

RESIDENTIAL RESEARCH



CLASSIC CAR SPECIAL.

Luxury Investment Index Q1 2017



WINE MOVES INTO
POLE POSITION

SUPERCARS SHINE
AT AUCTION

INTERVIEW:
THE BUG COLLECTOR

Cars and wine battle for pole position in investment race

Classic cars drop to second place as wine takes the chequered flag in the Knight Frank Luxury Investment Index



This time last year, classic cars were leading the Knight Frank Luxury Investment Index by a clear margin. Fine wine, however, has taken advantage of a slowdown in the market to move well ahead. But, as the collectors I interview always make clear, you should never buy investments of passion just for the money; you should buy principally for pleasure. And what could provide more pleasure than a gorgeous classic car?

I hope you enjoy reading this report as much as I did writing it, in particular my interview on page 5 with the owner of a truly unique collection of classic cars.

ANDREW SHIRLEY
The Wealth Report Editor

Rubber-burning price growth means classic cars have dominated the Knight Frank Luxury Index (KFLII) for the past decade, but since early 2016 wine has accelerated rapidly and has now overtaken them.

The value of the Knight Frank Fine Wine Icons Index rose by a sparkling 24% in the 12 months to the end of March 2017, while the HAGI Top Index, which tracks the performance of the world's most collectable cars, managed a relatively modest rise of just 6% over the same time.

Resurgent demand for Bordeaux and Burgundy wines, amplified by the decline in the value of sterling, has helped to boost the market, says Nick Martin of Wine Owners, which compiles our Fine Wines Index.

Catastrophic frosts that affected up to 80% of the crop in the best Burgundy vineyards mean there is very little stock of the 2016 vintage, says Mr Martin. "A lot of the growth has come on the perception of scarcity, but the most sought-after Burgundies might have hit a peak and it feels a bit toppy to me."

Bordeaux, however, could still have some more momentum this year, he reckons. "It will be more muted than in 2016, but the market is still playing catch up after three years of miserable declines." Much will depend on the Chinese economy – the very top end of the fine wine market is driven largely by Chinese buyers – and the strength of sterling due to the importance of London as a global fine wine secondary market trading centre, says Mr Martin.

Although lagging some way behind wine, the performance of classic cars still looks very healthy when compared with many other asset classes. But nonetheless the latest figures mark a sharp slowdown for a market that has routinely delivered yearly rises in the high teens.

A good indication that buyers have become more reticent is the lacklustre sell-through rates and number of cars not fetching their low reserves at some recent high-profile auction sales.

At RM Sotheby's Villa Erba sale on the shore of Italy's Lake Como, for example, only 58% of the cars going under the

hammer found a buyer. In the equivalent auction two years ago almost 90% of the lots were sold.

Too many auctions and too few really good cars being put up for sale, aren't helping, reckons Steve Wakefield of dealer and industry analyst Kidston, who says this year's series of autumn auctions will be an interesting test of the market.

"There are a lot of sales coming up with three alone on the weekend of the 9th and 10th of September - including a special Ferrari-only 70th birthday auction at Maranello – which come hot on the heels of the classic car calendar's highest profile auctions at Monterey in California."

But really rare cars – both old and more modern – are still routinely selling for millions of pounds, euros or dollars, and even those that are not quite so hard to come by are selling well if vendors are prepared to take a view.

