THE WEALTHIEST'S MOST DESIRABLE RESIDENTAL MARKETS

Prime residential and commercial property in relatively risk-free locations has always attracted investors in times of economic and political turbulence. There is something comforting about tangible assets that, barring natural disaster, will retain their inherent value over time, even if prices dip in the short term. This flight to safety continues around the world and is helping to drive up prices in the most sought-after locations; so much so that certain governments are desperately trying to cool their housing markets down. But wealthy investors are also starting to buy into recovery, breathing new life into previously moribund markets such as Dubai and Dublin.

RECENT PERFORMANCE	PRICE CHANGE	FUTURE TRENDS

The Lancasters, Lancaster Gate, Hyde Park, London

RECOVERING MARKETS, SAFER HAVENS

Shifting focus to the Middle East, Dubai stands out with strong growth of 20% in the price of luxury villas during 2012. The epitome of the global downturn between 2008 and 2009, the emirate rebounded in 2012 on the back of a resurgence in demand. This was aided by lower prices and underpinned by its location as a strategic hub, able to attract wealth from the Middle East, North Africa, the Indian subcontinent and central Asia.Rapid price growth in 2012 was enough for the Central Bank of the UAE to impose new mortgage restrictions on the market in early 2013.

"The micro-recovery now apparently under way in Dublin gives hope to even the most embattled of property

While the prime market will undoubtedly be insulated by the higher volume of cash purchases, there is some nervousness over the

the potential impact of these rules on the mainstream market, which has only just begun to show signs of recovery.

revival presaged another upturn. Dublin's prime market, also a victim of the global financial crisis, prices fall 60% between 2006 and 2011. In 2012, rising investment. Interest saw values rise modestly by 2.5%.

Performance

Following the economic downturn, Miami, London and New York came to epitomize the so-called safe haven market, with overseas buyers looking to escape currency, economic, Political and security crises by putting equity into tangible assets that appeared safe from government sequestration. This trend gathered pace in 2012.

In London, European wealth continued to fuel the market, at least in the first half of the year. As fears that the euro might collapse dissipated during the summer, Europeans were increasingly replaced by Middle Eastern, Asian, African and Russian and CIS buyers.

Russians, long an important driver of the London market, became a growing force in both New York and Miami, alongside ever-rising demand from Latin America. In New York in particular, Russians faced increasing competition from Chinese and Hong Kong buyers. The substantial housing market down turn during the original 2008 credit crunch means that US luxury markets are now appealing to global investors looking for value opportunities. In New York prime sales volumes hit their highest level for 25 years in the final quarter of 2012, as the looming fiscal cliff and potential capital gains tax rises weighed on vendors' minds.

New York's performance over the past year has been aided by the growing availability of high-quality new-build developments. This contrasts with the dearth of stock in the years after the financial crisis.

TURMOIL IN THE EUROZONE

There is no escaping the fact that the lower half of our price growth table (p29) is dominated by European centres. For several of the continent's second home markets, 2012 represented the sixth consecutive year of declining prices.

In France, Spain, Portugal and Italy, the euro crisis provided the inescapable backdrop to the market, creating uncertainty for buyers regarding their own economic prospects and, just as importantly, uncertainty regarding the political reaction to the crisis.

This reaction was most keenly felt in France, where President Hollander's wealth tax proposals caused more than a few potential buyers to reconsider. In reality, while prices slipped in some French hotspots, the biggest impact was reduced trading volumes. The sub €5m market in key French locations performed relatively well, but the top of the market saw buyer interest shift to Monaco, the Italian Riviera and Switzerland. Some buyers also moved their focus to Barcelona and other key markets in Spain.

Overall demand for prime residential property, for investment or lifestyle reasons or as a safe haven asset, remained strong through 2012. In the majority of locations across Asia-Pacific, the Middle East and Africa, this demand helped to push prime prices higher, in some cases to such an extent that governments felt it necessary to curb demand.

The prime markets in North America appear to be on the rise, benefiting from the export of wealth from emerging economies.

