THE WEALTH REPORT 2012

A GLOBAL PERSPECTIVE ON PRIME PROPERTY AND WEALTH

Knight Frank

Citi Private Bank

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THE WEALTH REPORT A GLOBAL PERSPECTIVE ON PRIME PROPERTY AND WEALTH 2012

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DEFINITIONS

HNWI
For the purpose of this report we use HNWI as an abbreviation for high-net-worth individual. Unless otherwise stated, we define this as someone having over $25m of investable assets.

PRIME PROPERTY
A location's most desirable, and usually most expensive, property. Commonly, prime markets have a significant international bias.

WELCOME

LIAM BAILEY
HEAD OF RESIDENTIAL RESEARCH, KNIGHT FRANK

Never before have wealth creation, economic risk and politics been so closely intertwined with the performance of prime residential and commercial property markets. Drawing on insight from Knight Frank, Citi Private Bank and other leading commentators, *The Wealth Report* 2012 pulls together all these strands and explains their connections and likely implications.

Using exclusive data and survey results, we uncover how the wealth being generated by the world's fastest growing economies is an integral part of the equation, but also discover on page 16 that economic growth alone is not enough to create cities considered genuinely important by the world's wealthiest people.

The central trend dominating prime property markets has been the relentless growth of "plutonomy" economics, a phenomenon that sees the wealth of the richest 1% growing far quicker than that of the general population – a trend we initially examined in our first *Wealth Report* in 2007.

The central trend dominating the performance of prime property markets has been the relentless growth of "plutonomy" economics

A year later, in the eye of the global economic storm, plutonomy seemed under threat as asset values plummeted. Ironically the response to the financial crisis did more to revive the value of investments held by the wealthy than improve the position of the wider population. Gráinne Gilmore's article on page 10 of this year's report highlights growing political concerns about the potential effects of income inequality.

My own analysis of prime residential property on page 26 points to the growing interest in wealth accumulation and wealth flows, both in the countries leading economic expansion in the emerging world, and also across Europe and North America where this money is increasingly being invested. In addition, our annual Attitudes Survey provides a unique insight into HNWI investment and spending trends. The results are featured throughout the report and there is a detailed regional breakdown on page 64 of Databank.

I hope you find our annual update on prime property and wealth both interesting and useful. If Knight Frank or Citi Private Bank can be of further help please do get in touch. You can find our contacts at the back of the report.

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MONITOR

Our map of the latest concentrations of global mega-wealth reveals that the momentum is undeniably with the world's emerging economies. However, when it comes to choosing a home, it's the familiar places that are still drawing the super-rich.

PERFORMANCE

Prime housing markets around the world have had a mixed year, but safe-haven locations are proving resilient. They are also attracting commercial investors.

PORTFOLIO

In light of ongoing global political and economic turmoil, the super-rich are thinking long and hard about how best to invest and safeguard their wealth. Many are looking to combine business with pleasure by investing in art, wine and sport.

KEY

Throughout *The Wealth Report* we have used these symbols to signpost readers to content that draws on our Attitudes Survey of HNWIs, our PIRI index of global prime property markets and HNWI interviews.

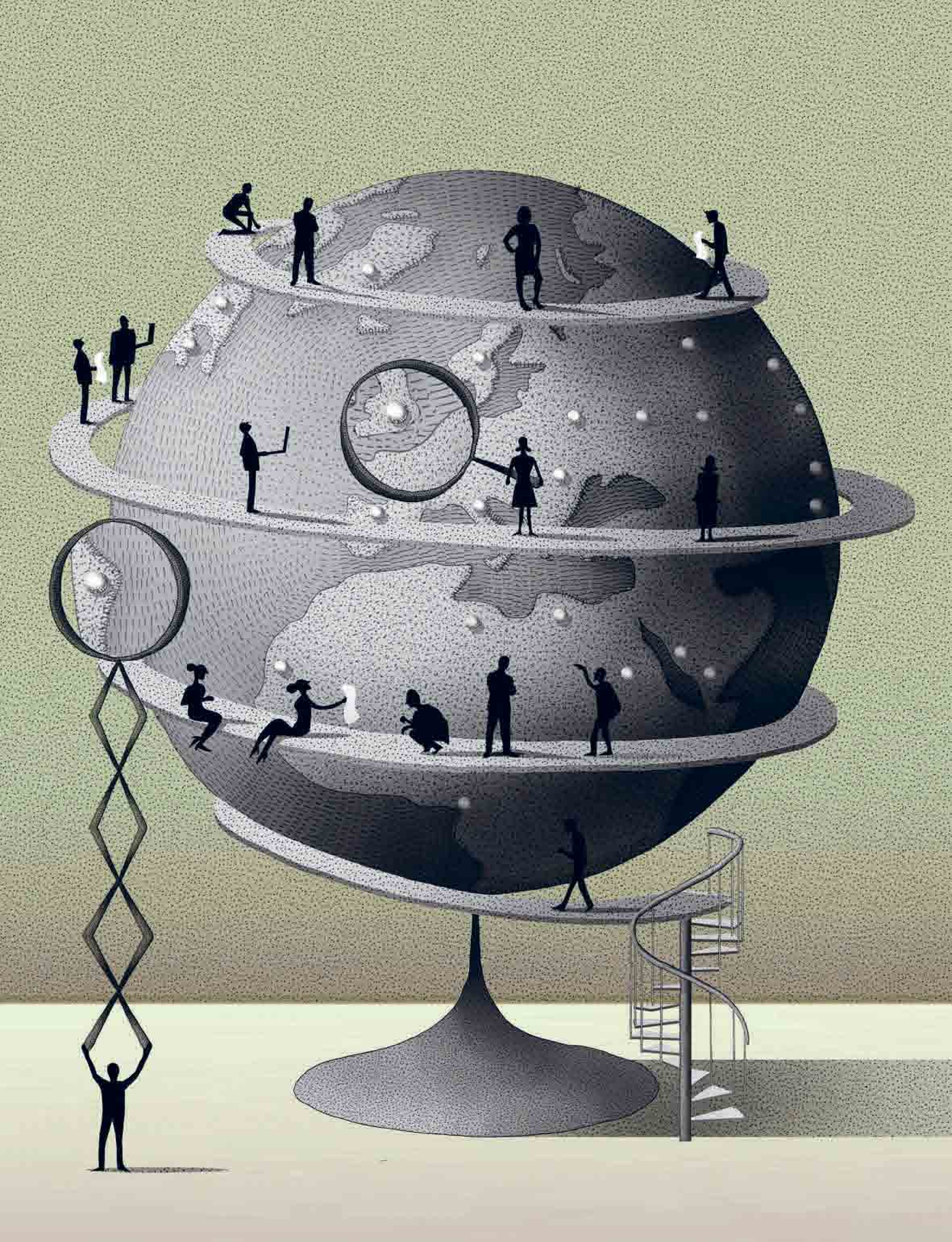
Attitudes Survey

ATTITUDES SURVEY
What the wealthy think about everything from property to philanthropy

PIRI 2012

PRIME INTERNATIONAL RESIDENTIAL INDEX
The ultimate guide to the best prime residential property globally

WEALTH TALK
Exclusive insight from leading lights and trendsetters in the world of wealth



MONITOR

GLOBAL WEALTH DISTRIBUTION AND LOCATIONS FAVOURED BY THE SUPER-RICH EXPLORED

Q

How and why is the distribution of global wealth changing?

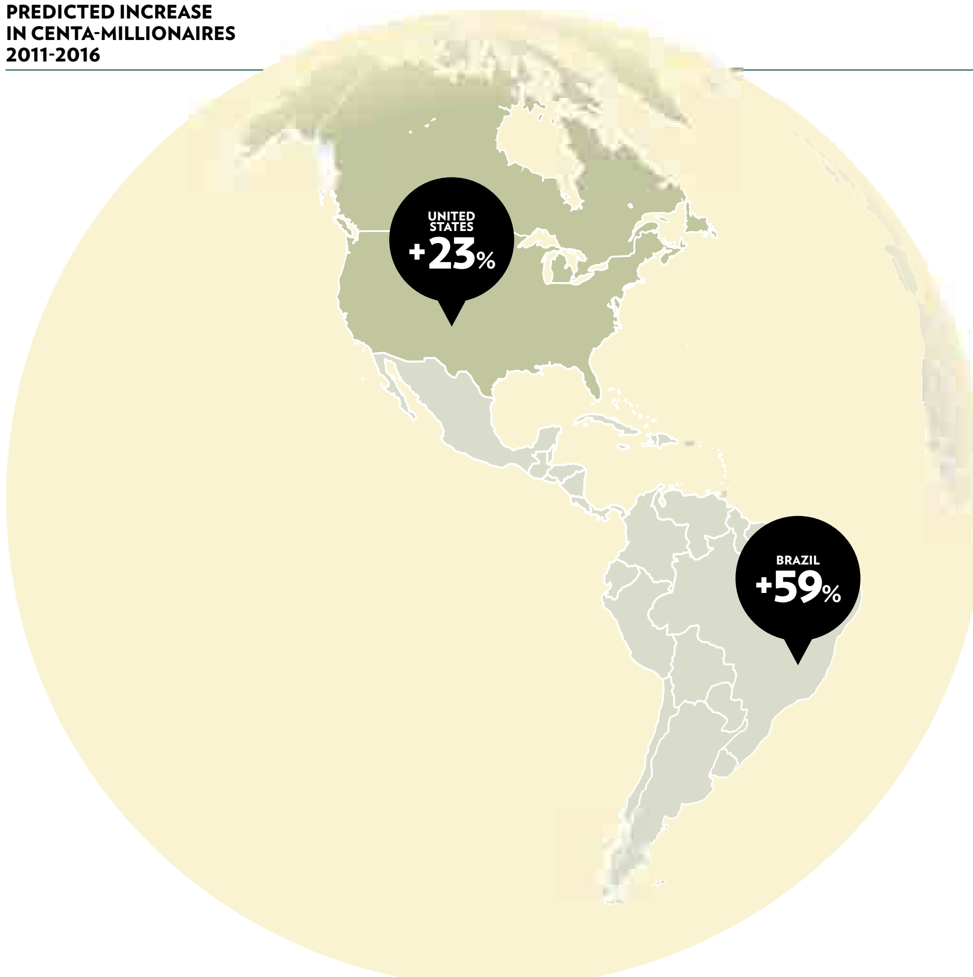
Which cities do the wealthy consider the most important?

How are luxury brands targeting emerging economies?

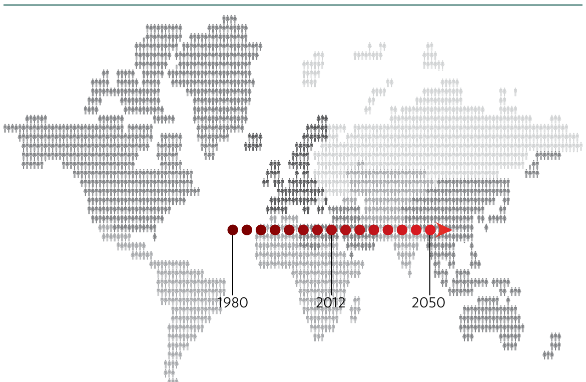
RISE OF THE NEW RICH

THE DISTRIBUTION OF THE WORLD'S SUPER-RICH IS SHIFTING. GRÁINNE GILMORE SEEKS OUT FUTURE GLOBAL WEALTH HOTSPOTS AND DISCOVERS IT'S NOT ALL ABOUT CHINA

PREDICTED INCREASE IN CENTA-MILLIONAIRES 2011-2016



ECONOMIC CENTRE OF GRAVITY

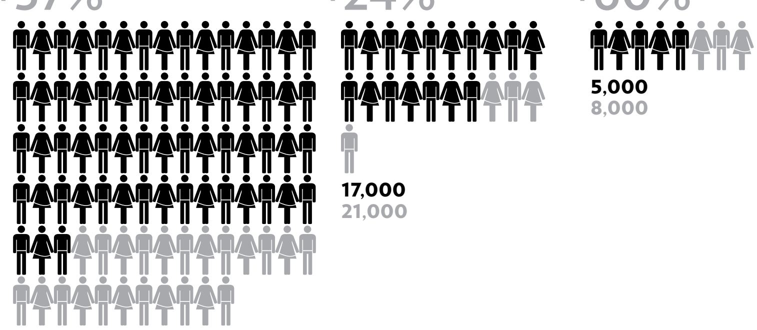


London School of Economics professor Danny Quah has calculated that the world's economic centre of gravity – the average location of economic activity by GDP – is on the move. By 2050, the steady rise of emerging economies in Asia will have pushed the theoretical centre of gravity modelled by Professor Quah from its location in 1980 in the Atlantic Ocean to somewhere between China and India by 2050. He predicts that political influence will follow a similar trajectory eastwards.

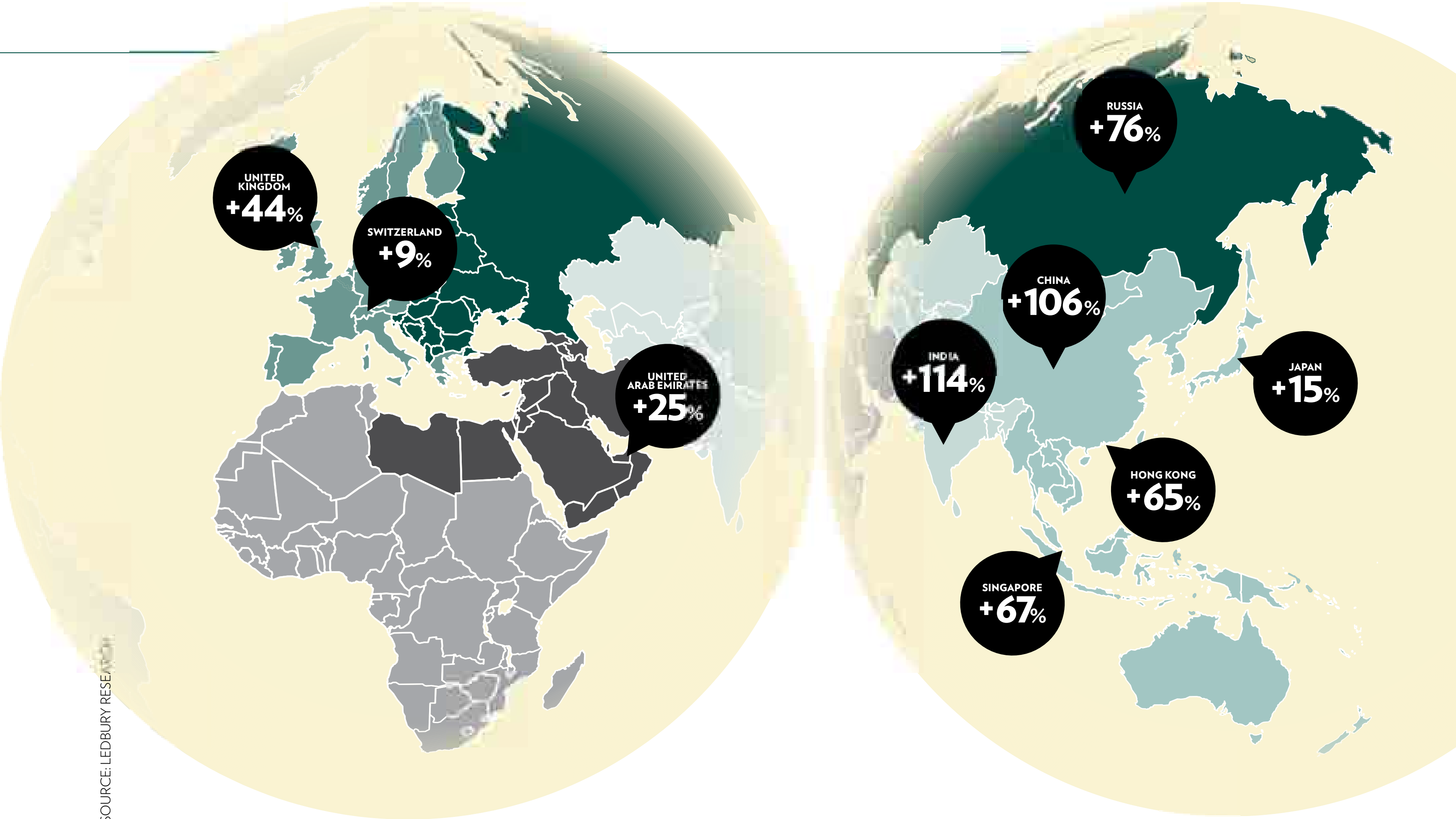
SOURCE: GLOBAL ECONOMY'S CENTRE OF GRAVITY, QUAH (2011)

INCREASE IN CENTA-MILLIONAIRES BY GLOBAL REGION

	GLOBAL	NORTH AMERICA	LATIN AMERICA
2006-2011	+29%	+6%	+67%
2010-2011	+7%	+6%	0%
2011-2016	+37%	+24%	+60%



= 1,000 centa-millionaires, 2011 2016
Centa-millionaire = $100m disposable assets



SOURCE: LEDBURY RESEARCH

WESTERN EUROPE	EASTERN EUROPE	AFRICA	MIDDLE EAST	SOUTH & CENTRAL ASIA	SOUTH-EAST ASIA
-7%	+50%	0%	+100%	+200%	+80%
+8%	0%	0%	0%	0%	+13%
+7%	+67%	100%	+50%	+100%	+44%
14,000	3,000	1,000	2,000	3,000	18,000
15,000	5,000	2,000	3,000	6,000	26,000

TOTAL NET WORTH OF CENTA-MILLIONAIRES 2011

$39.9 TRILLION

HNWI POINT OF VIEW
MAIN THREAT TO YOUR WEALTH?

The ongoing global financial crisis
SINGAPOREAN

Regional war **MIDDLE EASTERN**

Nationalisation of land **ZAMBIAN**

Inflation **INDIAN**

A hostile takeover or the government
RUSSIAN

The devaluation of money
HONG KONG

For more survey results and investor intelligence, turn to Databank on p58

GRÁINNE GILMORE
Head of UK Residential Research, Knight Frank

Economic turbulence failed to curb the rise in the number of ultra-wealthy individuals last year, according to exclusive new figures produced for *The Wealth Report*.

There are now 63,000 people worldwide with $100m or more in assets, according to Ledbury Research, which specialises in monitoring global wealth trends. The number of these centa-millionaires has increased by 29% since 2006 and is forecast to rise even further (see graphic, p8).

But HNWIs were not spared from the challenges that faced all investors across the globe last year. Amid growing economic and political tensions, manifested most clearly in the eurozone crisis and the Arab Spring uprisings, many world stock markets fell sharply. Commodity prices were also volatile and the growth in average global real estate values slowed – with the exception of localised out-performance in some markets (see our Prime International Residential Index, p26, and our commercial property trends report, p36).

While rapid GDP growth does not in itself guarantee a rise in HNWIs, rapidly growing economies do provide opportunities for wealth creation

The global economy expanded, but the pace of growth was much slower than in 2010. The US economy grew by just 1.8% and GDP in the troubled eurozone rose just 1.6%. In contrast, Asia managed to chalk up economic growth of 7.9%, although even this was down on the 9.5% achieved 12 months earlier.

The London School of Economics professor Danny Quah forecasts that by 2050 the world's economic centre of gravity, a theoretical measure of the focal point of global economic activity based on GDP, will have shifted eastwards to lie somewhere between China and India (see map, p8). Professor Quah calculated that in 1980 it was in the middle of the Atlantic.

HEADING EAST

Our global HNWI data also indicates a shifting emphasis to the East. There are now 18,000 centa-millionaires in the region covering South-East Asia, China and Japan. This is more than North America, which has 17,000, and Western Europe with 14,000.

By 2016, Ledbury Research expects that this region will have extended its lead, with 26,000 centa-millionaires, compared with 21,000 in North America and 15,000 in Western Europe.

On a country-by-country basis, the US will still dominate in 2016, with 17,100 centa-millionaires, but China will be catching up fast with numbers set to double from current levels to 14,000.

"We believe the number and concentration of centa-millionaires accentuates the trajectory of current global wealth flows," says James Lawson, Director at Ledbury Research. "Trends seen in this wealth bracket are likely to be replicated in lower wealth tiers in years to come."

South-East Asian deca-millionaires (those with $10m or more in assets) already outnumber those in Europe, and are expected to overtake those in the US in the coming decade.

These forecasts are influenced by the expected economic performance of countries in the Asia-Pacific region. While rapid GDP growth does not in itself guarantee a sharp rise in HNWIs, rapidly growing economies do provide key opportunities for large-scale wealth creation.

"Individuals can become millionaires or multi-millionaires through saving their earnings, a trend most commonly seen in more developed and established economies. But, apart from those who inherit wealth, most people who are very wealthy, say with assets of $10m or more, are business owners," Mr Lawson says.

"To amass this sort of wealth means there must be an alignment between opportunity and ability. For those who make more than $50m, the opportunity usually arises because of a major liquidity event, and these are more common, and can be tapped into more readily, in fast-moving economies."