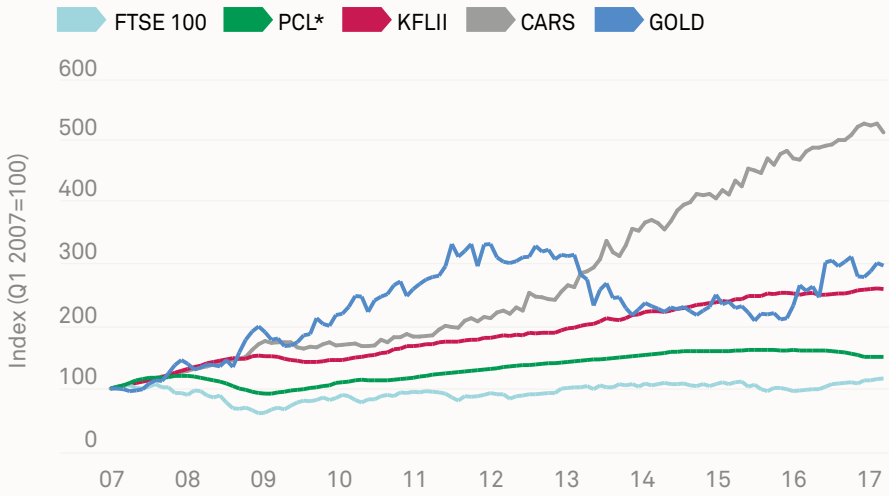
At Bonhams' Greenwich Concours sale in the US on 4 June, 83 out of the 90 cars on offer went to new homes. This was largely because a significant number were offered with no reserve, points out Mr Wakefield, who believes sellers in the US tend to be more pragmatic than those in Europe.

"It would be wrong to get too gloomy, and it's worth noting that auctions only make up about 25% of the market," says Dietrich Hatlapa, the founder of HAGI. "People just need to be more realistic. There was a bit of disappointment that a much-hyped, virtually un-driven 1993 Porsche 911 Carrera RSR didn't make its high estimate at Villa Erba, but it still sold for over €2m, which is a lot of money for a car that will lose a lot of its value if you even drive it."

An even younger Porsche, a striking 2015 918 "Weissach" Spyder (our cover star), made almost €1.5m at the same sale.

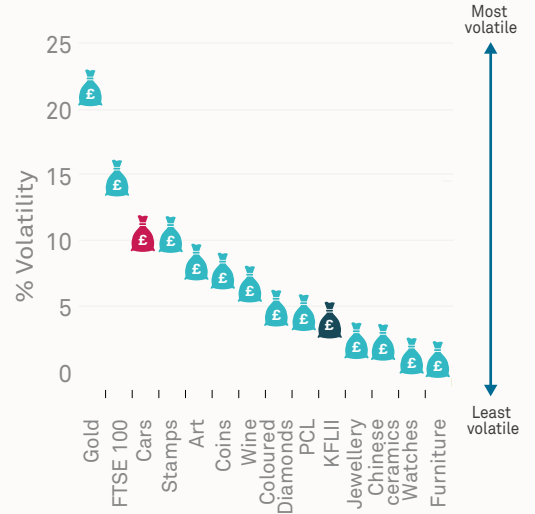
"Whilst the recent lack of performance may disappoint some people, we regard it as generally benign and beneficial for the long-term health of the market. It's a very exciting time to engage with the market because the balance has shifted in favour of the buyer," adds Dave Selby, a senior researcher at HAGI.

KFLII performance versus other asset classes (to Q1 2017)



