Douglas Elliman | Knight Frank

RESIDENTIAL

THE WEALTH REPORT

The global perspective on prime property and investment

17th edition | 2023

elliman.com/wealthreport

17th edition

EDITOR-IN-CHIEF
Liam Bailey

EXECUTIVE EDITOR
Flora Harley

WRITTEN BY
Knight Frank Research

Andrew Shirley
Antonia Haralambous
Kate Everett-Allen
Patrick Gower
Ruth Wetters
Will Matthews

MARKETING
Lauren Haasz

PUBLIC RELATIONS
Astrid Recaldin

SUB-EDITING
Sunny Creative

DESIGN & DIRECTION
Quiddity Media

BRAND & CREATIVE CONSULTANT
Wink

PORTRAIT PHOTOGRAPHY
Graham Lee

FRONT COVER
Mainframe

PRINT
Optichrome

ALL KNIGHT FRANK CONTACTS:

firstname.familyname@knightfrank.com

Definitions and data

HNWI: High-net-worth individual – someone with a net worth of US$1 million or more, including their primary residence.

UHNWI: Ultra-high-net-worth individual – someone with a net worth of US$30 million or more, including their primary residence.

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

THE PIRI 100: Now in its 16th year, the Knight Frank Prime International Residential Index tracks movements in luxury prices across the world's top residential markets. The index, compiled using data from our research teams around the world, covers major financial centres, gateway cities and second-home hotspots – both coastal and rural – as well as leading luxury ski resorts.

THE KNIGHT FRANK WEALTH SIZING MODEL: The model, created by our data engineering team, measures the size of HNWI, UHNWI and billionaire cohorts in more than 200 countries and territories. In addition, we model the number of HNWIs and UHNWIs at city level for 100 global cities.

HNW Pulse Survey

KNIGHT FRANK HNW PULSE SURVEY: New for 2023 is our HNW Pulse Survey. This encapsulates the views of 500 HNWIs across 10 countries and territories including: Australia, Chinese mainland, France, Hong Kong SAR, Italy, Singapore, Spain, Switzerland, the UK and the US. Conducted in January 2023.

Attitudes Survey

THE ATTITUDES SURVEY: The 2023 instalment is based on responses provided during November 2022 by more than 500 private bankers, wealth advisors, intermediaries and family offices who between them manage over US$2.5 trillion of wealth for UHNWI clients. Special thanks to ANZ Bank Australia, Bank of Singapore, Citi, Citibank, Commonwealth Bank, Dry Associates, Genghis Capital Ltd, Harvest Financial, HSBC Bank, ICEA LION, Ifigest, JB Were, Key Capital, Komerční banka, MA Financial Group, Macquarie Bank, NAB, NCBA Group, Rothschild, Santander Bank, Stanbic Bank Kenya, Standard Chartered Bank Singapore, UBS, United Overseas Bank (Malaysia) Bhd, Walsh Bay Partners and Westpac for their participation.

How we chose our cover

Working alongside our creative agency, Wink, we started with a question: what is wealth? In the past, the answer might have focused on equities, property, gold, bonds and digital assets. Increasingly, though, a broader definition that embraces the natural world – forests, oceans and climate – seems more appropriate. This year's cover and dividers visualise many of these concepts in a digital way, showing a matrix of the diverse range of materials that represent wealth today.

Welcome

This is a pivotal moment for private wealth. Despite ongoing economic headwinds, we believe *now* is the time to seize the opportunities that lie ahead.

01. HOWARD M. LORBER
EXECUTIVE CHAIRMAN

02. SCOTT DURKIN
PRESIDENT AND CHIEF EXECUTIVE OFFICER

03. SUSAN DE FRANÇA
PRESIDENT AND CEO, DE DEVELOPMENT MARKETING

Welcome to *The Wealth Report* 2023, the 17th edition of this market-leading report for prime property markets.

In last year's edition, we highlighted our perspective on the surge in new wealth creation generated on the back of the post-Covid economic rebound, and its impact on asset price and market performance.

The story at the core of this year's report is driven by the legacy of that economic rebound. Today, we find ourselves in a new investment environment. Rising inflation was the number one risk cited in *The Wealth Report* 2022. We have witnessed some of the most significant rises in interest rates in history, resulting in a corresponding shift in investor behavior.

While asset prices have fallen back, and overall wealth levels have fallen, we maintain that now is the time to look beyond these economic indicators. Despite the challenges that many markets still face, we predict that investor sentiment will improve as interest rates stabilize. We take this opportunity to look forward at the trends that will influence investor behavior through this year and next.

"In every major sector there is a need for better, greener and more innovative space to meet occupier and purchaser requirements"

We study the global mobility of wealth and investments, commercial and residential real estate opportunities, the next phase of Environmental, Social, and Governance (ESG), the outlook for luxury property, and the legacy of Covid in terms of global connectivity.

Finally, we take the pulse of the luxury investment markets and consider the philanthropic opportunities from Rewilding, an innovative approach to conservation and sustainability through restoration. Unlike previous downturns, we did not enter the current cycle with an over-abundance of real estate inventory. In every major sector, there is a need for better, greener and more innovative space to meet occupier and purchaser requirements.

We remain committed to being trusted real estate advisors, and we encourage you to take advantage of the renowned Douglas Elliman | Knight Frank alliance.

The Wealth Report takes you on a unique journey through our index results, expert insights, thought-provoking interviews, future views and data that help shed light on some of the key issues affecting how you live, work, invest and give back

Our contributors

FLORA HARLEY
Executive Editor of *The Wealth Report*, Flora has a passion for economics, quizzes and all things fitness

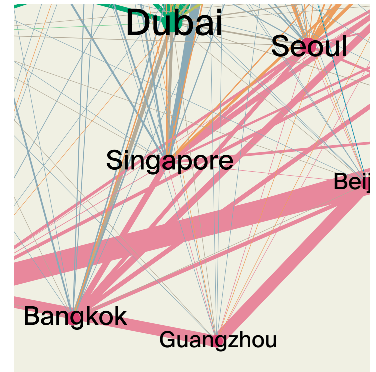
ANDREW SHIRLEY
Our luxury and rural property correspondent enjoys rare whisky and classic cars, but isn't sure about NFTs

KATE EVERETT-ALLEN
Head of Global Residential Research and curator of our Home chapter, Kate is a hispanophile, mountain-lover and keen photographer

ANTONIA HARALAMBOUS
Antonia takes a keen interest in geopolitics, football and cockapoos. She examines private capital and real estate trends on page 14

PATRICK GOWER
Cycling fanatic Patrick's beat includes the property market, architecture and sustainability. He digests the latest Private Office trends on page 46

RUTH WETTERS
Part of our Analytics team, data scientist Ruth loves maps and languages. She is the brains behind the flight trends graphics on page 42



> “An ironic legacy of Covid has been a massive growth in the desire for mobility”

Key findings

Liam Bailey, Knight Frank’s Global Head of Research and Editor-in-Chief of *The Wealth Report,* shares his key insights from the 17th edition

An historic shock...

Last year the Ukraine crisis fuelled the European energy crunch and supercharged already surging inflation. As a result, 2022 saw one of the sharpest upward movements in global interest rates in history, leading to economic conditions which *Collins English Dictionary* neatly dubbed the “permacrisis”.

...but now it's time to look beyond the “permacrisis”

Significant risks remain for the global economy. Inflation in major economies is above target, interest rates are still rising, and consumers are facing a serious cost-of-living crisis. But in this year’s report, we argue that investors should look beyond these risks. As the interest rate pivot approaches later this year we believe market sentiment will shift, quickly, and investors need to be well placed to take advantage of the very real opportunities emerging across global real estate markets.

P6 WEALTH CREATION TURNS A CORNER

Challenging markets meant the majority of UHNWIs saw their wealth decline last year, with their collective wealth falling by 10% (equivalent to US$10.1 trillion). The epicentre of the crisis, Europe, was at the sharp end with an average 17% fall, while Africa demonstrated the most resilience with only a 5% drop. In a sharp reversal, 69% of wealthy investors expect growth in their portfolio this year, with confidence driven by asset repricing, perceived value opportunities and an expected economic rebound.

P8 CHANGING INVESTMENT STRATEGIES

This newly minted wealth will be put to work with investors targeting capital growth (31% of respondents), capital preservation (26%) and income generation (23%). Expect increases in investment allocations, with almost a third of investors looking at property investments to provide an inflation hedge and diversification. A cautious approach will see 29% of investors reduce debt volumes.

P14 PRIVATE CAPITAL IN THE ASCENDANCY

More expensive debt and heightened uncertainty saw investors retreat in the second half of last year. While institutions reduced real estate investment by 28% in 2022, private capital was less defensive, falling only 8% and accounting for a record 41% of the US$1.1 trillion committed by all investors. Private investment was dominated by allocations to residential (43%), offices (18%) and logistics (15%). While US cities led in terms of volumes, London took the biggest share (15%) of cross-border investment, followed closely by Singapore.

P32 PRIME RESIDENTIAL GROWTH SLOWER BUT STILL POSITIVE...

Our Prime International Residential Index (PIRI 100) confirms that average luxury house price growth slowed to 5.2% last year, although with 17% of global UHNWIs buying a home in 2022 this was still the second strongest year on record. Some 85 of the 100 markets tracked saw positive price growth, led by Dubai (44%) and Aspen (28%). At the other end of the ranking, markets that led through Covid-19 saw big reversals – including New Zealand’s Wellington (-24%) and Auckland (-19%).

P35 ...WITH SUNBELT AND SNOWBELT RESORTS IN THE LEAD

Wealth preservation, hybrid working and early retirement themes supported resort markets, with sun (up 8.4%) and ski (8.3%) locations outperforming average prime market growth in 2022. This strength is reflected by our research into the high diversity of buyer nationalities in markets such as France, Spain and Italy (page 44).

P39 SUPER-PRIME GROWTH

At the very top of the market the number of super-prime (US$10 million+) sales in 2022 slipped against the 2021 total, although it remained 49% higher than in 2019. New York, Los Angeles and London led the pack in terms of numbers of sales. The even more rarefied ultra-prime (US$25 million+) market was dominated by London and New York, with the former seeing the highest sales since 2014.

P10 WEALTH AND TALENT ARE ON THE MOVE...

An ironic legacy of Covid has been a massive growth in the desire for mobility. The 13% of UHNWIs who are planning to acquire a second passport or citizenship is the tip of the iceberg. The boom in so-called digital nomads is only just starting – promising disruption to outbound countries, destination markets, tax systems, residential rental demand and office requirements.

...AND GOVERNMENTS WANT TO CAPTURE IT

Competition to attract footloose wealth is hotting up. Alternatives to Western investor visa schemes are growing, with surging applications in Turkey, as well as more flexible offerings in Dubai, Singapore and Hong Kong. Singapore’s sevenfold growth in family offices is testament to the size of the prize for exchequers. While education remains a big draw for London, Italy’s flat tax scheme is a wake-up call for the UK as a replacement Tier 1 Investor visa remains absent and the non-dom regime comes under more scrutiny.

P19 PROPERTY IN DEMAND #1

In the year ahead, 19% of UHNWIs intend to invest directly into income-producing property, with 13% set to take the indirect route. In terms of sectors in demand, healthcare leads, followed by logistics, offices and residential. Our own forecast for cross-border allocations suggests offices will lead in the year ahead, with London the top target. US investors will provide the firepower for almost 50% of cross-border volumes in 2023, with strong activity expected from Singapore, the UK, Canada, UAE and Switzerland.

P22 INVESTMENT TRENDS

Changes to investment criteria, funding and market trends will drive investor behaviour. The E in ESG dominates investor thinking, raising a question over the benefits of bundling it with the S and G. Refinancing with a widening funding gap will see debt funds grow. Grocery market disruption means a requirement for 10 million sq ft of last mile fulfilment space in the UK alone. China’s reopening means student accommodation demand will be boosted in the UK, US, Australia and Canada (page 24).

P40 PROPERTY IN DEMAND #2

While the proportion of UHNWIs set to buy residential property in 2023 (15%) is down slightly from 2022, the high share of cash purchases (49%) will cushion the impact of higher rates and support prices. Of the 25 cities we provide forecasts for we expect 15 to see price growth this year. Dubai leads at 14%, with a huddle of others expected to see rises of 3% to 5%. Supply – a constraint on the market since the beginning of Covid – will ease as UHNWIs rationalise portfolios, which now average 3.7 homes.

P35 RESIDENTIAL BUYERS FACE NEW REGULATIONS

Purchasers need to navigate ever more global rule changes including a Canadian ban on non-residents buying this year and next, a new mansion tax in Los Angeles, tighter lending rules in Singapore, higher fees for Australia’s non-resident buyers and a new Spanish wealth tax. With buyers confirming they are actively seeking political stability and transparency of asset ownership, though, this is looking like the new normal.

P52 ART AND CARS ARE BACK IN VOGUE

The ongoing passion for luxury collectibles pushed the Knight Frank Luxury Investment Index (KFLII) 16% higher in 2022. Art (up 29%) and classic cars (25%) led the table, propelled by record-breaking sales and some huge and unique collections coming to the markets. While rare whiskies only managed 3% growth last year, early adopters will be happy with a 373% 10-year return. Looking ahead, prospects are good for the two leading categories with 59% and 34% of UHNWIs respectively looking to invest in 2023. Even whisky (18%) might be set for a rebound.

AND NOT TO FORGET...

In this year’s packed edition, we also find space to introduce you to ESG-compliant wild venison, aquaponic trout (page 56), surfing tech millionaires in Portugal (page 46), defiant NFT investors ploughing US$1.6 billion into Bored Ape images despite a 50% price correction (page 55), a hopeful plea for “less speculation and more substance” in crypto assets, and a fecund range of natural capital investment opportunities. Read all about this and more, inside...

> “Changes to investment criteria, funding and market trends will drive investor behaviour”

What a difference a year makes

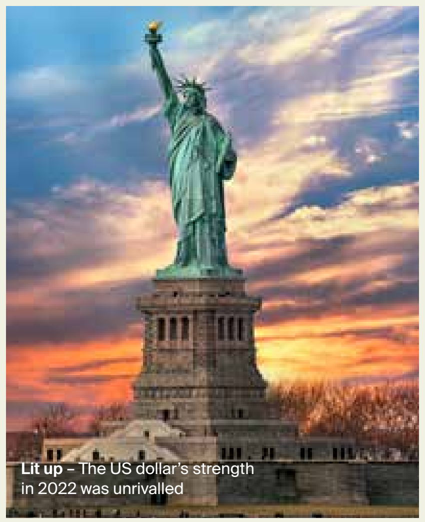
Total wealth held by UHNWIs shrank by 10% during 2022, a drop of some US$10.1 trillion. Flora Harley examines how the fall-out from a year of "permacrisis" could shift investor strategies in 2023

Last year provided a triumvirate of shocks – energy, economic and geopolitical – and was aptly described as a year of "permacrisis", as we noted in our *Outlook Report 2023* in January. Data from our Wealth Sizing Model allows us to chart aggregate wealth levels and our Attitudes Survey reveals portfolio allocations – with a third of total wealth in residential property, just over a quarter in equities and 21% in commercial property. Using this data, we can track what happened to total wealth in 2022.

Although four in ten UHNWIs saw their wealth increase in 2022, the overwhelming trend was negative. Our tracker indicates that wealth held by UHNWIs fell globally by 10% in US dollar terms. That encompasses the change in residential property values (for prime market changes see page 32), commercial property values (page 14), fixed income, investments of passion (page 52) and other assets.

The fall in wealth is unsurprising given the dramatic pivot in monetary policy that culminated in the worst performance for the traditional blended portfolio since the 1930s, as we also covered in our January update.

Europe saw the largest decline in wealth with a drop of 17%, followed by Australasia with 11% and the Americas by 10%. Africa and Asia by comparison saw the smallest declines with 5% and 7% respectively.



Lit up – The US dollar's strength in 2022 was unrivalled

KING DOLLAR

Exchange rates had a significant impact. The strength of the dollar was unrivalled, driven by the Federal Reserve's unwavering commitment to one of the fastest cycles of rate hikes in history. Very few currencies saw appreciation against the greenback – the Singapore dollar ended the year 0.5% higher and the Brazilian real 5.4%. At the other end of the spectrum, the Venezuelan bolívar fell 73%, the Turkish lira was down 29%, the Japanese yen contracted 13% and the British pound ended the year down 11%.

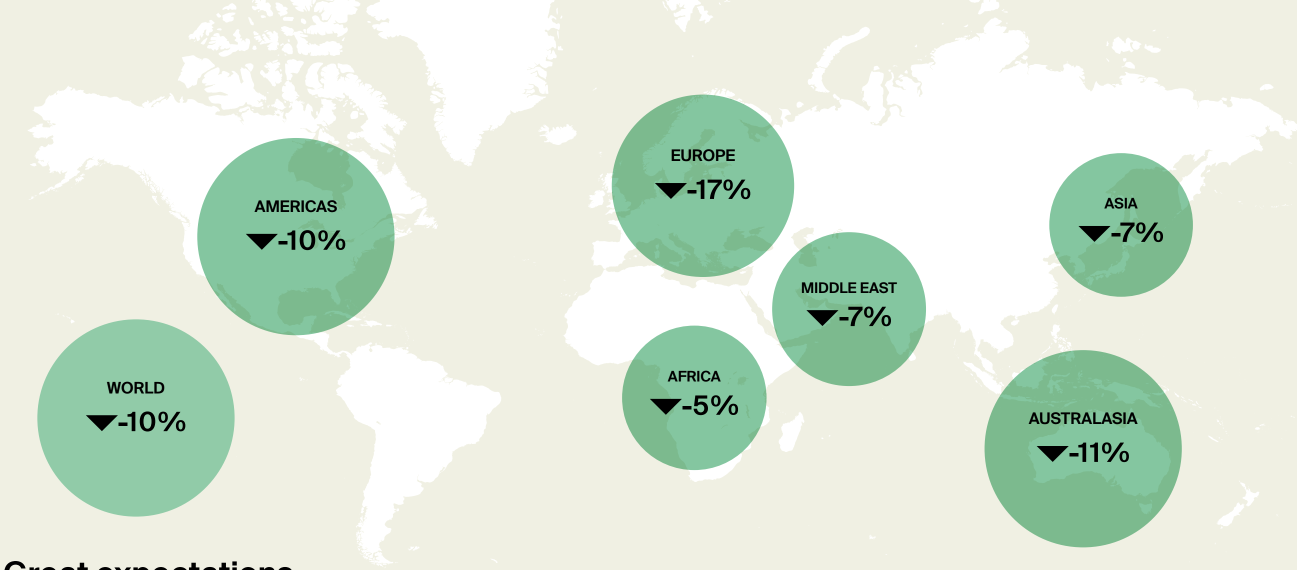
We will reveal how this has altered the population of HNWIs and UHNWIs in May 2023 once full year data is available. However, our HNW Pulse Survey – a survey of 500 HNWIs across 10 global locations undertaken in January 2023 – reveals exactly what it means for investment decisions this year over the page. ▸

"Europe saw the largest decline in wealth with a drop of 17%, followed by Australasia with 11% and the Americas by 10%"

Attitudes Survey

Measuring down

% change in aggregate wealth held by UHNWIs in 2022



Great expectations

How did/do you expect your clients' total wealth to change in...

	2022	2023
INCREASE	▲ 40%	▲ 69%
REMAIN THE SAME	◆ 16%	◆ 18%
DECREASE	▼ -44%	▼ -13%

Sources: *The Wealth Report* Attitudes Survey, Wealth Sizing Model, Macrobond
Exchange rates as at 30 December 2022

Portfolio make-up

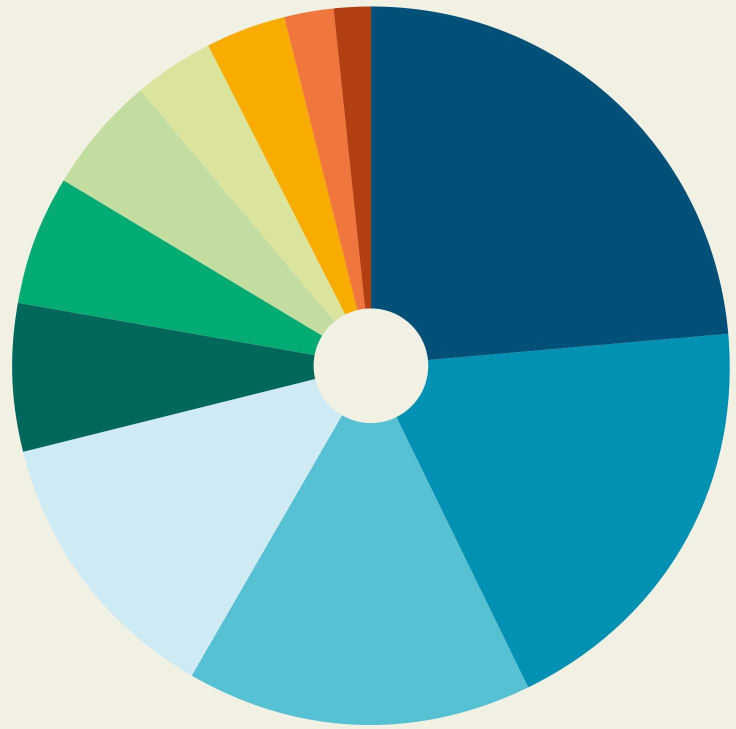
On average what proportion of...

...total wealth is allocated to:

Primary and secondary homes	32%

...investable wealth is allocated to:

Equities	26%
Commercial property directly (e.g. ownership of assets)	21%
Bonds	17%
Private equity/venture capital	9%
Commercial property indirectly through funds	8%
Other	7%
Commercial property indirectly through REITs	5%
Investment of passion (e.g. art, cars, wine, etc.)	5%
Gold	3%
Crypto assets	2%



Source: *The Wealth Report* Attitudes Survey

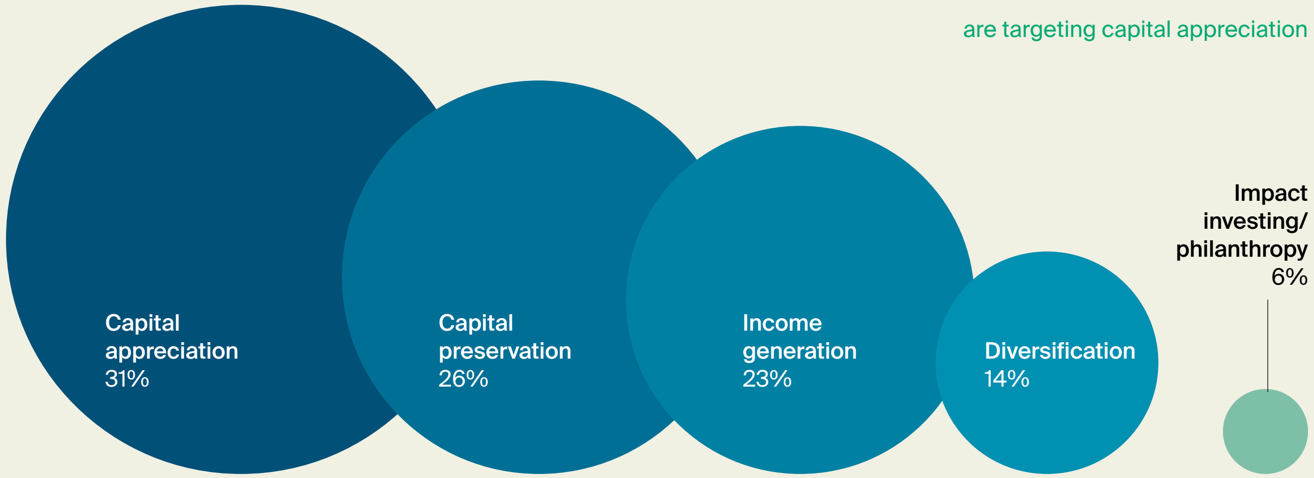
HNW Pulse Survey

Appreciation first

Primary goals for HNWI wealth in 2023

31%

are targeting capital appreciation



Source: Knight Frank HNW Pulse Survey

Changing tack

How HNWIs plan to allocate their wealth in 2023

	DECREASE	NO CHANGE	INCREASE
Investment portfolio	17%	33%	47%
Cash reserves	23%	28%	46%
Travel overseas	25%	30%	39%
Personal expenditure*	24%	36%	36%
Business operations	17%	31%	34%
Holdings of residential property	15%	47%	32%
Holdings of commercial property	16%	34%	28%
Level of debt	29%	30%	27%

Source: Knight Frank HNW Pulse Survey
Note: Figures may not add up to 100% as "not applicable" also an option *Such as social activities, cultural activities, dining, etc.