Singapore: highest GDP per capita now and in 2050

JOSEF HOFLEHNER / GALLERYSTOCK

TABLE 1
THE WORLD'S LARGEST ECONOMIES

2010		GDP $tn	2050		GDP $tn
1	US	14.12	1	India	85.97
2	China	9.98	2	China	80.02
3	Japan	4.33	3	US	39.07
4	India	3.92	4	Indonesia	13.93
5	Germany	2.91	5	Brazil	11.58
6	Russia	2.20	6	Nigeria	9.51
7	Brazil	2.16	7	Russia	7.77
8	UK	2.16	8	Mexico	6.57
9	France	2.12	9	Japan	6.48
10	Italy	1.75	10	Egypt	6.02

GDP ($tn) by purchasing power parity (PPP)

TABLE 2
ECONOMIC GROWTH 2010 - 2050

TOP 10		%	BOTTOM 10		%
1	Nigeria	8.5	1	Spain	2.0
2	India	8.0	2	France	2.0
3	Iraq	7.7	3	Sweden	1.9
4	Bangladesh	7.5	4	Belgium	1.9
5	Vietnam	7.5	5	Switzerland	1.9
6	Philippines	7.3	6	Austria	1.8
7	Mongolia	6.9	7	Netherlands	1.7
8	Indonesia	6.8	8	Italy	1.7
9	Sri Lanka	6.6	9	Germany	1.6
10	Egypt	6.4	10	Japan	1.0

% GDP change year on year

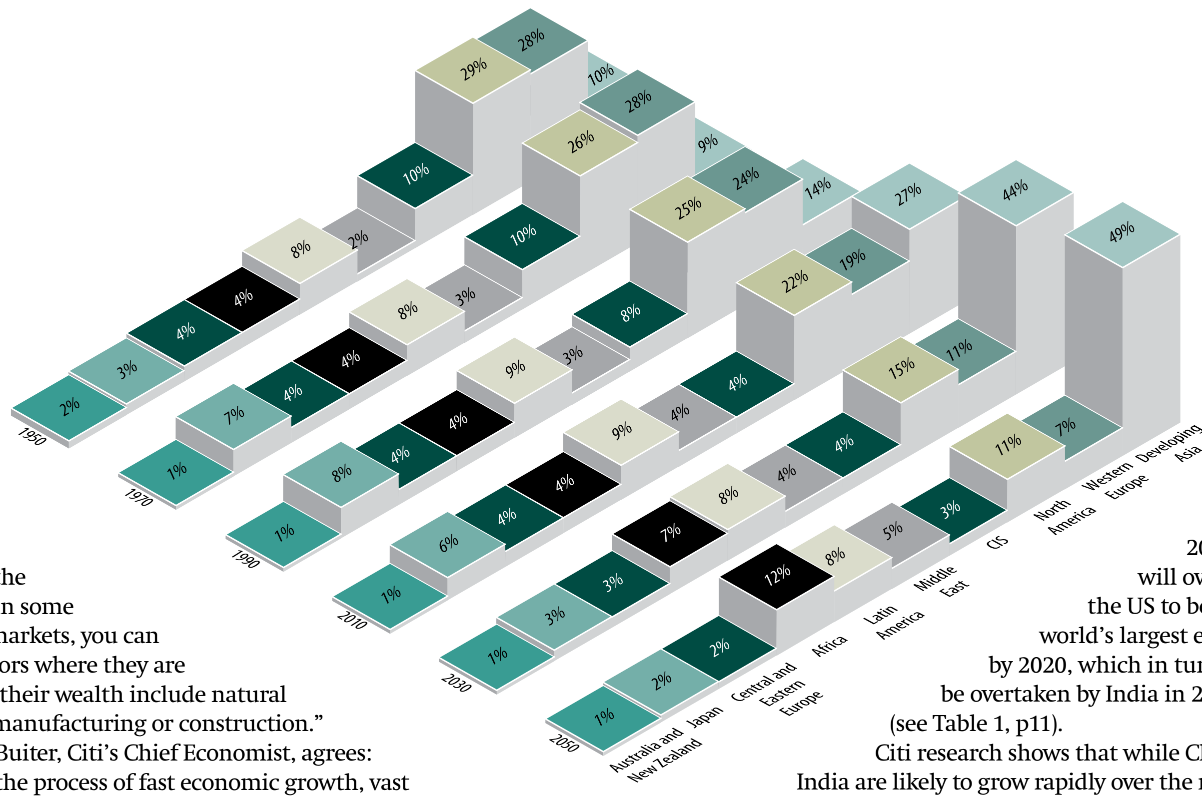
TABLE 3
GDP PER CAPITA

2010		$US	2050		$US
1	Singapore	56,532	1	Singapore	137,710
2	Norway	51,226	2	Hong Kong	116,639
3	US	45,511	3	Taiwan	114,093
4	Hong Kong	45,301	4	South Korea	107,752
5	Switzerland	42,470	5	US	100,802
6	Netherlands	40,736	6	Saudi Arabia	98,311
7	Australia	40,525	7	Canada	96,375
8	Austria	39,073	8	UK	91,130
9	Canada	38,640	9	Switzerland	90,956
10	Sweden	36,438	10	Austria	90,158

2010 PPP US$

SOURCE: GLOBAL GROWTH GENERATORS, CITI INVESTMENT RESEARCH AND ANALYSIS, 2011

PERCENTAGE COMPOSITION OF WORLD GDP 1950-2050*



Mr Lawson adds: "Just looking at the wealthiest in some emerging markets, you can see the sectors where they are generating their wealth include natural resources, manufacturing or construction."

Willem Buiter, Citi's Chief Economist, agrees: "As part of the process of fast economic growth, vast wealth will be created. The distribution of that wealth will be dictated by political factors as much as the economic process itself, but there will be high returns from investment in skills and education."

NEW WORLD PLAYERS

While there is little doubt that the emerging economies present the best chances for economic growth, not all countries will prosper at the same rate.

Indeed, the International Monetary Fund (IMF) recently warned of the possibility of a "hard landing" for some emerging economies if the effects of buoyant credit and asset price growth, which have fuelled consumer demand in recent years, unwind.

The IMF predicts emerging economies will expand by 5.4% this year and 5.9% next year. While this certainly marks a significant downgrade from previous forecasts, it still outpaces the average GDP growth of 1.2% and 1.9% expected this year and next in advanced economies.

"Many poor economies have opened up and reached the modicum of institutional quality and political stability that are needed for fast growth and rapid catch-up," Mr Buiter says.

This, in turn, will mean an end to Western hegemony in terms of output (see chart above). Citi forecasts that the North American and Western European share of world real GDP will fall from 41% in 2010 to just 18% in 2050. Developing Asia's share is expected to rise from 27% to 49% in 2050. China will overtake the US to become the world's largest economy by 2020, which in turn will be overtaken by India in 2050 (see Table 1, p11).

Citi research shows that while China and India are likely to grow rapidly over the next 40 years, there are other key countries with promising chances for growth that do not necessarily match the traditional assumptions about where future growth will emanate from.

For example, Russia and Brazil, which make up the so-called BRIC nations alongside China and India, do not make it on to Citi's list of Global Growth Generators – or "3G" countries (see commentary, opposite and Table 2, p11). Instead, Citi includes countries such as Bangladesh, Egypt, Indonesia, Iraq, Mongolia, Nigeria, Philippines, Sri Lanka and Vietnam on this list.

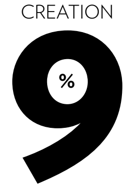
"All of these countries are poor today and have decades of catch-up growth to look forward to. Some of them, including Nigeria, Mongolia, Iraq and Indonesia, also have large natural resources that we hope will be more beneficial than they so often have been in the past," Mr Buiter says.

Mexico, Turkey, Thailand and Iran are also mentioned as countries to watch, as is Brazil, although Citi says major fiscal or political adjustments would have to take place before they would be eligible to join the 3G list.

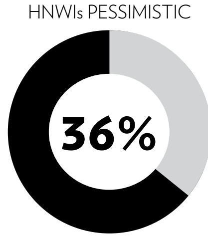
While these countries can expect rapid economic growth, much of the wealth already held in developed economies will be maintained, according to Citi.

Measuring a country's affluence in terms of GDP per capita shows that Singapore currently tops the chart, with Norway and the US in second and third place

HNWI FEARS
FUTURE WEALTH CREATION



OF ASIA-PACIFIC HNWIs PESSIMISTIC



OF EUROPEAN HNWIs PESSIMISTIC

For more survey results and investor intelligence turn to Databank on p58

*SOURCE: GLOBAL GROWTH GENERATORS, CITI INVESTMENT RESEARCH AND ANALYSIS, 2011 respectively (see Table 3, p11). By 2050, Singapore is expected still to be in the top spot, with Hong Kong and Taiwan moving up to take the second and third places. But the US, Canada, UK, Switzerland and Austria will all still be in the top 10, although the US will have dropped down to fifth place in the overall rankings.

UNCERTAIN FUTURES

In terms of continued wealth creation, the world's HNWIs remain upbeat. Less than a quarter are pessimistic about their future wealth prospects, according to the results of *The Wealth Report* 2012 Attitudes Survey.

However, Tina Fordham, Senior Global Political Analyst at Citi, warns that the dissatisfaction with income inequality already being manifested in the Occupy Wall Street demonstrations will gain momentum, and that there could be a long-term recalibration between governments, businesses and society as a result. "It could take a decade or longer for the 'new normal' to emerge," she says.

The dissatisfaction with income inequality already being manifested in the Occupy Wall Street demonstrations will gain momentum

Indeed, at this year's World Economic Forum in Davos, income inequality was among the issues at the top of the list of countries' current concerns, leapfrogging environmental issues, which dominated the global agenda for many years before the financial crisis struck.

Mr Buiter agrees, warning that the political backlash against income inequality, both in advanced and emerging economies, could strengthen. "Governments may use more taxation instruments and globally there may be a further attack on tax havens. Recent governmental and intergovernmental activity in these areas is not a passing phase," he says. "It's going to be a tougher playing field for the rich."

WILLEM BUITER
Citi's Chief Economist

GLOBAL GROWTH GENERATORS
WILLEM BUITER

Willem Buiter explains why acronyms such as BRIC are no longer relevant when discussing the world's fastest growing economies

Citi has created a new way of expressing the key drivers of global growth and investment opportunities. The term "Global Growth Generators", or 3G, describes countries, regions, cities, trade corridors, sectors, industries, firms, technologies, products and asset classes that over the next five, 10, 20 and 40 years are expected to deliver high growth and profitable investment opportunities.

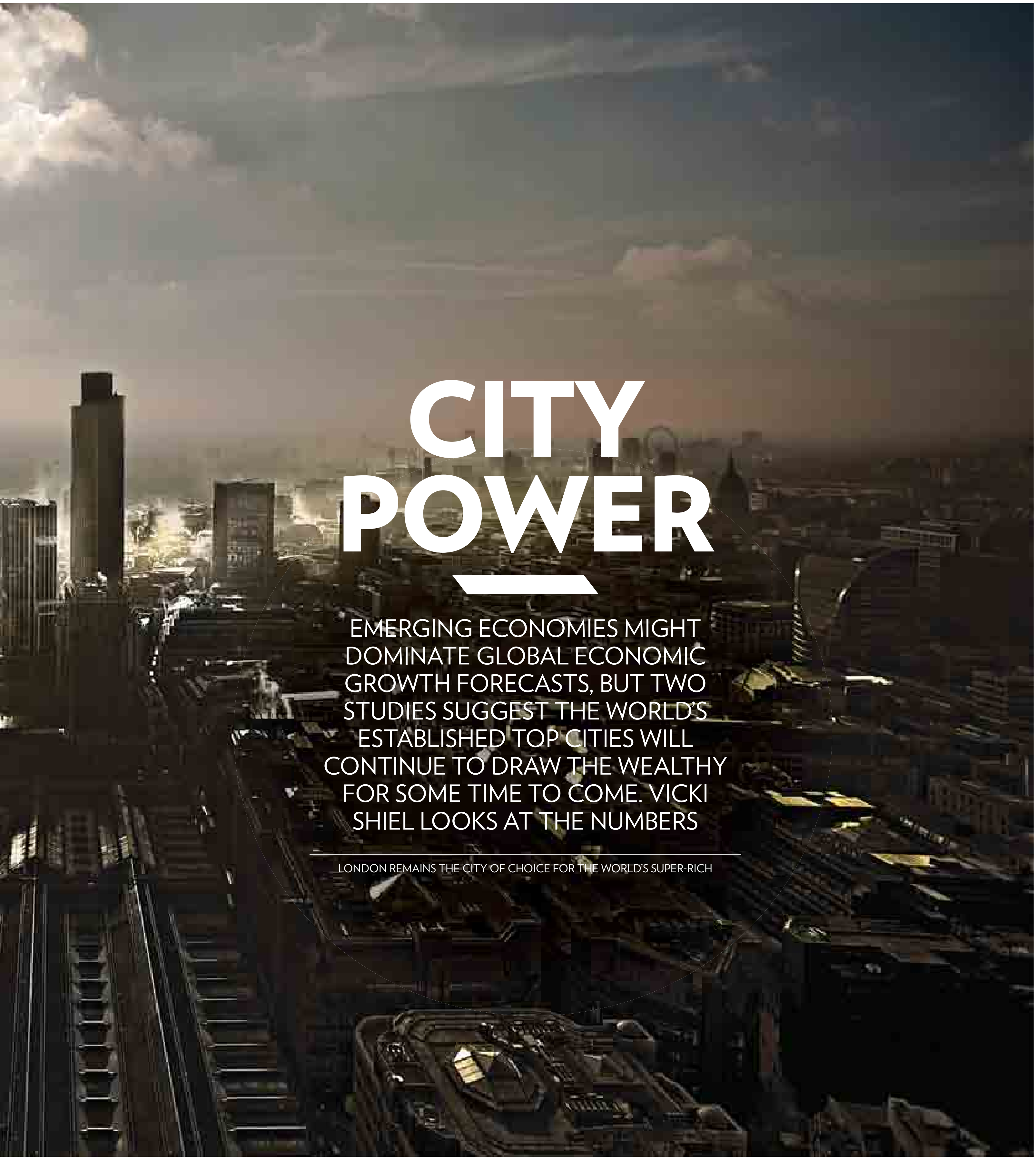
This change in terminology is necessary because it points to a different approach to thinking about the future drivers of growth and investment potential around the world. It is particularly useful now because catchy acronyms and labels have spawned unhelpful taxonomies of countries and become obstacles to clear thinking about future growth and profit opportunities.

Developing/emerging versus developed/advanced/mature economies, BRIC, the Next Eleven, the 7 Percent Club are no more helpful concepts for Citi's global client base than the Magnificent Seven or the Nine Nazgûl.

It is also worth noting that the expression "Global Growth Generators" is not simply a new name or label for the same collection of countries currently known as "emerging markets" (EMs).

Indeed, we hold the view that some countries currently in the emerging market category are not necessarily among the future global growth generators. And in principle, there could be countries that are not currently classified as EMs that could become, or could become again, sources of global growth. We don't propose replacing the term "emerging markets" with the term "3G", but instead use 3G to tag those entities we consider likely to thrive in our globally integrated economy.

WILLEM BUITER IS CITI'S CHIEF ECONOMIST. HE HAS BEEN A MEMBER OF THE BANK OF ENGLAND'S MONETARY POLICY COMMITTEE AND A COLUMNIST FOR THE FINANCIAL TIMES



CITY POWER

EMERGING ECONOMIES MIGHT DOMINATE GLOBAL ECONOMIC GROWTH FORECASTS, BUT TWO STUDIES SUGGEST THE WORLD'S ESTABLISHED TOP CITIES WILL CONTINUE TO DRAW THE WEALTHY FOR SOME TIME TO COME. VICKI SHIEL LOOKS AT THE NUMBERS

LONDON REMAINS THE CITY OF CHOICE FOR THE WORLD'S SUPER-RICH

HOWARD KINGSNORTH/GETTY IMAGES

VICKI SHIEL
Residential Research, Knight Frank

With the seismic shifts taking place in economies, power structures and societies around the world, a very different economic landscape is developing in which the rise of the emerging economies looks set to be a permanent feature. But what does this mean for the world's global cities? Traditionally the likes of London and New York have reigned supreme, but will they be able to maintain their dominance in the face of growing competition?

Research by Knight Frank suggests that, for now at least, their position looks safe. This year sees the first instalment of our new-look global cities study – a sentiment survey that draws on the insight of Citi Private Bank's wealth advisors around the world, as well as luxury property specialists from Knight Frank's global network. The objective of the survey is to assess the importance of key cities to HNWIs, based on everything from investment potential and economic openness to their appeal as somewhere to live or visit.

According to our findings, London continues to lead the pack, coming top in virtually every category of our survey. But that could all change with emerging-economy cities such as Beijing and Shanghai rising up the ranks as places to watch over the next decade.

Here we consider the results of our survey as well as the findings of research into the competitiveness of 120 cities, conducted by the Economist Intelligence Unit (EIU) and commissioned by Citi Private Bank.

London continues to lead the pack. But that could change as emerging economy cities rise up the ranks

GLOBAL CITIES SURVEY

We asked respondents to rank the most important global and regional cities to HNWIs now and in 10 years, and to pinpoint those growing most quickly in importance. We also asked them to rank cities in terms of economic activity, political power, quality of life, and knowledge and influence (see Databank, p63).

London took the pole position in almost every category. Survey respondents from all regions bar one voted it the city that matters most to their clients now. Even respondents in Asia Pacific put London and New York ahead of Hong Kong, Singapore, Shanghai and Beijing. Only respondents in Latin America disagreed, putting London in third place after New York and Miami. London and New York remain in first and second place in our league of the leading cities in 10 years' time, suggesting it will be some time yet before their influence fades.

When asked what makes a global city, the top-scoring indicators were personal safety and security, economic openness and social stability, which is perhaps unsurprising given recent geopolitical turmoil around the globe, and goes some way to explaining London's impressive performance. Though deemed less important, the availability of luxury housing and excellent educational opportunities, as well as the presence of other HNWIs, were also noted as key attributes – all of which London and New York have in abundance.

But for how long can London and New York retain these top spots? Beijing, Shanghai, Singapore and Hong Kong are hot on their heels in our table of the leading cities in 10 years – Beijing made it to third place in this league (a rise of six places), followed by Shanghai, Singapore and Hong Kong, knocking Paris down to seventh place.

Beijing and Shanghai also lead the list of cities growing in importance most quickly to HNWIs, followed by London, Singapore, Hong Kong and New York. This reflects the impact of the flourishing economies of the East. But is economic growth alone enough to make a city really matter to HNWIs?

EIU GLOBAL CITY INDEX

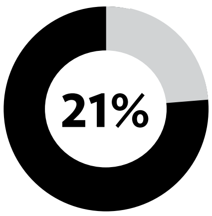
Research commissioned by Citi Private Bank from the EIU ranks the competitiveness of 120 of the world's top cities. New York, London and Singapore top the rankings, while the highest-scoring Chinese city is Beijing (39).

But going only by GDP growth – one of the 31 indicators in the ranking – nine of

WHAT IT TAKES TO BE A GLOBAL CITY
VERY IMPORTANT FACTORS

63%

OF HNWIs SAYS PERSONAL SECURITY



OF HNWIs SAY EDUCATION

For more city rankings and investor intelligence turn to Databank on p58

THE CITIES THAT MATTER TO HNWIs –GLOBAL CITIES SURVEY

MOST IMPORTANT NOW

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

MOST IMPORTANT IN 10 YEARS

1	London
2	New York
3	Beijing
4	Shanghai
5	Singapore
6	Hong Kong
7	Paris
8	Sao Paulo
9	Geneva
10	Berlin

GROWING IN IMPORTANCE TO HNWIs THE FASTEST

1	Beijing
2	Shanghai
3	London
4	Singapore
5	Hong Kong
6	New York
7	Sao Paulo
8	Dubai
9	Mumbai
10	Paris

the top 10 cities in the world are in China. The top 20 are all in China or India. And except for Doha, Lagos, Panama City, and Lima, the top 30 are all in the Asia-Pacific region.

Many of those fast-growing Chinese cities, however, performed significantly less well for freedom of expression and human rights – something that may hinder any future ascent to the top of the overall ranking. Their performance in the "global appeal" category – which considers factors such as the number of companies located there from the Fortune 500 index of the largest US companies – is also relatively poor, with just Beijing (5) and Shanghai (23) making the top 80 of the 120 cities studied.

EASTERN PROMISE

The statistics on China's growth are remarkable. Its luxury goods market is growing 35% annually and luxury brands such as Prada and Gucci are opening stores in cities mostly unknown outside China.

But the relative anonymity of these secondary cities could well change in the near future. Even the most conservative forecasts suggest that by 2025 China will have around 130 cities with over one million inhabitants, more than the US and Europe combined. Of those, around 90 are expected to have over five million people, while eight will be home to more than 10 million. To put this into perspective, New York is the only US city that has a population of more than five million (8.2 million in 2010).

This raft of second and third-tier cities is likely to become increasingly influential, says Jim Rogers, a US investor based in Singapore: "These secondary cities are becoming more powerful – their local governments are developing, their citizens are demanding more rights, and the cities are blossoming. If I were to choose one that will join the future list of global cities, I might choose Dalian [in north-east China], although many would say China's next great city is Chongqing [in the south-west]. There are around 30 million people living there and a staggering amount of money is being spent on its development."

SEE OVERLEAF FOR PREDICTIONS OF THE WORLD'S LEADING CITIES IN 2050

ELSEWHERE IN THE WORLD
ONES TO WATCH

Though the leaders in our global cities survey represent the usual big players, the wider results reveal the emergence of other interesting trends

SAO PAULO Currently ranked 18, but our respondents expect Brazil's largest city to climb 10 places in 10 years to become the eighth most important city in the world.
MIAMI Ranked six in the overall table. South American respondents voted it the second most important city in the world after New York, while North Americans put it at number five. The city is a growing hub for South Americans doing business in North America.
DUBAI Despite its struggles in recent years, it was voted the 13th most important city in the world.
MUMBAI, NEW DELHI, RIO AND ISTANBUL
All cities that our respondents said are growing rapidly in importance.

2050

We asked leading commentators to predict the world's top city in 2050. Shanghai, China's financial centre, emerged as the most popular choice

SHANGHAI: The city is a catalyst for cultural and technological innovation and represents Chinese modernity – in 1980 there were no skyscrapers, today it has twice as many as New York. By 2050 its population is projected to reach 50 million. Market liberalisation will help Shanghai become a global financial centre and it is forging ahead as a cultural hub and global tourist destination.
TIM HANCOCK AND ROHIT TALWAR
Foresight Director and Chief Executive, Fast Future Research, London

SHANGHAI: The most important city in China in the past and it will be again. As China opens its economy, currency and markets, it will continue to grow. It also has a well-educated and strong labour force. Democracy, human rights and freedom of speech have been improving for some time now and I believe will continue to do so. Thirty years ago there was just one newspaper, radio station and television channel. Now there are many media outlets, and demonstrations take place each year where no one dared before. Shanghai does have its drawbacks: the traffic and pollution are terrible because the economy is growing faster than the infrastructure.
JIM ROGERS
Investor, Singapore

SHANGHAI: The "head of the dragon" has more freestanding buildings over 400 metres than any city in the world, and a cityscape to rival the West's most impressive. With the Chinese economy on course to overtake the US as the largest in the world, in some estimates as soon as 2020, Shanghai is poised to take this mantle. Doubts persist about whether the state capitalist "one-party" model can continue to balance growth while pacifying the growing and vocal middle class. But these concerns are likely to be overcome due to the sheer size of the market, a maturing of the economy and inevitable, incremental, political reform.
NICHOLAS HOLT
Asia-Pacific Research Manager, Knight Frank, Singapore

SHANGHAI: It has the world's largest container port, fastest train, longest metro system and is currently working on the world's second tallest building. But what is vitally important in a global city is a strong brand. Frankfurt and Hong Kong lose out to New York and London as global cities because nobody dreams of "making it big" in Frankfurt. A true global city is one with a brand people recognise, an image to which they aspire and a place where they dream of living. Shanghai performs well on all these and is where the next generation of ambitious entrepreneurs and visionaries will dream of making their mark.
BRYN ANDERSON
Valuation Director, Brand Finance, London

LONDON OR NEW YORK: The most significant driving force of any city is its people. It is crucial to have a liveable environment for increasingly mobile populations, and to attract a significant foreign workforce. More than one-third of people in New York and London are foreign-born. Despite their astonishing growth, Asian economic powerhouses fail to reach that level of cosmopolitan culture. New York or London will continue to top the indices, but only if they ensure their strong cultural offers are unmatched and maintain open immigration policies.
DAVID ADAM
Managing Director, Global Cities, London

LONDON: The global cities of the future will remain those that can provide security and diligence to international firms and clients, while evening out inequalities at home. London will continue to be one such centre if it continues to follow structural adjustments in its economy. These include bringing large institutional investors into the rental market, which will turn Londoners into renters rather than owners and divert the surplus from real estate into more productive capital.
DR SAVVAS VERDIS
Chief Executive, Rankdesk, London

SEE OUR INTERVIEW WITH CARTIER CEO BERNARD FORNAS FOR MORE INSIGHT, P22

CITIES OF THE FUTURE
RENATO GRANDMONT

A shift is taking place from developed to developing economies – not a simple West to East shift, but a multi-directional one to places such as Sao Paulo, Mexico City and Istanbul. The East is increasingly important, with China's plethora of 1 million-plus cities, led by Shanghai and Guangzhou. But demographics alone are not the deciding factor. I think the cities of the future will include Cairo, Lagos, Johannesburg and Mumbai, as well as established global centres such as New York, London and Moscow. We will also likely see a number of new players emerge. As a final thought, let us not forget that some refer to the the social media site Facebook as the world's largest country. Technological developments mean people can live where they want, which may affect the pre-eminence of cities in time (see p20 for more thinking on future cities).