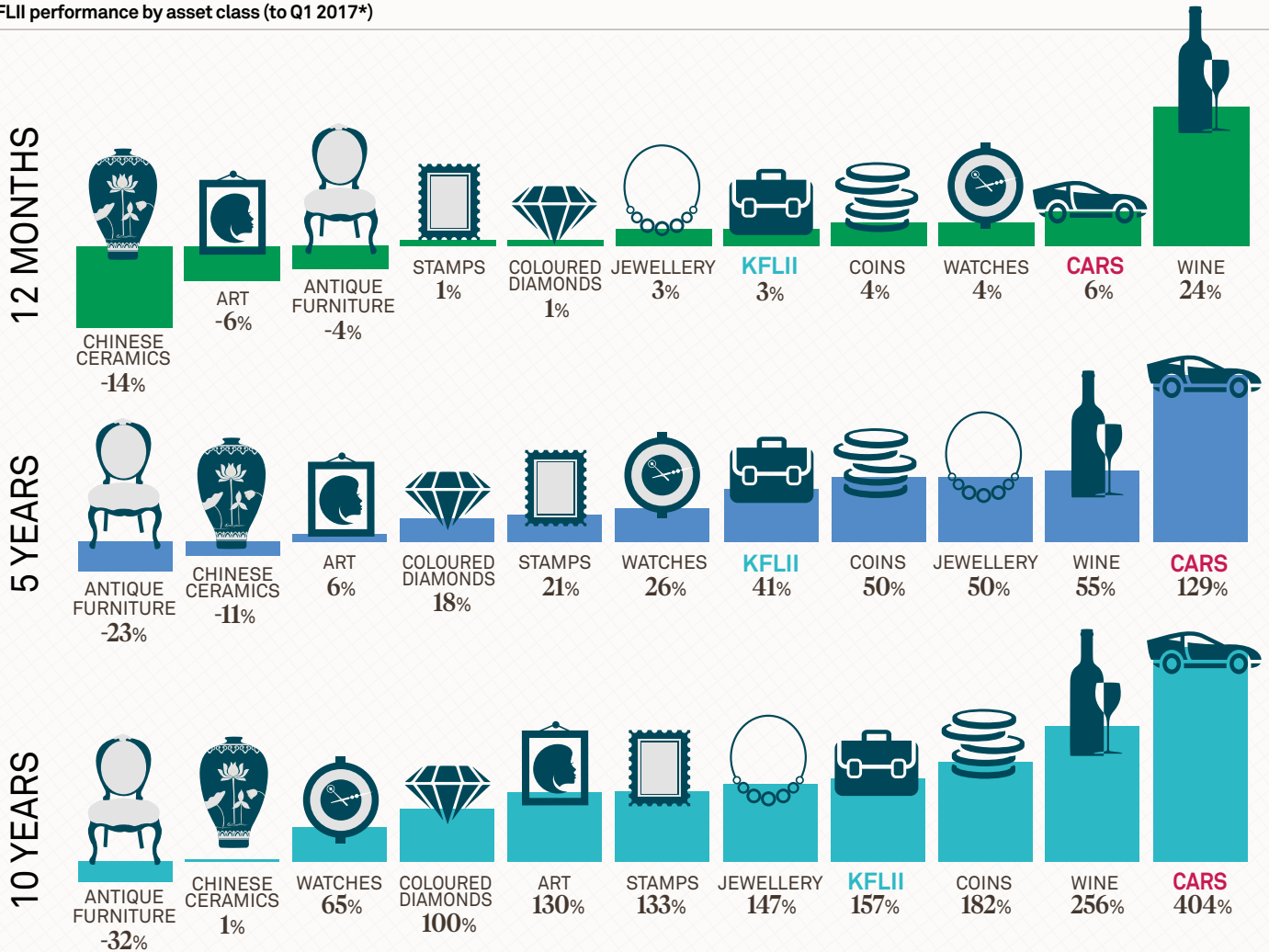
*Knight Frank Prime Central London Residential Index
Source: Knight Frank Research

10-year asset price volatility



Based on annual price points
Source: Knight Frank Research

KFLII performance by asset class (to Q1 2017*)



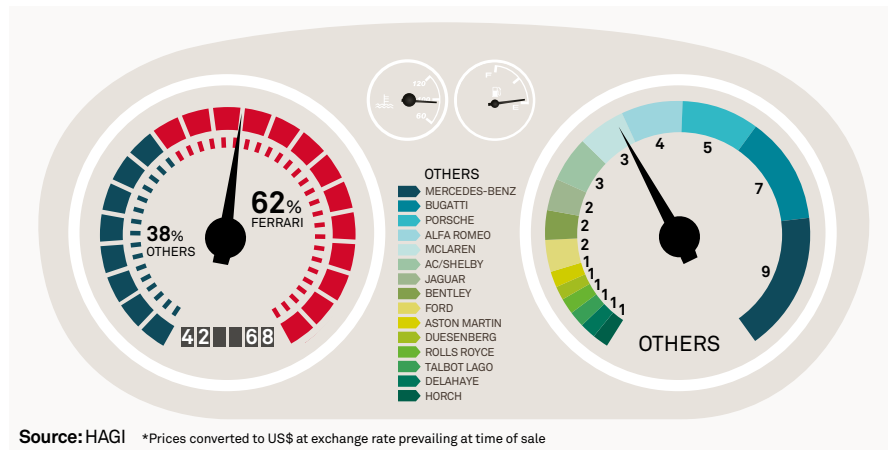
*Stamps and jewellery to Q4 2016.
Source: See back page for details of data suppliers

