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RESEARCH

Ultra-high-net-worth individuals invested $178B in commercial real estate for 2015: report

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Image courtesy of Michael Kors

By JEN KING

The population of ultra-high-net-worth individuals dipped 3 percent from 193,100 in 2014 to 187,500 in 2015, according to a report by Knight Frank.

Even with the slight drop, the 2015 UHNW population marks a 61 percent increase in the demographic since 2005, which had only been 116,800 people. Understanding the attitudes, behavior and market concentration of wealthy individuals, as discussed in Knight Frank's tenth annual "Wealth Report 2016," can help luxury brands fine tune business strategies while dictating the state of the industry's largest scope.

"Despite longer term growth, data from 2015 shows the first annual dip in the global ultra-wealthy population since the financial crisis," said Grainne Gilmore, head of UK residential research at Knight Frank. "Last year, only 34 out of the 91 countries for which individual data is compiled saw a rise in the numbers of UHNW individuals."

Where the UHNW roam

When broken down into regions, North America is home to the largest concentration of UHNW individuals, with 69,300 people with at least $30 million in net assets. Europe places second with 46,200 and Asia comes in third with a population of 41,100 UHNW individuals.

Over the next 10 years, Knight Frank predicts that the global population of UHNW individuals will rise by 41 percent to 263,500 in 2025. While growth will be slower than in the preceding decade, Knight Frank forecasts that Asia will overtake Europe as the second largest concentration of wealthy individuals.

Additionally, Knight Frank's research found that there are 13 million millionaires around the world, while in comparison, 2005 counted only 8.7 million millionaires across the globe. The global millionaire population is also estimated to hold net assets of $66 trillion.

The steady pace of increasing affluents is set to continue with the Asian, North American and European markets gaining up to more than 1 million newly minted millionaires over the next 10 years.

London

Where UHNW individuals choose to live and raise their family, do business and vacation is also an important piece to the puzzle. Knight Frank found that London surpassed New York for the second year in a row as the most important city for UHNW individuals.

The top five most important cities for the wealthy in 2015 included London, New York, Hong Kong, Singapore and Shanghai. For 2016, the list has shifted with London and New York placing first and second, Singapore and Hong Kong swapping third and fourth places and Dubai, United Arab Emirates, replacing Shanghai completely.

London's position as the most important city for UHNW is rooted in the British capital's geographical location, being only a short flight to elsewhere in Europe. London is much more accessible for its 16,000 UHNWs compared to New York's 8,300.

Similarly, Paris is considered the most accessible overall for UHNWs based on travel time. More than 16,900 UHNW individuals live within two hours of Paris.

Performance trophies
It is also important to recognize that high-net-worth individuals account for 25 percent of all global commercial property transactions. In 2015, Knight Frank found that the UHNW population invested $178 billion in commercial properties, with a total of $902 billion since 2009.

When considering a property, the wealthy are not "hunting [solely] for trophy assets," but are looking for commercial property that is tangible, controllable and not subjected to daily pricing. Likewise, the ideal property must present real performance in relation to other asset classes.

The $178 billion invested in 2015 includes $58 billion in Europe, with $16 billion of that amount spent on property in the United Kingdom. The amount of investment properties in the UK in 2015 was three times more than what was seen in France and a third more than in Germany.

Much of these property investments are rooted in hospitality, with hotel openings in the Middle Eastern and Asian markets being the most popular sector for investment.

Rendering of St. Regis Dubai Palm Jumeirah

This time last year, despite political unrest, there was a surge in hotel openings and property proposals across

Middle Eastern countries from luxury hospitality brands.

Fairmont Hotels & Resorts announced its expansion plans into Bahrain, Trump Hotel Collection unveiled a new hotel in Azerbaijan and Four Seasons Hotels & Resorts recently opened properties in Dubai, United Arab Emirates and Bahrain. With the recent reports in regards to actions from terrorist group Islamic State of Iraq and the Levant, the idea of traveling to the region for a relaxing vacation is not enticing to most (see story).

Knight Frank suggests that UHNW individuals choose to invest into the hotels asset class through long term association as operators, investors or both, due to experience, familiarity and confidence cues.

The North American market saw the highest concentration of private investment throughout 2015, with 32.3 percent of commercial real estate investments coming from private investors. Most noticeable has been the increase of inbound capital from Chinese and Middle Eastern UHNWs.

In 2015, outbound capital flow from Asia was expected to increase 61 percent as a result of policy changes in China and Japan that will ease investments, according to Colliers International.

This year, Japan will likely see an increase in outbound investments, as its Government Pension Investment Fund may allot 3 to 5 percent of its $1.1 trillion to global real estate. This would make the fund the world's largest real estate allocation.

Also, in China, a policy that will ease the process for Mainland companies to receive approval to invest outside Mainland China will likely increase investments elsewhere.

New York, London, Sydney and Melbourne are the preferred destinations for outbound Asian investors, but with the competition from local investors, many Asian investors are looking toward cities such as Los Angeles or Frankfurt, Germany (see story).

"UHNW investors are more focused on performance than trophy buys," said Deborah Watt, partner, Private Client Advisory Team, Knight Frank. "They want to add value to their portfolio and are looking for strong cash on cash returns. It's now as likely that a UHNW individual will buy a luxury retail unit on Bond Street as an office investment in Birmingham, [London]."

Lee Elliott, head of commercial research at Knight Frank agreed, saying, "Private investors are now well-established as a bedrock of the commercial real estate market. Since 2009 they have represented $1 of every $4 invested in the commercial market.

"We expect private investors to develop stronger infrastructure and more diverse strategies as they participate in a hugely competitive marketplace."