The recalibration

Optimism for wealth creation in 2023 is high despite the turbulence and aggregate decrease seen in 2022, with 69% of Attitudes Survey respondents expecting their clients' wealth to increase this year

Our HNW Pulse Survey paints a similar picture, with just under a third of respondents stating that their main goal is capital appreciation, while around a quarter are targeting preservation.

The picture is nuanced globally, with HNWIs across Asia-Pacific looking for growth, while preservation is the number one goal in Europe and America – perhaps unsurprising, given the economic slowdown under way across Europe and the anticipated downturn in the US as higher interest rates take their toll. However, 2023 has begun with renewed optimism and a more positive outlook than we saw in December 2022.

How is this impacting investment decisions?

Almost half of HNWIs are looking to increase their portfolio in 2023. For the first time in over a decade, the return on cash has gone from sub-1% to more than 4% in the US: as a result, 46% are looking to increase cash reserves. The flip side is that, with rising interest rates, 29% are looking to reduce debt levels and only 27% to take on more. The appetite to deleverage is highest among Europeans.

As we highlighted in our *Outlook Report 2023* real estate was a top cited opportunity, and our HNW Pulse Survey indicates that property holdings are likely to increase. Whether for the perceived inflation hedge, diversification benefits, or as a boon in times of uncertainty, a third of HNWIs are looking to increase their residential holdings, while 28% will seek to increase their commercial property holdings. Our experts provide an overview of trends and opportunities on pages 24 and 46.

Despite the economic uncertainty, global movement looks set to continue (see page 10) with four in ten HNWIs planning to increase travel overseas. A similar proportion plan to increase personal expenditure on leisure activities. Whether due to an ongoing reassessment of lifestyles or continuing pent-up demand from the pandemic, the economic outlook appears brighter.

While there may be elements of "hunker down and ride it out" with some HNWIs not changing allocations, there will still be healthy activity in global markets – especially among those looking to volatility as an opportunity.

Balancing act – HNWI portfolios are adapting to a new environment

Wider horizons

Global mobility has long been a must-have for wealthy investors, fuelling demand for second passports, visas and citizenships. Liam Bailey asked three experts for their take on the latest shifts in the market

On 17 February 2022, as Russian tanks and troops massed on the Ukrainian border, the UK government announced the immediate and permanent closure of its Tier 1 Investor visa scheme for foreign nationals.

Dramatic as it was, this announcement was just one change in a sector undergoing rapid growth and evolution. Speaking to three leading experts in the field it is clear that demand for mobility has expanded rapidly since the Covid-19 pandemic, and now covers a broader demographic including those seeking protection from arbitrary border lockdowns, or looking to work in another country.

The lion roars – Singapore is attracting wealthy global residents

NADINE GOLDFOOT
Managing Partner, Fragomen UK

Covid led to huge growth in mobility requirements
The number of people who were suddenly able to do their existing work in a new country expanded rapidly. The "digital nomad" boom has brought many more people into the ambit of global mobility – and countries have responded by finding new ways to attract them.

Passive investment is out and active is in
This shift in demand has been reflected in a change in government objectives. Following the global financial crisis, housing busts in markets such as Spain and Portugal spurred property-led investor visa schemes. With stronger markets, countries are changing focus towards schemes that promote job creation, innovation and entrepreneurial activity.

Growth in nomadic workers will be constrained by tax rules and other considerations
While employees may be attracted to the idea of moving their laptop from a desk in Frankfurt to a café table in Lisbon, their employer might not be so keen. Freelancers and the self-employed have led the charge so far, with taxation complications, social security and labour law considerations limiting the freedom of employed staff to join in. While destination countries are keen to work on simplifying tax rules, engaging outbound countries to co-operate will be more challenging.

The UK has hobbled itself, but not critically
The removal of the Tier 1 Investor visa needs to be understood as political theatre. The most recent iteration of the visa category was heavily regulated, with high compliance hurdles. That said, its removal fits with the shift to active categories. It probably makes the UK somewhat less attractive to some investors, but the country still punches far above its weight in terms of attracting the world's wealthy. Future changes to non-dom rules may have a more significant impact.

13%

of UHNWIs are planning to apply for a second passport or new citizenship according to our Attitudes Survey

"For citizenship, Turkey is the standout growth market with applications reaching nearly 1,000 per month during Covid"

KRISTIN SURAK
Associate Professor, London School of Economics

The pandemic made people question the assumption that mobility was assured
US citizens have a "good passport" with many travel privileges, but Covid threw these out the door. Suddenly, they faced challenges even to enter Europe. The result has been a huge increase in the number of Americans looking into investment migration options. If we look at demand globally, we see a shift in people's time horizons as well, with many now looking for "medium-term" solutions, namely places where they may want to spend several months and that offer access to good healthcare as well.

European and US visas are not the only options
Western schemes tend to dominate industry discussions, but other countries are becoming more important. In 2019, Malaysia's investor visa was bigger than all European schemes combined. South Korean and Panamanian visa schemes are in high demand too, with both countries approving more applications than the EU powerhouses of Portugal and Greece. For citizenship, Turkey is the standout growth market with applications reaching nearly 1,000 per month during Covid.

True global mobility is a fantasy, but regional schemes are growing
The idea that we could ever see open borders at a global level is just not a possibility, due to the wealth disparities between countries. But at a regional level there is a growing drive to allow movement. The EU's Schengen Zone might be the most high-profile example, but it is joined by similar cases elsewhere: ECOWAS in West Africa, CARICOM in the Caribbean, the GCC in the Middle East and Mercosur in South America. Could any of these expand? Possibly, although it's easier to imagine Australia joining Schengen than a truly pan-global arrangement.

No one country has control over global immigration rules
As Vanuatu discovered recently, if compliance rules on your visa scheme become too lax, the EU can simply end visa-free travel and the value of your scheme plummets. But for the big players on the scene – the US and the EU – other geopolitical interests can play a role too: interestingly, neither has pressured Turkey over its popular citizenship-by-investment programme even though new Turkish citizens gain opportunities to access both places.

PIERS MASTER
Partner, Charles Russell Speechlys

The UK has many strengths, but other countries are working harder to attract wealth
Italy's flat-tax scheme for wealthy foreign residents has been a success and points to the potential win for countries who get these schemes right in terms of growing tax revenue and raising inward economic investment. The closure of its Tier 1 Investor visa weakened the UK, but this can be remedied if there is political agreement on the value of attracting international wealth to drive business growth. While tax is rarely the main driver of residency decisions for UHNWIs, ongoing uncertainty around issues such as the acceptability of non-dom status could undermine confidence in the UK.

Singapore and Dubai will grow rapidly as wealth hubs
While the UK, as well as the EU and US, still attract considerable numbers of globally footloose wealthy residents, it is undeniable that Singapore and Dubai are emerging as critical wealth hubs. Dubai has developed a very pragmatic approach to attracting wealthy residents – and has worked hard to correct a perceived area of weakness, namely length of stay. Visa options used to be mostly short term and work related, but with the Golden Visa scheme, longer-term residence becomes a possibility. Singapore is developing a very attractive tax and regulatory framework which will serve to attract not only more Asian, but also global, wealthy residents. In response, we are planning to open an office in Singapore later in the year.

Don't underestimate the importance of education and lifestyle
One theme that bodes well for the UK's ability to attract wealth long term is global demand for best-in-class education. The UK has the most important cluster of private schools anywhere, and a world-beating university sector. A cross-border move driven by education is "sticky": it tends to lead to deeper roots being put down with children building local networks, and longer-term investment results. True offshore locations will always be in demand by UHNWIs, but the biggest requirement is for residence in major developed markets. Tax is a factor, but lifestyle and education win out.

"The UK has the most important cluster of private schools anywhere in the world, and a world-beating university sector"

Investing

Navigate the multiple drivers and trends steering global investment and commercial property markets

For the record

Private investors were the most active buyers in global commercial real estate investment in 2022. Antonia Haralambous dissects the numbers to uncover the trends

Despite the global macroeconomic and geopolitical headwinds that persisted throughout 2022, investment from private sources remained robust. Private investors were the most active buyers in global commercial real estate markets in 2022 with US$455 billion invested, accounting for 41% of the total, according to RCA.

This represents private buyers' highest share of global commercial real estate investment on record. It's also the first time private investment has surpassed institutional investment. Institutions invested a total of US$440 billion in 2022, 28% below 2021 volumes, but 2% above the 10-year average. By comparison, while private investment was down from its all-time high of US$493 billion in 2021, 2022 was still the second strongest year in history, sitting 62% above the 10-year average.

SECTORS OF CHOICE

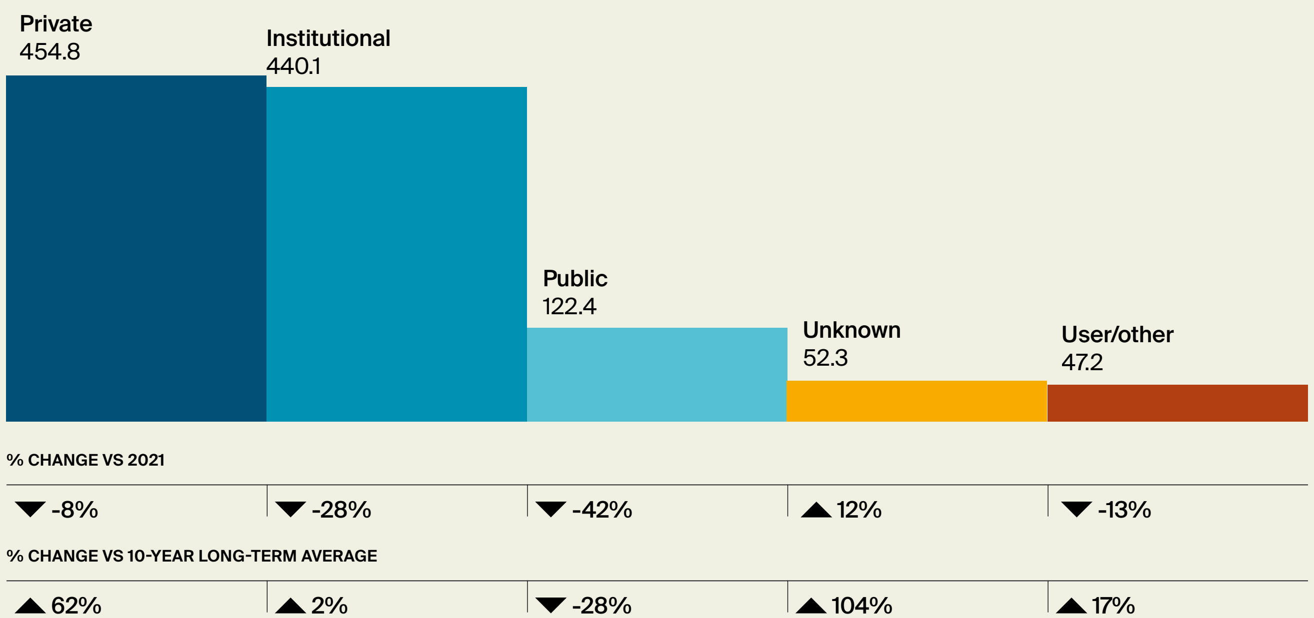
Multifamily residential – or private rented sector (PRS) – offices and industrial assets attracted the greatest interest, as reflected in our Attitudes Survey which shows that 43% of respondents are already invested in offices and 40% in industrial assets. Ownership in retail, life sciences, healthcare, PRS, data centres and education real estate all increased in 2022 compared with the previous year. ▸

1.12trn

Total US$ global commercial real estate investment in 2022

The who...

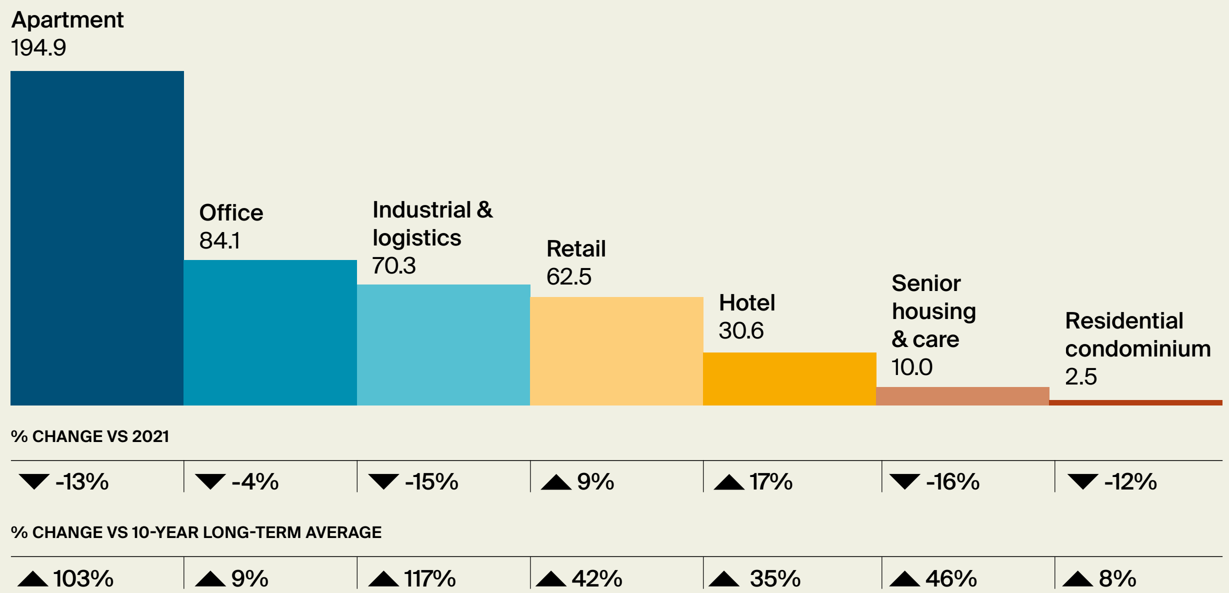
Total by investor type (US$bn)



Source: RCA

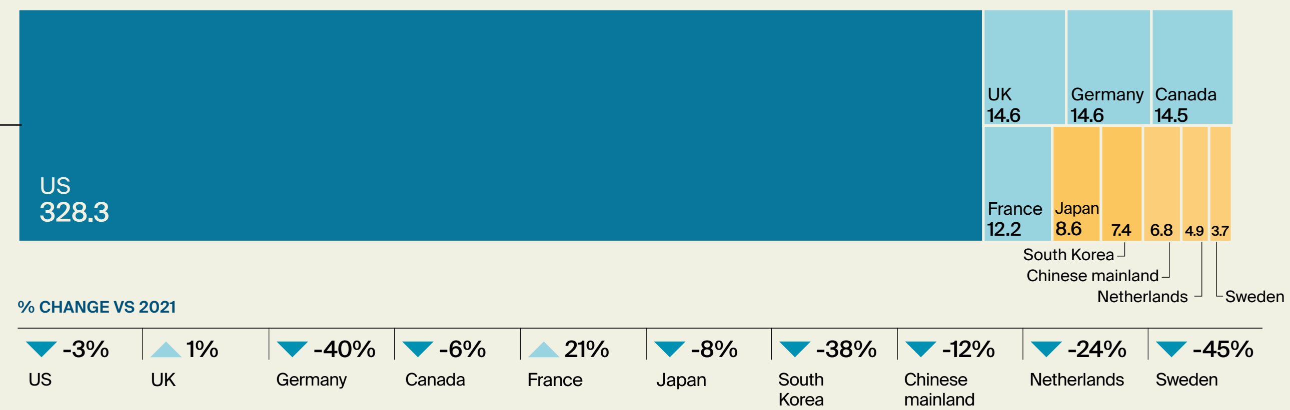
The what...

Private capital investment split by sector (US$bn)



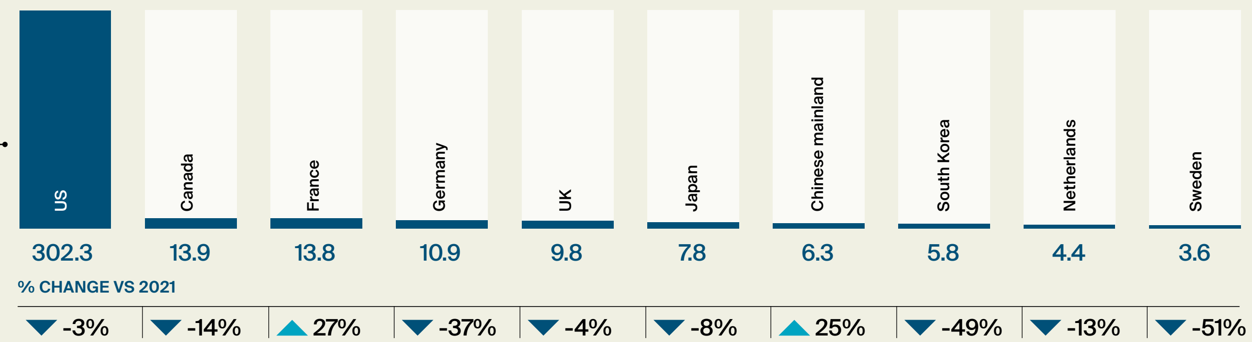
To where...

Top 10 destinations for private capital in 2022 (US$bn)



From where...

Top 10 sources of private capital in 2022 (US$bn)



Source: RCA

Adding up

Total private capital investment volumes since 2008 (US$bn)

62%

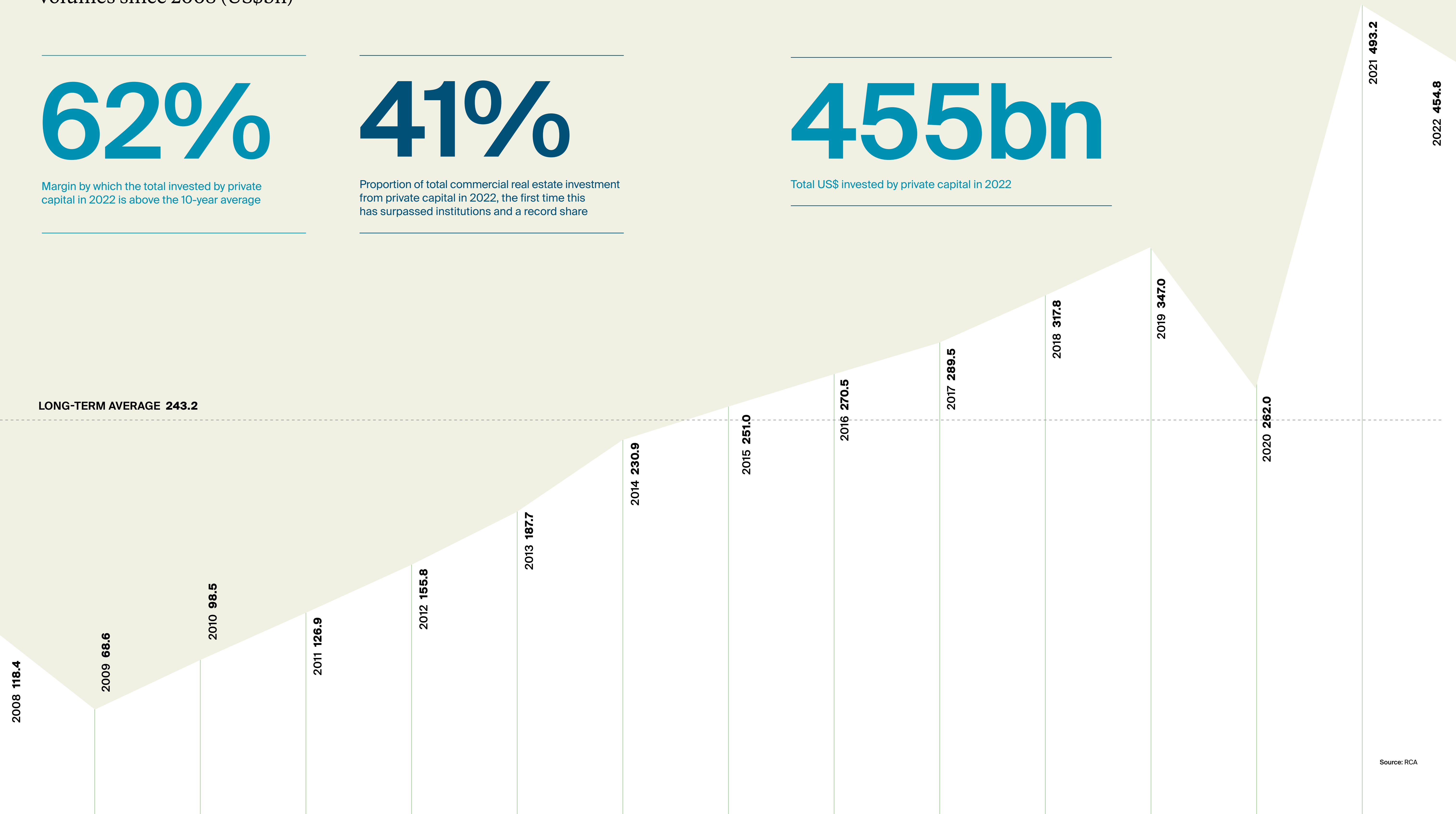
Margin by which the total invested by private capital in 2022 is above the 10-year average

41%

Proportion of total commercial real estate investment from private capital in 2022, the first time this has surpassed institutions and a record share

455bn

Total US$ invested by private capital in 2022



Source: RCA

The US, UK, Germany, Canada and France were the top targets for private capital last year. However, of the top 10 destinations, the UK and France were the only countries to see year-on-year increases in total private investment: up 1% to US$14.6 billion in the UK while France, with its resilient economy and relatively low inflation levels compared with the rest of Europe, jumped 21% to US$12.2 billion.

DRIVING DECISIONS

Inflation will be a significant factor driving investment decisions in 2023, with 80% of respondents to our HNW Pulse Survey stating that it would influence their investment decisions either significantly (37%) or to some extent (43%).

In order to navigate the higher inflationary environment, investors may pivot towards commercial real estate due to its strong growth potential, particularly in assets with indexation. Nevertheless, there are indications that inflation may already have peaked across most major economies, and we could see its influence on investment choices start to moderate as the year progresses.

> "Private investors from the US were the largest source of capital last year, with US$302 billion invested"

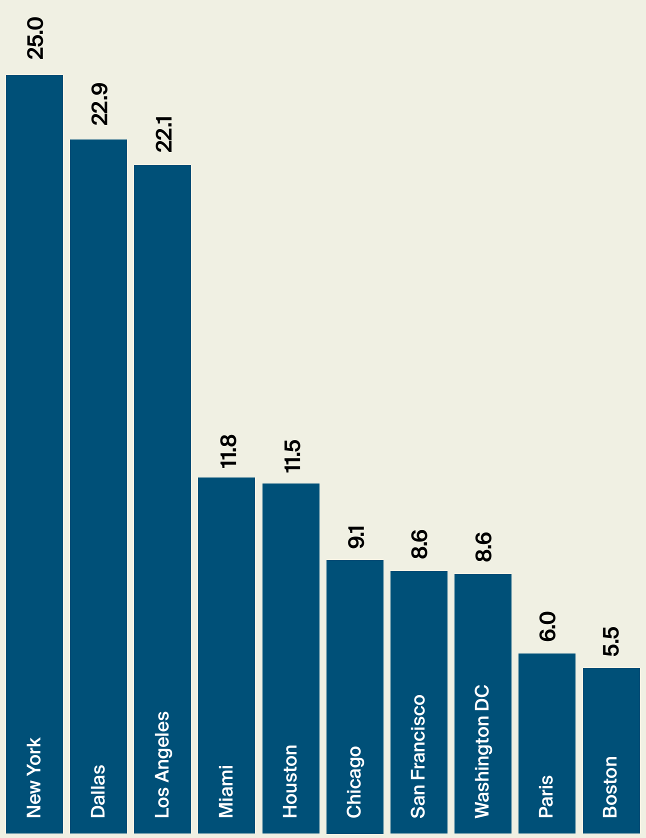
US cities remained a target for private buyers in 2022. Of the cities attracting private capital investment, US metropolises accounted for 67% of the total volume, with Paris the only non-US cities to feature in the top 10. While eleventh overall for total private investment (cross-border and domestic) in 2022, London was top for cross-border private capital with US$2.5 billion. Overall, this accounted for 44% of the total private investment into the city and 15% of total global cross-border private investment into cities in 2022.

