Über wealthy on the increase ... and on the move

By Andrew Golding

29 Jul 2014

A number of recent press reports have commented on the rising property market in South Africa and in particular the manner in which the very top end of that market is performing. Some recent research seems to corroborate what we are experiencing, which illustrates some interesting parallels and has some potential impact on our market too.

The rise of the UHNWIs

© intheskies - za.fotolia.com

The world's super rich are growing in numbers and they are on the move. Global economic recovery, particularly since 2009, has given rise to a relatively new category of wealthy people known as the UHNWIs - ultra high net worth individuals.

According to private wealth analysts WealthX, the number of people with in excess of US$30-million in assets to invest has grown by 43% since 2009. This has transformed the prime global property market, fuelling demand for properties in the world's luxury residential enclaves.

The growth in numbers of UHNWIs reached almost 200 000 in 2013, holding a combined wealth of US$27,8-trillion and WealthX forecasts that this will exceed US$40-trillion by 2020. In terms of property alone, Savills World Research has identified total global residential holdings by UHNWIs of US$5,2-trillion.

In general, urban real estate has been the biggest growth story over the past five years. Property in the world's major cities defied, or speedily recovered from, the credit meltdown, even in some of the countries where it hit hardest. Strong price growth has been experienced in world-class cities throughout the world, from London and New York, through to Shanghai and Sydney. In New York luxury apartment space sells for R1m a square metre, in London 6 000 to 7 000 pounds sterling a square foot.

In Cape Town's Clifton, South Africa's top luxury hot spot, residential property can fetch in excess of R100 000 a square metre for apartments. The highest price for an apartment sold in Clifton, with living space of 834sqm, was purchased for R198-million. (However, one aspect of the luxury market is that it is difficult, and can be misleading, to compare cost/value by square metre alone.) The Clifton apartment, which has six bedrooms, also includes spacious patios and pools - plus extraordinary views and position.

The global residential property market revival began in the cities, but has developed through urban prime homes to getaway locations, mainstream leisure destinations and, a market growing in popularity, that of retreats - from huntin', shootin' and fishin' estates in the Scottish Highlands to game farms in South Africa. Foreign buyer Interest in lifestyle properties in the Cape Winelands is also stirring. Entrepreneur and businessman Richard Branson recently purchased Franschhoek's Mont Rochelle hotel for an estimated R40-million to add to his commercial interests.

Who are these ultra-wealthy people? Where do they make their mega money?

Generally speaking, the world is the UHNWI's oyster. Motives for buying homes in must-see, might-own exclusive enclaves are as many and varied as the people themselves. Land and property have always been symbols of power and status. As such, the acquisition of desirable residential property in sought after locations can be perceived as a form of trophy hunting.

World trends in tourism are indicative of the leisure market generally. However, the top tier of global wealth underpins demand in these locations - and their popularity depends on the number of elite groups who buy or holiday there.

North America is home to the world's largest concentration of UHNWIs, estimated at around 70 000, and money from this region is much less footloose and tends to stick to home and near home. American wealth goes primarily to the Caribbean and North American hot spots.

Russian wealth has become more and more prominent. London is a favourite with the oligarchs who have been devouring prime central London homes, driving up values - as have Arab oil billionaires. Noticeable now in Prime London has been the influx of Chinese buyers and, more recently, UHNWIs from Nigeria.

Owning a second home is traditional with the Russian elite. It is, says Savills World Research , part of their "dacha" culture back home. Rich Muscovites have, over the centuries, owned both a city home and a country house or dacha. This has been easily translated into the ownership of other status-enhancing properties across the globe.

London apart, modern Russian wealth flows primarily into the Mediterranean, the South of France, Italy and increasingly into Eastern Mediterranean countries such as Montenegro. Russian buyers are also active in the United States and the Caribbean.

Middle Eastern UHNWIs are an increasingly prevalent buyer group in the global additional home market. They are, as one would expect, dominant in Dubai and Abu Dhabi's leisure developments, but they are also to be found in the key luxury Mediterranean resorts, and have been high profile investors in Marbella, and Sardinia's Emerald Coast. Luxury London apartments are also a favourite.

According to Savills World Research, most Asiatics do not have a culture where additional home ownership in leisure destinations is common. The majority of activity in Phuket and Bali, for example, has been by expats. Sun, sand and sea are less highly valued in Asian countries than real estate in urban centres. Some wealthy Chinese have discovered the enjoyment of skiing or owning a vineyard in Bordeaux or South Africa, but these, according to Savills, remain in a minority compared to those Chinese who prefer to invest in infrastructural projects, agricultural land or income-producing real estate. Examples of this are increasing, particularly in London. One of China's largest property developers, the Greenland Holding Group, recently bought Britain's oldest brewery, The Ram Brewery, which overlooks the River Thames in London's Wandsworth district. The property covers 7,7 acres and has planning permission for 661 apartments. According to the Guardian newspaper, the Ram property has an investment value of 600 million pounds sterling. Also, rival Chinese developer Wanda is to spend 700 million pounds on a development on the south bank of the Thames.

