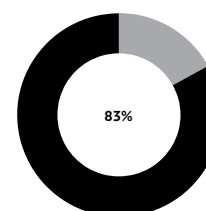
	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Mainly debt	17%	18%	12%	10%	7%	0%	0%	9%
Mainly equity	18%	22%	15%	10%	10%	17%	31%	17%
Debt & equity mix	65%	61%	73%	80%	83%	83%	69%	73%



CLIENTS WHO FUND PROPERTY INVESTMENTS WITH MAINLY DEBT IN AUSTRALASIA



CLIENTS WHO FUND PROPERTY INVESTMENTS WITH MAINLY EQUITY IN RUSSIA & CIS



CLIENTS WHO FUND PROPERTY INVESTMENTS WITH DEBT AND EQUITY IN MIDDLE EAST & AFRICA AND NORTH AMERICA

INVESTMENTS OF PASSION AND SPENDING TRENDS PAGES 48-53

WHICH ARE CURRENTLY THE MOST POPULAR INVESTMENTS OF PASSION FOR YOUR CLIENTS? (1 = MOST POPULAR)

	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Fine art	1	1	1	1	1	1	1	1
Watches	2	5	4		2	4	4	2
Wine	4	4	2		6	2	3	3
Jewellery	3	3	5		3	6	5	4
Classic cars	5	2	3		5	3	2	5
Sports teams and activities (eg horses)	6	6	7		4	4		6
Antique furniture	7	8	6		8	7	6	7
Other collectables (coins, etc)	8	7	8	2	7	8		8
Stamps	9	8	9		9	9		9

DID YOUR CLIENTS' SPENDING ON THE FOLLOWING INVESTMENTS OF PASSION INCREASE OR DECREASE IN 2012?

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Antique furniture	+5%	-17%	-15%	-3%	-1%	-10%	-8%	-6%
Classic cars	+23%	+18%	+15%	+9%	+9%	+30%	+23%	+17%
Fine art	+40%	+9%	+11%	+17%	+15%	+21%	+13%	+19%
Jewellery	+41%	+5%	+6%	+11%	+7%	0%	0%	+12%
Other collectables (coins, etc)	+9%	-29%	-3%	-3%	0%	0%	-10%	-1%
Sports teams and activities (eg horses)	-5%	+5%	-2%	-6%	+3%	+15%	-20%	+2%
Stamps	-5%	-31%	-7%	-4%	0%	-5%	-10%	-5%
Watches	+46%	+20%	+12%	+22%	+23%	+5%	+10%	+18%
Wine	+44%	+17%	+7%	+5%	0%	0%	-14%	+10%

WILL YOUR CLIENTS' SPENDING ON THE FOLLOWING INVESTMENTS OF PASSION INCREASE OR DECREASE IN 2013?

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Antique furniture	+17%	-5%	+2%	+1%	+2%	-15%	-8%	-1%
Classic cars	+25%	+25%	+11%	+13%	+9%	+5%	+17%	+11%
Fine art	+45%	+8%	+17%	+18%	+14%	-9%	+13%	+13%
Jewellery	+37%	+16%	+13%	+15%	+12%	-5%	+8%	+11%
Other collectables (coins, etc)	+5%	+7%	+4%	+1%	+2%	-5%	0%	+1%
Sports teams and activities (eg horses)	+2%	+5%	-12%	+4%	+10%	-25%	0%	-8%
Stamps	+1%	0%	0%	+0.1%	0%	-11%	0%	-3%
Watches	+41%	+31%	+15%	+12%	+10%	0%	0%	+14%
Wine	+40%	+5%	+10%	+2%	+1%	-5%	-21%	+8%

IN WHICH INVESTMENT OF PASSION IS INTEREST GROWING THE MOST QUICKLY? (1 = MOST POPULAR)

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Fine art	1	2	1	1	1	1	1	1
Wine	3	1	2	3	4	2	3	2
Watches	2	6	4	2	3	5	4	3
Classic cars	5	3	3	4	5	3	2	4
Jewellery	4	5	6	6	6	6	6	5
Sports teams and activities (eg horses)	6	4	5	5	2	4	5	6
Antique furniture	7	7	7	8	8	7	7	7
Other collectables (coins, etc)	9	9	8	9	9	8	8	8
Stamps	8	8	9	7	7	9	9	9

DID YOUR CLIENTS' SPENDING ON LUXURY ITEMS INCREASE OR DECREASE IN 2012 COMPARED WITH 2011?

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
	+19%	+10%	-8%	+21%	0%	-13%	-20%	+1%

DID YOUR CLIENTS' SPENDING ON PHILANTHROPIC ACTIVITIES INCREASE OR DECREASE IN 2012 COMPARED WITH 2011?

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
	+22%	+12%	+6%	+3%	+1%	+4%	+20%	+9%

INVESTMENT PORTFOLIOS PAGES 54-58

HOW DO YOUR CLIENTS CURRENTLY ALLOCATE THEIR INVESTMENT PORTFOLIOS?