Private investors from the US were the largest source of capital last year, with US$302 billion invested – more than a quarter of total commercial real estate investment and 66% of private investment. However, investment from US private buyers was down 3% year-on-year. Of the top 10 sources of private capital last year, investors from France and the Chinese mainland were the only buyers to increase investment in 2022, up 27% and 25% on the previous year to US$13.8 billion and US$6.3 billion respectively.

For a look ahead to what's next for private capital, see the next page. ▸

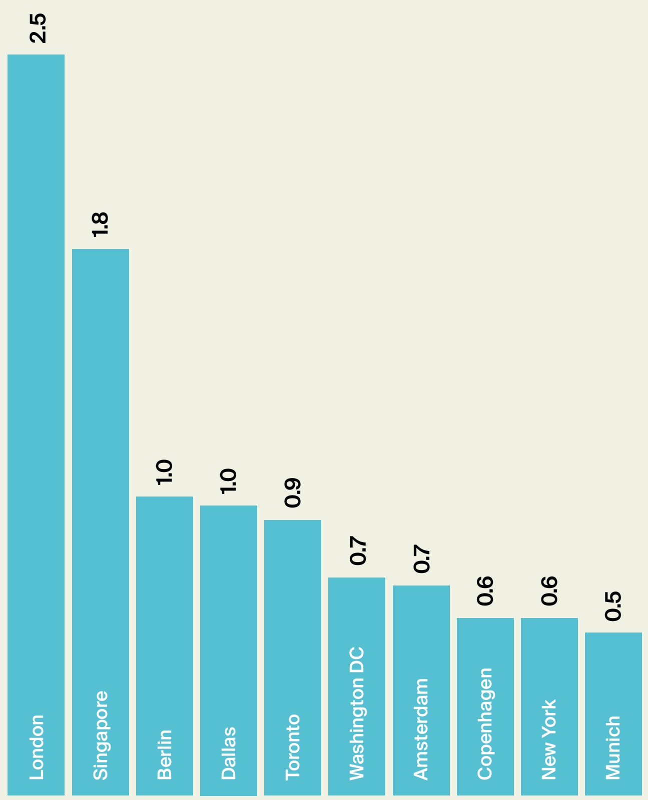
Keeping it local

Top cities for domestic private capital in 2022 (US$bn)



Global outlook

Top cities for cross-border private capital in 2022 (US$bn)



Source: RCA

Full steam ahead

Will private buyers remain active in 2023? Antonia Haralambous draws on data from our Capital Gravity Model to predict what the year might have in store for private capital

Macroeconomic headwinds are expected to continue in many locations globally over the coming year, even if there are some green shoots of optimism and the IMF has revised its forecasts up for once. In previous periods of dislocation, we have seen private buyers rotate back into the global commercial real estate market. Will we see it happen again in 2023?

Following the global financial crisis, private buyers increased investment by 44% and in 2021, following the first year of the Covid-19 pandemic, global private investment grew by 88%. The appeal of commercial real estate clearly remains, despite the economic backdrop. In fact, 19% of respondents in our Attitudes Survey were looking to invest directly in commercial real estate in 2023, while 13% were seeking to invest indirectly, for example through REITs or debt funding.

In line with this, our Capital Gravity Model, from *Active Capital*, forecasts 2023 to be the strongest year for cross-border private capital since 2019. This is reflected in our HNW Pulse Survey, with nearly 40% of respondents considering investing in commercial property outside their country of residence.

Debt looks set to be a key consideration for all investors in the year ahead. With interest rates at multi-year highs, and the all-in cost of debt elevated in most markets, we could see affordability challenges. This is especially pertinent given that global commercial real estate investment was 19% and 31% above the long-term average in 2017 and 2018. If we assume a five-year loan term, debt-backed buyers will be facing higher costs upon refinancing as these loans come to maturity this year. Higher debt costs may lead to opportunities for equity injection or partnering (see page 28 for more), as well as assets being brought to the market, should investors choose not to refinance. This is where private buyers may be particularly well positioned in 2023 as private capital is typically less reliant on debt than other investors.

> "Debt looks set to be a key consideration for all investors in the year ahead"

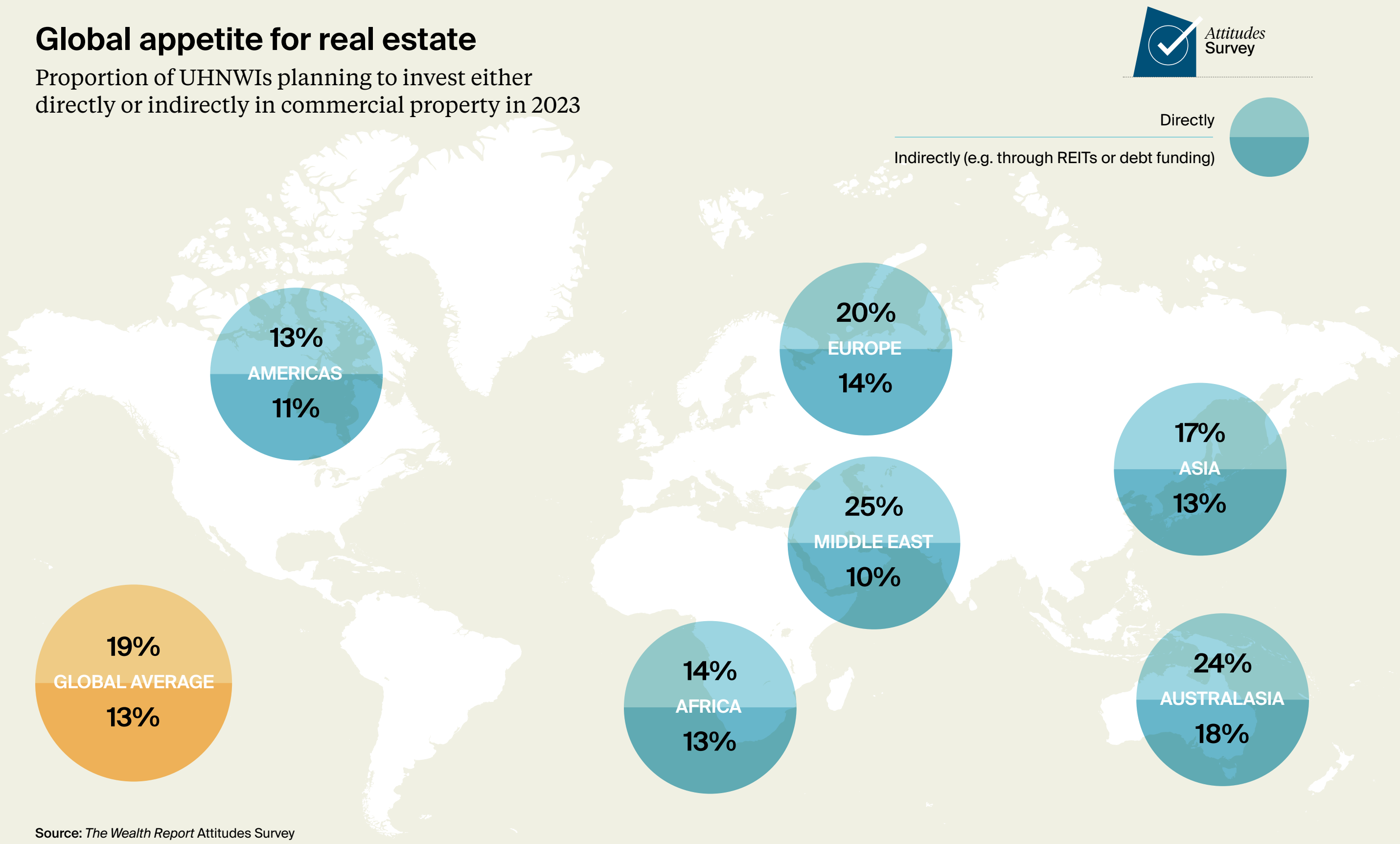
What will they be targeting and where?

The US is expected to be the top destination for private capital next year, followed by the UK, Germany, Japan and the Netherlands. Of the top 10 destinations for private cross-border capital, seven are in Europe, with private investors favouring the continent. ▸

London calling – UK offices are the top target for private investors in 2023

Global appetite for real estate

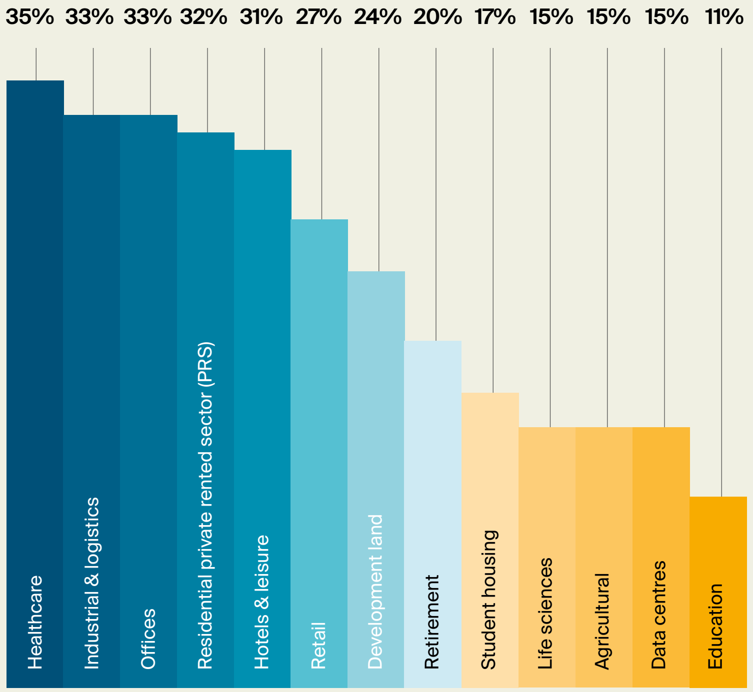
Proportion of UHNWIs planning to invest either directly or indirectly in commercial property in 2023



Source: *The Wealth Report* Attitudes Survey

In the spotlight

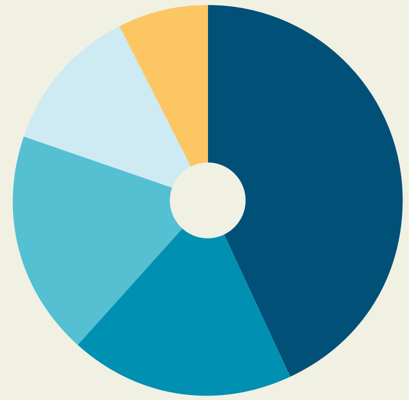
Sectors of focus for UHNWI investors in 2023



Source: *The Wealth Report* Attitudes Survey
Note: Respondents could choose multiple sectors

International allocation

Target sectors for private cross-border capital investment in 2023



Offices	43%
Industrial & logistics	19%
Residential	19%
Retail	12%
Hotel	7%

Sources: RCA, Knight Frank Research
Note: Based on largest flows only and may not represent all flows into or out of each market. Private includes HNWIs and private equity. Figures are preliminary and subject to change

Offices will continue to dominate. More than 40% of total private cross-border capital is forecast to be targeted at the office sector, while industrial and residential are each expected to receive a 19% share. We forecast UK offices to be the top target for private investors in 2023, with offices in the US, Germany, Australia and the Netherlands also likely to see robust demand.

More traditional sectors will remain in demand for HNWIs, albeit alternative asset classes are also likely to be targeted. Our Attitudes Survey highlighted that just over a third of respondents globally were looking to invest in healthcare-related assets in 2023, the second year in a row that this asset class topped the wish list.

The results also pointed to strong demand for private rented sector, leisure, hotels, student accommodation, life sciences and data centres. These more specialist sectors are often counter-cyclical and benefit from structural drivers which typically prove popular with investors, especially in times of uncertainty.

Who will be the most active?

Investors from the US are forecast to be the most active, accounting for roughly half of all global private cross-border capital into commercial real estate in 2023. Likely targets include offices in the UK, Japan and Singapore, as well as industrial assets in Germany, Japan and South Korea. Private investors from Singapore, Germany, the UK and Canada are also expected to be active this year.

More specifically, HNWI capital from Brazil, the US, UAE, Germany, Spain and Switzerland is forecast to be prominent in 2023, with offices and retail in the UK a particular focus. Close to 10% of respondents in our HNW Pulse Survey were looking to complete a transaction of US$20 million or more in 2023. This figure jumps to 20% for investors from the Chinese mainland and 14% for those from both Singapore and Spain.

Even as the global economic outlook becomes less gloomy, a heightened level of uncertainty remains and risks are skewed to the downside, as noted by the IMF in its January *World Economic Outlook Update*. With almost half of our Attitudes Survey respondents citing real estate as an opportunity for wealth creation, private investors will continue to be active throughout 2023 as they diversify and seek capital appreciation as their primary goal (see page 9). We explore some of the global opportunities – and associated entry points – on page 24.

"We forecast UK offices to be the top target for private investors next year"

Tokyo drift – Office space in Japan is attracting US investors

Is it time to simplify ESG?

For the past five years *The Wealth Report* has been tracking private investor interest in ESG themes. With this increasingly coalescing around environmental sustainability, Liam Bailey asks whether a stripped-down investment framework might make for more successful outcomes

As every investor must by now be aware, ESG brings together three distinct investment criteria: E represents environmental themes; S considers social outcomes; while G looks at governance issues.

From an investor perspective, the rapid evolution of environmental regulation in the US, EU and the UK confirms the need to focus on the E aspect of their portfolios.

This is not true to anything like the same degree for the S and the G. The 2020 complaint from Hester Peirce, Commissioner on the US Securities and Exchange Commission, that "ESG is broad enough to mean just about anything to anyone...and...allows experts great latitude to impose their own judgements, which may be rooted in nothing at all other than their own preferences" still seems a fair challenge in relation to the latter two areas of ESG.

As environmental requirements for buildings and investments become increasingly codified, the benefits of bundling S and G into the mix become more debatable. Isn't there a potential win to be gained from simplifying the investment objectives of ESG and, as *The Economist* argued last year, supercharging the impact of environmental improvements through a relentless focus on E – redefined to mean "emissions" rather than the broader spread of topics implied by the more loosely drawn term "environment"?

Our research into private investor objectives suggests there may be some justification for this approach. In *The Wealth Report* in 2021 we revealed that while six in ten UHNWIs felt they lacked the information they needed to assess ESG-related investments, 43% were increasingly interested in compliant investment opportunities.

> "ESG is broad enough to mean just about anything to anyone and allows experts great latitude to impose their own judgements"

Mission zero

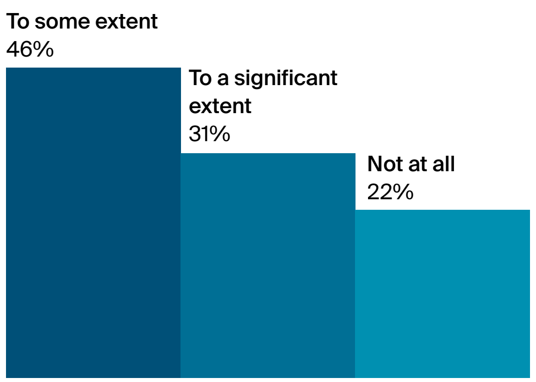
Environmental considerations ranked in order of importance to HNWI investment decisions

1	**Reducing carbon emissions through operation**
2	**Minimising embodied carbon** (i.e. emissions associated with materials and construction processes)
3	**Minimising waste of resources**
4	**Minimising consumption of resources**

HNW Pulse Survey

Climate changing minds

How far environmental considerations impact HNWI investment decisions

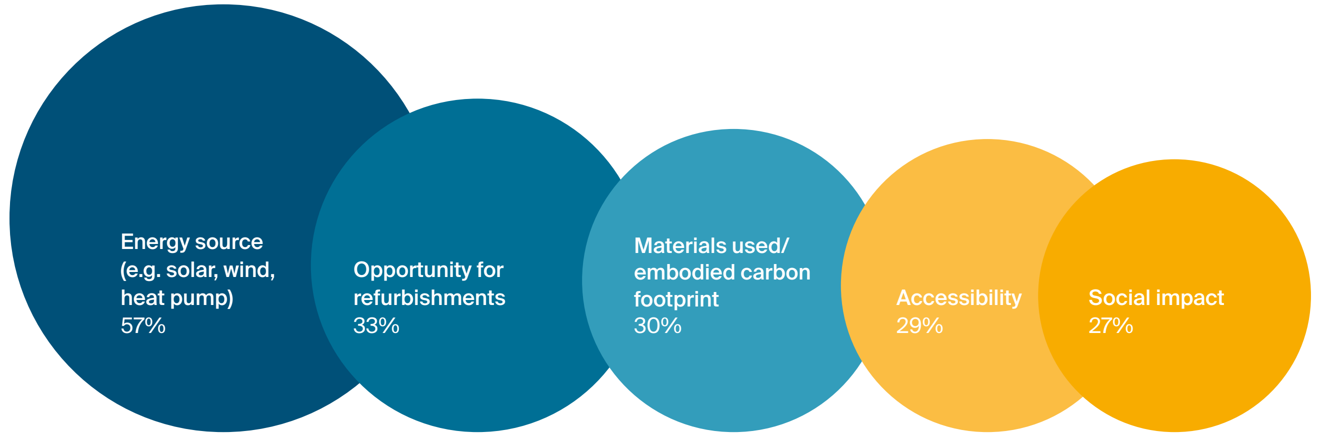


Source: Knight Frank HNW Pulse Survey

Checklist

The top five ESG-related criteria UHNWIs consider when evaluating property investments

Attitudes Survey



Source: *The Wealth Report* Attitudes Survey

The key driver behind this ESG investment push, as we revealed in our 2022 report, was future-proofing portfolios, but even with this rationale almost half of investors stated that finding the right opportunity was a barrier.

This year our Attitudes Survey results, revealed in January's *Outlook Report 2023*, took the analysis deeper, allowing us to understand which ESG-related criteria UHNWIs are considering when investing in property.

The results showed that energy source (57%), opportunities for green refurbishments (33%) and materials/embodied carbon (30%) are increasingly being factored into the decision-making process. When we asked about the leading risks and opportunities relating to the ability to create and grow wealth, energy and climate issues were cited as both.

These findings are reinforced by our HNW Pulse Survey, which confirms that environmental considerations impact investment decisions for nearly four-fifths of investors. The results again clearly point towards carbon emissions as the leading environmental investment consideration.

It seems clear from our research that the E in ESG dominates in terms of investor interest. In the Attitudes Survey, the three top-performing criteria all related to environmental issues, ahead of social criteria such as accessibility. The G doesn't even get a look in.

This reticence may stem from concerns such as those raised by Hester Peirce. The past 12 months illustrate the challenges involved in trying to identify good and bad investment practice from a social and governance perspective.

> "In the Attitudes Survey, the three top-performing criteria all related to environmental issues, ahead of social criteria such as accessibility"

In February 2022, if you leased R&D space to an arms manufacturer some fund managers would have considered you beyond the pale; do the same a month later and the Ukraine crisis meant you were beyond reproach.

Investors may regard the increase in environmental regulatory requirements with trepidation, as businesses set about scaling up their compliance teams to report on their scope 1, 2 and 3 carbon emissions. That means all the emissions a company makes directly; all those it makes indirectly; and all those it causes its suppliers to make and that customers make when using its products or services. It sounds like a significant challenge, but at least E has a decent primary target – to reduce carbon emissions.

But who sets the objectives and defines the standards for S and G? Is providing retail property a social benefit? Is real estate dedicated to employment better for society than that dedicated to housing? Should investors be prioritising diversity at board level, or accessibility in early careers?

None of this means an investor shouldn't prioritise the delivery of, say, affordable housing if they see a business opportunity, or if it fulfils a personal or investment goal – but ESG criteria may not be the best guide to aid this decision-making process.

With most private investors confirming an interest in environmental objectives, and with this being reinforced by regulation, and with the S and the G remaining less codified and subject to shifting notions of what makes an appropriate target, simplifying ESG may be the best way to help meet private investors' primary non-financial objectives.

Commercially minded

More than a quarter of HNWIs are looking to increase their commercial property holdings, according to our HNW Pulse Survey. Flora Harley asked our global experts for insight into how HNWIs are investing in their markets, plus their top tips for 2023

Whether in a private capacity or through an established family office, HNWIs are commanding a growing slice of commercial property market activity (see page 14).

For seasoned investors the opportunities may appear clear, while others see high barriers to entry. In fact, the average level of investment required from private individuals is often smaller than for big institutional players. HNWI transactions averaged US$18 million over the past decade, compared with US$40 million for institutions, according to analysis of RCA data. Among our HNW Pulse Survey respondents, 54% of those planning to invest are seeking opportunities under US$1 million and one in ten will be investing US$20 million or more. Knowing what options are available at differing price points will be critical to success.

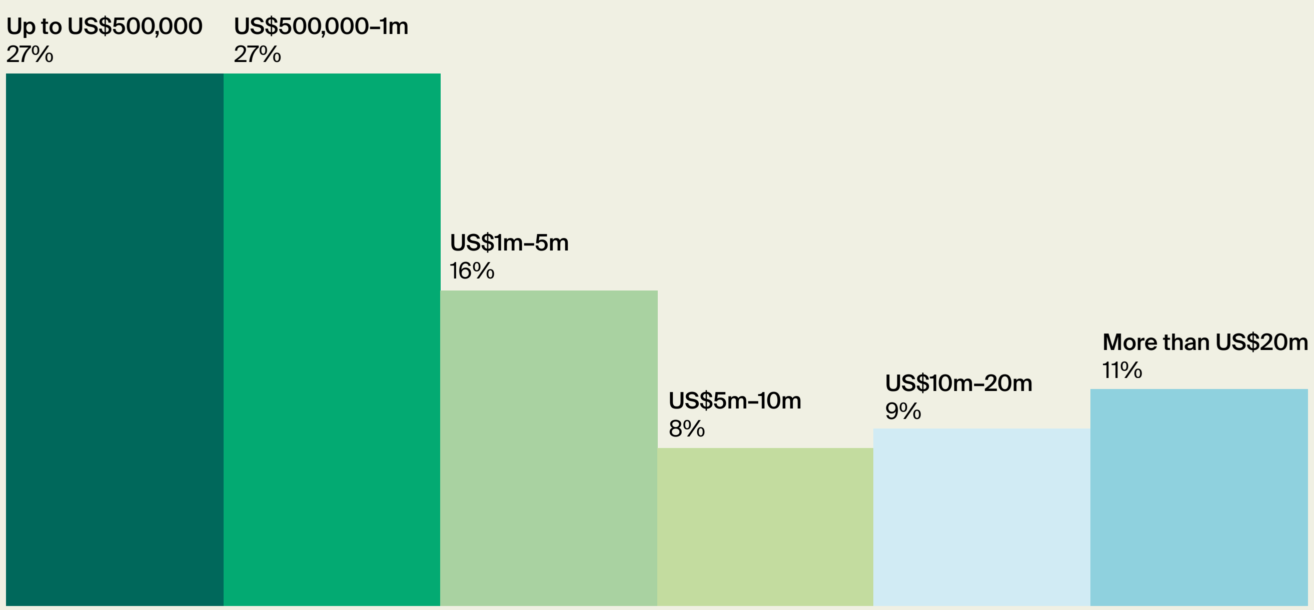
> "HNWI transactions averaged US$18 million over the past decade"

We gathered our global experts to explore the various ways in which wealthy individuals are investing in commercial property globally and to share their top tips.

Ticket size

How much those considering investing in commercial property say they are likely to invest

HNW Pulse Survey



Source: Knight Frank HNW Pulse Survey

Stacking up – Supermarkets are tipped as an opportunity for 2023

ALEX JAMES
Head of Private Client Advisory, UK

What trends are you seeing among wealthy investors in the UK?
Private clients are typically investing anywhere from £5 million to £25 million on average. In the long term, cash rich private investors have been taking advantage of repricing, currency benefits and less competition from larger institutions to target the UK, among other locations.

They have been opportunistic across a diverse range of sectors and risk profiles throughout 2022. As a result, we saw an increase in demand for offices, retail and hospitality which offer post-Covid recovery opportunities along with strong fundamentals.

What are the opportunities for 2023 and beyond?
Supermarkets and logistics, especially larger lots with good covenants. The fundamentals are still strong and tie in with the supply chain for both online and in-person consumers. Online sales are anticipated to grow by an additional £31 billion by 2026. Over the next five years, this could result in additional demand for roughly 10 million sq ft of last-mile fulfilment space.

Then there are the living sectors, which are more defensive. Student housing has favourable demographics, and we are likely to see greater international demand following the lifting of Covid-19 travel restrictions. A record £7.2 billion was invested in purpose-built student accommodation in 2022 in the UK, a 62% year-on-year rise.

