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THE WEALTH REPORT.

The global perspective on prime property and investment

2016



10th Edition

The Wealth Report 2016

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Definitions

UHNWI

We use UHNWI as an
abbreviation for ultra-
high-net-worth individual –
someone with a net worth
of over US\$30m excluding
their primary residence.

PRIME PROPERTY

The most desirable and
most expensive property
in a given location,
generally defined as the
top 5% of each market
by value. Prime markets
often have a significant
international bias in terms
of buyer profile.

Unless stated, all
references to dollars
or \$ refer to US dollars

Welcome to the 10th edition of The Wealth Report

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For a decade, *The Wealth Report* has documented the performance of prime property and its interaction with wealth creation.

While few markets or regions escaped the effects of the global financial crisis, we have seen large amounts of new wealth created, particularly in emerging economies. This has helped to ensure the resilience of property markets, with strong growth in many of the 100 prime residential locations we track (page 40).

The Wealth Report analyses the implications of these, and other, key trends for its readers, helping clients to make more informed decisions. In this year's report, for example, we look at not just how globally mobile wealth has become, but also how authorities around the world have reacted (page 32).

While celebrating the success of our clients, we are also aware that wealth inequality – an issue we highlighted in the first edition of *The Wealth Report* – has continued to grow.

Our interview with Lady de Rothschild, the pioneering champion of the Inclusive Capitalism movement, highlights why this is an issue that none of us can ignore (page 14). We also interview three leading

entrepreneurs from Africa, Asia and the Middle East who reveal their personal perspectives on philanthropy (page 26).

The past decade has also seen significant change for Knight Frank. We now have 417 offices in 58 countries and our coverage in the UK, Asia-Pacific, the Middle East and Africa is market leading. Having established a successful residential network in the US with our alliance partner, Douglas Elliman, we now turn our attention to Latin America.

Alongside our traditional real estate services, we have established best-in-class Healthcare, Energy, Student and Affordable Housing teams.

Over the past 10 years we have seen a growing desire by our clients to invest in property as well as live in it. Our Global Wealth Team now provides a single point of contact for UHNWIs and their advisors, wherever they are based and whatever their property needs, commercial or residential.

I hope you have enjoyed reading *The Wealth Report* over the past decade and that you will continue to find it equally invaluable in the future, which I am sure will provide many more opportunities and challenges for us all.



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♦♦
**That doesn't mean it's smart,
or safe or moral or ethical to ignore
where our middle classes are going,
let alone the poor of our society**
♦♦

Lady de Rothschild

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Prime Residential Property

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Final Word

Knight Frank's Global Head of Research, Liam Bailey, looks at the implications of the latest findings from *The Wealth Report* for UHNWIs and their advisors

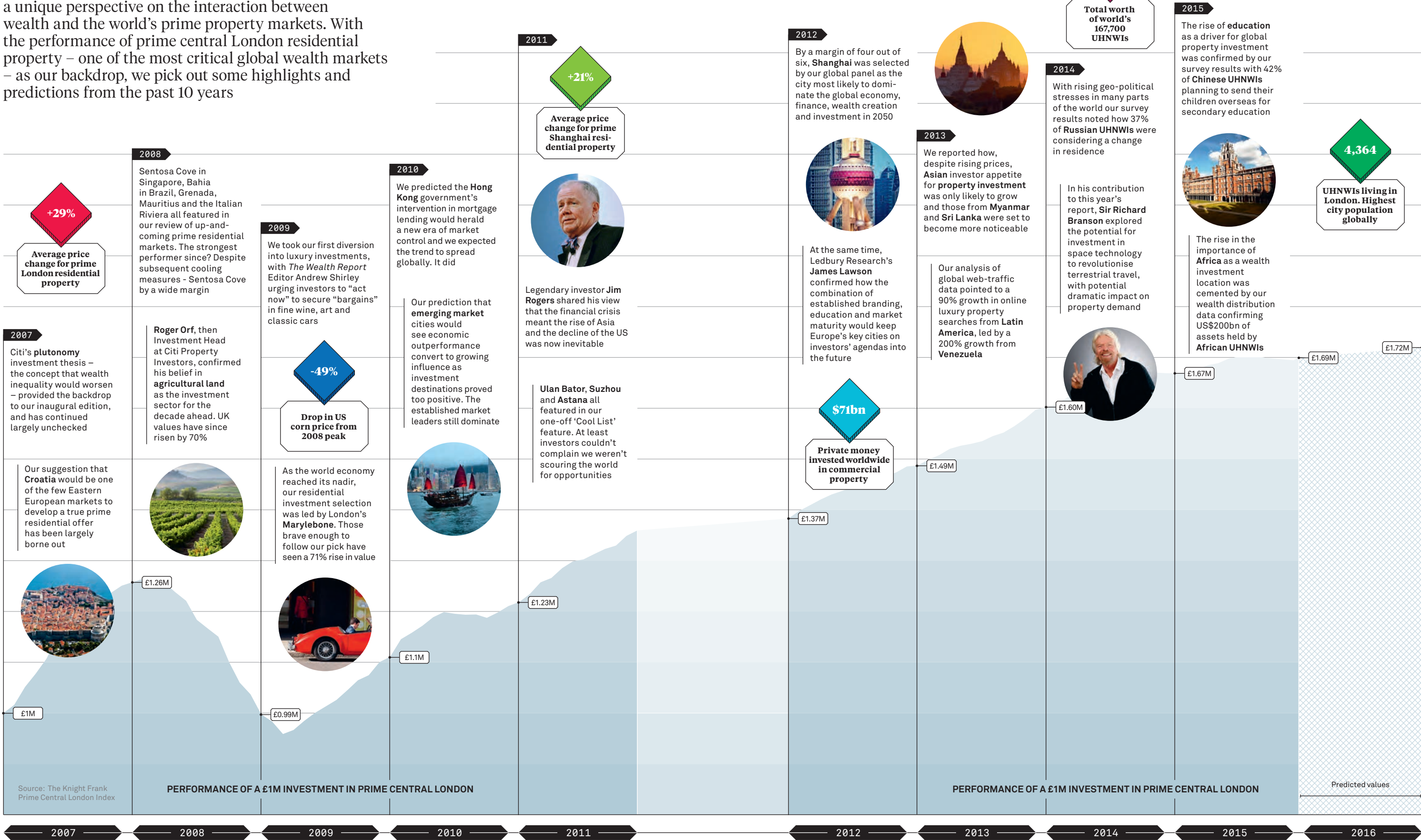


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The Decade in Review

Over the past decade, *The Wealth Report* has provided a unique perspective on the interaction between wealth and the world's prime property markets. With the performance of prime central London residential property – one of the most critical global wealth markets – as our backdrop, we pick out some highlights and predictions from the past 10 years





A global guide to the attitudes of UHNWIs towards property, wealth and investments

Key topics

01

Generation games

Wealthy family businesses are involving the next generation at an earlier stage, but succession issues are still one of the biggest worries for UHNWIs
→ page 10

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Almost 70% of survey respondents said UHNWI philanthropy activity had increased over the past 10 years
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Inclusive Capitalism

Urgent action is needed, but capitalism is still the best way to reduce wealth inequality, Lynn Forester de Rothschild tells *The Wealth Report*
→ page 14

The Wealth Report Attitudes Survey

To mark the 10th edition of *The Wealth Report*, this year's Attitudes Survey takes a 10-year view. We look back at how the attitudes of UHNWIs to key issues and investment decisions have changed since the report was first published, and look forward to examine the outlook for the next 10 years.

One of the most interesting findings is that a significant proportion of respondents – leading wealth advisors and private bankers from around the world – expect their clients' wealth to increase at a slower rate over the next 10 years than the past decade.

Succession and inheritance issues, wealth taxes and the global economy were identified as the main threats to future growth.

We also look at attitudes to philanthropy and property – both remain high

on the UHNWI agenda. The majority of respondents said their clients would be increasing their philanthropic activities, while exposure to property as an asset class is also set to grow – 30% of their clients are considering a residential purchase in 2016.

Past editions of *The Wealth Report* have included contributions from influential thinkers and this year is no exception. On page 14 we interview Lynn Forester de Rothschild, who is at the forefront of the Inclusive Capitalism movement.

Although she still believes capitalism is ultimately the best way to reduce wealth inequality around the world, she says businesses, investors and governments need to take a longer-term view to make it work. A failure to act now could have serious consequences, she says.

Ten-year perspective

The Wealth Report's Attitudes Survey looks at the changing outlook of UHNWIs

ANDREW SHIRLEY,
THE WEALTH REPORT EDITOR

To mark the *The Wealth Report's* 10th edition, the latest results from our annual Attitudes Survey shed light on how the outlook of the world's wealthy has changed over the past decade and takes a look forward to the next 10 years.

This year's survey, conducted in conjunction with ultra-wealth intelligence consultancy Wealth-X, is based on the views of around 400 of the world's leading private bankers and wealth advisors who, between them, manage assets for about 45,000 ultra-high-net-worth individuals (UHNWIs) with a combined wealth of over half a trillion US dollars.

As ever, the Attitudes Survey covers a wide range of topics from investment decisions to succession planning. Some of the highlights are analysed over the following pages, but you can find a comprehensive summary of the survey responses, broken down by world region, in the Databank section at the end of the report.

Wealth issues

The launch of *The Wealth Report* in 2007 was, ironically, quickly followed by the beginning of the global financial crisis. At first it seemed as if subsequent editions would be focusing on wealth diminution rather than creation, but that proved not to be the case.

As our analysis of global wealth distribution on page 20 clearly shows, UHNWI numbers have burgeoned around the world, particularly in emerging markets.

But our forecast for the next 10 years is more cautious, with the rate predicted to slow considerably.

This is echoed by the Attitudes Survey. When we asked the respondents if their clients' wealth had increased at a faster rate over the past 10 years than it would do over the next 10, two thirds agreed.

In Australasia, 84% of respondents predicted a slowdown – unsurprising perhaps as much of the wealth creation in the region has been powered by China's economic growth, which is now slowing.

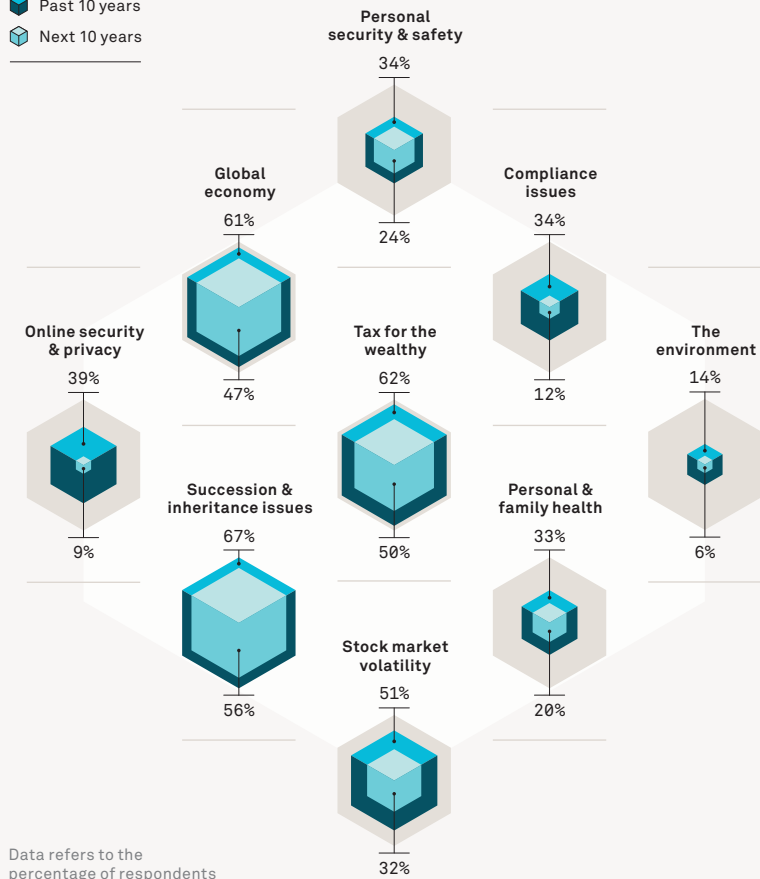
Globally, succession and inheritance issues, wealth taxes and the global economy were identified as the three main factors threatening wealth creation over both the past 10 years and the next decade.

“We find our clients to be more multi-jurisdictional than ever before, with families often ending up dispersed across the globe. Many of our clients are also

RISKS TO WEALTH CREATION AND PRESERVATION

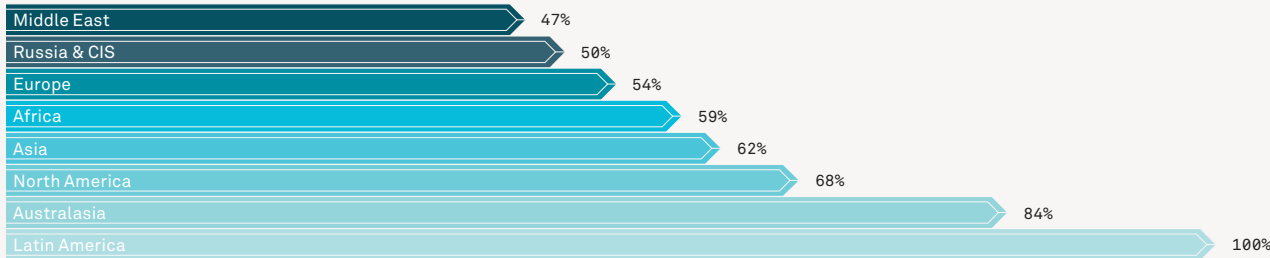
Issues that have grown in prevalence over the past decade and top concerns for next 10 years

LEGEND
Past 10 years
Next 10 years



WEALTH CREATION PROSPECTS

Respondents who think wealth creation will slow over the next 10 years



very concerned about matters of succession and how their children will deal with the pressures of inherited wealth,” confirms Deon de Klerk, Head of Africa and International Wealth and Investment at Standard Bank.

At a regional level, personal security and safety was high on the agenda in Latin America, with 63% of respondents citing it as a concern that has grown over the past 10 years. Looking forward, personal and family health was the third most important issue for North American UHNWIs.

Increased scrutiny of UHNWIs and their affairs, by both the public and authorities, was acknowledged by the survey. Almost 70% of respondents said their clients had become more conscious about displaying their wealth in public. A significant number also felt UHNWIs were being made scapegoats by governments for their own failure to address wealth-inequality issues.

This year promises to be a very significant year for the ultra-wealthy and for those who advise them, says Marc Cohen, Regional Managing Director EMEA at Wealth-X. “Growth is slowing and the

Growth is slowing and the wealthy are under increased scrutiny, yet significant opportunities remain for those who truly understand how to identify, understand and serve this group

wealthy are under increased scrutiny, yet significant opportunities remain for those who truly understand how to identify, engage, understand and serve this group.”

Management matters

Focusing on how UHNWIs manage their wealth, a number of interesting trends have developed over the past 10 years. Not only do 87% of those polled believe that their clients are taking a more active role in the management of their wealth, but 92% agree that the wealth industry has to work harder to earn the trust of its clientele.

Advisors may also need to refocus how they engage with clients. On average almost 80% of respondents said women were taking a more significant role in managing family wealth, while 64% said clients were involving their children in their businesses at an earlier age.

“Having served the parents does not provide us a birthright to serve their next generation. We have to earn it,” says Money K, who heads Citi Private Bank’s

UHNWIS ARE INVOLVING THEIR CHILDREN IN THEIR BUSINESSES AT AN EARLIER AGE



India
91%



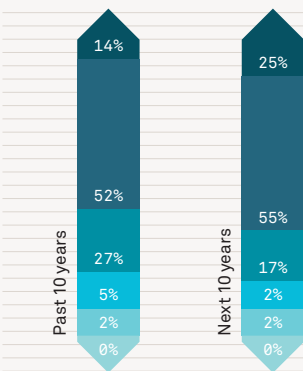
Singapore
75%



UK
60%

% of respondents who agree

Change in UHNWI philanthropic activities



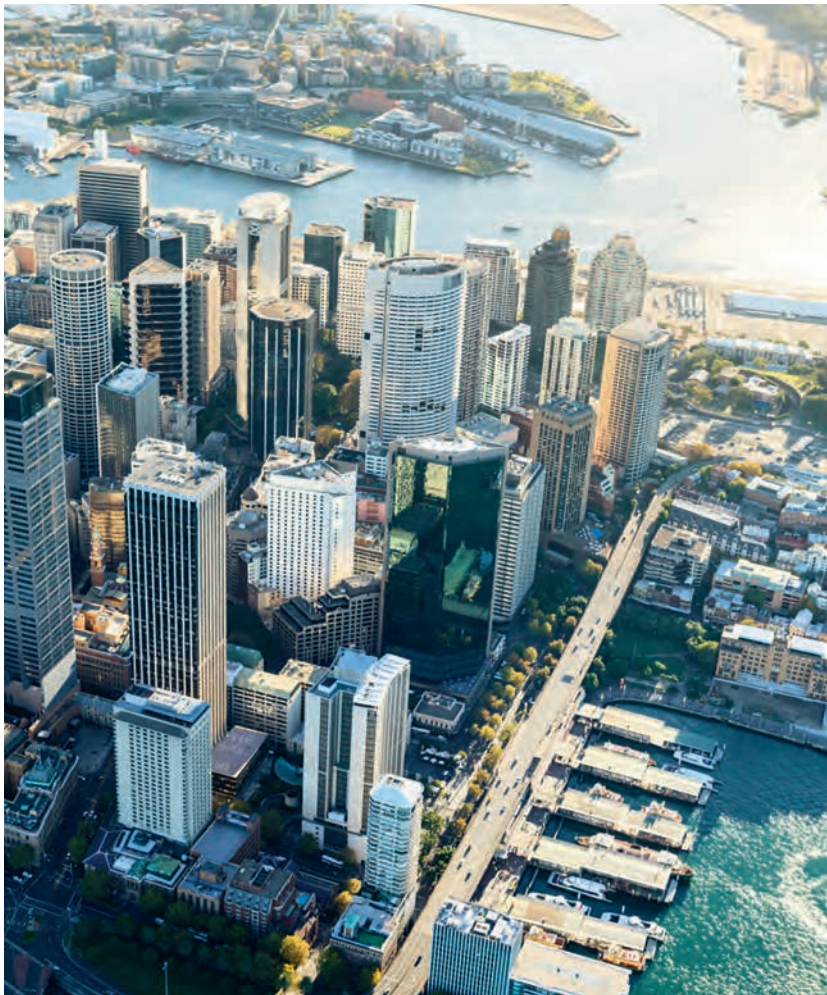
% of respondents who selected option

LEGEND
Increase a lot
Increase slightly
Stay the same
Don't know
Decrease slightly
Decrease a lot

Average number of homes owned by UHNWIs



Source: all data from *The Wealth Report* Attitudes Survey



Much of Australasia's wealth creation has been powered by China's economic growth

Next Generation programme. “They prefer online delivery for market intelligence and execution of transactions.”

As mentioned earlier, succession issues are the biggest worry for UHNWIs around the world with recent research suggesting that it is the second generation, rather than the oft-quoted third, that is most likely to squander the family fortune.

When asked why their clients were so concerned about handing their wealth to the next generation, 62% of respondents said they didn’t feel their children would be encouraged to make their own wealth, while almost half said they wouldn’t know how to handle the investments. Encouraging them to get involved in the family business from a younger age appears to be an obvious solution.

However, as many as two thirds are generally not inspired to join the family business, preferring to pursue entrepreneurial ambitions or other professional careers, says Mr K. “There is a certain restlessness in them to make a difference in whatever they do.”

Many of those who do join the family business say they are not satisfied with the status quo. “Because of globalisation and new technologies, they desire to expand, modernise or reinvent the business to be more relevant and sustainable for the future,” says Mr K.

Philanthropy

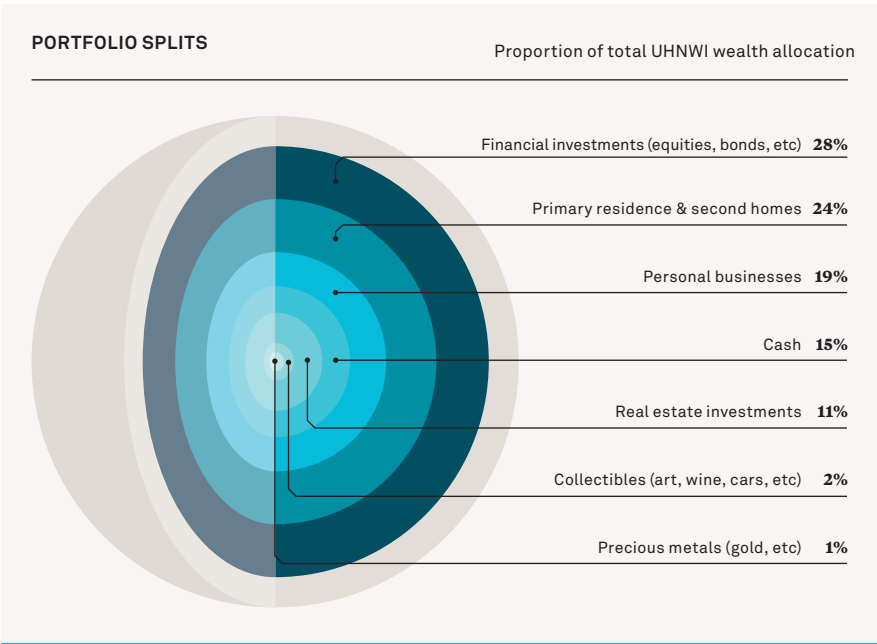
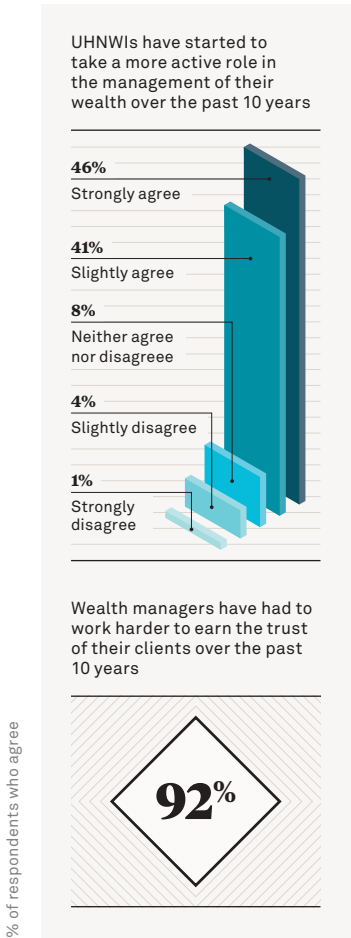
Although protecting their wealth is a preoccupation for many UHNWIs, giving much of it away is also important. Facebook founder Mark Zuckerberg and his wife Priscilla Chan hit the headlines last year when they pledged to give away 99% of their shares – currently worth \$45bn – in the social media giant.

On average, 67% of those who took part in the Attitudes Survey said their clients’ philanthropic activities had increased over the past 10 years, with almost 80% saying activity would increase further over the next 10.

A sense of personal fulfilment was cited as the main motivator, although in the Middle East religious beliefs were considered almost as important.

However, the way the wealthy are giving is changing. The Zuckerbergs, for example, have created a more flexible limited liability company, not a traditional charitable foundation, to oversee their endeavours.

“This is indicative of a wider trend that we have seen across our client base,” says Tom Hall, Head of Philanthropy Services (UK) at UBS. “Not only is philanthropy increasing, so too is the desire to ensure that it is truly effective and actually solving the social and environmental problems of our time.



“Philanthropists are becoming increasingly sophisticated in how they structure their giving and investing, with social impact emerging as a key third dimension along with risk and return in every investment decision.”

Property

How UHNWIs feel about property as a place to live and as something to invest in, is an important part of the Attitudes Survey.

