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Chinese and Indian Wealth Demographics

The Movement of Capital into UK Luxury Residential Property

As global economies and financial markets recuperate, the international super-rich, who not only survived but prospered throughout the economic recession, are forecast to enhance their already substantial net worth[1]. This continued global wealth creation has significantly increased the appetite for luxury residential properties in super-prime postcodes situated within top tier cities such as London, New York and Hong Kong[2]. After a significant time spent on the periphery of asset allocation, property is now considered a prime investment asset class, an area that has traditionally been occupied by equities, bonds and gilts[3]. Since 2008, private money has sought safety in the form of real assets for the preservation of wealth. In the right jurisdiction, property is considered a legally safe investment that irrespective of volatility within global financial markets, will still exist and uphold value within the real world[4]. It is therefore unsurprising that for the majority of UHNWI, residential property is the largest item of discretionary spending. According to the Attitudes Survey, 30% of UHNWI wealth is attributable to their main residence and any additional residences, of which they possess on average 2.4[5].

28%
Forecast global growth in UHNWI 2014-2023

31%
Forecast global growth in centa-millionaires 2014-2023

38%
Forecast global growth in billionaires 2014-2023

According to Knight Frank's Global Wealth Report, for a large percentage of UHNWI property is more than just an asset class, it is a livelihood and deemed the 4th most popular industry sector. Further accentuating the allure of bricks and mortar, The Candy GPS Report suggests that residential property accounts for 24% of UHNWI investment portfolios[6]. Moreover, 40% of UHNWI have enhanced their allocation to residential property from 2013 with 47% expecting it to additionally increase[7]. Despite global wealth creation as a whole, much of this wealth is being generated within emerging economies. As a creator and preserver of wealth, Asia and in particular the nations of China and India are escalating fast. Asia's UHNWI population and wealth is forecast to increase more than any other global region in the next five years, and at 50% more than North America while overtaking that of Europe[8].

China, with GDP currently expending at 7.3%, will add an extra $1 trillion US dollars to global GDP every year this decade, which is the equivalent of adding an extra Japan or Germany to the world every ten years. The Global Wealth Report forecasts that the number of UHNWI in China over the next decade with grow by 80%, as will the number of billionaires[9]. This will exceed the total number of billionaires in the UK, Russia, France, and Switzerland combined and position China as second behind the USA[10]. India over the past two decades has achieved similar capital growth to that of China, and this is set to continue with a projected 99% increase in UHNWI over the next ten years[11]. Furthermore, it is estimated that in a decade's time there will be more billionaires in India than the UK, which at present stands at 104. The combined wealth of Indian billionaires in 2013 was $189 billion US dollars, of which according to the International Monetary Fund is approximately one and a half times the size of Bangladesh's economy and three times the size of the Sri Lanka economy[12]. With a significant percentage of this new wealth being invested into luxury residential property in top tier cities, it is projected to retain an even greater influence over the prime residential property market as the desire for bricks and mortar intensifies.

80%
Forecast growth in Chinese billionaires 2014-2023

48%
UHNWI residential property investment into Alpha cities

99%
Forecast growth in Indian UHNWI 2014-2023

The most highly prestigious and sought after residential addresses in the world are considered to be urban. Property investment is a global city phenomenon, which therefore sees a disproportionate percentage of UHNWI capital invested within a handful of global cities. Moreover, some 48% of UHNWI property investment has been made into Alpha cities, the world's top urban centres as labeled by the Globalisation and World Cities Research Network[13]. Incredibly, these Alpha cities, of which there are forty containing the likes of London, New York and Hong Kong, encompass merely 5% of the global population however entice almost half of all residential property investment from the world's super-rich. Although much of this wealth is being generated within rapidly expanding economies and regions such as Asia and more specifically the countries of China and India, a substantial percentage continues to be invested within the 'old world' and in particular the city of London.

