Welcome to The Wealth Report, Knight Frank's annual commentary on global prime property markets, wealth distribution and investment sentiment. As the world’s largest independent property consultancy, Knight Frank works with UHNWIs and their advisors through a network of 330 offices across 48 countries. This makes us uniquely placed to provide advice on all aspects of development and investment across the globe’s key residential and commercial markets.

Over the past eight years, against a backdrop of unparalleled economic instability, The Wealth Report has documented the performance of prime property in the most sought-after international locations. Our experts, led by Knight Frank’s unrivalled global research team, have explored the latest trends, pointed to current opportunities and highlighted some longer-term plays.

I am especially pleased that this year’s report features contributions from leading commentators, including Sir Richard Branson; Dr Pippa Malmgren, former economic advisor to US President George Bush; entrepreneur and philanthropist Lord Harris of Peckham; leading Malaysian industrialist Tan Sri A K Nathan; Laurent Perignon, CEO of luxury yacht business Camper & Nicholson; and James Lawson, founding director of Ludbury Research.

The biggest trend to emerge from this year’s report – and one that is underlined by our revealing interviews with leading developers such as India’s Abhishek Lodha and Australia’s Lang Walker – is the increasing globalisation not only of property investment, but also of funding and development. This trend is reflected by Knight Frank’s strategy of offering a full range of residential and commercial services and expertise in the locations where our clients want to invest, not just now but in the future too.

Over the past 12 months, Knight Frank has opened an additional six international offices, and strengthened its presence in four further markets. We have consolidated our strategic partnership with Sumitomo Mitsui Trust Bank in Japan and expanded our presence in South Africa, with new offices across the Cape and in Johannesburg. We have also entered into a strategic relationship in Canada, providing our clients with access to the important Vancouver market.

Knight Frank’s objective to provide clients with a single platform for viewing the world’s best residential and commercial property opportunities has been reinforced by the translation of our Global Property Search website into 16 languages. This market-leading initiative makes our clients’ key assets more accessible to an increasingly global investor base.

I hope you enjoy reading the eighth edition of The Wealth Report. If you have any queries please do contact me or any member of The Wealth Report team. We will be delighted to help.
The global response to the financial crisis continues to boost property markets in many parts of the world. The latest results from our Prime International Residential Index (PIRI) confirm that Asian markets, led by Jakarta, still lead in terms of price growth. Locations that were hardest hit by the downturn, like Dubai, Dublin and now Madrid, are also bouncing back strongly. For the latest trends and forecasts, see pp32-41.

Continued global wealth creation, particularly in emerging markets, has been a key driver for prime property markets. This trend looks set to continue with a forecast increase of 28% in the total number of UHNWIs around the world by 2023. Shifts in wealth distribution contribute to changing fortunes in our Global Cities Survey, which measures the most important cities to the world’s UHNWI community. While London retains its top spot in 2014, New York looks set to overtake by 2024. On pp26-31, we comment on the growing competition for urban supremacy in Asia, and point to some likely future hotspots. As we note throughout this year’s report, investors’ appetite for risk is growing. The withdrawal of stimulus measures such as quantitative easing may be one catalyst, but so too is rising economic confidence, especially in North America and Europe. As we explore on pp32-35, investment decisions are destined to take on an increasingly adventurous flavour; and recovering European property markets, which were firmly off the radar two years ago, are seen by many as a key opportunity for this year and next (pp32-41). This new-found desire for risk does not presage a wholesale flight from prime to secondary property. As we note in our analysis of UHNWI attitudes (pp8-15), the enduring appeal of luxury property ensures that it will remain a central part of the wealth portfolio.

While Asia’s growing domination of our rankings and league tables continues, the Middle East, Africa and Latin America are increasingly taking the lead in terms of demand for overseas education, luxury spending and property investment. With the introduction of a new Luxury Opportunity Index, our Skyscraper Index, the comprehensive benchmarking of the world’s most important cities and analysis of 90 prime residential markets, together with new data on luxury investment performance, wealth trends and global property investment forecasts, The Wealth Report has the world covered.

Indeed, with our look at how sub-orbital travel could shape the future of the property market and open up investment opportunities in space (p40), you could say we’ve gone one step beyond.

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We explore the findings from The Wealth Report’s annual Attitudes Survey and share the views and insights of the UHNWIs and advisors on our new Wealth Panel.

Words ANDREW SHIRLEY

ACCESS ALL AREAS

ANNUAL ATTITUDES SURVEY RESULTS

Wealth Trends
Prime Residential Property
Property Investment
Luxury Investments
Education
Migration

or the past four years The Wealth Report’s Attitudes Survey has provided a detailed and fascinating insight into the attitudes of the world’s UHNWIs, from portfolio allocation to favoured investments of passion. This year the survey is more comprehensive than ever. It reflects the attitudes of over 23,000 UHNWIs worth on average US$68m each, with a combined wealth of more than US$1.5tr. For detailed results, go to Databank (pp60-62).

We also include some very personal perspectives on the issues covered by the survey. The views of our Wealth Panel of UHNWIs and leading wealth experts and advisors feature on the following pages, throughout the rest of the articles in the report and also in our dedicated Wealth Panel Vox Pop columns.

The big question is: are the rich getting richer? According to three-quarters of the survey’s respondents – private bankers and wealth advisors – the answer to that question is “yes”. When asked how their UHNWI clients’ net worth had changed on average in 2013, 75% said it had increased and only 4% said it had fallen. Respondents from Asia were the least positive, although even they were still far from gloomy. Just under 70% reported an increase, compared with 72% in Europe and 81% in North America.

“Even if things do slow down a bit I don’t think there is cause for concern,” says wealth panellist Lawrence Wong, a senior executive at Bank of China International Limited. “US–China trade keeps on growing, business is becoming more transparent and Chinese UHNWIs are becoming more comfortable dealing with international markets.”

Looking forward, the global picture is slightly less bullish, but optimism still remains high. Almost two-thirds of respondents said their clients were positive about wealth creation prospects in 2014. Only 4% said they were downbeat, but the proportion expecting the status quo to be maintained rose to 34%.

This more cautious view probably reflects ongoing concerns about the robustness of the economic recovery and whether last year’s equities bounce can be sustained, as well as other factors, such as a reduction in the US Federal Reserve’s quantitative easing programme. See pp17-18 for more detail.

Lord Harris of Peckham, one of the UK’s most successful entrepreneurs and another wealth panellist, is becoming more optimistic about the prospects for wealth creation. Nevertheless, he says economic recovery is still slow and that this is not the time to take risks. “In this market you want to be very safe. Invest in the stock market, but be careful.”

Malaysian steel magnate Tan Sri A K Nathan says his strategy for 2014 will be to integrate new business ventures into his Eversendai group. “We have been through many challenges, including the crisis of 2007, and come out stronger. Eversendai is a well-diversified group with presence across many regions and sectors, which should help us expanding further in the coming years.”

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Although 58% of survey respondents said global economic conditions were likely to have a positive effect on their clients’ ability to generate wealth in 2014, a third said they could also pose the biggest risk. Only in Latin America were local economic conditions considered more of a threat.

While the overall results of the Attitudes Survey show the macro concerns of UHNWIs around the world, our detailed Wealth Panel interviews reveal some more nuanced individual views. When asked, for example, what poses the biggest risk to wealth creation, Lord Harris points to the growing number of 18 to 20-year-olds in the UK and Europe without work and with little hope for the future.

Another successful entrepreneur, David Leppan, also highlights Europe’s younger generation as a potential barrier, but his view is slightly different. “More and more young people seem to have a sense of entitlement, without having to do anything.” He compares this with the attitudes of the less well off in India. “The battle to survive means the entrepreneurship there is mind-blowing, you see examples of it on every street corner.”

OBJECTS OF DESIRE

Unsurprisingly, as wealth increases worldwide, so too does the level of spending on luxury goods. According to Torsten Müller-Ötvös, ChiefExecutive ofBentley-Royce Motor Cars, much of the company’s record performance in 2013 was driven by emerging markets, with sales up 17% in the Middle East and 11% in China. Other hotspots included Japan, Istanbul, Beirut, Lagos, Hanoi and Perth.

On average, 36% of Attitudes Survey respondents reckon their clients will carry on spending more in 2014, with sentiment most bullish in Africa (46%) and most cautious in Europe (30%).

Investments of passion – collectables such as art and classic cars – feature high on the shopping list of many UHNWIs. According to the Attitudes Survey, jewellery is the second most popular, particularly in emerging markets, followed by art, watches and wine.

Worldwide, art is seeing the biggest jump in popularity, with UHNWIs in emerging markets once again setting the pace. On balance, 86% of respondents with clients in Latin America reported growing interest, followed by 58% in the Middle East and 57% in Russia and the CIS. Wine, watches and cars also ranked highly in terms of their increasing desirability.

Although personal pleasure was cited as the biggest reason why UHNWIs collect investments of passion, 46% compared with 22% as an investment for capital growth or as a safe haven – the collectors among our wealth panellists are also hopeful their collections will not lose value. David Leppan, for example, favours Italian and Spanish Old Masters, which he believes are currently undervalued, for his art collection.

Personal passions can also affect business decisions. Australia’s leading private property developer Lang Walker, who cites his 8-year-old son’s SY Kokomo as his favourite investment of passion, says it is no coincidence that many of his luxury developments are near the waterfront. “It just love being on the water.”

However, luxury is not all about material matters, according to our panellists. The ability to learn or achieve something new, such as driving a racing car or climbing in the Himalayas, is the preferred investment of passion for former US presidential advisor David Peckalmalmgren. And, while art may be his favourite investment of passion, Indian property developer Abhishek Lodha says the one luxury he can’t do without is organic food sourced from the most authentic producers. For Lawrence Wong it is early retirement.

Lord Harris is another art collector, but his main passion is sport. Unlike a growing number of UHNWIs he hasn’t bought his own football team, although he does sit on the board of English Premier League club Arsenal. Instead, he is joint owner of the show-jumping horse Hello Sanctos, which won gold in the team event at the 2012 London Olympics. An individual gold in Rio is his next target.

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Meet our global panel of wealth experts, advisors and UHNWIs. Their views and insights bring additional depth – and some unique personal perspectives – to this year’s Wealth Report.
Just over a fifth of UHNWIs, on average, are considering buying a new home in 2014, although the figure rises to almost a third of UHNWIs living in Russia and the CIS.

This echoes the response given when respondents were asked how many of their clients were thinking permanently changing their domicile or country of residence. In the Russia and CIS region it was 37%, against a global average of 15%. Australians (86%) were the least likely to want to move elsewhere.

Globally, the UK is considered the number one destination for those seeking a new domicile, although the US is still more popular with Asian UHNWIs. "Passports are most in demand,” said Tan Sri A K Nathan. “I am very optimistic about Asia, in particular India over China,” says David Leppan.

**SOLID FOUNDATIONS**

Property is not just a place to live; it is also a popular place to invest, accounting for 24% of UHNWI investment portfolios. Over 40% of survey respondents said the assets they had increased their allocation to properly last year, with 47% expecting it to rise further in 2014.

In terms of commercial property investments, overall UHNWI interest is focused most tightly on office space, with a net balance of 33% of respondents saying their clients were becoming more interested in the sector, compared with 24% for retail space and 22% for hotels.

