

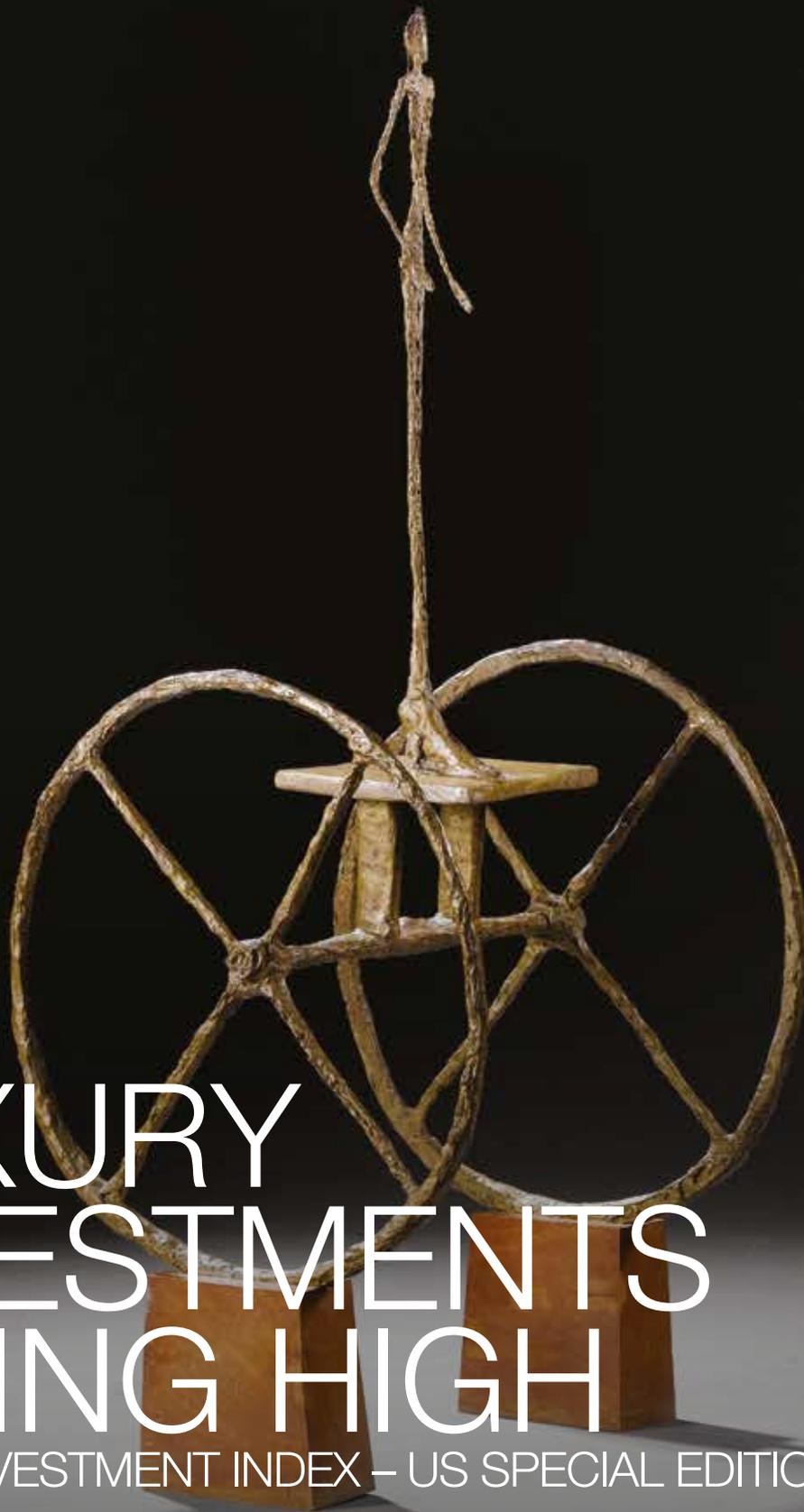
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# LUXURY INVESTMENTS RIDING HIGH

LUXURY INVESTMENT INDEX – US SPECIAL EDITION  
2014

US AUCTION RESULTS  
SET NEW RECORDS

CALIFORNIAN WINE  
OUTPERFORMS

US ART AND CLASSIC  
CAR MARKET FOCUS



The Wealth Report 2014

The Luxury Investment Index originally featured in The Wealth Report, which is produced annually by Knight Frank.