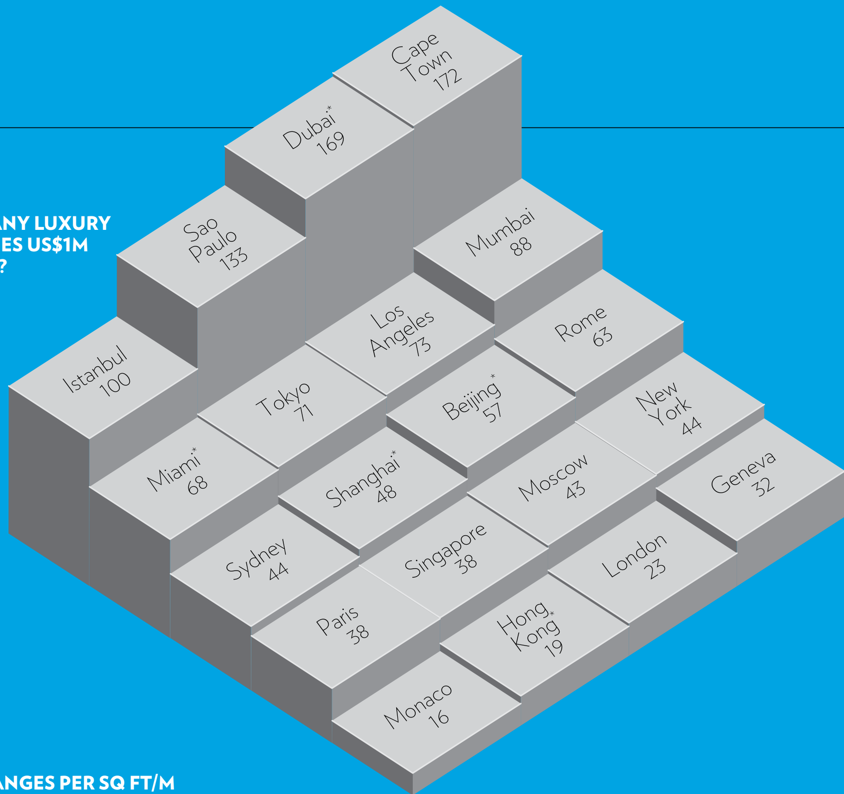
European markets have been held back by the euro crisis and dismal economic activity. London's s performance, however, confirms that the region is well able to attract inward investment, and the micro-recovery now apparently under way in Dublin gives hope to even the most embattled of markets.