Around the world, however, there are clear regional variations. For example, hotels are growing in popularity in the US, with 47% of survey respondents expecting clients to increase their stock market holdings in 2014. Lawrence Wong says his bank’s clients are moving more to equities, but still want to minimise risk. “They are looking at big conglomerates with a good track record.”

Goh Chong Ean, Executive Director and Head of High-Net-Worth Banking at Malaysia’s Overseas Union Bank, says: “UHNWIs in Malaysia are demonstrating increased confidence in investing in developed markets, due largely to the signs of economic recovery in the US and the eurozone. This can clearly be observed in the market fund flows from emerging market bonds into developed market equities. While they continue to invest locally, UHNWIs are also increasingly interested in overseas investment opportunities that will diversify their portfolios and help them to manage risk.”

At the other end of the scale, 40% of survey respondents predict a decline in exposure to gold, which saw almost 30% wiped off its value in 2013. A plucky 14%, however, reckon this could be the time to buy. Sir John Gardner, Head of Investment Management at UK bank Ashburton, adds: “What we are seeing is that there is a large amount of cash from sales of gold and Western sovereign debt sitting on the sidelines, which we think will be deployed in 2014 into global equities and tangible assets like property.”

When asked which parts of the world were likely to offer the best returns in 2014 there was limited consensus from respondents, but that rising wage costs in the developing world will lead to industry returning to the West. Pippa Malmgren points to warehousing and storage facilities near manufacturing centres.

For others, it can come down to personal taste. David Leppan says he likes "boutique" properties in the finest locations that are a little bit “quirky”, such as the London headquarters of his Wealth-X Business, located in a historic gatehouse near the Ritz Hotel in London’s Mayfair.

Scale, diversification and design are important to Lang Walker, who looks for “superbly designed spaces for the residential, retail, commercial, industrial and community markets” when choosing which schemes to develop.

GOLD RUSH: Outside property, equities are back in favour as the most popular asset class, with 70% of respondents expecting clients to increase holdings in 2014.

Our wealth panellists have varying views on where they will see the strongest growth, but emerging markets were strongly "I see our company expanding into East Africa, Australia and the CIS. The biggest growth potential is in the CIS as they have the resources to push for development," says Tan Sri A K Nathan. "I am very optimistic about Asia, in particular India over China," says David Leppan.

**GIVING IT BACK**

One of the most socially contentious issues of recent years, and one we have reported on in previous editions of The Wealth Report, has been the growth of philanthropy, or the increasing concentration of wealth within a smaller segment of the world’s population.

Addressing this issue through wealth redistribution is important to many UHNWIs, including our wealth panellists and survey respondents: only 6% expect their clients to decrease their philanthropic activities in 2014, with 21% predicting a rise.

David Leppan, who has been closely involved with charity SOS Children’s Villages, which works to improve children’s lives through educational and sustainable programmes in disaster areas, believes that the wealthy have a responsibility to be philanthropic. In the US, he says, it is ingrained, often going as far back as three generations within families, but it is still a relatively new concept in emerging markets such as Asia.

"Many UHNWIs in China are definitely searching for new ways to give more back to society,” agrees Lawrence Wong. Aishahbek Lodha says: “It is a must for the privileged to exhibit that wealth creation contributes to society in a meaningful way.”

The charitable work of Lord Harris, who gives away 20% of his wealth, is a prime example of how one person’s wealth can make a difference. Over 10,000 patients a year are treated at the Harris Birthright Centre in London, which specialises in foetal medicine, while thousands of disadvantaged children make a difference. Over 10,000 patients a year are treated at the Harris Birthright Centre in London, which specialises in foetal medicine, while thousands of disadvantaged children benefit from attending one of the 28 academies that form part of the Harris Federation schools network.

"State education in this country is so poor I know I could do better," says Lord Harris, who prefers to be actively involved in his philanthropy. Every place at his academies not be empty. About 10 applications and many of the students go on to win places at the UK’s best universities. “Once you have done well in life you should help others,” he says. **

*For full attitudes survey responses, see datamark, p60

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As the economic downturn slowly starts to recede, we analyse data from more than 90 countries to give a detailed picture of current and forecast future global wealth distribution.

The number of ultra-wealthy individuals across the globe rose by 3% last year, despite continued economic turbulence and uncertainty in many countries. This means that nearly 5,000 people joined the ranks of UHNWIs in 2013, taking the number of individuals with US$30m+ wealth band.

The number of UHNWIs across the world has ballooned by 59% since 2003, more than doubling in the Middle East, Latin America, Australasia and Africa. The number of centa-millionaires – those with US$100m in net assets – has risen by 53%, while the tally of billionaires has climbed by 80% to 1,682, according to exclusive new data prepared for The Wealth Report.

The results of WealthInsight, a leading wealth intelligence firm, are clearly reflected in the low rate of UHNWI growth during the year, with fewer than 50 people joining the US$30m+ wealth band. The results of The Wealth Report’s annual Attitudes Survey of wealth experts and private bankers also indicated that more than one in 10 Latin American UHNWIs had seen their wealth eroded in 2013, a higher proportion than in any other global region (see Databank, p60). But the outlook is brightening somewhat for Latin America. Economic growth is expected to increase modestly...
economic advisor to US President George Bush and one of our wealth panelists, says the question of how the US and UK will exit from QE is the “quadrillion dollar question. Literally.”

The size of the US economy means that it has a disproportionate impact on the rest of the world. Our Attitudes Survey results show that North Americans are more concerned about the local political situation and tax environment on their ability to create wealth than nearly every other region; perhaps not surprising given the domestic consequences of tapering as well as the efforts at budget balancing that led to a temporary government shutdown last year.

Those outside the US are also concerned about the consequences of tapering. Likewise, the slowdown in the pace of growth in the Chinese economy recently has prompted speculation over the challenges facing the world’s second-largest economy in the years to come. China faces some key challenges as it seeks to rebalance its economy away from dependency on exports and large-scale government investment towards domestic demand and the opening up of consumer credit. The country’s relatively new political leaders will also need to prove themselves, and engender confidence in their ability to steer the nation on a course towards sustainable economic expansion.

The outlook for wealth creation in China is certainly positive. Oxlana Vlasova, chief analyst at Wealth Insight, says: “In terms of future hotspots, China is encouraging the development of the financial sector, which is the prime source of wealth and prosperity for many global markets. The new reforms announced by the Chinese government designed to invigorate the state-owned financial sector and allow private ownership of banks will inevitably lead to the availability of credit to the growing middle class. This will see their spending power rise while providing a new source of revenue for UHNWI.”

Wealth Insight forecasts that the number of UHNWIs will grow by 80% in China over the next decade, while the number of billionaires will also rise by 80%, to hit 322. This will equal the total number of billionaires in the UK, Russia, France and Switzerland combined.

Wealth creation in India, the world’s third-biggest economy, is also expected to accelerate, with the number of centa-millionaires growing at a rate of around 7% a year. Even with the hurdles facing China, its influence should not be underestimated, according to Jim O’Neill, former chairman of Goldman Sachs. He said recently: “Unless China really slows down, its impact on the rest of the world will be enormous. Unless China really slows down, its contribution to the world is just going to get bigger and bigger. Although growing at a rate of around 7%, less than during the past 20 years, China will add an extra US$1tr to global GDP every year this decade. It’s the equivalent of adding another Germany and Japan to the world by the end of the decade.”

Escalating tensions with Japan over the disputed Senkaku/Diaoyu islands in the East China Sea are also a growing geopolitical issue. There is a risk of a genuine confrontation, especially given the immense value of the gas beds and fish supplies that lie in the disputed area.

**GLOBAL WEALTH DISTRIBUTION**

The global outlook for 2014 is also brighter, with signs of sustained growth in the US and the eurozone, and a stabilisation in key Asian economies. Earlier this year, the International Monetary Fund (IMF) revised up its global growth forecast for 2014 by 0.1 of a percentage point to 3.7%, up from 3% growth in 2013. The global outlook for 2014 is also brighter, with signs of sustained robust growth in wealth creation over the next decade.

**BRIGHT HORIZONS**

**For further details on WealthInsight’s forecast, visit:**

www.WealthInsight.com
Asian cities are expected to see the fastest growth in the number of ultra-wealthy individuals over the next decade. Nairobí is the only non-Asian city to feature in the top 25 cities ranked by the number of UHNWIs in the country during the year. Nevertheless, the growth of UHNWIs in China and India, coupled with an eye-catching 144% increase in Indonesia and a stellar 166% hike in Vietnam, will help push the total number of UHNWIs in Asia up by 43%.

The Vietnamese government moved early this year to allow foreign investors to take larger stakes in the country’s listed companies. These moves, coupled with the country’s successful rebalancing of the economy away from agriculture to industry and manufacturing and the recent success in bringing inflation under control, should help underpin growth and augment opportunities for wealth creation.

Head for the City

As well as analysing wealth distribution at regional and national levels, The Wealth Report looks at the status of key urban centres.

However, this rapid growth must be balanced against the fact that, as in many of the fastest-growing cities, Ho Chi Minh’s UHNWI population is coming from a very low base. Last year the city, with a total population of nine million, had an estimated UHNWI population of just 90. Jakarta is in second place on the list, with expected growth of 148%, while Ordos in inner Mongolia claims third place with 141%. The top European entry is St Petersburg in Russia, while the fastest-growing Latin American city is Buenos Aires. Houston is the most buoyant urban centre in North America, with forecast growth of 57%.

London was home to the most UHNWIs in 2013, and this will still be the case in 2023, with nearly 5,000 expected to be living in the UK’s capital by then. Singapore and New York will leapfrog Tokyo and Hong Kong to take second and third places respectively. The prevalence of wealth being attracted to, and created in, cities is highlighted by the fact that the top six cities have more UHNWIs living in them than the whole of Latin America and the Middle East combined.

About the wealthy

The number of UHNWIs in Asia is set to reach 58,588 by 2023, overtaking the total number in North America. The number of billionaires is expected to grow by 28% in the coming decade, reaching around 215,000 by 2023.

Around 84% anticipate that global and local economic conditions will be the biggest positive influence on their ability to create wealth. However, this rapid growth must be balanced against the fact that, as in many of the fastest-growing cities, Ho Chi Minh’s UHNWI population is coming from a very low base. Last year the city, with a total population of nine million, had an estimated UHNWI population of just 90. Jakarta is in second place on the list, with expected growth of 148%, while Ordos in inner Mongolia claims third place with 141%. The top European entry is St Petersburg in Russia, while the fastest-growing Latin American city is Buenos Aires. Houston is the most buoyant urban centre in North America, with forecast growth of 57%.

London was home to the most UHNWIs in 2013, and this will still be the case in 2023, with nearly 5,000 expected to be living in the UK’s capital by then. Singapore and New York will leapfrog Tokyo and Hong Kong to take second and third places respectively. The prevalence of wealth being attracted to, and created in, cities is highlighted by the fact that the top six cities have more UHNWIs living in them than the whole of Latin America and the Middle East combined.

