THE

WEALTH

REPORT 2010

A GLOBAL PERSPECTIVE ON PRIME RESIDENTIAL PROPERTY AND WEALTH

THE DEFINITIVE PRIME RESIDENTIAL BRIEFING
THE WORLD'S MOST INFLUENTIAL CITIES
FOCUS ON PROPERTY MARKET INVESTMENT

NEW HIGH FOR CONTEMPORARY ART
ASIA PACIFIC PRIME REAL ESTATE OUTLOOK
WHERE THE WEALTHY ARE INVESTING

Citi Private Bank

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KNIGHT FRANK TERMS AND DEFINITIONS

HNWI is an acronym for 'high-net-worth individual', a person whose investible assets, excluding their principal residence, total between $1m and $10m. An UHNWI (ultra-high-net-worth individual) is a person whose investible assets, excluding their primary residence, are valued at between $10m and $100m-plus.
The term 'prime property' equates to the most desirable, and normally most expensive, property in a defined location. Commonly, but not exclusively, prime property markets are areas where demand has a significant international bias.
Exchange rates: unless otherwise stated these were calculated using the rate on Feb 1 2010. The Wealth Report 2010 Attitudes Survey: the participants of the survey comprised clients of Citi Private Bank. Survey conducted between 1 December 2009 and 31 January 2010.
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Prime, prestige, luxury – all labels applied to the top end of the residential property market in different parts of the world.

While the names may differ, the desire of High-Net-Worth Individuals to own and invest in the best property is ubiquitous around the globe. As we discover in our focus on prime property in Asia Pacific (page 18), even the world's smallest emerging economies, such as Cambodia, are promoting themselves as development hotspots and attracting growing amounts of internal and external investment.

The tangible and straightforward nature of residential property, especially when the outlook for other asset classes is uncertain, explains this attraction. The results of The Wealth Report's 2010 Attitudes Survey (page 40) clearly indicate that HNWIs, wherever they are around the world, still see property as one of the best assets to own, with most predicting values to grow in 2010.

Furthermore, property is viewed as a strategic investment that can ride out economic cycles. Most of the survey's respondents said they were interested in long-term capital growth from their property portfolios, rather than income.

Despite this globalisation of property as the "must-have" asset class, it would still be wrong to talk about the marketplace for the world's most desirable properties as a single entity. Just as the labels vary, so do the characteristics of individual markets, not only between continents and countries, but also from city to city and region to region.

Each market – as highlighted by the latest results from our Prime International Residential Index (page 6) – sits in a different part of the economic cycle. Some are booming to the point where overheating is once again a concern, while others are still struggling to shake off the impact of the global recession.

Market drivers are also becoming more nuanced in the light of varying government responses to the credit crunch. Cities like Washington DC and Beijing, as The Wealth Report 2010 Global Cities Survey (page 34) discusses, now find themselves transformed into banking as well as policy hubs, attracting a new breed of property owner.

The last decade witnessed huge shifts in the global property market with many new opportunities emerging. The next 10 years are likely to see even more changes.

Luxury, prime or prestige – however you like to describe them – The Wealth Report 2010 offers a unique and invaluable insight into the world's most valuable property markets.

Andrew Shirley
Editor of
The Wealth Report 2010

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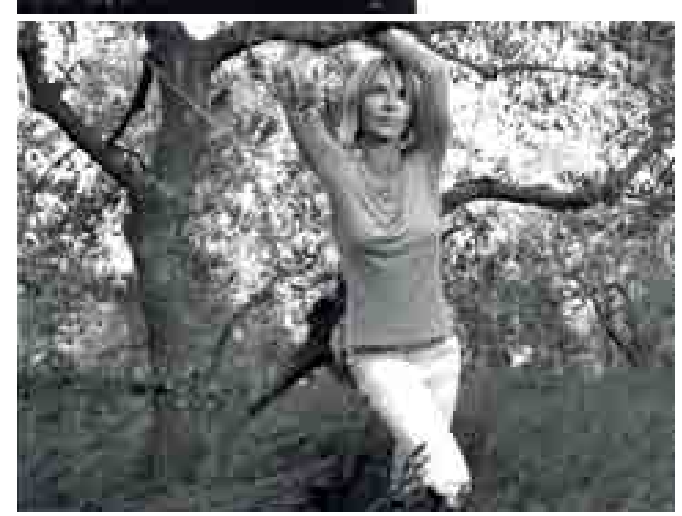

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GLOBAL VIEW

Three years into the global housing market downturn, and at the tail end of the world's worst recession for 70 years, we might have expected to see the beginning of a slow and measured property recovery. Instead, on the one hand, we have strong growth in London and huge uplifts in key Asian markets.On the other, prices were still falling last year in three-quarters of the locations featured in our Prime International Residential Index. *Liam Bailey* explores this ongoing paradox

HOW WE TRACK THE WORLD'S MARKETS...

The Knight Frank Prime International Residential Index (PIRI) is the most comprehensive analysis of global luxury residential markets. Our index is compiled using data supplied by our global network. All annual price growth figures relate to the 12 months to the end of December 2009.

Prime property is the most desirable, and normally most expensive, property in a defined location. Commonly, but not exclusively, prime property markets will be areas where demand has a significant international bias.

China – almost inevitably – dominates the top of our table. In Shanghai prices rose by over 50% last year with Beijing close behind. Local commentators are convinced that price growth at this rate is not necessarily a bubble in the making – pointing to some pretty compelling market fundamentals, which we discuss below.

Over the past 12 months we have seen a great reversal of fortune – the worst performers in 2008, led by Hong Kong (which has moved from 55 to 3 in our ranking), Singapore (51 to 5), and London (53 to 9), were last year's best.

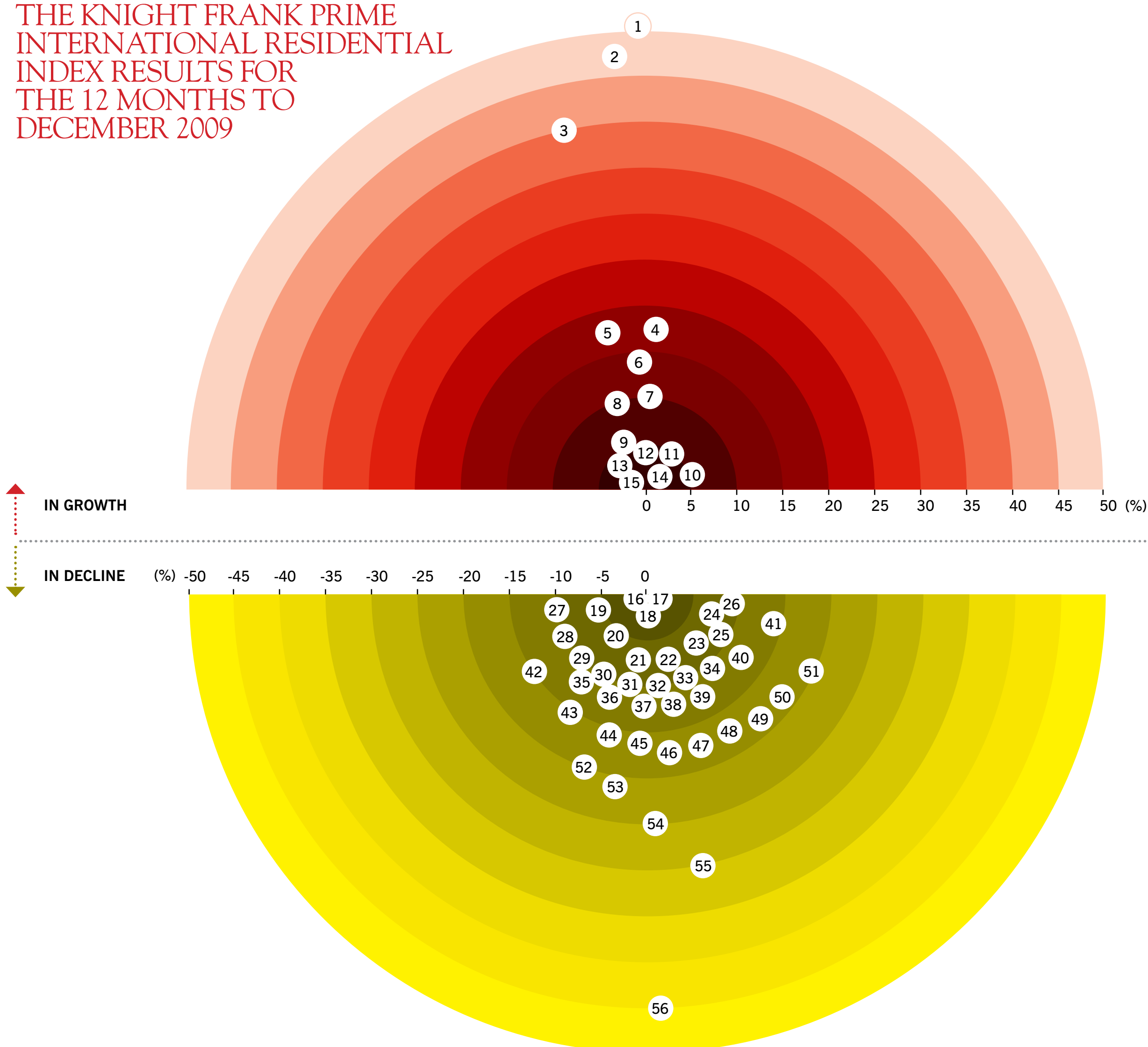
These markets have all confirmed the attraction of prime residential property. When prices fall, demand is quick to re-establish itself with buyers and investors looking to capitalise on the better value offered. At the same time supply becomes constrained as development schemes are put on hold during the initial stages of the market downturn.

Away from these growth markets, the price falls that began in 2007 were, by 2009, afflicting a wider range of global markets. In last year's report we revealed that 41% of the prime markets we tracked had seen annual price falls; this year the figure is 73%.

With prices falling in the Middle East (Dubai -45% and Abu Dhabi -10%), Europe (Western Algarve -30% and Dublin -25%), the Caribbean (Barbados -20%), the Americas (New York -12.5% and San Francisco -16%) and even some locations in Asia Pacific (Kuala Lumpur -1.8%), the downturn went truly global in 2009.

In most locations, however, looking at annual growth figures does not tell the complete story. The vast majority of price falls took place in the first half, if not the first quarter of the year. In New York, for example, prices fell more than 12% in 2009, but actually rose by 2% in the final six months of the year. Markets recovered on the back of improved confidence and the return of global economic growth.

THE KNIGHT FRANK PRIME INTERNATIONAL RESIDENTIAL INDEX RESULTS FOR THE 12 MONTHS TO DECEMBER 2009



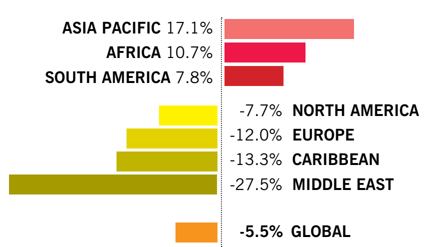
PRICE CHANGE

ABOVE 40%	
1. SHANGHAI*	52.0%
2. BEIJING*	47.0%
3. HONG KONG	40.5%
BETWEEN 10% AND 20%	
4. JOHANNESBURG	17.0%
5. SINGAPORE	17.0%
6. JAKARTA	14.0%
7. MUMBAI	11.0%
8. RIO DE JANEIRO	10.0%
BETWEEN 0% AND 9%	
9. LONDON	6.1%
10. WASHINGTON DC	5.6%
11. SAO PAULO	5.6%
12. BANGKOK	4.6%
13. CAPE TOWN	4.3%
14. HOME COUNTIES (UK)	1.4%
15. ZURICH	0.0%

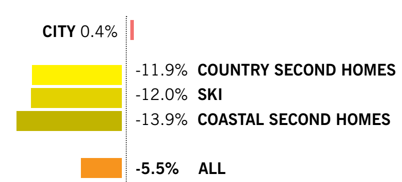
PRICE CHANGE

MINUS 0% TO 9%	
16. TORONTO	-0.5%
17. SYDNEY	-0.5%
18. KUALA LUMPUR	-1.8%
19. ITALIAN LAKES	-6.1%
20. MOSCOW	-6.3%
21. CAP FERRAT	-7.5%
22. VALBONNE	-7.5%
23. ST TROPEZ	-7.5%
24. CENTRAL ALGARVE	-7.5%
25. VAL D'ISERE	-8.0%
26. ST PETERSBURG	-8.9%
MINUS 10% TO 14%	
27. CAYMAN ISLANDS	-10.0%
28. GENEVA	-10.0%
29. ABU DHABI	-10.0%
30. MEGEVE	-10.0%
31. CANNES	-10.0%
32. PROVENCE	-10.0%
33. MUSTIQUE	-10.0%
34. THE HAMPTONS	-11.0%
35. PARIS	-12.0%
36. LOS ANGELES	-12.1%
37. COURCHEVEL	-12.4%
38. TOKYO**	-12.5%
39. MANHATTAN (NEW YORK)	-12.5%
40. MERIBEL	-12.6%
41. UMBRIA	-14.0%
MINUS 15% TO 20%	
42. MONACO	-15.0%
43. SAN FRANCISCO	-15.7%
44. TUSCANY	-16.0%
45. KIEV	-16.0%
46. CHAMONIX	-17.0%
47. GASCONY	-17.0%
48. MALLORCA	-17.0%
49. FLORENCE	-18.0%
50. BORDEAUX	-18.1%
51. DORDOGNE	-19.5%
52. BARBADOS	-20.0%
MINUS 21% TO 50%	
53. PALMA	-22.0%
54. DUBLIN	-25.0%
55. WESTERN ALGARVE	-30.0%
56. DUBAI	-45.0%

2009 RESULTS BY WORLD REGION
UNWEIGHTED ANNUAL % CHANGE



2009 RESULTS BY LOCATION TYPE
UNWEIGHTED ANNUAL % CHANGE



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MANHATTAN, THE HAMPTONS Prudential Douglas Elliman and Miller Samuel Inc
TOKYO Colliers Halifax
TORONTO Harvey Kalles Real Estate Ltd
WASHINGTON DC Evers & Co
LOS ANGELES, SAN FRANCISCO First Republic Prestige Home Index

FOOTNOTES
*BEIJING & SHANGHAI Based on urban areas only
**TOKYO Change based on land values, latest data July 2009

An interesting divergence in performance can be seen when we split our results by location type. On an unweighted basis prices fell by around 5% in 2009 in the 56 prime markets we track. Coastal and country second home locations saw prices fall by 14% and 11.9%, respectively. European ski resorts were slightly more resilient – falling by 12%. But prime city locations were much healthier, posting an average rise of 0.4% over the year.

The market recovery in the cities at the top of our table shows renewed confidence in the performance of prime property, which is welcome, but there is a degree of concern around the speed and strength of the turnaround. The case for prime market outperformance, which we outline above, is well made – but there are other factors at play.

We have to consider the current support for market growth created by ultra cheap money. In fact it is not just property markets that have succumbed to exuberance – equities and commodities saw prices pushed up sharply during 2009.

Rock-bottom interest rates and the "creation" of money via government stimulus packages have led to an injection of liquidity into the world economy, which has found, inevitably, its way into asset markets, including property, gold and shares.

Low interest costs have protected potentially distressed owners and reduced the supply of property for sale. At the same time, low savings rates have encouraged the wealthy to move investments out of cash and into property in the search for acceptable yields. This has driven demand for property higher and, set against tight supply, has served to push values upwards in many locations.

Ironically, the unintended consequence of government economic stimulus packages has been to support demand and pricing in top-end residential markets – probably not something governments would readily admit to.

We ought not, however, to be too pessimistic. The fundamentals in developing markets that we discuss in more detail in our Asia Pacific Focus are very impressive. The scale of demand in China, for example, confirms the need for new housing in the Asian powerhouse economies – 8.5m new homes were sold in China in 2009, compared with about 500,000 in the US.

Talking to Quek Kwang Meng, head of Asia Pacific real estate investments for Citi Private Bank, the power of this dynamic is reinforced. Quek says that even if economic growth slows, rural migration is likely to swell China's urban areas by 200m people within 15 years.

In India the requirement for accommodation is growing as rapidly as in China. Despite strong price growth (Mumbai +11% in 2009) the market appears at little risk of overheating. The proportion of mortgage debt to GDP, which has hit 70% and more in countries in the developed world, still sits at around 10% in India – despite a quadrupling in the size of this mortgage market in a single decade.

PRIME PROPERTY PRICES IN KEY GLOBAL CITIES, Q4 2009

LOCATION	FROM	TO	FROM	TO
	US$ SQ FT		€ SQ M	
MONACO	4,300	5,900	36,000	44,000
LONDON	3,600	4,400	26,900	32,900
PARIS	2,400	3,300	20,300	24,800
HONG KONG	2,000	2,500	15,000	18,800
ROME	1,800	2,500	15,000	18,500
GENEVA	1,800	2,500	15,000	18,500
MOSCOW	1,700	2,400	14,000	17,700
SYDNEY	1,700	2,300	14,000	17,100
TOKYO	1,600	2,200	13,800	16,900
MANHATTAN (NEW YORK)	1,500	2,100	12,600	15,400
SINGAPORE	1,500	2,000	12,600	15,100
MUMBAI	1,200	1,400	9,300	11,300
SHANGHAI	500	700	4,000	5,300

SOURCE: KNIGHT FRANK RESEARCH

In other, more mature, markets there are questions regarding the sustainability of booming price growth.