RENATO GRANDMONT IS CHIEF INVESTMENT OFFICER FOR CITI WEALTH MANAGEMENT AND CITI PRIVATE BANK IN LATIN AMERICA

Shanghai: poised to become the world's leading city in 2050

New York: a rich cultural mix keeps it in the top league of world cities

JEAN-LUC BERTINI/PICTURETANK, MARK HENLEY/PANOS

NEW WORLD ORDER

While the balance of urban power today is held by a small number of megacities, some believe that could all change. Here we share some of the latest thinking on the rise of urban networks and the emergence of a new breed of city that punches above its weight

DOMINANT CITIES REPLACED BY MULTIPLE CITY NETWORKS

Saskia Sassen

Predicting which cities will lead the world in 2050 is not a straightforward economic story; it is about geopolitics, as the global city is an international actor of sorts.

The emerging urban geopolitics is centred in networks of cities – mostly, but not exclusively, global cities. This began in the late 1980s and now serves as important infrastructure for the global economy.

It has become clear over the last few decades that our geopolitical future is not going to be determined by the 'G2' combination of the United States and China. It will instead run via 20 or so strategic urban networks. These networks have grown in importance on the back of the globalisation and urbanisation of an increasing number of economic activities. Those cities that work together begin to matter more in the global economy and in geopolitics than their respective countries.

Firms that sell to other firms rather than consumers thrive on the specialised differences of global cities. Consider London, New York and Paris – they are all major financial centres, but they are specialised in very different sectors of finance. What matters to these firms is not the city as a supermarket, but as a specialised shop. By this rationale, different firms will prefer different city networks. The various city rankings and indices do measure something that matters. But for many firms, if they can avoid locating in London or New York, where costs are high, and if Copenhagen serves their purposes just as well, there is little doubt as to where they will go. The mass-consumption sector is the opposite: the more cans of coke or mobile phones you can sell, the better.

These are the geopolitical urban vectors underlying the global economy that I believe will shape the future:

1 WASHINGTON/2 NEW YORK/3 CHICAGO: These cities are becoming more important geopolitically than the United States is as a country. Chicago is rising fast as a geopolitical actor – think of the state visit by Chinese president Hu Jintao in January 2011, when he stopped not just in Washington but also in Chicago.

4 BEIJING/5 HONG KONG/6 SHANGHAI: Beijing is the centre of power, but Hong Kong's global intermediary role is critical. Shanghai is the leading national industrial and financial centre.

7 BERLIN/8 FRANKFURT: With Berlin the seat of the European Union's most powerful economy and Frankfurt the seat of the EU Central Bank, this axis is the bulwark for the EU. If there were no EU, they would not be as significant geopolitically.

9 ISTANBUL/10 ANKARA: Istanbul, long the East/West and North/South hinge city, in combination with Ankara, is rapidly becoming a major global policy nexus.

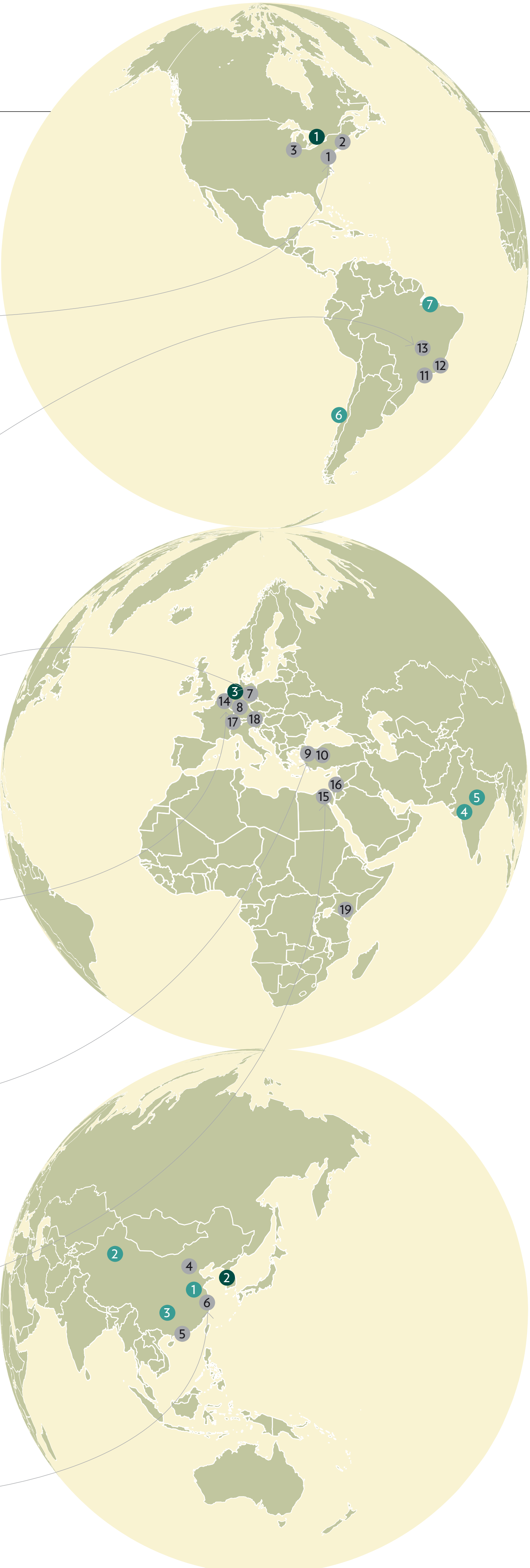
11 SAO PAULO/12 RIO DE JANEIRO/13 BRASILIA: The new politico-economic heavyweight axis next to now-established China. The Brazilian Development Bank is richer than the World Bank, and its economic power is large and ascendant.

14 BRUSSELS: The EU may be struggling with economic crises in several member states, but its institutions and capabilities are unlike those of any other union of states.

15 CAIRO/16 BEIRUT: They rearticulate what the Middle East means as a region. Beirut has long had politico-economic networks worldwide; Cairo has a history of empire.

17 GENEVA/18 VIENNA/19 NAIROBI: These cities have the critical mass and mix of institutions devoted to social questions and justice for the powerless, with Nairobi increasingly important in a rapidly urbanising world. They have long been overshadowed by global finance and mega-militaries. But they will emerge as critical actors in the global commons.

PROFESSOR SASKIA SASSEN IS CO-CHAIR OF THE COMMITTEE OF GLOBAL THOUGHT AT COLUMBIA UNIVERSITY, AND COINED THE TERM "GLOBAL CITY". IN 2011 FOREIGN POLICY MAGAZINE NAMED HER AMONG ITS TOP 100 THINKERS



FAST-GROWING EMERGING MARKET MIDDLEWEIGHTS

Jaana Remes

The unprecedented pace and scale of urbanisation in developing countries is among the few bright spots on a global economic horizon clouded by ageing populations, increasingly volatile resource prices and debt crises. It is no longer just a story about the rise of megacities such as Shanghai or Mexico City.

We believe the cities to watch in 2050 are the 400 emerging market "middleweights" – fast-growing cities with populations between 200,000 and 10 million. This dynamic group includes many cities that are not household names today: ➊ **LINYI**, ➋ **KELAMAYI** and ➌ **GUIYANG** in China; ➍ **SURAT** and ➎ **NAGPUR** in India; and ➏ **CONCEPCION** and ➐ **BELEM** in Latin America. Yet collectively they are global growth engines, reducing poverty, expanding the global middle class by millions of households, and creating new market opportunities for local and multinational companies.

JAANA REMES IS SENIOR FELLOW AT THE MCKINSEY GLOBAL INSTITUTE, SAN FRANCISCO
WWW.MCKINSEY.COM/INSIGHTS/MGI

GLOBAL INTELLIGENT COMMUNITIES

Louis A. Zacharilla

Most people will not have heard of these three cities. But ➊ **WATERLOO** in Canada, ➋ **SUWON** in South Korea, and ➌ **EINDHOVEN** in The Netherlands are working together as part of an important fraternity and movement. These three, along with about 100 others, have transformed themselves into what we call "intelligent communities" – cities and communities that have worked diligently to produce a very good quality of life for citizens. Each has entered an international awards programme and been reviewed by academics and experts in order to be given this title. They are modelled on a holistic set of criteria including good telecommunications access, a knowledgeable workforce, innovation in their local governments and culture, and activities aimed at closing digital and social divides. Broadband and the emergence of a global digital infrastructure have made these improvements possible. By 2050, no matter where a person lives, they will be able to participate in the global economy.

LOUIS A. ZACHARILLA IS CO-FOUNDER OF THE INTELLIGENT COMMUNITY FORUM, NEW YORK
WWW.INTELLIGENTCOMMUNITY.ORG

HNWI POINT OF VIEW
WHAT MAKES A GLOBAL CITY?

A vibrant international business sector
AMERICAN

Safe and cosmopolitan
LATIN AMERICAN

It must follow the London model: entrepreneurial, cosmopolitan, free enterprise, capitalist, favourable tax structure, great entertainment, cultural, enriched society with great diversity
MIDDLE EASTERN

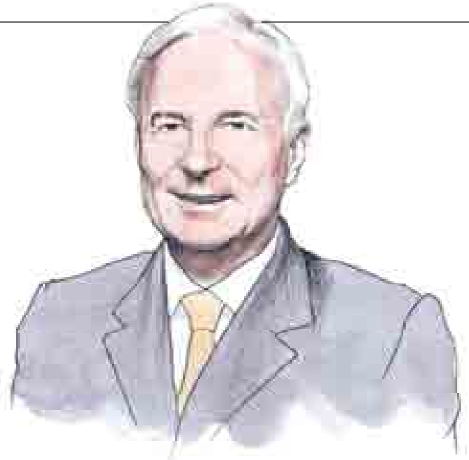
Be an international financial centre and an investment conduit for foreigners and residents alike
HONG KONG

Sustainable property values in all real estate sectors, including residential, office, retail and industrial. Property values are a barometer of the health of the overall economy and also the attractiveness of a city
SINGAPOREAN

Good public transport, be safe and have strong governance
INDIAN

Boast a wide range of recreational facilities and good infrastructure
AFRICAN

For more survey results and investor intelligence turn to Databank on p58



THE ORIENT EXPRESS

BERNARD FORNAS
CEO AND PRESIDENT, CARTIER

NOTHING BETTER REFLECTS ASIA PACIFIC'S ECONOMIC FIREPOWER THAN ITS SURGING SHARE OF THE LUXURY GOODS MARKET. ANDREW SHIRLEY TALKS TO THE MAN WHO HAS LED ONE OF THE REGION'S TOP BRANDS FOR THE PAST 10 YEARS

The numbers tell the story. Five years ago the Asia-Pacific region accounted for just over 20% of sales at Richemont, the Swiss luxury brands business where jeweller and watchmaker Cartier is the star performer. By 2011 its share was almost 40%. Over the same period sales in the region grew by 140%, compared with 27% in Europe. Even in Europe analysts estimate that tourists from emerging economies account for up to half of the sales in Cartier boutiques.

ANDREW SHIRLEY When did it become clear to you that Asia, particularly China, was set to become your biggest market?
BERNARD FORNAS Cartier recognised very early the potential of the Asian market. We opened our first boutique in Hong Kong in 1970, followed three years later by one in Singapore and the next year by another in Tokyo. Cartier has been present in China since 2001. Today, with 43 stores in 22 cities, we benefit from our pioneering spirit and having taken a calculated risk at the time.

AS Were you surprised at how fast demand in the region has grown for luxury goods?
BF If the speed with which this development took place could have been a source of surprise, its scale was to be expected given the great economic power of the region.

AS Do you find that the demand mix for your jewellery and watches varies around the world – for example, is the growth in Asia being driven by sales of your "initiation" pieces rather than your most expensive ranges?
BF On the contrary, we find a very similar structuring of our activity in all regions.

AS Is it true that when times are hard, the wealthy prefer to buy things that appear less ostentatious?
BF When times are hard, customers tend to turn to legitimate brands with authenticity and there is less showing off. For instance in the watch sector, bigger pieces are losing ground to more discreet timepieces.

AS Although you have always been clear that Cartier does not, and will not, create specific products for different regions, do you have to alter your brand building and marketing messages when targeting consumers around the world?
BF A beautiful creation is recognised as such by any client around the world. Our strength stems from the consistency and continuity of style – a rich aesthetic expression fed from over 165 years of creation. It would be unthinkable and detrimental to our *maison* to try and alter our creation process seeking to cater to specific clients. The same goes for our brand building. We strive to spread the same values worldwide.

AS What is it about the Cartier brand that makes it so desirable to the Chinese – how important is heritage in a market that has only recently been exposed to luxury brands?
BF Chinese customers learn fast and are very much aware of what makes a brand desirable: over 165 years of history, an outstanding know-how and an unparalleled creativity, all features that define a *maison* such as Cartier.

AS As emerging economies become more accustomed to their new wealth are you concerned that the attraction of international brands will wear off or that local luxury brands will become more competitive?
BF I strongly believe that *maisons* like Cartier, known for their exclusivity, excellence, creativity and know-how, will always maintain their desirability.

AS Where do you expect future growth to be strongest and do you plan to open any new boutiques in countries where you do not currently operate?
BF We invested strongly in China, and there is still a lot of potential. Contrary to many other brands, Cartier can rely on an excellent repartition of its stores across the

The shift of economic power to Asia is undoubtedly one of the big geopolitical questions of this decade entire world. Latin America and the Middle East are markets that we will continue to develop, either by opening new boutiques or by increasing the size of existing stores. We can still gain market share.

AS Your presence in India seems low-key compared with China. Why is that when India's economy and the spending power of its HNWI population are also growing?
BF Indeed, we only have one boutique in India (New Delhi), due to high import taxes on luxury goods. Watches, for example, cost 50% more in India than in other markets. So our Indian clients buy when travelling abroad. This is very unfortunate, because we see a very high potential in this country. But Cartier still has strong links with India as our *maison* had extremely close relationships with the Maharajas and the image of our brand is still very strong there.

AS Will the rising economic power of Asia mean that the likes of Shanghai or Hong Kong will inevitably replace established centres such as London and New York as the world's most important cities?
BF The shift of economic power from Europe and North America to Asia is undoubtedly one of the big geopolitical questions of this decade. However, if the rise of new economic powerhouses is unquestionable, the decline of historic global centres of power remains to be seen. Why should the rise of a new power imply automatically the decline of another? With an increasingly interconnected global economy this is more than questionable.

AS Investments of passion such as art are increasingly being seen as attractive alternatives to the volatility of traditional investments. Do you think this has contributed to the surge in demand for Cartier jewellery and watches?
BF One can say that what is rare and beautiful definitely has more potential to offer an alternative to the volatility of financial products. In the case of a limited watch edition signed by a renowned maison, or a unique jewellery creation, one does not take a lot of risk to believe that this item will prove to be an excellent investment. The rarity of a product enhances its value.

AS What would be your own investment of passion?
BF Art and vintage cars.

MONITOR

A

How and why is the distribution of global wealth changing?

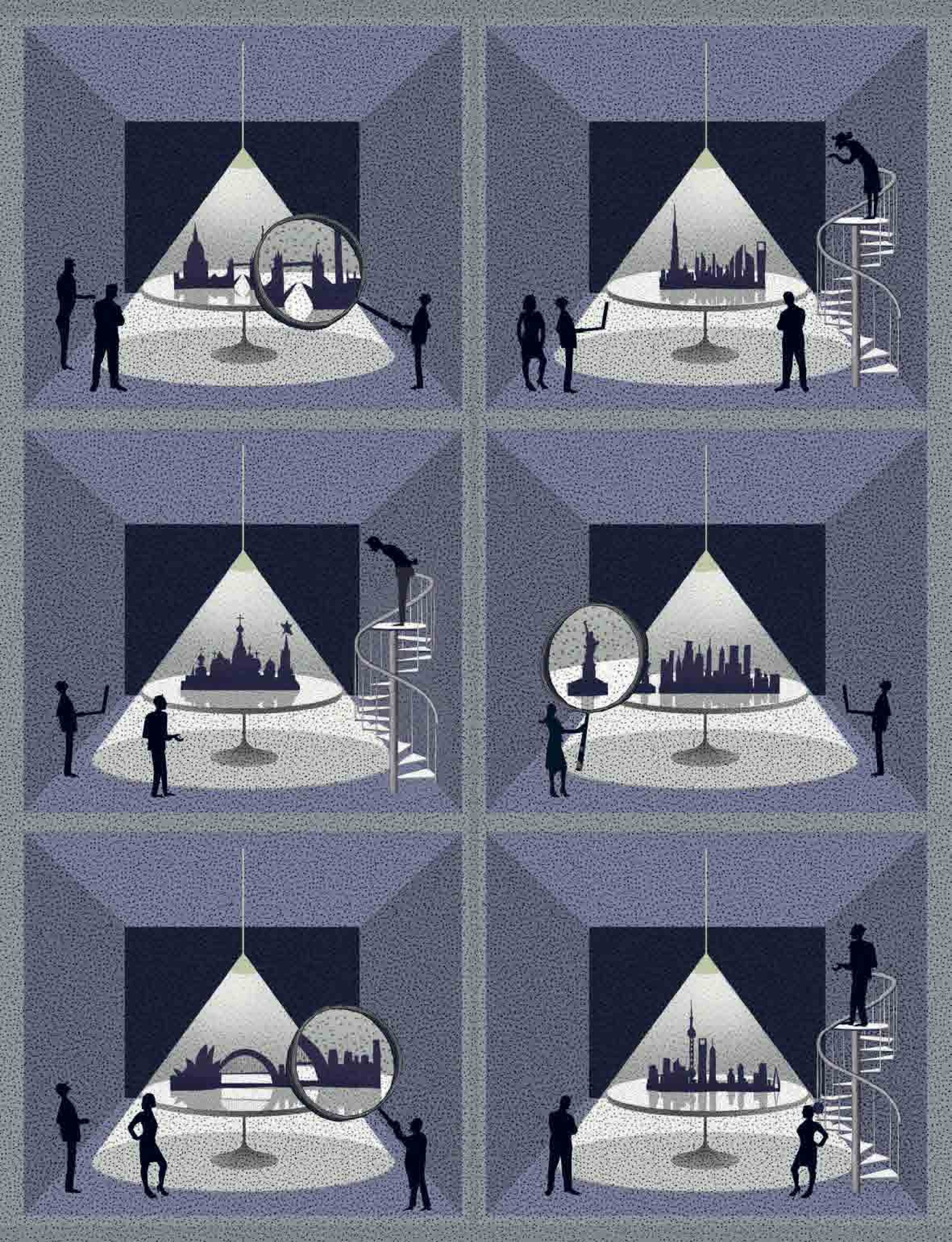
South-East Asia, China and Japan now collectively boast more HNWIs worth $100m-plus than North America, a lead that is forecast to widen. On an individual country basis, the United States will continue to lead the table of centa-millionaires for some years to come, though China is closing the gap.

Which cities do the wealthy consider the most important?

Established Western cities such as London and New York still top the tables, but with their emerging-economy counterparts such as Shanghai and Beijing jostling for position. Personal safety, economic openness and social stability are all key attributes that HNWIs are looking for in a global city.

How are luxury brands targeting emerging economies?

The Asia-Pacific region is proving to be an especially fertile market for luxury brands such as Cartier, which has recorded a huge increase in sales there over the past five years. China is a particular target for luxury brands, though they are also growing in Latin America and the Middle East.



PERFORMANCE

THE WORLD'S LEADING RESIDENTIAL AND COMMERCIAL PROPERTY HOTSPOTS REVEALED

Q

Where are the world's best performing prime residential property markets?

What factors will drive future trends in global luxury housing markets?

Why are the wealthy increasingly turning to commercial property as a safe investment?

KNIGHT FRANK'S PRIME INTERNATIONAL RESIDENTIAL INDEX
PIRI 2012

PRIME NUMBERS

KNIGHT FRANK'S PRIME INTERNATIONAL RESIDENTIAL INDEX (PIRI) HAS PROVIDED A UNIQUE MONITOR OF PRICE CHANGES ACROSS THE WORLD'S LUXURY PROPERTY MARKETS SINCE 2007. ACCORDING TO LIAM BAILEY, THE LATEST RESULTS POINT TO THE INCREASING INFLUENCE OF POLITICAL AS WELL AS ECONOMIC DRIVERS

LIAM BAILEY
Head of Residential Research, Knight Frank

Although it might seem counterintuitive, the price performance of the prime property markets favoured by HNWIs was far from uniform last year, despite the population of these wealth creators increasing or remaining constant in all world regions.

The gap in annual price growth between the top and bottom of our PIRI table was 45%. The majority of locations covered in the survey saw flat or falling prices and, ironically, some of the largest price drops were in areas with the strongest economic growth.

Emerging markets influenced performance far and wide, with wealth flows to the developed world's property hotspots driving growth in Miami, London and Vancouver. Meanwhile, price falls in some of Europe's luxury markets point to the ongoing impact of the global financial crisis; similar falls in Singapore, Sydney and Shanghai confirm the unravelling of price booms in Asia.

Explanations for these trends start to emerge when the findings from the 71 locations tracked by PIRI are examined more closely. These trends, along with some of their potential long-term consequences, will be considered over the following pages, together with the detailed results taken from this year's annual PIRI survey.

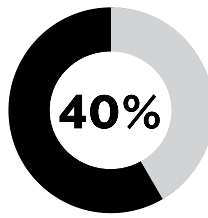
As wealth creation and luxury property markets become ever more global, so the issues of exchange rate volatility, political risk and security concerns rise in importance for HNWIs, competing with more prosaic motives such as investment and lifestyle. This has led to the hand-in-hand growth of capital flight and the concept of the safe-haven location.