Residential real estate accounts for a quarter of the average UHNWI’s investable wealth, according to the survey, while commercial property investments make up 11%.

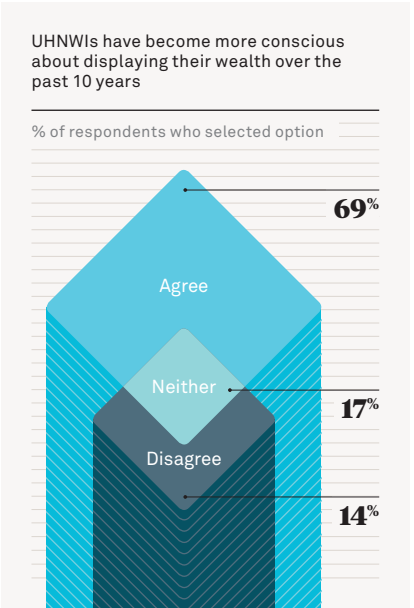
Over the past 10 years, 54% of respondents said their clients had increased their allocation to residential property. Just over 40% expected it to increase further over the next 10 years, with 30% of clients likely to consider a residential purchase in 2016.

When asked what factors had been growing in importance as a reason for UHNWIs to buy residential property, the most popular (55% of respondents) was as an investment to sell in the future. Investment diversification (46%) and as a safe haven for funds (47%) also scored highly. The safe-haven element was considered especially important by those respondents with clients in Russia and the CIS – 80% said it was becoming more important.

“The majority of our high-net-worth clients across Africa seek international diversification, with an ever increasing appetite for real estate,” says Standard Bank’s Deon de Klerk. “With the developing complexity of cross-border transactions, as well as a demand for real value and the most appropriate properties, the necessity to employ specialists in their respective fields to truly realise that safe-haven perception is vital.”

Interest in commercial property is also growing strongly, with 47% of wealth advisors predicting an increased portfolio allocation by their clients over the next 10 years. Offices and hotels are predicted to remain the investments of choice, although warehousing and logistics could overtake shopping centres and high-street retail, according to the survey.

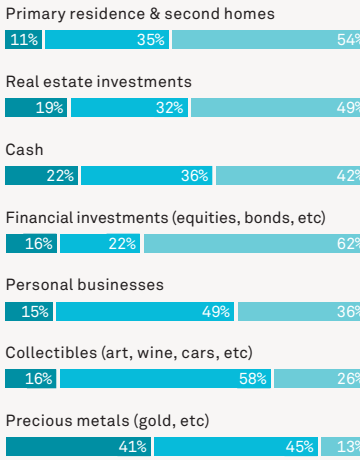
Lack of experience was considered the main reason hindering more private investment into the sector. See pages 46 to 53 for the latest insight from Knight Frank’s commercial property experts.



ALLOCATION SHIFTS

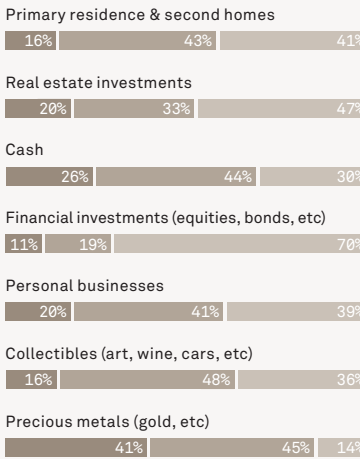
How asset allocations have changed or are likely to change, according to respondents

Past 10 years



LEGEND
◆ Decreased ◆ No change ◆ Increased

Next 10 years



LEGEND
◆ Decrease ◆ No change ◆ Increase

THE WEALTH REPORT ATTITUDES SURVEY

The results of the Attitudes Survey are based on the responses from private bankers and wealth advisors who completed a survey in late autumn 2015. A full regional breakdown of the data is available in the Databank section at the back of the report. Selected country-level data is available on request.

Source: all data from *The Wealth Report Attitudes Survey*

WOMEN HAVE TAKEN A MORE SIGNIFICANT ROLE IN MANAGING FAMILY WEALTH OVER THE PAST 10 YEARS

UAE
92%

China
84%

US
61%

% of respondents who agree

Prime property in London: UHNWI investment in residential property has grown over the past 10 years

Making capitalism work

The Wealth Report Editor Andrew Shirley talks to Lynn Forester de Rothschild

LYNN FORESTER DE ROTHSCHILD

Lynn Forester de Rothschild is Chief Executive of E L Rothschild, an investment business that she established with husband Sir Evelyn de Rothschild. She lives in the UK and the US.

It’s not often I get nervous before an interview. I’ve quizzed the likes of legendary investor Jim Rogers, environmentalist and film producer Trudie Styler and iconic fashion-house scion Massimo Ferragamo over the past 10 editions of *The Wealth Report*. But I do have to admit to a few butterflies on the way to meeting the glamorous and rather well connected American businesswoman Lynn Forester de Rothschild or, to be more formal, Lady de Rothschild

– a title that came with her marriage to British banker Sir Evelyn de Rothschild. Perhaps it is because, unusually for an interviewee, Lady de Rothschild has generously invited me to her own home in London, fittingly for a noted art collector, the former Chelsea studio of John Singer Sargeant, one of America’s most influential artists. Or maybe it is because it has been slightly daunting thinking of questions



◆◆
It’s a belief that capitalism should be a system for the creation of broad-based prosperity, and should instil trust in our institutions
◆◆



Opposite: Lady de Rothschild, at home in New York
This page left: The de Rothschild’s investments include renewable energy schemes in Africa
Below: Bill and Hillary Clinton with Sir Evelyn and Lady de Rothschild

clever enough to ask a person who, having created her own hugely successful US telecommunications business, is now leading an ambitious campaign to redefine capitalism. And, for good measure, is part of a dynasty synonymous with 400 years or so of wealth creation. The reason we are meeting is to talk about the emerging Inclusive Capitalism movement and the Coalition for Inclusive Capitalism – a not-for-profit organisation that was founded by Lady de Rothschild and is dedicated to promoting the concept.

“It’s a belief that capitalism should be a system for the creation of broad-based prosperity, and should instil trust in our institutions, and optimism for the future – that’s the way I think about it,” she explains succinctly. A single sentence, but one that opens a Pandora’s box of questions. The first on my list: how badly does capitalism really need fixing? But Lady de Rothschild beats me to it and is already recounting some survey findings released just that morning suggesting the answer is “very”.

◆◆
Only 19% of Americans believe that their government, in most cases, will do the right thing. Trust in business is not that much higher
◆◆

Apologetic for not having longer to chat while ensuring a coffee is on its way, and then immediately teasing me about my “old-fashioned” Dictaphone, it is easy to see why so many influential figures, Christine Lagarde, Mark Carney, Bill Clinton, Prince Charles and even the Pope to name but a few, have been persuaded to lend their support to her campaign. Despite this high-profile backing, the concept of Inclusive Capitalism is still not a part of mainstream vocabulary, so I begin by asking Lady de Rothschild to capture its essence for readers of *The Wealth Report*.

“Only 19% of Americans,” she laments, “believe that their government, in most cases, will do the right thing. Trust in business is not that much higher. So, to the extent that business is not trusted by society, often with good reason, it is not good for capitalism. There is no excuse for that.” If we do not correct the problem, Lady de Rothschild believes the consequences could be dire. “A divided society against itself will not stand and it doesn’t matter if you’re in the top 1% or 0.001%. If the society around you is crumbling, you’re in a bad place,” she says.



Right: Lady de Rothschild speaks at the 2015 Inclusive Capitalism conference

Below: A self-portrait of American artist John Singer Sargent, whose former studio is now Lady de Rothschild's home in London. Image courtesy of Bridgeman Images

Opposite: A still from Bill Viola's 'Divine Light'. Image courtesy of Bill Viola Studio



“Now we can sit in London and New York and say society isn’t crumbling, the restaurants are beautiful, I can live my life, but that doesn’t mean it’s smart, or safe or moral or ethical to ignore where our middle classes are going, let alone the poor of our society.”

So what can we do about it, I ask. “One result is Occupy Wall Street, another result is the Tunisian vegetable vendor who set himself on fire, but I believe the best result is for business and investors to be part of the solution,” she explains.

“We have a lot of work to do and I don’t think we can put the burden on government alone. The point of Inclusive Capitalism is to talk with the large asset owners, asset

of the world’s institutional assets under management), so then we had a second one in 2015 and are planning 2016 in New York City. To create change, however, we need more than a conference a year, so we created the Coalition.

“I believe our entrée is to the large asset owners, the sovereign wealth funds, the pension funds, the insurance companies and the people who manage their money – to simply convince them that an investment for the long term means attention to product, planet, people and profit.”

Lady de Rothschild is firm in her belief that practising Inclusive Capitalism need not come at the expense of profits. “I’m not asking people to have a lower return.”

◆ ◆

It doesn’t matter if you’re in the top 1% or 0.001%. If the society around you is crumbling, you’re in a bad place

◆ ◆

managers and corporate leaders of the world and give them ideas that will be part of the solution.”

And that is where the Coalition for Inclusive Capitalism comes in. The Coalition was created after the City of London asked Lady de Rothschild if she would help pull together the Conference on Inclusive Capitalism in 2014.

“I didn’t know what that would be like, but it was more successful than we could have imagined (the delegates represented a staggering \$30 trillion of assets – one third

It’s a compelling message, and it’s one that’s backed up by the many research papers on the coalition’s website – one of the latest questions the assumed wisdom that hedge-fund activism offers long-term benefits to target firms.

She also points to the returns of the businesses that EL Rothschild – an investment vehicle she set up with Sir Evelyn – invests in. Some of the firms, such as a renewable energy operation in Africa and an Indian agri-business, do have an element of impact investing, but Lady de Rothschild insists



that the couple are rigorous investors looking for very good returns.

“We’ve more than doubled our money in India and in Africa we see internal rates of return north of 20%. The returns from our EL Rothschild portfolio are over 30% so we are very clear that having impact does not mean we have to sacrifice returns.”

Lady de Rothschild, however, does admit it will be difficult to break the short-termism endemic among politics, business and consumer behaviour.

What motivated her to take on such a Herculean task, I wonder. “I personally care about the issue because I want to leave a world, or at least a country – America – that has a level playing field where people can achieve their dreams based on their God-given talent, not based on the families they are born into. I just believe in that.”

Inclusive Capitalism is not without its detractors. Some commentators claim it is simply a PR exercise by the world’s business elite to protect itself from the wrath of the disgruntled masses. Others say the concept of capitalism itself is the problem.

But Lady de Rothschild is quick to point out that while capitalism is not perfect, it has, by and large, been a power for good in the world. “I believe it’s like what Churchill said about democracy: ‘It’s the worst system apart from all the others.’ And remember that since 1980, while inequality has grown and way too much of the wealth has gone to the 1% in the developed world, for the rest of the world 700 million people have been lifted out of poverty.

“I don’t think capitalism properly practised needs to make any apologies. Crony capitalism is completely wrong, subsidies to the wealthy while we are gutting out the middle class – that’s just wrong and governments shouldn’t be there to protect the rich.

“Capitalism should be about competition, ethics, innovation and a level playing field. If all that is in place, I don’t see how anybody could have an argument with Inclusive Capitalism.”

However, Lady de Rothschild does concede that Ian Davis, Chairman of Rolls Royce and a contributor to the 2015 conference on Inclusive Capitalism, makes a valid point when he says the concept “needs to be democratised if it is to become real and effective”.

So how can the concept be spread beyond the business leaders who attend her conferences, I wonder. “It’s a very good question, and of course it’s the hardest question,” says Lady de Rothschild. “My simple

response is that a journey of a thousand miles starts with the first step and I have said from the very beginning that Inclusive Capitalism is not about a destination, it’s about a journey and opening our eyes to how we invest.”

Inclusive Capitalism should not be confused with corporate responsibility or philanthropy, she stresses, although she and Sir Evelyn support a wide variety of causes. Some are traditional, such as funding a children’s hospital in London; some are based around the arts world – they are noted supporters of modern art and helped the Tate acquire a work by acclaimed video artist Bill Viola. But many are about micro

finance, education and economic empowerment – elements that fit very closely with the concept of Inclusive Capitalism.

As we say goodbye, Lady de Rothschild worries that I haven’t brought a coat to guard against the inclement English weather. It’s actually quite mild for the time of year, but I appreciate her concern.

It remains to be seen whether the critics of Inclusive Capitalism will recognise her sincerity, though I leave thinking that Lady de Rothschild’s call for action is something that businesses, wealth creators, politicians and even consumers the world over can ill afford to ignore.

inc-cap.com

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The returns from our EL Rothschild portfolio are over 30% so we are very clear that having impact does not mean we have to sacrifice returns

◆ ◆





A comprehensive analysis of how wealth is distributed around the world

Key topics

01

Wealth slowdown

New UHNWIs will continue to be created over the next 10 years, but the growth will be significantly slower than the past decade
→ page 20

02

Plutonomy's rise

Fewer people live in absolute poverty, but wealth inequality within countries is on the rise
→ page 24

03

A new philanthropy

Influential philanthropists from the developing world outline their empowering approach to philanthropy, which aims to reduce inequality via wealth creation
→ page 26

Global Wealth Trends

One of the key trends *The Wealth Report* has tracked since it was first published in 2007 has been global wealth distribution – or to be more precise, where the ultra-wealthy live and how populations are changing. This year we feature data, provided by New World Wealth, from more countries, cities and wealth bandings than ever before. If, for example, you need to know how many people with a net worth of over \$10m currently live in Accra or Azerbaijan, we can tell you.

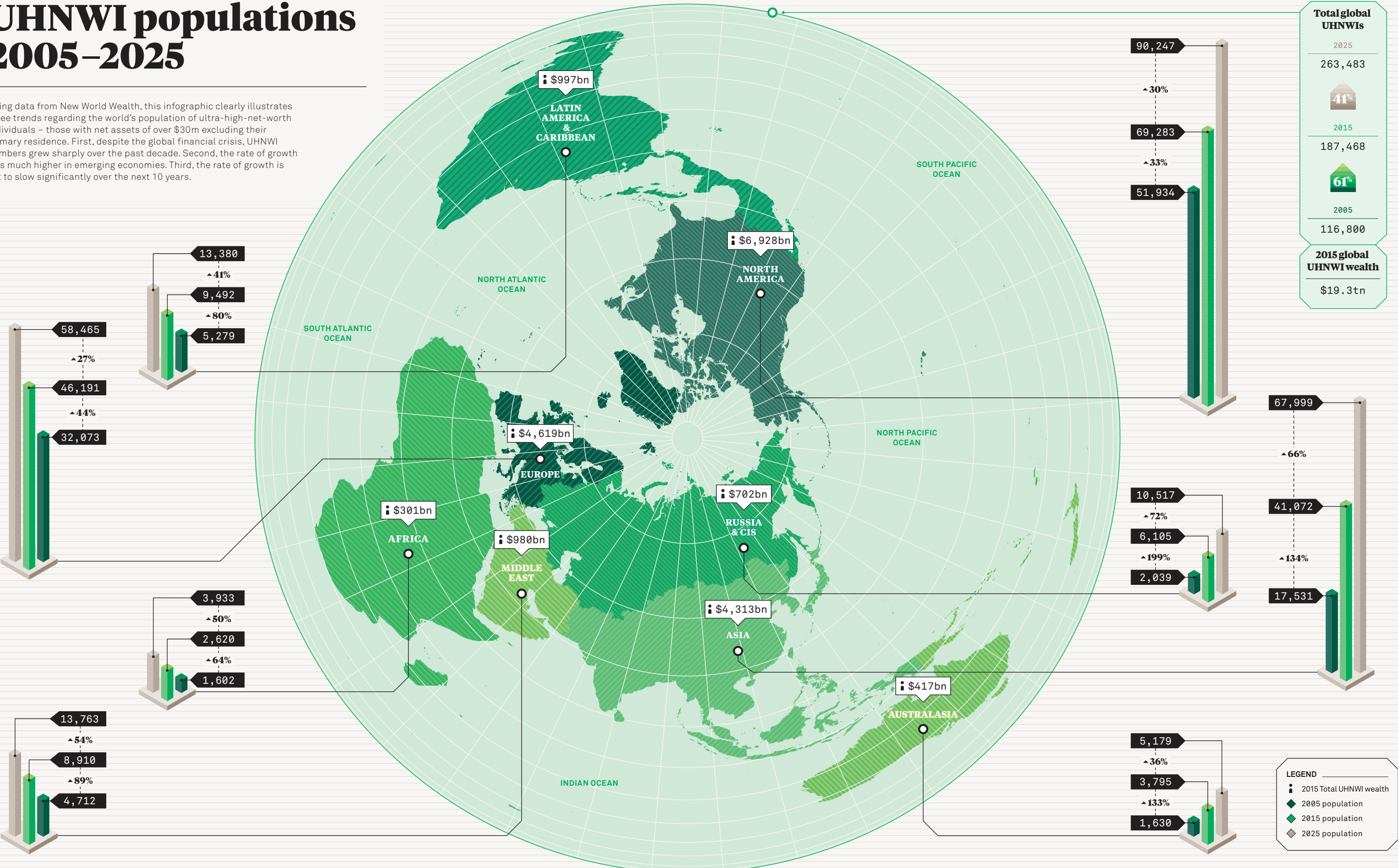
Our analysis of this comprehensive data over the next few pages concentrates on how the population of ultra-high-net-worth individuals has changed on a regional basis over the past 10 years, the latest annual shift and how it is predicted to move during the next 10 years.

A pivotal shift is that the growth of UHNWI populations is forecast to slow significantly over the next 10 years when compared with the past decade. Between 2014 and 2015, a slump in many global equity and commodity markets led to an actual drop in the number of UHNWIs around the world.

We also include a detailed look at one of the current hot political issues of the moment – the increase in wealth inequality around the world. Although fewer people now live in absolute poverty compared to 10 years ago, the gap between the rich and poor within many countries has widened. We also share the insight of three leading philanthropists from around the world.

UHNWI populations 2005–2025

Using data from New World Wealth, this infographic clearly illustrates three trends regarding the world's population of ultra-high-net-worth individuals – those with net assets of over \$30m excluding their primary residence. First, despite the global financial crisis, UHNWI numbers grew sharply over the past decade. Second, the rate of growth was much higher in emerging economies. Third, the rate of growth is set to slow significantly over the next 10 years.



Source: New World Wealth

UHNWI growth slows

New data suggests the next decade will see fewer UHNWIs created

GRÁINNE GILMORE,
HEAD OF UK RESIDENTIAL RESEARCH

The global population of ultra-high-net-worth individuals (UHNWIs) has grown by 60% in the 10 years since *The Wealth Report* was first published.

According to data prepared for the 2016 report by wealth intelligence company New World Wealth, there are now 187,500 UHNWIs with \$30 million or more in net assets, excluding their principal residence, around the world. This figure is up 61% from 116,800 in 2005.

This growth reflects the increase in asset prices and investment returns, especially in the years following the global financial crisis. Emerging economies have experienced the fastest rates of ultra-wealth generation over this period.

While the global population of UHNWIs is set to continue expanding, the pace will be significantly slower than the previous 10 years. The total number of ultra-wealthy individuals is forecast to rise 41% to 263,500 by 2025.

Predicted growth rates vary widely on a regional basis, with emerging economies still leading the way. The ranks of Asian UHNWIs are set to expand by 66% over the next decade, compared with 27% growth in Europe.

According to New World Wealth’s forecast, in 10 years North America will still boast the largest population of UHNWIs, but the increase of 21,000 will be overshadowed by the 27,000 people in Asia who will see their wealth exceed \$30 million by 2025.

Despite this long-term growth trend, data from 2015 shows the first annual dip in ultra-wealthy populations since the global financial crisis began in 2008. Last year only 34 of the 91 countries for which individual data is compiled saw a rise in UHNWIs.

Almost 6,000 people dropped out of the UHNWI wealth bracket in 2015 – a 3% slide. This downward shift reflected slower economic growth and the more

volatile financial climate. The rate of global economic growth slowed in 2015, while growth in equity, commodity and other asset prices also decelerated.

In fact, most major stock market indices were down in 2015 in US dollar terms. “Some of the biggest fallers included Canada, which ended the year down 24%, Singapore, where equities fell 20% and South Africa with a fall of 23%,” explains Andrew Amoils, Head of Research at New World Wealth. “The only notable risers were Japan, Denmark and Hungary, all countries that saw a rise in the number of UHNWIs during the year. Variable market performance was accompanied by lower growth in some property markets around the world. Sharp falls in the oil price also had a notable effect on the ultra-wealthy in many Middle Eastern and some African countries.”

The ongoing strength of the US dollar also exacerbates any declines in local currency wealth for many UHNWIs



Monaco: Its UHNWI population grew in 2015, despite a global decrease

when their net worth is expressed in dollar terms. The trade-weighted value of the greenback rose by 6% in 2015, with a cumulative 16% increase between July 2014 and December 2015. “Only two major currencies strengthened against the US dollar in 2015 – the Japanese yen and the Israeli shekel. All other major currencies depreciated, some considerably. This fluctuation in currency has certainly contributed to some people slipping into lower wealth brackets as measured by US dollars. Yet it is also worth noting that many ultra-wealthy people hold at least some of their assets in US dollars, which may have offered some protection against the effect of currency changes,” explains Amoils.

In *The Wealth Report* this year we have also included data for other wealth

There are now more than 13 million millionaires across the globe, up from 8.7 million in 2005

brackets, including millionaire and, for the first time, multi-millionaire populations – defined as those with assets of over \$10m. This data provides an insight into the base from which more ultra-wealthy individuals will emerge.