For more details please go to [www.knightfrankblog.com/wealthreport](http://www.knightfrankblog.com/wealthreport)



ANDREW SHIRLEY  
The Wealth Report Editor

“KFLII highlights the value of carefully selected luxury investments as a long-term portfolio diversifier.”

## LUXURY COLLECTORS BID BIG AT US SALES

A number of auction records have been shattered this year, but luxury investment growth is slowing.

The value of the **Knight Frank Luxury Index (KFLII)** grew by a further 6% in the 12 months to June 2014.

This compares with a 2% decline in the value of gold, but lags behind the performance of the top end of the New York residential market (+18%) and the Dow Jones Industrial average (+13%) over the same period.

Annual growth has also slowed marginally from the 7% recorded in Q2 2013.

Classic car performance continues to underpin the index, with the value of the world's most collectable vehicles rising by 25% year-on-year, according to the Historic Automotive Group International's (HAGI) TOP index.

In August, a 1962 Ferrari 250 GTO Berlinetta set a new auction record when it went under the hammer for \$38m at Bonhams' Quail Lodge sale in California.

Despite this, the rate of growth is actually slowing, according to HAGI founder Dietrich Hatlapa. “Last year was just incredible with our TOP index rising by almost 47%.”

### Art on the up

Art markets improved over the year with average growth of 5% across the principal genres.

Sotheby's New York held its most valuable sale ever on 4 November when \$422m of Impressionist and Modern Art went under the hammer, including The Chariot, a 1951 bronze by Alberto Giacometti that made almost \$101m (illustrated on front cover).

“The art market has fully recovered from the 2009 economic crisis and we have noticed increased interest in art being acquired for investment purposes from new buyers to the market. This new breed of collector is being attracted by the allure and prestige of the potential financial gains art can bring versus pure aesthetic appreciation,” says Harvey Mendelson of art advisory firm 1858 Ltd.

Coins also put in a strong performance with the Stanley Gibbons 200 Index rising 10%. A rare Edward VIII Sovereign, set another auction record when it was sold by Baldwins for £516,000 (\$809,000) in May.

Not to be outdone, the only surviving example of a British Guiana 1856 1c black on magenta cemented its reputation as the world's most desirable stamp when it was sold at auction in New York by Sotheby's for \$9.48m in June.

**\$38m**

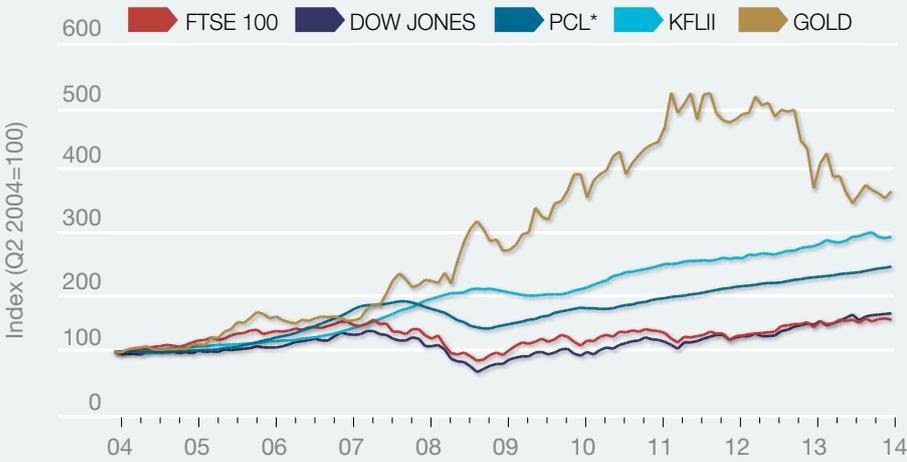
PRICE PAID AT  
CALIFORNIAN AUCTION  
FOR 1962 FERRARI  
250 GTO

However, the Stanley Gibbons GB 250 index that we use in KFLII saw Q2 annual growth fall from 7% in 2013 to 3% this year. The firm's head of investments Keith Heddle predicts the market will start to pick up again as collectors prepare for the “mother of all stamp shows,” the decennial London philatelic exhibition in 2020.

