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REAL ESTATE

Rising UHNW population to continue migration trend while cultivating real estate, passport portfolios

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The Wealth Report 2017, illustration by Benjamin Flouw

By JEN KING

NEW YORK Despite political and economic uncertainty, the global ultra-high-net-worth population continues to grow, with 6,340 new individuals added in 2016, according to Knight Frank's 11th annual Wealth Report.

After a decline of 3 percent in 2015, last year's UHNW additions brought the global total of individuals, with more than $30 million in net assets, to 193,490. While this population is estimated to grow by 43 percent in the next decade, global factors in the next 12 to 24 months, such as Brexit, European elections and United States President Trump's policies, will have an impact on how the ultra-wealthy invest, and in what, and where they live.

"There are probably two sentences, which I think, will define the next two years of the global market," said Lord Andrew Hay, global head of residential at Knight Frank. "Firstly, it wasn't even a sentence, it was simply three words, 'Brexit means Brexit,' [said by] Theresa May, the United Kingdom prime minister.

"And then secondly, on Jan. 20 of this year, 'From this day forward, America first, and only American first,'" he said. "And at that point, many of the world's high-net-worth communities stepped back, and gasped and thought, 'What does this mean? What should I do?'"

Now in its 11th year, Knight Frank's The Wealth Report offers insights into the wealthy based on independent research. Knight Frank Residential and Douglas Elliman Fine Homes presented the co-branded report's findings in the U.S. at the New York Public Library March 2.

Where the wealth is

By market, the United Kingdom can expect an estimated 30 percent rise in UHNW individuals in the next 10 years, while the U.S. is likely to see a slightly higher rate of growth at 31 percent.

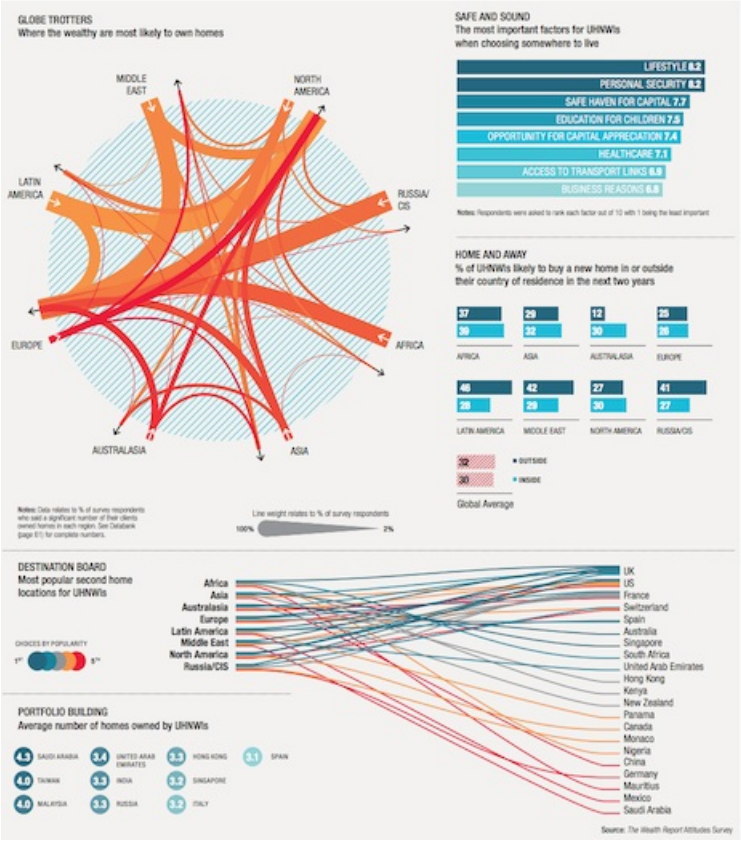
Asia is the market to watch as it starts to outpace the U.S. in terms of its UHNW population. Currently, Asia has 27,020 less UHNW individuals than the U.S., but the Wealth Report forecasts that the markets will have a difference of

approximately 7,000 millionaires by 2026.

A similar case is expected in Europe, with Asia outperforming the continent in terms of UHNW growth. While Asia is set to see its UHNW population grow by a staggering 91 percent in the next 10 years, Europe is likely to only see a 12 percent increase.

This ever-growing population of UHNW is also on the move to seek out "fiscal and political safe haven[s]'" and places boasting a high quality of life.

To this point, the Wealth Report found that $2.4 billion is spent by the world's wealthy to acquire new citizenship and residency, with 16 percent of UHNW considering moving overseas permanently. Individuals from China, Russia and the Middle East show the highest demand to do so.



A guide to where -- and why -- UHNW individuals choose to settle, graph courtesy of Knight Frank

Due to an increased demand in foreign residency by the world's wealthy, cross-border real estate sales have grown. For example, in 2006, Chinese UHNW individuals spent $300 million on U.S. residential property compared to more than $30 billion in 2015.

Per the report's findings, 32 percent of UHNW individuals will invest in international property in the next two years.

Global migration of the wealthy shows an interest in destinations such as Australia, the U.S., with New York holding the lead a global center of wealth, and Canada. In comparison, Europe is seeing an "outflow" of wealthy residents in cities such as Paris and Rome, who lost 7,000 and 5,000 HNW individuals, respectively, in a year's time.

London is the exception and remains an outlier for Europe. The U.K. capital has maintained an annual net inflow of 500 HNW individuals.

The attraction to the London market, despite the Brexit vote and the uncertainty it's due to continuously cause, lies it the city's best-in-class qualities, which includes world-renowned luxury retail such as Savile Row, a network of coveted universities and colleges and, an envious dining scene, a result of it multi-ethnic society (see story).

Treasured toys

Aside from residential properties, passion is a key motivation for UHNW individuals investment behavior. With quality of life being a weighty factor for all decision making, the wealthy are more likely to be motivated by personal enjoyment than any other factor, when investing in assets such as art, wine or classic cars.

In addition to cultivating a real estate and passport portfolios, spending trends leverage "personal enjoyment,"

"status" and "finding a safe haven for capital," according to the Wealth Report's 900 UHNW survey respondents.

The report discovered that UHNW individuals from around the Middle East have different interests when it comes to luxury asset ownership. For example, UHNW individuals from the United Arab Emirates are most likely to own a motor or sailing yacht, while those from Saudi Arabia have higher numbers of private jet ownership.

With the billionaire population rising, superyacht builders are prepared to follow.

According to research from Wealth-X, superyacht owners make up an elite portion of the wealthy. The segment is still concentrated in Anglophone nations, but the changes in the industry are slowly making the product more appealing to a broader portion of the ultra-wealthy (see story).

On a smaller scale, collectibles such as art, wine and classic automobiles are still popular investments. Fine wines, for example, saw an increase in pricing while classic cars only saw a significant decline.

"I'll give you two headlines from this year's report: If you collect fine wines, you'll be very pleased to note that in the terms of performance of luxury assets we've had a growth of 24 percent in fine wine prices over the past 12 months," said Liam Bailey, global head of research at Knight Frank.

"[Fine wine is] the top-performing asset class over the past year, outpacing classic cars, which saw a pathetic 9 percent growth over the past 12 months," he said. "I say pathetic because classic cars had seen a price growth of 151 percent over the past five years, making 9 percent probably seen as a recession in the classic car market at the current time."