ACTIVE PRIVATE WEALTH

ULTRA-HIGH NET WEALTH INDIVIDUALS AND THE FAMILY OFFICE SECTOR SEE COMMERCIAL AND INDUSTRIAL PROPERTY INVESTMENT AS A VIABLE HEDGE TO INFLATION AND A VALUABLE WEALTH CREATOR.

PRIVATE INVESTORS WERE THE most active buyers of global commercial real estate in 2022, and for the first time, outpaced institutional investment according to the latest research by Bayleys' global real estate partner, Knight Frank.

In the 17th edition of its market-leading *The Wealth Report*, Knight Frank revealed that private wealth accounted for 41 percent of all commercial property investment globally, to the value of US$455 billion.

This is private wealth's highest share of global commercial real estate investment on record and the firm suggests that 2023 will provide a unique opportunity for private clients looking to enter the market, or consolidate in it further, as rising debt costs may lead to greater inventory becoming available and even less institutional activity.

The Wealth Report's new *Pulse Survey* captured the views of 500 high-net worth individuals (HNWI) across 10 countries and territories including: Australia, mainland China, France, Hong Kong SAR, Italy, Singapore, Spain, Switzerland, the UK and the US in January 2023.

Knight Frank identifies an HNWI as someone with a net worth of US$1 million or more, including their primary residence.

Its *Attitudes Survey* is based on responses from November 2022 by more than 500 private bankers, wealth advisors, intermediaries and family offices who between them manage over US$2.5 trillion of wealth for ultra-high net worth individual (UHNWI) clients.

Knight Frank estimated the number of UHNWIs (US$30M+ net wealth including primary residence) at 20,874 for Australia and 3,118 for New Zealand.

It further estimated that Australia had 46 billionaires, while New Zealand had just two, with Bayleys national director commercial and industrial, Ryan Johnson saying this latter figure is conservative.

"The NBR list 2022 noted 14 families at NZD$1 billion-plus and seven to eight families at US$1 billion.

"Wealth is a touchy subject and in 2022, Knight Frank predicted that New Zealand would have the world's highest growth in UHNWIs over the 10 years to 2026.

"Much of the recent growth can be attributed to equity gains from rapidly rising house prices and an appreciating currency at the time – and we accept that getting an accurate wealth reading for any country must have broad tolerance ranges."

Johnson says global trends and findings outlined in The *Wealth Report* are mirrored in New Zealand.

"Whether in a private capacity or through an established family office, high, or UHNWI investors are commanding a growing slice of the prime commercial and industrial property market pie around the country.


The Presidential Suite at The Carlin Hotel, Queenstown

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"Prime property is defined as the most desirable and most expensive property in a given location, generally in the top five percent of each market by value.

"Our data shows that of all commercial and industrial sales over $20 million in New Zealand last year, 47 percent was to private buyers – almost double that of institutional capital and around three times that of the syndicated market.

"Despite economic headwinds, investment by private capital remained robust with proactive investors seeing value and long-run potential in prime commercial and industrial assets."

Johnson says before deploying capital, wealthy private investors, or their advisors, are able to pragmatically block out current market noise, and assess risk and potential liquidity tolerances before making strategic acquisitions through a long-term lens.

And although macroeconomic curve balls meant the majority of UHNWIs and family office entities globally saw their wealth decline last year, with a collective fall of 10 percent, Knight Frank argues that it is now time to "look beyond the crisis".

It suggests that market sentiment will shift, and quickly, so investors need to be well-placed to take advantage of the very real opportunities emerging in global real estate markets.

Across the Tasman, more than two-thirds of wealthy Australian investors expect growth in their investment portfolios this year with Knight Frank chief executive, James Patterson saying this optimism stems from being more shielded from global economic factors than their offshore counterparts.

On the flip side, Australian UHNWIs were more worried than their global peers about the impact of rising inflation, citing it as the top risk for 2023 followed by interest rates.

Johnson said he's picking that wealthy New Zealand investors will act as they did during other times of upheaval – like post-global financial crisis (GFC).