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Over the next decade, the growth in UHNWIs will be highest in the Middle East, Latin America and Asia, with the biggest rise of all in Africa, albeit from a low base. The number of Africans with US$30m in assets is set to grow by 53% to 2,858 by 2023, far outstripping the average pace of growth across the rest of the world. The number of centa-millionaires is set to rise by 51%, and by 2023 there will be 38 billionaires based on the continent.

Ms Vlasova says: “Africa’s potential for wealth creation should not be underestimated, given the amount of foreign investment, including social investment, it has received and is likely to receive in the future.” The economic outlook is also positive, with faster growth forecast for sub-Saharan Africa than for most developed countries. But, as Ms Vlasova highlights, infrastructure must be in place before significant wealth creation can flow from an expanding economy.

“Economic growth is a major factor in wealth creation. However, it takes time for GDP growth to create wealth growth. Wealth growth is heavily dependent on the strength of the local banking system. For instance, in countries such as Cote d’Ivoire and Ethiopia, strong GDP growth has not yet translated into UHNWI numbers due to a weak banking system.”

“Ownership rights are also key as individuals are unlikely to invest if they are unsure if they own an asset. A prime example of this is Zimbabwe, where an erosion of those rights, among other issues, has had an impact on wealth.”

At the other end of the spectrum, Australasia will experience the most modest uplift in the number of wealthy residents, with an 18% rise in UHNWIs and a 20% shift in centa-millionaires. However, Ms Vlasova says: “This slowing in growth takes into account the expected weakening of the Australian dollar over the forecast period.

“It also has to be remembered that Australia is already one of the wealthiest countries in the world on a per capita basis, ranking second finally in the world behind Switzerland. The average Australian is now worth over US$250,000, so this is not to say that there isn’t wealth creation, but it is perhaps slightly slower at the very top end.”

**EUROZONE**

The eurozone may have fared from the headline in 2012, but the risks facing the single currency area are still very much present. Dr Malmgren says: “I think that this view that everything is calm is wrong. There is a dagger at the heart of the eurozone which is the rising inflation differential.”

She points to the European Central Bank’s decision to cut interest rates to 0.25% in November last year: “The rate cut delivered by the ECB was considered absolutely insufficient by Spain, which is suffering from deflation, and absolutely dangerous by Germany, where the price of goods is rising. So you’ve got a problem of conflicting interests.”

The Economist Intelligence Unit still rates the eurozone as one of the key risks for the global economy in the future. But, despite the worries over the fate of the single currency zone, economic growth there did improve last year, with the region tentatively emerging from recession.

There were also some notable pockets of optimism in Europe in 2013, including Greece and Ireland, two of the countries that suffered most in the wake of the financial crisis. Ireland gave itself an early Christmas present last year by exiting the EU and IMF bailout package put in place in 2010. Although dealing with the fallout from the crisis, especially in the banking sector, will weigh on the country for years to come, some positive signs have emerged – not least a pick-up in house prices and a robust 35% rise in the Irish stock exchange during the year.

The Greek economy may have remained in recession last year, but was buoyed on the election of a new government and a 3% rise in the Athens exchange. The island nation’s UHNWI numbers may have been boosted to some extent by those arriving from overseas, rather than an underlying growth in wealth. Attracting wealthy individuals as residents can be beneficial, especially if they also relocate their businesses.

**GLOBAL WEALTH DISTRIBUTION**

New data from WealthInsight shows the extent to which the number of UHNWIs has fallen in the aftermath of the financial crisis. The number of UHNWIs in Europe, which bore the brunt of the crisis in terms of wealth creation, is still near 3,000 lower than in 2007. In North America, there are around 800 fewer UHNWIs than at the 2007 peak.

WealthInsight says that the real damage to wealth creation and preservation was felt across 2008 and 2009 when nearly 20% of UHNWIs in Europe slipped down into a lower wealth “banding”. This compares with just 6% of UHNWIs in the Asia-Pacific region and less than 1% in North America. WealthInsight’s wealth bands start at US$5m, rising to US$50m, US$300m, US$1bn and finally billionaires. Monitoring the proportion that stayed within their original wealth bands is as important as analysing the fluctuations, WealthInsight says. On average, 90% of wealthy individuals have seen no change in their net worth. The periods between 2007 and 2008 and 2012 and 2013 were both characterised by “no change”, whereas 2010–2011 saw the biggest movements between wealth bands.
a more modest 39% uplift. In fact, the data shows that the number of UHNWIs in Russia fell last year. Mr Vlasova explains: “The data may not adequately reflect the wealth creation happening in Russia as the movement of UHNWIs from Russia to live or run their businesses in other parts of the world has affected, and will continue to affect, the figures. The departure of these UHNWIs from Russia has boosted the number of UHNWIs in global cities such as London, New York and Dubai, and will continue to do so in global investment being experienced in those financial centres.”

Russia also faces other challenges in the decade to come, she adds. “These include a depreciation of the local currency against the US dollar, the relative weakness of the local equity markets, and a reliance on commodities, which are expected to perform poorly.” UHNWIs, and in particular centa-millionaires and billionaires, are often globally mobile, with property and business interests in many different locations. This trend is only likely to grow more prevalent, especially as an increasing number of countries seek to repair their balance sheets by raising taxes across the board. The political benefits of imposing wealth taxes also make them an attractive option for governments. In recent years, this has resulted in more UHNWIs thinking very carefully about where to base themselves.

Dr Malmgren says: “I would argue that the UK has now emerged as the world’s most attractive residence for non-doms. This is underpinned by the UK’s burgeoning economic recovery. PricewaterhouseCoopers has forecast that the UK economy will grow faster than any other European country this year. “Birmingham, for example, is seen as a net beneficiary of the return of manufacturing in the Midlands, the fact that property prices are rising across the country and the fact that London can’t keep expanding forever,” says Dr Malmgren. In January, it emerged that China had offered to invest in both the proposed High Speed 2 (HS2) railway between London and Birmingham and in Birmingham Airport, where a new runway should from this year allow many more direct flights to international destinations, including China.

Texas calling
Dr Malmgren argues that increasing labour costs in emerging economies are making manufacturing in developed economies such as the US and UK more competitive again. Apple, for example, is moving its production facilities back to the US, and Foxconn, the Chinese company that assembles Apple’s iPhones, is investing in a new state-of-the-art manufacturing facility in Harrisburg, Pennsylvania, creating around 500 jobs. So far London seems to have been the main beneficiary of investment into the UK, but Dr Malmgren says that there is scope for some investment to flow past the capital and into the regions, underpinned by the UK’s burgeoning economic recovery. PricewaterhouseCoopers has forecast that the UK economy will grow faster than any other European country this year. “Birmingham, for example, is seen as a net beneficiary of the return of manufacturing in the Midlands, the fact that property prices are rising across the country and the fact that London can’t keep expanding forever,” says Dr Malmgren. In January, it emerged that China had offered to invest in both the proposed High Speed 2 (HS2) railway between London and Birmingham and in Birmingham Airport, where a new runway should from this year allow many more direct flights to international destinations, including China.

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The top spots may be secure for now, but there’s plenty of movement elsewhere in this year’s Knight Frank Global Cities Survey.

The SHAPE OF THINGS TO COME: SAO PAULO IS THE LEADING FUTURE UHNWI HOTSPOT, ACCORDING TO OUR GLOBAL CITIES SURVEY

The results of our Global Cities Survey mean the mayors of London and New York can sleep easy. No Asian, Latin American or Middle Eastern ingenue has broken rank to challenge the long-standing dominance of the two mighty metropolises at the top of our rankings.

However, it was never likely to happen this year; nor for that matter do we expect it to happen in the foreseeable future. History, location and their long-established wealth mean that London and New York’s positions look unassailable, at least for now. It is further down our leader board that the real city wars are being waged. The main battleground is Asia, where a handful of locations are slugging it out in the hope of establishing a clear lead as the region’s alpha urban hub.

Of course, there will always be a keen rivalry between London and New York as to which takes the crown of leading global city. This year London is in first place according to our survey but, in reality, there is very little to separate the two cities.

While New York pulls ahead of London in terms of economic activity and political power – two of the four categories used by the Global Cities Survey to analyse city performance since its inception in 2008 – a pair of new measures incorporated into our methodology this year help nudge London slightly ahead.

As well as relying on the detailed macro datasets that we use to rank cities on four key criteria – economic activity, quality of life, knowledge & influence and political power – we have also taken into account each city’s UHNWI population (see p20) as well as responses from The Wealth Report’s annual Attitudes Survey of wealth advisors from around the world.

When respondents were asked to select which cities were most important to their UHNWI clients now, London scored more highly in the global popularity stakes than New York. However, looking forward, our results suggest that by 2024 New York should surpass London as its share of the world’s UHNWIs rises and the city becomes increasingly important to Chinese, Russian and even European UHNWIs.

Leaving aside London and New York, Asia dominates the higher end of our rankings, accounting for four of the survey’s top 10 places. This is set to rise to five in 2024. One of the key differences, however, between Asia and Europe and North America is Asia’s lack of a single dominant city. This is why we are now seeing the power struggle I mentioned earlier, with Singapore, Hong Kong, Shanghai and even Beijing all contenders for the title of future leading Asian city.

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The top spots may be secure for now, but there’s plenty of movement elsewhere in this year’s Knight Frank Global Cities Survey.
While Singapore leads the race at the moment, Hong Kong is set to overtake it by 2024. Despite the proliferation of economic success stories across Asia, the dominance of China is set to overtake it by 2024. Despite the geographical remoteness, it is blamed for it. The status of the country’s autonomous movements may be unknown, but the risks are real. That said, an authoritarian state can stop isolated attacks turning into campaigns. More broadly, terrorism tends to occur in densely populated cities and cities are an urbanising world. New York, London, Moscow and Mumbai are more risky than Beijing. Paris is one to watch. Which is a focus for terrorist groups from Mali, Niger and Mauritania, who see France as the foreign power most directly influencing their affairs.

But the risk of a large-scale attack, such as a dirty bomb in a Western city, is, I think, very low, due to the detection architecture in place to prevent terrorists obtaining and deploying such material.

**THE WEALTH REPORTS GLOBAL CITIES SURVEY IS BASED ON FOUR KEY CHARACTERISTICS. WE ASKED FOUR LEADING COMMENTATORS FOR THEIR VIEWS ON WHICH CITIES ARE RISING UP THE RANKS IN EACH CATEGORY AND ON THE BIGGEST THREATS TO THE CURRENT WORLD ORDER. THE CATEGORIES ARE RANKED 1-4, REFLECTING THEIR IMPORTANCE TO UHNWIS BASED ON THE RESULTS OF OUR ATTITUDES SURVEY.**

**ECONOMIC ACTIVITY**

Mark Yeandle assesses growing city rivalry in global financial services. Being global centres for financial services no doubt enhances the appeal of London and New York to the world’s wealthy. But while these cities are secure for now within their respective time zones, the hottest competition is for the title of Asian financial capital, currently split between Hong Kong and Singapore. Although Singapore has been slowly closing the gap, one potential determining factor is the prospect of China shifting to full currency convertibility, the lack of which has held back Shanghai’s financial sector as well as Hong Kong’s. Overall, London is in a great position, with its 300-year history of governance, institutions, knowledge and infrastructure. But the emergence of a true Middle Eastern hub – like Abu Dhabi, Dubai, Doha or Istanbul – could see London lose some regional dominance.