PIRI UPS AND DOWNS IN 2012

AVERAGE PRICE CHANGE

Rank	Location	Country/area	2012 change
1	Jakarta	Indonesia	+38.1%
2=	Bali	Indonesia	+20.0%
2=	Dubai*[1]	UAE	+20.0%
4	Miami	US	+19.5%
5	Sao Paulo	Brazil	+14.0%
6	Gstaad*[1]	Switzerland	+13.2%
7	Auckland	New Zealand	+12.7%
8=	Guangzhou	China	+12.5%
8=	Los Angeles[1]	US	+12.5%
10	Shanghai	China	+10.8%
11=	Nairobi	Kenya	+10.0%
11=	Istanbul	Turkey	+10.0%
13	Verbier	Switzerland	+9.6%
14	Bangkok	Thailand	+9.4%
15	Munich	Germany	+9.3%
16=	London	UK	+8.7%
16=	Hong Kong*[1]	China	+8.7%
18	San Francisco*[1]	US	+8.1%
19	St Petersburg	Russia	+7.2%
20	Aspen*[1]	US	+5.3%
21	Phuket	Thailand	+4.7%
22	Toronto	Canada	+4.3%
23	Tel Aviv*[1]	Israel	+3.7%
24=	Dublin	Ireland	+2.5%
24=	Washington DC	US	+2.5%
26	Beijing	China	+2.3%
27	Monaco	Monaco	+2.0%
28=	Kuala Lumpur*[1]	Malaysia	+1.0%
28=	Cape Town	South Africa	+1.0%
30	Singapore*	Singapore	+0.6%
31	Mumbai	India	+0.5%
32	St Moritz*[1]	Switzerland	+0.4%
33=	Sydney	Australia	0.0%
33=	Mustique	Caribbean	0.0%
33=	St Barts	Caribbean	0.0%
33=	Cap Ferrat	France	0.0%
33=	St Tropez	France	0.0%
33=	Cannes	France	0.0%
33=	Courchevel	France	0.0%
33=	Italian Riviera	Italy	0.0%
33=	Beirut	Lebanon	0.0%
42	New York	US	-1.4%
43	Florence	Italy	-2.0%
44	Moscow	Russia	-2.3%
45=	Zurich	Switzerland	-2.5%
45=	Vienna	Austria	-2.5%
47=	Brussels	Belgium	-3.0%
47=	Cyprus	Cyprus	-3.0%
49	Home Counties	UK	-3.8%
50=	Provence	France	-4.0%
50=	Paris	France	-4.0%
50=	Tokyo*	Japan	-4.0%
53	Megeve	France	-4.2%
54=	Cayman Islands	Caribbean	-5.0%
54=	Evian	France	-5.0%
54=	Tuscany	Italy	-5.0%
54=	Lake Como	Italy	-5.0%
54=	Marbella	Spain	-5.0%
54=	Mallorca	Spain	-5.0%
54=	Barbados	Caribbean	-5.0%
54=	Amsterdam	Netherlands	-5.0%
62	Meribel	France	-5.6%
63=	Chamonix	France	-6.0%
63=	Geneva	Switzerland	-6.0%
65	Madrid	Spain	-6.1%
66	Vancouver*	Canada	-7.9%
67=	Barcelona	Spain	-8.0%
67=	Marrakesh	Morocco	-8.0%
69	Val d'Isere	France	-8.8%
70=	Ho Chi Minh City	Vietnam	-10.0%
70=	Bahamas	Caribbean	-10.0%
70=	Dordogne	France	-10.0%
70=	Venice	Italy	-10.0%
70=	Umbria	Italy	-10.0%
70=	Central Algarve	Portugal	-10.0%
76	Sardinia	Italy	-11.0%
77	Western Algarve	Portugal	-12.5%
78	Rome	Italy	-14.0%
79	British Virgin Islands	Caribbean	-15.0%
80	The Hamptons*	US	-15.1%

HOW MANY LUXURY SQ M DOES US$1M BUY IN...?