> "Energy and operational costs have been a major issue throughout 2022 and highlighted the importance of ESG throughout the property market"

What are your top tips for those looking to invest?
Energy and operational costs have been a major issue throughout 2022 and highlighted the importance of ESG throughout the property market. Energy efficiency will be under increasing scrutiny: our research previously demonstrated the premium attached to green-rated buildings, but this may expand given upcoming regulations and historically high energy costs. ▸

RESIDENTIAL INVESTMENT

HARRISON COLLINS
Residential Development Capital Markets, UK

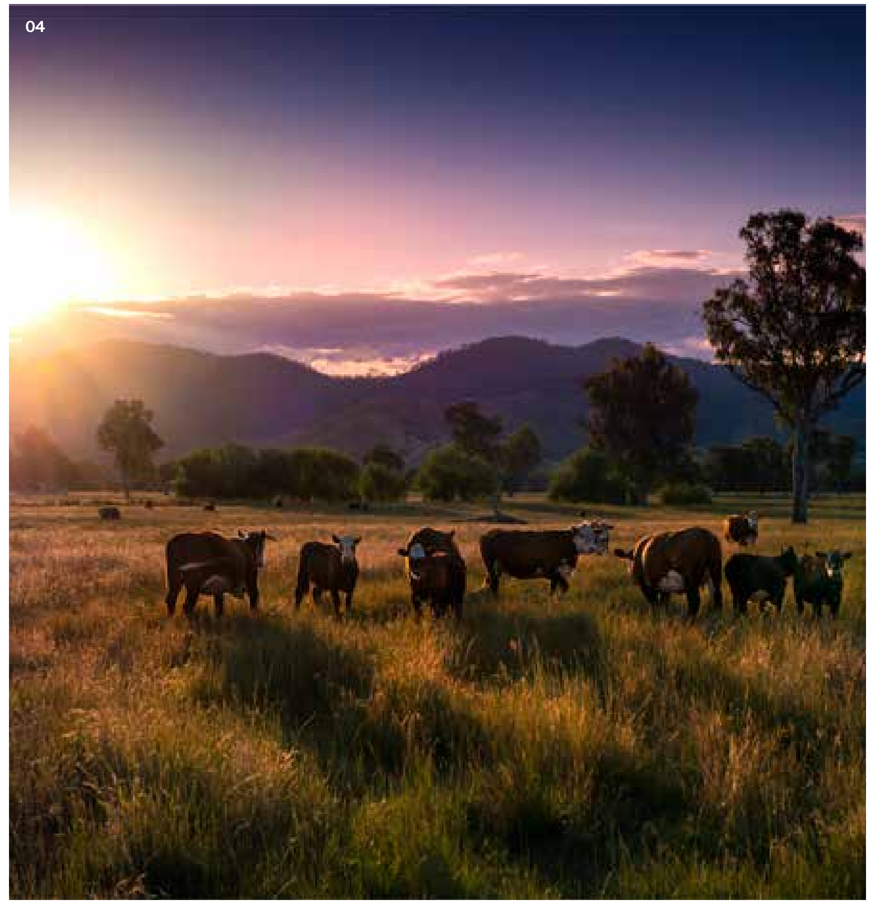
What trends are you seeing among wealthy investors looking to the living sectors?
First-time investors tend to start small to get a general feel for the transactional process before committing larger sums of capital. In the past year we have sold assets to HNWIs or family offices ranging from £2.5 million to £40 million.

Where is the added value and what are the opportunities for 2023 and beyond?
The rental market was extremely strong in 2022 and is expected to continue to grow in 2023. There is a natural lag in capturing rental growth with 12-month tenancies, i.e. those that commenced or renewed in Q1 2022 failed to capture the growth in the later part of the year. This presents an opportunity for investors acquiring residential assets this year, who can expect to see a significant reversion in their headline rents.

Investors are looking to balance their portfolios between core London assets and regional investments. Regional assets offer more attractive returns (yields tend to be 75–100 basis points higher) and a lower entry point, with the average price per unit being considerably less.

Some would-be vendors have been discouraged from divesting by the economic and political backdrop of the second half of 2022. This lack of stock, paired with continued demand for residential investments, has resulted in good competition which has underpinned pricing.

What are your top tips?
It is crucial for incoming investors to have efficient management structures in place. Owning residential investment property requires proactive asset management and all investors need to be aware of the relevant statutory compliance, legislative and best practice issues.



AUSTRALIAN FARMLAND

ANDREW BLAKE
Head of Regional Capital & Agribusiness, Australia

The Australian government has a plan to increase the value of its agricultural sector from A$60 billion to A$100 billion by 2030. This requires improvement of landscape functions, provision of livestock with high welfare standards, maintaining a powerful social licence and a biodiversity programme.

Australia has a unique opportunity to leverage its location, efficient logistics networks and agtech to collaborate and make its agriculture industry a leader in the global market. We anticipate exports will increase significantly within the next six to seven years, with premium food products forecast to grow by 55%.

Producers of sheep meat, almonds, wool, lentils and wine stand to benefit the most from increased access to the Indian market when the Australia-India Economic Cooperation and Trade Agreement (AI-ECTA) comes into force in early 2023. The Australia-United Kingdom Free Trade Agreement (A-UKFTA) will also prove advantageous once it takes effect later this year.

ALEXANDRE OLIVIER
Capital Markets, France

What trends are you seeing among wealthy investors in France?
HNWI investors are able to position themselves on a wide range of investments, whether in terms of risk level (from value-added to core) or type of asset (e.g. office or residential). In the past year HNWIs and family offices have been active both with transactions under €10 million and landmark investments well over €100 million.

Where are the opportunities for 2023 and what are your top tips?
In the context of tightening financial conditions, the ability of HNW investors to exploit their equity resources and mitigate the impact of debt should be a source of opportunity.

Moreover, the attractiveness of the Paris market in the luxury retail and residential segments should continue to appeal.

ANDREW LOVE
Head of ME Capital Markets & OLSS, Middle East

What trends are you seeing among wealthy investors across the Middle East?
Private investors can start as low as US$2 million to US$3 million or go up to US$200 million. Typically, the sweet spot is around US$20 million to US$50 million. We have seen an array of investors, with the most active coming from the Emirates, India and the UK.

Where are the opportunities for 2023 and beyond?
Prime residential has been the best performing sector (see page 32). HNWIs have sought out mixed-use single owned towers or compounds of villas which can be broken up to sell individually. We have also seen HNWIs speculatively build good quality warehouses, take on the leasing risk and then sell to funds. More recently, we have seen a similar play in the co-living and data centre sectors, which are emerging asset classes here.

What are your top tips?
If purchasing to hold, due diligence and market assessment are critical. The build quality and maintenance of assets is generally poor compared with Europe and that can lead to greater capital expenditure than anticipated, limiting returns.

"We have seen an array of investors, with the most active coming from the Emirates, India and the UK"

ANDREW SHIRLEY
Head of Rural Research, UK

What can wealthy investors expect to see when investing in farmland?
For wealthy investors there is often a residential amenity element to agricultural investments. When looking at a basic farmland investment, in the UK the entry point would be around £1 million for 100 acres. For scale, the minimum size of a commercial farm is 1,000 acres, or around £10 million. In terms of forestry land, around £1 million would be required for a modest investment.

Where is the added value and what are the biggest opportunities for 2023 and beyond?
Natural capital, nature-based solutions, climate change, biodiversity loss – all have come to the fore over recent years and farmland is key to delivering on targets globally. The commitments from COP15 in Montreal last year indicate greater value to come. Some of the biggest opportunities will be in locations where land has been treated poorly, offering the greatest scope to boost natural capital values and carbon credit opportunities.

The other area is food security. This was highlighted by global food shortages and price hikes in 2022 following Russia's invasion of Ukraine, which accounts for 42% of the world's sunflower oil exports and 10% of wheat. UK Prime Minister Rishi Sunak has committed to introducing a government food security target this year.

What are your top tips?
Have a clear strategy. How will you manage the land? What's the objective and time frame? How will you finance it and who will run it? Farmland can be relatively cheap in developing nations, but you need a local management team that you can trust if you don't live there. The other consideration is environmental and climatic conditions. In the 2021 edition of *The Wealth Report* our Analytics team mapped predicted climate shifts to pinpoint parts of the world likely to see the biggest impacts on their agricultural sectors. This information is key for longer-term investing. ▸

01. Triumphant – Paris's luxury retail market is appealing
02. High life – Living sectors are a top target
03. Turning tide – Renewable energy is in the spotlight
04. Down under – Australia's agricultural sector opens up

LISA ATTENBOROUGH
Head of Debt Advisory, UK

What trends are you seeing among wealthy investors looking indirectly at property investment through debt?
Debt funds backed by private wealth tend to play in the smaller ticket lending space, with loans ranging from £5 million to £15 million per transaction. That said, we have also seen some funds issuing loans as large as £200 million.

HNWIs in this space will typically be seeking an internal rate of return of 15%. They tend to target development or value-add opportunities where significant capital expenditure is required. We have also seen private debt funds offer bridging facilities.

There is an overarching drive towards investing in debt rather than equity because it represents better value. The debt is secured above equity in legal charges and returns tend to be in the mid-double digits. That means lower risk for a slightly lower but still very healthy return.

Where are the opportunities for 2023 and beyond?
The funding gap. Loans that were provided in 2018 carried an all-in cost of around 3%: now that cost has more than doubled. There will be a wave of refinancing in 2023 where the loan amount will need to be reduced because of interest coverage ratios. This will drive a requirement for flexible capital as not all borrowers will be able to bridge this, creating a key opportunity for private capital via debt funds. Investors can bridge the gap through debt, mezzanine financing or preferred equity.

What are your top tips?
Have a unique selling point. New capital needs to differentiate itself, whether by focusing on a particular segment – development, loans of a certain amount or in a specific geography – or sector. Something that sets you apart will help you find the right investment opportunities.

Global perspective

Our experts share their insights into what investors can expect to spend and what they will get for their money in the top five sectors of interest identified in our Attitudes Survey

		HEALTHCARE	INDUSTRIAL & LOGISTICS	OFFICES	RESIDENTIAL PRIVATE RENTED SECTOR	HOTELS & LEISURE
Australia	**Average deal size**	**US$1m–3m**	**US$3–15m**	**US$3–15m**	**US$3m–15m**	**US$3m–15m**
	What this looks like	A pharmacy or optometry practice, or a small medical centre	A strata industrial investment or a multi-tenanted industrial unit in a regional centre	A strata office investment in Sydney of 500–5,000 sq ft within an office tower or a small suburban office building	A boarding house investment in Sydney with 10–20 rooms	A small pub in Sydney or a larger pub in a regional centre
UK	**Average deal size**	**US$2.5m–17m**	**US$4m–21m**	**US$2m–17m**	**US$2m–33m**	**US$2m–40m**
	What this looks like	40–100 beds	c.7,000 sq ft	c.15,000 sq ft dependent on area	5+ units outside London, 3+ units in London	15 rooms minimum
Spain	**Average deal size**	**US$2m–20m**	**US$2m–15m**	**US$10m–50m**	**US$18m–30m**	**US$15m–40m**
	What this looks like	100 beds for student and senior housing or clinics in multi-owner assets	Granular, single-let, urban logistics units	21,500–65,000 sq ft single assets in the city centre	30 units in a central location	Around 60 rooms in a main city
Singapore	**Average deal size**	Usually invested indirectly		**US$13m–67m**	**US$4m–13m**	**Up to US$134m**
	What this looks like			Strata offices, typically 2,000–10,000 sq ft	5+ units	Boutique hotels, generally in the form of heritage shophouses converted for hotel use

Source: Knight Frank Research. **Notes:** Exchange rate as at 30 December 2022. In Singapore residential developments are subject to Additional Buyer Stamp Duty (ABSD) of 30% for individual foreign buyers and 35% for entities. Nationals and permanent residents of Iceland, Liechtenstein, Norway, Switzerland and the US are not subject to ABSD when purchasing their first residential property

"Investors in Spain typically make single investments of between €15 million and €25 million and target assets across Europe or further afield, sometimes for currency benefits"

HUMPHREY WHITE
Managing Director,
Spain

What trends are you seeing among wealthy investors in Spain?
Investors typically make single investments of between €15 million and €25 million and target assets across Europe or further afield, sometimes for currency benefits. UHNWIs in Spain tend to prefer residential, and favour city centres. If they already own beautiful homes, then many seek to move into small build-to-rent schemes. Offices have seen some sizeable transactions from private wealth in the past year and hotels remain favourable.

Where are the opportunities for 2023 and beyond?
There is a drive for diversification. We have one client who bought a hotel in central Madrid earning 3% and invested €65 million in a renewable energy plot with a yield of 9%. With its vast swathes of land and 350 days of sun a year, Spain will offer more opportunities in this sector.

What do HNWI investors need to consider when investing directly?
Madrid is a European capital but is cheaper than other cities in Europe. Future potential for rental growth remains in the right locations. Irrespective of asset class, location is key for the long term. In addition, it's worth noting that Spanish leases are typically linked to inflation so offer a real hedge.

NICHE ASSET CLASSES

BEN BURSTON
Chief Economist,
Australia

Buyers have realised that asset classes like government-leased offices, fast-food outlets and medical centres offer strong income security and benefit from consistent consumer demand. With economic growth forecast to slow in the near term, these types of asset remain in favour due to their defensive nature, and buyers are also anticipating long-term growth underpinned by rising land values.

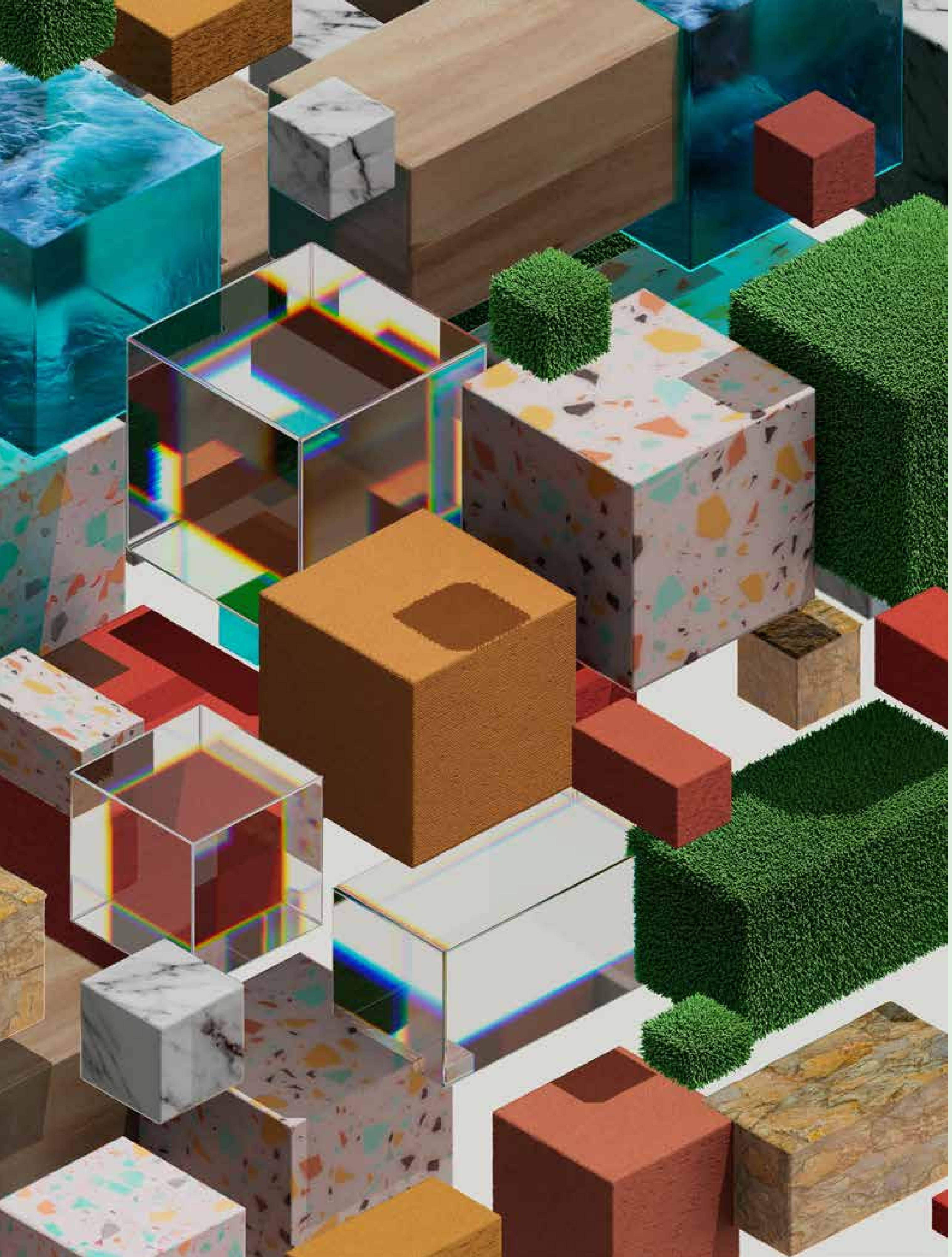
NEIL BROOKES
Global Head of Capital Markets,
Singapore

What are your clients looking for when investing in commercial property?
This year will provide a unique opportunity for private clients looking to enter the market as rising debt costs may lead to less institutional activity. We have seen major growth in the number of family offices – around 700 at the end of 2022, a seven-fold increase since 2017. An investment of around S$10 million to S$20 million is required to set up a family office, but we are also seeing families pool resources.

Where is the added value and what are the opportunities for 2023 and beyond?
There is an opportunity to create value by selecting good assets and improving and operating them well. Operational sectors will outperform and are attractive for income security and long-term fundamentals.

We expect more opportunities for overseas investors looking to partner with experienced on-ground managers as they invest heavily in management and operations platforms. Asia-Pacific will be a hotspot with milder inflation and more robust GDP growth than other regions. Markets such as Japan, Singapore and Australia are expected to be the most active: Japan for its weak currency and comparatively low interest rates; Singapore for its safe-haven reputation; and Australia for high transparency and softening prices.

What are your top tips?
Consider currency and how to hedge that position, and funding opportunities. The ability to purchase using cash enables private investors to act quickly. In the medium term they can then take on debt if required. Get the location right and be very clear about the purpose. Is it pure investment or is it income?



Home

Explore the latest insights and analysis on prime global residential property performance now and in the future

PIRI 100

Kate Everett-Allen takes the pulse of our unique Prime International Residential Index, which tracks the performance of prime prices across 100 key city, sun and ski locations. Where's hot, where's not and what's influencing prime prices around the globe?

THE RESULTS

Of the 100 prime markets tracked in our Prime International Residential Index (PIRI 100), 85 recorded positive or flat price growth in 2022.

Dubai leads for the second year running, cementing its status as a second home hub for global UHNWIs, assisted by numerous visa initiatives, as discussed on page 10.

Resorts outperformed. Coastal and rural locations in sunnier climes saw average price growth of 8.4%, marginally ahead of ski resorts which were up 8.3% on average, eclipsing their 2021 record.

The Americas (7%) narrowly pipped Europe, the Middle East and Africa (6.5%) to the title of top-performing region, with Asia-Pacific trailing on 0.4%.

2022 IN CONTEXT

Last year we referred to 2021 as "an anomaly"; a year characterised by stellar price growth as markets reopened post-Covid, and revenge spending took hold.

Off the back of such a boom, you might be forgiven for thinking 2022 would see a return to business as usual. Far from it. Omit 2021, and 2022 posted the highest level of prime price growth on an annual basis (5.2%) since the global financial crisis (see page 37).

But it was a year of two halves. Sentiment shifted gear in mid-2022 as inflation waved goodbye to its transitory status and the cost of debt ramped up, recession loomed, the Ukraine conflict led to rocketing energy prices and stock markets, not to mention crypto, went wobbly.

So what was behind the price growth? Wealth preservation, safe-haven capital flight and supply constraints played their part, but the pandemic-induced surge clearly had more left in the tank.

Covid-19 underlined the fragility of life and the need for connectivity, and sparked a mass transition to hybrid working. For the world's wealthy, this increased their appetite to buy, with 17% telling us they added to their portfolios in 2022.

At a glance

- The post-pandemic spending boom still has legs.
- Hybrid working is behind the outperformance of sun and ski resorts.
- Regulations are increasing with foreign buyers and prime markets key targets.
- The slowdown is most evident in Asia-Pacific and city markets.
- Prime prices declined in only 15 of 100 prime markets tracked.
- Dubai leads the 2022 annual rankings and our forecast for 2023.

ANNUAL CHANGE IN LUXURY RESIDENTIAL PRICES IN 2022: GLOBAL TOP 5

DUBAI 44.2% **ASPEN 27.6%**
RIYADH 25.0% **TOKYO 22.8%**
MIAMI 21.6%

AVERAGE ANNUAL CHANGE BY MARKET TYPE

CITY 4.2%	SUN 8.4%	SKI 8.3%
TOP 5	TOP 5	TOP 5
DUBAI	DUBAI	ASPEN
RIYADH	MIAMI	ST MORITZ
TOKYO	ALGARVE	VERBIER
MIAMI	BAHAMAS	GSTAAD
PRAGUE	ATHENS	VAL D'ISÈRE

AVERAGE ANNUAL CHANGE BY WORLD REGION

AMERICAS 7.0%	EMEA 6.5%	ASIA-PACIFIC 0.4%
TOP 5	TOP 5	TOP 5
ASPEN	DUBAI	TOKYO
MIAMI	RIYADH	MUMBAI
BAHAMAS	PRAGUE	PHUKET
HAMPTONS	ALGARVE	BANGKOK
MUSTIQUE	ATHENS	GOLD COAST

1.	44.2%	DUBAI
2.	27.6%	ASPEN
3.	25.0%	RIYADH
4.	22.8%	TOKYO
5.	21.6%	MIAMI
6.	16.3%	PRAGUE
7.	15.3%	ALGARVE
8.	15.0%	BAHAMAS
9.	13.0%	ATHENS
10.	12.7%	PORTO
11.	12.7%	HAMPTONS
=12.	12.0%	SARDINIA
=12.	12.0%	MUSTIQUE
=12.	12.0%	ST BARTS
=12.	12.0%	PROVENCE
16.	10.5%	ZURICH
=17.	10.0%	ST MORITZ
=17.	10.0%	CAYMAN ISLANDS
=17.	10.0%	CANNES
=17.	10.0%	VERBIER
21.	9.3%	SAN DIEGO
22.	9.0%	ST TROPEZ
23.	8.9%	JERSEY
24.	8.5%	AMSTERDAM
25.	8.3%	BOSTON
=26.	8.0%	EDINBURGH
=26.	8.0%	LUCCA
=26.	8.0%	SAINT-JEAN-CAP-FERRAT
=26.	8.0%	LAKE COMO
30.	7.9%	LOS ANGELES
31.	7.3%	CAPE TOWN
32.	7.1%	MARBELLA
33.	7.0%	BARCELONA
34.	6.8%	DUBLIN
35.	6.6%	MEXICO CITY
36.	6.5%	GSTAAD
37.	6.4%	MUMBAI
38.	6.3%	PHUKET
39.	6.2%	PARIS
=40.	6.0%	LISBON
=40.	6.0%	FLORENCE
=40.	6.0%	MADRID
=40.	6.0%	VAL D'ISÈRE
44.	5.8%	BANGKOK
45.	5.7%	MALLORCA
46.	5.4%	BRUSSELS
47.	5.1%	SÃO PAULO
=48.	5.0%	HOUSTON
=48.	5.0%	BARBADOS
=48.	5.0%	BRITISH VIRGIN ISLANDS
=48.	5.0%	ROME
=48.	5.0%	COURCHEVEL
53.	4.5%	JEDDAH
=54.	4.1%	TORONTO
=54.	4.1%	GOLD COAST
=56.	4.0%	MEGÈVE
=56.	4.0%	VENICE
58.	3.9%	SINGAPORE
=59.	3.8%	BEIJING
=59.	3.8%	NAIROBI
61.	3.5%	MELBOURNE
62.	3.5%	CYPRUS
=63.	3.0%	CHAMONIX
=63.	3.0%	GENEVA
=63.	3.0%	BENGALURU
66.	2.8%	SHANGHAI
67.	2.7%	NEW YORK
=68.	2.5%	BERLIN
=68.	2.5%	MILAN
=68.	2.5%	OXFORD
=68.	2.5%	MÉRIBEL
72.	2.4%	BUCHAREST
73.	2.2%	RIO DE JANEIRO
74.	1.9%	VIENNA
75.	1.5%	LONDON
76.	1.3%	PERTH
77.	1.2%	DELHI
78.	1.1%	SYDNEY
79.	0.9%	JAKARTA
80.	0.8%	MARRAKESH
81.	0.7%	SAN FRANCISCO
82.	0.2%	BRISBANE
83.	0.1%	KUALA LUMPUR
=84.	0.0%	IBIZA
=84.	0.0%	LAUSANNE
86.	-0.4%	GUANGZHOU
=87.	-0.7%	HAWAII
=87.	-0.7%	TAIPEI
=89.	-1.6%	MANILA
=89.	-1.6%	HONG KONG
91.	-2.4%	OSLO
92.	-3.8%	MONACO
93.	-4.6%	SEOUL
94.	-6.9%	SHENZHEN
95.	-7.4%	VANCOUVER
96.	-7.7%	STOCKHOLM
97.	-9.8%	BUENOS AIRES
98.	-10.6%	FRANKFURT
99.	-19.0%	AUCKLAND
100.	-23.7%	WELLINGTON

Sources: All data comes from Knight Frank's global network with the exception of Boston, Los Angeles, Miami, San Diego, San Francisco (S&P CoreLogic Case-Shiller); Frankfurt (Ziegert Research & ImmobilienScout 24); Hawaii (Hawaii Life); Jersey (States of Jersey); New York (StreetEasy); Mexico (Sociedad Hipotecaria Federal); Oslo (Advokat Ek, Oslo); São Paulo and Rio de Janeiro (Fundação Instituto de Pesquisas Econômicas); Stockholm (Svensk Mäklarstatistik AB); Toronto (Toronto Real Estate Board); Vancouver (Vancouver Real Estate Board); Tokyo (Ken Corporation)

Notes: Price changes are measured in local currency and correspond to the period between 31 December 2021 and 31 December 2022 unless otherwise stated. Algarve, Amsterdam, Athens, Brussels, Buenos Aires, Cyprus, Jersey, Mallorca, Marbella, Marrakesh, Mexico City, Prague, Riyadh and Toronto to Q3 2022. Boston, Los Angeles, Miami, San Diego and San Francisco to October 2022. Tokyo – relates to all properties above ¥100m

Cooling markets

Price growth is slowing but it's not a uniform picture, as our analysis reveals

Some prime markets are feeling the effects of the changing macroeconomic landscape more than others. Fifteen saw prime prices decline in 2022, up from seven in 2021. Almost half of those falling in 2022 were in Asia-Pacific.