Of all the world's cities, London is considered to possess the most established super-prime residential property market. London was home to the most UHNWI in 2013, more than any other global city and this is projected to still be the case in ten years' time[14]. On a risk adjusted basis, UK property over recent decades has outperformed UK equities and gilts[15]. The UK's stable economy, strong legal system, respected institutions, and as one of the global centres for financial services forms a large part of the attraction for UHNWI who wish to preserve their wealth through London's luxury residential property. Furthermore, the clamp down on tax havens in Switzerland has removed many decisions for a new capital. Such reasons somewhat explain the influx of not only Chinese but Indian UHNWI wealth into London's super-prime residential property and why globally the UK is considered the number one destination for those seeking a new domicile. As the Indian economy remains under pressure, property prices have increased in an unparalleled manner, something that cannot be said of income levels. This therefore presents London as an appealing destination to relocate. Further adding to such appeal, The Candy GPS Report suggests that property in London remains attractive to UHNWI, as despite possessing a history for capital appreciation, the city sits within the best time zone, offering easy admittance to both East and West[16]. As a result, this allows Chinese and Indian residents the opportunity to come and go with absolute simplicity, something that New York lacks.

The rapid rise of wealth within Asia has consequently seen the luxury residential markets of Hong Kong and Singapore increase 150% respectively, dwarfing 'old world' cities[17]. In an effort to combat such price growth and calm the property market, their governments have raised transactional taxes. Taxation has always been an essential factor when purchasing residencies in any location. New York has long possessed a property tax, equating to roughly 1% of the gross domestic value. This tax, which is paid by the purchaser and not the seller, was adopted by New York State in 1989. While it only applies to residential sales above $1m, it is levied on the purchase price and therefore suggests that a buyer who pays $999,999 for a residence would owe no mansion tax, while an individual who purchases the same property for $1m would have to pay $10,000. This mansion tax is also levied on top of regular real estate taxes, which includes a 0.4% transfer tax, and furthermore a 1.425% transfer tax on residential sales above $500,000. London has raised its levels of Stamp Duty Land Tax and in the not too distant future is likely to see the introduction of a 1% annual mansion tax on properties over £2m. Nonetheless, London remains attractive when compared to other Alpha cities not only as a result of taxation but also price.

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The weakness of sterling has made prime London seem inexpensive in a global context, and according to Savills, residential property prices in prime central London are set to appreciate by approximately 24% over the next five years[18]. Super-prime central London remains significantly lower that the two most expensive global cities, Hong Kong and Tokyo. While London's super-prime property prices average £3,500 psf, super-prime Hong Prices are more than double at £7,200 psf. Tokyo averaging £5,000 psf is substantially cheaper than Hong Kong but still more expensive than London by a significant margin. Super-prime New York is slight more affordable than London, but as previously discussed in our view lacks the easy access to the Middle and Far East, a prerequisite for a majority of Chinese and Indian UHNWI considering changing domicile. The Candy GPS Report suggests that two of the major UHNWI investors in super-prime residential property, Asians and Europeans, retain entirely different purchasing habits. Approximately 65% of Asian UHNWI property holdings are situated within Alpha cities[19]. Furthermore, Asian leisure pursuits are typically urban and thus the desire for super-prime residential property is a city phenomenal, as opposed to a rural one. Such research further accentuates London's property appeal to Chinese and Indian UHNWI. Providing supplementary support, Prime Resi states that the Chinese are considered to be the most motivated and wealthy foreign purchasers of luxury residential property in London, accounting for roughly a quarter of London's residences in 2013[20].