Rising high: prime residential prices in New York remain buoyant

DOUGLAS ELLIMAN

SECOND-HOME LOCATION
MOST IMPORTANT FACTORS

67%
OF HNWIs SAY LIFESTYLE



OF HNWIs SAY A SAFE HAVEN FOR CAPITAL

For more survey results and investor intelligence turn to Databank on p58

SAFE HAVENS

Of all the luxury market trends that have played out since the launch of *The Wealth Report* five years ago, it is the growth of global wealth flows that has done most to shape the leading prime markets. When asked which nationalities will become most important as prime property buyers over the next five years, Chinese, Russian, Middle Eastern, Latin American and those from other growth economies consistently top advisors' lists.

The problem in so many emerging-world countries is governance. The newly enriched become aware of the potential impacts of corruption and arbitrary rule changes on their ability to plan for inter-generational wealth transfers. In extreme cases, as wealth steadily increases, so too do the perceived risks from falling out of political favour.

Charles Douglas, a London-based property lawyer specialising in transactions for HNWIs, says issues like the Arab Spring and this year's Russian elections are classic examples, with popular uprisings on the one hand and overweening government power on the other.

"The wealthy are considering their options, and these include where they buy property and invest their wealth. Look at London – the angst in the wealth and property industry over higher tax rates and new levies on property has been almost entirely misplaced. The reality is that tax is only part of the picture for the super-rich: what they really value is the lifestyle that comes with an open, cosmopolitan environment, excellent education for their children and both personal and property security," Mr Douglas says.

Paradoxically, while wealth creation is booming in the emerging world and the developed world is mired in debt and austerity, the markets that have benefited from the emerging world's largesse have largely been those in Europe and North America. The fact that so many top-end properties from Monaco to Miami are being bought with wealth from the BRIC (Brazil, Russia, India and China) nations and beyond confirms the simple transfer of economic power that increases every year.

Miami, where prime property values rose 19% last year, is a good example of a location that experienced double-digit growth in 2011 on the back of HNWI capital flight, favourable exchange rates and value for money after a sharp fall in prices during the credit crunch. According to our Global Cities Survey (see p14), Miami is now viewed as one of the world's most important cities by Latin American HNWIs. New York has experienced a similar process to that seen in Miami, with an influx of overseas money pushing prices ever higher. "The Chinese market opened up rapidly in 2011 with buyers from there joining other wealthy investors in targeting the $1m-$3m Manhattan market," says Jonathan Miller, Head of New York property analyst Miller Samuel. Up to a third of Manhattan's prime market sales are now going to foreign buyers.

With many of Asia's entrepreneurs being paid for their products in dollars, US property is an obvious destination for their profits, a trend that is also being observed in commercial markets (see pp36-43).

However, Manhattan's performance in the second half of 2011, when price growth slowed noticeably after weaker activity on Wall Street, highlights how Western markets, even those attracting capital from overseas, are still vulnerable to weak domestic economies. While the financial sector represents 5% of New York employment, it accounts for 25% of all personal income. Indicators point to more testing conditions in the city's prime market over the next year.

Across the Atlantic, many of Europe's most established prime locations are already feeling the pinch. Monaco can still comfortably claim the most expensive real estate in the world, but prices there, along with the French Riviera, fell in 2011, in part confirming the impact of the eurozone crisis on market performance. It is no coincidence that the only two European cities in our PIRI that recorded price increases last year were London and Zurich – both outside the eurozone.

London's prime housing market is seemingly powered by capital flight from the whole globe. The city, which once again topped *The Wealth Report*'s annual ranking of the urban centres considered to be the most important by HNWIs (see p16 for more details), attracted flight capital from not only the world's fastest growing economies, but also from eurozone sovereign debt bad boys such as Greece and Italy.

But not all safe-haven locations are in the Western world. The startling performance at the top end of Kenya's housing market is a particularly interesting example of this. Price growth in both the Kenyan capital Nairobi and the country's Indian Ocean coastal hotspots outstripped all other PIRI locations, with Nairobi property chalking up a 25% increase last year.

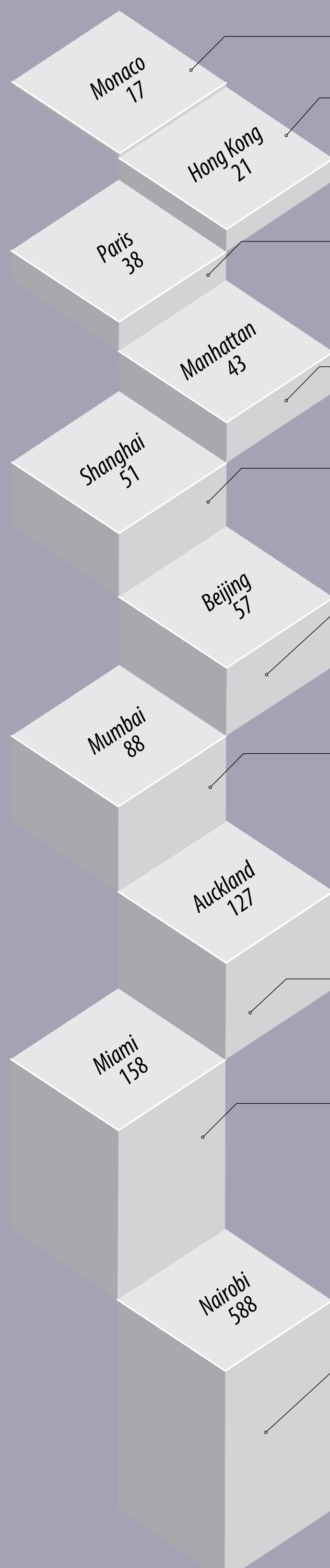
"Safe haven" isn't necessarily a phrase many people would use to describe the country in a global context, but compared with many of its neighbours it is just that, according to Ben Woodhams, Managing Director of Knight Frank Kenya. He says that Kenya's rapid economic

PIRI
AVERAGE PRICE CHANGE

Rank	Location	Country/Area	2011 price change
1	Nairobi	Kenya	25.0%
2	Kenyan Coast	Kenya	20.0%
3	Miami	US	19.1%
4	Bali	Indonesia	15.0%
5	Jakarta	Indonesia	14.3%
6	London	UK	12.1%
7	Vancouver	Canada	10.4%*
8	Moscow	Russia	9.8%
9	Toronto	Canada	8.5%*
10	Beijing	China	8.1%
11	Tel Aviv	Israel	8.1%*
12	Bangkok	Thailand	6.1%
13	Kiev	Ukraine	5.4%
14	Hong Kong (apartments)	China	4.6%
15	Auckland	New Zealand	4.5%
16	St Petersburg	Russia	4.0%
17	New York (Manhattan)	US	3.1%
18	Zurich	Switzerland	3.0%
19	Meribel	France (Alps)	3.0%
20	Los Angeles	US	2.5%*
21	Cape Town	South Africa	2.4%
22	Phuket	Thailand	1.7%
23	Aspen	US (ski)	1.0%
24	Rome	Italy	0.0%
25	Vienna	Austria	0.0%
26	Brussels	Belgium	0.0%
27	Amsterdam	Netherlands	0.0%
28	Cyprus	Cyprus	0.0%
29	Sardinia	Italy	0.0%
30	Marbella	Spain	0.0%
31	British Virgin Islands	Caribbean	0.0%
32	Cayman Islands	Caribbean	0.0%
33	St Barts	Caribbean	0.0%
34	Venice	Italy	0.0%
35	Val d'Isere	France (Alps)	0.0%
36	Courchevel 1850	France (Alps)	0.0%
37	Chamonix	France (Alps)	0.0%
38	Megeve	France (Alps)	0.0%
39	Verbier	Switzerland (Alps)	0.0%
40	St Moritz	Switzerland (Alps)	0.0%
41	Gstaad	Switzerland (Alps)	0.0%
42	Revelstoke, Calgary	Canada (ski)	0.0%
43	Christchurch	New Zealand	-0.5%
44	Washington DC	US	-1.2%
45	Barcelona	Spain	-1.8%
46	Paris	France	-3.0%
47	Dubai	UAE	-3.0%
48	Shanghai	China	-3.4%
49	Madrid	Spain	-4.4%
50	Singapore	Singapore	-4.7%
51	Geneva	Switzerland	-5.0%
52	Tuscany	Italy	-5.0%
53	Barbados	Caribbean	-5.0%
54	Cap Ferrat	France	-5.0%
55	St Tropez	France	-5.0%
56	Provence	France	-5.0%
57	Telluride, Colorado	US (ski)	-5.0%
58	Florence	Italy	-5.0%
59	Umbria	Italy	-5.0%
60	Kuala Lumpur	Malaysia	-5.6%
61	Lake Como	Italy	-7.0%
62	Western Algarve	Portugal	-7.0%
63	Cannes	France	-8.0%
64	Sydney	Australia	-9.0%
65	Monaco	Monaco	-10.0%
66	Milan	Italy	-10.0%
67	Mallorca	Spain	-10.0%
68	Mustique	Caribbean	-10.0%
69	Dordogne	France	-10.0%
70	Mougins	France	-10.0%
71	Mumbai	India	-18.1%

* Q3 2010 to Q3 2011
All data from Knight Frank's global network other than: Barcelona – Lucas Fox; Aspen – Mason Morse; Revelstoke – Sotheby's Realty; Telluride – Telluride Properties

HOW MANY SQUARE METRES WILL $1M BUY YOU?



PIRI
AVERAGE PRICE PER SQ M

Rank	Location	$ per sq m Q4 2011
1	Monaco	58,300
2	Cap Ferrat	51,800
3	London	48,900
4	Hong Kong*	47,500
5	Courchevel 1850	44,000
6	St Moritz	42,600
7	Gstaad	39,900
8	St Tropez	38,800
9	Geneva	31,900
10	Hong Kong**	28,300
11	Paris	27,200
12	Cannes	25,900
13	Singapore	25,600
14	Moscow	24,000
15	Sardinia	24,000
16	Zurich	23,900
17	New York (Manhattan)	23,300
18	Sydney	22,400
19	Val d'Isere	22,000
20	Meribel	21,400
21	St Petersburg	20,200
22	Shanghai	19,600
23	Mustique	19,400
24	Verbier	18,700
25	Rome	18,100
26	Beijing	17,400
27	Megeve	15,500
28	Vienna	14,200
29	Amsterdam	12,900
30	Mougins	12,900
31	Florence	12,300
32	Mallorca	11,900
33	Lake Como	11,700
34	Marbella	11,700
35	Venice	11,700
36	Mumbai	11,400
37	Milan	11,000
38	Cayman Islands	10,800
39	Aspen	10,500
40	Chamonix	10,400
41	Madrid	10,100
42	Barbados	9,700
43	Tuscany	8,700
44	Cyprus	8,700
45	British Virgin Islands	8,600
46	Telluride, Colorado	8,200
47	Auckland	7,900
48	Kiev	7,900
49	Provence	7,800
50	Revelstoke, Calgary	7,400
51	Bangkok	6,500
52	Western Algarve	6,500
53	Miami	6,300
54	Cape Town	6,000
55	Brussels	5,800
56	Barcelona	5,300
57	Kuala Lumpur	5,000
58	Umbria	4,400
59	Christchurch	3,400
60	Jakarta	2,900
61	Bali	2,600
62	Kenyan Coast	2,100
63	Nairobi	1,700

See Databank for prices in other leading currencies

* (houses) ** (apartments)

development is attracting domestic and international private equity, with particular growth in remittances flowing from Kenya's increasingly affluent diaspora. However, recent events such as the kidnapping of tourists staying on the north coast and a sharp rise in interest rates to almost 25% also highlight the potential vulnerability of some emerging prime markets.

New Zealand's isolation from the world's conflict zones makes it possibly the ultimate safe-haven destination, and this has been reflected in property prices. Layne Harwood, Managing Director of Knight Frank New Zealand, says last year's 5% rise in prime Auckland prices was due to an increase in Asian buyers, particularly from China and Singapore, looking for security and stability.

Many of Europe's most established prime locations are already feeling the pinch, confirming the impact of the eurozone crisis on market performance

ASIAN MARKET CONCERNS

While capital flight from emerging economies to safe havens has been integral to the performance of the world's luxury housing markets, the story that grabbed the media's attention in 2011 was the potential for a Chinese property crash. Price falls in Singapore, Sydney and Shanghai – tellingly among the fastest growers in last year's PIRI survey – confirm the unravelling of speculative price booms in Asia Pacific.

This concern is hardly surprising. China's housing market arguably forms the single most important sector in the entire global economy. In 2011, China's construction sector accounted for 13% of its GDP, 20% of global steel production, and was the dominant consumer of the world's iron, copper and cement. The performance of China's housing market matters.

While mainstream prices have been falling across the "tier-one" Chinese cities, the prime markets have fared slightly better, although growth is slowing. Prices in Beijing's luxury sector, for example, rose by a healthy 8% in 2011, but this was largely due to a strong performance in the first half of the year.

We shouldn't be overly surprised that prices are falling in some of Asia's prime markets; the falls follow huge booms over the past two years, as illustrated by our five-year trend graphs on pages 59-61. "Shanghai prime prices might have fallen 3.4% in 2011, but they are still 37.5% higher than they were in early 2009," says Thomas Lam Ho Man, Knight Frank's Head of Research for Greater China. In addition, the Chinese government has made a concerted effort to halt runaway price growth. This objective confirms two key issues that will become more and more important for future performance in the prime residential market.

The first is the political reaction to a widening imbalance in the distribution of wealth in China. As well as the potentially destabilising economic effects of rapid price growth, the Chinese government has become increasingly worried about rising popular discontent as housing affordability becomes an issue even for the country's middle classes.

The second issue – something I have highlighted in previous editions of *The Wealth Report* – is China's increasingly confident use of policy levers to attempt to set prices in an ostensibly free market. Much has been made recently of the rise of state capitalism. In China's housing market an unusual mix of private and state control is creating something of a "planned market" for housing. It is a policy that has been exported in varying degrees to Singapore and Hong Kong.

Unsurprisingly, the attempt to control prices in China has seen investors switch their focus to commercial property markets and also to the prime residential market in Hong Kong. Mainland Chinese buyers now make up 25% of prime market purchases in Hong Kong, where prime apartment prices rose by a further 4.6% in 2011, compounding the 60% growth seen since the beginning of 2009.

In India, meanwhile, the government has not had to resort to specific cooling measures to check the growth of the country's burgeoning prime residential markets; weaker economic conditions and high inflation, with a concomitant decision by the Bank of India to raise interest rates 13 separate times in 2011, contributed to prices in Mumbai falling by more than 18% last year.

India's prime market is unusually vulnerable to internal economic events because the country's strict limits on foreign buyers removes the potential safety net provided by inward capital flows from overseas buyers. Elsewhere in the Asia-Pacific region, prime Australian prices have also slipped as affordability becomes an increasing constraint.

But weaker price performance is not the whole story of Asia's prime residential market. Knight Frank Indonesia's Fakky Hidayat points out that Jakarta's

View to a thrill: Courchevel 1850 is an HNWI ski Mecca

Miami nice: the city boasts stunning architecture

KNIGHT FRANK RESIDENTIAL

strong performance in 2011, up by over 14%, resulted from the steady growth of Indonesia's domestic economy. However, a lack of clarity over new anti-money laundering regulations being introduced in March this year could cause uncertainty in 2012, he adds.

TIGHT FIT

Around the world, tight supply has been a factor in several markets, helping to limit price falls. For example, in Barbados and the British Virgin Islands (which saw -5% and 0% price changes respectively), geographical constraints and development policies have restricted development. Similarly in Moscow, a series of new planning restrictions in the city's central zone helped to push prices higher in 2011 by nearly 10%.

This imbalance between demand and supply has acted to limit price falls and has even supported growth among the world's luxury ski resorts. Though strict growth controls apply in Aspen, Colorado, Brian Hazen of local real estate agent Mason Morse reports that the number of sales rose 15% in 2011. The deals included 13 properties worth $10m, up from eight in 2010.

In Europe, Matthew Hodder-Williams, Head of Knight Frank's French Alps desk, confirms that while Courchevel prices remained unchanged in 2011, this disguised a healthy increase in demand. "Courchevel 1850 is the Alpine destination of choice for buyers from Switzerland, the UK, Russia and Italy, but supply still remains very limited," he says.

For international buyers the lack of supply across Switzerland is unavoidable in this partially closed market, a factor that is not limited to the ski resorts. Limited availability in Zurich has pushed prime prices higher by 3% over the past year.

Zurich's performance has been aided by low interest rates, with five-year mortgages hovering around 1.5%. It seems unlikely that the Swiss National Bank will raise them any time soon as it battles to stop the Swiss franc rising against the euro.

Zurich's experience following the intervention of Switzerland's central bank is reflective of the growing influence that currency movements are having on price performance, which has become an ever more critical issue for individual housing markets (see graph, opposite page). London's 40% rise in prices since the start of 2009 results, in part, from the 30% devaluation of sterling in late 2008 that made property in the UK capital very attractive to overseas buyers. The long-predicted slide in the value of the euro, which for a long time seemed to defy economic logic, means prime markets in the US and UK will, however, no longer offer such value for money for flight capital leaving the eurozone.

Citi Private Bank's EMEA Head of Forex, Michael Schmeja, says wealthy investors are increasingly using currency-hedging strategies when buying property: "This is a significant development from even two years ago, and with the imbalances in the global economy continuing we have to expect more attention to this issue."

TROUBLE AHEAD

On a broader social level, one of the ironies of the boom in luxury property prices in central London, New York and, until recently, Paris, is that it has taken place against a backdrop of turmoil and austerity in the wider Western economy. This juxtaposition has fuelled growing disquiet in some quarters, as evidenced by the focus on wealth taxes in the run up to this year's US presidential election. Meanwhile, in Israel, the perceived impact on affordability caused by wealthy foreign purchases of second homes in Tel Aviv, where prime prices rose a further 8% last year, has become a serious political issue.

Returning to Miami, we can see a classic example of a growing fault line, where emerging-world wealth, which has driven luxury house prices sharply higher in recent years, is rubbing up against a very different world of distressed sales and foreclosures.

While the mainstream Western property markets struggle to cope with a new reality of economic deleveraging and sickly economic performance, the adjacent prime markets appear able to draw on new wealth being generated in the emerging world. The risk for the prime markets is that, five years after the start of the current financial crisis, there is still no political settlement in the West regarding the treatment of taxation and property wealth. And now this same issue is spreading to the centre of the emerging global economy, China, where a lack of market affordability and accessibility is raising the spectre of political risk from a widening gulf in wealth.

As this year's PIRI results clearly show, the narrative surrounding global luxury property markets has become a lot more complex in recent years. Against an ever-widening backdrop of influences we have got to expect growing volatility and divergence in performance.

FOR A FULL BREAKDOWN OF KNIGHT FRANK'S LATEST PRIME INTERNATIONAL RESIDENTIAL INDEX, TURN TO DATABANK ON PAGE 62

KNIGHT FRANK'S PRIME INTERNATIONAL RESIDENTIAL INDEX
PIRI 2012

PRIME SECOND-HOME BUYERS

Top nationalities now
Russian
Hong Kong
British
French
American
Swiss
German
Chinese
Singaporean
Canadian

Nationalities growing in importance
Chinese
Indian
Brazilian
Malaysian
Norwegian
Kazakhstani
UAE
Australian
Indonesian
Turkish

Nationalities to watch
Egyptian
Mongolian
Nigerian
Filipino
Vietnamese

HNWI POINT OF VIEW
WHAT'S IMPORTANT IN YOUR SECOND-HOME CHOICE?

Safety **AFRICAN**
The view **INDIAN**
Location **AMERICAN**
Safety and anonymity **LATIN AMERICAN**
Potential return on investment **MIDDLE EASTERN**

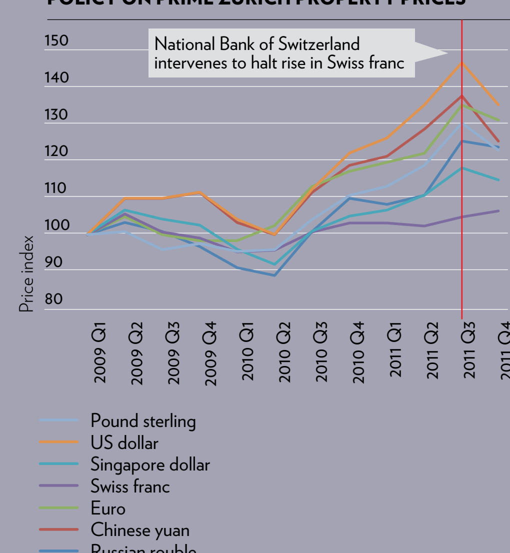
For more survey results and investor intelligence, turn to Databank on p58

CURRENCY MATTERS

RELATIVE FIVE-YEAR PRICE CHANGE OF PRIME LONDON PROPERTY IN STERLING AND CHINESE YUAN

IMPACT OF CURRENCY ON PRIME LONDON PROPERTY PRICE GROWTH (2006-2011)

THE IMPACT OF CENTRAL BANK EXCHANGE RATE POLICY ON PRIME ZURICH PROPERTY PRICES



PROPERTY SECTOR PRICE CHANGES

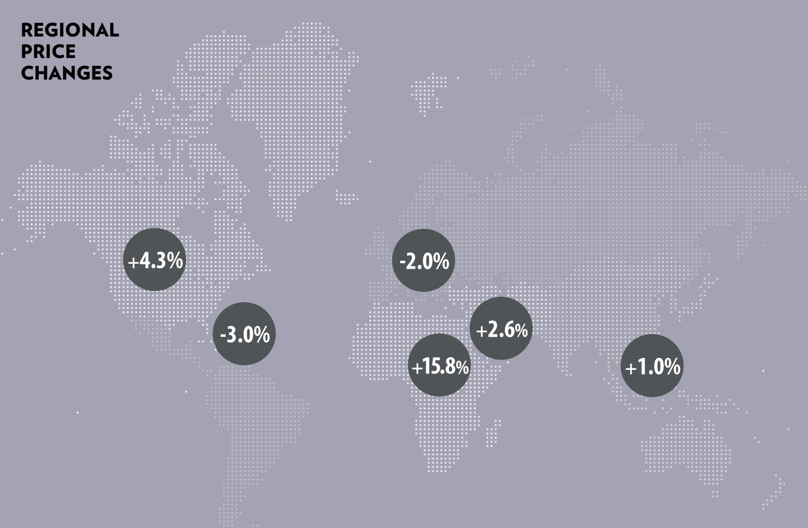
City **+1.7%**

Second home - Ski **-0.1%**

Second home - Sun **-2.5%**

SOURCE: PIRI

REGIONAL PRICE CHANGES



KNIGHT FRANK'S PRIME INTERNATIONAL RESIDENTIAL INDEX
PIRI 2012

TOP-TIER MARKETS FULLY PRIMED

The prime residential market covers the top 1% to 2% of the world's homes. But within this grouping is an elite super-prime category that attracts the world's wealthiest individuals. Knight Frank's Head of International Residential, Paddy Dring, helps define this rarefied market

IN WHAT PRICE RANGE DO WE BEGIN TO SEE CENTA-MILLIONAIRES AND BILLIONAIRES DOMINATING THE MARKET? When you are trying to identify markets where this group concentrates its activity, you have to consider locations where there is a sustainable number of $20m-plus transactions each year, at least a quarter of which are going to foreign buyers.