Markets registering the strongest price growth during the pandemic are among the biggest fallers: Wellington (-24%); Auckland (-19%); Stockholm (-8%); Vancouver (-7%); and Seoul (-5%).

"Markets registering the strongest price growth during the pandemic are amongst the biggest fallers"

Miami – Health and wellness on tap

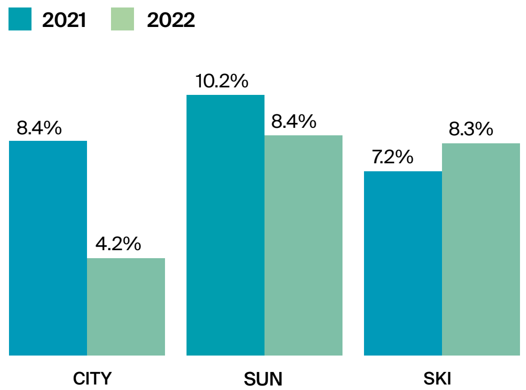
Cities are feeling the brunt more than resorts, but even here markets are deflating, not collapsing. This isn't 2008.

Nonetheless, the transition from a sellers' to a buyers' market is well under way, though limited prime stock in several major cities, exacerbated by the pandemic, is putting a floor under luxury prices.

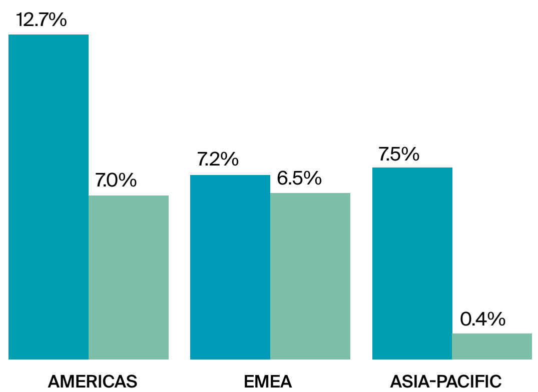
With several economies potentially past their inflation peak – and hence nearing the end of their monetary tightening phase – all eyes will turn to the resilience of labour markets. As yet, forced sellers have been notable by their absence.

Measuring the slowdown

Average annual % change by property type



Average annual % change by world region



Source: Knight Frank Research

The rise of the resort

The transition to hybrid working, and the desire for a better work–life balance following the pandemic, has put resorts back in the spotlight

In 2022, resorts shone bright, be they sun or ski locations. Averaging more than 8% annual price growth, it was a global trend, from Dubai to Miami and most markets in between.

According to Mark Harvey, Knight Frank's Head of International Sales, "Markets such as Provence, Tuscany, the French Alps and Barbados have been among our hotspots with no let-up in enquiries in 2022."

Mark adds: "The pandemic focused people's minds on living for today. The transition to hybrid working or, for some, early retirement, made the dream of a bolthole or an upgrade of their existing second home a reality."

Currency was a catalyst for some, with dollar and dollar-pegged buyers seeing double-digit discounts in the euro zone due to currency shifts alone in 2022. The volatile performance of alternative asset classes and the futility of leaving large sums in the bank motivated others.

Although supply in most resorts is slowly recovering from pandemic lows, it has yet to return to pre-2019 levels. Limited prime stock prompted quicker decision-making among buyers in 2022.

The discretionary status of the second home market means its fundamentals differ from mainstream housing markets. A higher proportion of cash buyers lessens, although doesn't eliminate, its exposure to escalating mortgage costs.

For those reliant on finance, few are likely to sell or downsize when a move will incur a steep rise in monthly payments. Maximising rental income in the interim as a hedge against inflation will be their priority.

"Although supply in most resorts is slowly recovering from pandemic lows, it has yet to return to pre-2019 levels"

Push and pull

We've handpicked a selection of policy measures that influenced the performance of housing markets globally in 2022 and those earmarked for 2023

COOLING

- **Canada:** A two-year ban on non-residents purchasing residential property came into effect on 1 January 2023. Temporary residents and international students are excluded from the measure.
- **Los Angeles:** From 1 April 2023, a new mansion tax will be introduced. Properties priced above US$5 million will incur an additional 4% tax, rising to 5.5% on sales above US$10 million.
- **Singapore:** From 30 September 2022, tighter loan-to-value rules were applied to some mortgages and private homeowners must now wait 15 months after selling before they can buy a Housing Board resale flat.
- **Australia:** From 29 July 2022, the application fee payable by non-residents purchasing residential property doubled. Fees now range from A$4,000 to A$1,045,000 depending on the value of the property at the time of sale.
- **Spain:** Billed as a temporary measure, a new "Solidarity Tax" is being levied on net assets of €3 million-plus, although Spanish resident taxpayers may apply a €700,000 reduction and an additional €300,000 is deductible for primary residences.

SUPPORTING

- **UK:** From 23 September 2022, the nil rate of Stamp Duty Land Tax increased from £125,000 to £250,000. The measure is due to come to an end on 31 March 2025.
- **Thailand:** In September 2022, a new Long-Term Residency Visa programme was introduced offering an extendable 10-year residence visa plus work permit. The aim is to attract one million wealthy non-residents over the next five years.
- **UAE:** From October 2022, individuals can apply for a new five-year self-sponsorship visa, including residency permits for immediate family members. The need for an Emirati sponsor for 122 business activities has been removed.
- **Hong Kong:** January 2023 saw the introduction of tax concessions for investments managed by eligible family offices. Two-year visas are on offer to individuals earning HK$2.5 million-plus (US$320,200) and graduates of the world's top 100 universities.
- **Singapore:** A new five-year visa programme was launched in January 2023 for those earning at least S$30,000 (US$22,300) per month in fields such as technology and finance, and grants their spouses eligibility to work.

Prime numbers

We reveal some of the key findings from this year's Attitudes Survey underlining how UHNWI investment plans are changing

Attitudes Survey

Sources: *The Wealth Report* Attitudes Survey, *The Economist*

3.7

EXPANDING PORTFOLIOS
The average number of homes owned by UHNWIs globally in 2022, up from 2.9 the previous year. Middle Eastern and Asian UHNWIs own the most properties averaging 5.3 and 3.9 respectively.

5

GO WEST
In 2023, the top five overseas markets UHNWIs are most likely to invest in include the US, UK, Australia, Spain and France. The wealthy are targeting markets offering lifestyle benefits along with currency diversification, stable political governance and high levels of transparency.

250trn

NO. 1 ASSET CLASS
The estimated total value of homes worldwide in US dollars, the world's biggest and most influential asset class, accounting for half of all wealth. By way of comparison, stock markets are worth a mere US$90 trillion.

15%

BUYER APPETITE
The percentage of UHNWIs who plan to buy a home in 2023, down from the 17% who purchased in 2022. Among UHNWIs in the Middle East, though, the figure rises well above the global average to 21%.

28%

OVERSEAS ASSETS
The share of residential property owned by UHNWIs outside their country of residence – but there are big regional variations. For Australasians the figure is 12%, jumping to 35% for those based in the Americas and 42% among Middle Eastern UHNWIs.

Taking the long view

Kate Everett-Allen looks back at the performance of the PIRI 100 over the past decade and more

Since 2010 marginal shifts, most of them up, have been the order of the day for prime prices. Annual price growth in the decade before Covid-19 was unspectacular but steady, averaging 1.6%.

The unexpected pandemic surge marked the biggest leap since the PIRI 100 began in 2008. Prime prices jumped an average 5.2% in 2022 and now sit 35% above their financial crisis low.

But markets have lost some of their pre-pandemic synchronicity. In 2019, 19 percentage points separated the strongest and weakest performers; in 2022, it was 68.

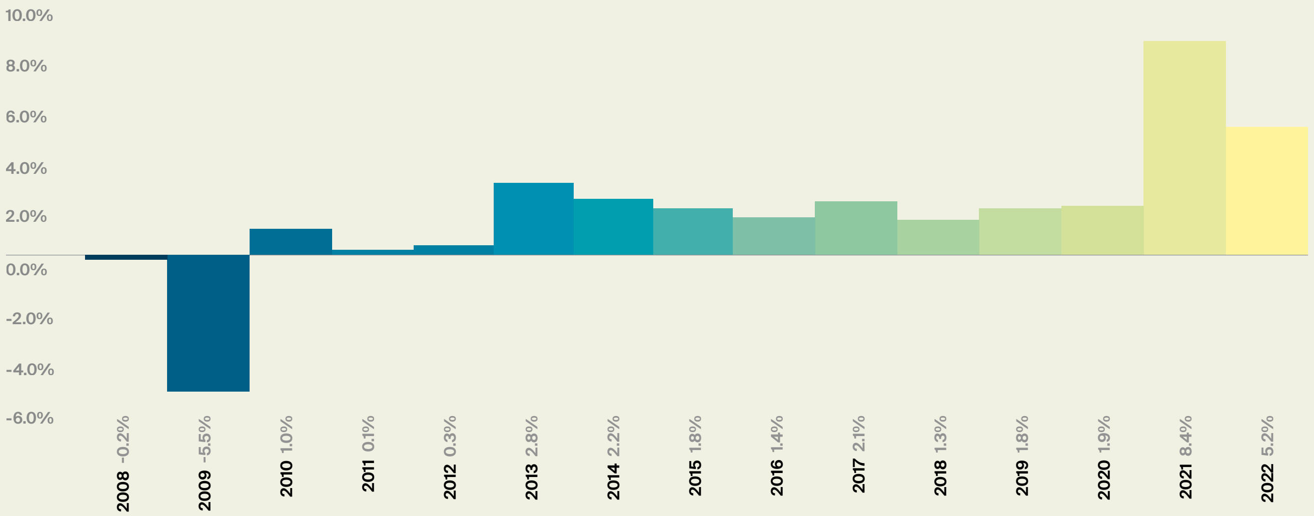
A more nuanced landscape is emerging as countries adopt different monetary policy strategies, introduce taxes or buyer restrictions and, in some cases, deal with the impact of protracted border closures.

01. New York – The Big Apple is still a big hit with global investors

02. Chamonix – Mountain living scales new heights

2022 in perspective

Average annual % change across the PIRI 100 markets



Source: Knight Frank Research

Bang for your buck

Seeking value or simply interested in which city is the most expensive in the world? Our PIRI pagoda calculates how far US$1 million will stretch when it comes to prime residential property

Sources: Knight Frank Research, Douglas Elliman, Ken Corporation
Note: Exchange rate as at 30 December 2022

Monaco holds on to its title as the most expensive residential market globally. However, in 2022, the strong currency rewarded the US dollar-based buyer with two extra square metres for their money compared with a year ago.

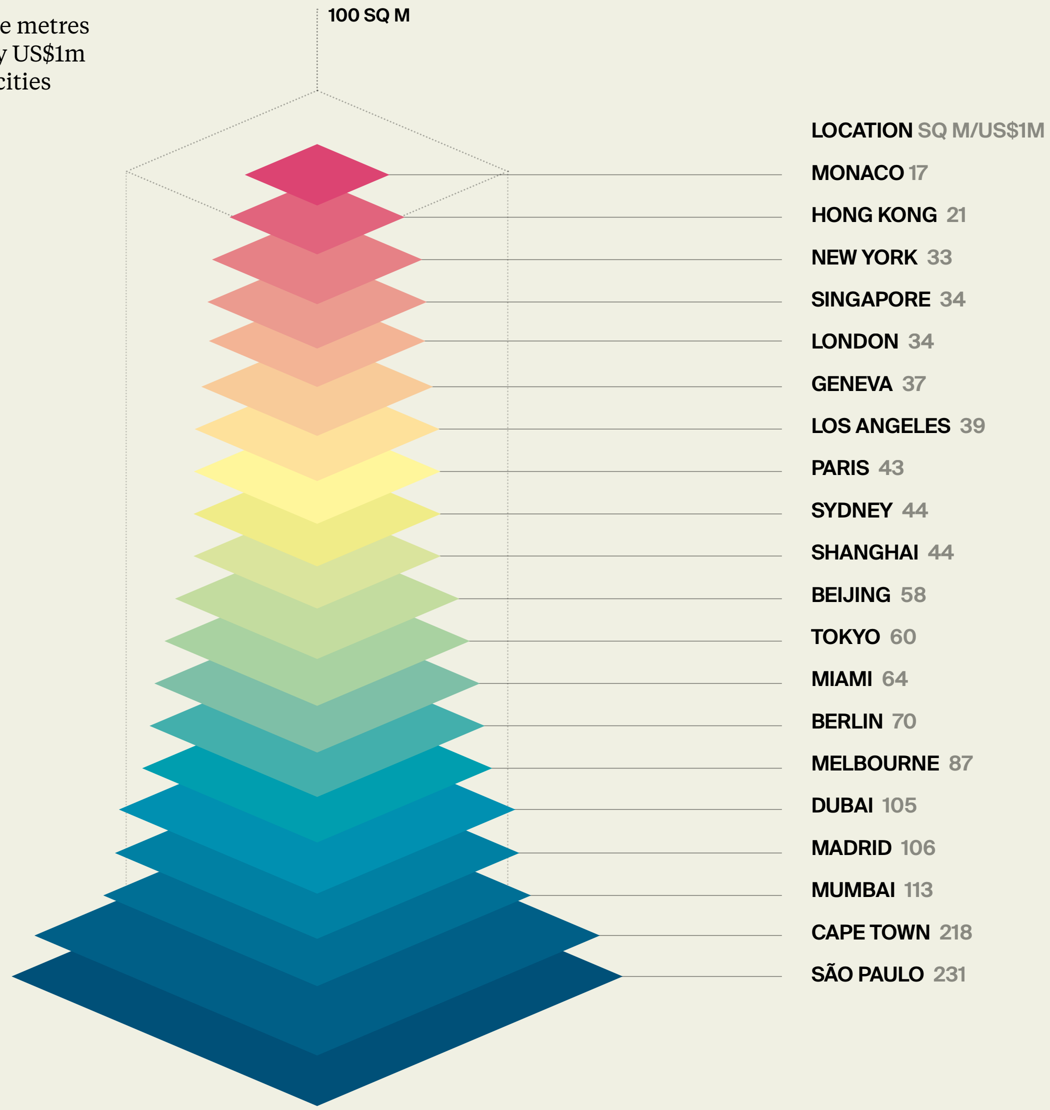
New York (33 sq m) has leapfrogged London (34 sq m), again due to the strength of the greenback, making it the third priciest city, although the two cities along with Singapore (34 sq m) are pretty evenly tied.

Dubai's 44% annual price growth may conjure up notions of lofty prices, but values are rising from a low base. Here, US$1 million buys 105 sq m, five times as much space as in Hong Kong.

For real value, head to Cape Town or São Paulo where the same budget bestows more than 200 sq m.

Relative values

How many square metres of prime property US$1m buys in selected cities



Topping out

Activity at the top end of residential markets remained elevated from pre-pandemic levels in 2022 after a record-breaking 2021. Flora Harley examines the resilience of super- and ultra-prime markets, even in the face of rising interest rates and economic uncertainty

The pandemic-induced boom in prime, super-prime and ultra-prime markets globally continued into 2022. Some 1,392 sales were transacted at or above US$10 million across 10 global markets. While this represents a decline compared with the record-breaking 2,076 transactions recorded in 2021, it is still 49% above 2019 levels and equates to US$26.3 billion in sales.

New York retained its crown as the most active super-prime market with 244 sales of US$10 million or more. Los Angeles and London complete the top three with 225 and 223 respectively. The scale of activity in the US super-prime markets aligns with prime price growth in the PIRI 100 (see page 32).

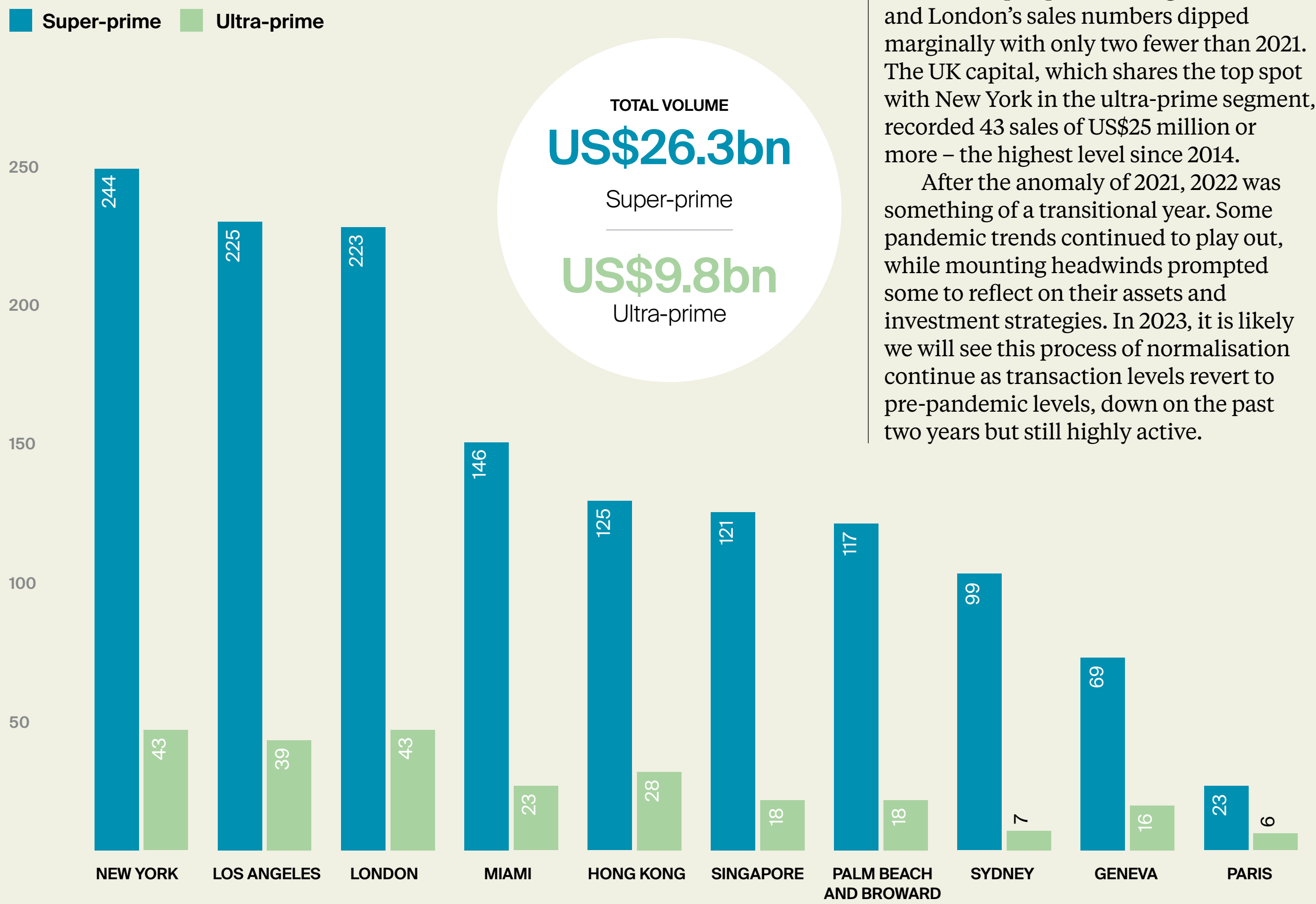
As with many market segments, the second half of 2022 saw a slowdown in transactions as the cost of debt rose and talk of recession began to enter the daily vocabulary. However, the decline was moderate with 44% of transactions happening in the final six months.

Surprisingly, European cities were most resilient. Both Geneva and Paris saw their super-prime sales grow and London's sales numbers dipped marginally with only two fewer than 2021. The UK capital, which shares the top spot with New York in the ultra-prime segment, recorded 43 sales of US$25 million or more – the highest level since 2014.

After the anomaly of 2021, 2022 was something of a transitional year. Some pandemic trends continued to play out, while mounting headwinds prompted some to reflect on their assets and investment strategies. In 2023, it is likely we will see this process of normalisation continue as transaction levels revert to pre-pandemic levels, down on the past two years but still highly active.

High-end activity

The number of sales in super-prime (US$10m+) and ultra-prime (US$25m+) market segments across 10 global locations



Sources: Knight Frank Research, Douglas Elliman, Naef Prestige, HM Land Registry, LonRes
Note: Exchange rate calculated as at 30 December 2022

Where next?

Kate Everett-Allen assesses what lies ahead for the world's top residential markets and the trends set to shape their performance

The tide is turning, and property markets are recalibrating, as homeowners take stock of the changing macroeconomic landscape.

Across the 25 cities tracked, Knight Frank's global research network now expects prime prices to rise by 2% on average in 2023, down only marginally from the 2.7% we predicted in mid-2022.

The slowdown will be far from uniform. Some cities will see annual price growth shift into single digits, while some will see it move into negative territory. Yet 15 of the 25 cities tracked still expect prime prices to increase in 2023, down from 18 a year ago.

Dubai leads the forecast with prime prices forecast to climb 13.5% in 2023, its relative affordability, broadening global appeal and accessibility a key draw.

The US cities of Miami and Los Angeles occupy second and joint third spots respectively, with both markets still benefiting from the post-pandemic reassessment of lifestyles.

Six of the top ten positions are held by European cities with domestic safe-haven capital flight and strong overseas demand due to the weak euro proving key market drivers.