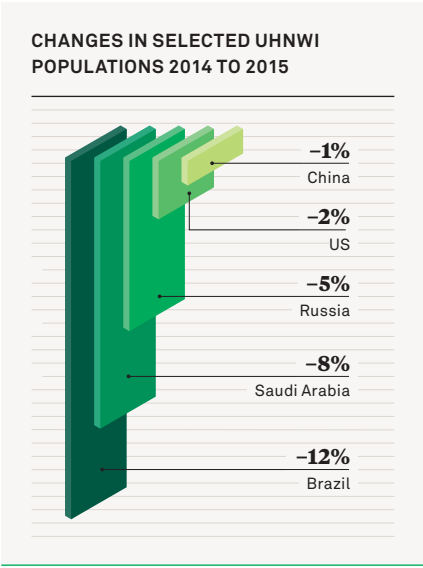
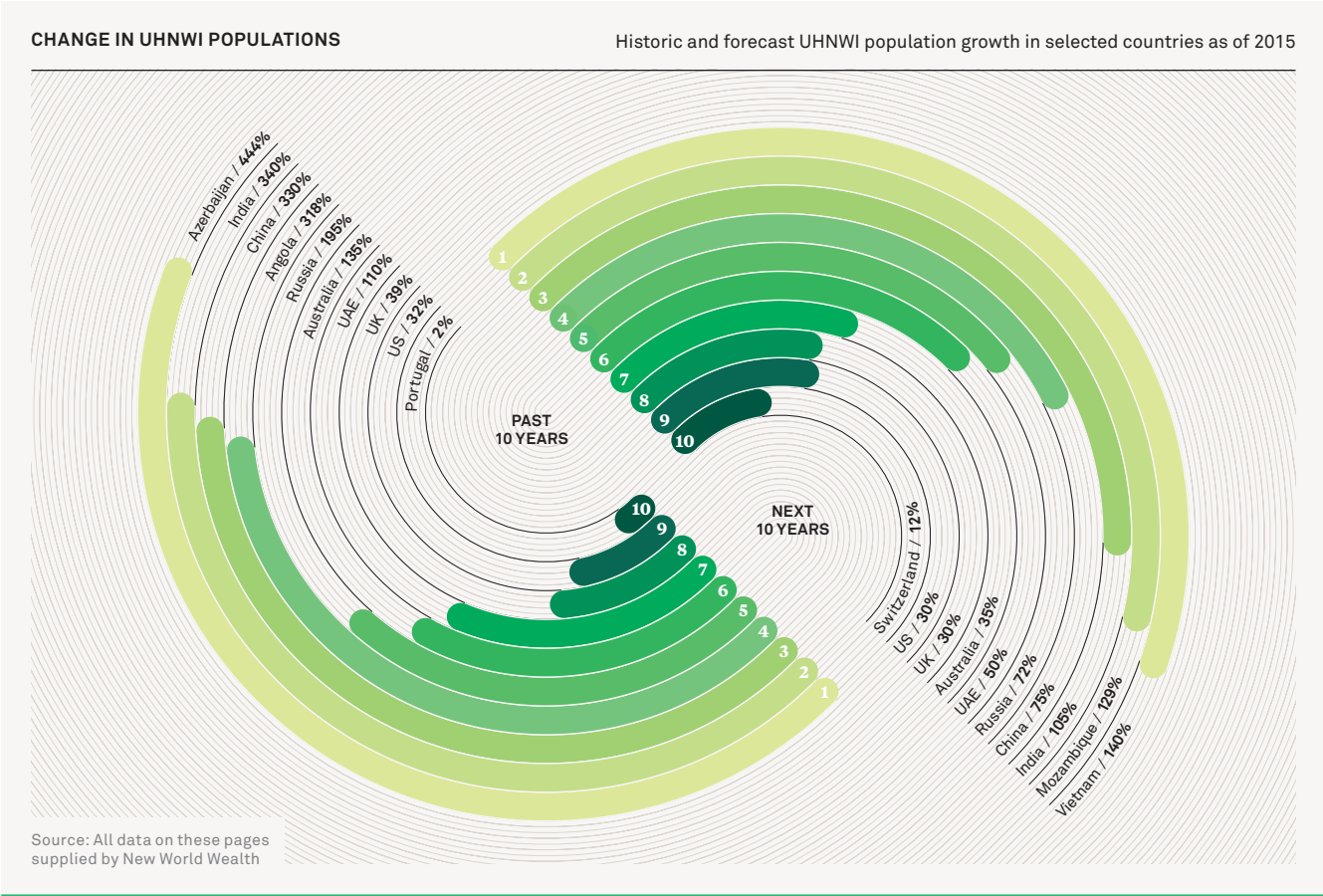
There are now more than 13 million millionaires across the globe, up from 8.7 million in 2005. These individuals, with assets ranging from over one million to billions of dollars, hold net assets worth around US\$66 trillion – more than the value of all global equities.

Over the next decade more than one million new millionaires are expected to be created in each of the world’s three main regional wealth hubs - Asia (+1.6m), North America (+1.4m) and Europe (+1m). However, at a country level, the US is still striding way out in front with 1.25 million millionaires set to be created, compared with 490,500 in China, 253,500 in the UK and 247,800 in India. By 2025 the global population of millionaires will be more than 18 million.

Moving slightly up the wealth scale to multi-millionaires, in Asia-Pacific the 63% growth in their number over the next 10 years means that the population with \$10m or more in net assets will outnumber that in Europe in 2025, although both will still trail behind North America.

A 71% surge in the number of Asian billionaires over the next decade will take the total to 832, nearly neck and neck with the US, where the population by then will be 840. Europe is forecast to be home to around 569 billionaires in 2025.

For more detailed data covering almost 100 countries and cities, see Databank, p64



AVERAGE AGE OF \$10M+ POPULATIONS
<div><div></div><div>Vietnam</div><div>48</div></div>
<div><div></div><div>China</div><div>52</div></div>
<div><div></div><div>US</div><div>56</div></div>
<div><div></div><div>UK</div><div>57</div></div>
<div><div></div><div>Switzerland</div><div>62</div></div>

Wealth inequality takes centre stage

A growing sense of disenfranchisement is changing the political landscape globally

GRÁINNE GILMORE,
HEAD OF UK RESIDENTIAL RESEARCH

The economic growth seen in many countries over the past few decades, coupled with increased globalisation, has not only underpinned some of the wealth creation discussed in the previous pages but it has also helped to halve the number of people living in extreme poverty and narrow wealth inequality between countries on a global scale.

However, the gap between rich and poor is growing *within* many countries, especially in advanced economies.

The increasing power of the “one per cent” is not a new phenomenon. The first edition of *The Wealth Report*, published in 2007, highlighted the rise of “Plutonomies” – a concept that was coined by economists at Citi to explain the process where the wealthy saw their wealth levels rise more rapidly than other groups.

Since then wealth inequality has continued to climb the political agenda and is

now one of the biggest issues facing politicians as they try to address those who feel disenfranchised. Ultimately, feelings of social, economic and political inequality can ferment revolution, as in the case of the Arab Spring.

The electorates in Western economies have also been making their feelings known, with the rise of populist right-wing politicians in the US, France and Hungary, while in the UK, the opposition Labour party has made a significant jump to the

left with the election of Jeremy Corbyn as party leader.

A more fractured political landscape can cause economic uncertainty, and this can impact overall economic growth. As Lynn Forester de Rothschild says in her interview on page 14, entrepreneurs and wealth creators function best in a stable society.

So what is behind the recent rise in wealth inequality and how can it be addressed?

French economist Thomas Piketty received worldwide attention in 2014 when

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Wealth inequality has continued to climb the political agenda and is now one of the biggest issues facing politicians as they try to address those who feel disenfranchised
◆ ◆

he suggested that wealth was not flowing down from the rich to the rest of society. Inequality, he said, should be addressed by taxing wealth held by individuals around the world, to allow a share of that wealth to be redistributed.

Anthony Atkinson, a British economist, goes a step further, calling for robust taxation of the wealthiest, as well as government intervention in markets, to ensure even wealth distribution and guaranteed public employment.

However, the globalisation of wealth creation has made it easier for individuals and businesses to choose where and how to invest, making it more difficult for national tax legislation to have an impact on national outcomes.

There are also arguments that the digital revolution is exacerbating the concentration of wealth among those who “own” – whether it is shares, or companies – as opposed to those who work. In their paper *Technology at Work*, Dr Carl Benedikt Frey, Dr Michael Osborne and Citi argue that this is explained by the changing nature of innovation.



While the industrial revolution benefited consumers and workers (as large pools of labour were required to build and assemble new products), they point out that the technological revolution is primarily of benefit to consumers. “In the digital age, innovators and entrepreneurs, not workers or investors, will be the main beneficiaries.”

This chimes with those economists and commentators who have said that wealth taxes are not the best way to ensure economic opportunity for all. Dr Pippa Malmgren, a former US presidential economic advisor, said in last year’s edition of *The Wealth Report* that governments should be focusing on cutting rather than raising taxes in order to foster entrepreneurship. “It is essential that policy-makers focus on innovating and growing their economies,” she said.

Another view that has received much attention is that of Matthew Rognlie, a researcher at Massachusetts Institute of Technology, who believes that the answer to inequality actually lies in property planning policy.

Rognlie does not agree with Piketty that returns on capital investments will continue to grow ad infinitum. Instead, he says it is property, particularly residential, that helps underpin the net worth of the ultra-wealthy.

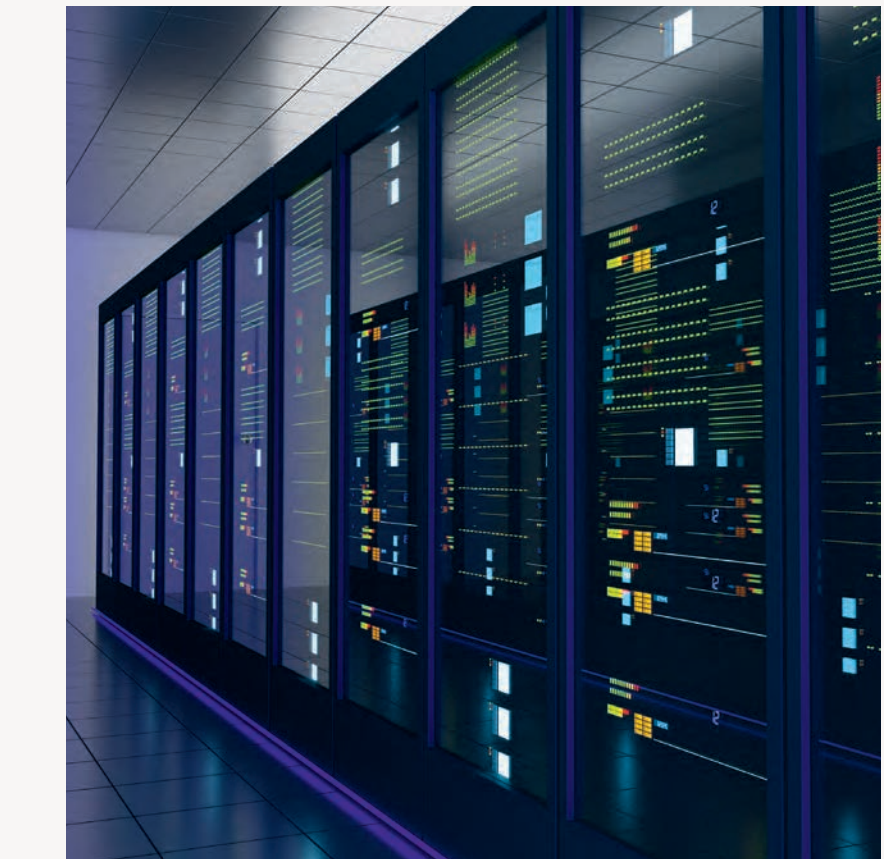
He says that the “super-normal” returns experienced by those holding property are bolstered by restrictive planning policies, especially in advanced economies in and around economically dynamic towns and cities. “Policy-makers should deal with the planning regulations and NIMBYism that inhibit house building.”

A recent paper published by Era Dabla-Norris and other economists working at the International Monetary Fund (IMF) has highlighted that “better access to education and health care and well-targeted social

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The globalisation of wealth creation has made it easier for individuals and businesses to choose where and how to invest, making it more difficult for national tax legislation to have an impact on national outcomes
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READ MORE

1. Read Gráinne's full article at knightfrank.com/wealthreport
2. Could Inclusive Capitalism be one answer to wealth inequality? Read our interview with Lady de Rothschild on page 14 to decide
3. Find out how a new breed of philanthropists is tackling wealth and social inequality on page 26



policies...can help raise the income share for the poor and middle class”. But Oxfam says that the work towards addressing inequality should go further than purely economics, arguing that tackling climate change should be one of the key goals of policy-makers, as weather events such as heat waves or flooding affect those who depend directly on crops for their livelihoods hardest.

Opposite: The Eiffel Tower during last year’s Paris Conference on Climate Change. Tackling climate change could help reduce wealth inequality

Above: Some say the digital revolution benefits entrepreneurs, not workers

Below: Controversial French economist Thomas Piketty





Giving something back: personal perspectives

Three leading philanthropists share their personal and innovative approaches to tackling inequality

ASIA

Dr Stephen Riady

Dr Stephen Riady is the Executive Chairman of Singapore integrated developer OUE Limited and President of the Lippo Group of companies

I believe that every human being should have the opportunity to develop their talent to its fullest potential, regardless of age, gender, socio-economic or ethnic background. This belief has led me to set up the Stephen Riady Group of Foundations, which we established in 2010. Guided by my personal philosophy, the Foundations are dedicated to improving the lives of the less privileged through education, empowerment and engagement. For me, education lies at the heart of improving both people’s lives and social mobility, empowering them to make a difference and engaging others so as to make a greater impact and serve the community. Since its inception, the Group of Foundations has donated

to various worthy causes and hopes to inspire and instil a sense of social responsibility in future generations. Among the key causes are education and skills building, health and sports, humanitarian and social development and environmental conservation. To encourage greater understanding and awareness of natural disasters and the effects of climate change, I set up the Stephen Riady Geosciences Scholars Fund at the Earth Observatory of Singapore at Nanyang Technological University to help graduate students pursue research in geosciences. This is part of our commitment to ensuring more sustainable communities in Asia and making the world a safer place for everyone.

THE MIDDLE EAST

Muna Easa Al Gurg

Muna Easa Al Gurg is Director of Retail for Easa Saleh Al Gurg Group, Chairwoman of Young Arab Leaders UAE and board member of Emirates Foundation and Easa Saleh Al Gurg Charity Foundation

Philanthropy is a key part of my DNA. As a young child, I was always listening to stories about the family foundation and how we were building schools and clinics, or providing various scholarships in Africa, India and all over the world. As an adult, after having acquired experience and wealth, I started thinking ‘what am I going to do?’ in order to follow in the footsteps of the foundation and give something back. I was always very interested in working with young people, so I started off with the Young Arab Leaders – at first as a member, then moving to join on the board and eventually as chairwoman. At that time in the Middle East there was a huge problem with

unemployment and striking – it was just going crazy. Subsequently we rolled out a number of programmes aimed at tackling this issue by empowering young people to achieve their potential. I also recently started a scholarship in my name for Arab women, at London Business School. As we know, the rotation of wealth in a country is crucial to the growth and development of its economy. When you are examining gender inequality, it is very important to have a balance of both genders within organisations and this scholarship looks at that. Once you have created wealth in your lifetime, I believe it is your responsibility to turn that wealth to the greater good of society.

AFRICA

Tony Elumelu

Tony Elumelu, a Nigerian, is one of Africa’s most influential businessmen. In 2010 he established the Tony Elumelu Foundation, which promotes entrepreneurship across the continent

Central to Africa’s growth is the rapidly expanding private sector, fuelled in part by record-breaking foreign investment into increasingly diverse sectors and investment by Africans into other parts of the continent, which is growing at an even faster rate. Africa does have its challenges; chief among them is a rapidly increasing population of working-age adults, which will be the largest on the planet by 2050. Ensuring the private sector continues to flourish is the best way to meet the needs of this expanding workforce. However, to avoid the widening income and opportunity gap plaguing many developed economies, Africa’s growth must be inclusive. Achieving this

requires businesses to act deliberately, while the public sector builds an environment that is globally competitive. This underpins my own foundation’s endeavours, which include the Tony Elumelu Entrepreneurship programme, a 10-year \$100 million commitment to create 10,000 African entrepreneurs. Known as “Africapitalism”, this sustainable approach to philanthropy is an economic philosophy that encourages long-term investment in strategic sectors to help create broad economic and social wealth. Africapitalism will help build societies in ways that generate opportunities for advancement for all Africans – lifting millions out of poverty.



An analysis of global capital flows and seasonal wealth migration

Key topics

01

Capital flows

Cross-border investments have increased markedly over the past 10 years. China has seen the outbound flow of funds increase by almost 1,500% during the decade
→ page 30

02

Season ticket

A snapshot of non-permanent wealth migration, including private-jet hotspots and seasonal shifts in city UHNWI populations
→ page 34

03

Get connected

New research reveals the world's best connected cities when it comes to accessing UHNWIs. Also – our latest Global Cities Index results.
→ page 36

Wealth Movements

Wealthy investors are more mobile than ever and investment flows are targeting new markets.

Our analysis of cross-border capital flows confirms the rapid growth of investment activity and also the scale of movements between key countries, with strong growth in outflows from China reflecting the growth from the wider Asian region.

Movements of wealth and the wealthy are not just a matter of fixed investments. In our seasonal focus we analyse the annual migration of the wealthy by looking at the locations that see the largest changes in their resident wealthy population through the year. Los Angeles' multi-millionaire population gyrates between a little over 11,000 to just under 6,000 through the year. Dubai, Cape Town, London and Miami also see

significant volatility in their wealthy populations.

Our calendar of global events looks at the key locations where the wealthy cluster through the year – through the lens of private jet travel. Networking with the wealthy will take you from Davos in January, to the Masters in Augusta in April, Monaco Grand Prix the following month and the Aspen Ideas Festivals in June before ending the year at Art Basel in Miami.

London and New York have long dominated our ranking of global cities that matter most to the world's wealthy. This year's Attitudes Survey confirms no change to the prevailing mood. To understand the drivers for this attraction we have analysed connectivity between cities and global UHNWI populations using flight times and wealth density data.

Global Wealth Flows

A review of capital movements over the past decade

TAIMUR KHAN, SENIOR RESEARCH ANALYST

The past decade has seen remarkable growth in cross-border investment by individuals, with property forming a significant part of the story. While transparent data on investment into residential property is not available on a global basis, the graphic on the next page uses the latest IMF data to draw together a comprehensive picture of capital movements. For each country we have taken International Investment Positions, more specifically country-by-country assets and liabilities. Our ‘inward investment’ flow represents the liabilities that are claims on local assets by foreign residents. Our ‘outward investment flow’ represents assets that are claims of a local resident on an asset located in a foreign country. By comparing the positions in 2005

and 2015 the data reveals trends in direct investment across key markets. While a broader dataset than just residential property investments, we can see clearly the key movements driving investment markets. Unsurprisingly, the general trend over the past decade has been for significant growth in cross-border investment, led by massive growth in outflows from China (+1,471%) and in absolute terms, if not rate of growth, from the US. The impact of domestic economic growth and wealth creation, and in some cases more liberal credit controls, has seen rapid growth in outflows from markets such as Indonesia, Thailand and South Korea. Economic instability in markets such as Italy and Greece has led to relatively strong outbound investment flows in

a European context – with 106% and 135% growth respectively – over the past decade. Looking at inward investment, China has seen notable growth (500%) alongside other emerging markets, such as Brazil (294%). Asian markets, which have seen strong interest from regional property investors, have seen concomitant growth in the data reviewed here – notably Singapore (285%), Hong Kong (222%) and Australia (146%). Returning to Greece, we can see the impact of economic instability in an 18% decline in inward investment over the period considered. The factors set to influence the future performance of these numbers are considered overleaf in our focus on risks to wealth flows.



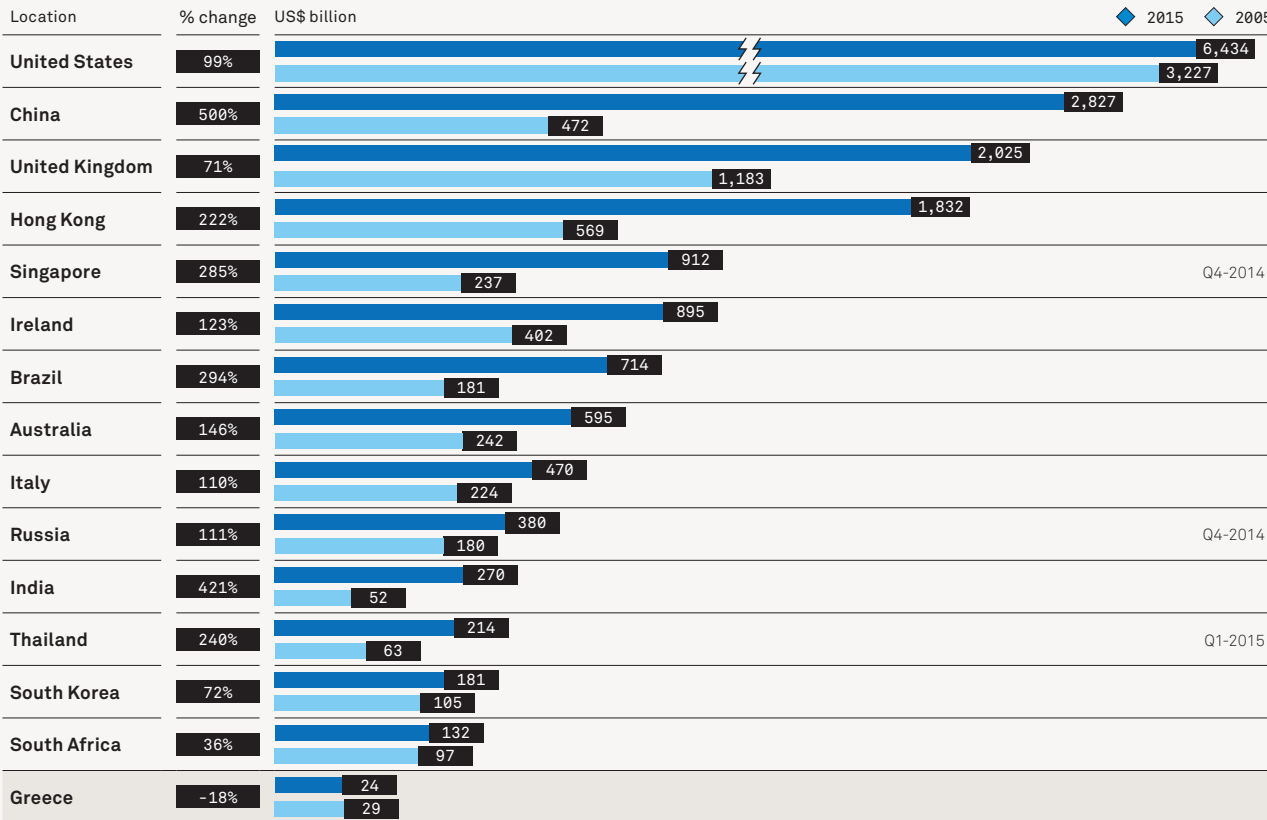
Chongqing business district: China has seen annual inward investments grow substantially since 2005

Economic instability in markets such as Italy and Greece has led to relatively strong outbound investment flows in a European context

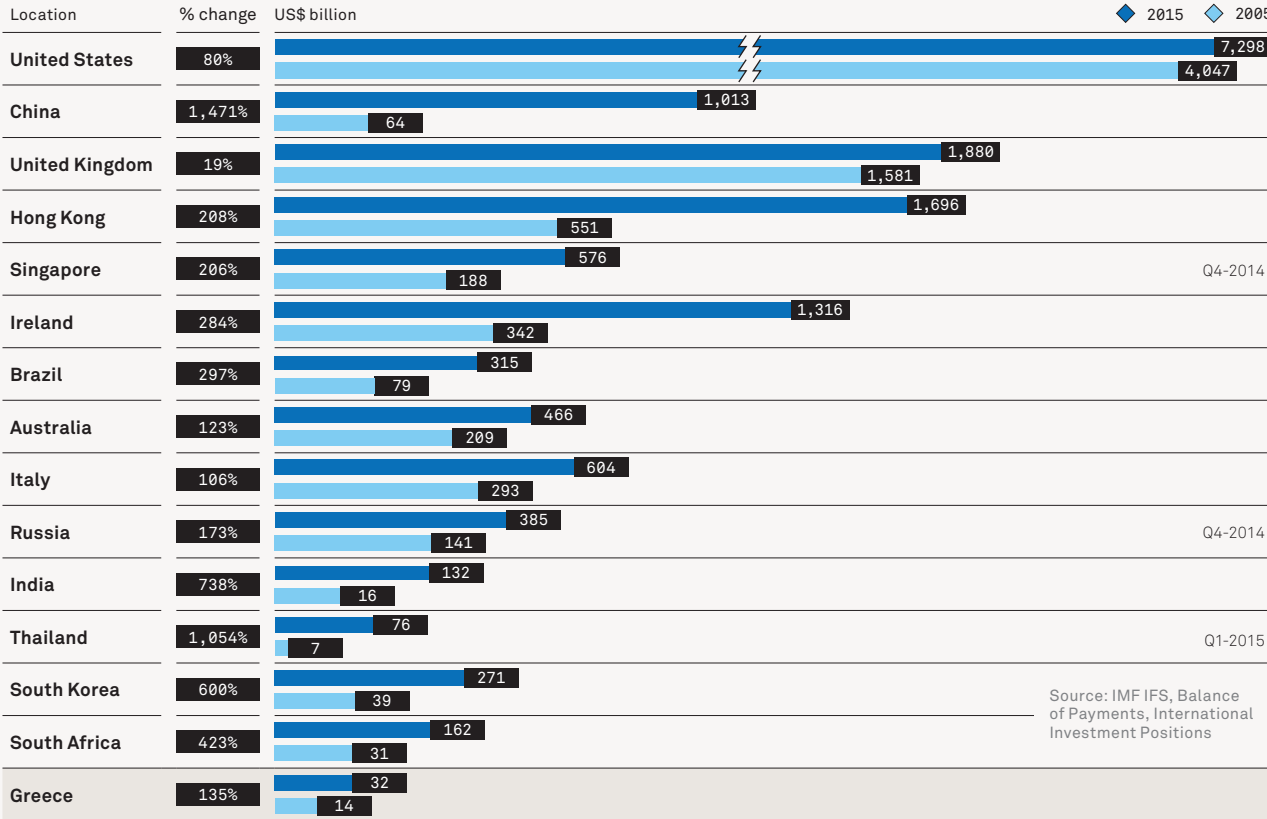
Ten-year shift in global wealth movements

Data as at Q2 2015 unless otherwise stated

INWARD INVESTMENTS



OUTWARD INVESTMENTS



Source: IMF IFS, Balance of Payments, International Investment Positions

Wealth flows under the microscope

National and international regulation could temper global capital and investment flows

LIAM BAILEY,
GLOBAL HEAD OF RESEARCH

Over the past decade, *The Wealth Report* has tracked a growing trend in the global movement of wealthy people and their investments. Inevitably as flows have grown, governments have started to take an ever-closer interest.

