# The next chapter

*Knight Frank's 2024 edition of The Wealth Report finds the world's wealthy adapting to a new rule book and a changing of the guard.*

The number of ultra-high-net-worth-individuals (UHNWI) globally grew last year, with many of those maintaining an interest in real estate opportunities, according to Knight Frank's flagship report.

Knight Frank identifies UHNWIs as people with US$30 million net wealth including their primary residence.

After two decades of low interest rates and low cost of debt, 2022 and 2023 were more challenging for investors, and while the outlook is more positive for this year, there have been some shifts in thinking as a younger, more diverse UHNWI cohort takes the investment reins.



**BY THE NUMBERS**

At the end of 2023, there were 4.2 percent more UHNWIs than the previous year, taking the global total to just over 626,600.

Knight Frank global head of research, Liam Bailey says a number of factors have contributed to the rise of UHNWIs.

"The improving interest rate outlook, the robust performance of the US economy and a sharp uptick in equity markets helped wealth creation globally.

"The expanding cohort of wealthy individuals looks favourably on real estate. Almost a fifth (19 percent) of UHNWIs plan to invest in commercial real estate this year, while more than a fifth (22 percent) are planning to buy residential. Growth over the forecast period provides various opportunities for investors, particularly developers able to deliver a property that suits the shifting tastes of the newly minted."

According to *The Wealth Report*, private investors remained the most active buyers in global commercial real estate in 2023 for the third consecutive year. Private capital invested US$338 billion globally, equating to a 49 percent share of total investment, slightly up on 48 percent in 2022 and the highest share on record.

By comparison, global commercial real estate investment fell by 46 percent in 2023 to US$698 billion as investors grappled with elevated interest rates and higher debt costs.

Bayleys senior director capital markets, Jason Seymour says New Zealand has seen similar trends for commercial real estate sales over NZ$20 million where between 2018 and 2023, private investors were responsible for between 41 percent and 48 percent of all sales by number of transactions and 24 percent and 41 percent by value.

"Private investors were particularly active immediately post-COVID accounting for over 41% of the total transaction value in 2021, falling to a low point of 23.37% in 2022 and rising strongly to 34.8% in 2023 as institutional and syndicate buyers reduced their participation in the market," Seymour says.

In 2023, private wealth accounted for more than $430 million across 14 transactions of $20 million-plus. In a reflection of wider market trends, the 2023 figure was down 16 percent on 2022, which saw approximately $513 million transacted across 15 deals.

Knight Frank private office head of private client advisory - commercial, Alex James says the levels of activity from private investors in the global market is unsurprising.

"This group is relatively well positioned to transact in a higher interest rate environment, as private capital is typically less reliant on debt than other investors."

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>
> **KNIGHT FRANK**
> THE WEALTH REPORT 2024

**SHIFTING TIDES**

When it comes to commercial asset classes, industrial and logistics were the most invested sector for the first time on record in 2023, taking a quarter of all global investment at US$174 billion. While industrial and logistics, retail, hotel and senior housing and care, all increased their share of total investment in 2023, the office market fell from 25 percent in 2022 to 22 percent in 2023.

The report highlights that in 2024, a new sector has topped the investor wish list for the first time in four years; the living sector, which includes investment classes like build-to-rent (BTR) residential complexes and retirement villages.

Seymour says in New Zealand, investor interest in the living sector and other alternative asset classes such as student accommodation, data centres and life sciences, is also at an all-time high, but with little to no stock available in these sectors for investors to purchase, the domestic and offshore interest has yet to drive any significant transaction activity.

"Interest activity in the BTR sector in New Zealand has risen strongly over recent years as traditional home ownership models have been severely tested by rising housing unaffordability, coupled with a lack of quality housing available for rent and tenure security," Seymour says.

"The BTR concept is well established internationally as an investment and aims to address many of the issues in the traditional housing sector. Built solely for renting, BTR developments provide often younger New Zealanders with a high-quality, long-term rental solution which are typically close to essential infrastructure and transport nodes."