Yet again our index provides little comfort for the owners of antique furniture with average values down 8% on the year. Furniture is also the only luxury asset class tracked by KFLII to have lost value over the past 10 years (see Figure 3).

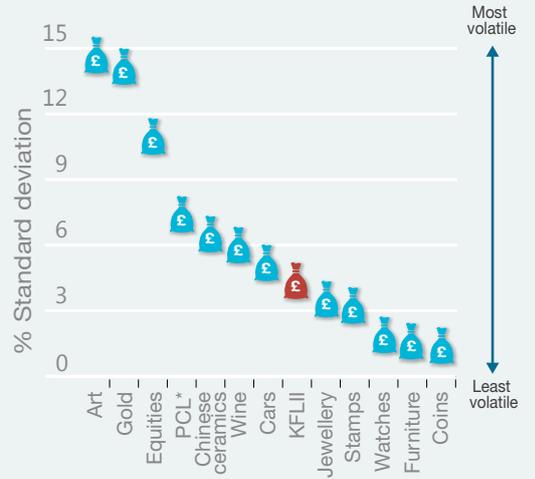
Overall though on a 10-year basis KFLII (+182%) has significantly outperformed US equities (61%) and top-end London houses (135%). This highlights the value of carefully selected luxury investments as a long-term portfolio diversifier.

FIGURE 1  
KFLII v other assets classes



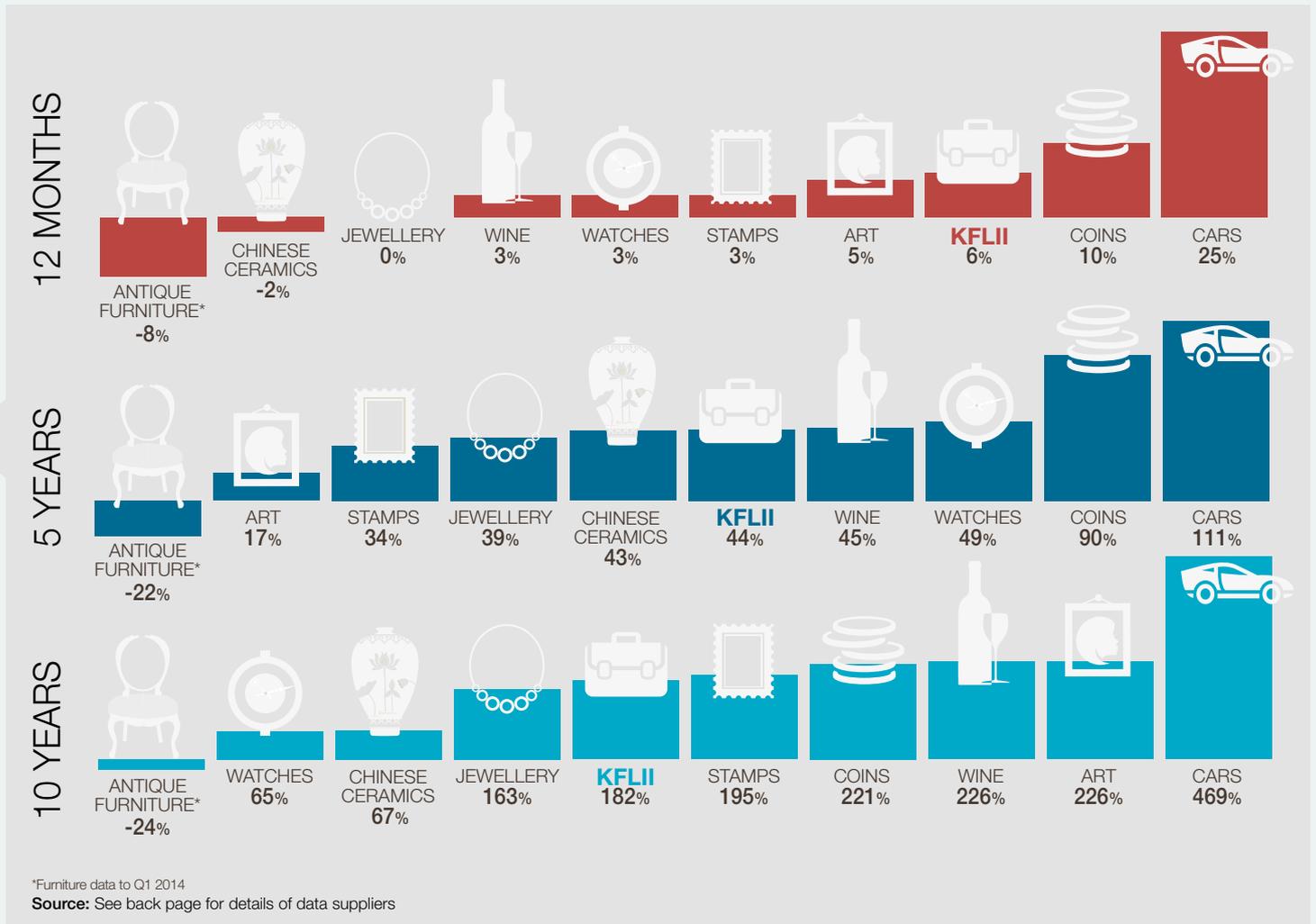
Source: Knight Frank Residential Research  
\*Knight Frank Prime Central London Residential Index