In Hong Kong, for instance, the market grew strongly in 2009 on the back of a low interest-rate environment and an influx of capital and lending from the banks. All sectors saw an improvement. The HK$10m+ sector, in particular, benefited from a 44% growth in transaction volumes to more than 6,700.

Government intervention

In light of this strong growth, the Hong Kong government has threatened measures to restrict the market – notably through mortgage lending restraint, reducing, for example, the mortgage limit for luxury property from 70% to 60%. Despite these potential restrictions the market continues to grow.

This example points to an interesting development. The crippling impact of property bubbles bursting in Europe and the US has created a much more confidently interventionist approach in China, Hong Kong and Singapore (where cooling measures were introduced in September last year) among other markets.

There is a slightly troubling aspect to this. With governments brooding in the shadows, ready to burst incipient bubbles as soon as they emerge, a high degree of skill is assumed from policy makers. The ability of markets to justify current pricing depends to a large degree on continued credit availability. The security of pricing in these markets is yet to be tested. If banks were to restrict liquidity or to push up the costs of finance there is an obvious risk of a correction.

This more aggressive government stance is not limited to Asia. From Europe to the US, governments have been making more active use of the economic tools at their disposal and as a by-product of bailing out banks in 2008 they have considerable influence over lending policies. We can expect to see more, not less, public sector control, at least over the short and medium term.

Future considerations

Last year we posed a question: was the downturn leading to a simple re-pricing of assets that had become overvalued, or something more fundamental occurring in the global economy that would mean prime market pricing would be further suppressed and take a long time to recover?

To provide an answer we pointed to the emerging evidence in London – a city at the epicentre of the downturn – where we were beginning to see wealthy buyers return to the market.

We suggested that while no market could escape a bubble-and-bust scenario, the evidence was building that when the market believed that prices had returned to offering good value, activity would rise and the perennial factors that made a prime market desirable would endure. Namely, limited supply, the growth of demand in line with the expansion of global wealth and the clustering of the wealthy in established markets.

This is exactly what happened. Supply fell in London and also in countless other markets where affluent owners or top-end property developers decided to refrain from selling at new lower prices. Demand then rose as buyers looked hopefully, but often in vain, to secure stock at bargain prices. As we have seen, those markets that appeared to be on the verge of collapse a year ago have bounced back from the ravages of the credit crunch.

The issue for 2010 is how secure the renewed bounce in pricing is in the markets at the top of our table. Our view is that most prime markets are suffering from an undersupply of stock and this will help maintain prices in the short term. Looking further ahead, however, it is those locations that offer a genuine lifestyle attraction to the world's wealthy, rather than just an investment opportunity, that will prove most sustainable.

A TALE OF TWO NATIONS

The Wealth Report looks in detail at the contrasts between prime property markets in the world's two largest economies

China

PRIME PROPERTY PRICES INCREASED BY OVER 50% IN SHANGHAI LAST YEAR, BUT CHINA IS SAFE FROM SPECULATIVE BUBBLES, AT LEAST FOR NOW, ARGUES **XAVIER WONG**, KNIGHT FRANK'S HEAD OF RESEARCH FOR GREATER CHINA AND HONG KONG

An overwhelming majority of homeowners in China have profited from the housing reform that began in 1998 when the country's residential sector was privatised. In fact, in the past ten years, house prices have consistently soared, except for a short respite in late 2007 and 2008. In many cities, values have increased more than threefold in the past decade, on the back of strong economic and income growth.

Such positive investment experiences have made the housing market a sure bet for most Mainland Chinese, especially since the local stock market is well known for its volatility and there are restrictions on outbound investments.

The country's surging productivity and high savings rate also mean that increasing numbers of Mainland Chinese can afford relatively expensive property. China's national savings rate totalled 52% of GDP in 2008, according to statistics from the Asian Development Bank. According to a recent survey conducted in Beijing in the first half of 2009, about 30% of homebuyers did not require a mortgage to purchase property. Many indigenous inhabitants in China's key cities, after having purchased their own home, acquired second and third residential properties to lease to migrants from other provinces and cities.

The official measures of affordability in Mainland China understate the real position as incomes are often artificially lowered for tax purposes.

Despite rapid price growth in China, affordability measures should generally be healthier than in the West, considering Chinese homebuyers' high savings rate and rapid income growth. Many young people – being the only child in their family – also receive large amounts of subsidies from their parents for home purchases. Chinese citizens' high rate of savings and their fixation with investing in bricks and mortar may mean that China's property market upcycle lasts longer than those in the West. My concern is not that we are in danger of an unsustainable bubble in the short term, but that there could be a growing threat in, say, three to four years' time if home prices continue to surge – this will be when the market is really tested.

US

THE PRIME NEW YORK MARKET, WHERE PRICES FELL 12.5% IN 2009, IS GAINING STRENGTH, BUT THE RECOVERY IS TENTATIVE, SAYS LEADING NEW YORK PROPERTY COMMENTATOR **JONATHAN MILLER**

The frozen market in Manhattan in the first half of 2009 gave way to a much stronger second half of the year. By the summer, the market began to see a recovery in sales activity following an improvement in economic confidence prompted by a revival in the stock market.

While the market has undoubtedly improved compared with last year, we ought not to get too excited. The recovery of late 2009 was a short-term uptick, due in large part to a release in pent-up demand. My view is that the surge in demand is not the start of a rising housing market. While sales are up sharply, prices have moved "sideways."

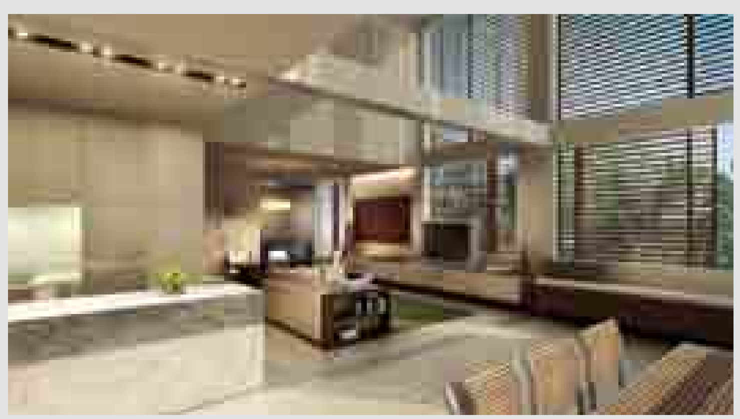
I have some lingering concerns for the New York market in 2010. The market has been aided by government stimulus measures – tax credits for first time buyers, in particular. This package will expire in mid-2010. While the US economy is growing, the high rate of unemployment – around 10% and somewhat higher locally – as well as a tight mortgage lending environment do not provide a firm basis for ongoing growth in house prices.

A real fear for 2010 is rising mortgage rates, currently at near record lows. The potential for growing foreclosures, which were not a problem in 2009, is another real factor.

One segment of the market that has seen a noticeable uptick has been international demand, where the weak dollar has prompted interest from Asia, Europe and South America. Demand from South Korea has also become more noticeable.

Looking outside New York, both Boston and Washington DC have also improved, with rising resale volumes in both markets. On Long Island, the Hamptons luxury second home market has surprised everyone with its resilience to date. As a discretionary market, there was general concern that this region would see large declines in prices and sales from the 2008 and early-2009 market turmoil. In fact, both sales and price trends have remained in line with the Manhattan market.

Jonathan Miller is CEO of Miller Samuel Real Estate Appraisers, which provides market research for Prudential Douglas Elliman, Knight Frank's New York associate.



MARKET-BY-MARKET INSIGHT

Knight Frank's regional experts round up their markets and offer their recommendations for 2010

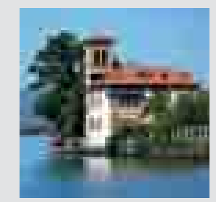
Prime Italy

RUPERT FAWCETT – HEAD OF ITALIAN DESK

The market in Italy has remained relatively robust over the past year. Prices have fallen, but not to the extent of other markets. Italy remains a long-term lifestyle-driven second home market rather than a shorter-term investment-driven one.

There has been an increase in Italian buyers and those from other European countries taking advantage of lower prices, while sterling and dollar denomination buyers are more cautious due to the swing in exchange rates. The early signs for 2010 are that sales volumes are beginning to rise on the back of greater confidence.

I believe there are considerable opportunities from two particular markets. First, Chianti as buyers revert to trusted markets. Second, Venice. Rental returns in Italy are never especially high, but Venice provides a good year-round rental market.



Cote D'Azur and Provence

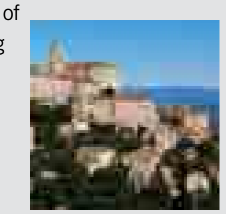
PAUL HUMPHREYS – HEAD OF FRENCH DESK

In the core Cote D'Azur market prices have corrected. Despite lower levels of interest at the start of 2009, the second half of the year witnessed increased activity (20% to 30% higher) from Dutch, Norwegian, Danish, Belgian and Russian purchasers assisted by low interest rates and lower capital values.

At the top end the market remains untested, with transactions still sparse.

Inland, Provence saw the re-emergence of British buyers earlier than the Cote D'Azur. American, Australian and Parisian buyers were also competing for the best villas.

While the whole of the Cote D'Azur attracts international demand, the most robust financially has been the St Tropez end of the coast. A recent planning law stating that no new planning consents are to be permitted within 300m of the sea has significantly restricted new supply.



Prime Alpine Markets

MATTHEW HODDER-WILLIAMS – ALPS

The resorts where prices have adjusted, Chamonix and the lower villages of Courchevel, for example, have seen renewed activity. Reductions in Chamonix have meant that there has been renewed sales activity for well-located apartments, especially between €500,000 and €750,000.

There has been increased evidence of buyer demand in core areas like Courchevel, Meribel, Megeve, Chamonix and Val d'Isere. High-budget purchasers (€10m+) appeared at the end of 2009 and were joined in January 2010 by those looking in the €500,000 to €1.5m mark.

Asking prices in prime locations have been generally stable as there have been few forced sales in the past two years. Activity in these prime areas, Courchevel 1850 and Les Carats in Val d'Isere, for example, has been limited.

Either look for an apartment in Chamonix, or a small chalet in the Trois Vallees.

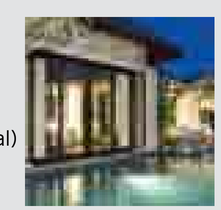
Luxury New-Build Resorts

JAMES PRICE – HEAD OF INTERNATIONAL RESIDENTIAL DEVELOPMENT

The new-build resort market was one of the sectors most affected by the market downturn. Our estimates are that the completion of new-build resort accommodation fell by 65% between the 2007 property peak and 2009 in Europe and the Caribbean.

Buyers and finance both disappeared in 2008 and left many developments stalled or cancelled. The result is that with fewer projects surviving, those with the strongest product offer are now more visible within the market.

Focus on the very best prime locations (Cote d'Azur, Swiss and Italian Lakes, prime Tuscany and west coast Barbados). Transactions may be down, but values have not dropped significantly. For growth potential, look to locations with international interest and good transport and supporting infrastructure. For example, Catalunya (Spain), Silver Coast (Portugal) and Ligurian Coast (Italy).



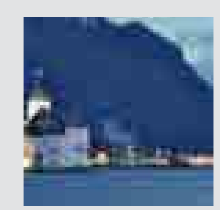
Switzerland

ALEX KOCH DE GOOREYND – HEAD OF SWISS DESK

There has been a considerable uplift in interest in Swiss property in recent months from international high earners looking to escape more onerous taxation in and around Europe. This interest has been slow to convert into solid activity due to restrictions on foreigners buying residential property without the correct permits.

The central issue for the new arrivals in Switzerland has been property choice – or rather lack of it, especially in locations like Vaud and Geneva. As the lack of available property has come to light, increasingly it has been smaller properties and apartments that have become the focus for demand for "tax homes".

In Geneva strong interest is already being shown in and around Collex-Bossy, Versoix and Cologny, areas 10 to 15 minutes from the centre of the city that offer a real prospect for improvement and gentrification over time.



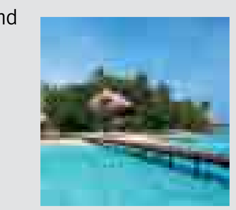
Luxury Caribbean

GEORGINA RICHARDS – HEAD OF CARIBBEAN DESK

At the height of the market buyers were acquiring property on the smaller lesser-known islands. These were markets in their infancy yet to develop a substantial re-sale market. The downturn has seen a return to established markets with good infrastructure and, where possible, direct flights.

Most parts of the Caribbean saw price falls in the first half of 2009 – 20% drops were not uncommon. Demand only really began to return in the final three months of the year. Established sporting estates and beach-front property have proved the most resilient sector, especially in the Barbados parishes of St James and St Peter. On the British Virgin Islands, growth in demand for land and property has been very strong.

Barbados, in particular the west coast, offer opportunities in 2010. Land and build costs are down, making this the year to design and build your dream home.



META MORPHOSIS

WITH THE LOVE AFFAIR BETWEEN WEALTHY INVESTORS AND PROPERTY RE-EMERGING, THE WEALTH REPORT EXPLORES THE OUTLOOK FOR INVESTMENT IN 2010

Most property markets experienced a horrendous time during the 2008 global economic crash. The silver lining for investors has been the chance to return to markets at what hopefully represents the low point of the cycle.

For cash-rich investors ultra-low interest rates have meant bank deposits have looked distinctly unattractive, while the low yields on bonds and volatility in the stock market have given additional pause for thought.

Added to this, the impact of the financial crash has not been as hard on the typical ultra-high-net-worth buyer of prime property. This has meant that many wealthy owners of property are again looking for investments, says Michael McPartland, managing director and head of residential real estate at Citi Private Bank. "The wealth market is relatively insulated. Our clients look for opportunities when everyone else is circling the wagons. Buying becomes opportunistic in a downturn, particularly as people turn to hard assets such as property when other assets experience dislocation."

How to buy has never been more sophisticated, says McPartland: "There is a myriad of direct property investment options, funds and listed and unlisted companies, as well as more complicated instruments, such as derivatives, now on offer. This allows investors to build up a portfolio spread over asset classes and sectors, as well as risk and reward."

Where and what to buy are obviously key questions given that some sectors and some regions are still seeing prices moving down, while others have bounced so hard that they are nearing the values of the 2007 boom.

For many, residential property remains the most attractive investment, given the dynamics that underpin key cities, such as London, New York and Hong Kong. There is a focus on the very prime areas, says McPartland, which are always in short supply and facing steady demand from buyers and tenants in global centres of finance and culture.

Liam Bailey, head of residential research at Knight Frank, agrees: "Residential investment makes a lot of sense over the long-term. In most locations supply of property either keeps pace or falls short of demand. Most high-net-worth investors tend to cluster around the best locations in the world, which provides its own support."

Key cities such as London (prices up 15% in the 10 months from March 2009), and Hong Kong (up by around 41%) have seen a sharp bounce in prime values since reaching their nadir last year, benefiting from the limits on building, growing demand and sustained investor requirements. Although this could put downwards pressure on yields, rents are at last beginning to climb, adds Bailey.

But there is still uncertainty about short-term growth, says Bailey, particularly given the speed of recent growth. He points to the uncertain economic recovery, and the potential for rising unemployment and interest rates, as risks for house price growth.

"Investors tend to buy on the basis of speculative capital growth, but you have to ask where this is likely to occur in the short term. Price growth in some centres like London is likely to be constrained as an element of the recovery has already taken place in 2009, and the markets are still being traded off a fairly high price on a historical basis."

COMMERCIAL MARKETS Many high-net-worth investors have also returned to commercial property markets, given the new buzz around the sector, where there has been an unexpectedly large rebound in prices in the past six months. Global investment turnover reached a low point of £37.9bn in the first quarter of 2009 before bouncing to £83.5bn by the fourth, according to Real Capital Analytics.

Undoubtedly, the UK has seen the best of the recovery in Europe, and arguably the world, if only because values almost halved in two years, a much bigger decline than in other markets, according to Joe Simpson of Knight Frank's Commercial Research team.

There has been a rapid influx of money into the sector, initially from overseas investors, who saw real estate as especially cheap given prices in euros and US dollars are two-thirds down from peak. More recently, the domestic institutional buyers have returned, with UK investors seeing 6% to 7% yields against 3% to 4% 'risk-free' government bonds as attractive, he says.

The final month of last year delivered the largest monthly capital growth in the benchmark Investment Property Databank's 23-year history, at 3%, taking growth to 8.8% from its trough last summer, and sufficient to lift returns on UK commercial property into positive territory for the calendar year, points out Simpson.

The consensus is that capital values for commercial property will flatten – a position supported by the pricing of derivatives being traded – with total returns settling at 8% to 10% through 2010-2012.

Some recent analyst notes have suggested, however, that values could dip again, given uncertain occupier demand, in addition to the effects of reining in quantitative easing again.

Values in continental Europe have held up relatively well compared with the UK and US, partly as rents have also not corrected as much. On average, European countries have seen falls of between 10% and 25% from peak. Established markets in Germany and France are tipped as good for stable, income-producing investment, although those with a higher risk focus may prefer markets such as Poland, or even Spain.

Paul Corcoran, director at Citi Private Bank, who oversees the bank's EMEA real estate lending, says valued clients are looking to buy prime property in areas such as London for their long-term investment portfolios. He adds: "Lending is going to be a little more old fashioned going forward."