There is a developing push for tax transparency, as revealed by the bi-annual Financial Secrecy Index from the Tax Justice Network last year, which confirmed it is becoming far harder to evade taxation.



Luxembourg: Tax transparency has improved considerably

Most countries have seen an increase in tax transparency over the previous two years – with considerable improvements in locations such as the Cayman Islands and Luxembourg.

The key reason is an increased demand for the global sharing of tax information. Encouraged initially by weaker economic performance and lower tax receipts

following the global financial crisis, progress has been cemented by the OECD’s Common Reporting Standard (CRS) initiative. The CRS is attempting to ensure taxpayers are taxed appropriately in their home countries.

The CRS builds on the US Foreign Account and Tax Compliance Act (FATCA) and is progressing rapidly. Exchange of information between over 50 countries is set to start in September 2017, but due diligence to identify owners and controllers of assets began in January this year.

Some concerns are being expressed. Greater data sharing provides the potential for conflicting reports and information held by different governments and the potential for misuse of sensitive data. Some suggest that greater data sharing could mean some investors reduce their exposure to cross-border investments to ensure information on their financial assets is not shared with unstable regimes.

James Butera, a lawyer with Jones Walker in Washington, says that many Latin Americans “are afraid that if their financial information is revealed, they’ll be at risk of kidnapping or extortion”.

However, others point to the reality of demand pressures for overseas investments and the desire for relocation – especially from emerging markets. “People think we are seeing a wave of Chinese demand. No, what we have seen so far is the ripple before the wave has even begun to arrive,” says Stephen Muller of New-York-based Kuafu Properties.



The Cayman Islands: Also seeing improvements

BARRIERS AND OPPORTUNITIES FOR WEALTH MIGRATION

We asked Fragomen Worldwide to assess the largest barriers to future movement and highlight new opportunities

TOP 5 BARRIERS TO MOVEMENT



Restrictions and closures of popular investor migration models

In November 2014, the UK doubled the minimum threshold for its popular Tier 1 Investor programme to £2m and introduced additional compliance requirements. Two popular programmes, Hong Kong’s Capital Investment Entrant Scheme (CIES) and Canada’s Federal Investor Programme, were closed in 2014/2015.

Internal restrictions impacting top sending countries

In 2014, Russia introduced a legal requirement for its citizens to notify the authorities if they obtain alternative permanent residency or citizenship. China has imposed limits on withdrawals outside of China on UnionPay bank cards, which in effect applies to all bank cards as UnionPay processes virtually all card transactions.

Migration implications of global security threats

Exclusions from investor citizenship programmes are not new: Iranian, North Korean, and Afghani nationals already face restrictions. St Kitts and Nevis has suspended, and Antigua and Barbuda is ‘actively’ considering excluding, Syrian nationals from its Citizenship by Investment Programme. The impact of lifting sanctions on Iran remains to be seen in 2016.

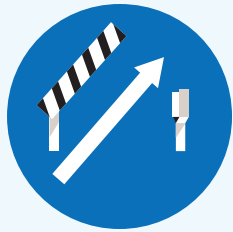
Changes to residency in Switzerland

The requirements of the lump-sum taxation regime were recently tightened, and in 2014 the Swiss federal government proposed abolishing it altogether, while the French government announced that Swiss residents who are taxed under the lump-sum regime will no longer benefit from the provisions of the Swiss-French double-tax treaty.

Schengen restrictions and developments in the EU

Recent months have seen border controls being re-introduced across parts of the EU in response to the refugee crisis. This has effectively meant temporary exit of some countries from the Schengen system, potentially affecting all those with investor residency elsewhere in the EU seeking to enter under Schengen.

TOP 5 OPPORTUNITIES FOR MOVEMENT



Malta’s Individual Investor Programme (IIP)

Interest in Malta’s Individual Investor Programme remains high. As of June 2015, the number of applicants for this service was just over 620, out of the cap of 1,800 applications in place for the whole programme. Malta is also introducing a Residency by Investment programme.

Australia introduces the Premium Investor Visa (PIV)

Introduced in July 2015, the Premium Investor Visa (PIV) allows investors the opportunity to fast track to permanent residence in Australia. This is a service made available for those holding a complying investment of at least AU\$15m for 12 months, with no attached residence requirements.

Caribbean opportunities increasing

Saint Lucia’s first citizenship by investment programme was announced in late 2015. Applicants will require a net worth of US\$3m and must make a qualifying investment to qualify with an initial annual limit of 500 applications. In May 2015, Dominica and Grenada signed short-stay visa waiver agreements allowing EU citizens to travel under Schengen terms.

Incentives and flexibility introduced in other investor migration programmes

Antigua is offering time-limited reductions in investment thresholds and fee waivers, work restrictions are being lifted in Spain, and, as of 1 November 2015, applicants to Cyprus’ citizenship programme who initially invested in bonds may be able to switch to immovable property during the three-year qualifying period.

Portugal increases Golden Residence Permit investment options

Four additional options have been introduced to encourage investment into science, cultural heritage and urban rehabilitation and incentivise applicants to invest in areas of low density and lower than average GDP.

Seasonal wealth flows

Private jet hotspots and city shifts

LIAM BAILEY,
GLOBAL HEAD OF RESEARCH

Previous editions of *The Wealth Report* have examined, in detail, worldwide migration patterns for the wealthy. While these permanent movements of people are critical in driving residential property investment, seasonal and temporary movements are also instrumental in boosting demand for second-home purchases, reinforcing the appeal of one location over another.

To illustrate these trends, we have teamed up with NetJets and WINGX to reveal how global sporting, art and business events create private-jet hotspots. Data from New World Wealth highlights the seasonal ebb and flow of wealthy individuals in first and second-home locations around the world.

The list of private-jet clusters is dominated by European and US events,



Art Basel Hong Kong: A top destination for private aviation. Image courtesy of Art Basel

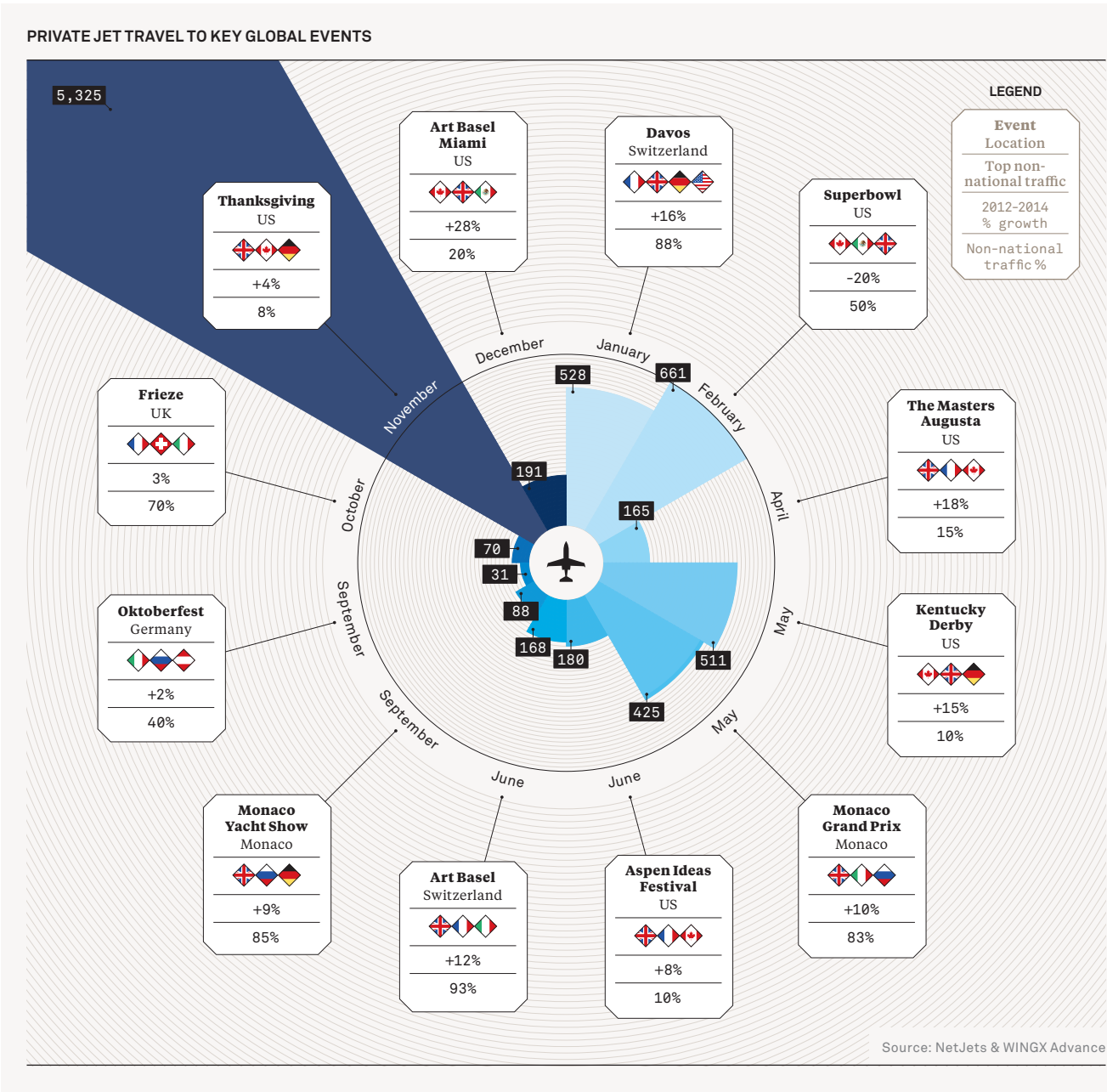
mainly due to the maturity of private aviation in these markets. As Asia and other markets mature, further events are likely to join the list.

Private aviation is still emerging in the region and private jet operators are slowly increasing their operations. “Events such as Art Basel Hong Kong will certainly attract a specific clientele who choose to

fly privately, with a view to purchasing artwork,” says Marine Eugene, Head of Sales at NetJets Europe.

In terms of growth locations in Europe, last year saw strong growth for some Mediterranean resorts, especially the Ibiza season, says Richard Koe, Managing Director of business aviation specialist WINGX Advance.

SEASONAL FLUCTUATIONS OF MULTI-MILLIONAIRE (US\$10M+) POPULATIONS AROUND THE WORLD						*Including Malibu and Beverley Hills Source: New World Wealth
Figures include those staying in permanent or second homes and exclude people staying in hotels						
Country	Location	Peak population	Low population	Peak month	Low month	Percentage difference
	London	34,230	10,450	July	January	228%
	New York	32,500	11,870	June	February	174%
	Hong Kong	24,450	8,680	June	January	182%
	Zurich	11,820	4,050	August	February	192%
	Los Angeles*	11,170	5,630	June	February	98%
	Dubai	10,470	1,560	November	July	571%
	Paris	9,480	2,860	May	February	231%
	The Hamptons	9,300	1,060	August	January	777%
	Rio	6,510	1,980	December	July	229%
	Miami	5,410	1,170	December	June	362%
	Monaco	5,400	1,480	July	February	265%
	Sydney	5,050	2,210	December	July	129%
	Palm Beach	4,700	1,080	December	June	335%
	Cape Town	2,690	380	December	July	608%
	Cannes	2,220	460	August	February	383%



“There has also been something of a rebound in high-end tourism to the Greek islands and increasing VIP travel to resorts in Turkey. In the future, Istanbul should be an increasingly popular host-location for VIP events, such as boat shows and Grand Prix, but everything is contingent on the security situation,” he adds.

“Elsewhere, Brazil should have exciting long-term growth in terms of private jet demand with a boost from the Rio Olympics later this year. The question is whether that leads to sustainable growth. The Beijing and Sochi Olympics saw a surge of private jet activity during the event, but the China and Russia business jet market has subsequently declined.

“In the Middle East we expect to see more activity for events in the UAE – especially Dubai, Sharjah and Abu Dhabi

There has also been something of a rebound in high-end tourism to the Greek islands and increasing VIP travel to resorts in Turkey

– but the 2022 Qatar World Cup will boost activity as well,” says Mr Koe.

We have also drilled into city-level wealth using data from New World Wealth, to understand highs and lows in the population of wealthy individuals across key markets globally, month-by-month through the year.

While it is not surprising that traditional second-home markets, such as The Hamptons in the US and Cape Town in South Africa, experience wide fluctuations in their populations of HNWIs through the year, there are also big fluctuations in some of the key global hubs.

In London and Paris, for example, the peak-season population of those with net assets of over \$10m is more than double seasonal lows. Los Angeles is the most “stable” market, according to our data.

Cities that matter

The Wealth Report analyses the most important hubs for the world’s UHNWIs

LIAM BAILEY,
GLOBAL HEAD OF RESEARCH

Over the past decade, *The Wealth Report* has ranked the cities that matter most to the world’s wealthy, based on where they live, invest, educate their children, grow their businesses, network and spend their leisure time.

On all measures, year-in-year-out, London and New York have vied for the two top slots. No other city comes close in terms of their breadth and depth of appeal.

This year, London has beaten New York for the second successive time to win the accolade of ‘most important city to UHNWIs’, according to the results of our Attitudes Survey of wealth advisors. Singapore, Hong Kong, Shanghai and Dubai repeated their competition for positions three to six.

Asians took a more bullish outlook, with only 30% saying the status quo was set in stone

Given that London and New York seemed unlikely to be overtaken this year, we also asked the contributors to the Attitudes Survey to identify risks that could potentially undermine the two cities’ appeal.

For London, the table of risks was headed by changes in taxation – reflecting five years of relatively rapid tax reform in the UK, followed by changes to financial regulation driven by the impact of EU and domestic activism on London’s financial sector.

In New York, tax and financial regulation risk were joined by the threat from terrorism, which ranked only marginally lower in London’s case.

Looking ahead, we asked which cities, if any, could realistically challenge

MOST IMPORTANT CITIES TO UHNWIS	
2015	
1	London
2	New York
3	Hong Kong
4	Singapore
5	Shanghai
6	Miami
7	Paris
8	Dubai
9	Beijing
10	Zurich
2016	
1	London
2	New York
3	Singapore
4	Hong Kong
5	Dubai
6	Shanghai
7	Paris
8	Sydney
9	Beijing
10	Geneva

Source: The Wealth Report Attitudes Survey



London, still the number one city for UHNWIs

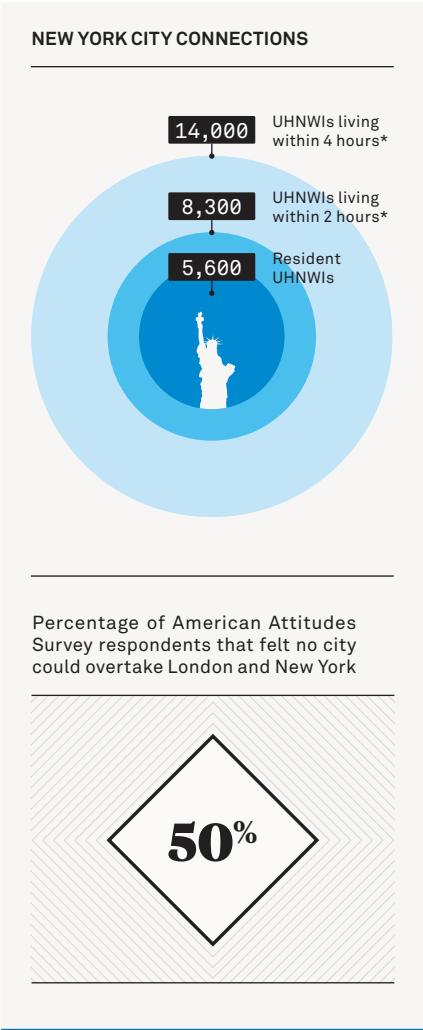
London and New York during the next decade. Of those who thought a challenger could emerge, opinion was divided fairly evenly between Singapore and Shanghai. In terms of importance, our respondents are predicting Shanghai will eclipse Hong Kong’s appeal over the period.

Interestingly, while 68% of European respondents and nearly 50% of North American respondents felt no city could overtake London and New York, Asians took a more bullish outcome with only 30% saying the status quo was set in stone.

Connections

There is no direct correlation between the locations where the wealthy are normally resident and the locations their advisors view as being most important to them. This reflects the itinerant nature of many UHNWIs who increasingly educate their children overseas while working and living in multiple international locations.

Working with our data partners at Sabre Airline Solutions, we wanted to understand which cities were actually the best connected to the world’s wealthy.



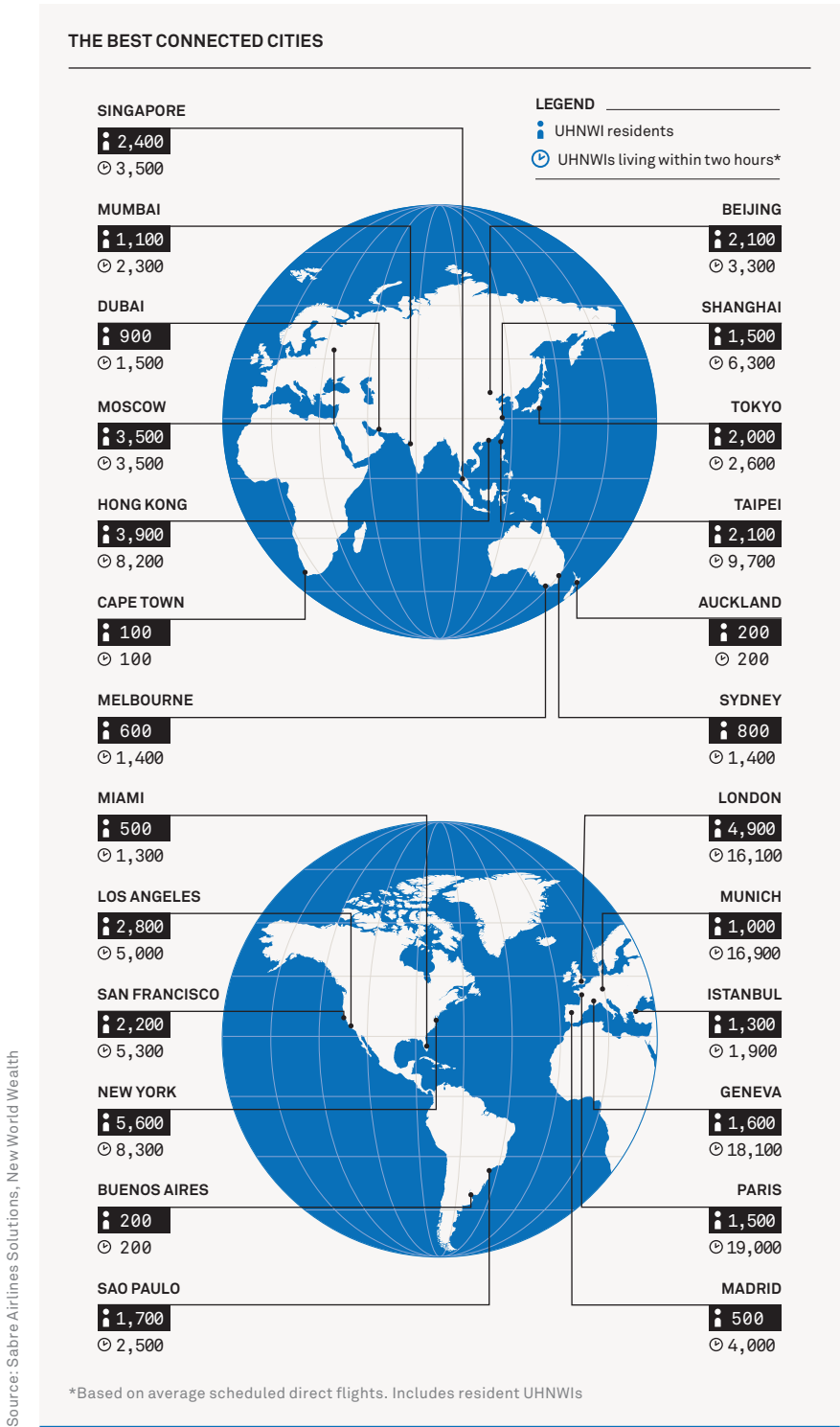
Our analysis was based on matching nearly 100 key cities globally to each other in terms of travel time.

In the graphic on this page we confirm the population of UHNWIs normally resident in each city and then confirm the number of UHNWIs who can reach the city from other key hubs within a two-hour flight period.

New York (5,600) pips London (4,900) in terms of resident UHNWI residents. But London’s geographical position

means that within a two-hour flight the city is accessible to over 16,000 UHNWIs compared with New York’s 8,300. This helps to explain why the UK capital is generally held as being more important to the global UHNWI population.

The concentration of wealth within Europe propels cities in this region high up the ranking of “wealth accessibility” on this measure, with cities in the US and China seeing similar levels of connectivity to wealth.



Source: Sabre Airlines Solutions, New World Wealth



The performance of the world’s most important prime residential markets

Key topics

01 Winners & losers

Vancouver is the top performer in our Prime International Residential Index, with price growth of almost 25% in 2015. Lagos saw values fall 20% → page 40

02 Future outlook

With rising US interest rates and supply and demand imbalances, the outlook for prime markets is far from generic → page 42

03 Global hotspots

From ski resorts to city neighbourhoods, our pick of the locations offering the best opportunities for residential investors looking for capital growth → page 44

Prime Residential Property

Last year was a mixed one for the world’s most important prime residential markets. At one end of the scale we saw prices in Vancouver rise by almost 25%, with nine other cities including Monaco, Shanghai, Sydney, San Francisco and Istanbul also posting double-digit growth. At the other end of the league table Lagos saw prices drop 20%, unsurprising perhaps given Nigeria’s dependence on oil. This performance disparity across the 100 locations covered by our Prime International Residential Index (PIRI) highlights the many factors playing out around the world that affect prime property markets. Some markets such as second-home locations in Italy and France are still gradually recovering from the impact of the global financial crisis,

while others such as London have already reached new heights. But, on a more positive note, fewer locations saw values fall than in 2014. Governments are still vying with the increased mobility of global wealth in a bid to increase tax take and transparency, and our detailed analysis on page 42 looks at how these issues will develop longer term. Given the growing complexity and nuances of the current marketplace, deciding where to invest for the future is not an easy decision. Our Hotspots article on page 44 may help. It lists three locations for each of five categories, ranging from countries to resorts, that we believe have the potential to outperform the average, for the short term at least.

