

REAL ESTATE

Affluents can remain confident with real estate investments: Knight Frank

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Cities will survive beyond the pandemic, but will operate differently. Image credit: Fifth Avenue Association

By NORA HOWE

Although there has been a shift in global economies and consumer lifestyles amid the COVID-19 pandemic, real estate remains a worthwhile investment for high-net-worth individuals.

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Climbing energy prices and continued supply chain disruptions have also contributed to the uncertainty surrounding investors and HNWI. During a webinar on Oct. 26, wealth experts further discussed the data found in the report, expanding on current global economic and geopolitical trends, such as inflation, the future of cities, working from home and sustainability.

"Since the report launched, we have seen many cities spring back into life with office occupancy on the rise, sports and entertainment venues at full capacity and people back on public transportation, but this picture is not global, so we want to uncover some of the nuances," said Flora Harley, deputy editor of [The Wealth Report](#) at Knight Frank.

"We want to explore some of the most hotly discussed areas of this," she said. "How [the delta variant] continues to disrupt supply chains, what is happening to inflation, how this relates to property and the future of the city."

Inflation explained

With rising global energy prices, particularly in Europe, blackouts across Mainland China and ongoing supply chain issues, inflation is top-of-mind right now for investors everywhere.

"As we come out of the pandemic, people are buying more goods than they normally would, and fewer services than they normally would, and that is causing an extraordinary amount of demand for the production of things," said David Bailin, chief investment officer and global head of investments at [Citi Global Wealth](#). "As production rises, we are seeing labor shortages around the world."

These shortages are predominantly the product of a major dislocation in the supply chain people left their jobs during the pandemic and are looking for employment elsewhere. From an economic standpoint, this trend becomes a problem when it appears to be sustained.

"Sustained inflation is the probability that demand will continue to outstrip supply for years on end," Mr. Bailin said.

"But we do not see this taking place because demand for goods will likely cool down due to the long-term U.S. stimulus bill, slower economic growth in China and a return of services."



Hong Kong has a large population of UHNW residents, and a substantial number of young people are still looking to buy property in cities. Image credit: Unsplash

In terms of rising interest rates and the Federal Reserve's plans to taper bond purchases, Mr. Bailin expects rates to settle around 2 percent for the 10 year bond, a mild increase considering the environment.

"Now, from a real estate perspective, this is a very benign environment, suggesting real estate will be a good asset class," he said. "It could also be an inflation hedge to the extent that there is inflation in certain parts of the economy."

In the Asia-Pacific region, investments into real estate will likely benefit from an economic revival, and remain an attractive asset class.

"Investors have a longer horizon and tend to be driven by other motivational factors," said Christine Li, head of research, Asia Pacific at Knight Frank. "This will be especially true in the region, which will continue to benefit from the demographic windfalls as well as sustainable urbanization.

"Real estate asset classes continue to be one of the best hedges against inflation."

Real estate changes

In regards to urbanization and the future of cities in Asia, and despite COVID-19's effect on urban areas, Ms. Li notes that 44 percent of buyers are still looking at cities for their next move.

"The pandemic has also put health and wellness into the forefront of younger generations," she said. "Good air quality, proximity to green spaces and access to health care are the top factors for young buyers when they are choosing where to live in the city.

"The allure of a more luxurious lifestyle is also a draw for the region's next generation of buyers," she said. "They want to be able to access a lot of amenities such as restaurants, entertainment, sports, retail and more."

According to vintage furniture marketplace Chairish, fashion dominated the resale category in 2018. But in 2020, home became the fastest growing of all the resale categories, and the interest continues to increase, as experts believe habits formed in the fashion space are now migrating into the home space.



People are focusing more on and investing in their homes. Image credit: Chairish

By 2027, sales of online furniture and homeware are expected to grow by 127 percent, reaching \$177.1 billion. One factor propelling buyers towards the resale home furnishings points to the increased awareness of the environmental benefits of buying preowned items ([see story](#)).

The Asia Pacific region is in the midst of a long-term urbanization trend, and urban centers will only continue to grow with the demand for urban lifestyles.

Whether cities will grow or fade, however, COVID-19 has tested the stability of cities and has had an undeniable impact on how they function.

"People were already using technology to test the limits of the [work life] balance," said Ian Mulcahey, principal at [Gensler](#). "What the pandemic did was force everyone to shift from an office environment to a home environment, with very little gray area in between.

"Now, we are entering a hybrid situation, where some have gravitated back, but others have made permanent lifestyle changes, and you see that reflected in the housing market," he said. "House prices are rising outside of London, while prices are softening in the city, people are taking advantage of low interest rates and furloughs and some are even considering moving out of cities and working remotely forever."

According to real estate and design experts, families' luxury home priorities include having space for studying and remote work, as well as room for socializing and sports practice for children's prospective collegiate athletic careers, while empty nesters or retirees tend to emphasize the need for amenities such as gyms, indoor pools or spaces to practice yoga or Pilates ([see story](#)).

Mr. Mulcahey suggests the big question to consider is whether or not life will ever go back to what it was, and he sees that as highly unlikely.

"I see that the connection between the size of a business, its headcount and the amount of real estate it has in the center of the city is broken, probably forever," he said.