If I could point to one risk, it would be regulation. Unlike New York, the city is answerable to a supra-national authority (the EU), and this could pose problems in the future.

William Bratfisch looks at the governments of power to protect life and property. Residents of the world’s key cities should be more worried about crime, pollution and the daily commute than terrorism. But the question is, how will the risk evolve, and how prepared are governments to combat it? In China, for instance, the risk is that wealth fails to trickle down and the system is blamed for it. The status of the country’s autonomous movements may be unknown, but the risks are real. That said, an authoritarian state can stop isolated attacks turning into campaigns. More broadly, terrorism tends to occur in densely populated cities and cities are an urbanising world. New York, London, Moscow and Mumbai are more risky than Beijing. Paris is one to watch. Which is a focus for terrorist groups from Mali, Niger and Mauritania, who see France as the foreign power most directly influencing their affairs. But the risk of a large-scale attack, such as a dirty bomb in a Western city, is, I think, very low, due to the detection architecture in place to prevent terrorists obtaining and deploying such material.

**QUALITY OF LIFE**

TimLuckhurst highlights the burgeoning influence of the media in the developing world. Most growth in media today is taking place in parts of the world where freedom of expression is restricted. An investment in the media is no longer an investment in free speech. No doubt there is potential if you can provide the type of coverage the regime wants. But the question is what extent your reputation suffers in the developed world.

Real openness still does not exist in China’s key cities, but there is evidence of censorship becoming less overt. A couple of years ago, I would have been astonished to see coverage of an event like the 2013 Tiananmen Square car bomb. It was reported within hours, albeit by approved reports.

China is a monolithic developing state that often behaves predictably. But the risk of a large-scale attack, such as a dirty bomb in a Western city, is, I think, very low, due to the detection architecture in place to prevent terrorists obtaining and deploying such material.

**KNOWLEDGE & INFLUENCE**

Shamil Yenikeyeff examines the impact of changes in the Middle East on Beijing. A major geopolitical change that will take place in coming years is the withdrawal of the US from the Middle East and Afghanistan after 2014. A major factor behind this is the US shale gas boom and its self-sufficiency in energy terms. So, who will fill this void in the Gulf? While Riyadh and Doha will have a louder voice in the region, the gap will largely be filled by Beijing, causing huge changes over the next decades. We should start to see the first flickers of this in 2014.

The result could be a partnership between Beijing and Washington, aimed at maintaining world security and stability. China is particularly concerned with the security of energy supplies from the Middle East, which is likely to continue to play a major role in the global oil market.

In Moscow, there is some anxiety within the business community over levels of state control in the domestic economy and Russia’s exposure to volatile energy markets. The question remains as to what role Moscow will play in global affairs: that of an energy power or a service economy to China.
that succeed in attracting the investment and spending that follow the global wealthy, there is also a real need for partnership between cities.

We have noted before the symbiotic relationship between New York and London in financial and business services; now that same relationship is developing in the political arena between Washington and Beijing. While the rankings may change, the reality is that the lifestyle of global cities, with multiple residences, means cities are being drawn closer together.

Wealth creation in São Paulo will have an effect in Miami. Instability in the Gulf will see investments moving into Istanbul and London.

The candy city mayor will increasingly realise that future success depends more on building a robust web of economic, political and cultural links with other cities than on simply trying to outperform the competition.  

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**World in Motion**

*The cities that matter to the world’s wealthy*

**Top Cities by Attribute**

- **Economic activity:**
  - New York
  - London
  - Tokyo
  - Hong Kong
  - Toronto

- **Knowledge & influence:**
  - London
  - New York
  - Paris
  - Singapore
  - Brussels

- **Quality of life:**
  - New York
  - London
  - Paris
  - Singapore
  - Tokyo

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**Top Cities by Region and Top Five Future Hotspots**

**North America**
- **Top Cities:**
  - New York
  - Toronto
  - Chicago
  - San Francisco

**Latin America**
- **Top Cities:**
  - São Paulo
  - Buenos Aires
  - Rio de Janeiro
  - São Paulo

**Europe**
- **Top Cities:**
  - London
  - Paris
  - Berlin
  - Geneva

**Asia-Pacific**
- **Top Cities:**
  - Tokyo
  - Hong Kong
  - Singapore
  - Shanghai

**Middle East**
- **Top Cities:**
  - Dubai
  - Istanbul
  - Riyadh
  - Tel Aviv

**Africa**
- **Top Cities:**
  - Johannesburg
  - Cape Town
  - Nairobi
  - Lagos

**North America**
- **Future Hotspots:**
  - Los Angeles
  - San Francisco
  - Toronto
  - Chicago

**Latin America**
- **Future Hotspots:**
  - Buenos Aires
  - São Paulo
  - Rio de Janeiro
  - São Paulo

**Europe**
- **Future Hotspots:**
  - Berlin
  - Paris
  - London
  - Geneva

**Asia-Pacific**
- **Future Hotspots:**
  - Tokyo
  - Hong Kong
  - Singapore
  - Shanghai

**Middle East**
- **Future Hotspots:**
  - Dubai
  - Istanbul
  - Riyadh
  - Tel Aviv

**Africa**
- **Future Hotspots:**
  - Johannesburg
  - Cape Town
  - Nairobi
  - Lagos

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**The Global Cities Survey Methodology**

The Wealth Report Global Cities Survey assesses the locations that matter to the world’s wealthy based on four key themes: economic activity, political power, quality of life, and knowledge & influence.

**Economic activity** includes economic output, income per head and financial and capital market activity, together with the number of international business headquarters in each city.

**Political power** is the number of national political organisations and international non-governmental organisations, and the number of embassies and think tanks in each city. Quality of life includes personal and political freedom, censorship, personal security, crime, political stability, health facilities, public services and transport, culture and leisure, climate and the quality of the natural and manmade environment.

**Knowledge & influence** includes the number of headquarters of national political organisations and international non-governmental organisations, and the number and ranking of educational facilities. We then look at how well each city transmits this knowledge, based on the number of national and international media organisations and news bureaux, and the international market share of locally based media. Our calculations also cover the results of the Attitudes Survey 2014. As part of the survey, we asked our global panel of UHNWI advisors to confirm the most important cities to their clients now and in 2024, as well as the cities growing most rapidly in importance.

Finally, we included data from WealthInsight on current and future UHNWI populations at city level. Sources include WealthInsight, World Bank, United Nations, International Monetary Fund, Economist Intelligence Unit, the Institute for Urban Strategies at the Mori Memorial Foundation and the Y/Zen Group.
Featuring more locations than ever before, The Wealth Report’s Prime International Residential Index (PIRI) is the ultimate guide to the world’s luxury home markets. Here we analyse the latest trends.

Words LIAM BAILEY

Indonesia’s capital, Jakarta, once again occupies the top spot, posting annual growth of 38% in prime residential property values this year. Our in-depth research has allowed us to include 90 of the world’s key luxury property markets in our Prime International Residential Index (PIRI), up from last year’s 80.

The main theme that emerges from our analysis is a widespread strengthening of values. Last year prices fell in 39% of locations, compared with almost half in 2012. A fifth of markets featured saw double-digit price growth in 2013 against only 15% the year before.

Across PIRI, the main division is between generally booming Asian markets, which dominate the top positions in our ranking of price growth, and the weaker European markets that account for 80% of all locations where prices declined in 2013. Jakarta heads PIRI, with annual growth of 38%, almost exactly the same as the rate seen in 2012. With Bali number three in our table (+22%), Indonesia’s key markets are continuing to outperform the rest.

“Price growth in Jakarta is supported by limited supply while demand has remained strong. This is despite a slowing in Indonesia’s economic growth and the uncertainty created by the forthcoming presidential election in July this year,” explains Hasan Pamudji of Knight Frank Indonesia.

New Zealand’s prime markets have also strengthened significantly, with very strong annual growth in both Auckland (+29%) and Christchurch (+21%). Layne Harwood, Managing Director of Knight Frank New Zealand, points to two key factors: strong economic fundamentals, with GDP growth comfortably above 3% in 2013, and strengthening inward migration - from Asia in the main, but also powered by returning ex-pats.

As I noted last year, the rebound in markets most affected by the downturn in 2008 has continued. Dubai experienced 17% growth in 2013, to add to its 20% gain in 2012. In Dublin, which witnessed tentative increases in 2012, prices climbed 18% in 2013.

Words LIAM BAILEY
As Knight Frank’s Head of PIRI Analysis Kate Everett-Allen notes: “Inevitable debates have ensued as to whether Dubai and Dublin are on the cusp of another bubble. However, in both cases average prices have yet to approach, let alone exceed, their pre-crisis highs. Cash buyers are driving sales and regulation is tighter with some purchase and ownership costs higher than in 2008. This follows Ireland’s introduction of a new local property tax in 2013 and transfer costs in Dubai doubling to 4% during 2013.”

Dublin has joined Dubai as a key European market in recovery, with prices climbing 5%. This change in fortune points to the need for a more nuanced appraisal of Europe’s markets.

Dublin, as we have seen, is in full rebound mode. Munich, with a 10% uplift, is emblematic of the surge in pricing in prime German city markets. This is partly being led by safe haven flows from investors in less secure eurozone countries looking to insure against the still real possibility of a collapse in the euro.

While most of the positive news in Europe is centred on the key city markets, with London, Monaco and Vienna also hotspots, there are tentative signs of a recovery in the prime second-home markets. Key Alpine markets are seeing stronger conditions, with prices in Chamonix, Verbier and Gstaad rising by 8%, 6% and 3% respectively. The Italian Riviera, the western Alps and the prime English countryside market are also at the forefront of the nascent recovery. Values continued to rise across the US last year, with double-digit growth through 2013 in Los Angeles, New York and San Francisco. While Miami’s price growth has slowed, down from 20% in 2012 to 4.3% in 2013, property analyst Jonathan Miller is still positive about the outlook for the city. “Demand for prime Miami property remains strong and price growth is set to keep pace with the key East and West Coast markets in 2014.”

After a brief pause in 2012, the key Chinese markets staged a notable recovery in 2013. Prices in Beijing were up 17%, a dramatic increase on 2012’s 2.3% growth, while Guangzhou rose 14%. Nicholas Holt, Knight Frank’s Head of Asia-Pacific Research, says: “China, as always, has been difficult to predict, with the market continuing to defy expectations and several rounds of cooling measures. The reality is that in such an equity-driven market, the Tier 1 cities are likely to see both demand and pricing continue to head higher.” Elsewhere in Asia, he expects Sydney’s prime market growth to continue into 2014, buoyed by low interest rates and steady foreign demand, especially from South-East Asia and China.

**LEHMANS’S SHADOW**

With some notable exceptions, most of the world’s key prime city markets have seen a continuation of the positive trends they
GO WITH THE FLOW

GLOBAL MOBILITY OF PEOPLE AND CAPITAL IS STEERING PRIME RESIDENTIAL MARKETS. WE CONSIDER TWO OF THE KEY ISSUES

The Asian-led globalisation of prime residential development activity is a growing phenomenon. Nicholas Holt, Knight Frank’s Head of Asia-Pacific Research, talks to some of the region’s biggest developers to find out why

The agreement earlier this year by Greenland, the state-owned Chinese development giant, to develop several key sites in London, including its largest prime residential tower, was just the latest in a wave of forays by Asian developers into prime sites around the world.