PRICE RANGES PER SQ FT/M

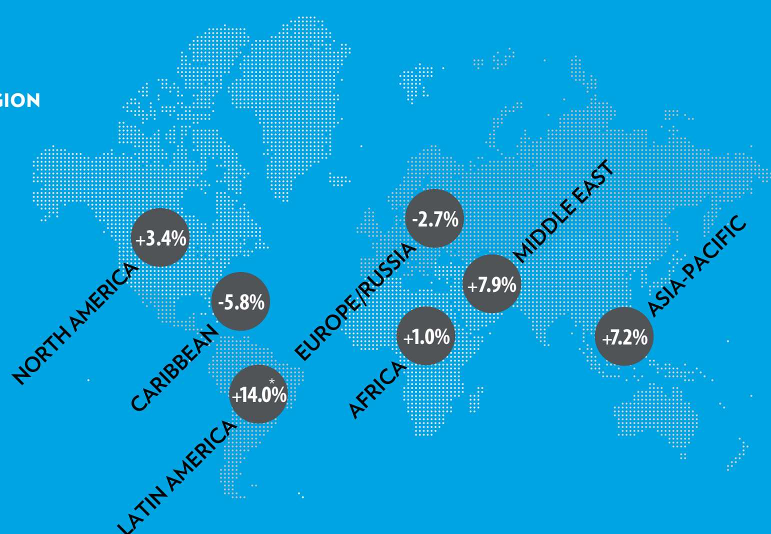
Rank	City	US$ per sq m – Q4 2012	US$ per sq ft – Q4 2012	£ per sq ft – Q4 2012	€ per sq m – Q4 2012	Local currency/area** Q4 2012
1	Monaco	57,600 – 63,700	5,350 – 5,920	3,340 – 3,700	43,400 – 48,000	EUR 45,900/sq m
2	Hong Kong*[1]	49,200 – 54,400	4,570 – 5,050	2,850 – 3,150	37,100 – 41,000	HKD 37,320/sq ft
3	London	41,900 – 46,300	3,890 – 4,300	2,430 – 2,690	31,600 – 34,900	GBP 2,540/sq ft
4	Geneva	29,300 – 32,400	2,720 – 3,010	1,700 – 1,880	22,100 – 24,400	CHF 28,200/sq m
5	Paris	25,300 – 28,000	2,350 – 2,600	1,470 – 1,620	19,100 – 21,100	EUR 20,160/sq m
6	Singapore*	25,200 – 27,800	2,340 – 2,580	1,460 – 1,610	19,000 – 21,000	SGD 3,100/sq ft
7	Moscow	22,000 – 24,300	2,040 – 2,260	1,270 – 1,410	16,600 – 18,300	RUB 702,700/sq m
8	New York	21,800 – 24,100	2,030 – 2,240	1,270 – 1,400	16,400 – 18,200	USD 2,140/sq ft
9	Sydney	21,700 – 24,000	2,020 – 2,230	1,260 – 1,390	16,400 – 18,100	AUD 22,000/sq m
10	Shanghai*[1]	19,600 – 21,700	1,820 – 2,020	1,140 – 1,260	14,800 – 16,400	RMB 130,500/sq m
11	Beijing*[1]	16,500 – 18,300	1,530 – 1,700	960 – 1,060	12,400 – 13,800	RMB 109,800/sq m
12	Rome	15,000 – 16,600	1,470 – 1,550	920 – 970	11,400 – 12,600	EUR 12,000/sq m
13	Miami[1]	14,000 – 15,500	1,300 – 1,440	810 – 900	10,600 – 11,700	USD 1,370/sq ft
14	Tokyo*	13,300 – 14,700	1,240 – 1,370	770 – 860	10,000 – 11,100	JPY 1,200,000/sq m
15	Los Angeles	13,000 – 14,400	1,210 – 1,340	760 – 840	9,800 – 10,900	USD 1,270/sq ft
16	Mumbai	10,700 – 11,900	990 – 1,110	620 – 690	8,100 – 9,000	INR 57,800/sq ft
17	Istanbul	9,500 – 10,500	880 – 980	550 – 610	7,200 – 7,900	USD 10,000/sq m
18	Sao Paulo	7,100 – 7,900	660 – 730	410 – 460	5,400 – 6,000	BRL 15,390/sq m
19	Dubai*[1]	5,600 – 6,200	520 – 580	320 – 360	4,200 – 4,700	AED 2,000/sq ft
20	Cape Town	5,500 – 6,100	510 – 570	320 – 360	4,100 – 4,600	ZAR 49,500/sq m

AVERAGE PRICE CHANGE BY REGION AND SECTOR

City +3.3%

Second home (ski) +0.4%

Second home (sun) -4.2%



Notes: *Dubai – based on villas only; Aspen – based on single family homes; Vancouver – based on detached homes; Hong Kong, Kuala Lumpur and Singapore – provisional data; Gstaad and St Moritz – Q2 2011 to Q2 2012; San Francisco, Tel Aviv and The Hamptons – Q3 2011 to Q3 2012; Tokyo – based on properties priced above JPY 100m (houses and apartments); price ranges for Beijing, Shanghai and Hong Kong are for properties considered "super prime"; price ranges for Miami are based on South Beach values. All currency exchange calculations based on the rate prevailing on 31 December 2012. Price change by region for Latin America based on Sao Paulo. **Spot figure.

Future Trends

While wealth creation is booming in the emerging world and the developed world is mired in debt and austerity, residential property continues to appeal to the world's wealthy. But will this trend continue?

The fallout from the global financial crisis is still very much evident around the world. Further global challenges emerged in 2012: the ongoing political volatility resulting from the Arab Spring; economic uncertainty in Europe; and the prospect that the US might topple off the fiscal cliff. Responses to our Attitudes Survey of private bankers and wealth advisors (p62) show that amid such insecurity, residential property managed to retain its global appeal, with HNWIs increasing their exposure to real estate.