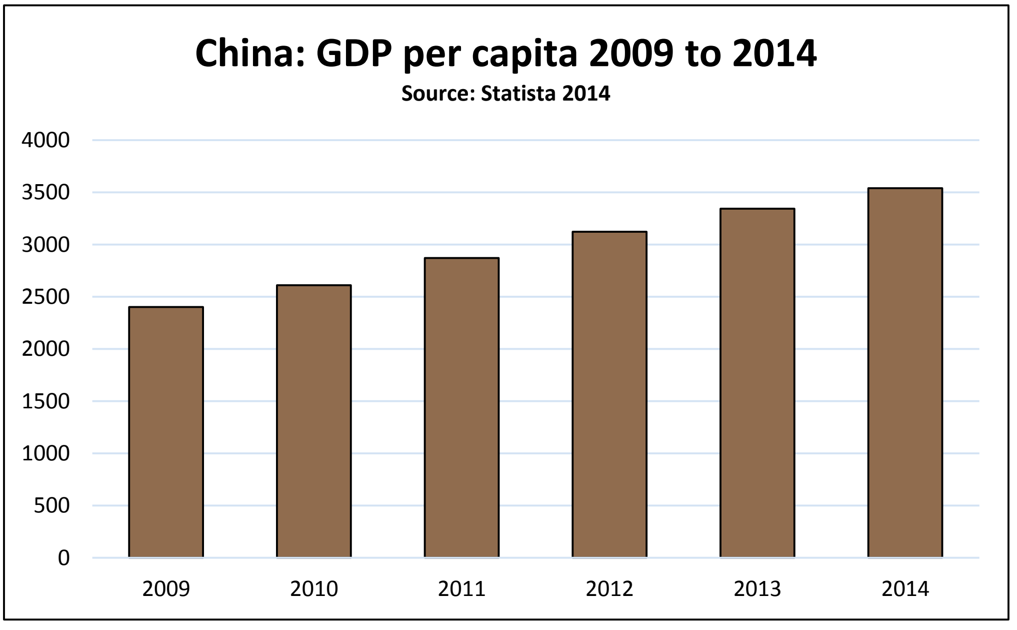
In contrast, Europeans prefer to diversify their property holdings, which sees 46% attributed to Alpha and second tier cities as they seek to complement their primary residence with non-city locations such as rural and coastal residencies[21]. According to the London Residential View, Chinese and Indian purchases of super-prime residential property not only prize London for its economic and political stability, while in addition abstaining from seeing residences taxed on their global wealth unlike the USA, but also due to the UK's quantity and quality of highly prestigious schools and universities. Circa 50% of Asian UHNWI send their children overseas for educational purposes.

65%
Asian UNHWI property holdings are focused on Alpha Cities

25%
Chinese purchases of London luxury property 2013-2014

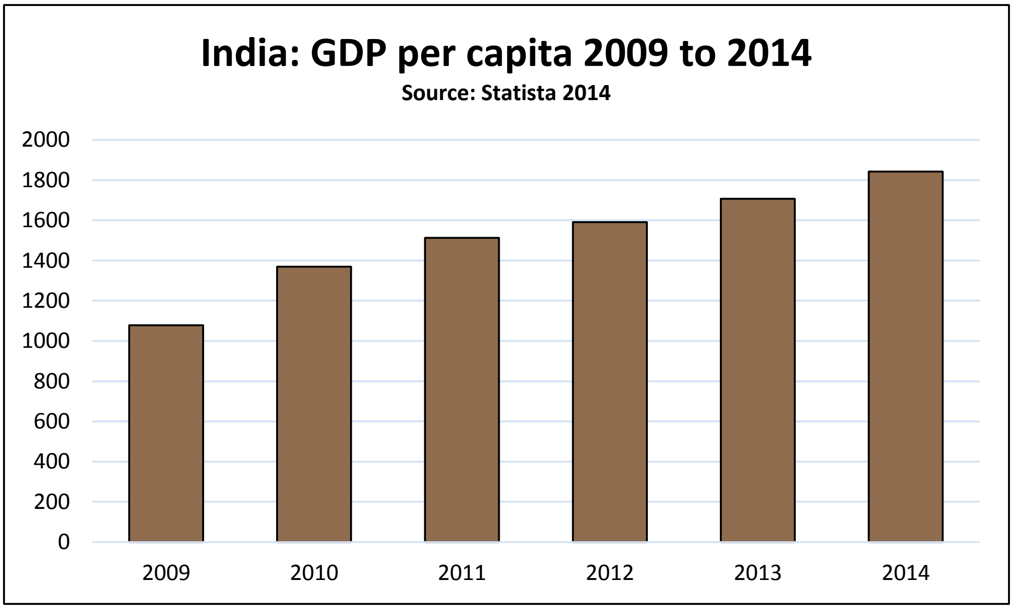
50%
Asian UNHWI send their children overseas for education