A NEW CYCLE

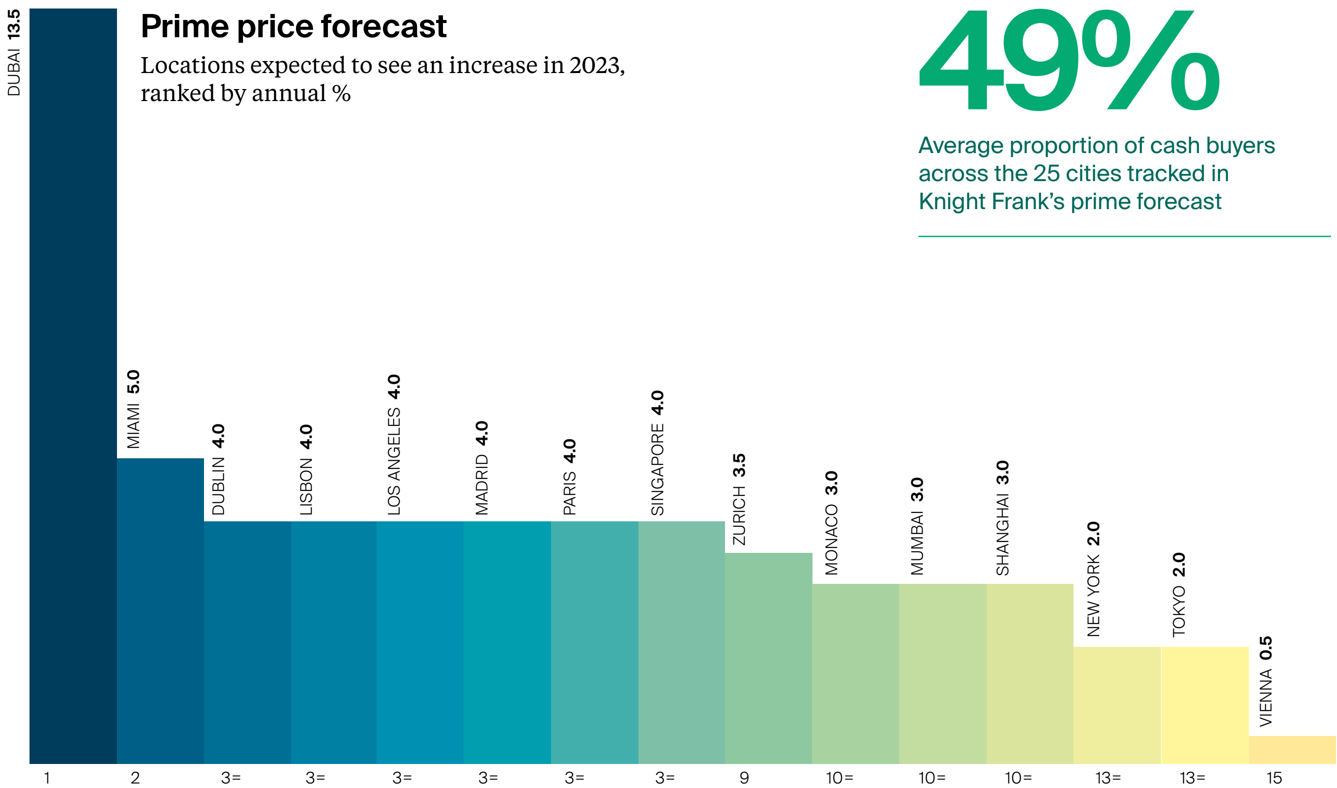
Capital Economics identifies four phases in its anatomy of a housing market slowdown. Buyer sentiment takes a hit first, followed by buyer enquiries. Then developers pull on the brakes and sales weaken before, finally, prices feel the pinch.

Key trends to monitor

1. The performance of prime and mainstream housing markets will detach due to the higher cost of debt.
2. China's property market will remain tightly controlled despite the relaxation of developer credit lines.
3. Taxes and regulation will increase.
4. Inventory in the prime sector will remain low as would-be sellers sit tight and construction slows.
5. Interest rate changes will influence currency shifts, presenting risks and opportunities.

Prime price forecast

Locations expected to see an increase in 2023, ranked by annual %



Sources: Knight Frank Research, Douglas Elliman, Ken Corporation

Go online to download the full 25-city forecast www.knightfrank.com/globalforecast

49%

Average proportion of cash buyers across the 25 cities tracked in Knight Frank's prime forecast

▲ **Towering above –** Dubai's outperformance is expected to continue in 2023

Prime markets in most advanced economies are edging from phase three to four. How far prices fall – and how protracted a downturn we see – will depend on local factors, from economic activity and unemployment levels, to existing supply levels and the proportion of leveraged households in each market. Then of course there is the million-dollar question of the future direction of interest rates. If, as many economists suspect, inflation has peaked in most advanced economies and interest rates are close to doing so, cuts may be on the horizon in the second half of 2023, bolstering buyer sentiment.

The challenge for agents in most prime markets, both cities and resorts, is lack of stock. Would-be sellers are delaying until interest rates reduce, with some opting to let their properties and take advantage of buoyant rental markets.

But headwinds will persist in 2023. The days of ultra-cheap debt are over. Regulation and taxes are on the increase with non-residents, the prime market and investors firmly in policymakers' sights. The reopening of China and the rolling back of its three red lines policy may put its developers on surer footing, but Xi Jinping's goal of "common prosperity" will see price inflation closely monitored. With central banks moving at different speeds and – potentially – in different directions later in 2023, currency volatility will present risks as well as opportunities.

"The challenge for agents in most prime markets, both cities and resorts, is lack of stock"

Safe as houses

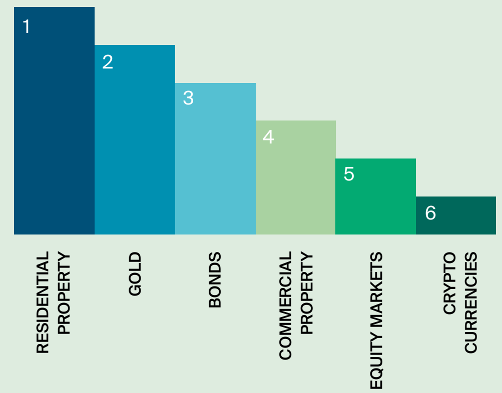
Global HNWIs consider residential property to be the safest asset class, according to our HNW Pulse Survey – a title usually afforded to gold. Equity markets and crypto both had a rocky 2022, relegating them to fifth and sixth spots respectively.

When it comes to the motivation behind their next purchase, HNWIs are focused on investment, particularly those based in Asia-Pacific (62%). For Europeans, however, an improved lifestyle (23%) and safe-haven purchase (19%) rank above the global average.

HNW Pulse Survey

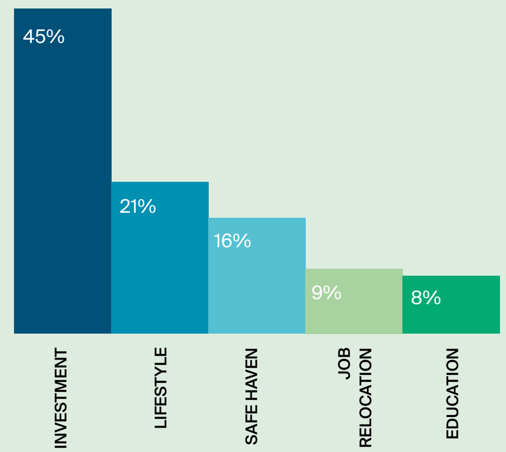
Residential property considered the safest asset class

How HNWIs rank asset classes for stability (1 = safest and least volatile)



Investment is a key driver of demand

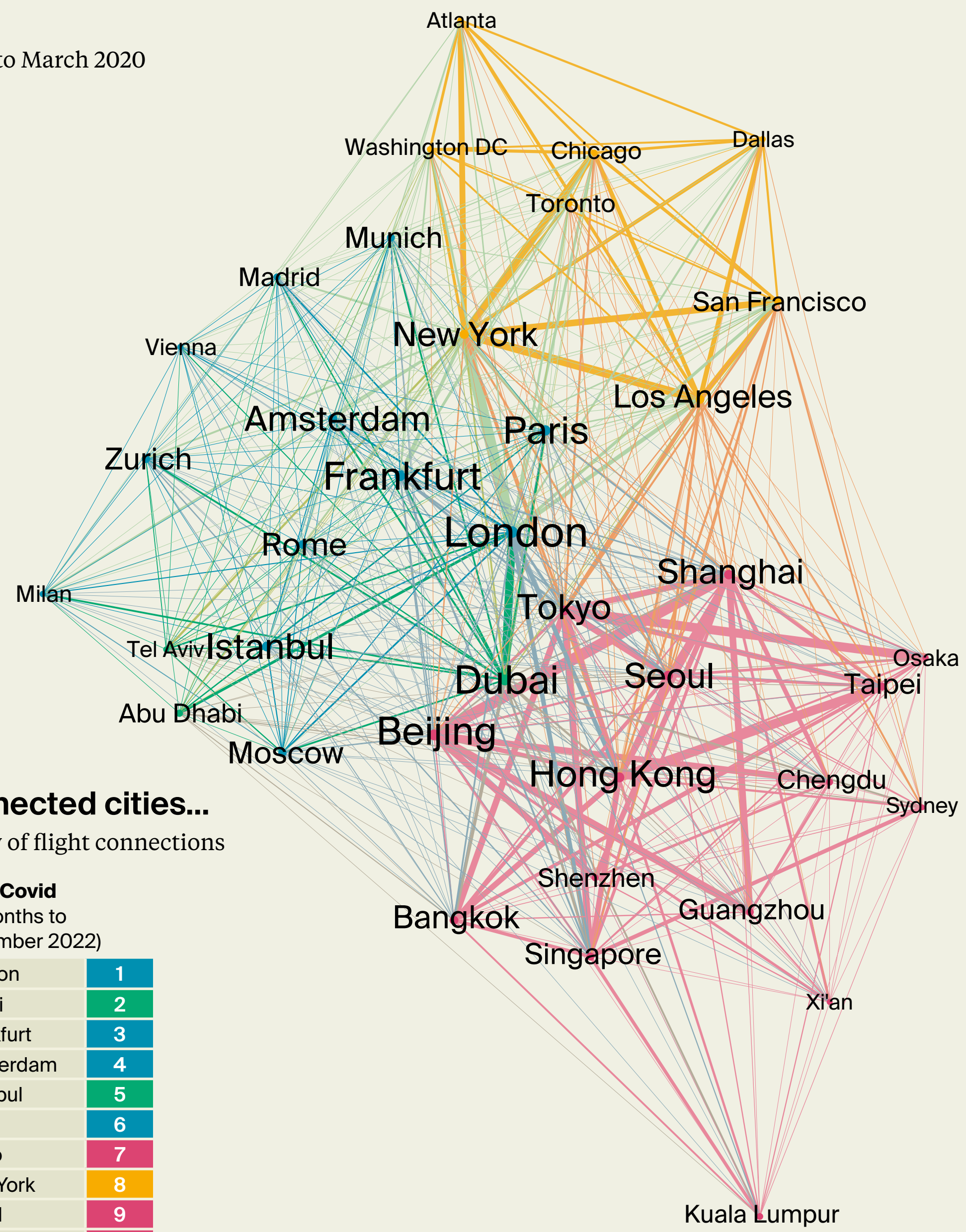
The factors driving HNWI residential property purchases



Source: Knight Frank HNW Pulse Survey

Crossing borders

Flight connections in the year to March 2020



Source: Knight Frank Research, WINGX

The world's most connected cities...

Ranked by number and quality of flight connections

Pre-Covid (12 months to March 2020)		Post-Covid (12 months to December 2022)	
London	1	London	1
Beijing	2	Dubai	2
Dubai	3	Frankfurt	3
Frankfurt	4	Amsterdam	4
Paris	5	Istanbul	5
Hong Kong	6	Paris	6
Seoul	7	Tokyo	7
Tokyo	8	New York	8
Istanbul	9	Seoul	9
Amsterdam	10	Singapore	10

Sources: Knight Frank Research, WINGX

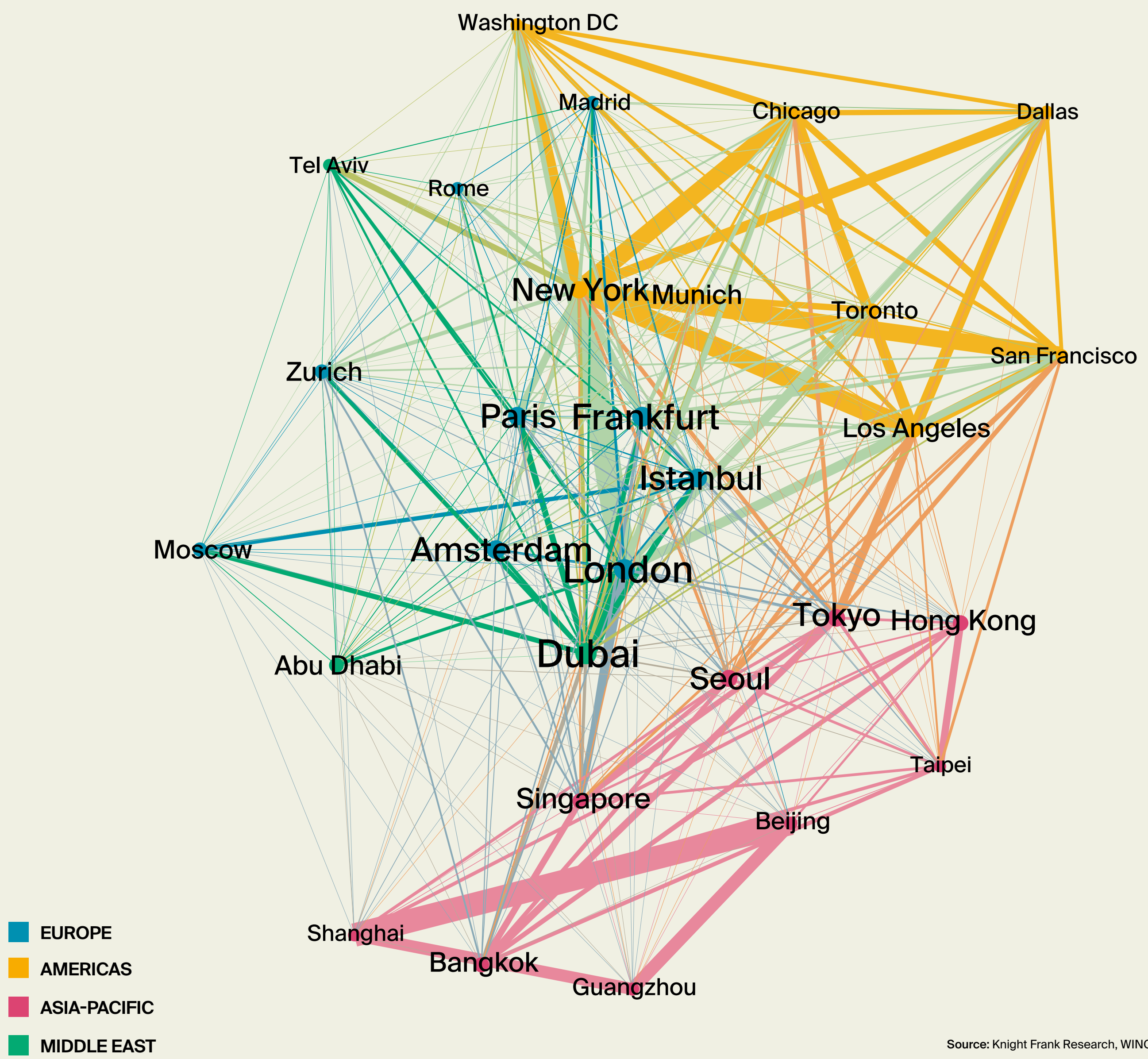
Connections

With rolling lockdowns and airport closures, Covid-19 prompted some dramatic shifts in tourist and business activity. Liam Bailey comments on a new view of flight data analysed by Ruth Wetters of Knight Frank's Analytics team that pinpoints which cities are becoming more – or less – critical as world hubs

The pandemic undoubtedly redrew the map of global connectivity. Using data on flight connections to and from the world's 100 biggest airport hubs, our Analytics team was able to analyse and visualise this shift. We took two views to understand this: first, a simple count of connections to other airports; and second, an assessment of the quality of these links, i.e. a link to an airport with high onward connections scores higher than an airport with limited connections.

Lingering lockdown

Flight connections in the year to December 2022



Source: Knight Frank Research, WINGX

On the two network maps the most connected cities are enlarged and pulled to the centre, while those with fewer, weaker connections are pushed to the periphery. Cities also gravitate towards their main regional connections.

To give a pre-Covid view, we ran the data for the year to March 2020; for a post-Covid update we then ran it again for the year up to December 2022. While a host of other criteria impact on the findings, the pandemic dominates.

The clearest change is the dramatic weakening of the centrality of Chinese cities. With the data covering a period of zero-Covid rules and lockdowns this is hardly surprising, and when we run this data again later in 2023 the impact of China's January reopening should become apparent.

Other stories emerging include the relentless rise of Dubai as a global hub, moving from second place in 2020 to joint first with London in 2022. We thought there might be a Brexit-related story in Frankfurt and Amsterdam's rise, but this neat assumption was undone by Paris's slip from fifth to sixth place. Istanbul's rise points to Turkey's strategic importance, despite ongoing economic turmoil.

Finally, Singapore's arrival in our top 10 for 2022 underlines the city-state's steadily increasing global significance, a trend we pointed to in *The Wealth Report* 2022.

For more on the growing importance of Dubai and Singapore, turn back to page 10 for insights from some immigration specialists.

Buying patterns

Understanding global property ownership is key to anticipating future investment trends. Using prime residential rental data, Liam Bailey explores patterns of ownership across key global markets

DIVERSITY OF OWNERSHIP
At a global level our data confirms France as the most international prime residential marketplace, closely followed by Spain.

The table below confirms the top 10 international markets in Europe. Outside Europe, the US is the unsurprising lead in the Americas, South Africa is in pole position in its ability to attract the widest spread of investment into Africa, and Australia is the leading Asia-Pacific investment destination.

1	FRANCE
2	SPAIN
3	ITALY
4	UK
5	GREECE
6	SWITZERLAND
7	PORTUGAL
8	CROATIA
9	IRELAND
10	GERMANY

WHO OWNS WHERE?
Digging deeper into our data we can identify the lead international owners at country level in a range of key prime markets:

	FRANCE
1	UK
2	SWITZERLAND
3	NETHERLANDS
4	BELGIUM
5	US
6	GERMANY
7	CANADA

	SWITZERLAND	SPAIN
1	UK	UK
2	ITALY	FRANCE
3	FRANCE	GERMANY
4	NETHERLANDS	NETHERLANDS
5	BELGIUM	BELGIUM
6	GERMANY	ITALY
7	UAE	SWITZERLAND

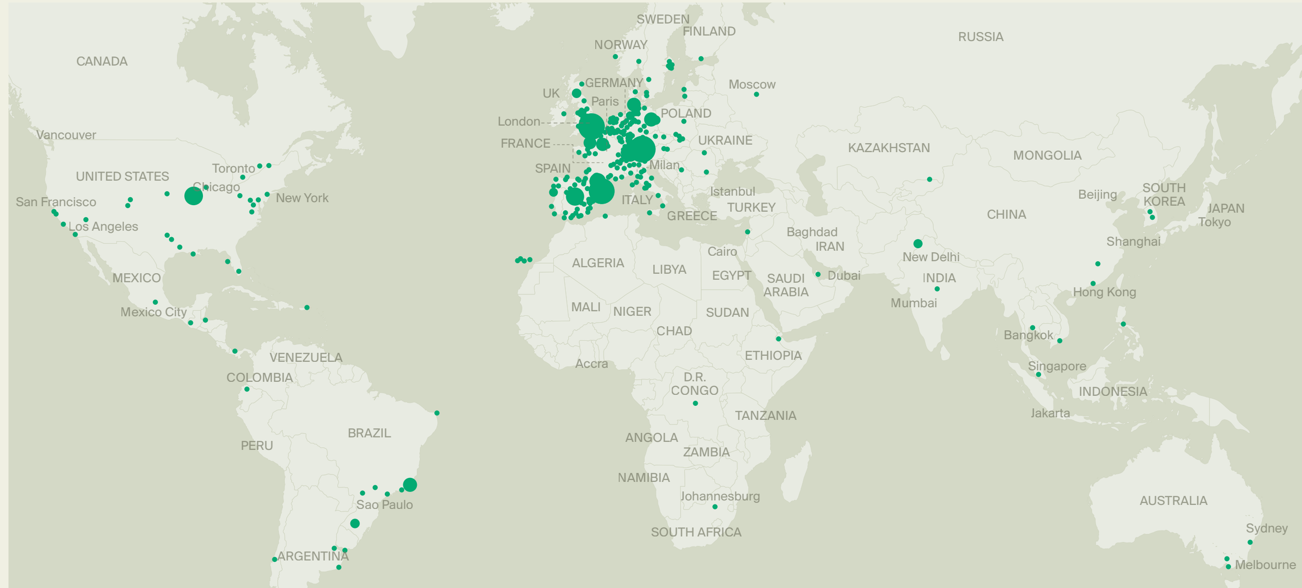
	PORTUGAL	SINGAPORE
1	UK	AUSTRALIA
2	FRANCE	INDIA
3	NETHERLANDS	HONG KONG SAR
4	US	CHINESE MAINLAND
5	SPAIN	VIETNAM
6	INDIA	MALAYSIA
7	BRAZIL	

	AUSTRALIA	ITALY
1	UK	UK
2	US	SWITZERLAND
3	SINGAPORE	NETHERLANDS
4	CHINESE MAINLAND	FRANCE
5	SPAIN	GERMANY
6	CANADA	US
7	HONG KONG SAR	SPAIN

	SOUTH AFRICA	KENYA
1	UK	ITALY
2	GERMANY	UK
3	AUSTRALIA	NETHERLANDS
4	FRANCE	BELGIUM
5	US	NEW ZEALAND
6	BELGIUM	US
7	CANADA	FRANCE

Balearic attraction

Our analysis allows us to identify detailed ownership patterns, market by market. This map shows the countries of origin of those owning property worth US$2 million or more in Ibiza, highlighting the importance of northern European owners as well as US buyers



Source: Knight Frank Research

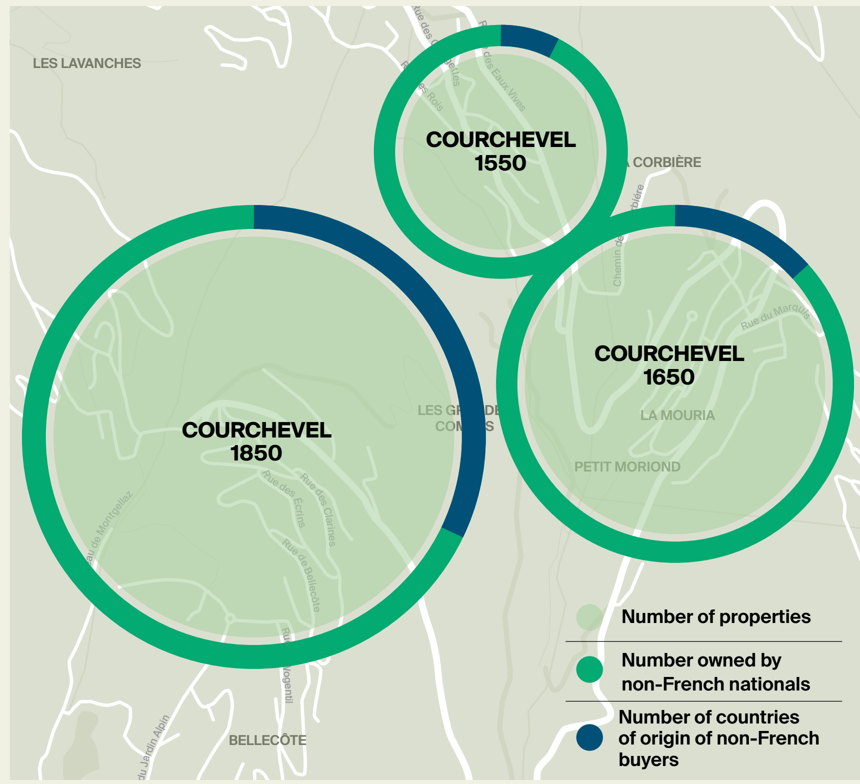
VALUE MATTERS
One factor that jumps out of our analysis is the importance of property pricing in terms of the international mix. In more affordable markets, domestic buyers tend to dominate; in more expensive markets, the importance of international investment rises.

COURCHEVEL IN FOCUS
Three of the villages that make up the ski resort of Courchevel – 1550, 1650 and 1850 – rise in value and exclusivity as well as altitude. Our analysis confirms a clear correlation with diversity and density of international demand.

"In more expensive markets, the importance of international investment rises"

Power of three

The level and diversity of international ownership in three of Courchevel's villages



Source: Knight Frank Research

Private view

What are Private Office clients thinking now, and what do they see as the biggest trends for 2023? Patrick Gower asked our teams on the ground worldwide for their insights

ALASDAIR PRITCHARD
UK and Europe

Volatility will drive activity in prime residential real estate markets through 2023. We speak to a lot of clients seeking to diversify their assets, or hedge against currency movements or large swings in markets.