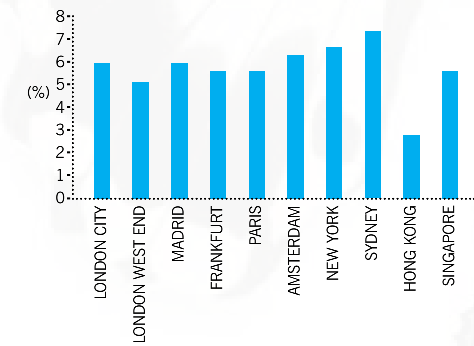
William Bendernagel, managing director and Citi Private Bank global commercial real estate product head, says that US real estate markets remained depressed given a lack of transactions to spark any recovery. The market has fallen by between 30% and 50% from the peak in 2007, he adds, depending on asset class and location.

He says: "To make a market, there needs to be buying and selling. The large scale of refinancing has pushed problems down the line, so at the moment the holders of distressed properties are not being forced to deal with their issues."

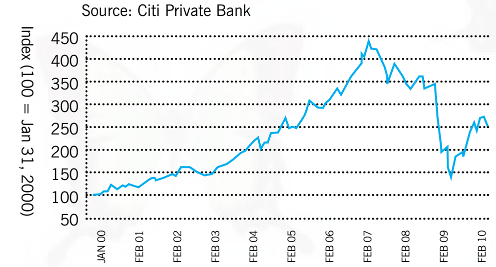
The continued deterioration in fundamentals such as rents and occupation could pressure cash flow, which would then lead to a shakeout of the market. Many investors in direct property are waiting until this happens, he adds, which is unlikely to manifest until the back end of 2010.

Mr Bendernagel predicts that the quality assets in business districts such as New York, Boston and San Francisco will be the first to recover.

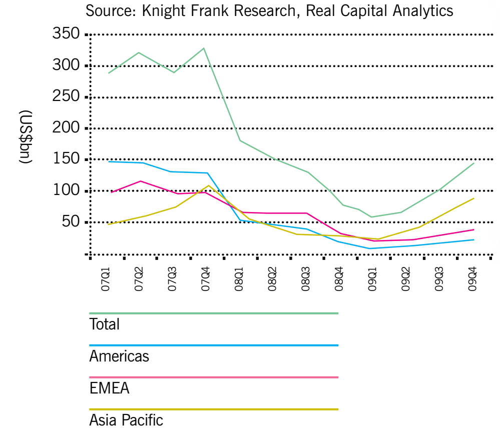
SELECTED PRIME OFFICE YIELDS – Q4 2009
Source: Knight Frank Research



TOTAL NAREIT RETURNS
Source: Citi Private Bank



AMOUNT INVESTED IN PROPERTY
Source: Knight Frank Research, Real Capital Analytics



FOR MANY, RESIDENTIAL PROPERTY REMAINS THE MOST ATTRACTIVE INVESTMENT, GIVEN THE DYNAMICS THAT UNDERPIN KEY CITIES SUCH AS LONDON, NEW YORK AND HONG KONG.

For commercial investors the quality of the location, building and tenant is the main consideration, rather than any specific property type. Even so, such requirements have meant that the focus remains on modern city offices, particularly in London, Munich, Hamburg and Paris in Europe. New York and Washington in the US; and the major cities of Asia such as Hong Kong, Singapore and Shanghai. In addition, there is strong interest in high-end street retail and top regional shopping centres, although there are few bargains to be had any longer given the return of interest in commercial property.

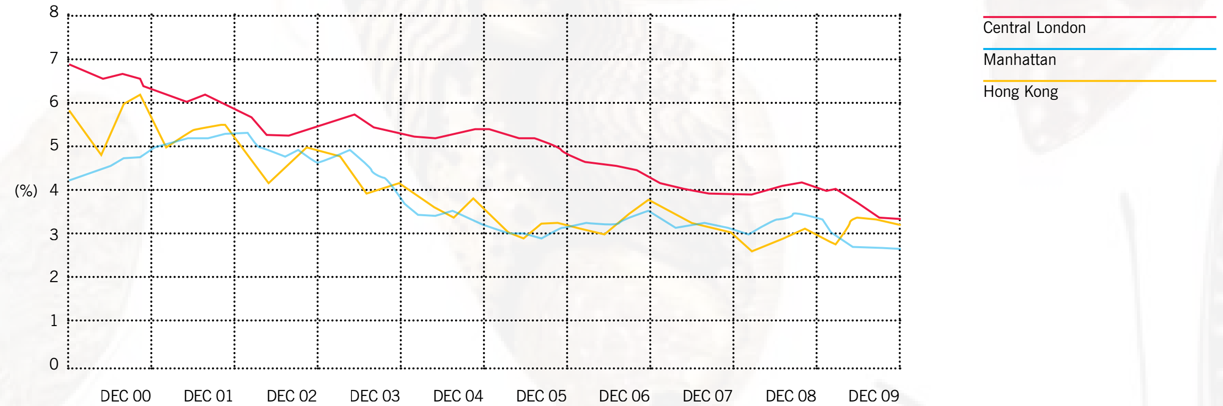
Quek Kwang Meng, head of real estate investments in Asia Pacific for Citi Private Bank, tips retail malls in China, especially where there is a good cornerstone tenant like Tesco or Wal Mart. He says Chinese consumers are migrating from street markets to a more Western shopping model.

Others are turning to less popular asset classes, such as securely let distribution centres, as well as niche sectors including student housing, self storage, data centres, retirement homes, social housing, healthcare facilities and infrastructure. "Green" development is gaining interest, particularly with the compulsory energy efficiency ratings being introduced for buildings in Europe.

John Styles, head of investment management at Knight Frank, believes that 2010 will be an interesting year for the commercial property investment market: "There is currently a large volume of equity chasing prime assets which are in limited supply," he says.

One of the key issues for Styles is that it is the actions of the banks that will determine how much new stock is released to the market to meet this demand. "Initial indications are that there is more stock coming via this route," he comments.

PRIME RESIDENTIAL YIELDS
Source: Knight Frank, Miller Samuel and Prudential Douglas Elliman



INDIRECT INVESTMENT OPPORTUNITIES

One problem with investing directly in property is the illiquidity of the market, says Michael Bilerman, head of real estate and lodging at Citi Investment Research and Analysis. "The public market provides immediate liquidity to those who want to sell and also to those that want to participate in the rebound in commercial real estate."

Real Estate Investment Trusts (REITs), which are basically companies that buy, develop and hold income producing properties, are an easy alternative for investors to gain exposure to the commercial real estate market, says Bilerman. "They are tax efficient and have to distribute much of their income as dividends – generally a minimum of 90% – to shareholders. They are also professionally managed, offering considerable liquidity, transparency and diversification benefits."

Global REITs had a broadly successful year in 2009, rising along with the general market after a large slide from peak valuations, demonstrating access to capital – granted at a significant dilutive cost. A number of companies around the world pursued emergency rights issues, primary equity offerings and assets sales to raise new equity to de-leverage. More than $22bn of common equity was raised in the US, more than £7bn in the UK and more than AU$13.2bn in Australia, says Bilerman.

The market has rallied more than 100% since March, he says, taking the sector's equity market capitalization from a trough value of about $100bn to about $230bn today. But there are still attractive opportunities, he says, particularly by choosing stocks carefully.

This has meant that the REIT sector is generally in a far more robust state than last year and versus the private market. With capital values back on the rise, there is reason to see further share growth despite the higher prices.

Bilerman says: "The public real estate sector has shown tremendous strength compared with the private real estate market. Stock selection will be key to driving excess returns. REITs weathered a serious storm in late 2008 and early 2009 and came out stronger. They are now being earmarked as the solution rather than the problem to issues within the commercial real estate arena. The REIT model is here to stay."

There are also other indirect ways to invest in property, most obviously through a fund structure. These have generally had a very difficult time during the past two years, with the high leverage carried in many vehicles, but many managers are once again launching funds in the hope of tapping into a recovery and buying good lower-priced stock. McPartland says that many wealthy clients prefer to explore the use of equity stakes in partnerships, or funding a company directly, rather than paying large fees and relying on managers to invest on their behalf.

Trading in property derivatives – which are financial products whose value is derived from the value of an underlying real estate asset – is also starting to grow again. The UK is still by far the most mature market, accounting for the majority of the £762m worth of contracts made globally in the third quarter of 2009.

Richard White, a partner at Knight Frank, who specialises in property derivatives, says that they provide investors with an efficient means of investing against commercial property, avoiding frictional costs such as stamp duty, fees and management.

"Add to this the fact that traditionally commercial property market investors require a minimum of £50m to build a diversified portfolio within the sector – derivatives provide that spread for as little as £1m," he says.

Property really is a very versatile and tangible investment, concludes Bailey. "I think that is why people from all walks of life like to invest in it so much. As with any relationship there are ups and downs, and sometimes things don't work out, but it will always remain a key part of many HNWIs' investment portfolios."

ISLAMIC FINANCING FOR REAL ESTATE

ISLAMIC INVESTMENT IS A GROWING AREA OF INTEREST FOR CORPORATE FINANCIERS GIVEN THE HUGE POTENTIAL GROWTH AMONG THE MUSLIM POPULATIONS AROUND THE GLOBE. THE WEALTH REPORT INVESTIGATES

Real estate is a particularly hot area for Islamic finance, given the strong interest in property among many Muslim countries. The market is still at a fledgling stage, however, with a gulf between the clear theory behind Islamic investment in real estate and the difficulties attached to providing the appropriate tools and framework for efficient implementation.

Sharia investment has been growing fast over the past decade, although this expansion plateaued during the past two years of economic downturn. According to Citi Private Bank, Sharia compliant assets under management across all classes expanded rapidly from $23bn in 2003/04 across about 400 funds to $41bn in 2007/08 across 700 funds.

Since then, the market has only grown to $44bn invested in fund format. In total, however, total assets in all shapes and forms cared for Islamically have grown to nearly a trillion dollars as of last year, says Youssef Affany, managing director and senior relationship manager at Citi Private Bank.

When compared with the trillions of dollars being invested through conventional funds, and the size of the world's Muslim population, this means that there is considerable growth potential in the sector, says Affany. At its core, Sharia approved investment comes down to adhering to the religious rules as set out in the Koran. Most obviously, these preclude investing in areas such as alcohol, arms, drugs, gambling, pornography and pork. There are also rules over the use of debt and interest on investments, he explains.

The theory behind the rules is very clear, but the practical implementation has proven more varied. This is in part because investment houses need to apply to a board of scholars, who will study and then approve a given product. In doing so, they call on knowledge both of investments and in Sharia law and, hence, inevitably engage in some level of interpretation of the theological rules. As a result, while all agree about the core rules, the interpretations and, therefore, the end-result might differ from one group of scholars to another.

"This market is still at an embryonic stage. The issues have been largely overcome at a theoretical level, but not necessarily at a practical level, certainly not sufficiently at the implementation stage," says Affany, who points to this as the reason that real estate investment has not grown as fast as equities and fixed-income products to date.

He adds: **"You have pockets of excellence and pioneering investors in a number of countries such as Saudi, Bahrain, UAE, Malaysia and Pakistan, which should gradually spread elsewhere."**

Some boards are stricter than others, with the centres of religious thought seen as having a more refined approach than elsewhere. To a great extent, the level of comfort of investors in the Islamic credentials of a given fund depend on the reputation of the scholars in the Sharia board that approved it.

For example, in a real estate context, this can mean that investment in a bar, or a betting shop, will not be allowed, although there could be a grey area about whether or not buying a building only partly let to a restricted tenant would be acceptable.

There are also solutions, for example, giving income from a non-compliant asset part of a larger office building to an Islamic charity. This concept is called "revenue cleansing". It is often applied to dividends from large multi-disciplinary businesses where the vast majority is Islamic compatible, but a small portion might not be.

The use of debt in investments can also be a grey area, with some stricter application of the rules forbidding all use of debt to more broad perspectives allowing up to a third of debt to equity used.

James Lewis, partner in Knight Frank's Bahrain capital markets team, gives the example of the City of London, where areas to avoid could include buildings occupied by retail banking tenants, while insurance or merchant banking is generally perceived as acceptable.

Lewis is also sure that the Sharia compliant investment market is set for rapid expansion. He says that many investors in the Middle East are active at present looking for trophy assets in major cities such as London. "Almost all of the people want to focus on London, generally either the West End or the City. There is an affinity with London."

Even for non-Muslims, it seems a thorough understanding of the theory behind Islamic investments could be an increasingly important deal-making tool this decade.

ASIA IN BLOOM

PRIME PROPERTY MARKETS IN THE ASIA PACIFIC REGION EXPERIENCED ASTONISHING PRICE MOVEMENTS IN THE PAST DECADE. ANDREW SHIRLEY, EDITOR OF THE WEALTH REPORT, LOOKS AT THE CURRENT SITUATION IN SOME OF THE REGION'S DEVELOPED AND FLEDGLING ECONOMIES

Property, along with gold, is one of the most popular investments in Asia Pacific, according to Quek Kwang Meng, head of real estate investments in the region for Citi Private Bank. "People love hard assets." In China, for example, a newly married couple will buy gold then, once they have saved enough, a house. After that they will maybe consider looking at other less tangible investments such as equities, says Quek.

This view is echoed by Clive Betts, Singapore-based head of Knight Frank's Asia Pacific region. "It's why we see so many opportunities across the region. We've just opened offices in South Korea and Vietnam and are looking at other countries as well."

When you combine this desire to own and invest in property with some of the world's fastest-growing economies – predicted GDP growth for 2010 puts the West to shame – it is easy to see why prime property markets have gained such momentum in the Asia Pacific region. Some of the most expensive properties in Hong Kong, Singapore and, increasingly Shanghai, are approaching the levels seen in cities like London and New York.

Even in Cambodia, where the average income is only US$600 per year, according to the World Bank, speculation has pushed up prices far higher than would be expected.

Of course, you can't write about any market in Asia Pacific without talking about the influence of China. When, for example, Beijing put the brakes on bank lending earlier this year in response to concerns that asset bubbles may be developing, shares in Australian natural resource companies fell immediately.

China's power can be epitomised not just by its phenomenal GDP growth – almost 11% in the final quarter of 2009 – but by the impact of its response to the credit crunch. China put in place an aggressive multi-trillion yuan financial stimulus package and, while US and European measures helped rescue their domestic economies, much of this extra Chinese liquidity was invested in assets overseas, including Asia Pacific property markets.

"China is increasingly a source of capital in the region," confirms Johanna Chua, chief economist Asia Pacific for Citi Investment Research and Analysis.

Although some commentators now question the sustainability of China's economic growth, Chua believes its economic fundamentals are strong enough for the trend to continue. "By the end of the decade China's economy could be 80% the size of the US's."

Not all prime markets in the region are recovering at the same pace, but with an economy as big as China's at the heart of the region, the Asia Pacific prime property story looks set to continue.

ASIA PACIFIC PRIME PROPERTY PRICE CHANGES

COUNTRY	PRIME PROPERTY % PRICE CHANGE SINCE ECONOMIC CRISIS	FORECAST PRIME PROPERTY % PRICE CHANGE IN 2010
AUSTRALIA	-10 to -15	5 to 10
CAMBODIA	-40	0 to 10
CHINA	20	-10 to 10
HONG KONG	-6	15 to 18
INDIA	-15 to -20	12 to 15
INDONESIA	-15 to -20	5
MALAYSIA	-10 to -15	5 to 10
SINGAPORE	-15 to -20	10 to 20
THAILAND	5	5 to 10
VIETNAM	-5 to -10	5 to 10

Source: Knight Frank regional offices

CHINA

Chinese housing statistics make incredible reading. In 2009 a staggering 8.5 million new residential units were sold, compared with about 500,000 in the US. Last year, the average prices of new homes in urban Shanghai, Beijing and Shenzhen increased by 87%, 63% and 66%, respectively. This growth was driven by loose lending policies and a massive government fiscal stimulus package.

Xavier Wong, Knight Frank's head of research for Greater China and Hong Kong, says by the end of 2009, prices had already surpassed their peaks of the previous upturn before the outbreak of the recent global financial crisis by substantial amounts.

Shanghai has comfortably China's biggest prime residential market with 8,438 new units worth over RMB5m (US$735,000) sold over 2009, followed by 8,058 in Beijing and 2,309 in Shenzhen. As a proportion of total sales, this top-end bracket accounted for 5.5% of deals in Shanghai against a more modest 4.6% in Beijing and 3.6% in Shenzhen. Guangzhou had the fourth highest luxury sales at 1,618 units, but the proportion was only 1.6%, slightly lower than Hangzhou's 1.7%, according to a report jointly published by Knight Frank and Holdways.

KEY LOCATIONS
1. BEIJING
2. SHANGHAI
3. GUANGZHOU
4. SHENZHEN

According to Wong, up to half of luxury property sales in Shanghai are to foreign buyers, including those from Hong Kong, Taiwan and Macau. Those who have lived in China for over one year are allowed to purchase property in the country.

Predicting growth in 2010 is difficult, says Wong, because the government is starting to take measures to curb excessive house price inflation and this could dampen demand. Predicted strong economic growth and limited stock, however, should keep prices stable, he says.

MOST EXPENSIVE NEW DEVELOPMENTS IN CHINA (DEC 2009)

LOCATION	RMB Sq m (US$ Sq m)
SHANGHAI	136,738 (20,108)
SHENZHEN	123,389 (18,145)
BEIJING	72,413 (10,649)
GUANGZHOU	35,925 (5,283)

HONG KONG

The prime property market in Hong Kong tends to be particularly volatile as there is no capital control and it is susceptible to the shocks of unexpected flows of international capital. Foreign investors are increasingly coming from Mainland China, accounting for about 10% of total sales and up to 30% in some new prime developments, according to Xavier Wong, Knight Frank's head of research for Greater China and Hong Kong.

