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S'pore leads world in growth of the wealthy

More than 11,000 people joined ranks of high-net-worth individuals last year, says report
By GENEVIEVE CUA

(SINGAPORE) Tiny Singapore has pipped other global markets to register the fastest increase in the number of high-net-worth individuals - 21 per cent last year, beating India and Indonesia, a new report shows.

The latest Merrill Lynch and Capgemini world wealth annual report found that last year more than 11,000 individuals entered the ranks of the high-net-worth in Singapore, defined as those with financial assets of over US$1 million. The total number of Singaporean wealthy reached 66,660 in 2006. Financial assets include private equity holdings, stocks, bonds, funds and cash, but exclude the primary residence.

Merrill Lynch senior director and chief Asia strategist Mark Matthews said: 'Singapore has accelerated in terms of pure economic growth and domestic savings. It also enjoys a benign inflation and tax environment.

'We think Singapore is in the midst of an impressive transition. It is to South-east Asia what Miami was to Latin America, a place where the wealthy come to bank their money, educate their children and get culture. Now we think Singapore is metamorphosing into a Zurich and Monaco not just for South-east Asia but for all of Asia.

'It's becoming a very important financial hub and it will become a leisure hub as well. For that reason we're very bullish on Singapore.'

Attesting to its impact as a financial centre, hedge funds are already gravitating towards the Chinatown area, which Mr Matthews likened to Mayfair in London. Merrill Lynch expects hedge fund assets here to burgeon from US$25 billion currently to US$100 billion in three years.

Thanks to a strong global economy and robust stock markets, global wealth rose by 11.4 per cent to US$37.2 trillion. Last year 9.5 million people globally held over US$1 million in financial assets, a rise of 8.3 per cent. The ranks of the ultra-high-net-worth - those with over US$30 million in assets – rose 11 per cent to nearly 95,000. Merrill Lynch managing director Kong Eng Huat said: 'In most regions, the growth of wealth exceeds the rise in the number of high-net-worth individuals. This reflects the global concentration of wealth.'

In Asia, the combined wealth of high-net-worth people rose 10.5 per cent to US$8.4 trillion. Asia accounts for five of the top ten fastest-growing wealth markets. Merrill Lynch and Capgemini expect to publish their wealth report for the Asia-Pacific in October.

Real estate appears to be a key driver of wealth. Asians' allocation to real estate was the highest globally in 2006 at 29 per cent, up from 16 per cent in 2005. Globally, the average allocation to real estate was 24 per cent, up from 16 per cent previously. In Singapore, Mr Matthews expects real estate values to be sustained in prime areas, spreading out to outlying areas as well as the HDB market.

'Singapore is becoming a different place so property prices will go higher. (It is) on par now with Sydney but its tax rate is a fraction. Singapore will be a global financial centre, therefore prices will reflect this. Right now, higher rentals are very concentrated in grade An office space or residential areas in the 9/10/11 districts. This will spread out across the island.'

Property, he adds, remains affordable, and hence the prospect of government intervention is unlikely. 'People put aside about 25 per cent of their salary towards a mortgage or rental here. In New York it's not unusual to have the proportion go to 40 per cent. Affordability is not yet an issue.'

The report said wealthy people have liquidated some alternative investments in favour of real estate. 'We see this as a temporary tactical move rather than a long-term asset allocation shift,' it said. Lower market volatility took the shine off alternative investments, which include hedge funds, structured products and foreign currencies.

Global real estate investments, including direct real estate and Reits, hit a record US$900 billion last year. Among the Asian wealthy, 51 per cent of real estate investments was in 'other' investment property, including second homes and vacation homes. Some 30 per cent was in commercial real estate and 19 per cent in Reits.

Asia's allocation to fixed income assets was the lowest at 15 per cent compared to the global average of 21 per cent. It has the highest cash weighting at 24 per cent, compared to the global average of 14 per cent.

This year, however, is expected to see some deceleration in wealth growth. US consumption is expected to slow, wielding a knock-on effect on the Chinese economy. Still, global wealth is seen to reach US$51.6 trillion by 2011 - a more moderate annual rate of 6.8 per cent.