Under the bonnet

With the help of HAGI we look at the nuts and bolts of the classic car market

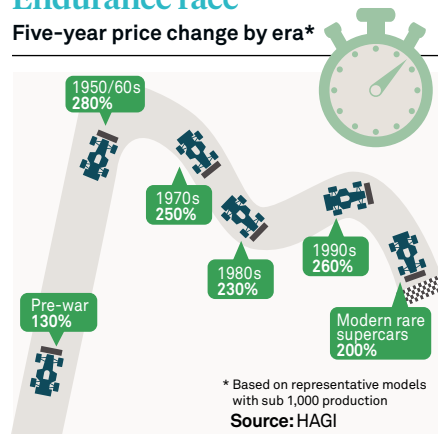
Top marques

Number of cars sold at auction for over \$5m*



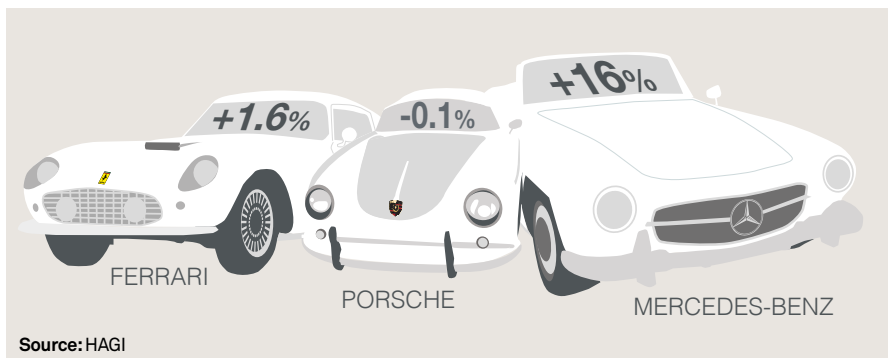
Endurance race

Five-year price change by era*



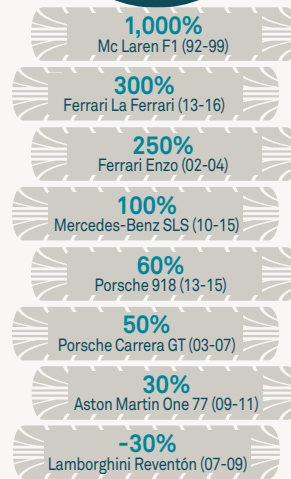
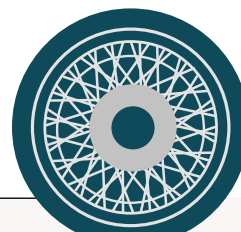
Podium finish

Annual price change by marque (12 months to May 2017)