ASSUMING A BUYER HAS $20M TO SPEND, WHERE SHOULD THEY START LOOKING? The wider prime market has outposts in most countries, but the super-prime market is still fairly limited. In Europe the list is contained really by London, Paris, the Côte d'Azur, Monaco, the French and Swiss Alps and Geneva – though you might include Evian and some of the Italian hotspots. Outside Europe you are looking at New York, Miami and Los Angeles in the US. Sao Paulo is now on the list, although arguably struggles in attracting foreign purchasers. The rest of the world includes Hong Kong, Singapore, Moscow and, in the Caribbean, the Bahamas, Mustique, Barbados and the British Virgin Islands.

WHO WOULD THEIR NEIGHBOURS BE? The buyers are split between emerging-market wealth, which is still expanding its market share, and the wealthiest developed-world buyers who, maybe surprisingly, are still numerous and very active – although will often only act when they see something extraordinary on the market.

ISN'T IT ALL ABOUT RUSSIAN MONEY? In Europe, and increasingly the Caribbean, Russians are without doubt the biggest single force at the top of the market. More active buyers from the Ukraine, Azerbaijan and Kazakhstan are also becoming more influential in the US. Oddly, while the Chinese super-rich were expected to follow the Russians' lead, it has been a slower process – but it will happen in time.

WHAT IS DRIVING THEIR PURCHASES? There is an obvious requirement for first and second homes. But many purchasers in this market have a huge attachment to property. It is an asset they can influence and put their mark on. An increasing number of super-rich buyers have an "opportunity" portfolio of property, over and above their first and second homes. These are investments in new markets, where there is an opportunity to benefit from restoration, development or even a currency play.

WHAT ARE THE FUTURE SUPER-PRIME MARKETS? There is certain to be an expansion of the list of super-prime markets – the growth of global wealth will ensure that – but I don't expect a rapid rise in the numbers. Take a look at the list of current locations and they share one fundamental benefit – these are mature markets with depth of liquidity, where owners can almost dictate the timing of their exit.

OLD HABITS DIE HARD
JAMES LAWSON, LEDBURY RESEARCH

Despite a decade-long transfer of economic power to the emerging world, there remains a distinct bias towards the developed world when it comes to the location of leading prime markets. Ledbury Research's James Lawson considers the potential for a rebalancing

It is something of an oddity that the spread of prime international markets is still very much skewed away from the main centres of economic growth. However, there are I think, some explanatory factors at play.

While the new rich in the emerging economies are a diverse group, our research has found that they share at least three consistent traits – and these point to a desire for all things "established" and a continued relevance for leading developed-world locations.

Irrespective of whether we're speaking to wealthy individuals in China, India, the Middle East or anywhere else, we have discovered that they generally share a love of travel, especially outside their own region, and that travel is generally focused on Europe or North America. Secondly, they look to educate their children overseas, generally in the US, UK or Switzerland. Finally, the brands they most like to be associated with – from clothing to cars – tend to be European.

When we think about the spread of locations where the super-rich want to invest and spend time, it feels like there should be a wider distribution, but there is still this concentration on the historic wealth hubs, especially in Europe.

So far the development of international super-prime markets in Asia has been limited to Singapore, maybe Shanghai and definitely Hong Kong. Our research confirms this list will expand, but the development of truly international demand for prime property in the region is likely to lag behind the explosive development of wealth.

Flying high: Hong Kong boasts one of Asia Pacific's few super-prime markets

WILLIAM DANIELS/PANOS

CONCRETE ASSETS

WEALTHY INDIVIDUALS SEARCHING FOR TANGIBLE INVESTMENTS ARE INCREASINGLY TURNING TO PRIME COMMERCIAL PROPERTY. JAMES ROBERTS LOOKS AT THE SECTORS AND LOCATIONS ATTRACTING THE MOST ATTENTION

PRIME OFFICE RENTS IN PARIS HAVE INCREASED BY 17% SINCE 2009

ANNA SERRANO/4 CORNERS

JAMES ROBERTS
Head of Commercial Research, Knight Frank

Commercial property markets around the world have seen a rebound in purchases over the past two years by private wealthy individuals taking advantage of the price drops that occurred during 2008 and 2009.

In 2009, $41.6bn of private money was invested globally in commercial property, according to Real Capital Analytics. This jumped to $57.4bn in 2010, and rose to $70.6bn in 2011. This is quite remarkable considering the fall in investment seen by some other asset classes in 2011, as investors responded to mounting uncertainty in the global economy.

That the in-flow of money increased in 2010, a bullish year, but was maintained in 2011, a bearish year, suggests private investors view buying commercial property as a long-term strategy, not just as a recovery play.

"Property has seen investors conducting more due diligence when selecting assets, but the deals are still happening," says Jeremy Waters, International Investment Partner at Knight Frank. "Private investors with a wide range of nationalities are acquiring commercial property, with a large percentage looking to do so outside their own countries. This is about securing income streams and diversifying investment portfolios."

Investors are conscious that a turning point will come for the economy soon. Property purchased at current prices will look like a shrewd investment

Knight Frank expects further growth in investment from wealthy individuals, forecasting a purchase volume of $74.1bn in 2012, a 5% year-on-year increase, as investor caution favours the safety of bricks and mortar.

With the global economy still in an uncertain place in 2012, property has obvious attractions for a private wealthy investor, says the firm's Peter MacColl, Head of Global Capital Markets: "We expect the flow of capital into the UK and core European capitals to continue so long as they remain a safe haven for investors and the currency advantage continues. Investors are conscious that, although times are difficult, a turning point will come for the economy sooner or later. Property purchased at current prices will look like a shrewd investment by 2013, when the world will have moved into a new economic cycle driven by emerging markets and digital technology. This should drive leasing demand for commercial property and push up rents, delivering further upside for investors."

Many investors from emerging markets have taken advantage of favourable exchange rates to buy commercial property in developed nations. This, plus the price correction that occurred in 2008 and 2009, has allowed more emerging market buyers to pick up trophy assets in prestige markets at prices well below those seen five years ago. While values recovered in 2010 and early 2011, the recent economic slowdown and uncertainty in the eurozone have created another buy-in opportunity.

"Every successful business person has a degree of experience in dealing with commercial property, as they will have acquired and managed business premises during their career, whether offices, shops, or industrial units. So this is a way of diversifying their investment portfolio, but in an area in which they have some background knowledge," says Alistair Elliott, Head of Knight Frank's Commercial Division. "For investors, property can offer the steady income associated with bonds, but with potential upside should rents increase."

LONDON CALLING

HNW investors have been focusing on London in recent years, attracted by its perceived status as a safe haven and taking advantage of the relative weakness of sterling. Many international buyers have English as their second language and feel confident to deploy funds there.

Commercial property prices have increased in London, with prime yields dropping around 200 basis points since early 2009. This is partly a weight of money story: when investors become concerned about the outlook for their home market, often the first overseas market they will consider is London.

"I advise foreign buyers, mostly from the Far East, who want to buy in London," says Mr Waters. "Those who are new to the market assume that they will find discounted prices and are often surprised at the high level of competition from other equity buyers.

"For an investor who is new to London it is safest to buy the best, namely prime assets in core locations. This means accepting lower returns than on riskier assets: 3.5% to 4.0% in Mayfair and St James's, 5.25% for the City, the core financial district. In the future, I believe the more experienced investors will want to look at redevelopment opportunities where stronger returns are on offer. Many of the sophisticated buyers are setting up offices in London to manage and expand their portfolios."

The numbers demonstrate investors' enthusiasm for commercial property in London. The volume of funds invested was £9.1bn in 2011, which is lower than 2010's

GLOBAL PROPERTY GROWTH

PRIVATE MONEY INVESTED WORLDWIDE IN COMMERCIAL PROPERTY

41.6
$BN
2009

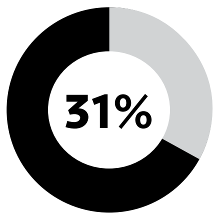
57.4
$BN
2010

70.6
$BN
2011

SOURCE: REAL CAPITAL ANALYTICS / KNIGHT FRANK RESEARCH

COMMERCIAL INVESTMENT HOTSPOTS
INTEREST IN 2011

59%
OF HNWIs MORE INTERESTED IN OFFICES



OF HNWIs MORE INTERESTED IN RETAIL

For more survey results and investor intelligence turn to Databank on p58

figure of £10.3bn, but considerably higher than the £6bn invested in 2009 and £6.7bn in 2008. A growing reluctance on the part of owners to sell acted as a brake on activity in 2011, leading to competitive bidding for assets, particularly upmarket retail.

"Private investors have been applying commodity-like pricing to Bond Street shops, buying them almost entirely for their wealth storage capacity, with little consideration given to the yield," says Ker Gilchrist, Head of West End Investment at Knight Frank. Investors have pushed Bond Street yields down to just 3.5%. However, to some buyers from Asia Pacific this appears attractive compared with yields on commercial space in their home markets – prime retail yields in Hong Kong are 3%, and prime office yields are 3.2%.

Motives are wider than just securing income, according to Tiong Cheng Tan, Chairman of Knight Frank Singapore. "In Asia Pacific some national governments are acting to slow the housing market, while private wealthy investors are bearish on residential property prospects in the near term. This has encouraged them to look abroad to diversify their portfolios. Wealthy individuals from Hong Kong and Singapore are interested in investing in London as it is a market they feel confident with and where they encounter similar legal structures and business practices."

OFFICE AND HOTEL INTEREST

HNWI interest in London property stretches beyond just retail, according to Mr Gilchrist. "Wealthy individuals are applying this commodity-like approach to pricing to office buildings in Mayfair and St James's, which is considered London's most prestigious business district, and contains addresses like Berkeley Square and Piccadilly. Some people say buildings in Mayfair and St James's are the gold bullion of the property world, but I would argue they are better investments than precious metals. An office building brings in rent every three months, whereas gold is purely about capital value."

A Middle Eastern investor recently paid £10m for the freehold of 5 Stratton Street, a Mayfair office building, which equates to a 3.6% yield, drawing close to the yields achieved on Bond Street shops. However, obtaining a freehold in Mayfair is difficult as the market is dominated by estates and private owners who rarely sell.

The popularity of West End offices means supply is dwindling, encouraging buyers to look elsewhere to secure high-quality buildings. The neighbouring City market is benefiting. "It is a different sort of wealthy private investor who looks at the City rather than the West End," says Stephen Clifton, Head of City Investment for Knight Frank. "The average lot size is larger, so it requires deeper pockets and a willingness to deploy more funds in a single deal. In the City, private buyers will find themselves competing against more institutional investors. This means the market is better suited to those with greater experience of property investment, in order to bring out the greatest potential from the assets and thus draw the best possible return."

A good example of this is the recent purchase of Tower 42 by southern African investor Nathan Kirsh. The building, one of London's most iconic, is multi-occupied, mostly by tenants on short leases. In the near term Tower 42 offers the new owner a 7% yield, at a time when UK government bonds offer just over 2%. In the long term there is the opportunity to refurbish the building and achieve premium rents – upper floors in towers in the City normally let on rents that are 5% to 15% higher than low-rise buildings, depending on quality.

Hotels are another investment magnet in London, attracting capital from the Middle East, India and the Far East, according to Dominic Mayes, Head of Hotels and Leisure at Knight Frank. "We are seeing significant interest from private family investors who have experience of hotels and hospitality, and are familiar with the cyclical nature of the hotel industry. They are seeking presence in safe and secure markets, hence the interest in London." Singapore real estate company KOP, for example, recently bought the Cranley Hotel in South Kensington, which had a guide price of £14m.

GLOBAL HOTSPOTS

Paris has also traditionally been popular with foreign buyers. Investors regard it as a big, international city that can offer office and retail assets let to strong covenant tenants, typically at inflation-linked rents. Prime office rents in Paris have increased by approximately 17% since their low point in late 2009, and currently stand at €830/sq m, while shop rents on key thoroughfares like the Champs-Elysees are up 14% to €8,000/sq m.

While the French capital is currently linked psychologically to the eurozone crisis in many investors' minds, it is still a perennial business and tourist location, and a centre of government. This could make it an interesting opportunity for an investor looking to buy against recent negative sentiment on the outlook for the French economy. Likewise Germany, with its relatively low unemployment, is demonstrating that it is a comparatively strong economy, despite problems elsewhere in the eurozone. Frankfurt offices offer a

Boutique property is a firm favourite among investors

AGENCE VU

5% yield, compared with less than 2% for German government 10-year bonds.

Among private investors, the choice of which markets to buy into is sometimes shaped by lifestyle, says Mr Waters. "Investment follows the locations where HNWIs seek education and healthcare services. Education tends to favour the UK, Germany does well out of healthcare."

Madrid is seeing investment interest in commercial property from local HNWIs, as shown by retail entrepreneur Amancio Ortega's purchase of the Picasso Tower for €400m. Wealthy Spaniards perhaps regard property as a safer place to hold money than government debt at present, and local knowledge and contacts will help them reduce the level of risk they are taking. However, entering the more embattled European markets now would be risky for a foreign investor.

More investment will flow from the East into the West in the long term as there is still the untapped potential of wealthy investors from Greater China

Activity by private investors in the New York commercial property market has been dominated by local family buyers restructuring their portfolios. The Rudin family recently consolidated the ownership of One Battery Park Plaza by purchasing the 50% stake held by the Rose family. The Roses want to concentrate on residential property. Jared Kushner has also sold a stake in 666 Fifth Avenue to Vornado Realty Trust, creating a joint venture between a private investor and a real estate investment trust.

With its robust economy, underpinned by mineral wealth, Australia has been attracting foreign private money. Memocorp, the Australian vehicle of Singapore billionaire Tay Tee Peng, paid AU$395m for 259 George Street in Sydney. South African investor Nathan Kirsh, who has also been active in London, bought 4 and 14 Martin Place for AU$153m. Economic indicators for Australia read well compared with other Western economies. The country has an unemployment rate of 5.2%, and public debt estimated at 7.7% of GDP for 2011, according to the IMF. "If China continues to grow and commodity demand remains, there is a growth story for property in Australia. We are upbeat on prospects for cities like Perth and Brisbane that have strong links to the mineral and mining industries," says Stephen Ellis, Executive Chairman of Knight Frank Australia.

WHY THE WEALTHY LIKE INVESTING IN PROPERTY

WILL DICKENS, CITI PRIVATE BANK

A popular saying, which we often hear repeated by investors from the Middle East, is: "Property may get sick, but it never dies." That sums up the thinking of many wealthy individuals who are targeting property today.

Our London office helps HNWIs from around the world invest confidentially in European property, especially commercial, offering them an alternative to the open market brokerage route. Interest has increased as uncertainty has grown in the global economy, pushing investors to seek refuge in the safety of bricks and mortar.

Bond-style income is in demand, but the debt crisis has trimmed back the number of countries offering triple-A covenants, encouraging investors to look for viable alternatives. With the steady income from rent, property offers investors an equivalent of a bond's coupon payment, but with the possibility of some additional income if rents increase.

I would say around 95% of clients want to buy in London, which is the market that has recovered fastest post-2009. The West End is easier to deploy smaller sums into, as the buildings are typically smaller, but prices are higher, as it is considered the exclusive market. The City offers a higher yield, but with bigger buildings you need to have greater funds to deploy in an individual deal. We think the midtown district could offer interesting opportunities.

There can be cultural differences between the types of assets different nationalities will target. Investors from East Asia often prefer the City as they want their funds deployed in buildings occupied by banks and brokers. Middle Eastern investors, and some Russians, prefer the exclusivity and upmarket status of the West End. Many Middle Eastern buyers also like to collect trophy buildings, which they hold for the long term. Asian investors are "traders" – when they have achieved their target return, or feel the market has run its course, they sell and move on.

Up until now the focus has been principally on prime offices and prime retail in London, but interest may now widen to other qualities of building and different uses, with hotels rising up the agenda.

WILL DICKENS IS A SENIOR VICE PRESIDENT IN CITI PRIVATE BANK'S GLOBAL REAL ESTATE INVESTMENTS TEAM

Currently, the flow of investor money is mainly East to West, though Knight Frank's Tiong Cheng Tan says next year the focus may revert to the East again after house price pressures have eased in the region. "In the long term Asia-Pacific investors will want to spend funds in home markets once the current slowdown has passed. However, I do expect more investment to flow from the East into the West, as there is still the untapped potential of wealthy investors from Greater China yet to enter the international market." The trend of growing private buyer interest has a lot further to run.

FOR A DETAILED ANALYSIS OF KEY PRIME GLOBAL OFFICE MARKETS PLEASE SEE THE DATABANK SECTION, P58.

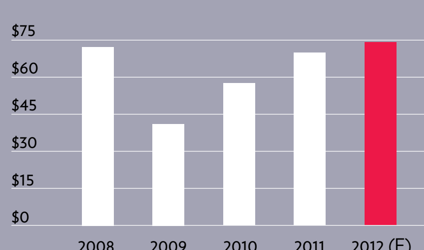
CAPITAL FLIGHT

PROPORTION OF ASIA-PACIFIC PROPERTY INVESTMENTS DEPLOYED OVERSEAS

16.4% 2008

27.7% 2011

GLOBAL INVESTMENT IN COMMERCIAL PROPERTY BY PRIVATE BUYERS (BILLIONS)



SOURCE: KNIGHT FRANK RESEARCH, REAL CAPITAL ANALYTICS

HNWI POINT OF VIEW
TOP COMMERCIAL INVESTMENT?

Medium-sized office accommodation targeting SMEs and NGOs **AFRICAN**

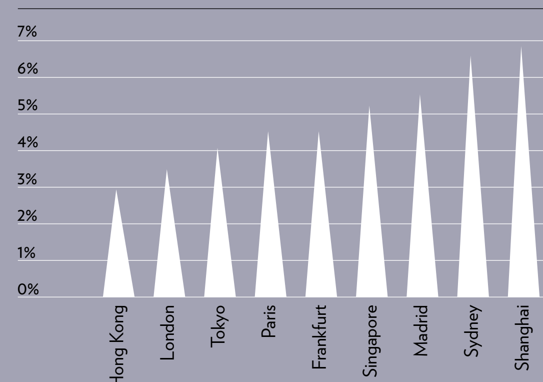
Offices and retail **RUSSIAN**

Offices, because you are dealing with professionals and businesses rather than individuals **MIDDLE EASTERN**

Offices, preferably pre-let to multinational corporations **INDIAN**

For more survey results and investor intelligence, turn to Databank on p58

GLOBAL PRIME RETAIL YIELDS



CAPITALIST WITH A CONSCIENCE

JOHN CAUDWELL
PHILANTHROPIST

SOLVING THE GLOBAL FINANCIAL CRISIS WILL REQUIRE HUGE COLLECTIVE EFFORT. BUT, AS JOHN CAUDWELL TELLS ANDREW SHIRLEY, THERE IS MORE TO WORRY ABOUT THAN JUST THE ECONOMY

John Caudwell's vision in identifying the potential of mobile phones when the technology was still new turned him into one of the UK's richest men. But the self-made entrepreneur, who built up and then sold the Phones4U brand, says he is now more concerned about helping others and the environment than further enlarging his fortune.

ANDREW SHIRLEY Of all the challenges facing the world at the moment, which do you think is potentially the most serious and what could its implications be for global wealth generation?
JOHN CAUDWELL The current financial crisis, especially as it appertains to Europe, is clearly of epic proportion and will only be solved with a lot of pain for a lot of people. Even so, it is dwarfed by the escalating ecological crisis already upon us. We have no option but to invest massive amounts of government money into renewable sources of energy before it's too late.

The planet faces increasingly serious consequences as a result of water shortages, and global warming caused by carbon dioxide emissions or cyclical climate change. Deforestation will result in widespread soil erosion and the loss of hundreds of millions of acres of arable farmland. This will lead to vast numbers of people having to relocate, and even states to fail.

A renewable energy revolution is needed to replace 80% of the world's fossil fuel requirements by the year 2020 in order for the world to stand a good chance of surviving in its current state. I know that this can be achieved; I just don't know whether the world is sufficiently motivated to make it happen quickly enough.

AS What do you think will be the biggest opportunities for successful entrepreneurs like yourself in the future?
JC Opportunities clearly exist, especially within the worlds of the internet and e-commerce. But if I were looking for a business that combined entrepreneurial activity with massive growth potential and a feel-good factor, that business would be all about the innovation, manufacture, implementation and maximisation of the renewable resources industry.

AS Are there any specific projects or investments that you are currently focusing on that are particularly exciting?
JC I have lots of projects on the go at the moment, primarily of a philanthropic nature. These include the building of the Bomber Command Memorial in Green Park, London, the regeneration of the Burleigh Pottery factory in Stoke-on-Trent and my own charity, Caudwell Children. But my most exciting new project is my ambition to create the world's most prestigious new address in the heart of Mayfair Village in central London.

AS How do you view property as an investment class and what sectors have you invested, or are considering investing, in?
JC I think trophy assets are probably the most resilient and successful investment options at the moment, and will be for the foreseeable future.

AS How important do you think it is for the wealthy to contribute back to society?
JC I think it's imperative that wealthy people help the less well-off in society. It's imperative from a point of view of fairness, imperative from a point of view of compassion, but, more importantly, imperative from a point of a view of our social systems. It does worry me that the gap between rich and poor is increasing and will continue to increase, and this will ultimately increase civil unrest, especially in those countries worst affected.

AS What form have your own philanthropic endeavours taken and what was the motivation behind them?
JC My number one philanthropic ambition is to help every desperately ill child in the UK that needs assistance but cannot be helped by the National Health Service. I can't think of a more heartrending and

I am not particularly bothered about making money any more since I'm far more focused on helping society worthwhile cause than helping children who have been dealt such a tragic blow in life, and this will always remain a passion in my life. I recently became a major sponsor of the Bomber Command Memorial to be built in Green Park, London. I did this because I felt it was so unjust that 55,000 young men should have given their lives, and yet not be commemorated with a monument. I thought of the ageing war heroes, and felt something should be done while there was still time.