"Demonstrated confidence by cash-rich private investors was driven then by asset repricing, perceived value opportunities and optimism that the economy would rebound," he says.

"We're seeing similar patterns of investment today spurred on by pricing resets, less competition from listed and institutional buyers who are still trading at deep discounts, and in the case of offshore private capital – currency benefits.

"The all-in cost of debt will be a key consideration for all investors in the year ahead, but as private capital is typically less reliant on debt than other investor segments, we'd expect to see confident buying activity from the private market.

"Opportunity is the crux here, and it will be those who can identify opportunity in volatility, recognise growth fundamentals, and be prepared

Carey Bay, Waiheke Island

Grant Thornton House, Wellington

Meadowlands Shopping Plaza, Auckland

> "UHNW INVESTMENT OUT OF ASIA COULD RAMP UP AGAIN AS INVESTORS LOOK TO DIVERSIFY PORTFOLIOS."

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to optimise pathways to cement future income that will come out on top."

Johnson added that with global borders now open, and nearly 40 percent of respondents in the Knight Frank's Pulse Survey considering investing in commercial property outside their country of residence, New Zealand with its safe haven overlay, is well-positioned to benefit from cross-border capital.

"UHNW investment out of Asia could ramp up again as investors look to diversify portfolios and counter some of the economic headwinds faced by markets like China."

The family office market has burgeoned in Asia, with Singapore seeing major growth – around 700 at the end of 2022, a seven-fold increase since 2017 – as super-wealthy families rethink how to safeguard and grow wealth for future generations.

Although slower on the uptake here, Johnson says there's been a rise in New Zealand's family office investment sector with Bayleys actively working in this space across business lines.

"Family offices are multi-generational high net worth structures that use scale of wealth to get into a different investment league.

"These private wealth investment entities look well beyond the retirement or income needs of the core family, and seek to optimise the value of their private estate to grow capital for future generations.

"We're seeing more of this in New Zealand, with legacy thinking extending to 'educating' the next generation on investment strategies and involving them in some decision-making.

"Building relationships with key stakeholders is something that Bayleys, as New Zealand's largest full-service real estate agency, is superbly positioned to do and we work closely and discreetly with the country's UHNWI tier of investors and increasingly, are growing our family office involvement."

Johnson said New Zealand's wealthiest families all have some exposure to the property market, and most are extending their asset portfolios to leverage gains from demonstrably defensive asset classes.

"Industrial property is a clear example of a sector that has boomed and looking at long-term stats, The Wealth Report shows that at a global level, there has been a 117-percent increase in private capital investment in industrial properties in the last 10 years.

"Logistics and distribution assets with scale and strong tenant covenants have been in high demand on the back of ecommerce trends and 'just-in-case' inventory fundamentals.

"Not only do these types of asset remain in favour due to their defensive nature, buyers also anticipate long-term growth underpinned by rising land values.

"Industrial property – including data centres – along with healthcare, supermarket and large format retail, have proven to be countercyclical and defensive income-producing asset classes and looking ahead, Knight Frank says the prime office sector will lead in pivotal markets like London."

> "*THE WEALTH REPORT* SHOWS THAT AT A GLOBAL LEVEL, THERE HAS BEEN A 117-PERCENT INCREASE IN PRIVATE CAPITAL INVESTMENT IN INDUSTRIAL PROPERTIES IN THE LAST 10 YEARS."

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THE E IN ESG

For the past five years, *The Wealth Report* has been tracking private investor interest in environmental, social and governance (ESG) principles with the key driver being future-proofing portfolios.

Latest survey results show that energy and climate-related factors are increasingly being integrated into property acquisition decision-making with carbon emissions the leading environmental investment consideration.

"Private investment clients and family offices are looking at their portfolios and seeing opportunity to improve exposure to sustainable and ethical investments, and considering environmental and social impacts in their acquisition decisions.

"Just as funds managers are increasingly investing in impact funds – responsible investing options that support companies with positive environmental or social goals in fields like green/renewable energy, public health, clean transport, affordable housing, green buildings – so too is private wealth.