	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Cash	14%	11%	11%	20%	15%	9%	11%	12%
Commodities	5%	6%	5%	7%	5%	6%	4%	5%
Corporate bonds	16%	21%	16%	17%	16%	11%	14%	15%
Currencies	9%	4%	7%	8%	5%	4%	7%	7%
Equities	14%	13%	16%	15%	12%	17%	14%	15%
Gold/precious metals	5%	5%	6%	8%	5%	7%	7%	6%
Government bonds	8%	8%	8%	12%	13%	6%	16%	8%
Investments of passion (art, etc)	3%	2%	4%	3%	4%	5%	4%	4%
Property (as an investment)	21%	26%	22%	10%	18%	27%	21%	22%
Venture capital	5%	3%	6%	0%	6%	8%	2%	5%

IN YOUR EXPERIENCE ARE YOUR CLIENTS TAKING AN INCREASINGLY HANDS-ON APPROACH TO THEIR INVESTMENTS?

	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Yes	86%	56%	77%	83%	94%	79%	73%	81%



DID YOUR CLIENTS INCREASE OR DECREASE THEIR ALLOCATIONS TO THE FOLLOWING ASSETS DURING 2012?

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Cash	+20%	+36%	+28%	+31%	+40%	+30%	+33%	+27%
Commodities	-1%	-10%	-8%	-7%	-13%	-10%	-36%	-8%
Corporate bonds	+63%	+13%	+22%	+53%	+50%	0%	0%	+30%
Currencies	+24%	+7%	+1%	+16%	+11%	-8%	-36%	+5%
Equities	-27%	+5%	-1%	-33%	-42%	+11%	-13%	-10%
Gold/precious metals	+49%	+38%	+23%	+34%	+25%	+38%	-18%	+33%
Government bonds	+22%	+32%	-30%	+21%	+22%	-17%	-43%	-4%
Investments of passion (art, etc)	+7%	-10%	+3%	+2%	0%	+5%	+14%	+4%
Property (as an investment)	+37%	+8%	+16%	+31%	+29%	+26%	+21%	+27%
Venture capital	-21%	0%	-12%	-20%	-28%	0%	+8%	-9%

ARE YOUR CLIENTS LIKELY TO INCREASE OR DECREASE THEIR ALLOCATIONS TO THE FOLLOWING ASSETS IN 2013?

Balance of opinion	Asia	Australasia	Europe	Latin America	Middle East & Africa	North America	Russia & CIS	Global
Cash	+2%	+12%	-3%	-52%	-24%	0%	-27%	-6%
Commodities	+4%	+4%	-6%	+51%	0%	-5%	-8%	+2%
Corporate bonds	+17%	-8%	+1%	+52%	+21%	-13%	+13%	+7%
Currencies	+23%	+15%	+11%	+4%	+27%	+17%	-18%	+15%
Equities	+38%	+30%	+35%	+84%	+23%	+15%	+38%	+34%
Gold/precious metals	+23%	+35%	+4%	+55%	+35%	+17%	-8%	+18%
Government bonds	-14%	-35%	-26%	-56%	+2%	-22%	-14%	-22%
Investments of passion (art, etc)	+7%	-5%	-2%	+1%	+5%	+10%	+21%	+5%
Property (as an investment)	+14%	+33%	+26%	+6%	+52%	+33%	+33%	+25%
Venture capital	-13%	0%	+11%	+1%	+1%	+19%	0%	+5%



THE KNIGHT FRANK LUXURY INVESTMENT INDEX

With interest in investments of passion growing, the new Knight Frank Luxury Investment Index (KFLII) shows how various collectable asset classes performed between Q3 2002 and Q3 2012.

The index is based on the performance of nine existing indices that track the performance of the following asset classes: art; classic cars; coins; Chinese ceramics; furniture; jewellery; stamps; watches; and wine. Details of each index are listed below. To create the overall Knight Frank Luxury Investment Index, the individual indices were weighted based on the popularity of the asset and its relative value. Hence, the performance of a widely collected and expensive asset will have more bearing on the overall index than a less popular one.