Growth opportunities, knowledge, diversification and brand building have encouraged a new wave of Asian capital, targeting mature development markets in the world’s leading cities. In 2013, over 76% of total inbound capital into the development markets of the UK, the US and Australia originated from China, Singapore, Hong Kong, Malaysia and India, according to property analyst Real Capital Analytics. So what lies behind this recent surge? With so few truly global developers, the race to establish a global brand is clearly one of the primary drivers.

“A global brand is certainly important,” says Charles Ma, Assistant General Manager responsible for international investments and strategy at China Vanke, China’s largest residential developer. “Our San Francisco project, for example, is the city’s largest ever residential project.

London’s Mayfair, it sees more from the perspective of the consumer. “Real estate is a very complex product. Brands carry a lot of weight because they are able to convey a sense of quality and aesthetic.” Is the branding aimed at attracting buyers from their home markets?

Certainly SP Setia, which is developing Battersea Power Station, has had significant success selling back to consumers in its native Malaysia. And for China Vanke, the globalisation of Chinese demand represents a real opportunity.

“There is a strong willingness for our local customers to want to invest in international properties. We think there is an opportunity to capture this,” says Mr Ma. “But for most, it is about catering to discerning buyers of all nationalities in an increasingly global marketplace.

Another key driver for developers taking their first international steps is the opportunity to learn from more mature markets. For China Vanke, the chance to bring new perspectives on innovation, technology or business back to China is as important a consideration as the desire to make money.

“As the Chinese market matures, certain aspects – including consumer behaviour – are becoming more like those in cities such as Singapore, Hong Kong and major US gateway cities,” says Mr Ma. “By going to these markets early, we can learn how to operate, develop the right kind of product and use the right business model.”

For Greenland, the driver is more straightforward. “Very simply, growth,” says Zang Yu Liang, Chairman and President. “We are committed to growing our business, and by focusing on development in the world’s key cities we intend to develop alongside global economic growth.”

Mr Lodha says going global also made sense for his firm. “We considered expanding in India, but as our forte is in high-quality, high-end real estate, for which Mumbai is probably India’s top market, we said let’s take our skills and look outside.”

In terms of target markets, being a major gateway city with significant commercial activity is a prerequisite, says Mr Ma. Mr Lodha says his company reviewed “markets with a lot of depth and a strong policy towards business and job creation” before selecting London. “We’re looking at New York, London, Los Angeles and Sydney initially, but we are also looking at Vancouver, Paris and Singapore,” says Mr Zang.

London, New York, Hong Kong, Singapore, Paris and Sydney will continue to be targeted by these increasingly outward-looking developers in the future. And with competition for prime sites likely to intensify as local capital in recovering economies starts to re-emerge, premiums for the best sites could continue to increase.

For these large, well-capitalised developers, their first exposure to global cities is unlikely to be their last.
have experienced since March 2009. To understand why this month proved so pivotal after the crash we need to go back a further six months to 15 September 2008 – the day that Lehman Brothers filed for bankruptcy. Ironically, it was the size of the crisis precipitated by Lehman’s collapse that hastened the revival in prime property markets. The resulting panic in financial markets, and inside governments, led to the slashing of interest rates and the beginning of quantitative easing (QE), reducing the cost of finance and encouraging affluent buyers into the prime property markets.

At the same time, government asset purchases reduced yields on alternative investments and, as a result, investors targeted tangible assets in safe haven markets. All the ingredients were in place for a recovery in global residential markets, as evidenced by price growth of 82%, 71%, 65% and 52% respectively in Beijing, Hong Kong, London and Singapore since March 2009. For a breakdown of price trends over the past five years, see Databank, p59.

The introduction of “Golden Visa” schemes in Portugal, Spain, Cyprus and Malta, amongst others, is an increasingly important facet of cross-border investment. See p37 for more on this trend.

FUTURE TRENDS

Given the potential easing of cooling measures in some markets, our view is that the volume of cross-border purchase activity is likely to increase in 2014.
come from China, Brazil, Turkey and Nigeria. The main target markets will be the US, the UK, Germany, Australia and Dubai. Intra-European demand for cross-border purchases will increase in 2014. Safe haven flows from southern to northern Europe, especially into Germany and Austria, will continue, but this will be matched by a growth in investors looking to expand in markets on the eurozone periphery, especially Ireland, Spain and Portugal, which are increasingly looking like buying opportunities. We also expect investors to look more closely at France and Italy this year.

The ongoing globalization of UNWINI demand for prime property will be joined by a related phenomenon in 2014: the growing global activity of large, mainly Asian, developers, which we discuss below. Investors from China, India and Hong Kong will increasingly recognize home-grown brands when they buy luxury developments in London, New York, Sydney and Vancouver. As we note elsewhere, geopolitical risks are rising, in the Middle East and also now in the East China Sea. While there is no doubt that these have the potential to hit global economic growth, they are also likely to increase the demand for safe haven assets.

The reality is that many prime property markets have benefited directly from global stimulus measures over recent years. New activity of large, mainly Asian, developers, which we discuss below. Investors from China, India and Hong Kong will increasingly recognize home-grown brands when they buy luxury developments in London, New York, Sydney and Vancouver. As we note elsewhere, geopolitical risks are rising, in the Middle East and also now in the East China Sea. While there is no doubt that these have the potential to hit global economic growth, they are also likely to increase the demand for safe haven assets.

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Commercial property investors are spreading their wings and returning to previously out of favour markets and the world’s second-tier cities. *The Wealth Report* takes a look ahead at the locations and sectors buyers will be targeting next.

**Words by JAMES ROBERTS**

There is a saying in the commercial property world that the turning point is always six months away, or six months ago. When sentiment changes direction, it changes fast. The latest numbers bear this out.

According to analyst Real Capital Analytics (BCA), global investment in commercial property rose 17% to $533bn in 2013. Knight Frank is forecasting increases of 11% in 2014 and the same again in 2015, taking the amounts invested to US$593bn and US$657bn respectively.

The *Wealth Report*’s Attitudes Survey confirms the rising popularity of commercial property among UHNWI investors. Over 40% of respondents said their clients had increased their allocation to commercial property in 2013 and 47% said it was set to rise further in 2014.

The market has passed a turning point, it seems, and is firmly set on its new course. The driving force behind this is part anticipation of where markets might go in the coming years, and part sheer weight of money.

“The tone in all markets has changed, in some beyond recognition, even compared with six months ago,” says Peter MacColl, Knight Frank’s Head of Global Capital Markets. “If you wanted to pick a general turning point, I would say the summer of 2013. I think people felt the global economic crisis was starting to shift from the present into the past tense.”

This change in sentiment is causing investors to rethink where they invest their money. Last year was the year of “the taper tantrum”, when the prospect of the quantitative easing (QE) taps being turned off had investors looking to move from low-yielding safe haven assets to opportunist investments. By way of illustration, investors are looking at buying warehouses near ports and airports, as a rising global economy always sends more goods moving around the world, particularly in this technology-driven consumer age.

The bond market is another good example. US Treasury yields (where falling yields mean rising prices, and vice versa) over the past 20 years look like a Nike swoosh when plotted.
of individual investors, and even a combination of the two. For instance, a Thai private investor recently bought three properties, grew by 14% last year. UK real estate outside London is another good example of how investors are casting the net wider. Some are driven by the difficulty of achieving the right yields in central London, while the improved economic outlook is giving them the confidence to look outside the capital. After London, the south east of England has generally seen second in line to benefit from a UK economic recovery, and investors from a range of nations have been active there. Interest is also growing in big regional UK cities like Birmingham and Manchester.

SOUTHERN EUROPE BACK IN VOGUE
Continental Europe is attracting more interest. In 2012, the eurozone crisis meant international investors steered clear of Ireland, Italy and Spain. Today they are taking a different view.

Andrew Rim, Head of European Investment, says that investors are sourcing previously unattractive nations for opportunities. “Southern Europe is back on buyers’ agendas, although there can be a gap between perception and reality. Some investors expect yields of 7% or 8% for prime assets in Madrid or Milan, when in reality yields are closer to 6%. Likewise, Dublin is so far a ‘dislocated’ property market, as prime yields are hardening. This shows how quickly assets re-price once a country is perceived to have stabilised.”

The recurring theme is risk appetite. There are opportunities, but they require buyers to look at more complicated assets. Those wanting a blue chip developer in southern Europe at a bargain price have missed the boat. In 2014, investors will need to target second-tier cities if they want high returns. In Spain, “local investors in the Spanish market are facing competition from US, German and Latin American funds,” he says. “The belief that the eurozone would hold together put a floor under the market, and evidence that the Spanish economy is starting to heal has been a catalyst for deals.”

Yield compression is being seen in some parts of Spain, including those second-tier cities that have until recently attracted limited investor interest. Value-add opportunities are also starting to draw buyers. The northern European markets offer less scope for opportunistic buying, so investors tend to target fundamentals, like economic outlook and prospects for rental growth. Jeremy Waters, Head of International Investment, says “Parts remain poorly understood and the property city status and high level of liquidity Germany is of ongoing interest to global investors, particularly those in the Middle East. More buyers are thinking about regional cities, so Germany looks well positioned to benefit. Whereas in the UK and France economic expansion has historically concentrated in their capitals, growth in Germany has spread across a series of major cities. This means that Hamburg, Frankfurt, Munich and Berlin are all acceptable locations to global investors. Also, Berlin is now developing something of a reputation as a technology industry hub.”

As investors look for alternative places to put their money, more commercial real estate funds are emerging. There is concern about Shanghai due to the amount of new commercial development under construction, but in the longer term there is optimism that the city’s new Free Trade Zone will boost demand for office space. “Plans to expand Shanghai as a financial centre and logistics hub should help to achieve balance in the occupier market in the long term. In Beijing supply is limited in the leasing market, with the office vacancy rate below 5%, but demand is strong. “This intra-regional activity is on the spot.” However, an increasing number want portfolio diversification, and are looking abroad to secure higher returns. Looking to the 2013 first, London second and Australia third.”

China is also becoming a major force in the global real estate investment market. In London, Chinese insurer Ping An recently purchased the Lloyd’s of London insurance market building for £1.344bn. In New York, Fusion International, a Chinese conglomerate, bought One Chase Manhattan Plaza for US$872m last year. Beijing developer Poly has teamed up with the Safran family to acquire the General Motors Building. Chinese developer Dalian Wanda plans to build luxury hotel and apartment schemes in Manhattan and London. State-owned developer Greenland has recently invested in several large developments in Australia, the US, LA and London, and is looking at other gateway cities. Sarkusun Subrahmanian, Managing Director of Knight Frank Malaysia, says: “There is a lot of money in China that is looking for opportunities abroad. Whilst this is currently private capital, more
Today, Africa is viewed as a destination that is attractive to foreign investors. Mobile phones are ubiquitous, urban growth is swelling the ranks of the middle classes and the IMF predicts that the economy of sub-Saharan Africa will grow by 3.7% per annum between now and 2018, up from 4.7% per annum in the preceding five years.