Purchasers from mainland China of luxury residential property have already surpassed Russians as the largest overseas buyers in Sydney and New York[22]. According to Prime Resi, the Chinese are becoming more comfortable with international markets and are now targeting London's super-prime residential property market. This is driven both by the volume of wealthy individuals coming out of China, their global aspirations, and the general consensus that their domestic residential property market is now at saturation point. China's GDP per capita, which measures the value of all final goods and services produced within a given year divided by the average population for the same year, has increased by approximately 49%[23]. China is now the largest exporter of goods and services in the world, which has led to a substantial wealth creation. Nevertheless, this wealth creation is by no way evenly distributed among China's citizens. The Economist advocates that China faces a number of socioeconomic issues such as the increasing income disparity between its citizens, largely characterized by a rural-urban income inequality. According to research conducted by the Institute of Social Science, income inequality among Chinese mainland citizens has reached severe condition and sees 1% of the Chinese population possessing one third of the country's wealth[24].



India, alongside China, has also achieved impressive economic growth over the last two decades and this is projected to continue. A particular interest however is India's GDP per capita statistics, which over a five year period from 2009-2014, has grown approximately 71%[25]. Nevertheless, a striking comparison can be made to that of the income distribution inequality seen within China.

The organisation for Economic Cooperation and Development (OECD) has identified that the top 10% of wage earners in India make twelve times more than the bottom 10%, compared to six times two decades ago[26]. Furthermore, roughly 42% of India's 1.12 billion inhabitants live on less than $1.25 a day. It can be widely agreed that the wealthiest individuals within China and India, seemingly benefit the most from the regions substantial capital growth. In an effort to preserve this newly generated wealth, a substantial quantum has and will continue to be invested into prime residential property within global cities, and in particular, the most desirable Alpha city, London.



While numerous factors contribute to the decision to purchase a property, one key influence is that of currency movements, as buyers take into account purchase costs, affordability and market transparency. Recently, due largely to the political upheaval within Russia, the ruble has plunged in its steadiest decline since the global financial crisis of 2008. Thus, purchasing residences within London has become more expensive to Russian buyers. Russian buyers, who have traditionally been a major force at the luxury and opulent end of the market in numerous global cities, have decreased in wake of recent political issues. The recent decline of the Chinese Yuan and the India Rupee has additionally made purchasing properties within London more expensive, however the sheer volume of wealth emerging from both nations substantially outweighs these currency effects.

In summary, the region of Asia and in particular the countries of China and India have seen a substantial capital growth over the last two decades and this is predicted to continue. Residential property is considered to be a safe and tangible asset that irrespective of financial uncertainty, will still exist in the real world and preserve wealth. As a result of this wealth creation, the demand for super-prime residential property within top tier global cities has increased. Chinese and Indian UHNWI are quickly becoming comfortable dealing in international markets and have already surpassed other regional groups as the largest overseas buyers in several Alpha cities. Urban locations make up a large percentage of Asian residential property holdings as opposed to alternative investor groups who seek to diversify their portfolios with non-urban locations. Soane Capital take the view that London, with its stable economy, strong political system, quality of schooling, favorable taxation regimes and competitive pricing, as well as being situated within the preferred time zone, will continue to be the most attractive destination for UHNWI seeking to preserve their wealth through luxury residential property. Furthermore, over the last 6 months, we have noted significant Chinese activity within Surrey's most prestigious and sought after private estates. The next Soane Speaks will discuss this topic in further detail.

References:

[1] *Source: Knight Frank – Global Wealth Report 2014*

[2] *Source: The Candy GPS Report 2013*

[3] *Source: The Candy GPS Report 2014*

[4] *Source: Savills – London Residential Development – Where next?*

[5] *Source: Source: Knight Frank – Global Wealth Report 2014*

[6] *Source: The Candy GPS Report 2014*

[7] *Source: The Candy GPS Report 2014*

[8] *Source: The Candy GPS Report 2013*

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[15] *Source: Savills Research*

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[18] *Source: Savills Research: Spotlight Prime Residential London Market Autumn 2014*

[19] *Source: Knight Frank – Global Wealth Report 2014*

[20] *Source: Prime Resi 2014*

[21] *Source: Knight Frank – Global Wealth Report 2014*

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[23] *Source: Statista 2014*

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[25] *Source: Statista 2014*

[26] *Source: Economic Cooperation and Development Research*