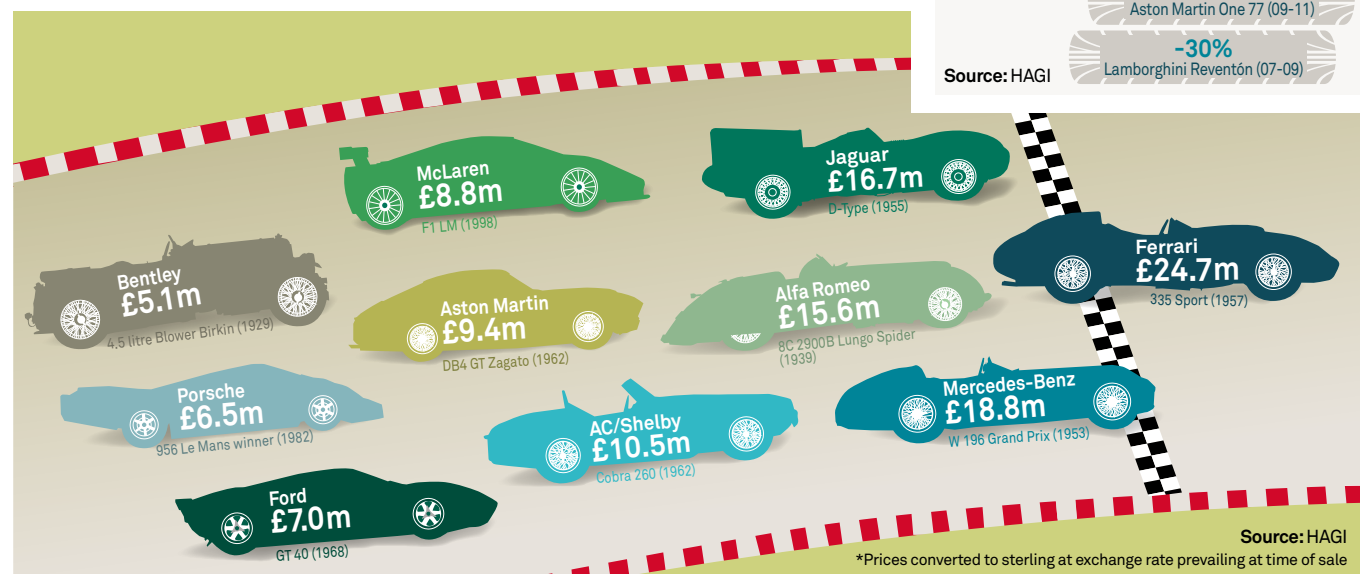
Buyers guide

Super car performance - price increase since new



Chequered flag

Top-priced model sold at auction from 10 of the key collectors' marques*



Beetle Drive

Andrew Shirley gets an exclusive tour of one of the world's greatest collections of rare Volkswagens and Porsches

"I'm only missing two," says Luay Allawi proudly as he shows me around the large warehouse in a nondescript industrial estate north of London that he has turned into an Aladdin's cave of almost 200 classic cars.

Mr Allawi, an Iraqi-born entrepreneur who moved to the UK when he was 14, is referring to the collection of Beetles that he has been painstakingly building since 1986. Once he has tracked down the elusive pair, he will own every model produced around the world since the first KDF-wagen, the precursor to the Wolfsburg Volkswagen Beetle, was built in 1938.

Although the warehouse is also home to numerous other cars that some collectors might argue are more exotic or glamorous – a 1965 Ferrari 250 SWB and a gorgeous 1956 Lancia Aurelia Spider America are just two that catch my eye – it is the "bugs" that Mr Allawi is clearly most passionate about.

The reason for such an enduring affair becomes clear when he explains what originally sparked his love for the quirky little automobile. "The first car that my wife and I owned together was a Beetle 1303S called Lucy. We bought her in 1973 and drove all over the place together. It just started from there."

Although probably one of the less valuable cars in monetary terms, Mr and Mrs Allawi's very first Beetle still takes pride of place in the collection and has been lovingly restored by Volkswagen to showroom condition.

To the untrained eye some of the 70 Beetles in the collection are hard to tell apart, with

just slight changes in their specification or, like the 100,000th car ever produced in 1966, marking a particular milestone in the model's history.

Others, however, such as the amphibious Schwimmwagen produced during WWII for the German army, at first glance bear very little resemblance to the silhouette of the car that became a globally recognised icon after starring in the popular Herbie films.

Some of the most eye-catching Beetles in the collection are those created by specialist coach builders like Karmann, Pappler, Rometsch and Hebmüller. These include cabriolets, four-door models, customised versions for the emergency services, and cars with uprated engines for the US market.