AS What is the most important city in the world to you and why?
JC London is the most important city; we can be proud of it being the centre of the financial world, although I'm not too sure we should be particularly proud of the financial world's performance recently. It's a city with amazing heritage and tourist attractions in one of the most civilised countries in the world.

AS Do you think India and China's leading cities will eventually supplant New York and London as the world's most important financial centres?
JC India and China will eventually be the new First World; it's a matter of when rather than if. As that happens, their cities will become increasingly important as world financial centres. However, I'm not sure that they are likely to overtake the likes of New York and London in terms of financial importance in the next 50 years.

AS What achievements are you most proud of so far in your life?
JC I'm very proud of my children and I'm proud of my philanthropic work, but I suppose my most significant achievement was growing a business from just me to 10,000 employees, from no turnover to a £2.4bn turnover, and from no value to an eventual sale price of £1.5bn.

AS Is there anything else you would really like to achieve?
JC I am not particularly bothered about making money any more since I'm far more focused on helping society. However, when I do get sucked into a project, like my Mayfair Village development in London, then I intend to make it world-beating in every respect.

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PERFORMANCE

A

Where are the world's best performing prime residential property markets?

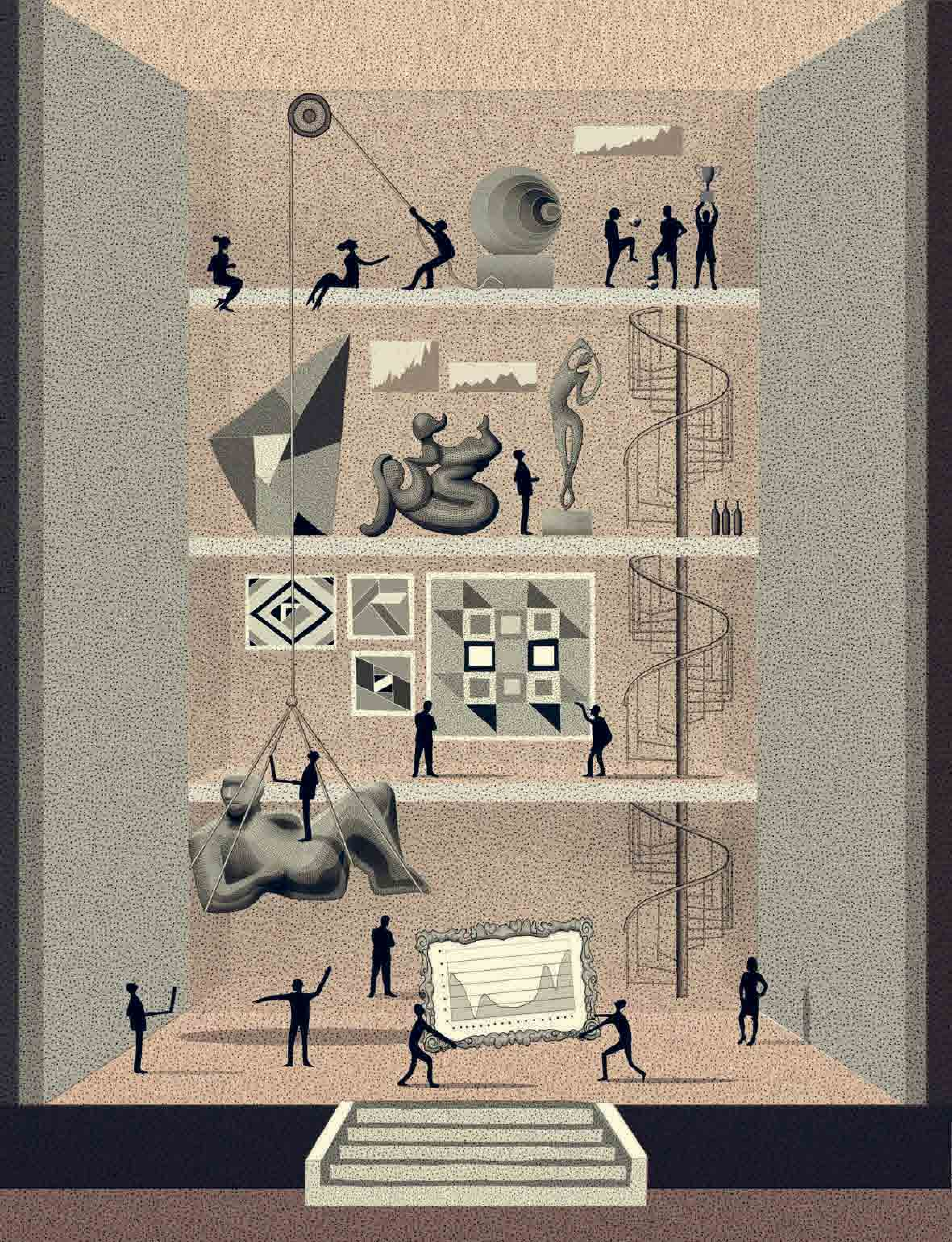
Although Kenyan capital Nairobi recorded the strongest growth last year, according to PIRI, safe-haven locations such as New York and London also remained robust. This was mainly due to capital flight out of emerging markets.

What factors will drive future trends in global luxury housing markets?

Despite the explosive growth of wealth in the world's emerging economies, the emergence of super-prime housing markets in these areas is likely to continue to lag behind those in the developed world. Meanwhile, widening global wealth disparities are likely to lead to increased volatility in prime housing markets worldwide.

Why are the wealthy increasingly turning to commercial property as a safe investment?

Prime office and retail buildings in perceived safe-haven locations like London can offer annual yields that are as reliable as government bonds, but with the upside of potential capital growth.



PORTFOLIO

THE INSIDE VIEW ON HOW THE WEALTHY ARE PROTECTING AND SPENDING THEIR MONEY

How are the wealthy investing their money amidst global economic turmoil?

Which equity markets look good value in 2012?

Why are wealthy investors choosing to invest in art, wine and sport?

WHICH WAY NOW?

RENEWED CONCERNS OVER THE WORLD ECONOMY ARE DEMANDING NEW APPROACHES TO WEALTH PRESERVATION. THREE OF CITI PRIVATE BANK'S INVESTMENT AND WEALTH PLANNING EXPERTS, AS WELL AS RESULTS FROM OUR ATTITUDES SURVEY, PROVIDE SOME INSIGHT INTO CURRENT THINKING

TIM HETHERINGTON/GALLERYSTOCK

MALAY GHATAK
PORTFOLIO REBALANCING CONTINUES

The shift in our clients' attitudes towards their investments that we saw in 2008 and 2009 continues. They are still focused on reducing risk, increasing transparency and improving liquidity.

Clients are asking far more questions than ever before and really want to examine the risk profile of their portfolios. Not only do they want more detail about the overall structure of an investment product, but they are also probing into the various constituents within it. For example, if we were looking at a fund with exposure to emerging markets, they would want to know the individual risk profiles of the various countries covered.

To minimise risk, many of our private investors have increased the allocation towards cash, or cash-like products, in their core portfolios. This creates a dilemma because high inflation means you inevitably end up compromising your returns by following this strategy. On balance, however, there is an acceptance that this is a price worth paying. It also leaves people well positioned to make an opportunistic investment when the value of a target asset drops below a certain level.

A lot of cash is simply being held on deposit, but there has been some demand for long-duration, mostly five-year, sovereign debt. Unsurprisingly, it is only German bunds, UK gilts and US treasuries that are of real interest. Returns rely on capital gains because yields are so low.

Gold is by no means featured in all our clients' portfolios, but this traditional "safe haven" has proved attractive to a number of them over the past year. There was a particularly active period when it was priced between $1,200 and $1,600/oz. Interest waned when it hit $1,700/oz.

Some investors do consider the precious metal something of a relic, but it is still hugely popular in Asia, and quantitative easing measures tend to increase demand. Because of this we think gold will remain of interest to the investment community as long as the economic uncertainty continues and governments around the world continue to adopt loose fiscal policies in a bid to stimulate economic growth.

High-grade corporate fixed bonds are viewed as a relatively risk-free and liquid asset by a number of clients, but when it comes to investing in the equity of specific companies, few sectors have jumped out as being particularly attractive. However, a carefully selected basket of well capitalised, high-cashflow healthcare, food staples and telecoms companies has been able to deliver relatively attractive dividend returns in 2011 and also, in a number of cases, managed capital appreciation.

Clients are asking more questions and really want to examine the risk profile of their portfolios. They want more detail about the structure of investments

Currency has attracted some clients who have sold euros aggressively in favour of the dollar. Over $1.5tr is traded on forex markets every day and around half of the trades have been in the world's three main currencies. Private client activity has followed a similar pattern, but interest in emerging-market and Scandinavian currencies is growing.

MALAY GHATAK IS CITI PRIVATE BANK'S HEAD OF INVESTMENTS FOR EMEA

PHILIP WATSON
INNOVATIVE RISK SPREADING

Last year was all about finding cleverer, more efficient ways for our clients to invest their money. That search continues in 2012.

Building a diversified portfolio of risk exposures is much more complicated than it used to be. Markets and asset classes are more closely correlated than they have ever been. Some portfolios diversified along traditional lines have actually proved to be very volatile. For some, this has meant maintaining a highly cautious portfolio in order to protect and preserve capital, although this has not always been successful either due to the impact of inflation.

To take one example, equity portfolios and their corresponding stock weightings are usually allocated based on market capitalisation, the total value of a company's tradable shares. This system is the foundation of many of the indices most commonly used around the world today.

However, we think this approach gives rise to certain biases and inefficiencies, and can increase risk as it often leads to a "clustering" effect, by sector, capitalisation and type. A very significant percentage of the S&P 500 index is actually accounted for by the S&P 100, for example. And if one sector, such as telecoms, is performing well you can end up overweight in that area, tending to buy at the top of the market when market capitalisation is highest.

In response, we prefer to make allocations by equalising risk; each component of an investment portfolio will carry an equal share of risk. We have found this approach can potentially improve risk-adjusted returns, limit downside risks and correct some of the biases previously mentioned.

In addition to this, we identify opportunities for our clients that are market- or sector-neutral. Asset classes don't have to be mainstream – for example we have helped some of our clients invest in the carbon emissions market. This was less to do with the outlook for that particular market at the time and more about the timing of the investment, utilising market dislocations and market volatility. In the commodity markets, we have looked to bring value to clients by capitalising on the contract selection methodology employed by some of the largest index providers.

We have developed a solution based on the Citi Cubes Index that has been able to deliver relatively high risk-adjusted returns against a low correlation with the majority of asset classes.

In EMEA, we have made available several other such potential opportunities for clients in index rebalancing strategies. An example of this exists on the major equity markets – tracked by many passive index funds that, by definition, have to rebalance their portfolios as close as possible to the point that a company enters or leaves the index. The increase in demand for a new entrant into an index can potentially lead to a boost in stock prices. However, if the entrants to the index are announced before they actually join, buying them before the passive indexers, trackers and other funds means investors could be well placed to benefit if there is any uplift.

Finally, potentially suitable for those investors wishing to mitigate market downside risk at a time when protection costs have been high are a number of other tail-risk strategies that apply risk analysis and structuring to gain cheaper exposure to correlated markets. There is, for example, a high correlation between the Australian dollar and Japanese yen exchange rate and equity markets that has made this an alternative strategy for hedging in some situations.

With such a broad set of opportunities, risks vary. Working closely with our clients, we look to provide appropriate, timely and tailored solutions.

PHILIP WATSON IS HEAD OF CITI PRIVATE BANK'S INVESTMENT LAB EMEA

RICHARD COOKSON
FINDING VALUE IN EQUITIES

Japan recorded the lowest long-term interest rates in recorded history when the yield on its 30-year bonds fell to 91 basis points, or 0.91%, in June 2003. The previous record had been set in Genoa in 1619 when yields on far shorter bonds fell to 1.125%. Bond yields that fell to such alarmingly low levels told investors that the country's potential growth rate had fallen precipitously. Although Japanese equities went up and down, they have been devalued for more than two decades. Almost every sector now trades at below book value.

Investors ignore falling yields at their peril. Falling yields reflect falling potential growth rates, meaning equities are likely to continue to be downgraded

This is, alas, of more than passing historical interest. Thirty-year Swiss yields have recently been vying with their Japanese counterparts for a place in the hall of infamy. At the time of writing, they too, yield less than 1%. Yields on other bond markets look positively toothsome by comparison. Thirty-year US treasuries and UK gilts yield a couple of percentage points more than their Swiss counterparts. For how much longer? Against all expectations, yields have fallen sharply over the past 12 months. Indeed, yields have continued to fall in recent months even as equities have rallied.

Investors ignore those falling yields at their peril. We suspect that falling yields reflect falling potential growth rates. And, as with Japan, falling potential growth rates mean that equities are likely to continue to be downgraded over time. That doesn't mean that they can't go up in the short term. What it does mean though is that investors should think about which region and which sort of equities they are invested in. In a world where growth slows, investors will want more of their returns up front. That is why high-dividend stocks with stable balance sheets have outperformed so strongly over the past year or so.

Geography matters too. Having already been devalued and their dividend yields risen, Japan's shares are, for the first time in many years, cheap. So too are European equities. At 11, the cyclically adjusted price-to-earnings ratio (price to the last 10 years of profit) for European equities is half that of their US counterparts. European shares trade at book value. In the US they are trading at twice book.

Europe has more than its fair share of systemic risks, but at least investors are paid for this. This is not true for the US, even if you thought Europe was a little local difficulty. US profit margins that are at record highs are far more likely to come down than go up.

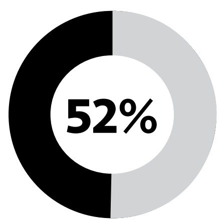
Not the least of the reasons why is that there are many leagues to go before private sector deleveraging is done. Its malign effects have been cushioned by record loose fiscal policy and the actions of the Federal Reserve. The first of those, at least, will end next year. What those low treasury yields mean is that the economy will not be on a sustainable footing when it does. Value not only promises better long-term rewards, it can also help protect against downside risks.

RICHARD COOKSON IS GLOBAL CHIEF INVESTMENT OFFICER AT CITI PRIVATE BANK

HANDOVER OF WEALTH
BEGINNING TRANSFER DURING LIFETIME

25%

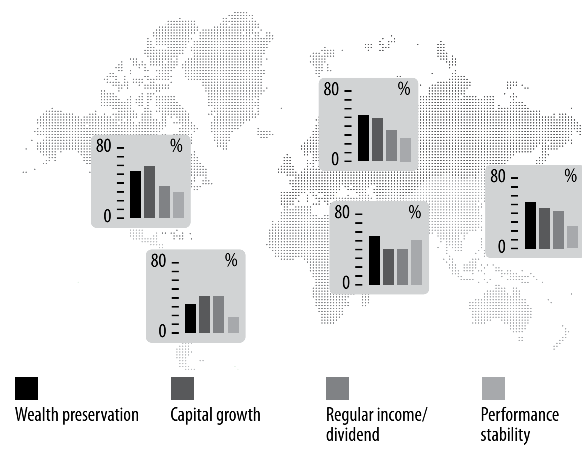
OF ALL HNWIs



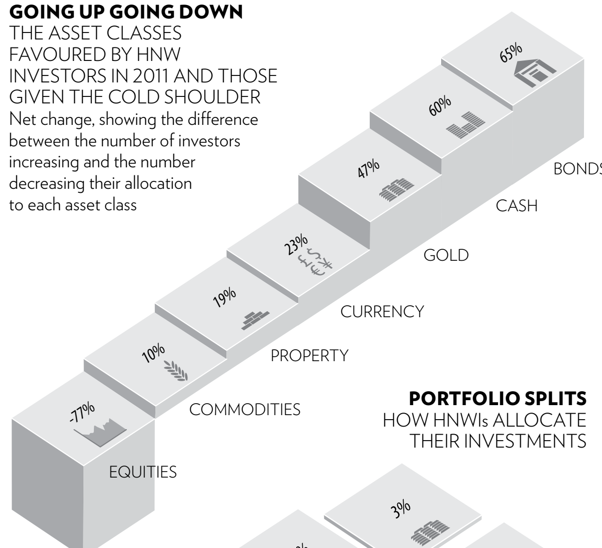
OF ASIA-PACIFIC HNWIs

For more survey results and investor intelligence turn to Databank on p58

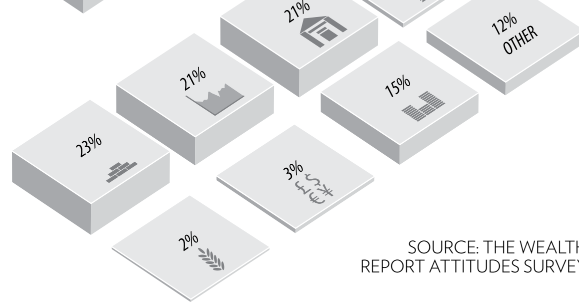
STRATEGIC THINKING
THE KEY MOTIVATIONS FOR HNWIs IN DIFFERENT REGIONS WHEN MAKING INVESTMENT DECISIONS



GOING UP GOING DOWN
THE ASSET CLASSES FAVOURED BY HNW INVESTORS IN 2011 AND THOSE GIVEN THE COLD SHOULDER
Net change, showing the difference between the number of investors increasing and the number decreasing their allocation to each asset class



PORTFOLIO SPLITS
HOW HNWIs ALLOCATE THEIR INVESTMENTS



SOURCE: THE WEALTH REPORT ATTITUDES SURVEY

PASSION PLAY

HOW THE WEALTHY ARE PROTECTING AND SPENDING THEIR MONEY

THE WEALTHY ARE INCREASINGLY LOOKING TO COMBINE THEIR INVESTMENTS WITH SOMETHING THEY CAN ALSO ENJOY. ANDREW SHIRLEY DELVES INTO THE WORLDS OF ART, WINE AND SPORT TO INVESTIGATE

A growing number of investors are discovering that life's luxuries and pleasures can also make profitable investments. Art, wine and sport, so-called "investments of passion", are enjoying a growing popularity among investors and, according to the results of *The Wealth Report* Attitudes Survey, saw a sharp rise in demand in 2011.

The proportion of HNWIs expressing a greater interest in fine art investments rose by 25% compared with 2010. Wine was up by 11%, and even the expensive business of investing in sports teams showed no real overall decline in popularity. North American HNWIs appear particularly sports mad with 24% more interested in investing in a sports team.

While an equity portfolio can lose most of its value overnight, investments of passion, in common with prime property, are more tangible – even if their value does fall, they can still be enjoyed. It's a sentiment that New York-based Citi Private Bank art advisor Jonathan Binstock is hearing more and more often from his clients: "They accept that if they spend $5m on a Picasso it may go down in value, but even if it does fall by 20%, at least they know they will still have a masterpiece hanging on their walls."

Although the overall value of art sold in 2011 was still some way below the frenzied peaks hit before the credit crunch, sales were up on 2010, with demand continuing to grow strongly in Asia. A number of works, including "I can see the whole room and there's nobody in it!" by pop artist Roy Lichtenstein, which sold for US$43m, set new records for their artists.

While collectors are still prepared to spend, the focus is now on "blue-chip" art, says Mr Binstock: "Quality artists with a long-established track record are particularly appealing to investment-minded collectors."

The credentials of art as an asset class are also growing. Last year the influential Mei Moses World All Art index grew in value by over 10% and has consistently outperformed equities since 2000.

ANDREW SHIRLEY
Editor of
The Wealth Report

America's NFL is one of a number of global sporting franchises attracting investor interest

SUZANNE PLUNKETT / REUTERS

Liquid gold: wine has consistently outperformed the FTSE 100

JAMES BEDFORD

Fine wine, too, has been performing strongly since the credit crunch, with surging interest in Asia Pacific and other developing regions helping to drive demand. Although the value of the benchmark Livex 100 index dropped by 15% in 2011, this was probably due to the market correcting itself after the huge rebound that followed the 22% fall during the financial maelstrom of 2008, says Andrew della Casa, a director of The Wine Investment Fund.

"Between the drops in 2008 and 2011 the market rose by some 76%," he says. "Longer term, the value of the Livex 100 has risen 66% over the past five years, which is a far better performance than the FTSE 100. In all but one five-year period since 1988, wine investment has shown a positive return. By contrast the FTSE has seen 63 negative periods."

TEAM GAMES

Buying your own sports team is arguably the ultimate investment of passion – and potentially the most expensive, amply illustrated by the UK Premier League's billionaire big spenders Roman Abramovich, owner of Chelsea FC, and Sheikh Mansour, who bought Manchester City FC in 2008.

Despite this, all but a handful of the world's 50 most valuable sporting franchises compiled by Forbes (including Manchester United FC at $1.86bn and the 32 teams of the American NFL) are owned by wealthy individuals and families.

In the past, ownership has often been about prestige and ego. But HNW investors are increasingly looking to combine their love of the game with some kind of financial return, says Bradley Rangell of Citi Private Bank's Sports Finance and Advisory team. Media rights (the 32 teams in the NFL share annual broadcast rights of around $4bn), stadiums and merchandise can all generate significant returns when managed properly.

"It is possible to make money from owning a team if you follow a plan," he says. "The problems start when emotional decisions such as paying too much for a player can cause an owner to stray from that plan."

Mr Rangell points out that the way the four major US sports leagues – the NFL (American football), NBA (basketball), MLB (baseball) and NHL (ice hockey) – are run offers significant advantages to HNW investors over some of the world's other major sporting leagues.

"The US domestic leagues are relatively socialistic by nature," he says. "Salary caps, for example, mean wage bills can't run out of control as they do in Europe. The UK's Premier League is like the Wild West compared with the somewhat regulated US league system, and when you look at the leagues in Spain and Italy that's another ballgame altogether."

While an equity portfolio can lose its value overnight, investments of passion are more tangible – even if their value falls, they can still be enjoyed

Historically, US leagues have frowned upon ownership by consortiums of investors, which may have discouraged those HNW investors used to leveraging deals with private equity. But recent sales, like that of the NBA's Detroit Pistons franchise to a private equity firm, suggest the leagues are becoming increasingly open to these types of structures, Mr Rangell explains.

OVERSEAS INTERESTS

Another emerging trend is the growing interest from overseas HNW investors in US team ownership. The NBA is popular in China and Russian billionaire Mikhail Prokhorov owns the New Jersey Nets.

"Wealthy families appear to be increasingly looking for opportunities wherever in the world they exist, and I think we will see increasing foreign ownership – in both directions," says Mr Rangell. He points out that a number of US HNWIs, led by the Glazer family's purchase of Manchester United FC, are looking for overseas opportunities where they can apply US best practice to improve profitability.

"In general, the sports leagues are willing to work with international investors who are often passionate about the sport and are willing to invest over the long term to build a successful franchise," he says.

Although cricket may be a step too far for US investors, the Indian Premier League (IPL), which is partly based on the US league model, highlights the enthusiasm for sports investments around the world.