Luxury residential prices have risen by over 40% since hitting a trough in December 2008, driven by a huge Chinese financial stimulus package, low interest rates and the general economic recovery, says Wong. The number of luxury sales worth over HK$10m rose by 45% last year, he adds.

Limited supply of new stock and continuing low interest rates should mean the market continues to rise through 2010, he predicts. Luxury rents are also forecast to rise by 15% this year and could help push up prices by a similar amount. Downsides could be a clampdown on capital flows from Mainland China and interest rate rises in the US that could dampen consumer demand for Chinese goods.

KEY LOCATIONS
1. HAPPY VALLEY
2. POKFULAM

The traditional prime residential areas of Hong Kong include The Peak, Island South, Happy Valley, Jardine's Lookout, Pokfulam, Kowloon Tong and Ho Man Tin. Kowloon Station and Tsim Sha Tsui are emerging as prime areas for luxury apartments.

The impact of Chinese demand could also boost other property sectors, says Wong. Further liberalisation of cross-border travel between Hong Kong and mainland cities like Shenzhen, for example, should be good for retail investments.

TYPICAL PROPERTY PRICES

LOCATION	HK$ Sq ft (US$ Sq m)
PEAK	20,395 (28,145)
ISLAND SOUTH	18,521 (25,559)
MID-LEVELS	15,181 (20,950)
HAPPY VALLEY / JARDINE'S LOOKOUT	14,566 (20,101)
POKFULAM	15,195 (20,969)

SINGAPORE

Last year saw a dramatic recovery by the Singapore residential market, but this was driven initially by the mass market and it was only towards the end of 2009 that prime markets started to follow. According to Peter Ow, head of Knight Frank Singapore's residential division, the price of top-end residential property ended 2009 still 15% to 20% down from the peak seen at the end of 2007.

Because of this, Ow forecasts that there is the potential for prime prices to climb a further 10% to 20% this year and outperform the overall market, which the government has taken measures to cool down.

Much of the increased demand for prime properties has come from abroad, says Ow, with many buyers from China, Indonesia and India. The City's Districts 9,10 and 11, which include the Orchard Road area, will remain the focal point for prime property, but the Marina Bay and Sentosa areas are starting to gain prominence.

Ow says the imminent opening of giant Integrated Resorts (IRs), which combine luxury hotels, casinos and entertainment complexes, will attract more visitors from the rest of the region and boost prime property markets in the vicinity with the effect gradually rippling out to other prime areas of the city. Marina Bay and Sentosa, where the first of these resorts are due to open, should start to benefit this year, he predicts.

KEY LOCATIONS
1. MARINA BAY
2. ORCHARD DISTRICT

"The opening of the IRs will present more leasing opportunities for high-end residential properties and will help create new residential enclaves, strengthening the overall living experience of these new clusters," says Ow.

PRIME SINGAPORE DISTRICTS

LOCATION	S$ Sq ft (US$ Sq m)
ORCHARD DISTRICT	2,500-3,500 (19,221-26,910)
MARINA BAY / SENTOSA	1,800-2,500 (13,839-19,221)

VIETNAM

Vietnam has an established top-end apartment market in its capital Hanoi and also its main commercial centre Ho Chi Minh City. A number of luxury beach-front developments are opening along China Beach in Danang.

Real estate is a popular investment with the Vietnamese who are not allowed to invest overseas and prefer hard asset classes, says John Gallander, head of Knight Frank's newly opened office in Hanoi. "Buying top-end condominiums and letting them to ex-pats is a popular investment, although it is not a very deep market. In Hanoi, for example, there are maybe only a dozen high-quality serviced apartment developments of 150 units or larger."

KEY LOCATIONS
1. HANOI
2. DANANG
3. HO CHI MINH CITY

Most prime developments in Hanoi are in and around the Hoan Kiem District in the CBD, and several new luxury villa and apartment developments are under way at My Dinh, seven kilometres from the centre.

This restricted supply meant the prime market was less affected by Vietnam's recession and a period of rapidly rising inflation in 2008, says Gallander. Prices started to recover in the second half of 2009, but are still about 5% to 10% below their peak. Prices in Ho Chi Minh City can be more volatile, because of extra supply, he adds.

In Danang, asking prices for luxury villas can reach $2m. It is a small but growing market, says Gallander.

PRIME VIETNAMESE PROPERTY PRICES

LOCATION	US$
A-GRADE APARTMENTS AVERAGE PRICE DISTRICT 1 HCMC	3,770 Sq m
THE MANOR VILLAS, MY DINH, HANOI	2,500 Sq m
HYATT RESIDENCE VILLAS, DANANG (TOTAL PRICE)	1.5-2 million

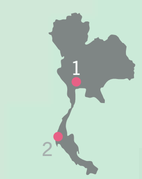
THAILAND

There is a clear city and sea split between Thailand's prime property markets. Bangkok remains the only city in the country to have a developed urban luxury market, while Phuket island is still the place to go if you are looking for truly top-end holiday villas.

Bangkok's prime market is focused on luxury condominiums clustered either around the CBD or on sections of streets like Sukhumvit Road. However, the high price of land means that the exclusive suburbs of Sukhumvit and Phaholyothin and along Ekamai-Ramindra Road are also emerging, with accommodation in single detached houses and townhouses as well as condominiums, says Phanom Kanjanatheimthao, managing director of Knight Frank Thailand.

Foreign investment into Thai real estate is restricted when it comes to land purchasing and 2009 was not a very good year for the prime markets, he says. Developers, however, have so far been able to ride out the downturn, caused by domestic political instability as well as the global recession, without cutting prices significantly. Kanjanatheimthao says this is because many new developments were up to 80% pre-sold before the worst of the economic problems struck and other new projects have been put on hold.

KEY LOCATIONS
1. BANGKOK
2. PHUKET



Coastal resorts, such as Koh Samui and further flung islands, have tried to develop a luxury villa market to match Phuket's, but none have really been that successful, says Frank Khan, head of residential for Knight Frank Thailand. "There have either been issues with land ownership or the infrastructures simply haven't been good enough. People spending millions on a villa generally don't want to be too isolated in case anything happens like a medical emergency," he explains.

Phuket's west coast is the island's preferred location attracting people from around the world. The most exclusive villas can cost up to 150m Baht (around US$4.5m), although very few units were sold in 2009, says Khan.

The Phuket and Bangkok prime markets are expected to gain ground in 2010 as the country's economy recovers.

PRIME PROPERTY DEVELOPMENTS IN THAILAND

LOCATION	AVERAGE PRICE
BANGKOK PREMIUM CONDOMINIUMS	BT 176,000 Sq m (US$ 5,333 Sq m)
PHUKET LUXURY VILLAS (TOTAL PRICE)	BT 108M (US$ 3.3 million)

CAMBODIA

Although Cambodia is probably five to 10 years behind its neighbour Vietnam in terms of economic development, the country's fledgling prime residential property market has already seen rapid price swings over the past few years, says Tan Hong Kiat, head of Knight Frank Cambodia.

Speculation, driven partly by the return of wealthy Cambodians who fled the country during the Khmer Rouge era, combined with significant levels of investment by Korean developers, caused a spike in property values during the latter half of 2008 and the beginning of 2009. "Local people were buying land with the hope of flipping it to make a profit," says Tan.

KEY LOCATIONS
1. SIEM REAP
2. PHNOM PENH
3. SIHANOUKVILLE

Although values have fallen back by as much as 40%, some of the prices being paid for the most expensive addresses remain "quite scary", he says. "Apartments in Gold Tower 42, which will be Phnom Penh's tallest building upon completion, are still making $3,500 sq m." Other similar developments in the pipeline include DeCastle's projects, Posco Star River and Camko City.

The Boueng Keng Kang, Chamkarmon and Daun Penh areas of the capital Phnom Penh, which retains much of its attractive colonial architecture and boulevards, are Cambodia's principal prime residential areas, but there is increasing development in the tourist town of Siem Reap that services the Angkor Wat temple ruins. The government is also trying to attract more investment to coastal towns like Sihanoukville.

In terms of overseas buyers, Cambodia does not yet have the equivalent of luxury second-home coastal resorts like Thailand's Phuket or a significant ex-pat community because ownership of buildings is currently restricted to a 99-year lease.

Tan, however, said that draft legislation that allows foreigners to own strata properties in Cambodia has already been approved.

PHNOM PENH PRIME PROPERTY PRICES

LOCATION	US$ Sq m
BOUENG KENG KANG – VILLAS	1,300-3,000
DECASTLE ROYAL – CONDOMINIUMS	1,080
CAMKO CITY – CONDOMINIUMS	1,415-1,490

INDIA

India's prime property market is being inexorably driven by demographic change. According to the National Council of Applied Economic Research, the number of households described as "rich" will have risen from 3m in 2003 to 11m by 2013. Meanwhile, the number of middle class "aspirers" is predicted to leap even more dramatically, from 46m to 124m.

"The number of HNWIs in India is growing at 20% a year, second only to Singapore," says Pranab Datta, head of Knight Frank India. Foreign residents are not permitted to own property in India, but this rule does not apply to the huge community of wealthy non-resident Indian's living overseas, many of whom are also keen to invest back home, he points out.

Although there are growing prime markets in every Indian city, south Mumbai and south New Delhi are still far ahead in terms of prices, with Bangalore, Chennai and Hyderabad the nearest challengers, says Anand Narayanan, head of residential sales for Knight Frank India.

KEY LOCATIONS
1. DELHI
2. MUMBAI
3. HYDERABAD
4. ALIBAG
5. BANGALORE
6. CHENNAI

After falling by 20% to 25% in 2008, prices at the top end of the Delhi and Mumbai markets are expected to return to peak levels this year as people take advantage of easy access to credit, says Narayanan. Developers are responding with a slew of new projects that could lead to an oversupply in Mumbai. "At the moment there is only one 60-storey building in the city, but there are plans for 10 more."

When markets are booming developers rush to supply the more profitable top end of the market, when the biggest story is really the huge demand for affordable housing from middle-income families, says Datta. "We estimate 2m houses are needed by 2011 – a potential market of US$66bn."

In terms of luxury holiday homes, Goa was traditionally the favoured destination, but many rich Mumbai residents are now buying seaside properties in the resort of Alibag two and a half hours drive south of the city or a 15-minute hop by speedboat. Five-acre properties can cost up to US$8m to US$10m, says Narayanan.

TYPICAL MUMBAI PROPERTY PRICES

LOCATION	RUPEES Sq ft (US$ Sq m)
NAPEANSEA ROAD, MALABAR HILL	50,000-80,000 (11,574-18,519)
WORLI, LOWER PAREL (UP AND COMING)	25,000-40,000 (5,787-9,259)

AUSTRALIA

Australia may be very different in terms of geography and culture from other Asia Pacific locations, but much of its economic wealth derives from exports to countries like China, India and Indonesia. A growing number of prime or "prestige" properties are also being sold to buyers from the rest of the region.

KEY LOCATIONS
1. PERTH
2. MELBOURNE
3. SYDNEY
4. GOLD COAST

Sydney, Melbourne and Perth are the three main urban centres for prestige neighbourhoods, while Sydney's Palm Beach suburb and resorts on Queensland's Gold Coast are the principal locations for luxury holiday homes. There are also pockets of expensive rural retreats, such as Bowral, within a few hours' drive of Sydney.

Prices started to stabilise in the middle of 2009 after experiencing significant falls and have since bounced back by around 5% from the bottom of the market with steady further growth predicted, according to James Hall, head of Knight Frank Australia's residential division. In the early part of 2009, up to one-third of sales were to Asian investors taking advantage of low prices combined with the Australian dollar's 40% slide, he adds.

Sydney's "old-money" suburbs such as Bellevue Hill and Point Piper, close to the harbour, have been the most resilient as there were few forced sales during the downturn with potential vendors waiting for the market to rebound, says Hall. Suburbs like Mosman, popular with HNWIs employed in the banking and investment sectors and more dependent on mortgage finance, are 15% to 20% off the peaks seen at the end of 2007, he adds, but with bank bonuses back on the agenda prices should start to recover.

Second-home destinations were hit harder with prices still down up to 35%. "It seemed as if every second or third home was for sale in 2008," says Hall.

In Perth, a mining magnate recently paid an Australian record of AU$57.5m for a mansion on the Swan River, while in Melbourne Avon Court in Hawthorn went for a local high of AU$25m. "There are signs that the really rich have been cashing in on the downturn," says Hall.

TYPICAL PRESTIGE AUSTRALIAN PROPERTY PRICES

LOCATION	AU$m (US$m)
BELLEVUE HILL, SYDNEY	7-10 (6.4-9)
TOORAK, MELBOURNE	5-10 (4.5-9)
SWAN RIVER, PERTH	3-8 (2.7-7.3)

INDONESIA

Indonesia has two main prime property markets – top-end houses and apartments in the nation's capital Jakarta and luxury holiday villas on Bali, the only Hindu island in this predominantly Muslim archipelago.

Despite strong economic growth, neither market has experienced the huge price swings that have been seen in other countries in the region, says Fakky Hidayat, head of research for Knight Frank Indonesia. This is partly because property ownership is limited to local residents, although this could be relaxed in the future.

KEY LOCATIONS
1. JAKARTA
2. BALI

Even though demand is currently well down, with Indonesians preferring to put their money into other investments, Hidayat says it is very difficult to find significant price reductions advertised. Although developers will offer prospective purchasers some incentives to buy, the majority would rather hold out for an upturn in the market, although the market is expected to stay soft in the first half of 2010, he says. "No new completed projects were handed over in the second half of 2009."

In Bali, demand has been hit hard by the global economic crisis as most buyers – using local nominees or right-to-use leases – are overseas expatriates living in Asia. Despite this, a five-villa development was launched by Bulgari Residences last autumn with prices ranging from US$6m to US$9m. Again, asking prices have not been reduced, but Hidayat, says incentives are available. "Now is probably a good time to buy on Bali." Prices could pick up by 2011, he predicts.

PRIME JAKARTA PROPERTY PRICES

LOCATION	PRICE
1000 SQ M PROPERTY MENTENG DISTRICT	US$2.5-5m
LUXURY APARTMENTS IN CBD	RP22m Sq m (US$2,366m Sq m)

MALAYSIA

Malaysia's prime property market is mainly limited to the capital Kuala Lumpur, although there are several fledgling high-end holiday home projects under development in Peninsular Malaysia and East Malaysia.

KEY LOCATIONS
1. KUALA LUMPUR
2. ISKANDAR

Despite there being no restrictions on foreigners owning property worth over RM500,000, the prime market has not seen the kind of recovery experienced by Singapore or Hong Kong as yet, says Eric Ooi, head of Knight Frank Malaysia. Prices in the most sought-after condominium developments in Kuala Lumpur City Centre (KLCC) probably picked up by 10% last year after falling 15% to 20% in 2008.

Ooi says developers deferred launching new projects in Kuala Lumpur last year because they were not confident of 50% sales at launch and also because of the oncoming stock of completed units. At the same time, the overseas investors who make up half of buyers in KLCC have limited stock to tempt them, although levels are slowly building. "The market could get busier after Chinese New Year in March or April." The re-imposed 5% capital gains tax, although a damper, is not expected to discourage most investors, he added.

About 20 minutes from the centre of town, Mont Kiara is a suburb popular with expatriate residents. Here, properties of a similar quality to KLCC can be had for half the price per sq ft, although capital appreciation is just as strong.

Iskandar Malaysia in Johor state, north of Singapore, is a 2,217 sq km site targeted for massive growth that has the potential to emerge as a new prime location. Nexus Karambunai is a luxury holiday development in East Malaysia that has sold successfully to regional buyers, but so far Malaysia, while offering some stunning beach destinations, does not have a second-home equivalent of Phuket in Thailand or Bali in Indonesia.