Tourism often goes hand in hand with an area's success as a second home destination. China, for example, became the number one global source market for tourists in 2012. If Chinese investors were to embrace luxury sunbelt destinations in the same way as Americans and Europeans the potential for this market to expand dramatically would be substantial.

Changing the face of all real estate

Private wealth itself now plays a major role in the real estate business. It has become the lead form of finance being used in more than half of the world's largest cross-border property transactions - each worth at least US$10-million. According to Savills Research, the highest proportion of money invested in world real estate transactions of over US$10 million has been among private companies and individuals. Overall transaction numbers in the corporate sector are still below 2007 levels, while those in private real estate deals are now nearly one third higher.

The credit crunch changed the pattern of real estate finance. The availability of traditional debt funding for property deals diminished, while private wealth grew. Sovereign wealth funds, wealth management companies, private banks and such stepped into the property deals previously dominated by corporate bankers. The general willingness of private wealth to take the place of debt finance or to taker higher-risk development positions is now making the difference between deals done or deals mothballed.

Comments Savills: "The propensity for UHNWIs to take real estate exposure, their preferences and tastes in doing so and their behaviour, either in direct property ownership or through family offices and other commercial entities, is changing the face of all real estate - residential, offices, industrial, retail, as well as 'niche' products."

One potentially exciting aspect of the UHNWI phenomenon, especially for the South African property industry, is that when it comes to big ticket real estate the world is top heavy. The vast majority of such transactions are in the Northern Hemisphere. Europe is tops for UHNWI residential holdings, followed by Asia and North America. Africa is bottom of the pile. This, according to Savills, shows that UHNWIs prefer to invest in what they know. On the other hand, research indicates that Africans and Latin Americans are most likely to buy away from home territory - and when they do they favour Europe.

So where does South Africa sit in this global market?

Savills Director Charles Weston Baker suggests: "South Africa has a huge amount to offer UHNWIs. The chief areas of attraction are hotels, wineries and wildlife conservation/sporting, as these are (less risky) international asset classes and often form part of an international portfolio. However, over the past 10 years we have found that it is usually those with family or business links who consider investing in South or Southern Africa.

"The global recession has led to UHNWIs buying safe and sought-after assets in high value locations at discounted prices but this is likely to change as markets strengthen and eyes will turn to the excellent value for money offered by South Africa."

Paul Tostevin of Savills World Research stresses the huge benefit for foreign buyers in the depreciating rand: "The cumulative drop since 2011 has been extreme: 20% in euro terms, 23% to the US dollar and 24% on the pound sterling. This has made the South African residential property market particularly appealing to international investors with strong currencies who don't believe that further significant falls in the value of their rand denominated assets will occur."

An interesting pointer to our market potential is that the number of billionaires in Africa is growing substantially, with a high level of wealth concentrated among those who have made their money in real estate, as well as oil, mining and land. It may surprise to learn that, according to WealthX, there are an estimated 23 000 dollar millionaires in Johannesburg and 9 000 in Cape Town.

Even the odd castle

Pam Golding Properties' association with Savills and its global network helps to build a platform through which we source overseas buyers of prime South African property - who are acutely aware of the availability of outstanding properties for sale at a tenth of the price they would pay elsewhere . The wildlife market is a prime example. The ultra-wealthy are leading the charge to purchase grouse moors and estates in the Highlands of Scotland where they can shoot grouse, fish for wild salmon and stalk red deer. These estates, usually with large and comfortable homes -even the odd castle - are much in demand.

Interestingly, these Scottish estates can vary from the historical to the hysterical (in price that is). One example is the Cluny Estate, hereditary home of Cluny MacPherson, chief of the great Clan Chattan Federation. This 4,05 hectare property includes a recently refurbished 19th century castle, 10 further cottages and houses, a sheep farm, grouse moors and a deer forest. There are also salmon fishing rights on the River Spey. The owner is asking for offers over 7,5-million pounds sterling.

In the same outdoors/wildlife market, but in South Africa at a fraction of the price, Pam Golding Properties has for sale a number of Big Five game lodges. Examples include a 1 000ha farm in the Klasserie Private Game Reserve at R35-million or a more modest game farm in the Balule Game Lodge (open to the Kruger National Park) for an asking price of R9-million. Both include luxury accommodation for owners and guests. Such wildlife gems must surely attract any UHNWI seeking a *trophy* property in the true sense.

The South African luxury residential market is, in fact, a massive opportunity for the world's UHNWIs to extend their search for prize properties.

ABOUT ANDREW GOLDING

Dr Andrew Golding, chief executive of the Pam Golding Property group, was originally in private practice as a General Practitioner on the Atlantic Seaboard from 1991 to 1996, after which he joined the family business as MD in 1996, followed by his present position.

- SA's young population, changing lifestyles drive shift to sectional title homes - 7 Aug 2023
- Steady repo rate encouraging news for existing, aspiring mortgage holders - 21 Jul 2023
- Series of unfortunate events precipitate further repo rate hike - 26 May 2023
- #Budget2023: Increase in threshold for transfer duty exemption good news for home buyers - 23 Feb 2023
- Banking sector underpinning residential property market activity - 28 Nov 2022

View my profile and articles...