When franchises for the first eight IPL teams were sold in 2007, they attracted huge interest from Indian HNWIs looking for a glamorous investment and sold for a total of almost $750m. With some of the teams having potential local fan bases of over 100 million people, the opportunities are clear.

According to consultant Brand Finance, the huge interest in the competition saw the IPL brand rise in value to almost $4bn after just four seasons. As a result, when two extra teams joined the league in 2011 they raised over $700m. When it comes to investments of passion, it seems that Asia Pacific could be the region to watch.

FOR MORE ON INVESTING WITH PASSION, READ THE INTERVIEW WITH AN IPL INVESTOR ON P56

GIVE AND TAKE
ATTITUDES TOWARDS CHARITY AND LUXURY

PHILANTHROPY

According to the results of our Attitudes Survey, global economic uncertainty hasn't dampened the philanthropic activities of HNWIs. On average, the net level of donations rose by 10% in 2011, with giving increasing most in North America and Asia Pacific.

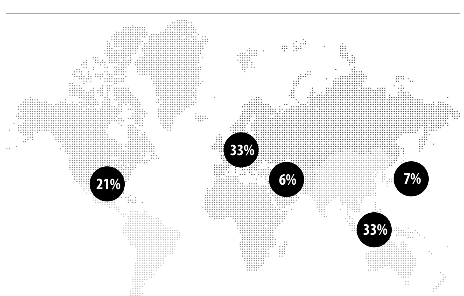
Josh Spero, editor of wealth chronicle *Spear's*, which has just launched a campaign to "spread the pleasure" of giving amongst the wealthiest 1%, says the interest in philanthropy from the magazine's HNW readership continues to grow. Many donors appreciate that their activities are even more vital during difficult times, he explains. Others, he reckons, also see it as a way to help repair the "reputation" of the wealth community, which suffered during the fallout from the banking crisis.

LUXURY SPENDING

Global spending on luxury goods rose by an estimated 17% in 2011 and is now exceeding pre-credit-crunch levels, according to Verdict Research. Consumers in the Asia-Pacific region have driven much of the growth. Luxury car manufacturer Bentley, for example, doubled its sales in China last year to 1,839. The Asia-Pacific region now accounts for almost 27% of luxury spending worldwide, up from 16% five years ago. This will rise to as much as 33% by 2015, predicts Verdict.

However, sales of bigger-ticket luxury goods are taking longer to recover. A report by *ShowBoats International* magazine reveals 728 yachts over 80 feet long are on order worldwide this year, compared with 753 under construction in 2011 and 27% down on 2009 when 1,008 boats were on order.

EXPENDITURE ON LUXURY BRANDS
PREDICTED GLOBAL SHARE 2015

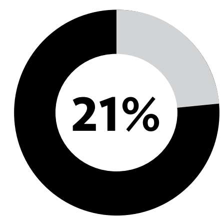


SOURCE: VERDICT RESEARCH 2011

GIVING
PHILANTHROPY

11%

OF TOTAL HNWI WEALTH DONATED



OF US HNWI WEALTH DONATED

HNWI POINT OF VIEW
FAVOURITE THINGS?

Travelling **LATIN AMERICAN**

Safari holidays and fishing trips **AFRICAN**

Live entertainment **ZAMBIAN**

Equities **ASIAN**

Books and reading materials **SINGAPORE**

The latest gadgets and cars **INDIAN**

For more survey results and investor intelligence, turn to Databank on p58

TWENTY TWENTY VISION

RAJ KUNDRA AND SHILPA SHETTY KUNDRA

ENTREPRENEURS

RAJ KUNDRA AND HIS WIFE SHILPA SHETTY TELL ANDREW SHIRLEY WHY THEY ARE PASSIONATE ABOUT INVESTING IN SPORT

Sporting franchises are becoming an increasingly global commodity in terms of both audiences and ownership. Exemplifying this trend are British-born entrepreneur Raj Kundra and his wife, the Indian businesswoman and Bollywood actress Shilpa Shetty. The couple own a 12% share in the Rajasthan Royals, the first winners of the Indian Premier League (IPL) Twenty20 cricket competition, which has grown into a multi-billion dollar global brand after just four years. They also invest in numerous other sectors including property and renewable energy, as well as supporting a number of charitable ventures.

ANDREW SHIRLEY Most of the world's biggest sporting franchises and teams are owned by wealthy individuals. Why do you think they are so keen to be involved in the world of sport when there is the potential to lose a lot of money?
RAJ KUNDRA When people first become rich they are often still not very well known. Sport can provide them with the limelight and recognition some want. But increasingly people see it as a good investment too.

AS When you decided to invest in the IPL was it mainly a financial decision or an investment of passion, and was there anything about the IPL in particular that attracted you?
RK In our case it was it a bit of both. We didn't invest in the IPL in its first season, but it quickly became clear it was going to be a huge phenomenon and the figures looked very attractive. At the end of the day it's a valuations game. We got a lot of advice on what the team was worth and took a calculated risk. Based on current valuations it seems like we've made a good investment.

AS According to some estimates the IPL brand alone is now worth around $4bn. Do you think it can go on growing?
SHILPA SHETTY KUNDRA Definitely. In India cricket is not just a sport; it's a religion. Each of the IPL teams has a huge domestic fan base, not to mention all the overseas interest. That makes it a really exciting opportunity for entrepreneurs who enjoy developing brands and creating innovative marketing strategies.

AS Do you think the creators of the IPL learned from the downsides of other sporting leagues when creating the format and structure of the competition?
RK Absolutely. The revenue stream from the central sale of media rights is virtually guaranteed and it was a smart move by Lalit Modi [the architect of the IPL] to introduce a salary cap. Without that you'd have the richest teams signing up all the best players like you do in the English Premier League.

AS You invested in the Royals after they won the inaugural IPL competition. Since then they haven't won or been runners-up. Is that disappointing for you personally and in terms of your investment?
RK Of course we'd like to see them win, but from second to ninth place the revenues remain the same – although nobody wants to see their team come last.

AS India is one of the world's fastest growing economies, but it has been relatively low key on the global sporting scene. Has the success of IPL been a boost to the country as a whole?
SSK It has made the nation more confident. It's something we can all be proud of.

AS Apart from your investment in the IPL, are there any other sports you would like to get involved with?
RK We are actually just about to launch MMA [mixed martial arts] in India. It's the fastest growing sport in America and each round of the Super Fight League that we're planning will be a really exciting event, just like the IPL. There is so much more room for sport in India.

In India cricket is not just a sport, it's a religion. That makes it a really exciting opportunity for entrepreneurs who enjoy developing brands

AS Apart from your love of sport, you are also keen philanthropists. How important do you think it is for HNWIs to contribute something back to society?
SSK It is very important. Through my foundation we are trying to help as many Indian children who are in need as possible. Raj's company Freeplay Energy India also donates a lot of its innovative wind-up radios and torches to areas where there is no electricity. Philanthropy and investment do not need to be mutually exclusive activities.

AS When talking about the world's fastest growing economies China is always mentioned first. But India is actually predicted to overtake China in terms of GDP later this century. Do you think people sometimes underestimate or overlook the potential of India?
RK The infrastructure and factories in China are admittedly better, but there is great brainpower in India and pretty much everybody can speak English. From an economic point of view, there is also no real formal loan structure, which helps to insulate the economy from adverse global credit conditions.

AS What could India do to make itself more attractive to HNW investors?
RK The property market needs to be opened up. It is hard to buy there even for British Indians. Lifting the ban on casinos would also open up a lot of opportunities.

AS In 2009, you said that it wasn't the right time to invest in property. Has that changed now and are there any locations or sectors that you think are particularly good opportunities at the moment?
RK I think capital cities still have a lot of potential. I bought something in central London not long ago, which I thought was quite expensive, but it's already gone up in value. I'm also investing in real estate in Mumbai – there are lots of opportunities in India right now.
SSK There is also a huge amount of potential in India's tier-two cities such as Nagpur and Ludhiana. More wealth is probably being created there than in the bigger cities and people have a lot to spend. Luxury goods sales are growing very quickly and I heard that tier-two cities are now the biggest buyers of Mercedes in India.

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PORTFOLIO

A

How are investors protecting their money amidst global economic turmoil?

Wealthy investors remain extremely cautious, with many favouring cash, gold or high-grade government bonds. They are also looking at new ways to spread portfolio risk, as well as investment opportunities that are market neutral.

Which equity markets look good value in 2012?

High-dividend stocks are outperforming as investors look for their returns up front. For the first time in many years Japanese shares look cheap, but US equities don't seem to offer such good value.

Why are wealthy individuals choosing to invest in art, wine and sport?

At a time of turmoil in the markets, art, wine and sport look like steady investments, routinely outperforming indices such as the FTSE 100. And if times get really hard, investments of passion can still be enjoyed.

DATABANK

DATA ANALYSIS

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.

RESIDENTIAL DATA ENQUIRIES:
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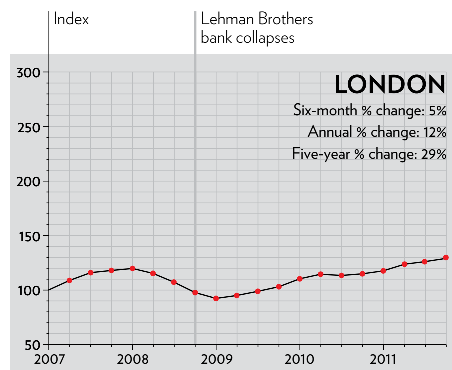
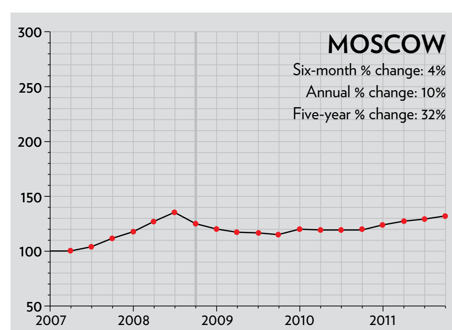
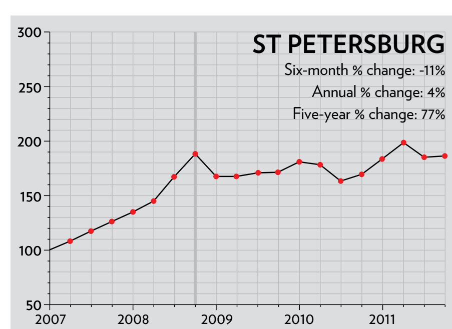
COMMERCIAL DATA ENQUIRIES:
MATTHEW.COLBOURNE@KNIGHTFRANK.COM

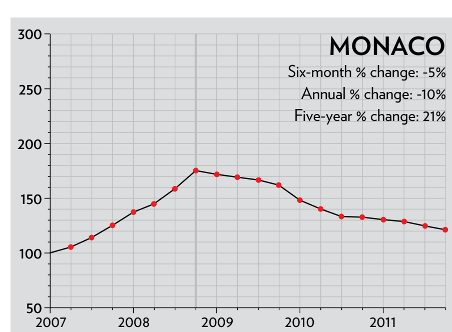
PRIME INTERNATIONAL RESIDENTIAL MARKETS

PAGES 26-35

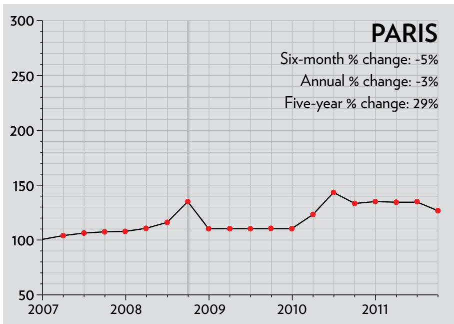


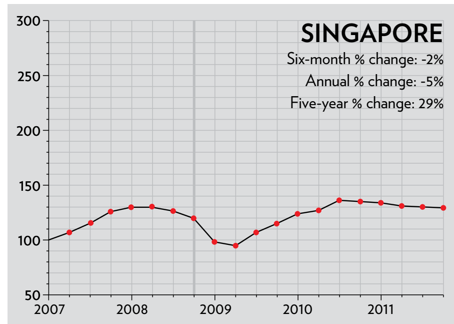


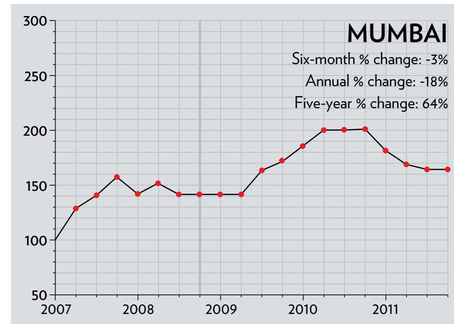


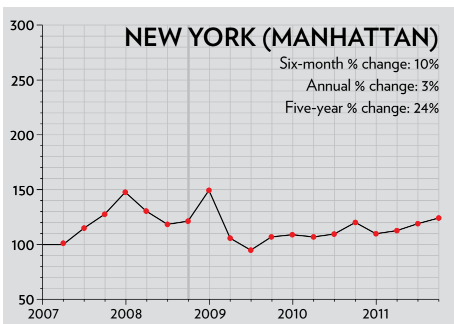


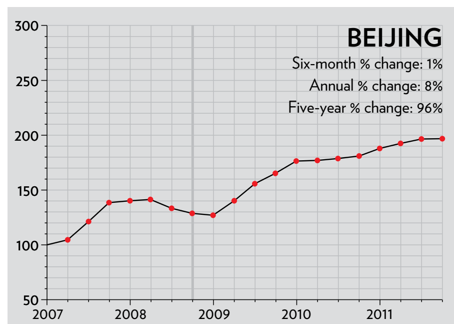
PRIME INTERNATIONAL RESIDENTIAL MARKETS CONTINUED

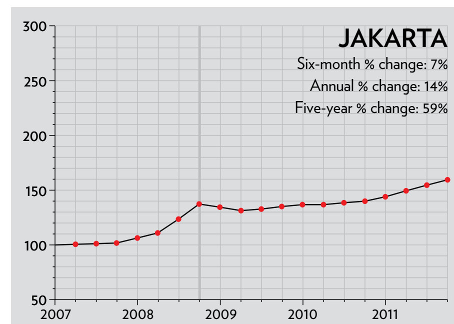


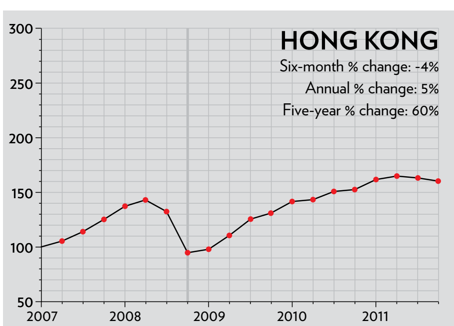


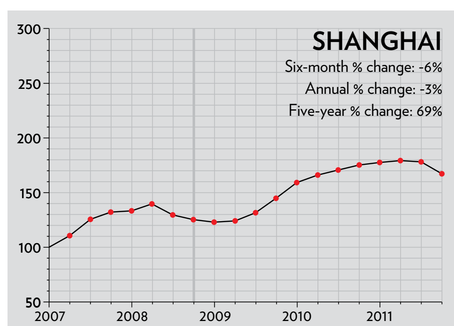


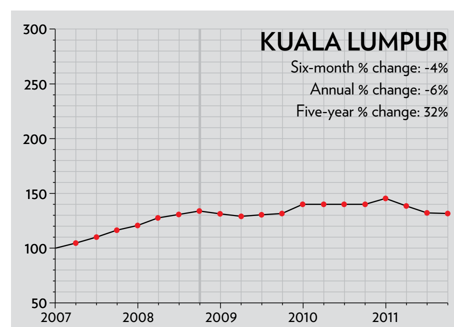








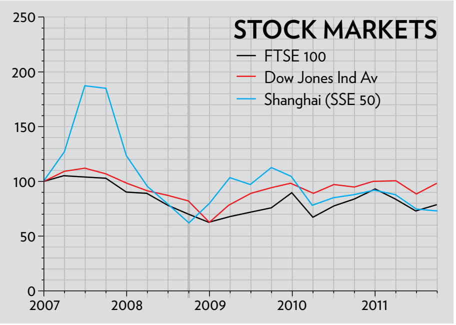


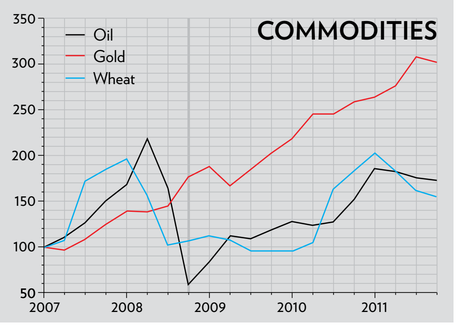


FIVE-YEAR MARKET PERFORMANCE DATA
PAGES 26-43

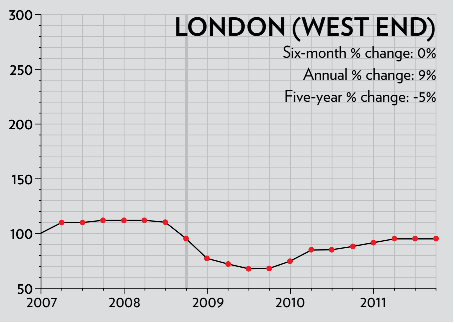
	CHANGE IN VALUE OF PRIME RESIDENTIAL PROPERTY													CHANGE IN VALUE OF PRIME OFFICE RENTS						
	London	Moscow	St P'burg	Monaco	Paris	NY	HK	S'pore	Beijing	Shanghai	Mumbai	Jakarta	KL	London (W.End)	(City)	Paris	S'pore	Shanghai	HK	Moscow
2007 Q1	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
2007 Q2	109	100	109	106	104	100	106	108	105	111	129	101	105	110	107	105	111	101	117	109
2007 Q3	117	104	117	117	108	115	114	117	122	125	143	102	110	110	110	111	126	108	121	125
2007 Q4	118	111	126	125	108	127	127	126	138	132	157	103	116	113	110	111	141	115	126	140
2008 Q1	120	119	135	137	109	147	138	130	140	133	143	107	121	113	104	111	152	123	143	149
2008 Q2	115	128	145	145	110	131	142	130	142	140	153	111	128	113	100	111	162	132	159	158
2008 Q3	108	135	168	159	117	119	131	127	134	129	143	124	131	110	100	111	157	129	153	133
2008 Q4	98	125	189	175	135	122	95	119	129	125	143	137	134	95	93	111	151	126	146	108
2009 Q1	92	120	168	172	110	150	99	99	128	123	143	134	131	77	81	111	138	115	125	90
2009 Q2	95	118	168	169	110	106	112	94	141	124	143	131	128	72	77	104	123	111	103	72
2009 Q3	99	117	171	166	110	95	126	108	156	132	164	133	130	67	74	97	112	109	109	73
2009 Q4	104	115	172	161	110	107	133	116	165	145	171	135	132	67	77	93	108	105	114	74
2010 Q1	110	120	182	148	110	108	141	123	176	159	186	136	140	74	81	93	111	108	119	82
2010 Q2	114	119	178	140	123	106	144	127	177	166	200	136	140	85	87	93	114	109	124	90
2010 Q3	113	119	163	134	143	109	151	136	179	171	200	138	140	85	91	99	121	111	129	90
2010 Q4	115	120	170	134	133	120	153	135	181	175	201	139	140	87	96	99	127	113	133	91
2011 Q1	119	124	184	131	135	109	162	134	188	177	181	144	146	92	96	99	131	118	147	94
2011 Q2	123	127	199	128	135	113	167	131	193	179	169	149	138	95	96	103	135	121	160	98
2011 Q3	126	129	176	124	135	119	163	130	197	177	164	154	133	95	96	105	135	129	172	98
2011 Q4	129	132	177	121	129	124	160	129	196	169	164	159	132	95	96	105	133	132	162	99
Six-month change	5%	4%	-11%	-5%	-5%	10%	-4%	-2%	1%	-6%	-3%	7%	-4%	0%	0%	3%	-1%	9%	1%	1%
Annual change	12%	10%	4%	-10%	-3%	3%	5%	-5%	8%	-3%	-18%	14%	-6%	9%	0%	7%	4%	17%	22%	9%
Five-year change	29%	32%	77%	21%	29%	24%	60%	29%	96%	69%	64%	59%	32%	-5%	-4%	5%	33%	32%	62%	-1%

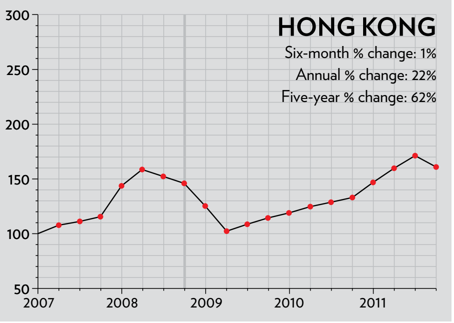
STOCKS & COMMODITIES

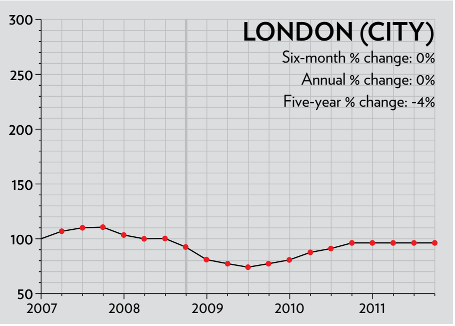


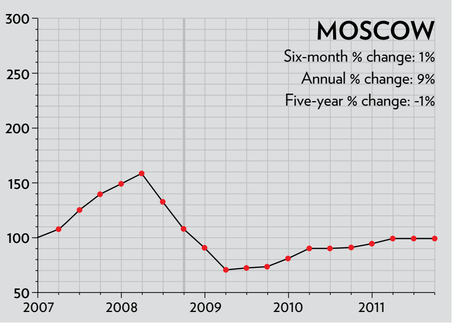


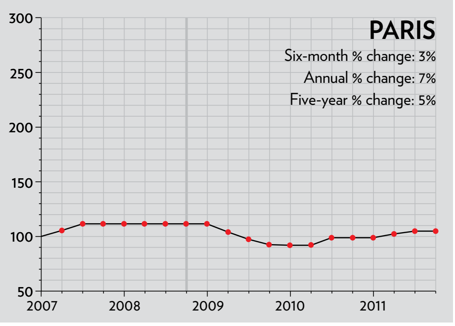
PRIME INTERNATIONAL OFFICE MARKETS PAGES 36-43

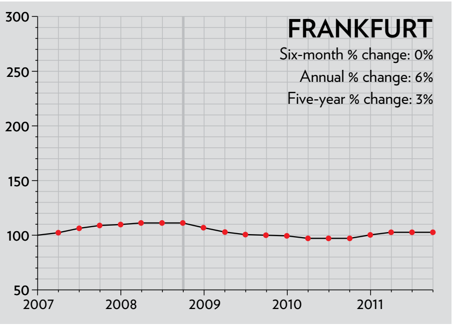


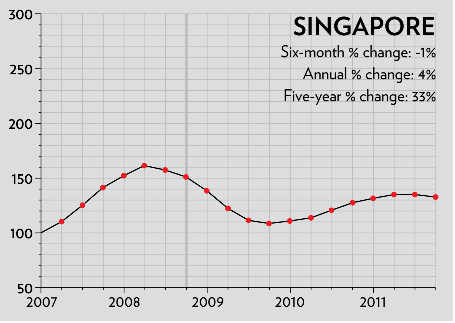


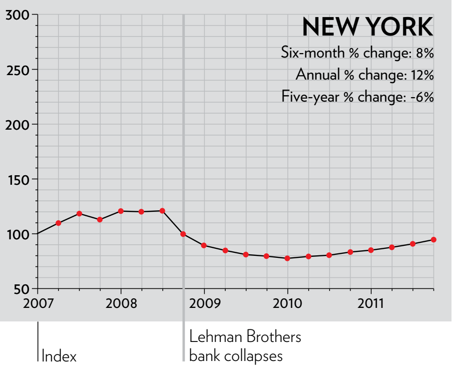


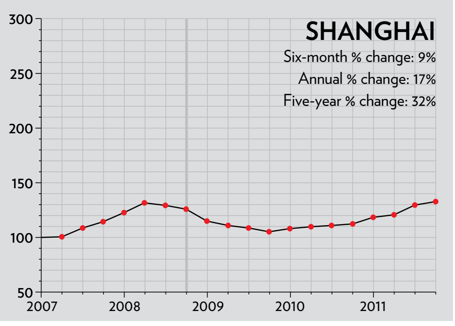












		STOCK MARKETS			COMMODITIES		
Frankfurt	NY	FTSE 100	Dow Jones Ind Av	Shanghai (SSE 50)	Oil	Gold	Wheat
100	100	100	100	100	100	100	100
103	110	105	109	127	110	96	107
106	118	103	112	188	126	108	172
109	113	102	107	185	150	124	184
110	121	90	99	123	168	139	196
111	120	89	92	95	219	138	157
111	120	78	88	79	164	145	101
111	100	70	71	61	59	176	106
107	89	62	62	80	83	189	111
103	85	67	68	104	111	167	106
101	81	81	79	96	109	184	96
100	79	86	84	112	118	202	96
99	77	90	88	103	127	218	96
97	80	78	79	79	124	245	104
97	81	88	87	84	127	245	162
97	84	94	94	86	152	269	182
100	85	94	100	91	185	265	203
103	87	94	100	87	181	278	183
103	91	81	88	74	175	308	161
103	94	88	99	71	173	302	155
0%	8%	-6%	-2%	-19%	-4%	8%	-15%
6%	12%	-6%	6%	-18%	14%	12%	-15%
3%	-6%	-12%	-1%	-29%	73%	202%	55%

PRIME INTERNATIONAL RESIDENTIAL INDEX

Knight Frank's PIRI index tracks the performance of the world's leading prime property markets and provides a unique guide to the capital value of luxury homes.