NEW DEVELOPMENT PRICES IN KUALA LUMPUR

LOCATION	RM Sq ft (US$ Sq m)
THE BINJAI ON THE PARK (KLCC)	2,400 (7,598)
PAVILION RESIDENCE, BUKIT BINTANG	1,500 (4,749)
VERTICAS RESIDENSI	1,250 (3,957)
MONT KIARA CONDOMINIUMS	620 (1,963)

ASIA PACIFIC IN NUMBERS

		1 Australia	2 Cambodia	3 China	4 Hong Kong	5 India	6 Indonesia	7 Malaysia	8 Singapore	9 Thailand	10 Vietnam	US	UK
Geography Size isn't always everything when it comes to economic power and wealth in Asia Pacific	Sq km	7,741,220	181,040	9,598,088	1,092	3,287,260	1,904,570	329,740	699	513,120	329,310	9,632,030	243,610
GDP The region has the world's second-largest economy, and also some of the smallest	WORLD RANK (2008)	13	117	2	40	12	18	41	46	33	58	1	6
	GDP 2009 (EST)**[1] US$bn	920	10.9	4,758	209	1,243	515	207	163	266	92	14,266	2,198
	GDP 2010 (EST)**[1] US$bn	983	11.7	5,263	221	1,339	569	216	179	282	103	14,704	2,353
	GDP % CHANGE 2009 (EST)** (LOCAL CURRENCY)	0.73	-2.7	8.7	-3.6	5.6	4	-3.6	-3.3	-3.5	4.6	-2.5	-4.8
	GDP % CHANGE 2010 (EST)** (LOCAL CURRENCY)	2	4.3	10	3.5	7.7	4.8	2.5	4.1	3.7	5.3	2.7	1.3
	% GDP BY SECTOR (2007 OR 2008)*												
	AGRICULTURE	-	32	11	0	18	14	10	0	12	20	1	1
	INDUSTRY	-	27	49	8	29	48	48	28	46	42	22	23
	SERVICES	-	41	40	92	53	37	42	72	43	38	76	76
Population Three out of the world's top-five most populous nations are in Asia Pacific	POPULATION* (m 2008)	21	15	1,326	7	1,140	228	27	5	67	86	304	61
	WORLD RANK	50	61	1	95	2	4	43	112	19	13	3	22
	INCOME PER CAPITA* (US$ 2008)	40,350	600	2,940	31,420	1,070	2,010	6,970	34,760	2,840	890	45,390	47,850
Economics Vital statistics for potential investors in the region	CURRENT ACCOUNT BALANCE 2010 (EST)** (US$ bn)	-55	-0.85	451	24	-34	3	24	22	8	-10	-325	-46
	CPI INFLATION 2010 (EST)**	1.5	4.1	0.6	0.5	8.4	6.2	1.2	1.6	2.1	11	1.7	1.5
	STOCK MARKETS*** % CHANGE 2009	45	-	90	74	93	88	51	76	65	57	29	35
	EXCHANGE RATES (1US$ FEB 1, 2010)	AU$ 1.1	Riel 4,200	Renminbi 6.8	HK$ 7.8	Rupee 46.5	Rupiah 9,300	Ringgit 3.4	S$ 1.4	Baht 33	Dong 18,500	US$ 1	£ 0.60
	RESTRICTIONS ON FOREIGN OWNERSHIP OF PROPERTY	Overseas buyers need clearance from Foreign Investment Review Board to purchase existing houses	Can only rent on long lease	Can purchase freehold after one year of residence	No restrictions	Not permitted, unless Indian resident overseas	Freehold only available to Indonesians	Can buy property worth over 500,000 Ringgit	Foreigners not allowed to purchase landed residential properties	Can purchase freehold "strata-title" for condominiums. But foreign ownership restricted to 49% of total space	Only overseas Vietnamese allowed to buy freehold		

SOURCES:
* World Bank
** IMF Forecasts
*** World Federation of Exchanges (Domestic market capitalisation in local currency. Biggest exchange by volume quoted if more than one)
1 All estimated changes from IMF World Economic Database October 2009, except China, India, UK and US, updated in January 2010

ART FOLLOWS COMMERCE

Image used with kind permission of Sotheby's.
ALBERTO GIACOMETTI
L'HOMME QUI MARCHE I
Sold at auction for a record price of £65,001,250 – the most expensive work of art ever sold at auction.

RECENT EXCEPTIONAL AUCTION RESULTS FOR CONTEMPORARY ART OFFER INTERESTING PARALLELS WITH LONDON'S PRIME PROPERTY MARKET. ANDREW SHIRLEY INVESTIGATES

On September 15, 2008, in the midst of the banking crisis, the London auction house Sotheby's raises £110m with its *Beautiful Inside My Head* sale of works by the UK's Damien Hirst. To many, this is the final defiant stand of an over-heated contemporary art market that will not be repeated for many years.

Fast forward just 18 months to February 3, 2010, when the global economy is recovering, but hardly in rude health. *L'homme Qui Marche I*, a bronze by Swiss sculptor Alberto Giacometti, beats the previous record for a single work – Picasso's 1906 portrait *Boy with a Pipe* – when it is sold by Sotheby's to an anonymous buyer for an astonishing £65m, four times its high estimate.

The Giacometti sale is not alone in achieving stellar prices. In November 2009, 12 bidders push Andy Warhol's early Pop painting *200 One Dollar Bills* past its US$8m to US$12m estimate to almost US$44m.

Over a similar timescale, prime property in London, driven by a shortage of stock and a surge in interest from overseas buyers, increases in value by 15% from its credit-crunch nadir.

Jonathan Binstock, an expert on contemporary art at Citi Private Bank's art advisory service, says similar drivers are at play in the art world. "Volumes are down very dramatically. There hasn't been an overwhelming number of forced sellers, and people who don't have to sell aren't."

Auction houses are also being very conservative about what they sell and how they set their pre-sale estimates to help encourage competitive bidding, he adds.

What has really helped sustain the contemporary market, however, is the globalisation of demand on the back of rapid wealth creation in developing nations, Binstock emphasises. "Buyers are not just coming from the UK and US."

According to Oliver Barker, senior director of contemporary art at Sotheby's, the art market is more international than ever before. "Buyers of lots that sold for over US$1m came from 27 countries in 2004. In 2008 to 2009 this doubled to 54 countries." The same pattern has been seen for prime London property. In 2007 Knight Frank sold houses to 33 nationalities. Last year it was 49.

"Art follows commerce," says Peter Boris, executive vice president of leading New York-based gallery Pace Wildenstein. "Without doubt, artists from the world's new economies will play an increasingly important role in the history of art. New art-making centres are springing up around the world. It is happening in China and India, but also Latin America, Africa and the Middle East."

Leng Lin, president of Pace's Beijing gallery, says more Chinese collectors are now paying attention to contemporary art. "The number is small, comparatively, but they are beginning to play a more important role. More attention is paid to local artists, but Chinese collectors are never narrow-minded as the country itself has been deeply involved in globalisation.

> "There are more and more good artists, but during the past decades wealth has grown at an even higher speed in China and, as a result, the money overflowing from the local art market will go into the international market."

Another parallel between art and property markets playing out now, in contrast to the frenzied, and some might say undiscerning, buying rush witnessed in both sectors at the height of the boom, is the focus on quality. "Masterpieces and works that rarely enter the market are aggressively sought after," says Boris.

Extremely wealthy art collectors are prepared to pay top prices, but only for the very best works from top-drawer artists, confirms Binstock. "This approach is much more reminiscent of the purchase of a primary residential property. People are not buying on spec or looking for the next hot artist."

Lin, who has played a key role in the development of Chinese contemporary art as a dealer, curator, critic and artist, says that contemporary art is no longer being judged purely by its financial value since the economic crisis.

"The art that emphasises humanity and spirituality, the work that shows a connection and awareness of history, is most valued. The more conservative artists, those who have a direct hand in the art-making process, have performed better. The new trend will be opposing making art entertaining or fashionable. It will be focusing more on purified forms."

Extrapolating this trend to property markets may be stretching the parallels too far, but the similarities and lessons from the past are clear. Art or property of the very highest quality will always be attractive to the discerning buyer, but speculate at your peril.

ARTISTS TO WATCH

Jonathan Binstock
- Luc Tuymans
- George Condo
- El Anatsui

Peter Boris
- Stirling Ruby
- Li Songsong
- Sudarshan Shetty

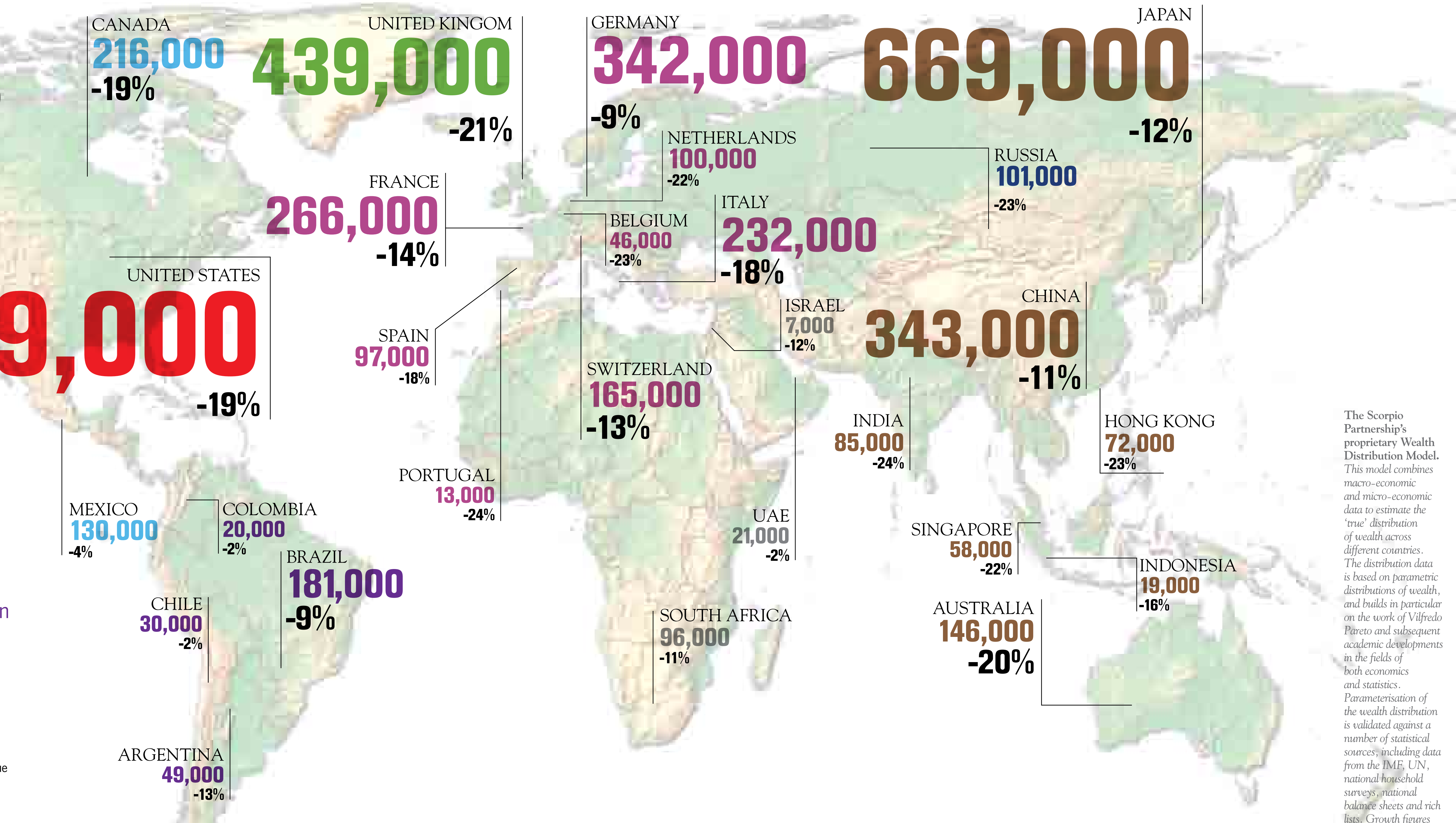
Leng Lin
- Hai Bo
- Yin Xiuzhen
- Wang Guangle

Oliver Barker
- Chris Ofili
- Urs Fischer

MONITOR
SCORPIO WEALTH DISTRIBUTION MODEL

SPREAD THE WEALTH

Figures denote number of HNWIs with investable assets over US$1m, and annual percentage change



Our survey of global wealth distribution points to a sharp drop in the numbers of HNWIs. Sebastian Dovey, head of Scorpio Partnership, looks ahead at the areas destined to nurture the future wealth leaders

Few corners of the world were left untouched by net asset value erosion, such was the global reach of the economic downturn. But the fact that asset prices have recovered strongly since mid-2009 means we can expect the numbers to recover relatively rapidly.

However, thinking beyond movements in asset pricing, we can begin to make some informed statements on how our map will look at the end of the new decade.

If I could point to one thing that poses the biggest risk to wealth creation right now, it would be access to capital. New business ventures and the growth of small enterprises are being stifled – it is worse in Europe and the US, but only marginally better in Asia. There is a real risk of a demographic "hole" emerging, with the future "wealth class of 2010 and 2011" missing the opportunity to start their projects that in normal circumstances would lead to them joining the ranks of the HNWI in a decade hence.

UNITED STATES

To my mind the prospects for the US are too often overlooked in the search for the next new location. Every decade or so the US seems doomed and, whether it is the tech boom or the financial services boom, something comes along to salvage the economy.

UNITED KINGDOM

The UK lacks a substantial depth of wealth creation outside the London hinterland. Strong as it is, one city is not enough to sustain wealth creation for the whole country. The UK would do well to consider how Germany has supported regional wealth creators.

EUROPE

In many Eastern European countries it is not clear whether they will follow the German Mittelstadt model, with the growth of a strong mid-wealth tier of small and medium-sized business owners, or a more Russian or plutocratic model with a greater concentration of extreme wealth among fewer individuals.

NORTH AFRICA

North Africa, especially Morocco, and even the Levant states are looking interesting from an emerging wealth perspective. We expect them to look at potential EU membership, or at least EEA affiliation. Even the beginnings of this process will drive improvements to the regulatory and business environment in each country.

RUSSIA

In Russia, these plutocrats have been joined by a tier of wealthy individuals – professional services experts in particular – who specialise in providing services the super rich consume. With assets between US$1m to US$5m, they have added slightly more depth to the wealth population.

ASIA

Asia will be much more dominant – the rate of economic growth emanating from China will ensure that. But there is more to the region than China. South Korea, Taiwan and Indonesia have all been very impressive through the recent downturn – their governments managed their economies much better than during the Asian Crisis of the early 2000s.

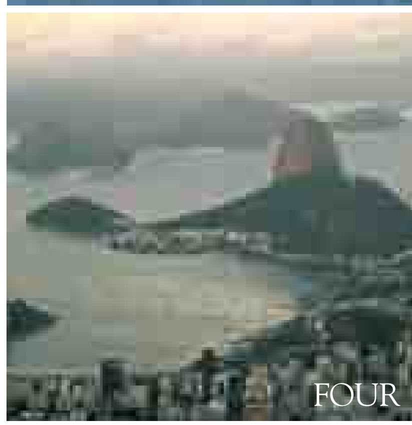
The Scorpio Partnership's proprietary Wealth Distribution Model. *This model combines macro-economic and micro-economic data to estimate the 'true' distribution of wealth across different countries. The distribution data is based on parametric distributions of wealth, and builds in particular on the work of Vilfredo Pareto and subsequent academic developments in the fields of both economics and statistics. Parameterisation of the wealth distribution is validated against a number of statistical sources, including data from the IMF, UN, national household surveys, national balance sheets and rich lists. Growth figures are measured in both real terms and local currencies in order to allow for adjustment for inflation and exchange rate fluctuations.*

Scorpio Partnership is an international business consultancy firm to the wealth management industry.

scorpiopartnership.com

GLOBAL WEALTH RISKS

The value of prime property is intrinsically linked to the creation of new wealth. In an exclusive interview with THE WEALTH REPORT, Ian Bremmer, president of Eurasia Group, the world's leading political risk research and consulting firm, looks at some of the factors that could affect global wealth creation as we kick off a new decade



ONE

WR: A number of Western governments have responded to the impact of the credit crunch by proposing tougher financial regulation, restricting bank bonuses and increasing the tax burden of the wealthy. In London this potent cocktail, combined with a new tax on non-domiciled residents, has led to howls of indignation and even suggestions that the city's prime property market will suffer as the rich pack their bags. Do you believe that this is really likely to be the case in London and, to a lesser extent, New York?

IB: Not at all. First, for New York. Pain will be inflicted on Wall Street this year in the form of a tougher regulatory environment, especially because President Obama and the Democratic leadership will need a resonant, populist issue to win back voters bruised and battered by a rough economy. But US tax rates are considerably lower than in other OECD countries. Financial players in New York can afford to absorb some pain, and they will do just that. The problem is more acute in London, and some hedge funds have moved. But the fear that major financial players will exit either city in large numbers is exaggerated. There is nothing new in these howls of indignation, and a move is more easily threatened than accomplished.

To create the sort of ecosystem in which a financial centre can grow and thrive you need specific political, economic and social conditions. You need a politically stable environment, a stable legal system, relatively effective policing of corruption, baseline social harmony, a well-educated local workforce, a broad economic base, and a liberal policy environment that encourages the cross-border flow of ideas, information, people, money, goods and services. Outside the United States and Western Europe, only Tokyo meets these requirements. But Japan holds to elements of a closed economy, and the Japanese workforce doesn't have the international orientation you'll find in New York, London, Zurich or Berlin.

For the moment, I expect that London's losses will be New York's gain. But I also expect financial players in both capitals to do their grumbling and fight their regulatory fights on familiar ground.

TWO

WR: Do you believe there are still some aftershocks of the credit crunch on the horizon this year and what countries could be vulnerable?

IB: That's not at all unlikely, and several European states appear quite vulnerable. We're seeing the return of serious political risk to the Eurozone, and the line that separates developed from developing states is not as distinct as it was before the financial crisis began. Markets may be underestimating risks of default in some EU member states, and the reality is that EU support for them is not a sure thing. Even without a default, governments may respond to economic stagnation with budget-busting spending meant to prop up shaky sectors. Greece, Ireland, Spain, Portugal and perhaps even Italy appear the likeliest suspects. In addition, lingering high unemployment is an especially serious problem in Eastern Europe, where elections in several countries over the next few months could persuade anxious political officials to appease the angry unemployed with protectionist, populist, and even xenophobic policy plans. Ukraine, Hungary and Latvia are especially vulnerable, but even Poland could take a hit. Another worry: If one of the big Western European banks active in Eastern Europe gets itself in trouble, rescue efforts could quickly become quite complicated.

We could also see a bit more turmoil in Japan if the DPJ government presses ahead with ambitious spending projects that ignore the country's fiscal problems.

THREE

WR: You name the deteriorating relationship between China and the US as the biggest global risk in 2010 – what could be the impact on the rest of the world if this relationship crumbles?

IB: We would first see a greater regionalisation of capital and trade flows, as governments intervene directly to reduce their exposure to commercial and political risk. That would lead to less efficient economic decision-making and a lower trajectory for global growth.