Vancouver sets the pace

The winners and losers in our annual round-up of prime market performance

KATE EVERETT-ALLEN,
HEAD OF INTERNATIONAL RESIDENTIAL RESEARCH

The value of the world’s leading prime residential property markets rose on average by 1.8% in 2015, according to the latest results of our unique Prime International Residential Index (PIRI).

This was similar to the 2% growth seen a year earlier. However, in 2015 over 66% of the PIRI 100 locations recorded flat or positive price growth, compared with 62% in 2014.

The gap between the strongest and weakest-performing luxury residential markets in the PIRI 100 has shrunk considerably from 97 percentage points during the tumultuous times of 2009, to 45 points in 2015.

Despite this convergence, the index still saw some significant outperformance last year. Vancouver leads the rankings by some margin, with prices accelerating 25% during 2015. A lack of



Vancouver’s prime property value outperformed during 2015

supply, coupled with foreign demand, spurred on by a weaker Canadian dollar explain the city’s stellar performance.

Antipodean markets also performed strongly. Sydney, Melbourne and Auckland all recorded double-digit annual price growth, up 15%, 12% and 10%, respectively. Of the 34 locations where prime

prices slipped in 2015, 22 were located in Europe. Yet there is renewed optimism that prices in the region’s most popular second-home destinations, particularly Spain, Italy, the Algarve and parts of the Côte d’Azur, are close to bottoming out.

Munich, Amsterdam, Monaco and Berlin are Europe’s standout performers, recording price growth of 12%, 10%, 10% and 9% respectively in 2015. Even the global financial crisis hardly affected the upward trajectory of key German cities. Amsterdam conversely is bouncing back from a fall of 18% in peak-to-trough terms.

The prime central London market remained in positive territory during the year (+1%) despite a raft of new property taxes, many of which were aimed at foreign buyers, being introduced.

The relaxation of cooling measures in some Chinese cities has had an immediate impact on performance, with luxury prices in Shanghai ending 2015 14% higher. Given price falls in Singapore and Hong Kong, it will be interesting to see if policymakers in these markets follow suit and loosen their grip on cooling measures.

Despite areas of growth, the world’s emerging markets are not the shining beacons they were two to three years ago. The US Federal Reserve’s recent rate rise, the resulting strong dollar and the collapse in commodity prices all help to explain why Buenos Aires (-8%) and Lagos (-20%) are located at the foot of the PIRI 100.



Monaco is still one of Europe’s property hotspots

The PIRI 100

Annual price change to Dec 2015
All price changes relate to local currency and reflect nominal change.

Rank	Location	Region	Annual % increase	Rank	Location	Region	Annual % increase
1	Vancouver	North America	24.5%	51	Mumbai	Asia	1.3%
2	Sydney	Australasia	14.8%	52	Oslo	Europe	1.2%
3	Shanghai	Asia	14.1%	53	Aspen	North America	1.1%
4	Istanbul	Middle East	13.0%	54 =	Mustique	Caribbean	1.0%
5	Munich	Europe	12.0%	54 =	Jumby Bay (Antigua)	Caribbean	1.0%
6	Melbourne	Australasia	11.9%	54 =	London	Europe	1.0%
7	San Francisco	North America	10.9%	54 =	Western Algarve	Europe	1.0%
8	Auckland	Australasia	10.2%	54 =	Gstaad	Europe	1.0%
9 =	Amsterdam	Europe	10.0%	59 =	Gascony	Europe	0.8%
9 =	Monaco	Europe	10.0%	59 =	Tokyo	Asia	0.8%
11	Berlin	Europe	9.0%	61	Dublin	Europe	0.6%
12	Toronto	North America	8.0%	62	Rome	Europe	0.3%
13	Cape Town	Africa	6.9%	63	Lake Como	Europe	0.2%
14	Miami	North America	6.4%	64 =	Bali	Asia	0.0%
15	Bangkok	Asia	6.3%	64 =	Chicago	North America	0.0%
16	Seoul	Asia	6.1%	64 =	Riyadh	Middle East	0.0%
17	Val d'Isere	Europe	5.8%	67	Kuala Lumpur	Asia	-0.9%
18 =	Jakarta	Asia	5.1%	68 =	Tuscany	Europe	-1.0%
18 =	Bengaluru	Asia	5.1%	68 =	Klosters	Europe	-1.0%
20 =	Madrid	Europe	5.0%	70	Vienna	Europe	-1.1%
20 =	Ibiza	Europe	5.0%	71	Evian	Europe	-1.2%
22	Los Angeles	North America	4.7%	72	Villars-sur-Ollon	Europe	-1.4%
23	Méribel	Europe	4.5%	73	Verbier	Europe	-1.8%
24	Beijing	Asia	4.3%	74	Milan	Europe	-1.9%
25	Phuket	Asia	4.1%	75 =	Lausanne	Europe	-2.0%
26	Johannesburg	Africa	4.0%	75 =	Barbados	Caribbean	-2.0%
27	Boston	North America	3.8%	75 =	Davos	Europe	-2.0%
28	Tel Aviv	Middle East	3.7%	75 =	Courchevel 1850	Europe	-2.0%
29	Barcelona	Europe	3.3%	75 =	Umbria	Europe	-2.0%
30 =	The Hamptons	North America	3.2%	75 =	Abu Dhabi	Middle East	-2.0%
30 =	Chamonix	Europe	3.2%	81 =	Paris	Europe	-2.1%
32	Zurich	Europe	3.0%	81 =	Singapore	Asia	-2.1%
33 =	Nairobi	Africa	2.9%	83 =	Cyprus	Europe	-2.4%
33 =	Washington DC	North America	2.9%	83 =	Cap Ferrat	Europe	-2.4%
35	Marbella	Europe	2.8%	85	Doha	Middle East	-2.6%
36 =	Guangzhou	Asia	2.6%	86	Cannes	Europe	-2.7%
36 =	Cortina	Europe	2.6%	87	St Gervais	Europe	-2.8%
38	São Paulo	Latin America	2.5%	88 =	St Moritz	Europe	-3.0%
39	New York	North America	2.4%	88 =	Sardinia	Europe	-3.0%
40	Moscow	Russia/CIS	2.3%	90	St Tropez	Europe	-3.4%
41 =	Courchevel 1550	Europe	2.1%	91	Hong Kong	Asia	-3.6%
41 =	Venice	Europe	2.1%	92	Geneva	Europe	-3.7%
41 =	Provence	Europe	2.1%	93	Taipei	Asia	-4.7%
44 =	St Barts	Caribbean	2.0%	94 =	Bahamas	Caribbean	-5.0%
44 =	Florence	Europe	2.0%	94 =	British Virgin Islands	Caribbean	-5.0%
44 =	Delhi	Asia	2.0%	96	Dubai	Middle East	-5.5%
47	Mallorca	Europe	1.8%	97	Crans-Montana	Europe	-6.0%
48 =	Edinburgh	Europe	1.5%	98	Megève	Europe	-6.7%
48 =	Italian Riviera	Europe	1.5%	99	Buenos Aires	Latin America	-8.0%
48 =	Brussels	Europe	1.5%	100	Lagos	Africa	-20.0%

Data for San Francisco, New York, Miami, Los Angeles, Boston, Chicago, and Cyprus relates to the period from 1 Nov 2014 to 31 Oct 2015. Data for The Hamptons, Aspen and Sao Paulo relates to the period from 1 Dec 2014 to 30 Nov 2015. The price change for Tokyo relates to all properties above JPY100m

Sources: All data comes from Knight Frank’s global network with the exception of Tokyo - Ken Corporation; Washington DC - Metropolitan Regional Information Systems, Inc. Statistics generated on 06/01-2016 ©Copyright 2016. All rights reserved. São Paulo - FIPE (Fundação Instituto de Pesquisas Econômicas); Oslo - Torbjørn EK; San Francisco, Miami, Los Angeles, Boston, New York, Chicago - S&P Case Shiller

Vancouver sets the pace

The winners and losers in our annual round-up of prime market performance

KATE EVERETT-ALLEN,
HEAD OF INTERNATIONAL RESIDENTIAL RESEARCH



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supply, coupled with foreign demand, spurred on by a weaker Canadian dollar explain the city's stellar performance.

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prices slipped in 2015, 22 were located in Europe. Yet there is renewed optimism that prices in the region's most popular second-home destinations, particularly Spain, Italy, the Algarve and parts of the Côte d'Azur, are close to bottoming out.

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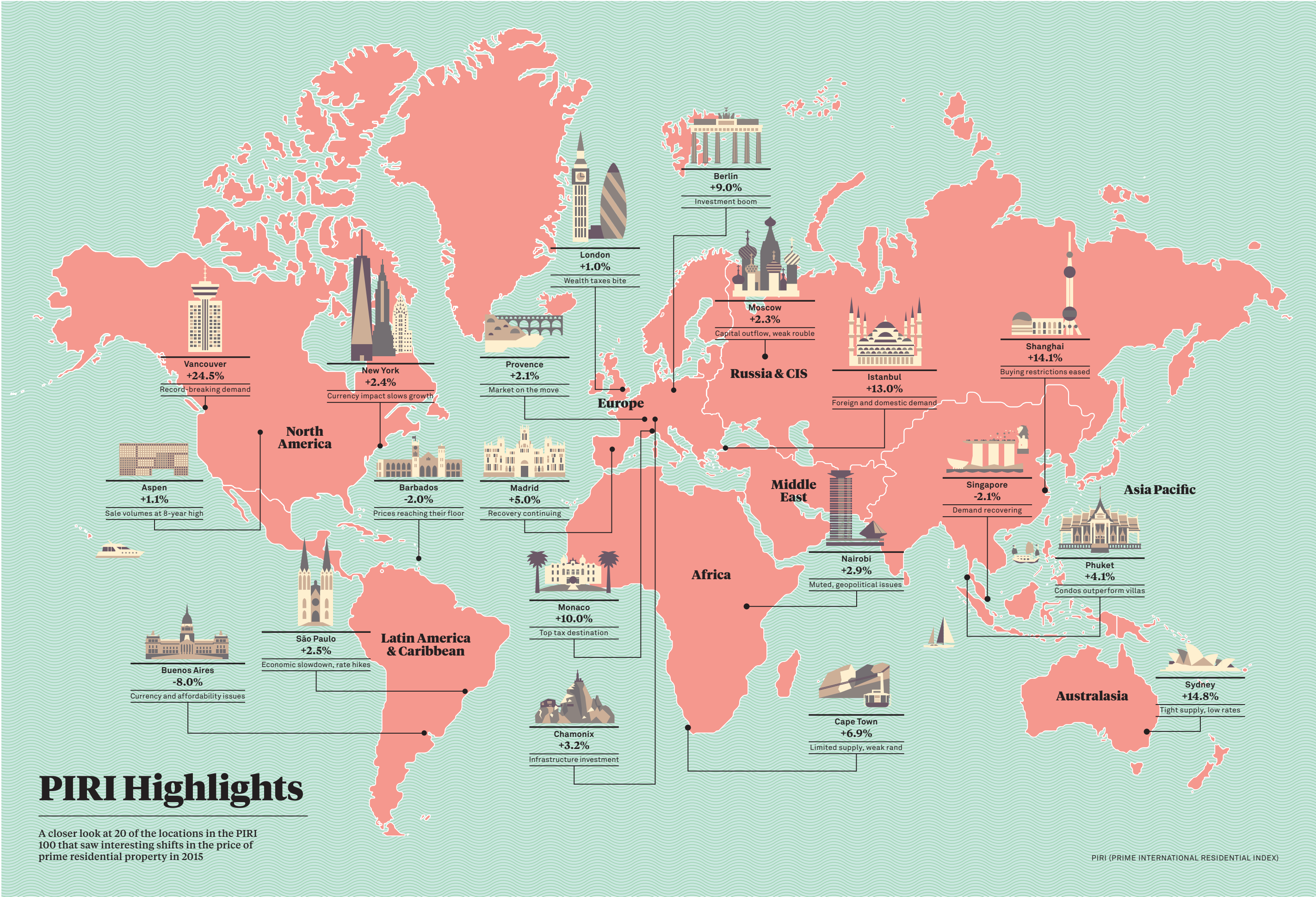
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Monaco is still one of Europe's property hotspots



Prime performance drivers

Economics, taxation and political priorities influence prime global housing markets

LIAM BAILEY,
GLOBAL HEAD OF RESEARCH

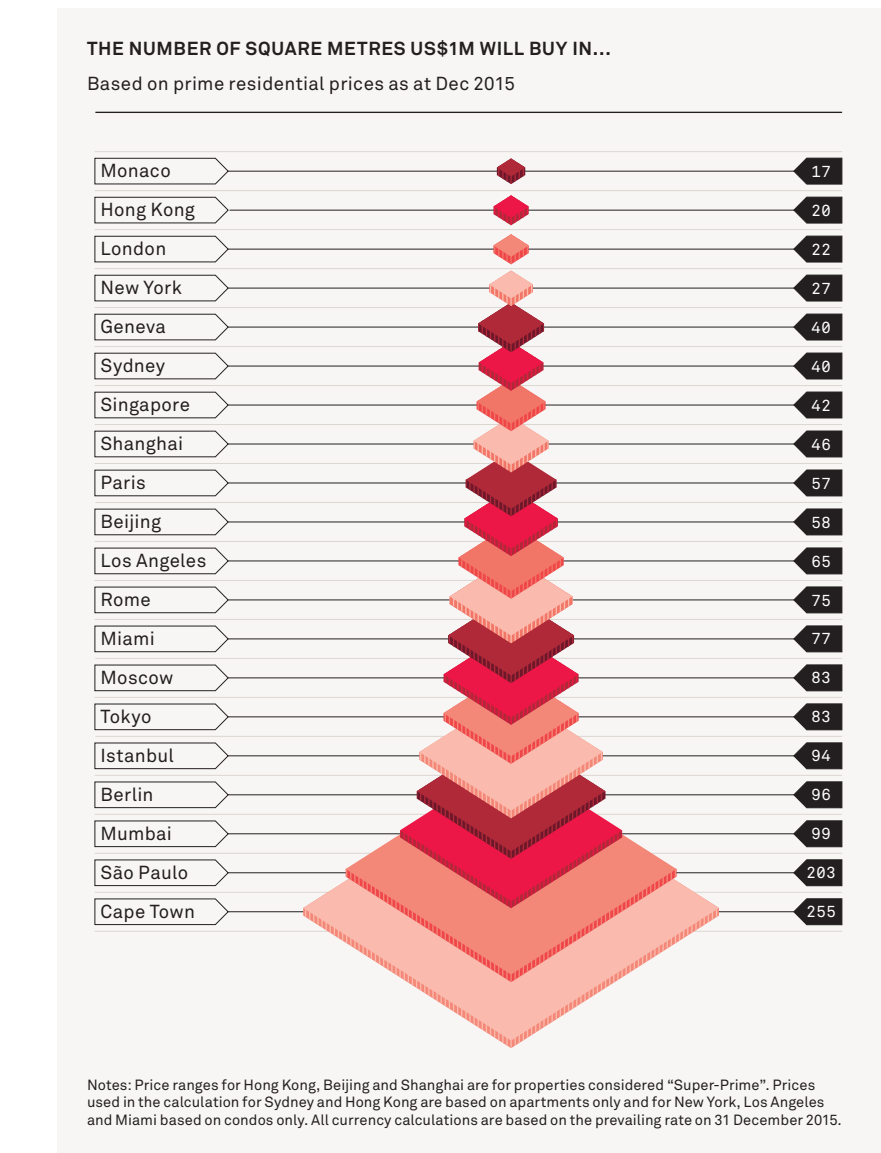
As *The Wealth Report* went to press, one of the dominant issues overshadowing the world’s key residential markets was the fallout from the shift to rising interest rates in the US.

In Asia, for example, there will undoubtedly be an impact on buyer sentiment, which our Hong Kong Head of Research, David Ji, believes will lead to a reduction of sales volumes. This will be the case even though the Federal Reserve’s initial moves are likely to remain cautious and will have only a minimal impact on mortgage payments.

The impact of the impending change in US policy was already being felt in the final three months of 2015, with many global markets seeing weaker trading conditions. The transition to higher rates in the US is likely to be emulated by other strongly performing economies, including the UK, Australia and Canada, although expectations are being regularly pushed further out in time.

The expectation of higher rates helped boost the US dollar throughout 2015, which weighed on inward investment into the US. “A slowdown in demand was inevitable, but the US still remains hugely attractive as a global market,” says Sofia Song, Head of Research at Knight Frank’s US residential partner, Douglas Elliman.

It is important to remember that not every market internationally has been waiting for the transition away from ultra-low interest rates – some never experienced them. In Kenya, for example, rates are in double digits. The main theme in Nairobi is the impact of weaker oil prices, which has undermined demand from employees of oil firms and related businesses, says Knight



Source: Knight Frank Research / Douglas Elliman

Frank’s Managing Director in Kenya, Ben Woodhams.

This impact has been replicated in other resource-heavy markets, including Australia’s previously booming prime regional markets.

New supply

In addition to interest rates and other economic factors, performance will be influenced by rising supply pipelines. Developers have taken advantage of a combination of rising prices and low financing costs to deliver new homes at a significantly faster rate in many prime markets.

New York, London, especially around the edge of the prime central London market, Sydney and Melbourne have all seen an increase in supply. As the market tilts in favour of purchasers, there will be a reevaluation of pricing potential in many areas.

The opposite trend can be seen in other key markets, notably land-restricted Hong Kong. Here, the low supply of land over recent years has added to the affordability issue. Although the current government is trying to make up the shortfall, the political climate has changed. Environmental pressure groups hold more influence and local councils are displaying a more protectionist attitude to their land.

While prime buyers in Hong Kong still focus on The Peak and Mid-levels, it will be the New Territories where most new supply is delivered. Prices are likely to underperform there.

New-build volumes are critical to future performance, confirms Nicholas Holt, Head of Research in Asia-Pacific. “At the prime end of the market Hong Kong is seeing tight supply. Singapore is too but at much less severe levels.”

Similar issues are being seen in Vancouver, with the city experiencing



The Avalon Hotel in Miami: Prime property demand is still strong in the city

the lowest level of inventory for 25 years. “The number of multifamily developments along the major transportation routes is rising but this is not enough to make up for the lack of prime market supply,” says Kevin Skipworth of Knight Frank’s partner Dexter Associates.

strong run in many markets – London and New York are high-profile examples – while interest rates, and ownership costs for foreign investors are increasing. Restrictions on non-residents are even being discussed in markets such as Canada.

Taking a long-term view, investors will do well to maintain their focus on the leading urban centres. Prime city markets tend to bounce back quickest from any downturn and deliver relatively strong liquidity throughout market cycles.

Outperformance

Opportunities still exist in some European markets, many of which are still recovering nearly eight years after the 2008 crash.

Well-connected areas in the South of France, especially rural areas within easy reach of the new Eurostar route to Provence, and ski resorts within an hour’s commute of one of the main airports serving the Alps, look well placed for future growth. Most Italian prime markets saw flat or marginal price increases in 2015. Although prices are not going to jump significantly in 2016, some foreign buyers find themselves in a favourable position given the currency advantage and the selection of properties on offer.

Although many markets in the Asia-Pacific region are close to, or at the top of, their cycle, Vietnam, the Philippines and possibly Japan look likely to outperform in 2016, says Nicholas Holt. Tokyo is seeing strong investment in the run up to the 2020 Olympic Games and Chinese buyers are starting to show an interest.

In the US, Los Angeles is set to lead the market, followed by Miami. Lower base pricing and relatively low supply provides scope for price growth in Los Angeles, while demand is still robust in Miami.

Overall, investors globally need to be cautious. Price rises are slowing after a

Overall, investors need to be cautious. Price rises are slowing after a strong run in many markets, while interest rates and ownership costs for foreign investors are increasing

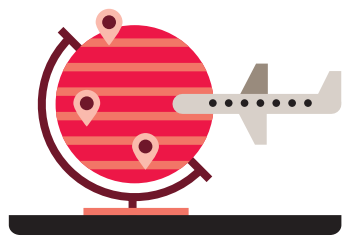


Istanbul: \$1m will buy 94 sq metres of prime residential property

Residential hotspots

We select three locations across each of five categories, highlighting key investment opportunities

In a higher-interest rate and lower-growth environment, picking the right residential property investment location becomes a more pressing issue. Our shortlist is influenced by the burgeoning requirement for market outperformance led by economic and employment growth, new infrastructure, regeneration, quality of education, environment and lifestyle.



Country

VIETNAM

A country on an upward trajectory. Structural reforms initiated by the current government place Vietnam ahead of other emerging markets. Importantly for investors, new rules were brought in during 2015 which opened up property markets to foreign buyers. The new metro line currently underway in Ho Chi Minh City will see District 2 and 9 outperform.

GERMANY

The European Union's largest economy. Residential prices have increased 23% in the past five years, yet wages have kept pace resulting in good levels of affordability. Cities such as Berlin and Munich outperform and, despite strong house-building rates, the gap between demand and supply is set to expand.

US

Since the global financial crisis the US has led the developed world's economic recovery and demonstrated an enviable ability to convert innovation into enterprise. This process has powered key cities with strong growth in employment and wealth creation. Significant inward demand from international investors should help mitigate the impact of higher interest rates and a strengthening dollar through 2016.

The US has led the developed world's economic recovery and demonstrated an ability to convert innovation into enterprise



City

LOS ANGELES

The city is just three years into a market recovery. Prices are growing, underpinned by limited new supply, while demand flows have been bolstered by Asian buyers. Improvements to urban centres, retail and the wider lifestyle offer are opening up new areas to investors.

MADRID

Last year underlined the extent to which Madrid's prime market has recovered with prime sales volumes up 25% year-on-year and prime prices outperforming many neighbouring European cities. Steady price growth looks likely to continue in 2016 as the impact of supply constraints are felt in the top districts of Salamanca, Jerónimos and Chamberí.

SHANGHAI

The city, along with Shenzhen, the other financial hub of mainland China, has turned a corner in economic and market terms over the past six months. Shanghai is seeing positive price growth on the back of continued urbanisation, a diverse and thriving service sector and a strong international community.



Neighbourhood

PIMLICO, LONDON

An area that remains one of central London's very few overlooked residential markets. High-quality housing stock, a riverside location and proximity to established prime markets combine to ensure the area stands to benefit from the major regeneration work taking place in adjacent Victoria.

LOWER EAST SIDE, NEW YORK

New infrastructure, amenities and restaurants are driving price growth in an area burgeoning with luxury developments by developers like Ian Schrager and architects Herzog & de Meuron. Proximity to Nolita, SoHo, and the East Village is helping market product to investors.

CHIYODA, TOKYO

The prime residential market in Chiyoda – along with Minato and Chūō, the two other central Tokyo wards – have performed well since the advent of Abenomics. While Japan's overall population is in decline, Tokyo continues to see its numbers swell. Chiyoda's residential market looks set to benefit from the 2020 Olympic Games, which will bring improvements in infrastructure and attract foreign investment.



Second home

GOLD COAST

A popular second-home destination, the arrival of the Commonwealth Games in 2018 has kickstarted investment, with a new light rail system and a AU\$200m airport expansion planned. Competitive prices, compared with Australia's top cities, plus strong fundamentals – local population growth and expanding tourism – underpin demand along the 57-kilometre coastline.

CÔTE D'AZUR

A perennial favourite with the super wealthy, the South of France is in the nascent stages of recovery. Last year saw an upturn in sales activity, with the village of Mougins and the exclusive Cap d'Antibes seeing strong demand.

IBIZA

The island's prime market continues to outperform mainland Spain, with areas such as San José, the marina and properties in Ibiza Old Town generating strong interest. Year-round flights from most top European cities, good international schools and strong 4G internet connection have persuaded many wealthy young professionals in northern Europe to either relocate or commute long distance.