But that is not just asset classes of interest that are changing among UHNWIs. *The Wealth Report* has identified growing diversity in wealth, with women now making up around 11 percent of global UHNWIs, compared to eight percent less than 10 years ago.

The report also predicts a changing of the guard over the next 20 years as the silent generation and baby boomers pass wealth to younger generations.

"The transfer is happening amid seismic changes in how wealth is put to use. The difference in outlook between younger and older generations will result in a substantial reappraisal of marketing strategies for anyone wanting to sell products or services to this newly wealthy group," *The Wealth Report* states.

Seymour says similar trends are likely to emerge in New Zealand as technology presents the same opportunities and drives the same responses in our younger generations.

*The Wealth Report* shows that environmental concerns will continue to influence investment decisions, with climate change an area with a clear generational difference in priorities.

It reports that when it comes to cutting consumption, 80 percent of male and 79 percent of female millennial respondents say they are trying to shrink their carbon footprints. Male baby boomers take a different view with just 59 percent trying to reduce their impact, well below their female peers (67 percent).

**LOOKING AHEAD**

One key area of interest for local investors is that *The Wealth Report* predicts Auckland to lead the prime price forecast for commercial property, while coming in second only to Sydney when it comes to commercial rents.

Seymour says, like many other markets around the world, post-COVID New Zealand has experienced an accelerated flight to quality in office space. "Many organisations are reducing their premises' footprints to accommodate today's work-from-home and hybrid working models, but want do so in higher quality, better connected and more environmentally conscious workplaces.

"With limited prime stock available, and construction and development costs near all-time highs, strong rental growth is expected."

In general terms, *The Wealth Report* outlines a cautious view for the rest of 2024, where global economic conditions have improved on this time last year, but political volatility and environmental concerns remain important market influences.

"These global conditions strongly influence domestic markets and investor sentiment here too, particularly inflation forecasts and our capital and debt markets," Seymour says.

"The prospect of inflation heading back into the Reserve Bank's target range, and lowering of the OCR towards the end of the year which will drive lower debt costs is allowing some positivity back into the market.

"Combined with the asset re-pricing that has occurred in the market over the past 12-24 months, transaction activity is expected to accelerate. Patient, cashed-up private investors, in particular, will look to capitalise on a finite period in the market where high-quality assets, typically tightly held by corporate and institutional owners, briefly become genuine investment opportunities."

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**JASON SEYMOUR**
BAYLEYS SENIOR DIRECTOR
CAPITAL MARKETS

*The Wealth Report* also notes opportunities open to wealthy investors looking to access real estate investment. It highlights the market disruption impacting offices but notes other sectors are impacted as well. Considered alongside the requirement for investment in "green" existing property assets, the report indicates a need for "deep pools of equity to come into the sector".

"The rise of private capital investment in real estate points to a readiness to engage with this challenge. With so much wealth due to be created in the coming years, there will be plenty of opportunities for those with the right skills and insights," the report says.

Looking ahead to the second half of 2024, Knight Frank Commercial Research Associate, Antonia Haralambous says with interest rates expected to remain elevated, private capital is expected to remain active.

"Indeed, during previous times of dislocation, private capital has typically rotated back into commercial real estate. Following the global financial crisis, the private buyer share of global commercial real estate investment grew from 30 percent to 38 percent and in 2021, following the first year of COVID-19, its share grew to 45 percent from 39 percent pre-pandemic. We expect this trend to continue in 2024: 19 percent of respondents in the Knight Frank *Attitudes Survey* were looking to invest directly in commercial real estate in 2024, with investors from the Middle East (23 percent) and Asia (21 percent) likely to be the most active," Haralambous says.

Looking out to the next five years, *The Wealth Report* forecasts the number of wealthy individuals globally is expected to rise by 8.1 percent to 2028. While positive, this rate of expansion is noticeably slower than the 44-percent increase experienced in the five years to 2023. The report points to strong outperformance from Asia, with high growth in India (50 percent), the Chinese mainland (47 percent), Malaysia (35 percent) and Indonesia (34 percent).