Longer term, most of Asia would find itself relying much more heavily on China for capital flows, investment, and trade. Japan would be caught in an unsustainable position, and its leadership would eventually have to choose between a "Taiwan model" of development, which would require that political and security issues are pushed aside for the sake of economic growth and deeper dependence on China, and an "Israel model" that limits growth possibilities in favour of political and security containment of China's expansion. We'd see China's rivalry with India become much more evident.

The United States would respond by trying to create a G3, a system that relies on coordination and collaboration with Japan and the European Union. We're already seeing this emerging dynamic on the financial side between the US Federal Reserve, the European Central Bank, and the Bank of Japan. The domestic distractions created by the financial meltdown have limited greater direct cooperation on political and security issues, but a breakdown in US-China relations would eventually fuel the G3 trend in those areas, as well.

FOUR

WR: Developing nations, and China in particular, have been the big economic success story of the past decade providing a steady stream of cash-rich buyers looking to acquire trophy properties in the world's most desirable locations. Can we expect this wealth creation trend to continue in the new decade or will it stutter, as some contrarian analysts are already predicting?

IB: We should expect China to continue to invest. There is still enormous potential for them to continue to build infrastructure and an enormous value proposition with so much urban infrastructure left to build and an increasingly well-educated and affordable workforce to build it. China, India, and Brazil will all benefit from this trend and from strong baseline political stability within all of them. For Brazil, add the new resources that will come on line over time, and the state will have deeper reserves at its disposal for investment.

FIVE

WR: If this growth does continue can China realistically emerge as a new superpower and will we see a fundamental shift in political and economic power away from more mature Western economies to the developing world?

IB: Yes and no on the superpower question. China has gotten much closer over the past decade to developing the economic heft to behave like a superpower. Its military potential is another matter. First, Beijing has neither the means nor the desire to match US military spending dollar for dollar. There is much deeper Chinese investment in asymmetric capabilities – in cyber-warfare, for example. But China will remain far too preoccupied with its greatest domestic challenge – sustaining the pace of job creation necessary to safeguard the Communist Party's hold on political power – to allow itself to be distracted by too many foreign entanglements or burdened with geopolitical responsibilities. The US would love for China to accept some international burden-sharing. The Chinese leadership is far too risk averse for anything that smacks of "adventurism."

The transition from a US-dominated unipolar order will one day create more of a multi-polar order. But that's a long-term development. For the next several years, we're likely to see something that looks more like a "non-polar" order, one in which the US retreats from some of its international commitments, but with other emerging powers too preoccupied with domestic challenges to want to try to fill the vacuum.

SIX

WR: The Russian wealthy, who are major players in some of the world's most expensive property markets, have even been given their own name. Will these oligarchs have as much financial firepower in the future or will they dwindle as the Kremlin adopts less of a free-market approach to Russia's economy?

IB: They will still play a significant role, because they remain useful for the political leadership. The Kremlin practices a different form of state capitalism than we find in China. In Russia, the oligarchs are allowed to own valuable assets on condition that they play their state-assigned roles in the elite drama. Sometimes the role is scapegoat. If the government needs to blame someone for factory closures or high prices, the oligarch who owns the factory or the store makes for a convenient target. Oligarchs allow the Russian political leadership to exercise a high degree of control without much responsibility in the eyes of the public. And as long as the oligarchs support the political status quo, there is no reason to be rid of them.

SEVEN

WR: You have picked out Indonesia as a recent economic success story, which are the other emerging economies that you would pick as the potential bright stars of the new decade and which will continue to squander their natural wealth through corruption and political mismanagement?

IB: Nigeria and Venezuela have more wealth to squander. Some would include Argentina in this category, but I expect that country will have a new government next year and that we'll see a turnaround in the economic approach there. Turkey should be a much better story than it is, but the never-ending struggle between the AKP government and the country's secular elites within the media, military, and business community provide a continual distraction.

For the bright stars, there are several Middle Eastern states worth a look. Abu Dhabi has helped clean up Dubai's mess, making the UAE a sound long-term bet again. In Egypt, we have a very stable government and an emerging consensus within the political elite in favour of market reform. The Saudi leadership has made solid progress in diversifying its economy away from over-reliance on crude oil production, and stability will be reinforced by a smooth succession process once King Abdullah passes from the scene. Even in Iraq, there is cause for long-term optimism. From a very low base, the country has a new opportunity to exploit its upside potential as the country's various sects accept that there are plenty of spoils for all if open conflict can be avoided.

EURASIA GROUP'S 10 LEADERS TO WATCH IN 2010

1. Wen Jiabao (*China*)
   Chinese premier has to reconcile rapid economic growth with inflationary pressures
2. Barack Obama (*US*)
   Mounting domestic and foreign policy issues will test the US president in 2010
3. Ichiro Ozawa (*Japan*)
   Scandal-tainted politician whose survival could be key to electoral success for the Democratic Party of Japan
4. David Cameron (*UK*)
   Has huge economic issues to deal with if his Conservative party wins UK election
5. Luiz Inacio Lula da Silva (*Brazil*)
   Popular final-term president pushing for a greater international role for Brazil
6. Ali Akbar Hashemi Rafsanjani (*Iran*)
   Former president could play key role in shaping trajectory of Islamic Republic in 2010
7. Ashfaq Kayani (*Pakistan*)
   Pakistan's top soldier will have significant impact on US counterinsurgency campaign in Afghanistan
8. Vladimir Putin (*Russia*)
   Prime minister and former president remains Russia's most popular and powerful political figure
9. Sheikh Khalifa bin Zayed al Nahyan (*UAE*)
   Abu Dhabi leader and the UAE's president with close ties to Washington is set to consolidate power in the region
10. Olii Rehn (*EU*)
    European Commissioner for Economic and Monetary Affairs must manage growing EU fiscal problems

See full details on *eurasiagroup.net*

EIGHT

WR: Agricultural real estate has become a big global investment play in recent years, partly on the back of concerns about future food security. In your recent report looking at the top 10 risks facing the world in 2010, you don't mention food security. As world populations increase and more farmland is degraded or used for development do you foresee that food security will become a more significant political risk as the decade progresses?

IB: Food security shouldn't be considered an immediate risk for 2010. Longer term, I would bet on technological improvements and the ability of some of the most vulnerable states to import needed infrastructure. I'm more concerned about water security, an essential part of the food production process, but also an underappreciated element in energy production and power generation. Some forecasts call for a 40% increase in global demand for water over the next 15 years. Conditions are especially severe in northern and eastern Africa, the Middle East, and South Asia. There are plenty of fights brewing over this issue in India and China, in particular, where it's easier to import food than water. In general, the world is going to need solid long-term planning on how best to use energy in the water production process and water in the energy production process. These are issues we really have to get right.

NINE

WR: A number of cash-rich, land-poor countries in the Middle East and Asia are reportedly already acquiring millions of acres of farmland in some of the world's poorest nations that often cannot feed their own populations. Do you see this as a positive or negative move, and is following such a strategy just creating new political risks for the governments on either side of the deal?

There are both risks and opportunities here. Greater investment in infrastructure in places that need it is clearly a good thing. It will create economic opportunities for local people who desperately need it. It also gives powerful cash-rich governments in Asia and the Middle East a tangible stake in the political stability of countries at serious risk of becoming failed states. As we've come to learn over the past several years, ungovernable states become breeding grounds for all kinds of trouble, from terrorism to piracy to organized crime, and so on. The downside of these property purchases is that it does expose the investor states to considerable risk.

TEN

WR: In general, what do you see as the biggest risks to future global wealth creation – social upheaval, military, demographic pressures, scarcity of resources, climate change? Where are these risks concentrated, and what areas of the world give you most concern?

IB: Longer term, terrorism is risk number one. We are all well aware of the many good things created by technological innovation. But it is easier today than ever for a small group, or even a single determined individual, to commit acts of violence that impact the lives of millions of people. There is also the risk that if a large attack generates an unprecedented level of fear within society, the cure may prove worse than the disease. Climate change is another source of serious long-term risk, though it will also create some interesting opportunities. On the down side, we're likely to see changes in climate patterns that undermine the productivity of agricultural land in unpredictable ways. But unprecedented opportunities to develop arctic resources and new agricultural lands, as well as changes in shipping lanes, will create winners as well as losers.

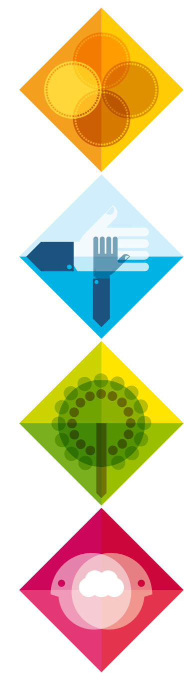
Ian Bremmer is the president of Eurasia Group
eurasiagroup.net
He created Wall Street's first-ever global political risk index, and has written several books, including The J Curve: A New Way to Understand Why Nations Rise and Fall. His upcoming book, The End of the Free Market: Who Wins the War Between States and Corporations?, details the new global phenomenon of state capitalism and its geopolitical implications. He has a PhD in political science from Stanford University and lectures at Columbia University.

EURASIA GROUP'S 10 POTENTIAL GLOBAL RISKS IN 2010

1. US-China Relations
   Can the world's largest economies get on?
2. Iran
   Iranian regime looking increasingly like a cornered, wounded animal
3. European fiscal divergence
   Political risk returns to the Eurozone as government debt mounts
4. US financial regulation
   Could new regulatory powers go too far?
5. Japan
   Does 2010 mark the start of a new "lost decade"?
6. Climate change
   Copenhagen failure could hamstring global approach
7. Brazil
   Investor concerns mount in October election run up
8. India-Pakistan
   Islamic extremists could reignite old conflicts
9. Eastern European, elections
   Upcoming elections could increase instability
10. Turkey
    Ruling Justice and Development Party (AKP) under threat on all sides

See full details on *eurasiagroup.net*

THE NEW POWER BROKERS



In this, the second edition of the Knight Frank Global Cities Survey, Liam Bailey reports on the winners and losers emerging from the aftermath of the credit crunch, and discovers that the shift in leadership between global cities is more nuanced than the simple west-to-east narrative would at first suggest

Liam Bailey is head of residential research at Knight Frank

WINNERS AND LOSERS Our latest results confirm that London saw the number one spot wrenched from its grasp by New York. The UK's capital has suffered more than many financial centres during the recent financial downturn and there is growing concern among the footloose international elite over the city's previously relatively stable tax environment.

Despite this reversal of fortune at the top of the table, the gap between the top four cities (New York, London, Paris and Tokyo) and the next city (Los Angeles) is still substantial, suggesting it will be some time before the emerging city contenders will pose a serious challenge to the top grouping.

Unsurprisingly, one of the key themes this year is the strengthening power of the emerging centres, with big gains experienced by the likes of Beijing, Singapore, Shanghai, Kuala Lumpur and Mumbai. Driven by their improvements in political power and influence, but also by economic drivers – in particular the astonishing rate of growth of financial sector activity in Shanghai and Beijing, for example – all these cities are beginning to gain in stature and power.

In amongst the big Asian winners are success stories from the developed economies, with strong results in locations like Berlin, Brussels, Sydney and Boston. In Berlin's case it recorded an improved showing across the board, benefitting from greater political confidence within the EU, its consolidation of economic leadership within the Eurozone and also broader cultural and intellectual influence.

It is noticeable that it is the more hard-edged measures, economic and political power, for example, where the emerging market centres are gaining ground. This year Beijing rose to fourth place in political power, leaping ahead of London, Paris and Tokyo, while Singapore, Shanghai and Beijing all saw improved rankings for economic activity.

Where the emerging centres still fall short is on the softer issues of quality of life and knowledge and intellectual influence. These are strong cards for many cities in the developed world – especially in the US, northern Europe and Japan. Berlin, Paris, Zurich and Tokyo saw improved rankings on quality of life measures. Again, even though they delivered strong results in last year's survey, the real leadership in terms of knowledge and influence has come from the US and Europe, with improved rankings for New York, Paris and Washington DC amongst others.

LESSONS FOR ASPIRANT CITY LEADERS
The changes over the last year in our rankings shouldn't really cause any great surprises. The main emerging market cities are beginning to claim the political and financial influence and leadership that their newly developed economic power justifies. However, there is a more complex story playing out here.

For the rising cities of Asia, economic growth and greater political clout on their own will not succeed in propelling them to the top of the table in terms of locations where the world's most influential citizens want to have a first or even a second home.

What lessons can these contenders take from the cities at the top of our survey? It would seem that to matter as a world city you need to score well on all measures; you need a broad base of appeal – something clearly demonstrated by both Paris and Tokyo. World cities are connected, in terms of transport and communications, but, more importantly, in terms of ideas. These are the locations where the world's most influential people want to congregate because these are the locations where the ideas and values that define the global agenda and shape the world are settled.

Even a city like Shanghai, with phenomenal economic expansion year after year, struggles to move rapidly up the table. To be successful, cites must attract the best and the brightest and influence the world. The ability to react to changing circumstances is also critical – London will no doubt take lessons from the downturn and look to improve its performance.

WORLD CITIES IN 2020 Taking a longer-term perspective – it is unlikely in our view that the current quartet of top cities will be pushed down the rankings by the emerging contenders by the end of the decade.

The risk for the current Western top performers is really one of relative decline. Growth, but slower growth than that experienced in the emerging world. In addition, there is the real impact of the current budgetary crisis, with a rising tax burden and a fiscal squeeze – especially acute in New York and London.

To our mind, the opportunities for the leading emerging market cities are huge. These locations will create wealth at a more rapid rate than the established cities. It is likely that over time intellectual leadership will begin to follow.

But this final requirement for real power is not guaranteed – without it the colossuses of the East will allow relative minnows like Berlin, Toronto and Brussels to dominate in influencing and shaping ideas and events.

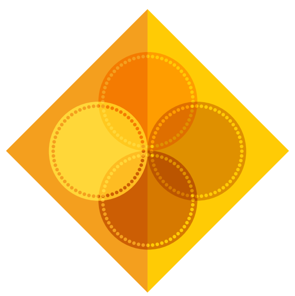
MONITOR
KNIGHT FRANK WORLD CITIES SURVEY 2010

HOW TO MEASURE THE WORLD

In our attempt to create the most rounded assessment of the locations that matter to the global tribe of footloose wealthy and influential, we built on last year's survey methodology. Once again we have considered much more than each city's share of world financial flows and economic activity, and have been exercised by the need to assess political influence, intellectual activity and, critically, liveability*.

As before our assessment is divided into four themes, with each city ranked from one (weakest) to 40 (strongest). Aggregate rank determines the final position in the survey.

*Sources include: UN, IMF, Foreign Policy Magazine, EIU, Globalization and World Cities Study Group and Network, A. T. Kearney, Chicago Council on Global Affairs, The Institute for Urban Strategies at The Mori Memorial Foundation, Y/Zen Group



ECONOMIC ACTIVITY

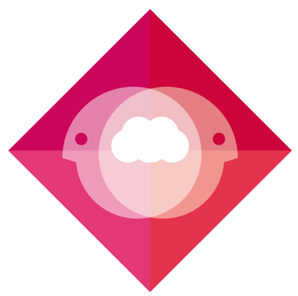
First we consider economic activity – including economic output, income per head, financial and capital market activity and market share, together with the number of international business headquarters in each city.

2010 POSITION	CITY	2009 POSITION	POSITION CHANGE
1	NEW YORK	1	-
2	LONDON	2	-
3	TOKYO	3	-
4	PARIS	4	-
5	SINGAPORE	6	+1
6	HONG KONG	5	-1
7	SHANGHAI	8	+1
8	BEIJING	9	+1
9	SEOUL	7	-2
10	LOS ANGELES	11	+1

POLITICAL POWER

Broader non-economic influence is captured by our second measure, which we loosely label "political power". Here we calculate the importance of each city to global political thought and opinion, identifying where power is held and influence exercised. Our ranking includes the number of HQs for national political organisations and international non-governmental organisations, together with the number of embassies and think tanks in each city.

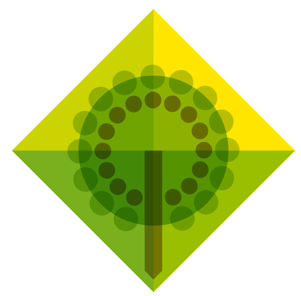
2010 POSITION	CITY	2009 POSITION	POSITION CHANGE
1	WASHINGTON	1	-
2	NEW YORK	2	-
3	BRUSSELS	3	-
4	BEIJING	7	+3
5	LONDON	4	-1
6	PARIS	5	-1
7	TOKYO	6	-1
8	ISTANBUL	8	-
9	CAIRO	9	-
10	MEXICO CITY	10	-



KNOWLEDGE & INFLUENCE

Next we consider each city's knowledge base – assessing educational status and the number and ranking of educational facilities. We then consider how well each city is able to transmit this knowledge – by assessing the number of national and international media organisations and news bureaus, and the international market share of locally based media.

2010 POSITION	CITY	2009 POSITION	POSITION CHANGE
1	NEW YORK	2	+1
2	LONDON	1	-1
3	HONG KONG	3	-
4	PARIS	5	+1
5	TOKYO	4	-1
6	LOS ANGELES	6	-
7	SINGAPORE	7	-
8	CHICAGO	8	-
9	WASHINGTON	10	+1
10	TORONTO	9	-1



QUALITY OF LIFE

Finally, we assessed the quality of life offered by each city. The range of issues considered was extensive and included measures of personal and political freedom, censorship, personal security, crime, political stability, health facilities, public services and transport, culture and leisure, climate and the quality of the natural and man-made environment.