Ski resort

MÉRIBEL

Located in the heart of The Three Valleys, the resort is increasingly viewed as the destination of choice in the Alps providing access to the world's largest ski domain, good facilities and a vibrant village atmosphere.

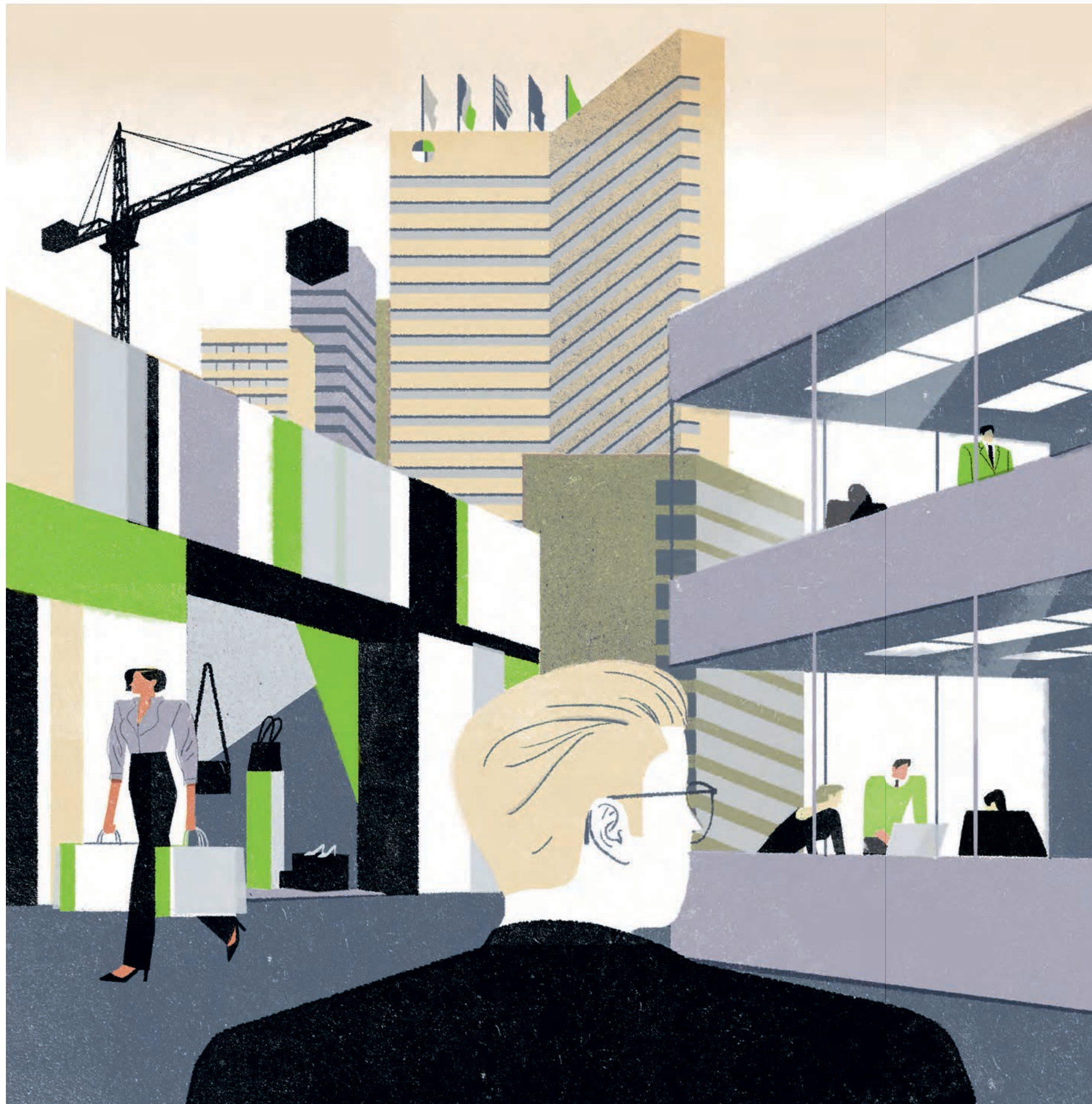
ASPEN

Rising international demand has bolstered sales volumes which reached an eight-year high in 2015. The first US ski resort to cater for the super wealthy, it has expanded its facilities and re-branded itself as a year-round resort via numerous events and festivals.

CHAMONIX

Within easy reach of Geneva Airport, the resort offers a broad range of amenities while remaining competitively priced compared with other Alpine resorts. A recent pledge by the Compagnie du Mont Blanc to upgrade the lift system will strengthen demand further.

Shanghai, along with Shenzhen, has turned a corner in economic and market terms over the past six months



A guide to global trends and markets for UHNWI investors

Key topics

01

Decade in review

It has been a rollercoaster ride for commercial property markets, but private investors have been instrumental in helping to kickstart markets
→ page 48

02

Regional insight

Ten of Knight Frank's commercial property experts from around the world share their insight into local market trends
→ page 50

03

Future trends

We examine five macro trends that will shape the future of private investment into commercial property markets. Urbanisation, India and experiential real estate all feature
→ page 54

Commercial Property Trends

A decade on from the first edition of *The Wealth Report* and commercial real estate is a firmly established component of the investment portfolios of the wealthy. According to Real Capital Analytics, private investors have placed \$1 trillion in the asset class since 2009 – or \$1 in every \$4 invested in commercial real estate investment over that time.

The on-going appeal of commercial real estate to private wealth derives from it being a tangible asset with an underlying value that extends beyond the ability to produce income. As part of a diversified investment strategy, bricks and mortar offer reduced volatility relative to assets subject to daily market pricing. Furthermore, the asset class also serves as a hedge against other publicly traded investments and protection from

rising inflation rates, though this is not currently a significant issue across the global economy.

Despite clear market evolution over the last decade, multiple perceived barriers to entry for private investors remain. The central obstacle, identified by 52% of our Attitudes Survey respondents, is the lack of deep experience across the private investor community. This is significant in a sector that is also regarded as being both highly complex and management intensive. It also contributes to the second strongest perceived barrier – that of liquidity. Further improvements in market transparency, greater best practice exchange and access to professional advice are essential if the pool of private investors is to extend and reach deeper into the commercial market.

From crisis to critical mass

Commercial property investment's 10-year journey

LEE ELLIOTT, HEAD OF COMMERCIAL RESEARCH

During the past decade the commercial real estate landscape has transformed, now neatly encapsulated in one word – globalisation. For an asset class that in its essence is inherently local, this international influence has been nothing short of remarkable.

Invariably, globalisation has ushered in significant cyclical and structural changes to the marketplace. No 10-year retrospective can ignore the onset of the greatest economic catastrophe since the Great Depression – the global financial crisis.

It was a crisis derived from the dramatic unravelling of the flawed inter-connection between residential real estate assets and sophisticated, but flawed, financial instruments.

Almost immediately the commercial real estate market entered a downturn as asset prices tumbled and highly leveraged investors ran into difficulty. Demand for commercial real estate assets slumped and investment volumes fell.

Yet, ironically, the crisis generated a

Perhaps the most significant transformation in the commercial real estate market is the emergence of a deeper pool of prospective investors

macro-economic backdrop that proved conducive to significant and sustained capital flows into commercial real estate.

The combination of low growth, low inflation, low interest rates, a huge injection of liquidity courtesy of quantitative easing and a lack of performance from other mainstream asset classes, all pointed investors to commercial real estate.

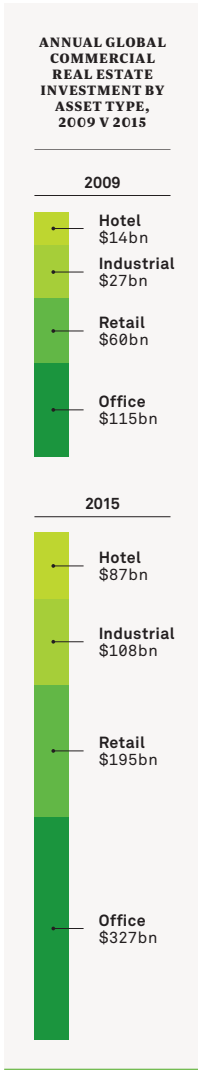
At the bottom of the cycle in 2009, investment into global office, retail, industrial and hotel properties stood at \$216bn, according to data from Real Capital Analytics (RCA). One year later global investment across the same asset types had risen by 67% to \$362bn. Four years on and volumes stood in excess of \$700bn.

What is telling, in the context of private wealth, is despite this variability in investment volumes, the proportion of private investment remained remarkably consistent from 2009 to 2015 – 23.4 to 26.6% of total volumes.

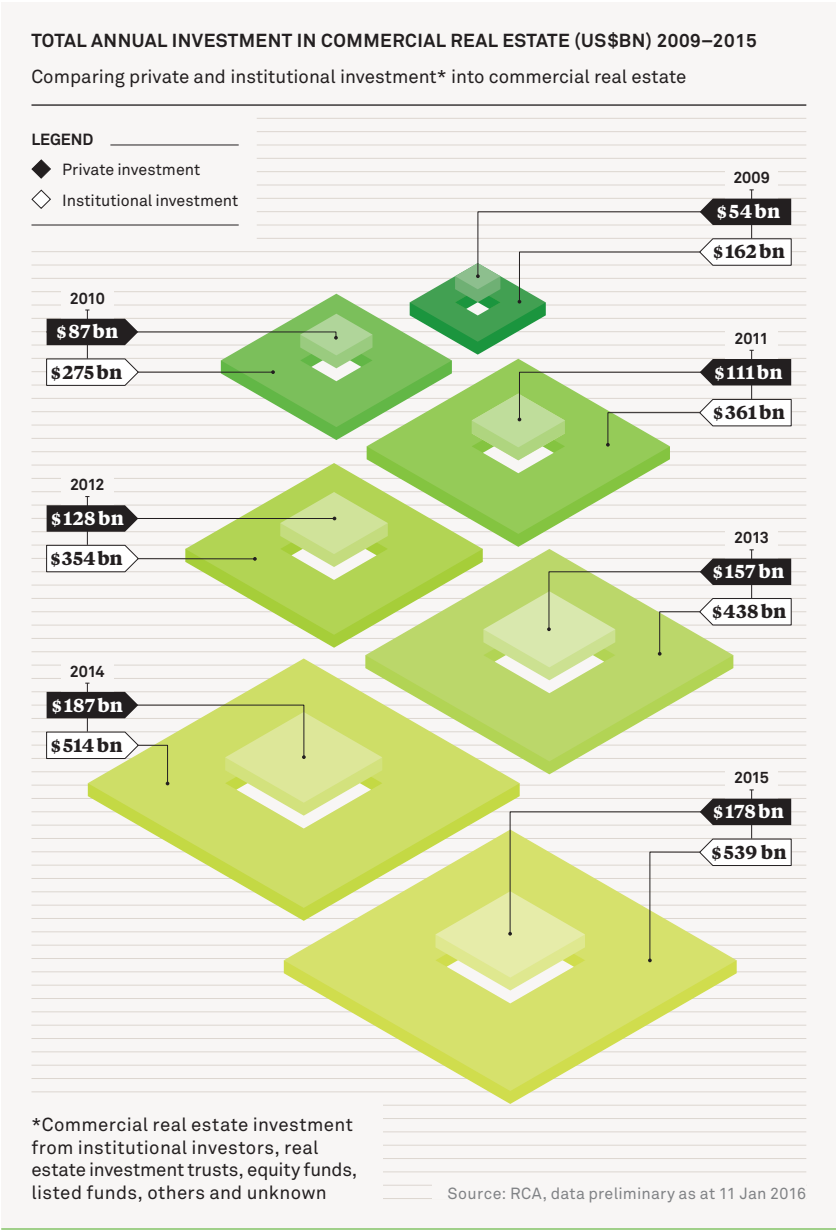
This illustrates perhaps the most significant transformation in the



Paris: A gateway location for commercial property investment



Source: RCA, data preliminary as at 11 Jan 2016



commercial real estate market over the past decade – the emergence of a deeper pool of prospective investors. A host of new sources of capital have emerged, not just the likes of sovereign wealth funds, Asian pension funds and petro-states, but also UHNWIs and other private interests.

The role of these private interests should not be underestimated. There was clear capacity, willingness and opportunism to fill the space left by debt finance following the global financial crisis, and to adopt higher-risk development positions critical to market momentum.

In this sense, private wealth has had an important role in sustaining and, in some cases, effectively kickstarting, global commercial real estate markets.

While the pool of prospective investors has broadened, so has their geographical focus. The globalisation of

demand has taken hold. After building expertise and understanding in their domestic markets, Asian and Middle Eastern investors have increased their share of cross-border investment in global real estate in an attempt to diversify portfolios, mitigate risks and benefit from currency variance.

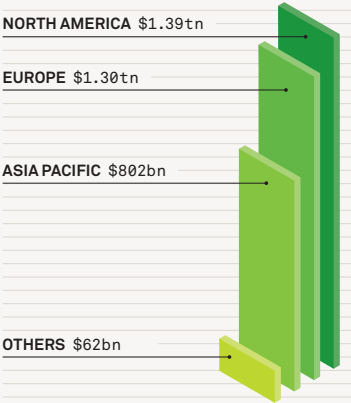
According to RCA, total cross-border investment from Asian and Middle Eastern capital equated to just 18% of the global total at the height of the last commercial property investment cycle. With a structural shift in overseas investment, that figure has moved to in excess of 35% – often focused on major global gateway cities, such as London, Paris, New York and Sydney.

These levels are unlikely to be sustained given current global oil price dynamics, but, in a retrospective context, the emergence of these truly global

% of total commercial real estate investment in 2015 that is private



2009–2015 TOTAL COMMERCIAL REAL ESTATE INVESTMENT BY REGION



Source: RCA, data preliminary as at 11 Jan 2016

investors has been a central feature of the commercial real estate market over the past 10 years.

Other key developments include the new real estate investment products. As real estate has matured as an asset class, more countries have passed real estate investment trust (REIT) legislation. Increasingly sophisticated products, like unit trusts and even derivatives (which did ultimately fall foul of the global financial crisis), have made property more accessible to a wider range of investors.

The tangible qualities of direct investment into ‘bricks and mortar’ do, however, continue to hold sway over the wealthy private investor.

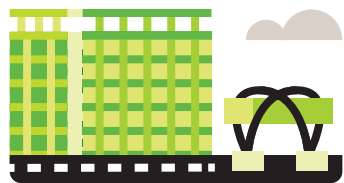
Finally, the past decade has witnessed marked improvements in market transparency. There is now more data, more information and more expertise across more markets. This will enable private investors to overcome knowledge gaps and inform their investment strategies.

The past 10 years has witnessed a maturing of commercial real estate into a sophisticated and truly global asset class open to a deep and varied pool of investors. What is certain is that the next 10 years will be no less transformative than the last. I fully expect private investors to, once more, be at the vanguard of this transformation.

Global Markets in Focus

Knight Frank’s capital markets experts look at the key trends of the past decade, future opportunities for private investors and landmark deals in their market

We have seen Dubai airport overtake Heathrow as the busiest airport by international passenger numbers and Dubai overtake New York in respect of overnight tourist numbers per annum



London

DEBORAH WATT

TRENDS OF THE DECADE

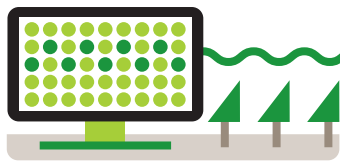
Ten years ago UHNW investors looked to trusted Central London office locations, particularly Mayfair, High St Kensington and core City, with the more adventurous venturing into Soho or Covent Garden. Investments would often be freehold, with a 10-year plus lease and no more than two tenants. Today, multi-let properties with well-timed lease expiries and rent reviews are favoured. New areas include the City fringe, Farringdon, Clerkenwell, Bloomsbury (all benefiting from Crossrail) and Paddington. They are also branching into the UK’s regional cities and different sectors such as logistics and student accommodation.

FUTURE OPPORTUNITIES

I would be looking at offices in good CBD locations in key regional UK cities, such as Birmingham, Manchester and Edinburgh. Multi-let offices in Bloomsbury, Farringdon and Old Street/Moorgate, where there is the opportunity to refurbish and reconfigure to improve rental levels, and where the micro location will benefit from new Crossrail stations.

LANDMARK DEAL

The Aviva Tower, which Knight Frank sold to a private Asian investor who outbid the institutional sector, was the first of three skyscrapers acquired by international UHNWIs.



Germany

OLE SAUER

TRENDS OF THE DECADE

Berlin is now a significant target for global investors, particularly those attracted by its young, creative business environment. Besides local and other European players, international developers such as Hines and Tishman Speyer are currently very active. Only a few office developments were built before 2012, but, within the last 36 months, potential prime locations such as Europa City and the Media Spree area have been established, driven by the city’s dramatic IT expansion.

FUTURE OPPORTUNITIES

Berlin’s growing start-up community will continue to drive the office market as new creative areas are established. Over the next three to six years investors will discover different types of investment. This will provide office opportunities in city locations such as Charlottenburg, Kreuzberg and Tiergarten, which are not yet prime but have growth potential for rents and yields. The eventual opening of the city’s new airport can only help.

LANDMARK DEAL

Kurfürstendamm 212-214 was a rarely available prime high-street opportunity. We acted for a Berlin-based family on the acquisition of this €84m investment.



Middle East

JOSEPH MORRIS

TRENDS OF THE DECADE

Dubai has emerged as a global hub for financial services, logistics, hospitality and trade. Its airport has overtaken London Heathrow as the busiest by international passenger numbers and

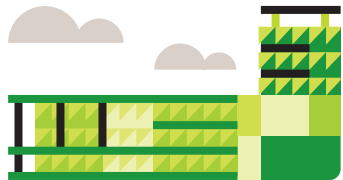
the Dubai International Finance Centre (DIFC) is the region’s leading financial hub. These factors have fuelled the development of new master communities and a CBD and attracted significant investment from neighbouring GCC countries and the wider region, including India and China.

FUTURE OPPORTUNITIES

We see continued investment from the Gulf into other key international markets as diversification remains paramount. As more international corporations establish regional headquarters and expand and consolidate existing office space, there will be a greater focus on quality in Dubai. We see opportunities in well located, wholly owned Grade A office developments and in logistics warehouses connected to the new Dubai airport.

LANDMARK DEAL

The acquisition of the super-prime Rolex Unit at One Hyde Park, Knightsbridge, London, highlights the continued demand for best-in-class assets in key global cities. Knight Frank acted for a private Middle Eastern investor in this transaction.



Africa

PETER WELBORN

TRENDS OF THE DECADE

There has been a sea-change in attitudes towards Sub-Saharan Africa over the past decade, as a rising number of investors have recognised it as a region of long-term growth and opportunity. Although most markets, with the exception of South Africa, remain small by international standards, modern property development has gathered pace and the stock of investment-grade commercial property has increased. Private intra-Africa investment by UHNWIs is increasing as is the amount of money being invested by individuals from the Gulf, particularly into Muslim countries including Senegal. South African funds and trailblazing UK-based emerging market specialist Actis are also active.

FUTURE OPPORTUNITIES

Large, fast-growing cities, such as Nairobi, Lagos, Dar es Salaam and Luanda will continue to offer the clearest investment

opportunities. The growth of Africa’s consumer class will create opportunities for further development in the retail sector – both in the current hotspots and in second-tier cities where developers may be able to gain first-mover advantage. The logistics sector should also emerge in importance, particularly in key gateway locations such as Lusaka, Zambia.

LANDMARK DEAL

Developed by Actis, the first phase of Nairobi’s 33,000 sq m Garden City mall opened in 2015. It is the largest mall in East Africa.



Asia Pacific

NEIL BROOKES

TRENDS OF THE DECADE

As the past decade’s growth engine of the world economy, the Asia-Pacific region has seen a number of significant trends. The expansion of interest in commercial property from a swelling population of wealthy individuals has perhaps been the most notable. We’ve seen private capital from Hong Kong, Singapore, India, Malaysia and most notably, China, buying in key western markets, such as the UK, Australia and the US. Domestically, we’ve seen numerous tiers of private capital attracted to opportunities in local commercial markets, often spurred by the cooling measures placed on the region’s residential markets.

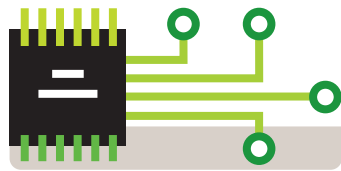
FUTURE OPPORTUNITIES

Assets in the key Western markets will continue to be targeted by Asian private investment, while a slow maturing of domestic markets and the growth of different methods of investing – from REITs in India and China, to syndicated or club-type deals that increase UHNWI exposure to the commercial real-estate market. Asset classes showing growth prospects in locations that provide transparency, wealth preservation, liquidity and security will be most in demand.

LANDMARK DEAL

The sale of 50 Bank Street, Canary Wharf, London, for £153.5m to a prominent Hong Kong family illustrates how private Asian capital is moving away from low yielding domestic markets.

There has been a sea-change in attitudes towards Sub-Saharan Africa over the past decade, as a rising number of investors have recognised it as a region of long-term growth and opportunity



India

RAJEEV BAIRATHI

TRENDS OF THE DECADE

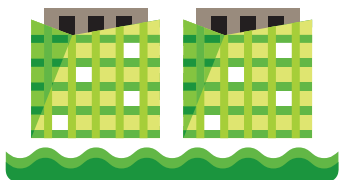
As a credible investment class from a global standpoint, the technology sector has been the most significant force in the emergence of commercial real estate in leading cities. Besides Mumbai, which has a diversified occupier base, other cities like Delhi and Bengaluru have been the prime beneficiaries of this tech boom. India is attracting global investors such as Blackstone, while Indian investors are diversifying globally into development and core assets in gateway cities such as London. The “Modi effect” has been crucial in both the import and export of capital.

FUTURE OPPORTUNITIES

Technology is now one of the core differentiators for many businesses across all sectors. Such dynamics will benefit cities with the right combination of technology talent, affordable real estate, superior infrastructure and a vibrant living environment. Bengaluru for instance will reap the benefits of this transformation. In 2013 to 2015, the technology sector contributed 58% to the city’s total office demand of 26 million sq ft.

LANDMARK DEAL

In 2015 India’s largest office deal of around two million sq ft in Mumbai’s peripheral business district was agreed to a technology sector giant.



HK/Mainland China

PAUL HART

TRENDS OF THE DECADE

Chinese institutional investors have dominated the market in the past, including the China Life Insurance

(Overseas) purchase of the west tower of One HarbourGate, Hung Hom, Kowloon, Hong Kong, for US\$755m. Now we are starting to see a new wave of Chinese investors venture offshore. Private UHNWIs, typically developers and industrialists, have been making quite a stir. Unlike earlier investments by Chinese institutions focusing on trophy assets, these new investors dominate small to mid-cap private investments in primary and secondary locations. The US and Western Europe are key targets.

FUTURE OPPORTUNITIES

The US remains the stand-out location for UHNWIs, but Hong Kong, being closer to home, is also considered an attractive location for them to invest in commercial property in decentralised locations. Yield compression in London will make the UK’s provincial cities more attractive. In Australia, Sydney and Melbourne still present high-yield opportunities, but we are expecting to see some spill-over into Brisbane off the back of Echo Entertainment’s recent casino deal.

LANDMARK DEAL

Kuafu Properties, a New-York based developer backed by a Chinese private fund, has acquired four US properties one year after entering the market, spending over \$500m.



Australia

JAMES PARRY

TRENDS OF THE DECADE

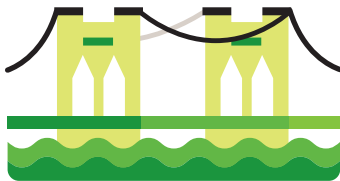
Ten years ago, the Australian investment market was dominated by local buyers. Since then, it has become increasingly attractive to offshore investors including UHNWIs, who are among the most active buyers in this market. Until about five years ago, offshore investors were looking to Sydney and Melbourne, but now we are seeing these buyers invest across other Australian major cities including Perth, Brisbane, Canberra and Adelaide. Offshore buyers are coming from all over the world, but in recent years Asia-based investors have been the most active buyers, with Singapore, Kuala Lumpur, Hong Kong and China leading the charge.