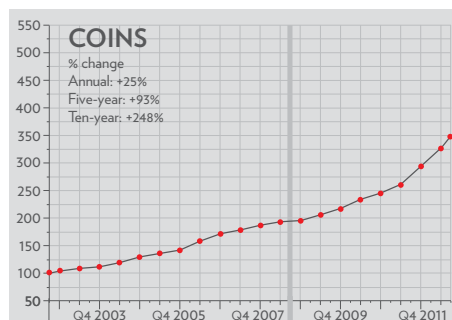
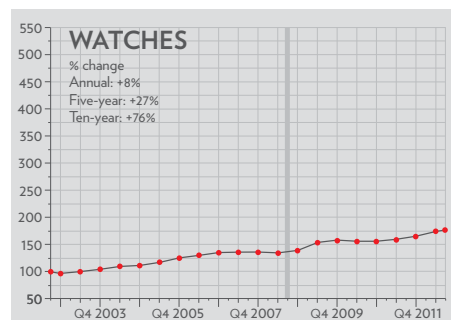
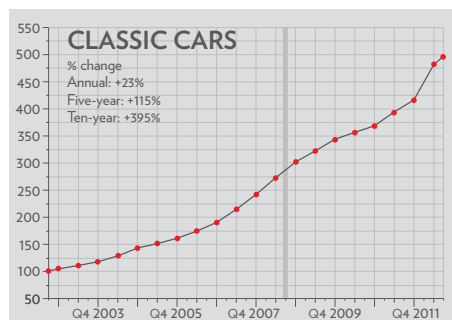
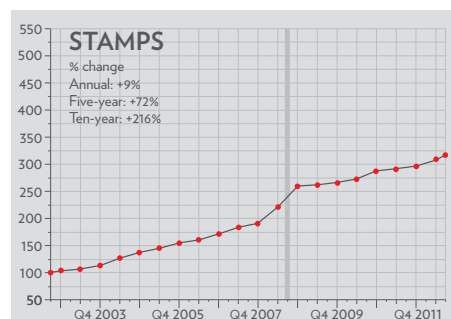
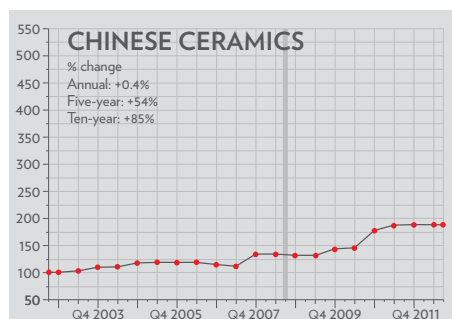
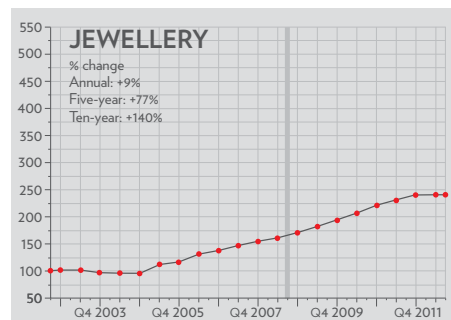
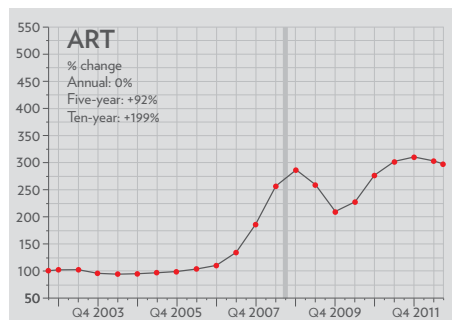
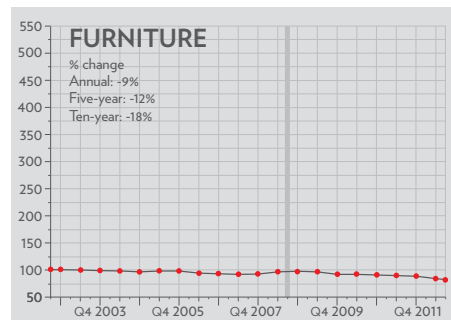
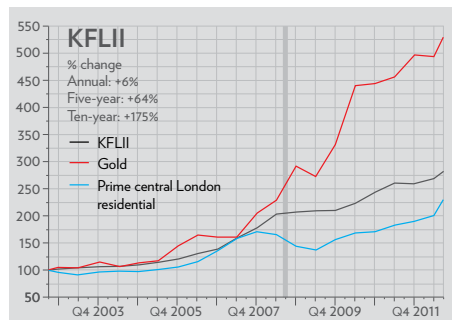
INDICES

Wine: Liv-Ex Fine Wine 100. Classic cars: HAGI Classic Car Index. Stamps: Stanley Gibbons GB 30 Index. Coins: Stanley Gibbons GB 200 Index. Art: Aggregate of top 25% of the Art Market Research (AMR) Old Masters 100, European 19th Century, European Impressionists, Modern Art 100 and Contemporary Art 100 indices. Chinese ceramics: Top 25% of AMR Chinese ceramics index. Furniture: Aggregate of top 25% of the AMR Early & Mid-20th Century, English Regency, French 18th Century and British 18th Century furniture indices. Jewellery: Top 25% of the AMR Jewellery (General) Index. Watches: AMR Watches Index.

CONTACTS AND ACKNOWLEDGEMENTS

historicautogroup.com; stanleygibbons.com; liv-ex.com; artmarketreport.com. Art Market Research also tracks sculpture, silver, porcelain, stamps, coins, toys, wine, carpets, clocks, photography, prints, classic cars and other collectables. For more information, contact artmarketresearch@easynet.co.uk or +44 20 8968 9999.

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Lehman Brothers bank collapses

CONTACT

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