2010 POSITION	CITY	2009 POSITION	POSITION CHANGE
1	PARIS	2	+1
2	BERLIN	5	+3
3	TORONTO	1	-2
4	FRANKFURT	4	-
5	TOKYO	7	+2
6	LONDON	3	-3
7	ZURICH	10	+3
8	MUNICH	6	-2
9	NEW YORK	8	-1
10	LOS ANGELES	9	-1

THE TOP 40 CITIES

2010 POSITION	CITY	ECONOMIC ACTIVITY	POLITICAL POWER	KNOWLEDGE & INFLUENCE	QUALITY OF LIFE	AGGREGATE RANKING	2009 POSITION	CHANGE IN POSITION
1	NEW YORK	40	39	40	32	151	2	+1
2	LONDON	39	36	39	35	149	1	-1
3	PARIS	37	35	37	40	149	3	-
4	TOKYO	38	34	36	36	144	4	-
5	LOS ANGELES	31	25	35	31	122	5	-
6	BRUSSELS	26	38	27	30	121	6	-
7	SINGAPORE	36	26	34	23	119	7	-
8	BERLIN	19	29	26	39	113	13	+5
9	BEIJING	33	37	24	19	113	12	+3
10	TORONTO	24	19	31	38	112	8	-2
11	CHICAGO	30	22	33	26	111	10	-1
12	WASHINGTON DC	10	40	32	29	111	9	-3
13	SEOUL	32	23	23	25	103	11	-2
14	HONG KONG	35	9	38	14	96	14	-
15	FRANKFURT	29	15	15	37	96	15	-
16	SYDNEY	28	7	30	27	92	18	+2
17	SAN FRANCISCO	20	17	25	28	90	16	-1
18	BANGKOK	22	28	22	11	83	17	-1
19	SHANGHAI	34	24	13	12	83	21	+2
20	ZURICH	16	1	28	34	79	22	+2
21	MEXICO CITY	11	31	16	18	76	19	-2
22	MOSCOW	25	10	18	22	75	20	-2
23	TAIPEI	27	27	11	8	73	26	+3
24	SAO PAULO	23	20	12	17	72	24	-
25	ISTANBUL	13	33	19	5	70	23	-2
26	MUNICH	14	13	8	33	68	25	-1
27	BUENOS AIRES	8	30	14	15	67	27	-
28	CAIRO	6	32	20	6	64	30	+2
29	MIAMI	12	21	17	13	63	29	-
30	MILAN	17	12	9	21	59	31	+1
31	DUBAI	21	4	29	4	58	28	-3
32	BOSTON	15	2	21	20	58	32	-
33	TEL AVIV	1	16	4	24	45	35	+2
34	KUALA LUMPUR	18	11	5	9	43	34	-
35	BOGOTA	3	18	6	10	37	33	-2
36	NEW DELHI	2	14	10	3	29	36	-
37	RIO DE JANEIRO	5	6	1	16	28	37	-
38	JAKARTA	7	8	7	1	23	38	-
39	MUMBAI	9	3	3	7	22	39	-
40	JOHANNESBURG	4	5	2	2	13	40	-

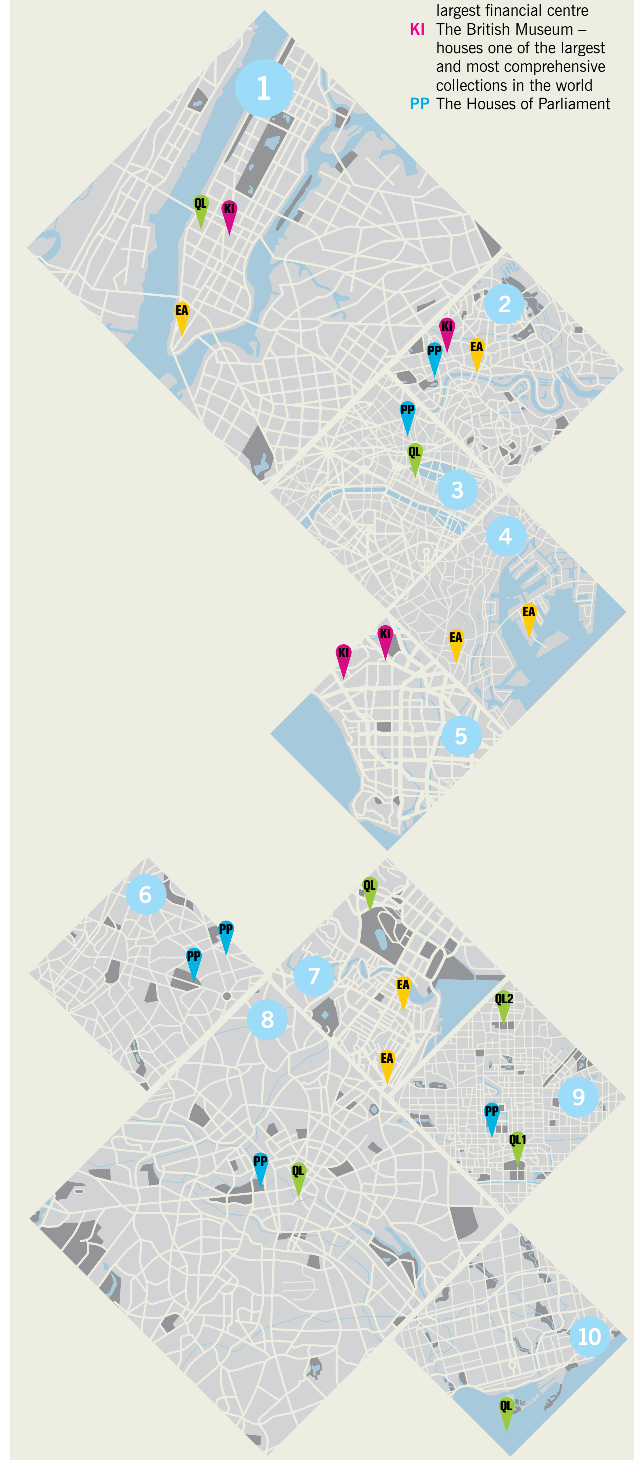
RISING

CITY	CHANGE IN AGGREGATE RANK
BERLIN	+9
BEIJING	+8
TEL AVIV	+7
BRUSSELS	+5
SINGAPORE	+5
SYDNEY	+4
SHANGHAI	+4
KUALA LUMPUR	+4
MUMBAI	+4
BOSTON	+3

FALLING

CITY	CHANGE IN AGGREGATE RANK
BANGKOK	-7
MEXICO CITY	-7
DUBAI	-7
ISTANBUL	-6
LONDON	-5
HONG KONG	-5
MOSCOW	-5
MUNICH	-5
BOGOTA	-5
NEW DELHI	-4

THE TOP 10 CITIES KEY FEATURES



1 NEW YORK
- EA Wall Street – heart of the US financial services sector
- QL Meat Packing District – up-and-coming residential zone
- KI New York University – the largest private higher education institution in the United States

2 LONDON
- EA The City – London's traditional financial core which together with Canary Wharf creates Europe's largest financial centre
- KI The British Museum – houses one of the largest and most comprehensive collections in the world
- PP The Houses of Parliament

3 PARIS
- PP The Organisation for Economic Co-operation and Development – headquarters of this international economic organisation of 30 countries
- QL The Louvre – the most visited museum in the world houses 380,000 objects

4 TOKYO
- EA The Tokyo Stock Exchange – the second-largest stock exchange in the world by aggregate market capitalisation of its listed companies
- EA Greater Tokyo Area – the world's most populous metropolitan area with 37m people

5 LOS ANGELES
- KI Hollywood – the centre of the world's largest film industry
- KI The University of California, Los Angeles (UCLA), enrolls 26,000 undergraduates and 11,000 graduate students from the United States

6 BRUSSELS
- PP EU headquarters – Brussels serves as the informal capital of the European Union
- PP The North Atlantic Treaty Organization (NATO) – Headquarters of this military alliance based on the North Atlantic Treaty

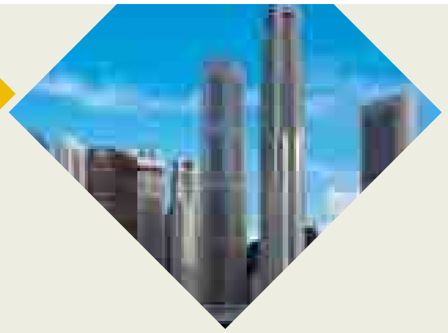
7 SINGAPORE
- EA Port of Singapore – one of the busiest ports in the world
- EA CBD – Singapore is the world's fourth largest foreign exchange trading centre
- QL The Singapore Zoo – one of the world's leading zoos – occupying 28 hectares of land on the margins of Upper Seletar Reservoir

8 BERLIN
- PP Reichstag – following Norman Foster's reconstruction, the German Parliament returned here in 1999
- QL Museum Island – the northern half of the Spreeinsel in the centre of Berlin. The island received its name for several internationally renowned museums that now occupy this area

9 BEIJING
- PP The Great Hall of the People – located at the western edge of Tiananmen Square, used for legislative and ceremonial activities by the People's Republic of China and the Communist Party
- QL The Temple of Heaven, literally the Altar of Heaven, a complex of Taoist buildings
- QL Beijing National Stadium – colloquially known as the Bird's Nest, the stadium was designed for use throughout the 2008 Summer Olympics and Paralympics

10 TORONTO
- QL Lake Ontario – symbolic of the clean air and outdoor lifestyle enjoyed in Canada's largest city

EYEWITNESS



ECONOMIC ACTIVITY

SINGAPORE

Singapore has risen from 6 to 5 in our "economic power" rankings. International property developer *Dr Stanley Quek* says the city's economic ambition is backed up by its high-quality environment and political stability in an otherwise turbulent region

Singapore has had to respond to the seismic shift in economic power from West to East over the past decade. It could also do little as Chinese entrepreneurs assessed its traditional industries and then replicated them, only on a much bigger scale and with much lower costs.

The government's response over a decade ago was to concentrate on supporting the development of economic sectors that reinforced the unique selling points offered by the city. As a result, private banking, professional and high value-added services have flourished.

The low-tax environment in Singapore has been a boon in the attempt to lure highly paid and highly mobile expatriate knowledge workers. Another trump card for the city has been the government's uncanny ability to deliver on the elements which matter – it has proved to be very responsive in ensuring that infrastructure, security and transport are delivered with minimal upheaval or fuss.

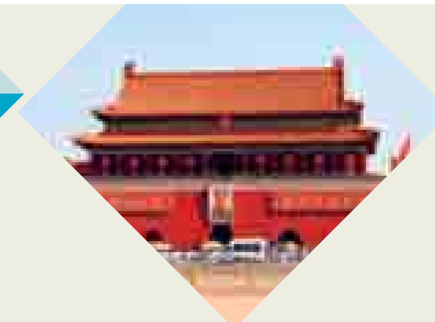
The immediate location in Asia is rather lively. With Malaysia, Thailand and the Philippines as neighbours there is an ever-present risk of importing political or security problems. This fact led to the strategic shift in Singapore's foreign policy – close ties with the US, Australia and the UK are as important as ever – but China has been courted much more closely.

The expansion of Singapore's economy has not been without its problems. The cost of housing has risen, and policies have been developed to try to maintain pricing levels for the 80% of the population living in government 'affordable' housing.

Population growth has been rapid over the past five years in particular. With 5m residents now and a government policy of a maximum of 6m, I believe that we will see the island hitting its population capacity by 2030 at the latest.

My view is that the "Switzerland of Asia" has a bright future. The continued growth of the Asian economy will continue to support Singapore's service sector. With more HNWIs in the region there will be more wealthy people looking to secure a second or even a first home in this city.

Dr Stanley Quek is managing director and CEO of Frasers Property UK and Australasia frasersproperty.com



POLITICAL POWER

BEIJING

Beijing has risen from 7 to 4 in our ranking of "political power", but commentator *Jonathan Fenby* says the city will find it harder to increase its influence in other areas

The typical Beijing resident has a high regard for their city's new-found status. The 2008 Beijing Olympics was a pivotal moment in the development of a sense of civic pride and expectation for China's capital.

Significantly improved middle-class housing and new infrastructure mean that Beijing looks and feels a lot more like a true global city.

Beijing is at heart an imperial city – the main set-pieces of the forbidden city, Tiananmen Square, for example, help to define the sense of superiority the Beijing resident has over someone from the commercial hubs of Shanghai or Guangzhou.

We should not, however, underestimate its economic ambition. The fact that much of China's financial sector activity takes place in Shanghai and Hong Kong is no barrier to Beijing's economic influence. Five years ago, if you wanted to meet the top decision makers at the top banks in China you would have travelled to Shanghai, now you would be as likely to go to Beijing. The 'Shanghai clique', which dominated the top of the Communist Party in the 1990s, has been replaced by a more Beijing-centred leadership.

In everything from trade, finance, media and power – Beijing is on the rise in China.

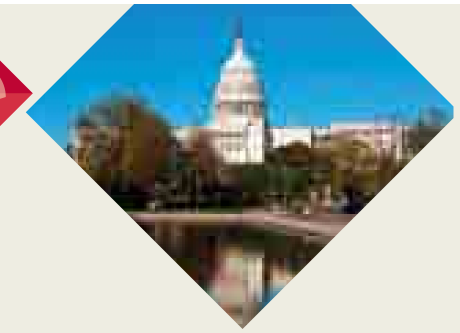
But as the capital of a one-party state, it lacks the more chaotic creativity experienced in locations like London or New York suggesting that the democratic deficit does matter when it comes to an attempt to create a vital and vibrant city life.

Public protests have become more numerous and more accepted – but only when they are seeking to address economic issues.

As to whether Beijing will ever become a global leader in terms of exporting ideas and values, and attracting the world's creative class – I am not optimistic. There is tremendous intellectual curiosity in the city – but again this is expressed at a private and not a public level.

In terms of Beijing's ambition to shape global values – I don't see this happening. There is a lot of talk around the 'Beijing Consensus', as alternative to the Western democratic model for emerging economies to follow, I am not persuaded. Beijing does not want to export its values globally – China is big enough for the moment.

Jonathan Fenby is a co-founder of Trusted Sources trustedsources.co.uk which provides analysis on emerging economies. He was formerly editor of the South China Morning Post.



KNOWLEDGE & INFLUENCE

WASHINGTON DC

Washington DC's cluster of influential political think tanks means it will continue to rank highly for "knowledge and influence", says The Economist's *Adrian Wooldridge*

The most important thing to understand about Washington DC is that it is unique. The cluster of universities, institutes, foundations and, most importantly, the world's largest concentration of political think tanks, lends the city an intellectual dynamism that is wholly lacking in other world centres.

Every shade of opinion, from neo-conservative to left-liberal, is represented – the sheer variety of thinking is invigorating. If anything, the scale and importance of the think tank industry is actually growing, despite the economic downturn. The size of the US government is growing and the think tanks will benefit, ironically, particularly those viscerally opposed to the concept of big government.

London, where I am currently based, has arguably the world's second-largest collection of think tanks, but it is such a diverse city that they play only a bit part in intellectual life.

In Washington, ideas rule – this is a city where walking into a Starbucks you will see people poring over academic papers and discussing government debt. This is one of the most dynamic environments in the US, but it is a one-industry city. In the same way as you don't choose to live in LA if you haven't got at least some interest in films and celebrity, you don't generally live in Washington if you haven't at least some interest in public policy.

Things are beginning to change; increasingly it is not just policy wonks who are attracted to Washington. In recent years the city has become noticeably wealthier, and property prices have risen steeply on the back of demand from a new type of resident. It may seem surprising, but arguably Washington has now become the centre of US finance. As the government has nationalised bank debt and taken control of Wall Street, more and more senior bank staff have migrated to the city.

I cannot see the emerging centres in Asia aping Washington's influence for a long time. First, and probably the hardest part for many countries, you need to have political freedom to permit debate and ideas to flourish. Second you need the infrastructure of the foundations and institutions to fund the research and host the debates. In my view, Washington's thought leadership will continue to aid the US in extending its global influence even as its economic leadership is waning.

Adrian Wooldridge is The Economist's management editor. He was previously Washington bureau chief.

QUALITY OF LIFE

BERLIN

Berlin is moving up our "quality of life" rankings. The city may lack the wealth and economic firepower of London and New York, but it offers a cultural environment equally as rich and influential, argues journalist and resident *Gerrit Wiesmann*

Even two decades after unification Berlin is still a city that suffers from high unemployment and a remarkable degree of poverty. Plans in the early 1990s to shift the German stock exchange and the country's banking headquarters to the new capital of the unified Germany came to nothing. The Government moved in, but the commercial bodies firmly stayed out.

Despite this, the city has become one of Europe's most influential centres, attracting many talented and skilled workers. The driving force for this evolution has been a decade of artistic and cultural flowering.

Before the wall came down in 1989,both the West and East German authorities pampered their halves of the city – turning them into showcases to prove the success of their respective political models. If one side of the city had an opera house, then so did the other side, leading to a legacy of institutions that gave the city double the amount of galleries, theatres, universities, museums – and oddly even zoos – than a comparable city would have required.