FUTURE OPPORTUNITIES

Location-wise, we continue to see exceptional buying opportunities in counter-cyclical markets such as Perth and Canberra. Secondary stock has excellent fundamentals in the Sydney CBD and metropolitan markets. The generous yields and stable markets of Adelaide are attracting investors, while Brisbane, which is a market affected by the slump in the resource and commodities sector, is generally considered at, or near, the bottom, with an increase in buyer activity.

LANDMARK DEAL

The Australian Technology Park sale on the fringe of Sydney’s CBD for AU\$263m during late 2015 set a new benchmark (5.75%) for core yields in a non-CBD location.



New York

ALEX FOSHAY

TRENDS OF THE DECADE

International capital investment has increased significantly into New York City over the past three years. It now accounts for more than 16% of all transactional activity in the US. In the past 12 months, 38% of all Manhattan real estate investment has been from international investors. UHNWI investment in New York is a significant part of that and has come predominantly from China, Singapore, Brazil, Canada and the Middle East. A key investment from two UHNWIs was the minority interest purchase in the GM Building/767 Fifth Avenue by Zhang Xin and a Moise Safra-led company for approximately \$1.4bn.

FUTURE OPPORTUNITIES

Brooklyn is a New York City metro market that has experienced sharp increases in both supply and demand and will continue to offer opportunities to UHNWI investors over the next 10 years. It remains a market of choice among creative types due to its burgeoning communities and proximity to Manhattan. Inventory is growing as developers such as Boston Properties, Rudin, Jamestown and RFR construct and redevelop millions of square feet. New tax legislation that makes it easier to invest in property will have a major impact.

LANDMARK DEAL

In 2015, Bank of China acquired Seven Bryant Park in the heart of Midtown Manhattan for \$600m and will occupy approximately 60% of the asset.



US West Coast

DANIEL CRESSMAN

TRENDS OF THE DECADE

Foreign UHNWIs have always been competitive in San Francisco’s commercial real estate market, particularly those from Asia Pacific and the Middle East. While many invest directly, we’ve seen a majority enter the market as capital partners with growing local and regional operators. UHNWIs provide these groups with tremendous flexibility in terms of capital and timing. They are generally less concerned with upfront returns and willing to hold for longer periods than domestic investment funds.

FUTURE OPPORTUNITIES

The San Francisco Bay Area is now home to more than half of the world’s ‘unicorns’ – start-up companies with valuations greater than \$1bn. We are starting to see tech spilling over across the region, most recently with Uber’s entry into downtown Oakland. The rapid growth and insatiable tenant demand has created many value-add opportunities, especially among properties that have yet to catch up to market rents.

LANDMARK DEAL

The new 61-storey Salesforce Tower will be San Francisco’s tallest office structure. Salesforce’s lease of the majority of the tower epitomises tech’s dominance in the San Francisco market in recent years.

Ten years ago, the Australian investment market was dominated by local buyers. Since then, it has become increasingly attractive to offshore investors including UHNWIs

Future trends

As private investors push further into commercial real estate markets, new investment strategies and market behaviours will emerge. Knight Frank's Head of Commercial Research examines five macro trends that will prove influential

LEE ELLIOTT, HEAD OF
COMMERCIAL RESEARCH

The insatiable rise of urbanisation

The stage for future commercial real estate investment is undoubtedly urban. The momentum behind urban place creation is as ubiquitous as it is unstoppable. This will create tremendous opportunities for investors, in three ways. First, the changing shape of the city and the creation of new urban quarters through regeneration will generate investment opportunities. Second, as business models adapt to the needs of urban consumers new types of real estate product will emerge. Most notable here is the inevitable rise of urban logistics in direct response to the growth of e-commerce. Third, the changing shape of cities presents opportunities for adding value – obsolescent office stock being converted to hotel, residential or specialist uses or being upgraded. Urban infrastructure projects present a huge opportunity too.

India emerges from the shadows

BRIC economies have been on the investor's radar since Jim O'Neil first coined the acronym in 2001. Although these economies have been buffeted in recent years and still present transparency challenges for investors, we see strong opportunity, particularly in India, over the next decade. The election of the

Modi government has ushered in a pro-business, pro-technology agenda that is starting to play out in the real estate markets. The incredible progress of the technology sector in India has served as a catalyst for the emergence of high-grade commercial real estate in leading Indian cities, such as Mumbai, Delhi and Bengaluru, and has positioned these markets as credible investment destinations from a global standpoint.

Experiential real estate

Successful investors must be attuned to how the occupier will utilise the real estate asset they are renting or buying. It is the key to income generation. Yet the wants and needs of the occupier, and the strategic significance placed upon real estate, is transforming. No longer can the office be viewed simply as a container for staff. Similarly, the modern retail unit is today about much more than the throughput in the cash register. Real estate is increasingly about the user

experience. Best performing retail assets will support retailers indirectly in driving increased sales – being one, albeit important, part of an omni-channel presence. Office buildings will be central to driving occupier efficiency, productivity and talent retention. Understanding these changing dynamics will be pivotal in stock selection and investment return.

Innovative access to real estate product

Although the wave of innovative financial instruments crashed following the global financial crisis, as illustrated by the demise of real estate derivatives, new innovative products will emerge over the short to mid-term that allow the private investor to access commercial real estate. We live in an era of crowd-sourcing and crowd-funding and these collaborative models will develop in commercial real estate. We will see greater tie-ups between private wealth and real estate expertise in joint venture structures and anticipate syndicated approaches that



utilise strata title in office buildings. This will enable the wealthy to invest in lot sizes that would have otherwise been difficult to access. Indirect real estate products also continue to emerge, especially in emerging markets such as India and China where REITs will become established investment vehicles.

Specialist sectors move further into the vanguard

Specialist commercial real estate sectors such as student accommodation, automotive, healthcare and hotels have become an established favourite of UHNWI investors over the past decade. But wider socio-economic and demographic dynamics mean that the opportunity has been barely exploited. For example, demographic upheaval caused by an ageing population will serve to create future market opportunity in the healthcare sector. While such opportunities are currently focused on Western markets, the absence of state systems of welfare, the rising ability to pay for private provision, and the sheer weight of demography, will open up the emerging markets too.



No longer can the office be viewed simply as a container for staff. Similarly, the modern retail unit is about much more than the throughput in the cash register

Opposite page: Singapore, a key urban centre
This page, above: Knight Frank's Sydney headquarters
Left: Imaginative office spaces are key to retaining talent and driving efficiency



Investments of passion performance and global luxury spending trends

Key topics

01

Luxury investment

Once again classic cars top the Knight Frank Luxury Investment Index (KFLII) with annual growth of almost 17% → page 58

02

Who owns what

Our new index produced by Wealth-X shows how luxury asset ownership varies around the world → page 60

03

Going for goal

With 60% of the clubs in the English Premier League now owned by overseas UHNWIs, does such an investment make sense financially? → page 62

Luxury Spending Trends

Last year saw yet more records broken in the modern-art world. *When Will You Marry?*, a painting by Paul Gauguin of two Tahitian girls, became the most expensive work of art ever sold when it was bought by a museum in Qatar for \$300m. Picasso's *Women of Algiers* notched up a new record for a painting sold at auction after making over \$179m, while *Reclining Nude* by Modigliani was not far behind, going under the hammer for \$170m to a buyer from Shanghai.

However, our overall art index rose by a muted 4% as other genres fared less well during the year. Classic cars were again the top performing investment of passion with annual growth of 17%. The Knight Frank Luxury Investment Index tracks the performance of 10 investments of passion

and always makes for fascinating reading.

With a Hong Kong businessman also paying the top price ever achieved for a piece of jewellery – the Blue Moon diamond – last year, UHNWI hunger to collect the world's most desirable objects seems stronger than ever. Our new Luxury Spending Index compiled by Wealth-X reveals how trends vary around the world.

Football teams have always been considered an investment of passion, with the emphasis on the passion rather than the investment. But huge new TV rights deals mean that clubs are beginning to look like a viable alternative asset class for UHNWIs seeking to diversify their portfolios, according to one industry expert. Read our article on page 62 and see if you agree.

Luxury auctions shine

The results of the Knight Frank Luxury Investment Index

ANDREW SHIRLEY,
THE WEALTH REPORT EDITOR

The value of the Knight Frank Luxury Investment Index (KFLII) rose by 7% in 2015. This compares with a 5% drop in the value of the FTSE 100 equities index and a rise of only 1% for the top end of the London residential market.

But the headline figure masks a mixed performance across the 10 asset classes in KFLII. Classic cars (+17%) continue to top our league, with furniture again bringing up the rear (-6%).

A slew of stellar auction results kept luxury investments firmly in the media spotlight. Even furniture secured a new high for a living maker when a Marc Newson Lockheed Lounge sofa was sold in April for £2.4m (\$3.7m) by Phillips.

Although no classic car managed to beat the record set by Bonhams in 2014 when it auctioned a 1962 Ferrari 250 GTO Berlinetta for \$38m, eight of the 25 cars ever to have sold for over \$10m at auction went under the hammer in 2015. These included all-time high results for Jaguar (\$13.2m), Porsche (\$10.1m) and, interestingly because of its youth, McLaren (\$13.75m).

Despite this, Dietrich Hatlapa, of analyst HAGI, says growth is slowing

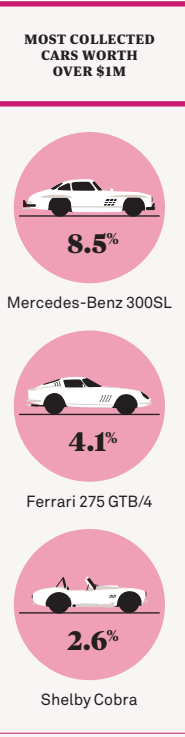
A slew of stellar auction results kept luxury investment firmly in the media spotlight. Even furniture scored a new high when a sofa was sold for £2.4m

and considerably lower than for the 12 months to September 2014, when the HAGI Top Index zoomed up by 25%. Mr Hatlapa says the collector market is reacting to a downturn in global liquidity and potential interest rate rises.

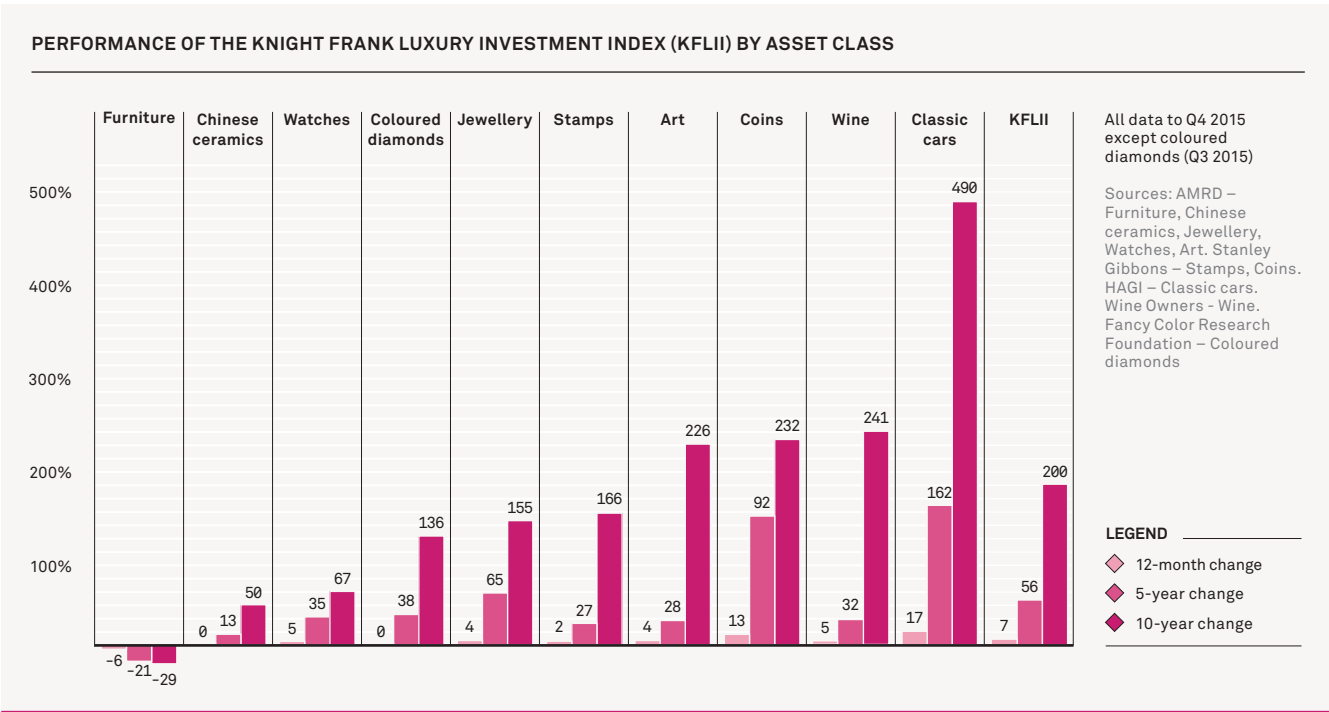
A Hong Kong-based billionaire set an all-time record for a gem or piece of jewellery when he bid \$48.4m for the Blue Moon, a rare fancy vivid blue diamond auctioned by Sotheby's Geneva in November. The day before, he paid \$28.5m for a vivid pink diamond sold by Christie's.

Contemporary and modern artists have performed particularly strongly this year, with Picasso's *Women of Algiers* setting an all-time auction high of \$179m with Christie's in May. Many other artists, including Modigliani (\$170m) and Twombly (\$70.5m), also scored personal bests.

Wine also had a good year with the Knight Frank Fine Wine Icons Index up 5%. Many of the investment-grade Bordeaux wines have now started to recover from the slump induced by the sharp drop in Chinese demand, says Nick Martin of Wine Owners, which compiles the index.



Source: Hagerty
% = collections worth over \$5m that include at least one example of model



Opposite: Patek Philippe source image courtesy of Christopher Beccan

STAND OUT AUCTION SALES

A selection of some of the luxury collectables that set new records or were the top sales of the year when they went under the hammer during 2015

1



2



3



4



5



1 – Picasso: *Women of Algiers*
Sold by Christie's, May 2015
\$179,300,000

2 – Lockheed Lounge, Marc Newson
Sold by Phillips, April 2015
\$3,700,400

3 – Jaguar C-Type Works Lightweight
Sold by Sotheby's, August 2015
\$13,200,000

4 – Patek Philippe Doctor's Chronograph
Sold by Phillips, May 2015
\$4,987,383

5 – The 12-carat Blue Moon of Josephine
Sold by Sotheby's, November 2015
\$48,400,000

Global luxury spending patterns

Wealth-X introduces its new *Luxury Spending Index*, produced exclusively for *The Wealth Report*

MADELAINE OLLIVIER,
BEN KINNARD, WEALTH-X

The index is based on the proportion of UHNWIs from each of the principal geographic regions who own at least one of the following luxury assets – yachts, private jets, collectables (fine wine, antiques, art, jewellery and watches) – and a luxury automobile worth more than \$100,000.

This allows us to compare the likelihood of an UHNWI from a particular region owning a luxury asset against the global average. The overall index is equally weighted across the four asset classes.

In a world where many UHNWIs are cash rich yet time poor, yachting continues to provide the ultimate sanctuary for privacy and an opportunity to spend quality time with family and friends.

Currently, North American UHNWIs are below the global average for yacht ownership. However, due to the high levels of wealth in the US we expect ownership to increase. In Asia, there tends not to be such an affinity with the sea, compared with countries in the Pacific and Europe. We see this as one reason for the lower proportion of Asian yacht-owning UHNWIs.

UHNWIs in Africa and Latin America show a much stronger propensity for private jet ownership (2.0x and 1.59x respectively) than the global average.

Poor commercial travel infrastructure within the regions combined with

significant travel distances between business hubs on each continent has, in our opinion, contributed to this high demand.

Our index highlights that, within Africa, the number of UHNWIs with a luxury automobile is 1.55x the global average. Although wealth in Africa is extremely concentrated in certain countries, we see growing potential for luxury brands including high-end auto marques.

Despite ongoing difficult economic conditions in many emerging markets, the appetite of wealthy collectors hasn't

diminished. If anything, during periods of economic uncertainty, many wealthy individuals in emerging markets look for tangible investments such as paintings (particularly the contemporary, modern and impressionist genres), which will appreciate in value, as opposed to luxury clothing and leather accessories.

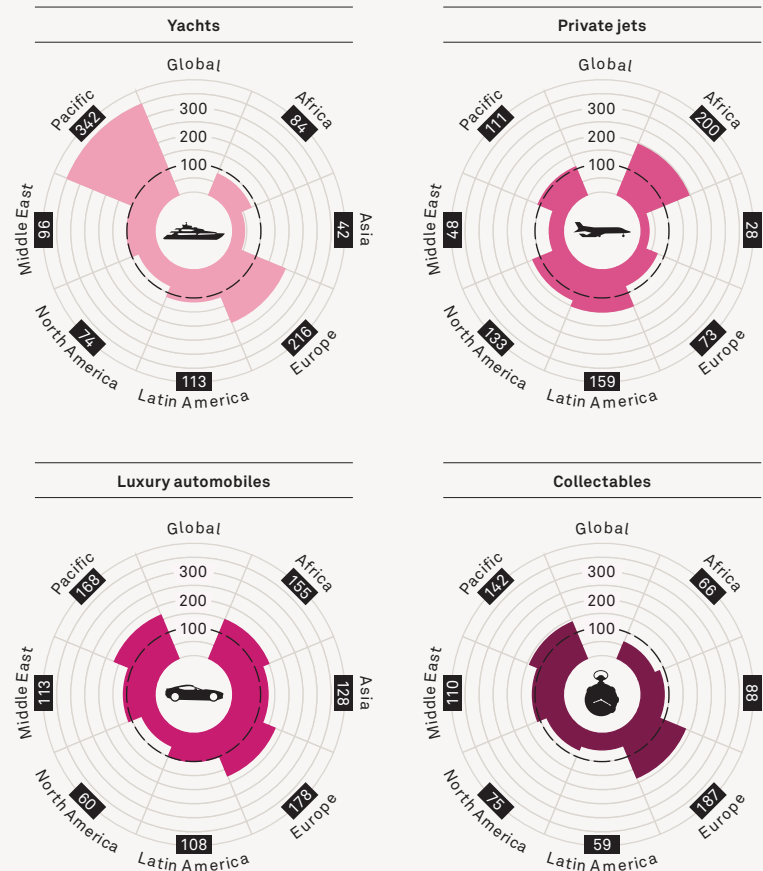
Our Luxury Spending Index shows that UHNWIs in Europe are almost twice as likely to own a collectable compared with the global average. UHNWIs in Asia and Latin America, however, are below the global average.

WEALTH-X LUXURY SPENDING INDEX

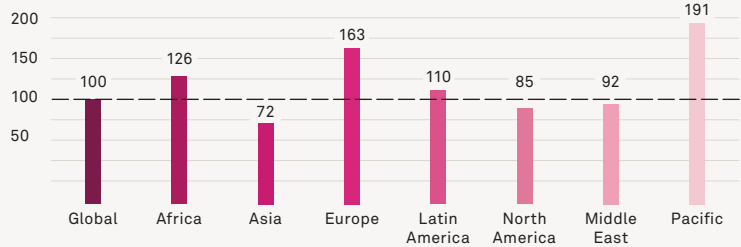
UHNWI ownership of luxury assets by region

LEGEND

--- Denotes global average



OVERALL LUXURY SPENDING INDEX



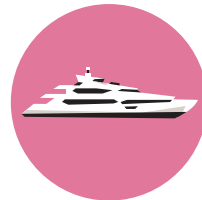
Source: Wealth-X

LUXURY FOCUS

The latest trends driving UHNWI spending patterns and the global market for luxury goods

YACHTS

Continued growth in the super-yacht sector (boats over 24 metres), is supported by a 40% increase in sales during 2015 compared with 2014 (*Boat International Media*). As people become more focused on the lifestyle experiences associated with yachting, we see the choice of destinations shifting from the traditional havens of the Mediterranean and Caribbean, to more adventurous locations such as the Antarctic and Asia.



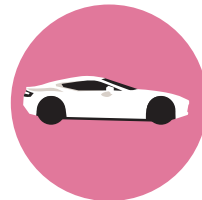
PRIVATE JETS

Private jet ownership levels are very low in Asia, despite the region's strong economic growth in recent years. Under-developed infrastructure, lack of qualified professionals and stringent civil aviation regulations in important markets such as China are contributing factors. However, the industry continues to watch the region in order to capitalise on rapid wealth growth. The entry of fractional ownership operators into China may boost demand.



LUXURY AUTOMOBILES

In order to navigate the intricacies of doing business in emerging markets such as Africa, brands will have to re-calibrate their product offerings. We have seen more top-end marques such as Bentley release off-road models more suited to rougher roads. Appealing to a rapidly growing and youthful population heavily influenced by the strength of the continent's online community is also key for luxury marketers to get right.



LUXURY COLLECTABLES

As individuals in emerging markets become wealthier, we expect to see the numbers of collectors increase. Not only do collectables represent a safe asset investment, they are a way of illustrating status and a sense of having 'arrived'. Last year, the world's top 200 art collectors came from 36 countries, compared with 17 in 1990. Many of these were emerging markets such as China and Brazil (*Art News*).



The Vava II: The largest yacht ever built in the UK cruises off the coast of Plymouth

An investment of two halves

Football team ownership is not just a passion play

JAMES POWELL, HEAD OF SPORTS GROUP, CANTOR FITZGERALD

While the playgrounds of the super-rich are ever-changing, a new generation of young, extremely wealthy entrepreneurs and business people are looking for new ways to invest their money.

One area to have seen a huge leap in interest from investors is sport, particularly football. At the top end of the profile scale is the Russian billionaire Roman Abramovich, who became the owner of Chelsea FC in 2003. Since then there has been a growing list of investors with an interest in football clubs, from Sheikh Mansour, the owner of Manchester City, to Les Scadding, a lottery winner and now the owner of Newport County AFC. What are these owners looking for? Not

everyone who buys a club is a fan nor do they own the club as a status symbol. They may not even be viewing ownership as an opportunity to increase the target audience for another of their businesses. There is money to be made.

According to Deloitte’s annual Review of Football Finances, English Premier League (EPL) revenues rose 29% last year from £2.5bn to £3.3bn. Wages have increased by just 6%, far less than anyone expected.

In February 2015, the league sold television rights to its games for a record £5bn, 71% above the previous deal. It is projected that from the 2016-17 season, even the bottom club in the league can

expect around £100m in central prize money each season (up from £62m now) and the highest earning club can expect around £156m (up from £97.5m).