Prices are generally expressed as US$ per sq m, but, for ease of comparison, on this page we have provided the numbers in leading international currencies and units. For each market we have also included the price in local currency.

All currency exchange calculations are based on the rate prevailing on 31 December 2011.

KNIGHT FRANK'S PRIME INTERNATIONAL RESIDENTIAL INDEX
PIRI 2012

AVERAGE PRICES Q4 2011

PAGES 26-35

Rank	Location	$ per sq m	$ per sq ft	£ per sq ft	€ per sq m	Local currency/ measure
1	Monaco	58,300	5,400	3,500	45,000	EUR 45,000/ sq m
2	Cap Ferrat	51,800	4,800	3,100	40,000	EUR 40,000/ sq m
3	London	48,900	4,500	2,900	37,800	GBP 2,900/ sq ft
4	Hong Kong*	47,500	4,400	2,900	36,700	HKD 34,300/ sq ft
5	Courchevel	44,000	4,100	2,600	34,000	EUR 34,000/ sq m
6	St Moritz	42,600	4,000	2,600	32,900	CHF 40,000/ sq m
7	Gstaad	39,900	3,700	2,400	30,800	CHF 37,500/ sq m
8	St Tropez	38,800	3,600	2,300	30,000	EUR 30,000/ sq m
9	Geneva	31,900	3,000	1,900	24,700	CHF 30,000/ sq m
10	Hong Kong**	28,300	2,600	1,700	21,900	HKD 20,500/ sq ft
11	Paris	27,200	2,500	1,600	21,000	EUR 21,000/ sq m
12	Cannes	25,900	2,400	1,600	20,000	EUR 20,000/ sq m
13	Singapore	25,600	2,400	1,500	19,700	SGD 3,100/ sq ft
14	Moscow	24,000	2,200	1,400	18,500	USD 24,000/ sq m
15	Sardinia	24,000	2,200	1,400	18,500	EUR 18,500/ sq m
16	Zurich	23,900	2,200	1,400	18,500	CHF 22,500/ sq m
17	NY (Manhattan)	23,300	2,200	1,400	18,000	USD 2,200/ sq ft
18	Sydney	22,400	2,100	1,300	17,300	AUD 22,000/ sq m
19	Val d'Isere	22,000	2,000	1,300	17,000	EUR 17,000/ sq m
20	Meribel	21,400	2,000	1,300	16,500	EUR 16,500/ sq m
21	St Petersburg	20,200	1,900	1,200	15,600	USD 20,200/ sq m
22	Shanghai	19,600	1,800	1,200	15,100	RMB 124,400/ sq m
23	Mustique	19,400	1,800	1,200	14,900	USD 19,400/ sq m
24	Verbier	18,700	1,700	1,100	14,400	CHF 17,600/ sq m
25	Rome	18,100	1,700	1,100	14,000	EUR 14,000/ sq m
26	Beijing	17,400	1,600	1,000	13,400	RMB 110,600/ sq m
27	Megeve	15,500	1,400	900	12,000	EUR 12,000/ sq m
28	Vienna	14,200	1,300	900	11,000	EUR 11,000/ sq m
29	Amsterdam	12,900	1,200	800	10,000	EUR 10,000/ sq m
30	Mougins	12,900	1,200	800	10,000	EUR 10,000/ sq m
31	Florence	12,300	1,100	700	9,500	EUR 9,500/ sq m
32	Mallorca	11,900	1,100	700	9,200	EUR 9,200/ sq m
33	Lake Como	11,700	1,100	700	9,000	EUR 9,000/ sq m
34	Marbella	11,700	1,100	700	9,000	EUR 9,000/ sq m
35	Venice	11,700	1,100	700	9,000	EUR 9,000/ sq m
36	Mumbai	11,400	1,100	700	8,800	INR 57,500/ sq ft
37	Milan	11,000	1,000	700	8,500	EUR 8,500/ sq m
38	Cayman Islands	10,800	1,000	600	8,300	USD 1,000/ sq ft
39	Aspen	10,500	1,000	600	8,100	USD 1,000/ sq ft
40	Chamonix	10,400	1,000	600	8,000	EUR 8,000/ sq m
41	Madrid	10,100	900	600	7,800	EUR 7,800/ sq m
42	Barbados	9,700	900	600	7,500	USD 900/ sq ft
43	Tuscany	8,700	800	500	6,800	EUR 6,800/ sq m
44	Cyprus	8,700	800	500	6,700	EUR 6,700/ sq m
45	BV Islands	8,600	800	500	6,700	USD 800/ sq ft
46	Telluride	8,200	800	500	6,400	USD 800/ sq ft
47	Auckland	7,900	700	500	6,100	NZD 10,200/ sq m
48	Kiev	7,900	700	500	6,100	USD 7,900/ sq m
49	Provence	7,800	700	500	6,000	EUR 6,000/ sq m
50	Revelstoke	7,400	700	400	5,700	CAD 700/ sq ft
51	Bangkok	6,500	600	400	5,000	THB 205,000 / sq m
52	W. Algarve	6,500	600	400	5,000	EUR 5,000/ sq m
53	Miami	6,300	600	400	4,900	USD 600/ sq ft
54	Cape Town	6,000	600	400	4,600	ZAR 49,000/ sq m
55	Brussels	5,800	500	400	4,500	EUR 4,500/ sq m
56	Barcelona	5,300	500	300	4,100	EUR 4,100/ sq m
57	Kuala Lumpur	5,000	500	300	3,900	MYR 1,500/ sq ft
58	Umbria	4,400	400	300	3,400	EUR 3,400/ sq m
59	Christchurch	3,400	300	200	2,600	NZD 4,400/ sq m
60	Jakarta	2,900	300	200	2,200	IDR 26.3m/ sq m
61	Bali	2,600	200	200	2,000	IDR 23.5m/ sq m
62	Kenyan Coast	2,100	200	100	1,600	KES 180,000/ sq m
63	Nairobi	1,700	200	100	1,300	KES 150,000/ sq m

* (houses) ** (apartments)

GLOBAL CITIES

To gauge which cities are considered the most important to the world's HNWIs, The Wealth Report surveyed Citi Private Bank's wealth advisors around the world and Knight Frank's global network of luxury property specialists.

We asked which are the most important cities to their clients now, which will be the most important in 10 years, and which are growing in importance the fastest. As well as ranking the leading cities in each category, we have also broken the results down by region to offer some insight into the cities regarded as most important by HNWIs in different parts of the world.

In addition to our overall rankings, respondents were also asked to name the cities that they felt were global leaders in the fields of economic activity, political power, knowledge and influence, and quality of life.

SOURCES OF POWER

PAGES 14-21

	Quality of life	Knowledge & influence	Political power	Economic activity
1	London	London	Washington DC	London
2	Singapore	New York	London	New York
3	New York	Boston	New York	Hong Kong
4	Geneva	Paris	Beijing	Shanghai
5	Sydney	Geneva	Paris	Singapore
6	Hong Kong	Washington DC	Berlin	Beijing
7	Paris	Hong Kong	Brussels	Dubai
8	Vancouver	Singapore	Frankfurt	Paris
9	Miami	Beijing	Shanghai	Tokyo
10	Dubai	Chicago	Riyadh /Jeddah	Frankfurt
11	Barcelona	Dubai	Singapore	Madrid
12	Madrid	Shanghai	Rome	Moscow
13	Zurich	Tokyo	Moscow	Geneva
14	Melbourne	Houston	Mexico City	Bangkok
15	Vienna	Melbourne	Hong Kong	Miami
16	Monaco	Miami	Geneva	Sao Paulo
17	Houston	Mexico City	Miami	Rome
18	Toronto	Vienna	Jakarta	Mexico City
19	Dallas	Berlin	Milan	Vienna
20	Rome	Moscow	Vienna	Berlin

THE MOST IMPORTANT GLOBAL CITIES

PAGES 14-21

	Now	In 10 years	Fastest growing in importance
1	London	London	Beijing
2	New York	New York	Shanghai
3	Hong Kong	Beijing	London
4	Paris	Shanghai	Singapore
5	Singapore	Singapore	Hong Kong
6	Miami	Hong Kong	New York
7	Geneva	Paris	Sao Paulo
8	Shanghai	Sao Paulo	Dubai
9	Beijing	Geneva	Mumbai
10	Berlin	Berlin	Paris
11	Moscow	Miami	Berlin
12	Rome	Washington DC	Geneva
13	Dubai	Rome	Miami
14	Monaco	Moscow	Rio de Janeiro
15	Frankfurt	Dubai	Rome
16	Madrid	Mumbai	Istanbul
17	Vancouver	Vienna	Mexico City
18	Sao Paulo	Vancouver	New Delhi
19	Tokyo	Tokyo	Sydney
20	Mexico City	New Delhi	Vienna

RESPONSE BY REGION

	Now	In 10 years	Fastest growing in importance
North America			
1	London	New York	Beijing
2	New York	London	New York
3	Hong Kong	Beijing	London
4	Paris	Hong Kong	Shanghai
5	Miami	Washington DC	Singapore
South America			
1	New York	London	Sao Paulo
2	Miami	Beijing	Shanghai
3	London	Miami	Beijing
4	Madrid	New York	New York
5	Mexico City	Sao Paulo	Miami
Asia Pacific			
1	London	New York	Shanghai
2	New York	Shanghai	Beijing
3	Hong Kong	London	Singapore
4	Singapore	Beijing	Hong Kong
5	Shanghai	Singapore	London
Europe and Russia			
1	London	London	London
2	New York	New York	Singapore
3	Paris	Shanghai	Shanghai
4	Geneva	Singapore	Beijing
5	Moscow	Hong Kong	Hong Kong
Middle East and Africa			
1	London	London	London
2	Paris	New York	Dubai
3	New York	Paris	Beijing
4	Geneva	Hong Kong	Hong Kong
5	Dubai	Geneva	New York

RESULTS OF THE WEALTH REPORT ATTITUDES SURVEY 2011

At the end of 2011 The Wealth Report asked Citi Private Bank's wealth advisors around the world to provide an insight into their clients' attitudes to a wide range of subjects.

These included their personal wealth; their feelings on property, both as a home and an investment; and their investment decisions. The results of the survey, which represent the attitudes of over 4,000 individuals worth on average over $100m each, are summarised here.

WEALTH TRENDS AND THREATS
PAGES 8-13

HOW HNWI NET WORTH CHANGED IN 2011

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Decreased a lot	5%	0%	0%	14%	0%	6%
Decreased a little	26%	5%	40%	38%	20%	27%
No change	18%	15%	20%	21%	25%	9%
Increased a little	47%	75%	27%	24%	55%	55%
Increased a lot	4%	5%	13%	3%	0%	3%

HOW HNWIs FEEL ABOUT THEIR FUTURE WEALTH PROSPECTS

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Very pessimistic	1%	0%	0%	0%	0%	3%
Pessimistic	23%	25%	27%	36%	25%	9%
Neither optimistic nor pessimistic	42%	45%	40%	35%	45%	46%
Optimistic	32%	25%	33%	29%	30%	39%
Very optimistic	2%	5%	0%	0%	0%	3%

WHAT HNWIs THINK ARE THE BIGGEST THREATS TO FUTURE WEALTH CREATION

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Global economic factors	91%	100%	87%	93%	80%	94%
Local economic factors	61%	85%	33%	55%	75%	55%
Local political instability	54%	65%	67%	38%	70%	45%
Global political instability	52%	90%	33%	52%	40%	45%
Terrorism	6%	25%	0%	0%	5%	3%
Climate change	2%	0%	0%	0%	10%	0%

LOCATIONS AND SECOND-HOMES
PAGES 14-21 & 26-35

ATTRIBUTES HNWIs THINK A CITY NEEDS TO BE CONSIDERED GLOBALLY IMPORTANT

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Personal security and safety	63%	50%	92%	60%	68%	62%
Economic openness	60%	56%	58%	60%	50%	69%
Social stability	51%	56%	67%	38%	36%	64%
Availability of luxury housing	27%	17%	25%	29%	55%	16%
Presence of other HNWIs	25%	44%	17%	26%	32%	16%
Excellent education systems	21%	6%	8%	29%	27%	20%
Political influence	17%	28%	8%	14%	9%	22%
Internationally diverse residents	16%	6%	0%	12%	36%	18%
Easy access to other cities	14%	0%	25%	19%	23%	9%
Excellent healthcare services	13%	11%	8%	19%	9%	11%
Excellent transport network	12%	11%	8%	14%	9%	13%
Vibrant arts scene	6%	0%	8%	12%	5%	2%
Freedom of speech/ press	3%	0%	0%	5%	5%	2%

MOST IMPORTANT FACTORS TO HNWIs WHEN CHOOSING SECOND-HOME LOCATIONS*

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Lifestyle	67%	90%	86%	73%	60%	45%
Investment	55%	50%	50%	50%	50%	67%
Safe haven for capital	40%	30%	36%	46%	55%	33%
Education	12%	0%	7%	4%	15%	24%
Tax	6%	5%	0%	8%	0%	12%
Business opportunities	5%	5%	0%	8%	0%	9%

*Respondents were asked to choose two factors

POTENTIAL CHANGE TO SIZE OF HNWIs' RESIDENTIAL PROPERTY PORTFOLIOS IN 2012

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Decrease a lot	2%	0%	0%	8%	0%	0%
Decrease a little	11%	5%	7%	8%	0%	24%
No change	30%	60%	8%	28%	10%	34%
Increase a little	50%	30%	64%	52%	74%	42%
Increase a lot	7%	5%	21%	4%	16%	0%

HNWI SKI CHALET OWNERSHIP TRENDS

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Already own one	16%	24%	16%	18%	16%	4%
Interested in owning	12%	14%	11%	17%	8%	11%

HNWI BEACHFRONT PROPERTY OWNERSHIP TRENDS

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Already own one	40%	44%	38%	52%	38%	24%
Interested in owning	23%	22%	43%	20%	19%	18%

MOST POPULAR SECOND-HOME LOCATIONS FOR HNWIs

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
1	US	US	US	UK	UK	UK
2	UK	UK	Spain	France	France	US
3	France	France	Mexico	US	US	S'pore
4	Spain	Mexico	UK	Spain	UAE	HK
5	S'pore	Caribbean	France	Italy	Saudi A.	China

PROPERTY INVESTMENT SECTORS HNWIs BECAME MORE INTERESTED IN DURING 2011*

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Residential	76%	94%	62%	63%	100%	69%
Offices	59%	65%	69%	42%	75%	56%
Retail	31%	29%	62%	21%	20%	34%
Hotels	22%	35%	8%	13%	15%	31%
Farmland	18%	24%	8%	29%	5%	19%
Logistics, eg warehouses	13%	29%	38%	4%	0%	9%
Healthcare	8%	18%	0%	4%	15%	3%
Infrastructure, eg airports	6%	18%	8%	4%	5%	0%

*%age of HNWIs expressing an increased interest

MOST IMPORTANT STRATEGIC AIMS FOR HNWIs WHEN INVESTING IN PROPERTY*

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Capital growth	51%	47%	33%	43%	60%	59%
Wealth preservation	42%	18%	58%	52%	55%	34%
Performance stability	31%	53%	42%	17%	25%	28%
Other	2%	0%	8%	4%	0%	0%

*Respondents could select two

HOW HNWIs FUND PROPERTY INVESTMENTS

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Mainly cash	11%	13%	0%	5%	10%	19%
Cash and borrowing	86%	87%	92%	90%	90%	78%
Mainly borrowing	3%	0%	8%	5%	0%	3%

TRADITIONAL AND ALTERNATIVE INVESTMENTS
PAGES 48-55

HOW HNWI ASSET PORTFOLIOS ARE INVESTED

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Property	23%	20%	13%	16%	29%	31%
Equities	21%	18%	23%	19%	21%	24%
Bonds	21%	24%	34%	20%	20%	16%
Gold	3%	3%	3%	2%	3%	2%
Commodities	2%	4%	2%	2%	1%	2%
Currencies	3%	2%	2%	2%	3%	4%
Cash	15%	14%	11%	15%	14%	19%
Other	12%	15%	12%	24%	9%	2%

CHANGE* IN HNWI ASSET ALLOCATION IN 2011

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Property	19%	37%	46%	-4%	45%	0%
Equities	-77%	-72%	-62%	-88%	-80%	-76%
Bonds	65%	58%	77%	48%	85%	67%
Gold	47%	50%	62%	52%	32%	45%
Commodities	10%	50%	31%	-13%	-11%	6%
Currencies	23%	29%	-15%	45%	5%	29%
Cash	60%	37%	69%	76%	70%	52%

* Change = difference between % of HNWIs increasing their allocation to sectors and % decreasing their allocation

MOST IMPORTANT STRATEGIC AIMS FOR HNWIs WHEN MAKING INVESTMENT DECISIONS*

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Wealth preservation	52%	53%	42%	52%	55%	53%
Capital growth	50%	59%	67%	48%	40%	47%
Regular income/ dividend	39%	35%	42%	35%	40%	44%
Performance stability	30%	29%	17%	26%	50%	25%

*Respondents could select two

PERCENTAGE OF HNWIs ALREADY INVESTING IN ALTERNATIVE ASSET CLASSES

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Wine	37%	64%	11%	29%	13%	50%
Fine art/collectables	59%	89%	42%	67%	30%	62%
Jewellery	52%	67%	30%	44%	29%	73%
Renewable energy	21%	25%	22%	28%	0%	29%
Venture capital	49%	67%	54%	39%	35%	52%
Sporting teams	20%	61%	13%	6%	0%	11%

PERCENTAGE OF HNWIs EXPRESSING AN INCREASED INTEREST IN ALTERNATIVE ASSET CLASSES DURING 2011*

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Wine	11%	8%	11%	0%	-8%	29%
Fine art/collectables	25%	53%	25%	13%	5%	32%
Jewellery	7%	7%	0%	0%	7%	14%
Renewable energy	24%	27%	44%	28%	7%	22%
Venture capital	1%	18%	46%	-13%	-10%	-12%
Sporting teams	-1%	24%	0%	-12%	-15%	-6%

* Difference between % of HNWIs expressing increased interest and % expressing decreased interest

PERCENTAGE OF HNWIs WHO WOULD CONSIDER INVESTING IN ALTERNATIVE ASSET CLASSES

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Wine	22%	21%	22%	41%	0%	23%
Fine art/collectables	28%	11%	50%	33%	30%	24%
Jewellery	25%	13%	20%	38%	43%	14%
Renewable energy	59%	63%	56%	56%	81%	43%
Venture capital	32%	28%	23%	22%	60%	26%
Sporting teams	16%	28%	0%	18%	14%	11%

PHILANTHROPY AND SUCCESSION
PAGES 52-55

HOW HNWIs PLAN TO PASS ON THEIR WEALTH

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Most passed on via wills and succession plans	70%	95%	87%	68%	65%	52%
Gradually handed over to successors during their lifetime	25%	5%	13%	29%	20%	42%
Not sure/other	5%	0%	0%	3%	15%	6%

PERCENTAGE CHANGE IN LEVEL OF HNWI CHARITABLE DONATIONS IN 2011 COMPARED WITH 2010

	All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
Decreased a lot	2%	0%	7%	4%	0%	0%
Decreased a little	9%	10%	0%	11%	10%	9%
No change	46%	45%	67%	54%	60%	21%
Increased a little	20%	40%	7%	11%	5%	30%
Increased a lot	1%	0%	0%	0%	0%	3%
Unknown	23%	5%	20%	21%	25%	36%

PERCENTAGE OF WEALTH HNWIs WILL GIVE AWAY IN CHARITABLE DONATIONS AND VIA PHILANTHROPY DURING THEIR WHOLE LIFETIME AND AT DEATH

All HNWIs	North America	Latin America	Europe & Russia	Africa & Middle East	Asia Pacific
11%	21%	9%	9%	7%	9%

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