Key among the continent’s emerging hubs is the Kenyan capital, Nairobi. "This is the most important African business centre between the Mediterranean and Johannesburg," says Anthony Havelock, Knight Frank’s Head of Agency in the city. “International companies are recognising that there’s too much going on in Africa to run their entire operations out of South Africa. Google, JPMorgan Chase, Colgate-Palmolive: they’re all here.”

Across the continent, minerals and commodities remain a major driving force in attracting foreign investment. The influx of money from China has been well publicised, but there has also been significant investment from Brazil and the country is working hard to strengthen its political links with Africa.

Peter Welborn, Knight Frank’s Managing Director for Africa, points out that stability and opportunity go hand-in-hand. “Investors want to put their money in countries where laws and regulations don’t change suddenly, and there is currency stability. It is important to be business friendly to attract overseas money. Investors often ask, ‘Where can we get rents that are paid in hard currency?’ Highlighting the importance of offering a steady return.”

Mr O’Donnell, a Zambian businessman, property developer and hotel owner, says he is more optimistic about his country’s future than he has been for a long time. “GDP has been increasing by about 7% for the past 15 or 14 years. That has created new wealth and a fast-growing middle class. “There is more disposable income, which is creating energy. There is more demand for goods and services, more investment in healthcare and education, and thousands of new homes are being built in Lusaka. Expectations are higher, too. People want to shop in better retail spaces, work in better offices and experience the same standards that you get in developed countries.”

For property investors, this boom is creating opportunities in a number of sectors, says Mr O’Donnell. “All the supermarkets are looking for space and people are building bigger factories to cope with the extra demand for products.” Yields of around 10% are available on retail and commercial space, he adds. From a personal perspective, Mr O’Donnell is building several new hotels to cater for the growing number of local and regional businesspeople working in Zambia, and is now the country’s largest provider of accommodation.

Communication and technology firms are also doing well. “If you’d told me a decade ago that nearly every Zambian would have a mobile phone, I wouldn’t have believed you,” says Mr O’Donnell. “Now there is cell and even mobile internet coverage across the whole country.”

There is also huge investment in infrastructure. “New power stations are being built that will make us self-sufficient in energy. That is vital. Without energy you don’t get development. A reliable energy supply makes a country much more attractive to investors.” He believes, however, that Western investors and governments – and in particular the UK government – are missing out. “They are on the sidelines. There are currently billions of dollars of road-building contracts up for tender and very few European companies have chosen to bid. British Airways has stopped flying to Lusaka, and the UK is drifting further away.”

As in other parts of Africa, Chinese investors are making the most of current opportunities, but there is growing pan-African investment from countries like Nigeria, says Mr O’Donnell.
in resources. This should result in growth coming from just basic pricing to include portfolio diversification, securing long-drawing in capital. Also, the motivation for buying here goes beyond Australia in recent years, but softer commodity prices have hit the economic slowdown in the mining and resources sector, creating growth of funds coming in from abroad has coincided with an overseas, and this will have major implications. In fact, we are seeing this more and more across the Asia-Pacific region with investment coming out of places like Taiwan and South Korea. This is an inevitable consequence of the region becoming wealthier, turning Asia into an exporter of investment capital around the world.”

**DEMAND DOWN UNDER**

Australia has long been popular with Asian buyers. The rapid growth of funds coming in from abroad has coincided with an economic slowdown in the mining and resources sector, creating very different conditions in the investment and leasing markets.

Matt Whitty, Head of Research at Knight Frank Australia, explains: “Mining and resources have been major drivers for Australia in recent years, but softer commodity prices have hit the sector. This has led to a weakening in domestic demand and growth. As a result, in occupier markets you are seeing office vacancies rise and rents falling.

“Conversely, investment yields in Australia look comparatively high to investors from the US, Singapore or Hong Kong, which is drawing in capital. Also, the motivation for buying here goes beyond just basic pricing to include portfolio diversification, securing long-term income streams and wealth preservation. So the investment market is defying the slowdown in the occupier market, with sales volumes across the commercial sector far outstripping 2012 levels.

“In 2014, I will be looking to see whether Australia’s economy can rebalance, as the non-mining sectors of the economy are expected to take up the slack from the slowdown in resources. This should result in growth coming from cities like Melbourne and Sydney that historically have been driven by the financial and business services sectors.”

“The pattern of investment will adjust accordingly. It will be interesting to see if Australia’s cities follow the US and Europe, with more demand for office space from technology firms. We may also see more demand for warehouse space from the big online retailers.”

Lang Walker, who owns one of Australia’s largest privately owned property development businesses and is developing Collins Square in Melbourne, the country’s largest mixed-use commercial project, believes more efficient use of office space is likely to be a dominant trend in the marketplace.

“Over a year, how often does a workstation sit vacant? Bigger users say they can save 30% of occupancy costs by doing things smarter. You go to work and be given a workstation, rather than having your own desk with pictures of your wife and kids.”

Mr Walker reckons a lot of existing space is not suitable for this kind of activity-based work environment, meaning that published vacancy rates are much higher than in reality. “If you tenets a false view when there are a heap of old office buildings that will never be used as offices again.”

As well as creating strong demand for modern office space, the trend also offers scope for alternative-use developments. “In the 90s I bought up a lot of old Port Authority buildings in Melbourne and converted them into student accommodation or residential units. I see another new wave of that coming through: it seems to be where a lot of the Asian money is going at the moment.”

Although Australia has been attracting Asian investors for a long time, developers have been able to get away with a lot. “It is the future we have seen Chinese investors in any magnitude.”

However, the interest is not in just one direction. Mr Walker is developing a large mixed-use development with thousands of new homes in Jooch Bahru at the southern tip of Malaysia. The town is becoming increasingly popular with Singaporeans and with the proposed construction of a new MRT system linking it directly to Singapore, this trend will only grow, he says.

In total, Mr Walker currently has over AU$1bn of projects under way in Australia and Malaysia, but says doing business is much easier in Malaysia. “There is an incredible difference in the mind set. In Australia there is way too much red tape that just bugs the system down.”

The transformation of Africa continues, with investment coming in from all over the world, attracted by signs of greater stability, new mineral finds and rising industries.

**MIDDLE EASTERN PROMISE**

At the crossroads between Asia-Pacific, Europe and Africa sits Dubai, a growing hub for global property investment flows. Joseph Morris, Investment Director for Knight Frank UAE, says: “A lot of capital flows through Dubai and into other commercial property markets. Some comes from the wider Gulf area, but it also comes out of Africa, central Asia, and the Indian sub-continent. In part, this is due to Dubai’s connectivity and location. It also has the people and structures in place to provide the necessary investment advice.”

Dubai’s office market has a large supply of office space, but a substantial proportion is of secondary quality. Also, significant amounts of fractured strata ownership (whereby parts of the same building are owned by different investors) can make it difficult for big companies to piece together large tranches of space for their own occupation. This is creating opportunities for pre-let development as the local economy continues to strengthen.

North America was the region that saw the strongest growth in commercial property sales in 2013. While uncertainty remains over government finances and the potential impact of future QE tapering, this has not deterred investors, resulting in a 22% rise in investment volume to US$229bn. We are forecasting a further increase to US$250bn in 2014 and then to US$263bn in 2015.

Bob Bush, Director of Research for the Americas at Newmark Grubb Knight Frank, says: “While the US jobless rate remains elevated, the steady improvement in leasing demand after quarter has brought down vacancy rates and given rental rates a push. Technology and energy markets have led the way, some with double-digit rent gains in 2013. New York and San Francisco have been hotspots, largely thanks to technology.”

“Expect leasing supply to tighten further in 2014, pushing rental rates up at a modest pace across most markets and property categories. Investor demand should stay strong as high prices in primary markets push investors to search for yield in secondary markets and Class B and C properties. Global investors are beginning to take on more risk as well, and some markets like New York are drawing noticable interest from Asia-Pacific investors.”

**INVESTORS WILL BE LOOKING FOR UNEXPLOITED ANGLES TO DRIVE VALUE**

From a landlord’s perspective these unconventional work patterns are secondary to the fact that these companies are taking more office space. In fact, in a U-turn that grabbed headlines around the world, tech giant Yahoo! recently banned its staff from working from home, in an attempt to encourage employees to come into the office and mix with their colleagues.

The big lesson from the US is that this TMT activity is extending to regional cities, and property investors will be looking for examples of this being replicated in other property markets. This could favour fringe areas and brownfield sites, as TMT firms often prefer trendy or former industrial settings.

The new wave of technology pervading society would also seem to favour logistics stock. Amazon is expanding its warehouse network around the world, and even co-locating in sheds operated by its suppliers. This could point to a future where companies need to look at both their own warehousing needs and at having some extra space available in case they need to sub-let to a client. Moreover, there are small enterprises

**FUTURE GROWTH SECTORS**

While in 2013 investors responded to the turning point by re-entering neglected markets – secondary cities, previously distressed countries, development – asset selection will be more targeted in 2014. The price bounce that follows when a market cleans an inflection point has happened, so investors will be looking for an unexploited angle connected to a property or sector in order to drive value. Looking forward, Knight Frank views offices and logistics real estate as best placed to exploit the new economic cycle.

New York and London have seen an increase in occupier demand from the technology, media and telecoms (TMT) sector. These new technology companies often like to turn their offices into creative environments that encourage employees to generate ideas and build strong teams. Desks are disappearing in favour of sofa areas, cafés, chill-out rooms and exercise zones where aeroxics and yoga classes are held.

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that a decade ago would have required a shop that now sells over the internet and operates from a light industrial unit. For retail, we see relatively mixed fortunes ahead. In most developed markets consumer debt levels are high, and unemployment elevated. These factors alone would be enough to slow retail demand, but a major influence on the sector now is the rise of e-commerce. In the UK, over 10% of retail sales now occur over the internet and online shopping is taking off around the world.

However, there are still opportunities to be found in retail property. The world’s most famous shopping locations – like Bond Street, the Champs-Élysées, Orchard Road and Tsim Sha Tsui – still prosper on luxury retailing. Increasingly big, regionally dominant shopping malls now mix retail and leisure, including restaurants and multi-screen cinemas to create a day-out experience to lure in shoppers. And across the world, the seemingly inexorable rise of the coffee shop continues.

REACH FOR THE SKY: THE KNIGHT FRANK SKYSCRAPER INDEX

Skyscrapers continue to capture our imagination. New buildings dominate newspaper headlines, and those with viewing galleries become popular tourist attractions. Unsurprisingly, island-based cities tend to embrace the tower. According to analyst Emporis, Hong Kong has the most skyscrapers in the world, followed by New York. London scores a lowly 45th place, with conservation restrictions ruling out tower developments in large parts of the CBD.

BUZZ WORDS

While the turning point may have passed, investors now have to consider the changed investment landscape. Bond yields are off their historic lows, but still look compressed compared with long-term averages. With QE ending, there is a widespread expectation that bond yields will rise further. However, equity markets can be volatile, particularly for emerging markets. In this context property is now seen as an investment that provides portfolio diversification.