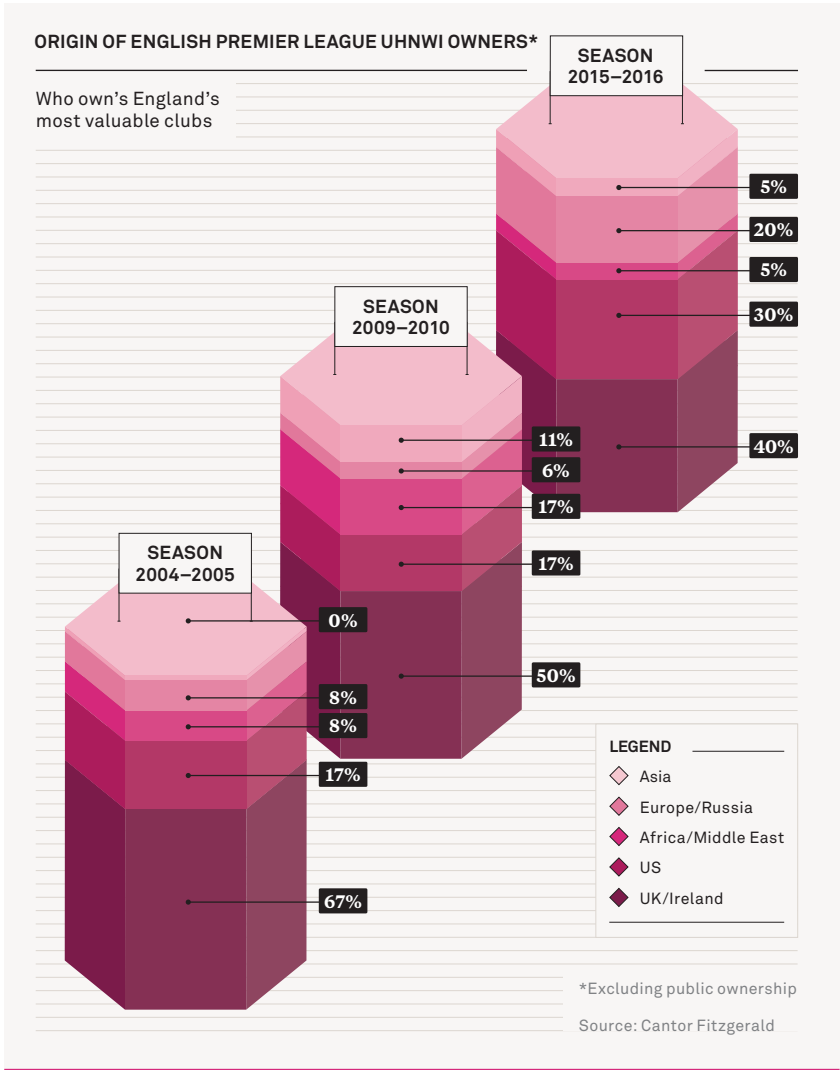
Many assume that this growth cannot be sustained exponentially, but others believe that increased TV revenue is linked to the globalisation of football, and in that sense there is plenty more audience to capture and monetise.

In China and India, fewer than 10% of the population currently “really, really care about football”. The EPL earns just 2p in TV rights per Chinese person, compared with over £35 per Singaporean, according to the business website Sportingintelligence.com.

There are other key revenue streams, ticket sales, of course, being one. But you can buy a season ticket at Bayern Munich for the equivalent of £104 and Barcelona for £74, which is less than the cheapest available in the top four leagues in both England and Scotland.

So how have Barcelona and Bayern Munich become the second and fourth richest clubs in the world respectively, in spite of (relatively) cheap season tickets? There is another strand of revenue aside from broadcasting and match-day income: commercial revenue. These activities include shirt deals, stadium rights and major sponsorship deals on a regional or global level.

Bayern has the second largest kit deal in the world, a 15-year contract



INVEST TO WIN – FIVE LEAGUE OPPORTUNITIES

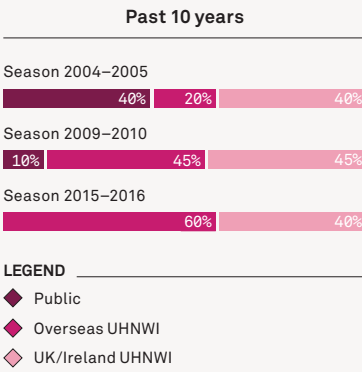
- 1. Portugal Primeira Liga.** Good-value opportunity to participate in Europa League with additional revenues and shop window for talent
- 2. Australian A-League.** Potential to participate in the Asian Champions League with significant TV coverage for under £10m
- 3. Major League Soccer.** Football will be on a rapid trajectory in the US over the next 10-15 years, and the MLS will be at the heart of this
- 4. English Championship.** Massive disparity in TV money with Premier League provides low entry-cost opportunity. Promotion could be worth £200m
- 5. English Premier League.** Not a cheap investment, but TV monies and global commercial opportunities only like to increase over the next 10 years

% of wealth advisors in North America saying clients becoming more interested in sports team opwnership



Source: Attitudes Survey

ENGLISH PREMIER LEAGUE MAJORITY OWNERS BY TYPE



with Adidas worth £42.5m a year to the German club. However, even this pales in comparison to Manchester United’s deal, also with Adidas, worth £75m per year.

There are also other properties for sale: stadium naming rights, training kit deals, leisurewear partners; Manchester United even has an official Global Noodle Partner. The list, the potential and therefore the income, is almost endless.

An indication of fast rising income and huge financial rewards is demonstrable through the increased interest of US private equity firms in the EPL. PEAK6, a Chicago-based vehicle, owns 25% of Bournemouth, while Josh Harris, the private equity executive, has acquired a significant interest in Crystal Palace.

But if you are not a global brand like Manchester United, with companies queuing up to pay millions to partner with you, or an EPL club sharing the spoils of a new mega TV deal, how do you make money from owning a football club?

You go back to that most basic of economic credos: buy low and sell high. Over the last decade Porto, the Portuguese club, has made nearly €500m in player sales. They have also been champions in eight of the last 10 seasons and won the Champions League and Europa League. Real Sociedad has generated €62m in transfer fees since July 2012, from sales



Barcelona: The world’s second-richest football club

Manchester United’s NYSE shares have risen almost 20% this year, while the S&P500 has been flat. The public markets are giving private owners a very clear message


of academy graduates while Lille, chaired by businessman Michel Seydoux, has generated €76m since July 2012.

But many investors coming into football do not have a ready-made scouting network, so is it possible to find the potential big-money sales of the future another way?

One option is to crunch numbers – lots of them. Using thousands of data points it has been possible to create the Cantor Fitzgerald Player Valuation Model (in collaboration with Soccernomics) that shows a player’s ‘intrinsic’ value and even puts a figure on just how much his on-pitch decisions increase his team’s chances of scoring.

The model can also show if it is better to spend big and ride high in a top-flight league or target a lower division club and win promotion.

Football is often seen as a game full of surprises, but what seems certain is the enduring appeal to fans. As a result, its ability to generate money will not change.

REGIONAL WEALTH DISTRIBUTION							
Millionaire (\$1m+) populations				% change			
	2005	2014	2015	2025	2005-2015	2014-2015	2015-2025
North America	3,342,600	4,582,700	4,472,000	5,828,200	34%	-2%	30%
Europe	2,762,600	4,021,800	3,925,400	4,958,100	42%	-2%	26%
Asia	1,731,300	3,147,300	3,096,300	4,687,100	79%	-2%	51%
Middle East	252,100	495,200	479,400	739,300	90%	-3%	54%
Australasia	163,000	395,800	379,000	517,900	133%	-2%	37%
Latin America & Caribbean	336,500	649,500	591,500	841,100	76%	-9%	42%
Africa	92,000	170,900	165,100	254,100	79%	-3%	54%
Russia and CIS	48,300	152,900	146,500	252,400	203%	-4%	72%
TOTAL	8,728,400	13,606,100	13,255,200	18,078,200	52%	-3%	36%
Multi-millionaire (\$10m+) populations				% change			
	2005	2014	2015	2025	2005-2015	2014-2015	2015-2025
North America	144,920	197,890	193,300	251,780	33%	-2%	30%
Europe	87,770	129,940	127,130	160,780	45%	-2%	26%
Asia	47,240	108,140	105,060	171,480	122%	-3%	63%
Middle East	13,320	25,860	25,130	38,740	89%	-3%	54%
Australasia	4,720	11,180	10,980	15,000	133%	-2%	37%
Latin America & Caribbean	14,940	29,370	26,690	37,710	79%	-9%	41%
Africa	4,200	7,800	7,480	11,430	78%	-4%	53%
Russia and CIS	4,470	14,030	13,400	23,080	200%	-4%	72%
TOTAL	321,580	524,210	509,170	710,000	58%	-3%	39%
UHNWI (\$30m+) populations				% change			
	2005	2014	2015	2025	2005-2015	2014-2015	2015-2025
North America	51,934	70,934	69,283	90,247	33%	-2%	30%
Europe	32,073	47,250	46,191	58,465	44%	-2%	27%
Asia	17,531	42,345	41,072	67,999	134%	-3%	66%
Middle East	4,712	9,146	8,910	13,763	89%	-3%	54%
Australasia	1,630	3,864	3,795	5,179	133%	-2%	36%
Latin America & Caribbean	5,279	10,455	9,492	13,380	80%	-9%	41%
Africa	1,602	2,731	2,620	3,933	64%	-4%	50%
Russia and CIS	2,039	6,390	6,105	10,517	199%	-4%	72%
TOTAL	116,800	193,115	187,468	263,483	61%	-3%	41%
Centa-millionaire (\$100m+) populations				% change			
	2005	2014	2015	2025	2005-2015	2014-2015	2015-2025
North America	6,039	8,251	8,058	10,496	34%	-2%	30%
Europe	3,779	5,552	5,423	6,866	44%	-2%	27%
Asia	2,088	5,225	5,062	8,454	142%	-3%	67%
Middle East	556	1,084	1,052	1,623	89%	-3%	54%
Australasia	185	438	430	587	132%	-2%	37%
Latin America & Caribbean	608	1,211	1,098	1,547	81%	-9%	41%
Africa	215	369	351	524	63%	-5%	49%
Russia and CIS	274	859	820	1,413	199%	-5%	72%
TOTAL	13,744	22,989	22,294	31,510	62%	-3%	41%
Billionaire (\$1,000m) populations				% change			
	2005	2014	2015	2025	2005-2015	2014-2015	2015-2025
North America	483	660	645	840	34%	-2%	30%
Europe	316	461	448	569	42%	-3%	27%
Asia	182	504	487	832	168%	-3%	71%
Middle East	50	92	90	140	80%	-2%	56%
Australasia	13	32	31	42	138%	-3%	35%
Latin America & Caribbean	47	96	86	120	83%	-10%	40%
Africa	21	36	35	51	67%	-3%	46%
Russia and CIS	33	101	97	166	194%	-4%	71%
TOTAL	1,145	1,982	1,919	2,760	68%	-3%	44%
Each wealth band includes the number of individuals in subsequent bands eg millionaire populations include multi-millionaires, UHNWIs etc. 2015 figures are provisional.							
							

Countries excluded due to instability: Tunisia, Libya, Zimbabwe, Sudan, Ukraine, Greece, Iraq, Syria.
Source: New World Wealth

The numbers behind the trends

Comprehensive wealth distribution data and regional Attitudes Survey results

The wealth distribution data, provided by New World Wealth, includes historic, current and 10-year predictions for wealth populations in almost 100 countries and

cities. For this year’s Attitudes Survey, conducted in association with Wealth-X, we have included the results at a regional level for the majority of the survey’s find-ings, but a more detailed breakdown of responses and further data for selected countries is also available for those want-ing to delve deeper.

To take part in next year’s survey please con-tact: sarah.may-brown@knightfrank.com

COUNTRY-LEVEL WEALTH DISTRIBUTION																									
		Millionaires (\$1m+)				Multi-millionaires (\$10m+)				UHNWIs (\$30m+)				Centa-millionaires (\$100m+)				Billionaires (\$1,000m+)				UHNWI % change			
Country	Region	2005	2014	2015	2025	2005	2014	2015	2025	2005	2014	2015	2025	2005	2014	2015	2025	2005	2014	2015	2025	2005-2015	2014-2015	2015-2025	
Algeria	Africa	4,100	4,900	4,700	5,700	170	200	190	230	67	81	77	94	9	11	10	12	1	1	1	1	1	15%	-5%	22%
Angola	Africa	1,600	6,500	6,400	9,800	80	340	330	510	17	72	71	109	4	17	17	26	-	1	1	2	318%	-1%	54%	
Argentina	Latin America	21,200	31,900	33,500	42,200	920	1,380	1,450	1,830	316	475	499	629	35	53	56	71	3	4	4	5	58%	5%	26%	
Australia	Australasia	123,400	295,900	290,000	391,500	3,570	8,570	8,400	11,340	1,281	3,071	3,010	4,064	149	357	350	473	12	29	28	38	135%	-2%	35%	
Austria	Europe	68,100	114,100	113,000	140,100	1,390	2,320	2,300	2,850	487	816	808	1,002	56	94	93	115	4	7	7	9	66%	-1%	24%	
Azerbaijan	Russia/CIS	1,000	5,500	5,600	9,500	40	240	240	410	16	86	87	148	2	10	10	17	-	-	-	-	444%	1%	70%	
Bangladesh	Asia	4,500	9,800	10,600	20,700	140	310	340	660	61	134	145	283	6	14	15	29	-	-	-	-	138%	8%	95%	
Belgium	Europe	74,200	116,200	115,000	139,200	1,460	2,290	2,270	2,750	467	731	724	876	50	78	77	93	3	4	4	5	55%	-1%	21%	
Botswana	Africa	1,100	2,500	2,600	4,000	40	90	90	140	11	24	25	38	1	2	2	3	-	-	-	-	127%	4%	52%	
Brazil	Latin America	101,500	225,000	198,000	267,300	5,280	11,700	10,300	13,910	2,004	4,441	3,908	5,276	243	538	473	639	22	49	43	58	95%	-12%	35%	
Bulgaria	Europe	2,000	4,600	4,600	7,100	90	200	200	310	31	73	72	112	3	8	8	12	-	-	-	-	132%	-1%	56%	
Cambodia	Asia	600	1,400	1,500	3,400	30	60	70	160	9	22	24	54	1	3	3	7	-	-	-	-	167%	9%	125%	
Canada	North America	175,900	317,400	292,000	394,200	5,900	10,650	9,800	13,230	2,151	3,880	3,570	4,820	253	457	420	567	21	38	35	47	66%	-8%	35%	
Chile	Latin America	9,100	23,000	21,200	28,600	490	1,250	1,150	1,550	177	448	412	556	21	52	48	65	3	7	6	8	133%	-8%	35%	
China	Asia	152,100	660,600	654,000	1,144,500	7,090	30,810	30,500	53,380	3,026	13,144	13,013	22,773	393	1,705	1,688	2,954	43	187	185	324	330%	-1%	75%	
Colombia	Latin America	25,000	56,700	48,200	62,700	940	2,130	1,810	2,350	297	674	573	745	31	71	60	78	2	4	3	4	93%	-15%	30%	
Cote d'Ivoire	Africa	1,000	2,200	2,300	4,800	40	90	90	190	11	24	25	53	1	2	2	4	-	-	-	-	127%	4%	112%	
Croatia	Europe	5,600	11,500	11,400	19,600	220	450	450	770	60	125	124	213	5	11	11	19	-	-	-	-	107%	-1%	72%	
Cyprus	Europe	8,000	11,900	12,400	17,400	470	700	730	1,020	162	241	251	351	18	27	28	39	1	2	2	3	55%	4%	40%	
Czech Republic	Europe	10,100	17,300	17,000	23,800	450	770	750	1,050	159	272	267	374	18	32	31	43	3	5	5	7	68%	-2%	40%	
Denmark	Europe	49,200	71,200	74,800	101,700	1,320	1,910	2,010	2,730	446	646	678	922	49	71	75	102	3	5	5	7	52%	5%	36%	
Egypt	Africa	18,800	21,900	19,700	23,600	980	1,140	1,030	1,240	460	537	483	580	63	73	66	79	8	9	8	10	5%	-10%	20%	
Estonia	Europe	800	1,700	1,800	2,900	40	80	80	130	13	27	28	45	1	3	3	5	-	-	-	-	115%	4%	61%	
Ethiopia	Africa	1,000	2,600	2,800	5,700	50	130	140	290	14	36	39	80	1	4	4	8	-	-	-	-	179%	8%	105%	
Finland	Europe	32,600	50,200	49,200	63,500	750	1,160	1,140	1,470	384	592	580	748	43	66	65	84	3	5	5	6	51%	-2%	29%	
France	Europe	273,700	336,500	323,000	371,500	6,930	8,520	8,180	9,410	2,818	3,464	3,325	3,824	356	438	420	483	36	45	43	49	18%	-4%	15%	
Germany	Europe	508,600	849,500	824,000	1,087,700	15,680	26,190	25,400	33,530	5,747	9,598	9,310	12,289	679	1,134	1,100	1,452	57	96	93	123	62%	-3%	32%	
Ghana	Africa	700	2,700	2,700	5,000	30	110	110	200	8	30	30	56	1	4	4	7	-	-	-	-	275%	0%	87%	
Hong Kong	Asia	120,800	228,700	215,000	305,300	5,420	10,270	9,650	13,700	2,165	4,100	3,854	5,473	270	512	481	683	27	51	48	68	78%	-6%	42%	
Hungary	Europe	7,800	11,200	12,100	18,800	340	490	530	820	122	176	190	295	14	20	22	34	-	-	-	-	56%	8%	55%	
India	Asia	53,600	248,400	236,000	483,800	3,360	15,580	14,800	30,340	1,368	6,337	6,020	12,341	173	800	760	1,558	18	82	78	160	340%	-5%	105%	
Indonesia	Asia	10,800	49,500	48,500	101,900	560	2,580	2,530	5,310	244	1,118	1,096	2,302	32	146	143	300	4	16	16	34	349%	-2%	110%	
Iran	Middle East	17,800	36,500	32,100	54,600	730	1,500	1,320	2,240	228	466	410	697	36	74	65	111	2	5	4	7	80%	-12%	70%	
Ireland	Europe	66,400	79,200	78,400	100,400	2,200	2,630	2,600	3,330	712	848	840	1,075	76	91	90	115	4	5	5	6	18%	-1%	28%	
Israel	Middle East	42,200	68,300	71,700	111,100	2,310	3,740	3,930	6,090	886	1,434	1,506	2,334	108	174	183	284	10	16	17	26	70%	5%	55%	
Italy	Europe	287,700	321,100	305,000	359,900	6,190	6,910	6,560	7,740	2,504	2,794	2,654	3,132	315	352	334	394	32	36	34	40	6%	-5%	18%	
Japan	Asia	1,032,800	1,235,300	1,260,000	1,587,600	17,130	20,490	20,900	26,330	5,285	6,322	6,448	8,124	543	650	663	835	23	27	28	35	22%	2%	26%	
Jordan	Middle East	3,200	5,700	6,300	11,000	140	250	280	490	51	93	102	179	6	11	12	21	1	1	1	2	100%	10%	75%	
Kazakhstan	Russia/CIS	1,700	5,700	6,200	11,200	130	440	480	860	56	190	207	373	7	25	27	49	1	3	3	5	270%	9%	80%	
Kenya	Africa	3,900	8,300	8,500	15,300	150	330	340	610	48	103	105	189	7	16	16	29	-	1	1	2	119%	2%	80%	
Latvia	Europe	800	1,700	1,800	2,800	30	70	70	110	11	24	25	40	1	2	2	3	-	-	-	-	127%	4%	60%	
Lebanon	Middle East	9,100	14,700	14,100	20,000	580	940	900	1,280	148	240	230	326	26	42	40	57	3	4	4	6	55%	-4%	42%	
Liechtenstein	Europe	3,300	5,300	5,500	7,400	580	910	950	1,280	204	323	336	454	24	38	39	53	2	3	3	4	65%	4%	35%	
Lithuania	Europe	1,100	2,700	2,800	4,500	50	110	120	190	18	42	44	70	2	5	5	8	-	-	-	-	144%	5%	59%	
Luxembourg	Europe	18,100	31,900	32,500	46,500	1,260	2,230	2,270	3,250	416	734	749	1,071	46	80	82	117	3	5	5	7	80%	2%	43%	
Malawi	Africa	100	100	100	200	10	10	10	20	1	1	1	2	-	-	-	-	-	-	-	-	0%	0%	100%	
Malaysia	Asia	19,900	49,100	41,700	68,400	1,200	2,960	2,520	4,130	473	1,168	993	1,629	59	145	123	202	6	14	12	20	110%	-15%	64%	
Malta	Europe	2,700	5,600	5,900	10,900	130	280	290	540	59	124	130	241	8	16	17	31	1	2	2	4	120%	5%	85%	
Mauritius	Africa	1,000	2,900	3,200	7,400	40	130	140	320	12	36	39	90	1	4	4	9	-	-	-	-	225%	8%	131%	
Mexico	Latin America	128,800	202,200	188,000	297,000	5,160	8,110	7,540	11,910	1,729	2,714	2,524	3,988	191	300	279	441	12	19	18	28	46%	-7%	58%	
Monaco	Europe	7,500	11,800	12,200	15,900	1,360	2,140	2,200	2,860	466	733	755	982	52	83	85	111	4	6	6	8	62%	3%	30%	
Mongolia	Asia	300	1,300	1,400	3,100	10	60	60	130	4	22	23	51	1	3	3	7	-	-	-	-	475%	5%	122%	
Morocco	Africa	3,600	4,900	4,800	6,500	160	230	220	300	101	140	136	184	16	22	21	28	2	3	3	4	35%	-3%	35%	
Mozambique	Africa	400	900	1,000	2,300	20	40	50	120	6	12	14	32	-	1	1	2	-	-	-	-	133%	17%	129%	
Namibia	Africa	1,200	3,000	3,100	4,800	40	110	110	170	12	29	30	47	1	3	3	5	-	-	-	-	150%	3%	57%	
Netherlands	Europe	76,600	119,200	118,000	144,000	2,690	4,180	4,140	5,050	1,016	1,580	1,564	1,908	123	191	189	231	11	17	17	21	54%	-1%	22%	
New Zealand	Australasia	39,600	89,900	89,000	126,400	1,150	2,610	2,580	3,660	349	793	785	1,115	36	81	80	114	1	3	3	4	125%	-1%	42%	
Nigeria	Africa	5,500	16,400	15,400	21,600	280	820	770	1,080	75	222	209	293	6	19	18	25	2	5	5	7	179%	-6%	40%	
Norway	Europe	54,200	104,000	103,000	134,900	1,460	2,800	2,770	3,630	533	1,022	1,012	1,326	63	120	119	156	5	10	10	13	90%	-1%	31%	
Pakistan	Asia	8,700	19,300	18,300	27,500	490	1,090	1,040	1,560	177	394	3													

Investment trends will increasingly be driven by tax and policy

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In the first edition of *The Wealth Report*, published in 2007, we highlighted the growing divergence between the fortunes of the very wealthy and everybody else.

The phenomenon, with the rich becoming ever richer, was awarded the moniker ‘plutonomy’ by Citi. In line with the plutonomy investment thesis, investing in goods and services favoured by the wealthy would lead to investment outperformance.

In the case of property at least, this strategy has largely been proved successful. Over the past decade, prices in prime markets have been pushed higher by low interest rates. But it has been the weight of money from wealthy investors looking to secure assets in leading world economic hubs that has propelled markets to record levels.

With mixed policy responses from the US, Europe and Japan, it is too early to claim that the era of low rates is firmly at an end.

However, it is, at the very least, likely that 2016 will see the beginning of an unwinding of the impact of the low cost of debt.

Irrespective of what happens to interest rates during 2016, policy pressure will continue to build

on prime property markets. As we note on page 32, there is increased attention being paid by governments on the impact rising investor demand for residential property is having on affordability in key urban markets.

Higher taxes, curbs on foreign investment and loan caps will continue to spread globally. At the same time investors will continue to demand prime assets, not at any price, but the desire for safe-haven investments in an increasingly volatile economic environment will only grow. As rising demand meets policy barriers, the spread of locations considered by investors will widen.

On page 44 we point to markets where investors have the potential to see out-performance in the near-term. The pressure from investors for stronger income returns in the face of rising rates will see a growing focus on regional residential markets, alternative sectors – like retirement and student housing – and new neighbourhoods close to existing prime markets.

Policy pressure will increasingly inform investment activity.





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