Growing unpredictability is also driving capital towards real estate. Wealthy individuals living in unstable regions have always sought a "Plan B" (see page 10) – homes in the US, Australia or Europe that can enable the transition to a new life if needed – but rising geopolitical turmoil has drawn more buyers off the fence, and we expect that to continue through 2023.

The price of a broad range of assets soared during the Covid-19 pandemic and there are now large numbers of wealthy individuals seeking to diversify. Asset prices are coming under pressure from rising interest rates and those that have enjoyed windfalls – many of them working in tech – are seeking new ways to invest capital. These young, dynamic people increasingly want to invest either in products with good ESG credentials, or in tangible assets such as property.

"Rising geopolitical turmoil has drawn more buyers off the fence, and we expect that to continue through 2023"

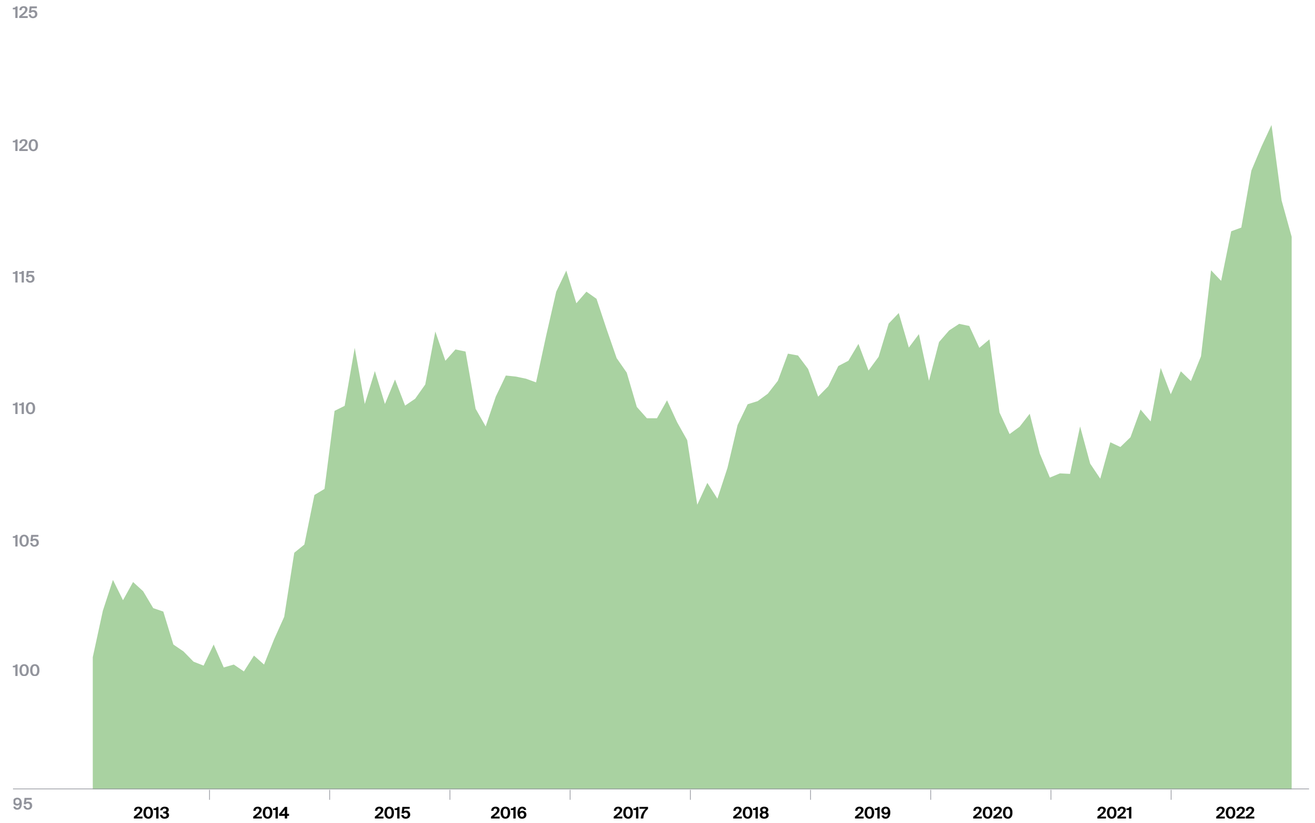
Locations that offer both favourable tax policies and the kind of lifestyle advantages that became popular during the pandemic will prove particularly competitive during 2023. Wealthy individuals wanting to move their tax residency looked to Swiss locations such as Geneva and Zurich. For those seeking to combine this with more lifestyle elements, Verbier has been an option.

This trend is particularly the case for Italy. Ultra-wealthy individuals taking up residency pay a flat tax of €100,000 a year, regardless of their income, which is hugely competitive. Milan and Florence will experience a large influx of buyers, though we expect fierce competition for a relatively tight supply of suitable property.

01. La dolce vita – Italy's flat-tax regime remains attractive

The decade of the dollar

US$ compared with a basket of currencies (rebased, 2013=100)



Source: Macrobond

HUGH DIXON
US

The dollar enjoyed a remarkable 2022, strengthening the position of dollar-based buyers globally. Against a basket of currencies, the greenback climbed more than 12.5% from its mid-2021 low to its October 2022 peak.

Cracks have since emerged amid signs US inflation is peaking, trimming those gains by 5.5% as of late January. However, the dollar remains strong by historic standards and dollar-based buyers will continue to play an outsized role in prime residential markets throughout 2023. Many clients are now seeking to diversify away from the US market, with the UK and Europe looking particularly attractive given the currency play.

"Many clients are now seeking to diversify away from the US market, with the UK and Europe looking particularly attractive given the currency play"

The US will also be one of the pre-eminent global destinations for capital, given its political and economic stability, with New York remaining the number one target. Prime prices climbed 2.7% during 2022, down from the 7.1% recorded in the second quarter but well above its average decline of 1.2% over the past five years. The city is among the world's top destinations both for education and business, making it a perfect location for prime and super-prime buyers with children.

Miami and Aspen both had fantastic years, and we expect demand to remain strong given buyers' renewed interest in living healthier lifestyles close to nature and open spaces. Los Angeles, too, has grown in popularity with overseas buyers. Prime prices climbed 7.9% in the year to October 2022.

The larger markets do face headwinds. The surge in pent-up demand post-pandemic is tailing off, leaving a shortage of stock across key markets. Owners that can afford to hold on to properties are choosing to do so amid a weakening sales market. Buyers can expect to compete for a limited supply of the best quality property. ▸

12.5%

The greenback's climb against a basket of currencies from its 2021 low to its 2022 peak

HENRY FAUN
Middle East

Dollar-based buyers – both those in the US and those purchasing with dollar-pegged currencies – have witnessed their spending power increase substantially in the past 12 months. Yet while some Americans buying in prime central London have generated headlines, the number of buyers from the Middle East hit a four-year high in the second half of 2022.

There have been some local distractions – the World Cup in Qatar, for example – so we expect Gulf-based buyers to become increasingly active through the year both in the UK and Europe, due to the dollar's strength against both the pound and the euro.

Buyers typically want to be in central London, within walking distance of Hyde Park and the surrounding hotels, restaurants and nightclubs. Many of the Gulf states are built for cars, so my clients place huge value on London's walkability. Further afield, the villages and towns of north Surrey offer beautiful greenery just 45 minutes from central London. For between £10 million and £20 million, buyers can secure a large, gated property, with more privacy than properties at comparable prices in central London.

I expect Dubai to remain the Gulf's leading domestic market during 2023 (see page 40). Dubai has seen phenomenal growth since the pandemic, fuelled by its safe-haven status and its position as a luxury second home hotspot, combined with the government's robust response to the pandemic, all of which have spurred business confidence.

£3-7m

Demand at this level will prove resilient, particularly among buyers operating out of more sluggish economies

KATYA ZENKOVICH
UK and Europe

Large numbers of my clients are re-evaluating their portfolios following the two-year acquisition spree that characterised the pandemic and subsequent period of lockdowns.

The economics look much trickier today than this time last year, and though demand for property is still being driven by a desire to diversify, there are wealthy homeowners now looking at their portfolios, considering the cost and taking the first steps towards rationalisation.

Hopefully that will provide a boost to stock levels in global prime and super-prime markets that have been starved of stock for the best part of two years. It won't be enough to alleviate shortages in their entirety, so trophy properties will hold their value regardless of pressures in the wider property markets.

Politics and economics will be the key drivers of activity through 2023 and 2024. Demand for prime property in safe-haven markets rises in parallel with geopolitical volatility. The "Golden Triangle" markets of Monaco, London and particularly Switzerland will outperform.

Switzerland is my pick for the year. The flexibility of taxation, the safety, the climate, its position in Europe and the lifestyle afforded by being so close to the mountains will make it the property market of the moment. The usual buyers from Asia, the Middle East and the US will be prominent; however, I think we will also see meaningful amounts of British wealth flow there over the coming two years.

Italy is a growing market. The one-off flat tax in exchange for residency is a clever idea and has transformed Italy's prospects as a prime and super-prime market. Three or four years ago there was very little demand for penthouses in Milan, for example. Now they are virtually impossible to find. Growth will only be held back by a shortage of properties for sale at the level our clients expect.

Demand in prime markets between £3 million and £7 million will prove resilient, particularly among buyers operating out of more sluggish economies. Coastal markets in Italy, France and Portugal offer the lifestyle most people are seeking in the wake of the pandemic with a lower cost of access. Portugal has seen a huge influx of younger wealth in recent years – surfers that have earned money in the US tech sector, for example. That shows few signs of slowing, and with many tech companies setting up offices in Lisbon, the market looks poised to draw larger numbers of investors through 2023 and 2024.

NICHOLAS KEONG
Singapore

Singapore has always been a strong exporter of capital, but during the past five years the city-state has been in fierce competition with Hong Kong to become the dominant financial hub in Asia.

Already positioned as a regional leader in education and secure living, and as a broad, pro-business economy, Singapore has in recent years made particularly large investments in strengthening its foothold as a global wealth hub, most notably via tax perks that incentivise the setting up of family offices. Numbers of single-family offices have jumped nearly threefold since the pandemic began, largely driven by an influx of wealthy Chinese families.

The rising number of wealthy individuals is fuelling upward pressure on prime property prices which we expect to continue through 2023 (see page 40). A total of 296 luxury non-landed homes were sold in 2022, substantially lower than the 487 transactions recorded the previous year, largely due to dwindling supply. Family-sized units are in particularly high demand. Prices increased 3.9% in 2022.

"The rising number of wealthy individuals is fuelling upward pressure on prime property prices which we expect to continue through 2023"

Outbound capital has always been very UK-centric, and that will continue to be the case through 2023. Values in prime central London still look attractive relative to levels, say, pre-2016, so we expect to see significant numbers of wealthy individuals looking to purchase second homes in the UK capital this year. The US and Australia are also significant draws – Perth is just five hours away, Melbourne and Sydney around eight. They all have the education, weather and lifestyle to attract more investment.

We're increasingly seeing wealthy families seeking to gain a foothold in Japan. Low interest rates and the weak yen plus gross yields of 4%–5% are drawing buyers into the Japanese multifamily space. It's not easy to break into the market – institutions that take the development risk tend to want to hold on to stabilised assets – but when they do become available, we're seeing huge competition from family offices.

02. Alpine appeal – Switzerland's safe-haven status continues to be a draw

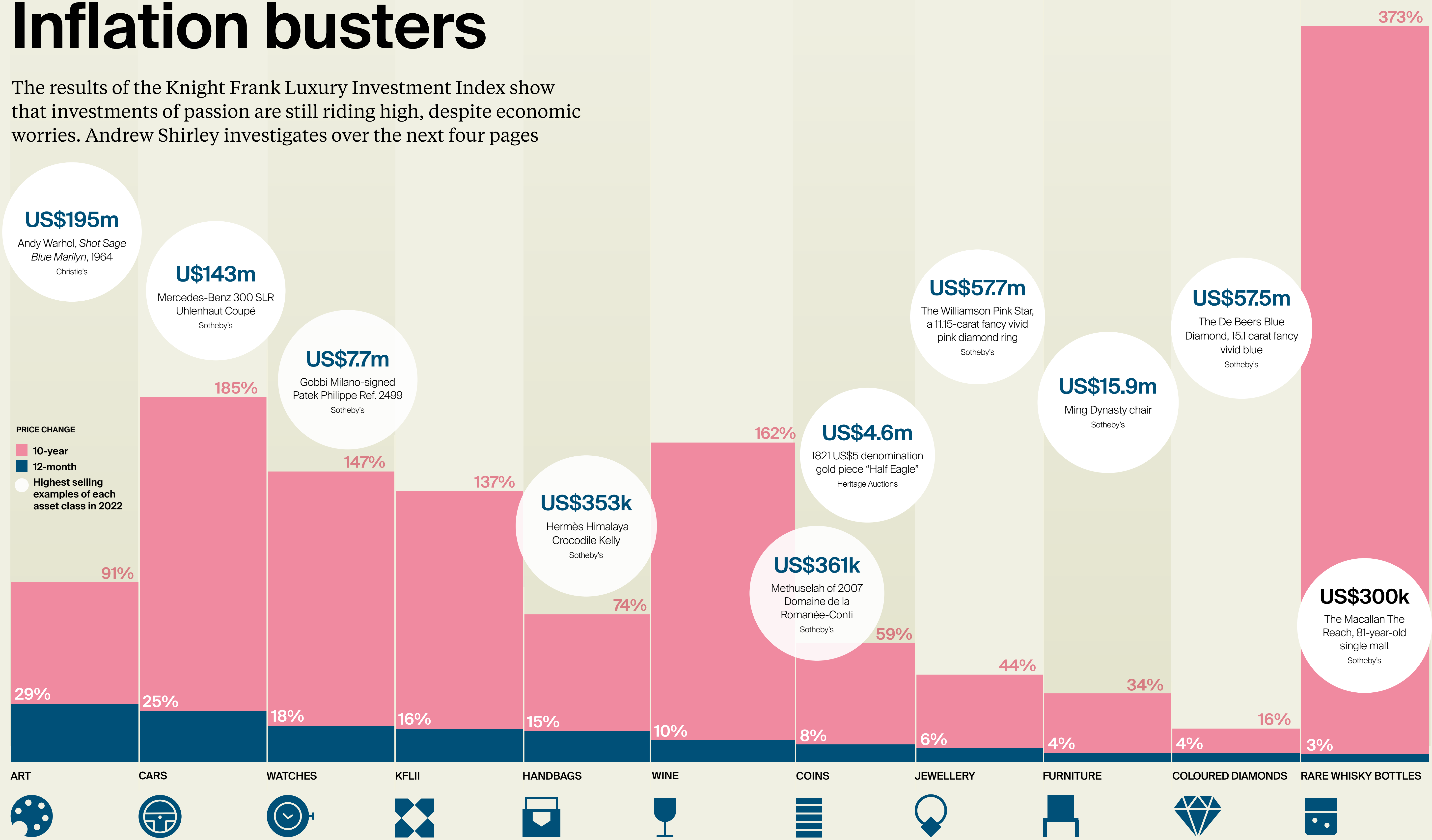
03. Scenic Sydney – A short hop for Singapore investors

Passions

Enter the universe of the world's most passionate collectors

Inflation busters

The results of the Knight Frank Luxury Investment Index show that investments of passion are still riding high, despite economic worries. Andrew Shirley investigates over the next four pages



Sources: Compiled by Knight Frank Research using data from Art Market Research (art, coins, furniture, handbags, jewellery and watches), Fancy Color Research Foundation (coloured diamonds), HAGI (cars), Rare Whisky 101 and Wine Owners

Notes: All data to Q4 2022. KFLII is a weighted average of individual asset performance

59%

Proportion of UHNWIs looking to invest in art in 2023, according to our Attitudes Survey

The Knight Frank Luxury Investment Index (KFLII), which tracks the value of 10 investments of passion, rose by a healthy 16% during 2022, comfortably beating inflation and outperforming the majority of mainstream investment classes, including equities and even gold.

Within the index, which is weighted to reflect the "collectability" of each of its constituents, half of the assets saw double-digit growth last year. Art was the top performer, rising by 29%. Sebastian Duthy of Art Market Research, which provides the data for a number of our asset classes, says much of that performance was driven by the stellar prices paid for museum-quality works of art by ultra-wealthy collectors.

"Several single owner collections, including works owned by Microsoft founder Paul Allen and American investor Anne Bass produced totals in excess of US$2.5 billion, more than doubling collection sales in 2021. With the provenance of a high-profile collector attached, blue-chip works routinely break auction records and last year was no exception with five achieving over US$100 million."

Classic cars also revved up their performance last year rising 25%, the strongest finish for nine years. A US$143 million Mercedes-Benz Uhlenhaut Coupé comfortably set a new record for the most expensive car ever sold. Dietrich Hatlapa of HAGI, which tracks the very top end of the market for us, says high-end collectors are back in the market after the Covid-19 pandemic saw the postponement of many sales.

However, he warns against relying on cars as a hedge against inflation. "Broadly, the classic car market has neither a positive nor an inverse correlation with other sectors. In other words, the classic car sector generally marches to the beat of its own drum. That's a feature which many collectors find attractive."

Watches took third place on the KFLII podium in 2022, up 18%. "The watch market at the top three auction houses grew 33% in 2022 to a total of £475 million. This included 40 watches that sold for over £1 million, 12 more than the previous year," points out Duthy. However, the market is being led by a small number of models, he adds.

"Look at any auction catalogue and you will see sales have been dominated by just three designs over the past five years – the Patek Philippe Nautilus, Audemars Piguet's Royal Oak and the Rolex Daytona. While these watches have provided a huge boost to sales on the secondary market, it's a growing problem for the brands who say they cannot cope with demand."

Our wine index recorded growth of 10% – respectable, but down on 2021's sparkling 16% rise. Nick Martin of our data provider Wine Owners says this is due to some of our index's top performers finally hitting a peak. "Burgundy has risen by more than 80% during the past five years, but at some point the market had to pause for breath."

Whisky, although still KFLII's 10-year leader by a good margin (+373%), was one of 2022's weakest performers with growth of just 3%. Our data guru Andy Simpson says the market for bottles valued at over £5,000 has definitely weakened. "As prices rose speculators came into the market just looking to flip bottles, which was ultimately unsustainable."

"Classic cars also revved up their performance last year rising 25%, the strongest finish for nine years"

NFTs – down but not out

Non-fungible tokens, better known as NFTs, became the talk of the art world in 2021 with wackily named digital images like the CryptoPunk and Bored Ape Yacht Club series regularly selling for millions of dollars

But by the end of 2022 the embryonic sector was already reeling, hit by the contagion from the fall from grace of crypto evangelists such as Sam Bankman-Fried and the slump in Bitcoin and other cryptocurrencies. Buyers did, though, still purchase around US$1.6 billion-worth of Bored Apes last year, according to CryptoSlam.

However, the vast majority of that trading took place between January and May, with starting prices falling from a peak of US$429,000-worth of ether in April to a low of under US$60,000 in November. Evidence is also surfacing that some of the highest NFT prices achieved were not genuine transactions. Although secondary market evidence for NFTs is still sparse, Sebastian Duthy of analyst Art Market Research says comparable works sold over two seasons suggest values are down around 50%.

The views of respondents to our HNW Pulse Survey are evenly split when it comes to NFTs. Around a third believe they still have potential, while an equal number say they have always been sceptical. Interestingly, respondents from the Chinese mainland were more upbeat, with 64% retaining a positive view. They may well be right, although even some of the highest profile collectors admit that many of the NFTs they have bought are probably worthless.

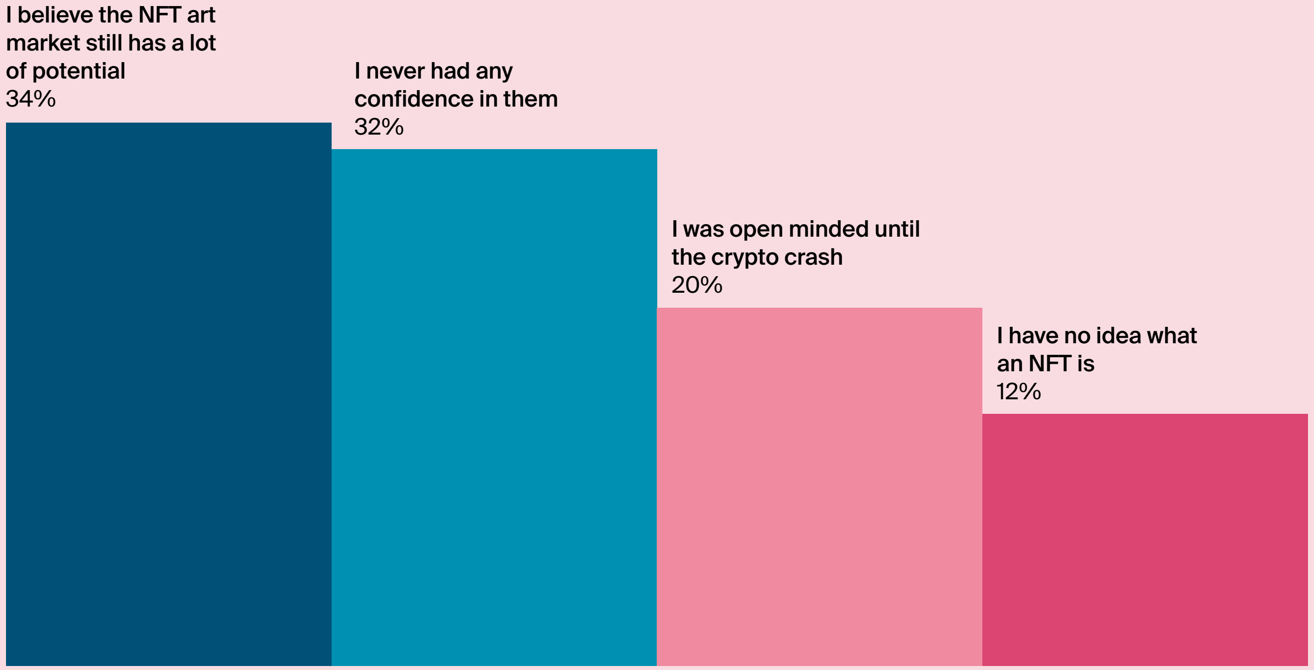
"I am convinced that blockchain technology and digital art are here to stay and develop," says Elena Zavelev, co-founder and CEO of CADAF, the Crypto and Digital Art Fair, and founder of art and tech education platform New Art Academy. Writing on the future of NFTs in the *Collectibles Insights Report*, published by ArtTactic and Cultural Comms, Zavelev adds: "We can expect more experimentation and intrinsic artistic value to enter the market, and I am also hoping for less speculation and more attention to the substance."

Fellow contributor Tom Grogan, a tech consultant at MDRxTech, believes NFTs will eventually be seen as just another medium for artists. "My deepest hope for the NFT market is that in 10 years' time nobody knows what blockchain is, nobody knows what NFTs are and no one remembers crypto, all despite using them seamlessly within our everyday technology stacks."