These special editions are often extremely rare, making them not just of interest to dedicated enthusiasts, but also extremely valuable.

"About 600 cars were built by Hebmüller before the factory burnt down in 1952. Of those about 60 are thought to survive and we have 11 of them; although it did take me about 20 years to find my first one," Mr Allawi explains. "The cheapest would cost around \$300,000 now, while the rarest coach-built cars, such as those by Dannenhauer & Stauss, can fetch almost a million dollars," he reckons.

Mr Allawi's love of Beetles is also reflected in his collection of early Porsches, which is dominated by a stunning array of sleek 356 Speedsters. The 356, the first

production-line Porsche, was designed by Ferdinand Porsche who also created the Beetle, and includes some of the same components as the Volkswagen.

While some might argue that it is the 911 that is the most iconic Porsche, Mr Allawi insists that it is the 356 that sits firmly at the heart of the sports car maker's DNA. "To me it is the better proportioned, more beautiful car."

The most sought after 356s, such as the America Roadster of which only 12 were produced and the Gmund, the earliest model, can command multi-million pound price tags, but Mr Allawi says that while he does occasionally sell on some vehicles outside his core collection, he has "never sold a VW" and doesn't view his cars as an investment.

"The best thing is to go with your heart and buy a classic car you can be proud of and enjoy. And don't spend so much money you're too scared to drive it," he advises.

As we say goodbye, I ask Mr Allawi if he is confident that he'll eventually track down and acquire those two missing Beetles. "My other passion is chess," he says. "I've got over 3,000 antique sets and 4,000 books, so I'm used to playing a long game. I'm sure that one day I'll find them."



The Collector: Luay Allawi with some of his rare Hebmüller Beetles



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Data digest

The Knight Frank Luxury Investment Index (KFLII) tracks the performance of a theoretical basket of selected collectable asset classes using existing third-party indices (see below). Each asset class is weighted to reflect its relative importance and value within the basket. The third-party indices selected are widely used by the media and analysts to track the performance of each asset class, but Knight Frank can take no responsibility for their accuracy or independence and methodological differences may affect like-for-like comparisons. The index does not take into account any dealing, storage or management costs.

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INDEX SOURCES

Art	AMRD
Chinese ceramics	AMRD
Antique furniture	AMRD
Jewellery	AMRD
Watches	AMRD
Wine	Wine Owners
Classic cars	Historic Automobile Group International (HAGI)
Stamps	Stanley Gibbons
Coins	Stanley Gibbons
Coloured diamonds	Fancy Color Research Foundation

Please contact andrew.shirley@knightfrank.com for more details of each index

The Knight Frank Luxury Investment Index

	Index change	12-month change	Five-year change	10-year change
Mar-07	100			
Sep-07	113			
Mar-08	131	31%		
Sep-08	146	29%		
Mar-09	151	15%		
Sep-09	142	-3%		
Mar-10	145	-4%		
Sep-10	156	10%		
Mar-11	168	16%		
Sep-11	174	12%		
Mar-12	182	8%	82%	
Sep-12	187	8%	66%	
Mar-13	196	7%	49%	
Sep-13	209	12%	43%	
Mar-14	222	13%	47%	
Sep-14	229	9%	61%	
Mar-15	237	7%	63%	
Sep-15	250	9%	61%	
Mar-16	250	5%	49%	
Sep-16	250	0%	44%	
Mar-17	257	3%	41%	157%

Front cover: A 2015 Porsche 918 "Weissach" Spyder. Auctioned for €1.46m in May 2017 by RM Sotheby's

Contacts and acknowledgements

HAGI www.historicautogroup.com; Stanley Gibbons www.stanleygibbons.com; Wine Owners www.wineowners.com; Fancy Color Research Foundation: www.fcresearch.org; AMRD www.artmarketresearch.com. AMRD also tracks the price movement of: sculpture, silver, porcelain, toys, carpets, clocks, photography, prints and many other collectibles.

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