TANGIBLE ASSETS

In 2012, demand for luxury homes in key cities worldwide showed no sign of abating. Rather, the instability of the global economy has promoted luxury homes to safe haven status among the world's wealthy. Last year, on average, just over a quarter of HNWIs' total net worth Was accounted for by their Main residence and their second homes.

> ***The instability of the global economy has promoted luxury homes to safe haven status among the wealthy... The attraction of storing wealth in tangible assets looks set to continue in 2013***

The attraction of storing wealth in tangible assets looks set to continue. A net balance of 25% of respondents indicated that their clients will add to their residential portfolios in 2013, compared with 19% in 2012.

We can expect to see regional variations. For example, a net balance of 40% of respondents in the Middle East & Africa and 34% in Asia said their clients were likely to purchase a new home over the coming 12 months. In Europe and the US, the figure was 17%.

As the wealthy consider their options, it is important to note that, as a result of the actions of policymakers and wider political rhetoric in Europe, Asia and the Middle East, property markets around the world have new challenges to overcome in 2013, not least adjusting to new tax rules.

Our survey suggests that wealthy clients are prepared to take action in response to higher levies and a lack of transparency in their current places of abode. Some 60% of Europeans, 61% of Middle East and African clients, 67% of those based in Russia & CIS and 73% of Latin Americans were said to be considering, however tentatively, changing their country of residence or domicile (see opposite).

LIFESTYLE CHOICE

In reality, however, tax forms only part of the picture for the super-rich when it comes to property. What they really value, the Attitudes Survey shows, is the lifestyle that comes with an open, cosmopolitan environment and both personal and property security (p63).

The second most important factor when choosing a second-home location was its potential to provide a longterm safe haven for capital. This suggests that cities such as London and New York, which have been able to withstand economic headwinds and can boast additional lifestyle benefits, will profit from the transfer of wealth from one area of the world to another.

Given the increased importance that buyers now place on their children's education – 85% of Asian and 81% of Latin American clients are likely to send their children to university overseas – the ongoing popularity of homes in cities with a number of prestigious universities should come as no surprise.

Overall, almost 50% of HNWIs have a second-home townhouse or apartment, compared with 20% owning waterfront homes and 10% ski properties. Globally, some 43% of clients are expected to show an increased interest in purchasing more city property this year. The trend looks likely to be led by clients based in the Middle East & Africa (67%) and Russia & CIS (50%).

Broadly speaking, the Attitudes Survey reveals three key themes influencing the performance of prime residential property markets over the short to medium term: the scale of global wealth generation; the ongoing search for safe haven investments; and the widening economic gap between East and West.

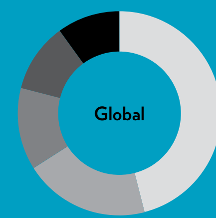
From the responses to our latest Attitudes Survey, it seems clear that the appetite of wealthy individuals for acquiring prime property is still strong. Moreover, it looks unlikely to diminish any time soon.

GLOBAL MOBILITY HNWIs ON THE MOVE

67%

Percentage of Attitudes Survey respondents who said their Russian clients were thinking of changing their country of residence or domicile for tax or other reasons

POPULARITY OF PRIME PROPERTY TYPES (% OF HNWIs WHO OWN EACH TYPE OF PROPERTY)