"While long-run financial returns remain central to most investment decision-making, as ESG corporate reporting becomes more standardised and better understood, we'd expect private wealth investment for ESG-aligned property to increase and to see family wealth being used to drive better societal and environmental outcomes."

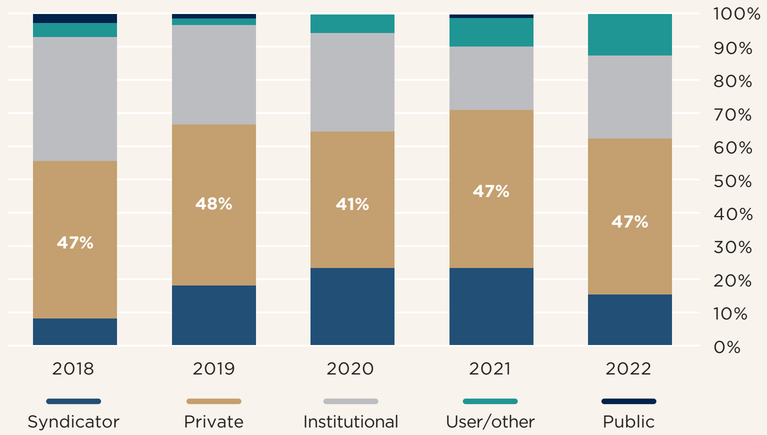
Johnson says Bayleys works across the commercial and industrial sector with UHNWIs and has brokered some significant deals for office, retail, hotel and leisure, industrial and development land assets – for both domestic and offshore interests.

"We are able to leverage our partnership with Knight Frank across key global markets, working together to maximise the value of our vendor clients' assets by accessing buyers worldwide to supplement our deep and qualified domestic networks," he says.

Bayleys transactions involving private wealth capital in recent years include:

- **Grant Thornton House, Auckland** – sold for $84.5 million, on behalf of an UHNW private vendor
- **Kelston Mall, Glen Eden, West Auckland** – sold to a Singaporean private investor who attended a Bayleys Knight Frank Investment New Zealand seminar in Singapore
- **Meadowlands Shopping Plaza, Howick** – sold to a private New Zealand investor having attracted more than 100 enquires from domestic and offshore parties, with six expressions of interest submitted
- **Two retail offerings in Auckland's Wynyard Quarter**, developed and owned by Willis Bond & Co. – sold to a Singapore-based investor who was an existing contact on Bayleys' South East Asian client database
- **Pakuranga Plaza, East Auckland** – sold to Singaporean-headquartered entity GYP Properties
- **Carlin Hotel, Dunedin** – development site sold via Knight Frank Australia to an Australian-based private buyer; boutique 6-star hotel now lauded as a best-in-class facility
- **Chateau Marlborough, Blenheim** – sold to an international private investor
- **Carey Bay, Waiheke Island** – 300ha coastal landholding, deemed a world-class asset, received $1 billion of bids from across the US, Australia and New Zealand; sold to a private local investor.

Composition of New Zealand buyer types over time (by count)



Source: Bayleys Insights

By the numbers

Key figures from Knight Frank's 2023 issue of *The Wealth Report* impacting the global commercial property sector.

- Private investors were the most active buyers in global commercial real estate markets in 2022 with US$455 billion invested or 41% of the total.
- For the first time, private investment surpassed institutional investment.
- Top 10 sources of private capital in 2022: US, Canada, France, Germany, UK, Japan, China, South Korea, Netherlands, Sweden.
- 19% of UHNWIs plan on investing in income-producing property directly in 2023, with 13% planning to take the indirect route.
- 13% of UHNWIs plan to apply for a second passport or new citizenship.
- The collective wealth of UHNWI declined by 10% in 2022 (equivalent to US$10.1 trillion).
- 40% of UHNWI increased their wealth in 2022.
- 69% of UHNWI expect growth in their portfolio in 2023.
- 31% of UHNWI are targeting capital appreciation in 2023.