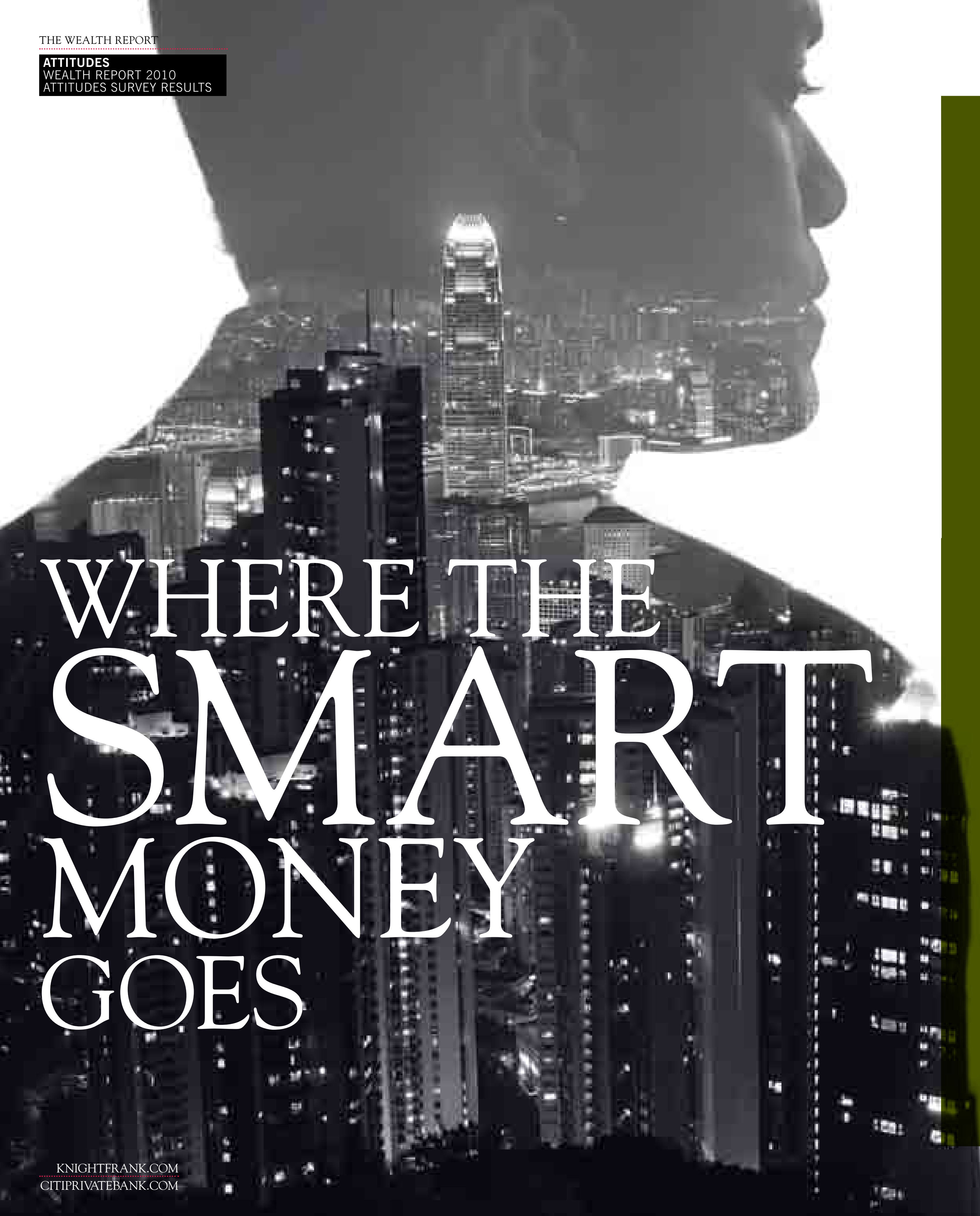
This heritage of high-quality infrastructure combined with cheap rents for apartments and industrial premises led to the development of an alternative arts scene in the mid-1990s.

The lack of a significant financial services sector means that serious wealth in Berlin is noticeable by its absence. You do not get the fashion houses, the industrial headquarters or the financial services firms you see elsewhere and government spending underpins everything.

It has been a slow process, but Berlin is asserting itself, not just within Germany, but also across Europe. If you want to access the best young architects, designers, photographers and even writers, this city is increasingly the place to come to find talent.

Looking to the future you have to be positive – unemployment and poverty will not disappear in the short term, but the city's cultural life will keep drawing in talented residents. Will the city be as vibrant and influential in 2020 as it is now? Yes. Will the city be more of a centre of trade and transactions? Unfortunately, I think not.

Gerrit Wiesmann is the Berlin Correspondent for the Financial Times.



WHERE THE SMART MONEY GOES

With growth returning to many asset classes over the past year, the results of our 2010 Attitudes Survey allow us to understand the thinking of wealthy investors and where they think performance is likely to be strong in 2010, as world growth picks up. *Andrew Shirley*, editor of THE WEALTH REPORT, looks at the numbers

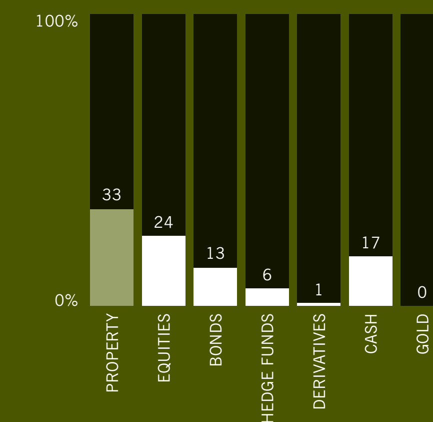
High-net-worth individuals (HNWIs) have a fondness for tangible assets, with property making up the largest share of their investment portfolios ❶. Of the HNWIs who participated in The Wealth Report 2010 Attitudes Survey, property, on average, accounted for one-third of their assets. Only 8% of those questioned had no property investments at all.

Europeans were the biggest property enthusiasts, where this asset made up almost half of their investments. South Americans were the most reticent, with only just over 10% of their investments in the property sector.

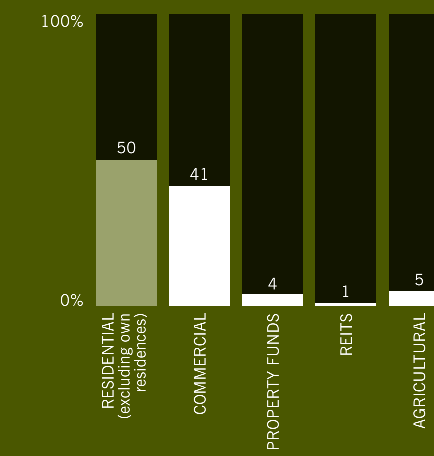
Equities made up a quarter of the respondents' investments, with cash and bonds the third and fourth most popular investments at 17% and 13%, respectively. Gold, despite its reputation as the safest of havens in turbulent economic environments, still appears a fairly specialist investment and can claim only a 0.5% share of the average HNWI investment portfolio.

This desire to invest in tangible and transparent assets was further reinforced when we asked those respondents with property investments to break down their holdings by asset class ❷. Residential and commercial were the clear leaders, with an average combined property portfolio share of over 90%. Agriculture and forestry investments accounted for another 5%, but property funds and Real Estate Investment Trusts (REITs) were still being treated cautiously with a combined allocation of under 5%.

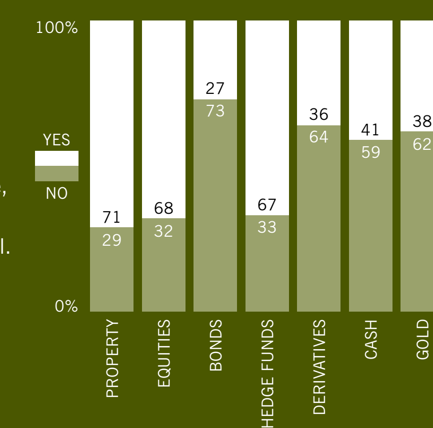
❶ How would you say your investment portfolio is distributed across the following asset classes?



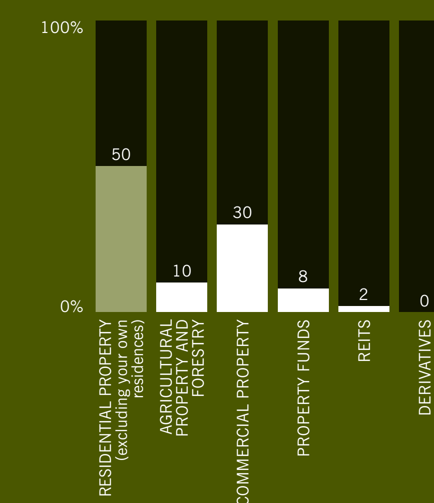
❷ If you have property in your portfolio how would you say your investment is split across the following asset classes?



❸ Do you think 2010 will be a good year to invest in these asset classes?



❹ Which do you think will be the best performing property asset class in 2010?



Asian investors held the biggest share of residential property at almost 70%, while for North American HNWIs, commercial property (55%) had the edge over residential bricks and mortar (40%). South American and Asian HNWIs seemed particularly fond of "hard" property assets with investments in property funds and REITs barely registering in the survey responses.

HNWIs are also optimistic about the fortunes of the property sector, with just over 70% of respondents tipping it as a good investment opportunity in 2010 ❸. The strong recovery of global stock markets was also felt likely to continue with 68% recommending equities as a worthwhile investment. There was little enthusiasm for bonds – 73% of respondents were not keen on investing this year – while only 38% would recommend buying more gold, suggesting that most HNWIs think the precious metal's recent stellar performance has reached a peak.

When asked, however, which would be the best-performing asset class of the year, 31% of HNWIs chose equities, with 21% opting for property. Hedge funds were also expected to do well with 25% putting them at the top of their performance list. Within the property sector, half the survey respondents said residential property would be the star performer in 2010, followed by commercial property, which was picked by 30% ❹.

Long-term capital appreciation is very much the objective of HNWIs when they consider what property to invest in, according to the results of our survey. When asked to rank the factors that influenced their investment decisions 5 capital growth was considered most important, followed closely by asset stability and then by yields.

There were, however, regional variations. After capital appreciation, yields were most important to HNWIs in the Middle East and South America.

In terms of where to invest in property, North Americans preferred to stay close to home, with 88% of respondents saying they would spend it in their own country if they were offered a significant amount of money to invest. Reflecting a lack of investment opportunities within the Middle East, and possibly also concerns arising from the Dubai property slump, only 17% of HNWIs from the region said they would invest there.

When it comes to making their investment decisions, the wealthy seem very self confident and when they need advice will turn to their peers first 6. The majority of those who took part in the survey ranked their own expertise as the most important source of information, with their colleagues in second place. South Americans, however, do look first to their personal bank or wealth manager. The huge amount of information available online was not considered very reliable, with the internet considered the least important source of advice.

Interestingly, despite strong rallies by global equity and property markets, which is where HNWI's have most of their investments, the survey respondents were not particularly bullish about the prospects for their personal wealth in 2010 7. Although only a small proportion (4%) expected their overall net worth to decline during the year, just 5% believed it would increase significantly, with most of the positive sentiment coming from the Middle East. Almost 20% felt it would stay at about the same levels, with the vast majority (72%) forecasting a slight shift upwards.

Such a view suggests widespread caution among HNWIs about the sustainability of the current economic recovery process, and reflects the view of many commentators who believe that some asset classes in certain locations may already be overheating. Looking at the threats to their wealth, most respondents chose the economy, either in their own country or globally, as the biggest dangers. In South America, political instability was more worrying than the global economy, while changes to the taxation regime were more of a concern in Europe than anywhere else.

Despite this relatively cautious outlook, a significant number of the respondents feel confident enough to consider buying another residence this year. Of those, 13% said they were planning to purchase a new primary residence, while 37% said they would be looking to acquire a secondary house. Only 53% said they would be financing their purchases with extra debt.

Unsurprisingly, the factors considered most important when choosing a primary or secondary residence vary 8 & 9. While views and climate are top of the list for a secondary house, security and reputation of the area score most highly for a HNWI's main dwelling. One surprising factor is that proximity to workplace is not ranked in even the top-10 most important reasons for choosing a primary residence. This seems to back up the premise that today's successful HNWI is likely to be doing business globally and has less need than in previous generations to be near any one particular place of work.

The results of The Wealth Report 2010 Attitudes Survey indicate that HNWIs are starting to feel more confident about the future. They generally believe that they will be better off at the end of the year than they are now, but there is, however, still a sense of caution. Tangible assets are still very much to the fore and, following sharp price corrections in many markets property is considered a very desirable asset to own and invest in.

IL PALAGIO
UNDER A TUSCAN MOON

SOMETIMES A PROPERTY IS NOT JUST A PLACE TO LIVE, BUT SOMEWHERE TO MAKE A NEW LIFE, SOMEWHERE TO RE-ENERGISE AND RE-BALANCE. ANDREW SHIRLEY TALKS TO TRUDIE STYLER ABOUT IL PALAGIO, THE ITALIAN HOME WHERE SHE AND MUSICIAN HUSBAND STING SPEND MUCH OF THEIR TIME, AND THE IMPACT IT HAS HAD ON THEIR LIVES

Some of the most enduring love affairs seem to happen by chance, springing almost out of nothing, arriving in our lives when we least expect them or have even given up hope.

For Trudie Styler and Sting, finding Il Palagio, their 900-acre Tuscan estate south east of Florence, was one of those moments. It was the culmination of a search that had taken seven years, having fallen in love with Italy after spending three months there around the time their daughter Coco was born.

"Since then we'd kept dreaming of finding the perfect Tuscan property. Whenever Sting toured Italy I'd go and meet him and we'd do a few days of house hunting. So one day, I cajoled Sting into the car to look at yet more houses, but nothing was right. The ceilings were too high or the walls too frescoed. With just one house left to see, we were disillusioned and ready to give up. I really was starting to believe that what we were looking for didn't exist," recalls Trudie.

Luckily, Knight Frank's head of international sales Paddy Dring persuaded the couple to give Il Palagio a chance, and what could have been a forgotten footnote at the end of a fruitless day looking for the perfect house turned, instead, into love at first sight. He was the matchmaker, laughs Styler. *"As soon as we saw the property the whole mood changed. It went from 'let's go home' to 'we could actually be buying a house today', there was something really special about the atmosphere it was very positive, very benign."* A stroke of luck or something more? *"I do believe that you can feel when you belong somewhere,"* she says.

Il Palagio was built as a hunting lodge so the rooms are very human in scale, *"a perfect place for a family to spend time together."* But the estate also had something else that the couple wanted desperately – land. Land not just to admire the views over, but land to form a deep symbiotic relationship with, the kind of relationship that Styler believes is now largely missing from agriculture as farmers increasingly rely on artificial chemicals to boost output and yields.

Working with nature, not against it, is a key part of the couple's spiritual outlook on life and explains why they are passionate advocates of organic farming. "It's common sense, food is better when fewer things are added, not more," she explains. *"You can just taste it."* Although she claims not to be a hands-on farmer, *"I just don't have the time,"* the enthusiasm in her voice is palpable when talking about the food that they grow.

She and Sting were already producing a range of organic food from their 60-acre Lake House estate in Wiltshire, England, when they bought Il Palagio. There was, however, little opportunity to acquire more land there, meaning the potential for new projects was limited. Il Palagio offered a whole new horizon.

"It's a house we are still absolutely head over heels in love with."

Since buying the estate 13 years ago from a local Duke and gradually acquiring back some of its original land that had been sold off over the years, Styler and Sting have produced award-winning virgin oil from its olive groves and garnered prizes for the honey they coax from its 75 "families" of bees with the help of farm manager Paolo Rossi.

Rossi and his sister Bina, who runs the house, were born in Il Palagio and their presence, says Styler, brings a calming sense of continuity to the estate, as well as maintaining a relationship with the local community that both she and Sting believe is vital.

This year or early 2011 will see the culmination of their biggest project yet. Around 30,000 bottles of a Super Tuscan Merlot that is shaping up well are currently maturing gently, ready to be released on to the market.

It could be seen as a gamble. Small Italian producers are struggling to compete with cheaper wine from much bigger wineries in the New World, but turning a profit – and she admits it will only be a small one if anything – is just one of the project's aims, says Styler. The wine from Il Palagio is produced in a very different way to most wine from Tuscany, or, indeed, anywhere else.

With the help of consultant Alan York, who also converted the Benziger Family winery in California, the vines are grown using biodynamic agriculture, a system pioneered by Rudolf Steiner in the early 20th Century. Treating the soil as a living organism is key to biodynamic farming and the earth is reinvigorated and cleansed with special naturally enriched and fermented composts, manures and sprays. Growing cycles are also often aligned to the moon's phases.

Styler believes this controversial, but increasingly popular technique, deserves a wider audience and hopes that the wine from Il Palagio will enable more people to share its benefits and encourage others to adopt a similar approach.

Fittingly, the new wine will be called Sister Moon, reflecting not just its method of production, but also the title of one of Sting's songs. Although conventional farmers are sceptical about biodynamics, Styler maintains that it improves the taste of the wine as well as the health of the soil and has helped make the atmosphere of Il Palagio even calmer than it was before. *"I have noticed a difference since the soil was cleaned, I just want to stay there."*

Talking to Styler, it is clear that Il Palagio is not just a house to her, Sting and their family, but also a way of life. While they may have breathed new life into an old estate with their sympathetic restoration of the house and rejuvenation of its farmland, it has also clearly given a lot back. Much of Sting's music has been created on the estate or been inspired by it, she says, adding wistfully that it could be the place they retire to. *"It's a house we are still absolutely head over heels in love with."*

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Knight Frank LLP is the leading independent global residential and commercial property consultancy. Headquartered in London, Knight Frank, combined with its New York-based global partner, Newmark Knight Frank, operate from 207 offices in 43 countries across six continents. More than 6,343 professionals handle in excess of £594 billion of commercial, residential and agricultural property annually, advising clients ranging from individual owners and buyers to major developers, investors and corporate tenants.

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