Careful asset selection will be essential in 2014, as investors venture further into secondary markets and back into those parts of the property world that they avoided during the downturn years. The volume of money, thanks to the emergence of a vibrant cross-border market, is growing. However, the best returns now lie with assets that are further along the risk curve. The buzz words in commercial property in 2014 will be “secondary”, “diversification” and “development”.

A TALE OF TWO CITIES

London and New York are thought of as two very different cities, but in regard to their office markets at least, the similarities are growing. Recent years have seen rapid growth in demand from technology and media firms seeking space outside the traditional business districts. In New York, Midtown South has proved popular, while in London the techs have been growing in the northern City districts of Clerkenwell and Shoreditch, with Euston and King’s Cross also popular in the West End. In both cities, tech and media firms are taking ever larger amounts of space, and lately have been venturing into the more established office districts.

As a result, commercial rents are on the rise in both London and New York, and developers have responded. In Manhattan, 1 and 4 World Trade Center have both recently been completed (with Condé Nast thus far the lead anchor), while the multi-faceted Hudson Yards project, built over railway lines, is currently under construction.

In London, former industrial land between the King’s Cross and St Pancras railway stations is close to finalising a deal. SAP has signed up as a tenant and Time Warner is set to move in. The once industrial land between the two cities is being reborn as King’s Cross Central, a major office, retail, and residential scheme where Google is building its future London headquarters. In both cities, rents in 2013 grew fast in non-core areas, as our heat maps show.
Across the world UHNWI spending is predicted to increase in 2014, according to the results of The Wealth Report’s Attitudes Survey. Over a third of the survey’s respondents say they expect their clients’ spending on luxury goods to rise this year, while only 7% are predicting a fall in expenditure.

European UHNWIs are likely to be the most cautious spenders – just over 30% of advisors expect their clients to spend more, compared with 41% in Latin America and 39% in Asia. The percentage of respondents expecting a dip in European UHNWI spending was also slightly higher than the global average.

It is in Africa where we expect to see the greatest growth, with almost half of respondents anticipating higher levels of luxury purchasing activity. A study by consultant Bain & Co. points to a 12% increase in the level of spending on luxury goods there during 2013, while the new Luxury Opportunity Index, compiled by luxury market analyst Ledbury Research for The Wealth Report, highlights the continent’s growth potential. Of the top 10 locations identified in the index, five are in Africa.

However, it is the Middle East that occupies the top three spots in the index, which tracks those countries with the fastest-growing luxury spending potential in the short and medium term by measuring growth in four areas – number of luxury retail outlets, premium air travel traffic, wealth creation and economic growth. The US is the only developed nation to make it into the top 10, with Mexico the sole Latin American representative. Interestingly, despite the region’s economic growth, no Asian countries feature.

“A lot of brands expanded too quickly in China,” says James Lawson, Director at Ledbury Research. “What they have now
realised is that many Chinese consumers like to shop abroad. Prices are cheaper and there is more cachet attached to buying, say, a Gucci handbag in Milan than in Shanghai.”

According to the Boston Consulting Group’s State of Luxury 2014 report, 25% of Chinese luxury spending occurs overseas, while the findings of the Hurun Report’s Chinese Luxury Consumer Survey indicates that 94m Chinese tourists were likely to travel outside the country in 2013 – an increase of 15% on 2012. Almost 65% of Chinese UHNWIs say travel is their preferred leisure activity, the survey adds.

“In absolute terms, Asia still has the largest proportion of the world’s luxury brand outlets outside the EU, but growth is slowing. Many CEOs of global luxury brands are pointing to North America as the most important market for growth over the next five years,” says Mr Lawson. Bain & Co. expected luxury spending to increase by 2.5% in China during 2013, compared with 4% in the US. However, as Mr Lawson points out, a significant proportion of luxury spending in the US, as in Europe, is now being driven by the growing number of Chinese tourists visiting the country. African UHNWIs are also helping to drive luxury markets abroad. “Speaking to luxury retailers, some have Nigerians as the third-highest non-EU spenders in London during 2012,” he says.

Although Africa’s luxury industry is still only embryonic, with most major brands restricting themselves to South Africa for now, the sector is keeping a close eye on the continent’s increasing activity, the survey adds.

“Porsche is set to enter the Kenyan market this year and there is likely to be a 50% increase in millionaire numbers in Ghana by 2016. Although we certainly aren’t predicting that the major brands will open in places like Zimbabwe any time soon, there are positive signs emerging from the country.” Overall, Mr Lawson expects high single-digit growth in luxury spending around the world in 2014.

THE LUXURY OPPORTUNITY INDEX

Many product lines from even the most prestigious brands are well within the occasional reach of those who would not class themselves as wealthy. But movements in the markets for super-yachts and private jets – items that remain firmly beyond the grasp of the great majority – can provide some valuable insights into the changing wealth and attitudes of the world’s biggest spenders.

At the very top end of the super-yacht market, the wealthiest continue to commission ever larger craft. Launched in April 2013, the 180-metre Asiam, with a reputed price tag of £400m, comfortably clinched the title of world’s largest yacht from its rival Eclipse. “With yachts over 60 metres it’s a very niche market, and one that is driven by individuals whose wealth is largely beyond being impacted by the markets,” explains Laurent Perignon, chief operating officer of luxury yacht specialist Camper & Nicholson. However, Mr Perignon says the market for smaller, albeit still very expensive, yachts is only just returning to normal following the sharp rise in the availability of pre-owned boats in the wake of the global financial crisis. “In 2007 the sales inventory for yachts over 24 metres was about 25% of the super-yacht fleet,” explains Mr Perignon. “In 2009 that rose to 36%. Now we’re back below 30%. It’s still a buyers’ market, but things are gradually stabilising. We’re no longer seeing the fire sales and big discounts that we were seeing before.”

Mr Perignon says the recovery has been aided by an upswing in the US market, with most sales in US$NIWIs in the US, Europe or Russia and the CIS. “There is a lot of potential in parts of Asia,” he adds, “but yacht ownership hasn’t really taken off there yet.”

Australian property developer and one of our wealth panelists Lang Walker is passionate about yachting – he owns a 58-metre sloop he had built in New Zealand – and says this has influenced his business decisions. “Most of my developments are concentrated around water,” he says. Private jet sales also took off in the second half of 2013, says Steve Versano, owner of Mayfair-based dealer The Jet Business. “It’s been a much better year. A lot more deals are being done. People are starting to feel more positive about the economy now.”

Demand from African countries like Nigeria, Ghana, South Africa and Angola has been strong, albeit coming off a low base, says Mr Versano. “There are about 1,000 private jets in Asia. 450 in Africa, 450 in the UK, around 11,000 in the US and 19,500 worldwide.”

He dismisses the idea that jets are toys for the rich. “Sure, people’s wives will use them to go shopping, but as the world’s economies spread, people need jets to get to the places where they are doing business. Time is money, and private jets help make more time for entrepreneurs and executives.”

The Luxury Opportunity Index identifies those private sectors which are fast becoming the preserve of the seriously wealthy.

The Luxury Opportunity Index ranks the world’s 20 leading luxury brands based on their sales in terms of number of outlets around the world and the countries in which they are concentrated. The following charts rank the brands by region and country. The survey also asks ultra-high-net-worth individuals what they consider to be their most prized possessions. The data was collected in 2013.

The Luxury Opportunity Index 2013 report, 25% of Chinese luxury spending occurs overseas, while the findings of the Hurun Report’s Chinese Luxury Consumer Survey indicates that 94m Chinese tourists were likely to travel outside the country in 2013 – an increase of 15% on 2012. Almost 65% of Chinese UHNWIs say travel is their preferred leisure activity, the survey adds.

In absolute terms, Asia still has the largest proportion of the world’s luxury brand outlets outside the EU, but growth is slowing. Many CEOs of global luxury brands are pointing to North America as the most important market for growth over the next five years.” Overall, Mr Lawson expects high single-digit growth in luxury spending around the world in 2014.
THE FRUITS OF PASSION

One of the most fascinating areas of luxury spending is on collectible items, such as art and classic cars, which some buyers also consider to be investments. In the wake of the credit crunch, the media's focus on these "investments of passion" as an alternative to mainstream asset classes like equities has grown significantly.

Reflecting this burgeoning interest, we launched the Knight Frank Luxury Investment Index (KFLII) in last year's Wealth Report to track the performance of selected investments of passion. Consisting of nine asset classes, the 175% capital growth recorded by our weighted index to the end of Q3 2012 outperformed the majority of more traditional mainstream asset classes over a 10-year period. Several classes came close to, or even exceeded, gold's stratospheric price rise. Despite being one of the least widely followed asset classes, according to the Attitudes Survey, coins continue to perform strongly, up 10% year on year. Ian Goldbart, Managing Director of leading auctioneers Baldwin's, says the market is attracting investors, "Because it is not actually a very big market, a small amount of extra money can make a large difference. You only need a few keen bidders at an auction and you are likely to see new world records being set." The coin market has probably also been undervalued in some parts of the world, compared with other asset classes. "There has always been strong demand for large denomination coins in the US," says Mr Goldbart, "but we are seeing growing interest in China, where the market has boomed over the past five years, and also India and Russia."

Global, there is also a very strong market for gold Roman coins. "They are pieces of art in their own right," he says. Rare stamp values are also rising, particularly in China, India, and key Commonwealth markets. The Stanley Gibbons China 200 rare stamp index rose 36% between 2011 and 2012. The British market continues to grow, albeit more slowly, says Keith Heddle, Investment Director at Stanley Gibbons. "There was a huge amount of trading in 2011 and 2012; following such a bull run it's not surprising that things have slowed down slightly." Investment demand remains strong, particularly from Hong Kong and Singaporean-based investors. But also from Australia, where investors can add collectables to their pensions via Self-Managed Super Funds (SMSFs). There is also increased interest from potential collectors in Russia, says Mr Heddle. Despite falling gold prices, the last 12 months have been remarkably strong for many facets of the jewellery market, says Roland Artell, jewellery columnist for the Antiques Trade Gazette. "Record sums for the best untreated stones, particularly 'fancy' diamonds and other coloured stones, are in the market," he says, "but natural saltwater pearls, amber, coral, jade and jasper are equally buoyant."

According to Mr Goldbart, the market is driven by "investments of passion" rather than purely for investment. "There is always the hope that things will go up." While some of the most desirable works of art are sold purely for passion still don't want to see any motive for spending on collectables, or "investments of passion." However, this may be changing. "I think things will go up," Goldbart puts it. "There is always the hope that things will go up."
Knight Frank's international network of research teams collects an unrivalled range of data analysing the world's most important prime residential and commercial property markets. The graphs on the following pages illustrate the five-year change in capital values of luxury homes in selected locations and the change in rental values of office space in the world's most important financial centres.

**The Prime International Residential Index**

PIRI is the most comprehensive barometer of the performance of the world's top residential property markets. This table shows spot prices for selected locations in local currencies and measurements.