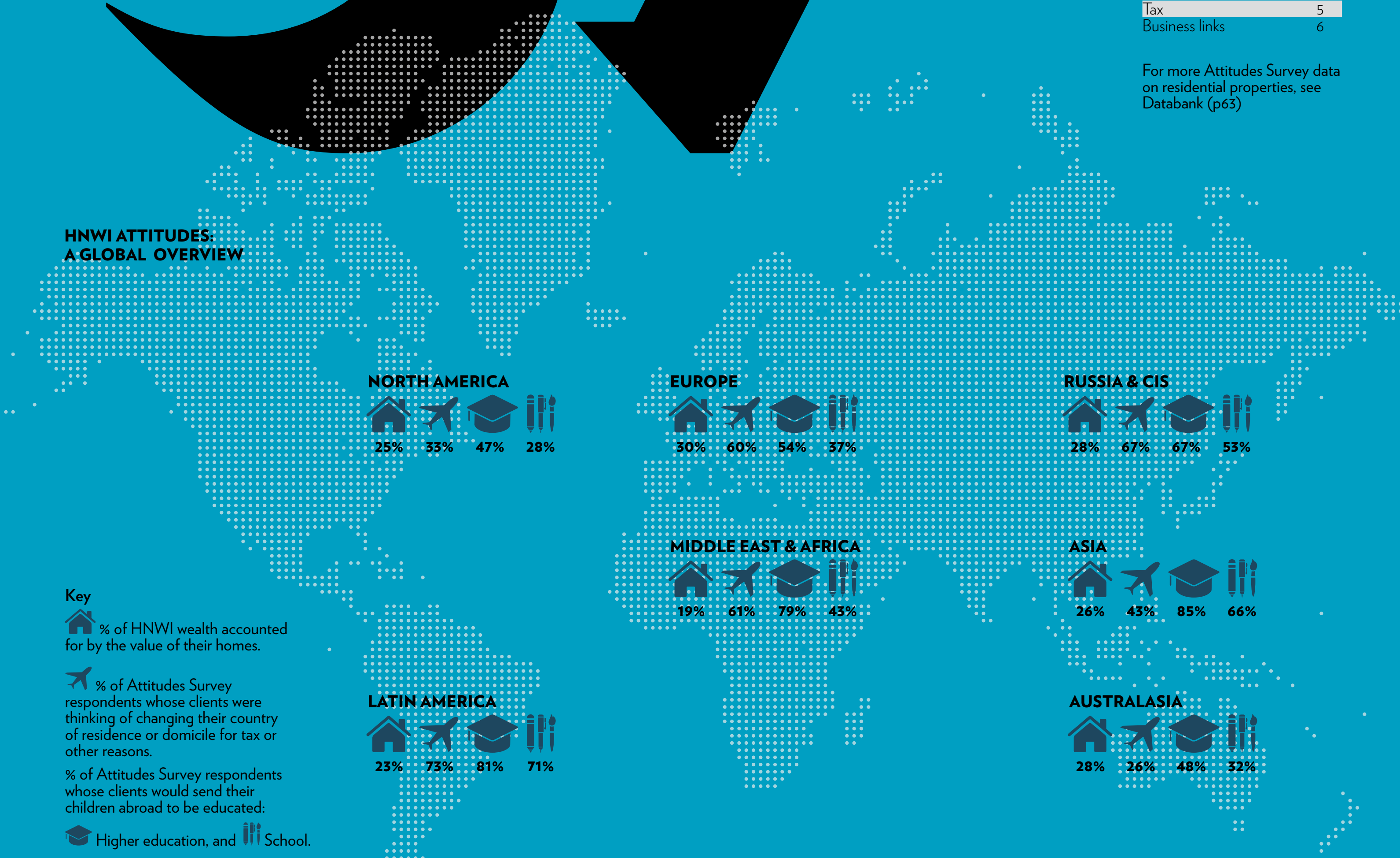
City property 46%
Waterfront property 20%
Country/sporting estate 13%
Farm 11%
Ski property 10%

THE MOST IMPORTANT FACTORS TO HNWIs WHEN CHOOSING A SECOND HOME LOCATION

Factor	Rank
Lifestyle	1
Safe haven for capital	2
Investment	3
Education for children	4
Tax	5
Business links	6

For more Attitudes Survey data on residential properties, see Databank (p63)

HNWI ATTITUDES: A GLOBAL OVERVIEW



Key

% of HNWI wealth accounted for by the value of their homes.

% of Attitudes Survey respondents whose clients were thinking of changing their country of residence or domicile for tax or other reasons.

% of Attitudes Survey respondents whose clients would send their children abroad to be educated: Higher education, and School.