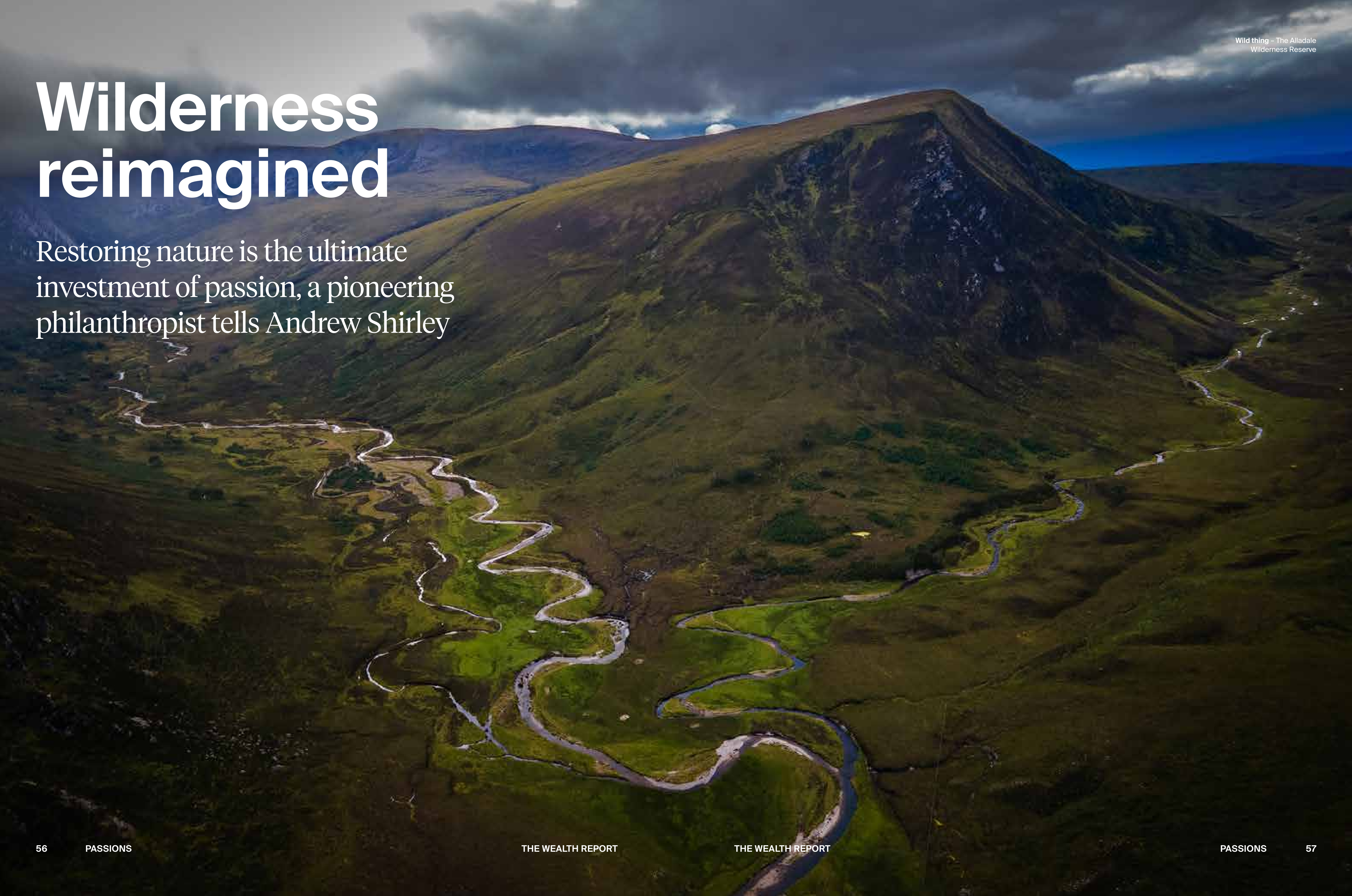
Digital dilemma

Our HNW Pulse Survey respondents share their views on NFTs

HNW Pulse Survey



Source: Knight Frank HNW Pulse Survey



Wild thing – The Alladale Wilderness Reserve

Wilderness reimagined

Restoring nature is the ultimate investment of passion, a pioneering philanthropist tells Andrew Shirley

Driving into the 23,000-acre Alladale Wilderness Reserve an hour north of Inverness for the first time, it's hard not to be awed by the breathtaking scenery and views. On a clear day it's possible to see both Scotland's east and west coasts from the highest point on the property.

For many, this is the epitome of what the Highlands should look like: vast expanses of misty purple-hued, heather-clad hills populated by majestic stags with the occasional iconic Highland cow thrown in for good measure. The man I'm on my way to meet begs to differ.

"It looks wild to people because the wild and empty landscape is what we have become accustomed to over centuries and generations," says Paul Lister, who bought Alladale 20 years ago as well as founding the European Nature Trust.

But as Lister, whose father started the MFI furniture empire, points out, the Highlands were once largely covered by Caledonian forests. "We've been cutting down those forests for the last millennium, most heavily in the past 300 years," he laments.

Lister's mission for the past two decades has been to bring back nature by planting hundreds of thousands of Scots pine and other native tree seedlings. As he shows me around, the difference between the restored and traditionally managed areas is stark, and the treeless hills start to appear barren compared with the newly wooded glens.

Climate change makes the return of the trees even more crucial. Rising temperatures and a lack of arboreal shade mean many of the rivers where wild salmon spawn are now too warm for the fish to successfully reproduce.

Progress is slow, however. Partly because Scots pines take decades to grow in the harsh uplands environment, but also because the young trees are grazed voraciously by deer. Reducing their numbers has been a key priority for Lister, but it hasn't been universally popular as culling Alladale's population has drawn in deer from surrounding estates, some of which maintain higher deer densities as a way of sustaining guest stalking. Alladale's business is centred around wellness and nature tourism as opposed to the more traditional seasonal sporting model.

Lister's ambition to introduce a pack of wolves to help keep deer numbers in check has been even more controversial, although he's quick to point out that they would be fenced in. "I think we've overshot the notion of having wolves back in the wild in the UK. I wouldn't advocate that."

Radical though some of his ideas may seem, what Lister is trying to achieve has gone mainstream. Rewilding has entered common parlance and Scottish estates are now just as likely to be sold based on the value of their natural capital potential as their sporting bags.

Tree planting and peatland restoration are now seen as key weapons in the fight against climate change, with governments setting ambitious nature restoration targets and ESG funds allocating billions towards carbon and biodiversity offsetting schemes. Locally produced food – wild venison at Alladale, along with trout from the reserve's aquaponic gardens – is also rising up the political agenda.

Change can't come quickly enough for Lister. "We can't carry on the trajectory we're on now. Believe it or not, 27% of the Earth's land mass, less desert and ice, has been logged, burnt or felled to make way for the livestock industry. Look out of the window on a flight from London to Istanbul and you'll see how we have sanitised the continent. It's a farm the entire way."

01. Guest house - Alladale's main lodge

02. Overheating - Climate change is making it harder for Scottish salmon to breed

03. Endangered - Alladale is part of a scheme to reintroduce the wild cat

04. Slow-growing - A 400-year-old Scots pine

05. On a mission - Paul Lister surveys his reserve

06. Restoration - Trees transform the landscape

Databank

See below for a selection of findings from *The Wealth Report* Attitudes Survey

WEALTH TRENDS

What proportion of your clients are self-made and under the age of 40? (% respondents)

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
	23%	26%	19%	20%	22%	22%	**23%**

On average, how did your clients' total wealth change in 2022? (% respondents)

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
Increased significantly (above 10%)	14%	10%	35%	19%	19%	37%	**17%**
Increased marginally (below 10%)	50%	23%	35%	22%	5%	15%	**23%**
Remained the same	5%	15%	18%	17%	19%	15%	**16%**
Decreased marginally (below 10%)	27%	27%	12%	33%	33%	22%	**28%**
Decreased significantly (above 10%)	5%	25%	0%	10%	24%	11%	**16%**

On average, how do you expect your clients' total wealth to change in 2023? (% respondents)

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
Increase significantly (above 10%)	50%	18%	18%	20%	10%	30%	**21%**
Increase marginally (below 10%)	23%	45%	47%	54%	57%	44%	**47%**
Remain the same	23%	15%	29%	18%	29%	15%	**18%**
Decrease marginally (below 10%)	5%	15%	6%	8%	5%	7%	**11%**
Decrease significantly (above 10%)	0%	6%	0%	0%	0%	4%	**3%**

What proportion of your clients are planning to apply for a second passport or new citizenship?

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
	12%	16%	1%	12%	15%	11%	**13%**

Of your clients' investable wealth, what proportion is allocated to each of the following?

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
Equities	17%	26%	21%	28%	33%	25%	**26%**
Commercial property directly (e.g. ownership of assets)	26%	21%	24%	19%	10%	24%	**21%**
Bonds	25%	18%	8%	15%	21%	14%	**17%**
Private equity/venture capital	5%	5%	12%	11%	15%	11%	**9%**
Commercial property indirectly through funds	11%	7%	7%	9%	5%	7%	**8%**
Other	7%	7%	13%	5%	3%	11%	**7%**
Commercial property indirectly through REITs	4%	7%	4%	4%	4%	2%	**5%**
Investment of passion (e.g. art, cars, wine, etc.)	3%	5%	7%	5%	6%	3%	**5%**
Gold	1%	4%	2%	3%	2%	2%	**3%**
Crypto assets	1%	1%	2%	1%	4%	1%	**2%**

RESIDENTIAL PROPERTY

On average, what proportion...

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
Of your clients' total wealth is allocated to their primary and secondary homes?	39%	35%	36%	32%	16%	21%	**32%**
Of residential property is held outside their country of residence?	13%	28%	12%	29%	35%	41%	**28%**

On average, how many homes do your clients own?

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
	2.4	3.9	2.9	3.8	2.7	5.3	**3.7**

What proportion of your clients...

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
Bought a home in 2022?	13%	17%	25%	16%	16%	19%	**17%**
Are planning to buy a new home in 2023?	9%	16%	16%	15%	15%	21%	**15%**

If purchasing a new home, where is it most likely to be located? (1 = most likely, weighted by times chosen)

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
1	UK	US	US	Spain	US	UK	**US**
2	Kenya	UK	Australia	US	Portugal	UAE	**UK**
3	US	Australia	UK	France	Spain	US	**AUSTRALIA**
4	Australia	Singapore	New Zealand	Italy	UK	France	**SPAIN**
5	Canada/South Africa	Japan	Switzerland	Portugal	UAE	Switzerland	**FRANCE**

INVESTMENT PROPERTY

What % of your clients' property portfolio is held overseas?

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
	11%	17%	6%	20%	22%	36%	**19%**

What % of your clients are planning to invest...

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
Directly in commercial property in 2023?	14%	17%	24%	20%	13%	25%	**19%**
Indirectly (e.g. through REITs or debt funding) in commercial property in 2023?	13%	13%	18%	14%	11%	10%	**13%**

Which sectors do your clients currently invest in? (% respondents)

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
Offices	32%	37%	65%	46%	38%	63%	**43%**
Industrial & logistics	32%	32%	65%	47%	38%	41%	**40%**
Retail	68%	36%	76%	33%	38%	37%	**39%**
Residential private rented sector (PRS)	68%	33%	59%	36%	19%	37%	**37%**
Hotels & leisure	41%	19%	35%	48%	48%	59%	**36%**
Healthcare	36%	30%	41%	33%	48%	30%	**33%**
Development land	50%	20%	53%	28%	10%	19%	**26%**
Student housing	23%	15%	29%	28%	14%	33%	**22%**
Agricultural	45%	9%	53%	15%	24%	15%	**17%**
Retirement	36%	15%	6%	20%	14%	4%	**17%**
Education	27%	17%	12%	14%	0%	19%	**15%**
Data centres	14%	18%	24%	11%	14%	15%	**15%**
Life sciences	9%	14%	6%	13%	33%	19%	**14%**

In which sectors are your clients considering investing in 2023? (% respondents)

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
Healthcare	32%	33%	41%	37%	48%	30%	**35%**
Industrial & logistics	36%	23%	53%	41%	29%	41%	**33%**
Offices	32%	30%	41%	33%	33%	41%	**33%**
Residential private rented sector (PRS)	55%	29%	41%	33%	10%	37%	**32%**
Hotels & leisure	41%	25%	18%	37%	29%	41%	**31%**
Retail	45%	25%	29%	26%	29%	22%	**27%**
Development land	50%	21%	24%	26%	19%	15%	**24%**
Retirement	32%	22%	0%	22%	14%	11%	**20%**
Student housing	18%	11%	18%	23%	5%	30%	**17%**
Life sciences	5%	18%	12%	12%	29%	15%	**15%**
Agricultural	32%	6%	35%	18%	24%	15%	**15%**
Data centres	5%	17%	35%	13%	10%	11%	**15%**
Education	23%	8%	18%	15%	0%	7%	**11%**

What ESG-related criteria do your clients look at when evaluating property investments? (% respondents)

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
Energy source (e.g. solar, wind, heat pump)	68%	49%	65%	62%	67%	52%	**57%**
Opportunity for refurbishments	45%	29%	41%	35%	24%	37%	**33%**
Materials used/embodied carbon footprint	32%	30%	24%	33%	29%	22%	**30%**
Accessibility	59%	27%	41%	28%	14%	19%	**29%**
Social impact	64%	20%	41%	28%	19%	22%	**27%**
Building accreditations (e.g. BREEAM, LEED, NABERS)	27%	27%	18%	26%	5%	26%	**25%**
Electric vehicle charging facilities	0%	33%	18%	24%	24%	4%	**24%**
Cycle facilities	18%	8%	0%	11%	5%	4%	**9%**

PASSION INVESTMENTS

Which of the following investments of passion* are your clients likely to purchase in 2023? (% respondents)

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
Art	36%	49%	76%	73%	71%	41%	**59%**
Watches	32%	49%	47%	46%	33%	52%	**46%**
Wine	18%	43%	59%	39%	43%	26%	**39%**
Classic cars	50%	24%	53%	37%	43%	41%	**34%**
Jewellery	45%	35%	59%	26%	29%	30%	**33%**
Luxury handbags	14%	27%	24%	13%	29%	7%	**20%**
Rare whisky bottles	27%	25%	29%	10%	14%	0%	**18%**
Furniture	32%	9%	18%	17%	14%	7%	**14%**
Coloured diamonds	5%	13%	12%	5%	10%	4%	**9%**
Coins	5%	8%	6%	13%	0%	0%	**8%**

Please rank by amount your clients are likely to invest in each (1 = most)

	AFRICA	ASIA	AUSTRALASIA	EUROPE	AMERICAS	MIDDLE EAST	GLOBAL AVERAGE
Art	1.9	1.9	1.9	1.8	1.5	1.9	**1.8**
Classic cars	2.2	2.4	2.3	2.2	2.6	2.5	**2.3**
Wine	3.0	2.5	3.6	2.7	2.4	1.8	**2.6**
Jewellery	3.4	2.1	3.3	3.1	2.3	2.1	**2.6**
Watches	3.0	2.5	3.6	2.8	4.7	2.1	**2.7**
Rare whisky bottles	3.0	3.3	4.0	3.4	3.3		**3.3**
Furniture	2.9	4.6	4.3	2.8	4.7	1.5	**3.4**
Coins	1.0	3.3	3.0	3.6			**3.4**
Coloured diamonds	6.0	2.8	3.0	4.8	4.0	3.0	**3.5**
Luxury handbags	3.3	3.4	4.5	3.6	3.8	4.0	**3.5**

*Assets included in the Knight Frank Luxury Investment Index

Head online for
- The full Attitudes Survey results
- Methodology

The Attitudes Survey is based on responses from 500-plus private bankers, wealth advisors and family offices representing combined wealth of more than US$2.5 trillion. The survey was conducted during November 2022. For selected country-level data, email siobhan.leahy@knightfrank.com

If you'd like to participate in next year's survey do please get in touch. All respondents receive the full country-level dataset.

THE KNIGHT FRANK HNW PULSE SURVEY

Given the economic and interest rate environment in 2023, what do you intend to do with the following? (% respondents)

	INCREASE	DECREASE	NO CHANGE
Investment portfolio	**47%**	**17%**	**33%**
Cash reserves	**46%**	**23%**	**28%**
Travel overseas	**39%**	**25%**	**30%**
Personal expenditure (social activities, cultural activities, dining, etc.)	**36%**	**24%**	**36%**
Business operations	**34%**	**17%**	**31%**
Holdings of residential property	**32%**	**15%**	**47%**
Holdings of commercial property	**28%**	**16%**	**34%**
Level of debt	**27%**	**29%**	**30%**

To what extent will inflation levels influence your investment decisions this year? (% respondents)

	GLOBAL AVERAGE
To some extent	**43%**
To a significant extent	**37%**
Not at all	**20%**

If you are considering investing in commercial property (retail, hotels, offices, etc.), where are you likely to invest? Please select all that apply (% respondents)

	GLOBAL AVERAGE
In my country of residence	**63%**
Outside my country of residence, but in the same region (e.g. if based in UK then outside the UK but within Europe)	**25%**
Outside my country of residence, not in the same region (e.g. if based in UK then in Asia)	**13%**

Of those considering investing in commercial property (retail, hospitality, offices, etc.), how much they are likely to invest (% respondents)

	GLOBAL AVERAGE
Up to US$500,000	**27%**
US$500,000–1m	**27%**
US$1m–5m	**16%**
US$5m–10m	**8%**
US$10m–20m	**9%**
More than US$20m	**11%**

Do environmental considerations impact your investment decisions… (% respondents)

	GLOBAL AVERAGE
To some extent?	**46%**
To a significant extent?	**31%**
Not at all	**22%**

Please rank the following environmental considerations in terms of their importance to your investment decisions (1 = highest)

	GLOBAL AVERAGE
Reducing carbon emissions through operation	**1**
Minimising embodied carbon (i.e. emissions associated with materials and construction processes)	**2**
Minimising waste of resources	**3**
Minimising consumption of resources	**4**

Please rank the following according to which you consider to be the safest and least volatile asset class (1 = safest)

	GLOBAL AVERAGE
Residential property	**1**
Gold	**2**
Bonds	**3**
Commercial property	**4**
Equity markets	**5**
Cryptocurrencies	**6**

What will be the main reason behind your next residential property purchase? (% respondents)

	GLOBAL AVERAGE
Investment	**45%**
Lifestyle	**21%**
Safe haven	**16%**
Job relocation	**9%**
Education	**8%**

Which of the statements below most closely corresponds with your view on the role of NFTs as works of art (% respondents)

	GLOBAL AVERAGE
I believe the NFT art market still has a lot of potential	**34%**
I never had any confidence in them	**32%**
I was open minded until the crypto crash	**20%**
I have no idea what an NFT is	**12%**

Note: Some totals may not equal 100% due to rounding and/or because there was no appropriate option

Certainly uncertain

"The Covid-19 pandemic has altered human behaviour and psychology in ways that should not be underestimated"

The 2023 edition of *The Wealth Report* is the fifth that I have been involved with. Each year I write about changing trends, but one theme recurs – the only certainty is uncertainty (apart of course from death and taxes).

We touted 2019 as a year of VUCA – volatility, uncertainty, complexity and ambiguity – but that was just a curtain-raiser for the chaos to come: two years of a global pandemic and war in Eastern Europe. In an increasingly complex geopolitical environment, new disruptions are always just around the corner.

Now, we're in a period of reset, with the end of ultra-loose monetary policy heralding a new environment for investors. Liam Bailey wrote about the slow death of cheap money at the start of 2018, and over the subsequent 18 months we saw interest rates gradually rise by 1.25% in the US. If that was a slow death, 2022 was a demise at breakneck speed, with rates in the US soaring by 4.25%.

Fortunately, 2023 has begun on a slightly more optimistic note. Inflation permitting, we could be nearing the end of the cycle of multiple interest rate hikes, with US rates rising just 0.25% in February. The reopening of the Chinese mainland has also added buoyancy to economic prospects.

But what gives me confidence is how innovative and resilient markets and investors have proven over the past five years, particularly in 2020 and 2021. The Covid-19 pandemic put more than half the global population under some form of stay-at-home orders, and many businesses were forced to move online practically overnight. Yet the global economy rebounded at almost unimaginable speed.

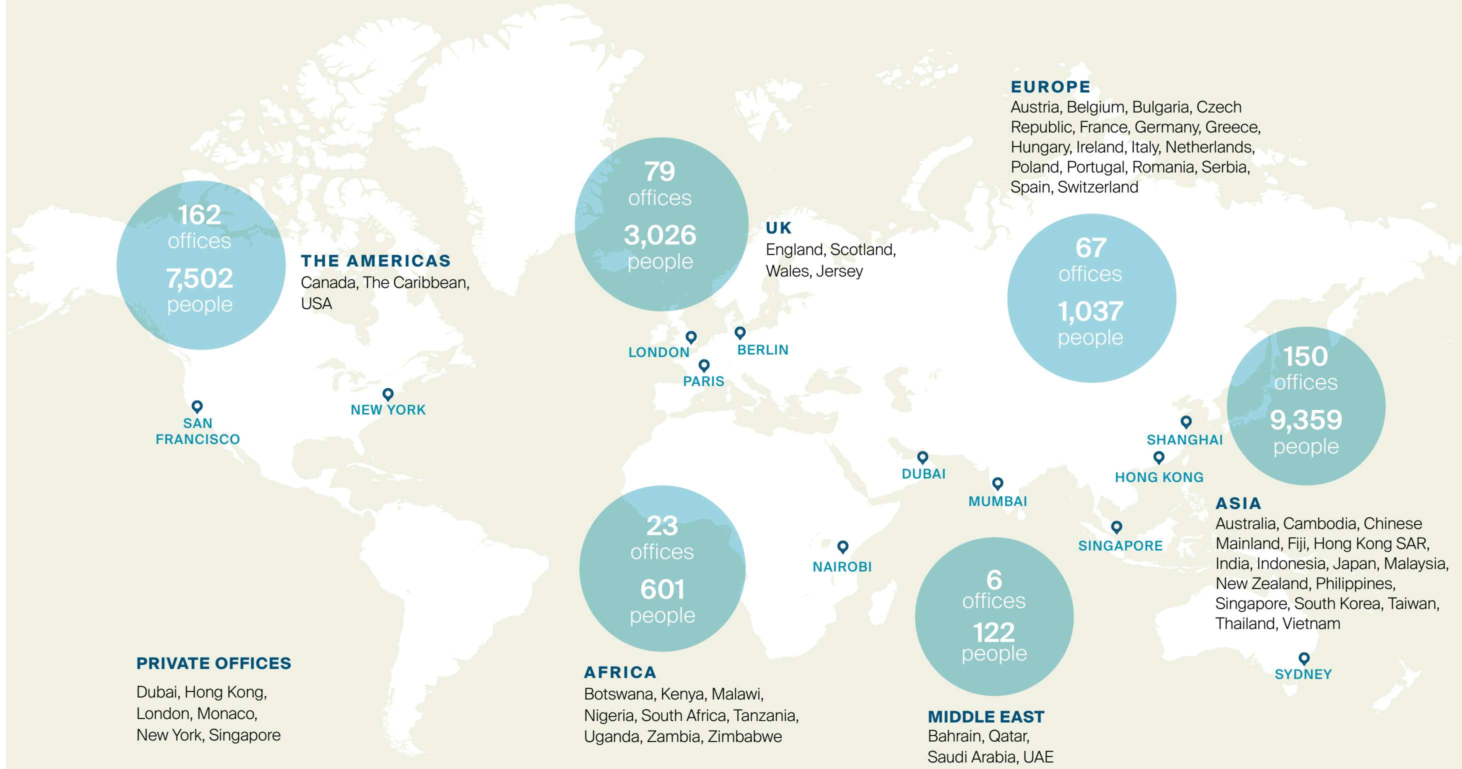
One famous economist (the quote is attributed to both Keynes and Samuelson) said: "When the facts change, I change my mind. What do you do, sir?" And the facts have certainly changed. The pandemic has altered human behaviour and psychology in ways that should not be underestimated. This is the reason why the widely touted downturn of 2023 may prove not to be a full-blown recession after all, according to the IMF's latest forecast. Our HNW Pulse Survey suggests that the post-pandemic "revenge spending" trend has room to run, with 36% of respondents looking to increase personal expenditure and 39% planning more travel overseas.

Nevertheless, the risks are certainly skewed to the downside. The impact of higher rates hasn't yet fully hit home and who knows what's around the corner that could lead to stickier, higher inflation – and, by extension, stickier, higher interest rates. The path those rates take in 2023 will be critical for asset performance.

As a result, we will still see wealthy individuals taking defensive positions. Safe havens will appeal in the form of residential and commercial property in established global hubs such as London, New York or Singapore. As someone who looks forward to the lexicographers' word of the year, let's hope that "permacrisis" – *Collins English Dictionary*'s pick for 2022 – doesn't remain common parlance in 2023. VUCA, however, looks like it will be sticking around for a while yet.

Our global network

487 offices across 53 countries and territories supported by 20,000 property professionals



Douglas Elliman contacts:

New York City, New Jersey, Massachusetts, Westchester and Connecticut
Richard Ferrari
212.891.7268
rferrari@elliman.com

Long Island, Hamptons and North Fork
Todd Bourgard
631.723.4300
todd.bourgard@elliman.com

Florida
Jay Phillip Parker
305.695.6300
jay.parker@elliman.com

California, Colorado, Texas and Nevada
Stephen H. Kotler
310.819.4268
stephen.kotler@elliman.com

Metro D.C.
Evan Lacopo and Ruth Boyer O'Dea
703.552.4180
evan.lacopo@elliman.com
ruth.boyerodea@elliman.com

New Development
Susan de França
212.891.7102
sdefranca@elliman.com

For any Press Enquiries please contact:

Stephen Larkin
Executive Vice President & Chief Communications Officer
212.891.7042
stephen.larkin@elliman.com

Samantha Feld
Associate Vice President of Public Relations
212.891.7735
samantha.feld@elliman.com

Your partners in property