### Office Rental Values (Q3 2008 to Q3 2013)

- **Hong Kong**
  - Five-year: -28.1%
  - Twelve-month: 4.7%
  - Six-month: 2.6%
- **Shanghai**
  - Five-year: -9.5%
  - Twelve-month: -1.7%
  - Six-month: 2.9%
- **Moscow**
  - Five-year: -27.3%
  - Twelve-month: -3.6%
  - Six-month: -3.6%
- **Frankfurt**
  - Five-year: -2.6%
  - Twelve-month: 5.6%
  - Six-month: -3.6%

### Residential Values (Q4 2008 to Q4 2013)

- **Los Angeles**
  - Five-year: 17.1%
  - Twelve-month: 11.1%
  - Six-month: 11.1%
- **London (West End)**
  - Five-year: -19.2%
  - Twelve-month: -1.7%
  - Six-month: 2.9%
- **Paris**
  - Five-year: 0.0%
  - Twelve-month: 4.5%
  - Six-month: 4.5%
- **New York**
  - Five-year: -9.5%
  - Twelve-month: -1.7%
  - Six-month: 2.6%
- **Singapore**
  - Five-year: -44.7%
  - Twelve-month: 1.1%
  - Six-month: 1.1%

### Additional Information

- **Notes:** Price ranges for Beijing, Shanghai and Hong Kong are for properties considered "super-prime"; price range for Moscow relates to 31st Beach. All currency exchange calculations are based on the rates prevailing on 31 December 2013.
- **Abbreviations:**
  - *: Apartments only
  - **: As at Sept 2013
  - ***: As at Nov 2013
- **Local Currencies and Measurements:**
  - US$/sq m
  - US$/sq ft
  - €/sq m
  - £/sq ft
At the end of 2013, The Wealth Report asked almost 600 private bankers and wealth advisors around the world to provide an insight into their UHNWI clients’ attitudes towards a wide range of topics, including their homes, investments and ability to generate further wealth.

The results represent the views of over 23,000 UHNWIs worth on average US$68m and in total about US$1.5 trillion.

This year, the depth of our data has allowed us to add even greater clarity to our analysis. We now split Asia-Pacific into two regions – Asia and Australasia – and feature Africa as a separate region. At a global level, responses have been weighted to reflect UHNWI wealth distribution.

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

Note that figures in tables may not add up to exactly 100% due to rounding.

**WEALTH TRENDS**

<table>
<thead>
<tr>
<th>Question</th>
<th>Average</th>
<th>GBR</th>
<th>AUS</th>
<th>USA</th>
<th>CHE</th>
<th>ESP</th>
<th>HK</th>
<th>NZL</th>
<th>SGP</th>
</tr>
</thead>
<tbody>
<tr>
<td>ON AVERAGE, HOW DO YOUR CLIENTS’ NET WEALTH CHANGE IN 2013? Increase</td>
<td>65%</td>
<td>59%</td>
<td>67%</td>
<td>73%</td>
<td>53%</td>
<td>62%</td>
<td>60%</td>
<td>62%</td>
<td>59%</td>
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<tr>
<td>Decrease</td>
<td>6%</td>
<td>8%</td>
<td>9%</td>
<td>8%</td>
<td>11%</td>
<td>6%</td>
<td>10%</td>
<td>6%</td>
<td>8%</td>
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<tr>
<td>Neutral</td>
<td>24%</td>
<td>22%</td>
<td>22%</td>
<td>19%</td>
<td>36%</td>
<td>29%</td>
<td>27%</td>
<td>32%</td>
<td>34%</td>
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**WHAT DO YOU THINK YOUR CLIENTS FEEL ABOUT THEIR WEALTH CREATION PROSPECTS IN 2014?**

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<tr>
<th>What proportion of your clients are likely to...</th>
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<th>GBR</th>
<th>AUS</th>
<th>USA</th>
<th>CHE</th>
<th>ESP</th>
<th>HK</th>
<th>NZL</th>
<th>SGP</th>
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<td>58%</td>
<td>55%</td>
<td>67%</td>
<td>64%</td>
<td>44%</td>
<td>59%</td>
<td>57%</td>
<td>52%</td>
<td>55%</td>
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<tr>
<td>Increase</td>
<td>20%</td>
<td>22%</td>
<td>22%</td>
<td>18%</td>
<td>36%</td>
<td>29%</td>
<td>27%</td>
<td>32%</td>
<td>34%</td>
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<tr>
<td>Decrease</td>
<td>17%</td>
<td>17%</td>
<td>11%</td>
<td>18%</td>
<td>19%</td>
<td>19%</td>
<td>18%</td>
<td>16%</td>
<td>15%</td>
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**PROPERTY INVESTMENTS**

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<th>USA</th>
<th>CHE</th>
<th>ESP</th>
<th>HK</th>
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<tr>
<td>North America</td>
<td>55%</td>
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<td>62%</td>
<td>57%</td>
<td>60%</td>
<td>57%</td>
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<td>55%</td>
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<tr>
<td>Latin America</td>
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<td>31%</td>
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<td>35%</td>
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<td>Europe</td>
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<tr>
<td>Middle East</td>
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<td>20%</td>
<td>22%</td>
<td>19%</td>
<td>19%</td>
<td>19%</td>
<td>21%</td>
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<tr>
<td>Asia</td>
<td>32%</td>
<td>29%</td>
<td>30%</td>
<td>28%</td>
<td>35%</td>
<td>31%</td>
<td>30%</td>
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<tr>
<td>Australasia</td>
<td>31%</td>
<td>34%</td>
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<td>32%</td>
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</tbody>
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**IN WHICH LOCATION IS YOUR PRINCIPAL RESIDENCE MOST LIKELY TO BE?**

<table>
<thead>
<tr>
<th>Location</th>
<th>Average</th>
<th>GBR</th>
<th>AUS</th>
<th>USA</th>
<th>CHE</th>
<th>ESP</th>
<th>HK</th>
<th>NZL</th>
<th>SGP</th>
</tr>
</thead>
<tbody>
<tr>
<td>City</td>
<td>72%</td>
<td>69%</td>
<td>72%</td>
<td>74%</td>
<td>71%</td>
<td>69%</td>
<td>71%</td>
<td>71%</td>
<td>69%</td>
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<tr>
<td>Countryside/land area</td>
<td>6%</td>
<td>5%</td>
<td>6%</td>
<td>4%</td>
<td>9%</td>
<td>5%</td>
<td>6%</td>
<td>6%</td>
<td>4%</td>
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<tr>
<td>Vacation</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
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</tbody>
</table>

Overall, your clients are most likely to be in the following types of property?

<table>
<thead>
<tr>
<th>Property Type</th>
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<th>AUS</th>
<th>USA</th>
<th>CHE</th>
<th>ESP</th>
<th>HK</th>
<th>NZL</th>
<th>SGP</th>
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</thead>
<tbody>
<tr>
<td>Residential property</td>
<td>52%</td>
<td>52%</td>
<td>52%</td>
<td>52%</td>
<td>52%</td>
<td>52%</td>
<td>52%</td>
<td>52%</td>
<td>52%</td>
</tr>
<tr>
<td>Commercial</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
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<tr>
<td>Retail</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Development land</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
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</tr>
<tr>
<td>Student accommodation</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Agricultural land/forestry</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

**WHAT PERCENTAGE OF YOUR CLIENTS ARE CONSIDERING PURCHASING ANOTHER HOME IN THE NEXT 12 MONTHS?**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Average</th>
<th>GBR</th>
<th>AUS</th>
<th>USA</th>
<th>CHE</th>
<th>ESP</th>
<th>HK</th>
<th>NZL</th>
<th>SGP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>61%</td>
<td>62%</td>
<td>61%</td>
<td>64%</td>
<td>59%</td>
<td>60%</td>
<td>60%</td>
<td>59%</td>
<td>61%</td>
</tr>
<tr>
<td>Decrease</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Neutral</td>
<td>28%</td>
<td>27%</td>
<td>28%</td>
<td>25%</td>
<td>30%</td>
<td>29%</td>
<td>29%</td>
<td>30%</td>
<td>28%</td>
</tr>
</tbody>
</table>

**WHAT PERCENTAGE OF YOUR CLIENTS DO YOU THINK ARE CONSIDERING PERMANENTLY CHANGING THEIR DOMICILE OR COUNTRY OF RESIDENCE?**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Average</th>
<th>GBR</th>
<th>AUS</th>
<th>USA</th>
<th>CHE</th>
<th>ESP</th>
<th>HK</th>
<th>NZL</th>
<th>SGP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remain the same</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>Increase</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
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<tr>
<td>Decrease</td>
<td>26%</td>
<td>26%</td>
<td>26%</td>
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<td>26%</td>
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</tbody>
</table>

**EDUCATION**

<table>
<thead>
<tr>
<th>What proportion of your clients are likely to send their children overseas to be educated? Average</th>
<th>GBR</th>
<th>AUS</th>
<th>USA</th>
<th>CHE</th>
<th>ESP</th>
<th>HK</th>
<th>NZL</th>
<th>SGP</th>
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</thead>
<tbody>
<tr>
<td>Schooling</td>
<td>30%</td>
<td>31%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
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<tr>
<td>University</td>
<td>26%</td>
<td>26%</td>
<td>26%</td>
<td>26%</td>
<td>26%</td>
<td>26%</td>
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</table>

**WHERE ARE THE MOST POPULAR LOCATIONS?**

<table>
<thead>
<tr>
<th>Location</th>
<th>Average</th>
<th>GBR</th>
<th>AUS</th>
<th>USA</th>
<th>CHE</th>
<th>ESP</th>
<th>HK</th>
<th>NZL</th>
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<tbody>
<tr>
<td>USA</td>
<td>68%</td>
<td>68%</td>
<td>68%</td>
<td>68%</td>
<td>68%</td>
<td>68%</td>
<td>68%</td>
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<tr>
<td>UK</td>
<td>65%</td>
<td>65%</td>
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<td>65%</td>
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<tr>
<td>Canada</td>
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<td>54%</td>
<td>54%</td>
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<tr>
<td>Germany</td>
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<td>France</td>
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**YOUR ANNUAL RESOURCE FOR TRACKING GLOBAL WEALTH AND PRIME PROPERTY TRENDS**

**DATABANK**

**THE WEALTH REPORT 2014**

**KNIGHTFRANK.COM**
**Investments of Passion**

The Knight Frank Luxury Investment Index (KFLII) offers a snapshot of how various collectable luxury asset classes are performing.

The index is based on the performance of nine existing indices that track the performance of the following: art, classic cars, coins, Chinese ceramics, furniture, jewellery, stamps, watches, and wine.

Details of each index are listed below:

To create the overall Knight Frank Luxury Investment Index the individual indices were weighted, based on the popularity of the asset and its relative value. Hence, the performance of a widely collected and expensive asset will have more bearing on the overall index than a less popular one.
**GLOBAL WEALTH DISTRIBUTION**

The Wealth Report has teamed up with leading wealth intelligence provider WealthInsight to provide comprehensive wealth distribution data covering around 90 different countries and cities. The data covers UHNWI, centa-millionaire and billionaire populations in 2003, 2012, 2013 and forecast changes to 2023.

### REGIONAL WEALTH TRENDS

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<tr>
<td>Africa</td>
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Please contact oluia.vlasova@wealthinsight.com for city-level data.
Knight Frank is the world’s leading independent real estate consultancy, specialising in all aspects of residential, commercial and rural property. The market-leading research and thought leadership highlighted in this report ensure we can offer the best advice to our clients, while our growing network of over 330 offices in 48 countries means we can help those looking for property, advice or management services wherever they may be.