FIGURE 2  
10-year asset price volatility



Based on six-monthly price points  
Source: Knight Frank Residential Research

FIGURE 3  
KFLII performance by asset class (to Q2 2014)



# US LUXURY COLLECTABLE FOCUS

Andrew Shirley takes a closer look at some of the asset classes featured in the Knight Frank Luxury Investment Index (KFLII)

The US drives the luxury investment market in two ways. The country accounts for the largest slice of global art and antique sales (38%, or €18bn worth, in 2013, according to Arts Economics) and also produces some of the luxury assets most coveted by wealthy collectors around the world.

Art is a classic example. As illustrated in Figure 6 below, the American Art 100 index compiled by Art Market Research has outperformed the global art index that we use in KFLII (Figure 3) over both the short and long term. Of the specific US art genres, Modern art has performed particularly strongly.

Californian labels are also becoming increasingly important players in the fine wine investment market, says Nick Martin of Wine Owners, an online trading exchange and collection management platform.

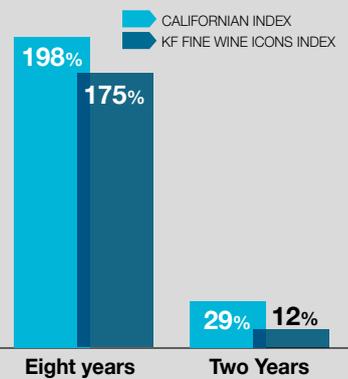
“Since 2012, our California index has significantly outperformed the Knight Frank Fine Wine Icons index (Figure 4).” Vineyards such as Screaming Eagle are starting to attract a growing following among collectors outside the US in places like Hong Kong and China, he adds. The most sought-after Screaming Eagle vintages currently fetch over £2,000 per bottle.

However, the weakening of the euro against the dollar, combined with falling Bordeaux prices, is taking some of the heat out of the Californian market, says Mr Martin.

Classic cars present a slightly more complex picture. “In general, wealthy US classic car collectors tend to focus on the classic European marques. Subsequently, the market for larger volume American “muscle” cars has been more subdued. However, some rare iconic examples such as the AC Shelby Cobra 289 and pre-war models like the 1930 Duesenberg J (Figure 5) have seen good capital appreciation over the past five years,” says Dietrich Hatlapa of specialist analyst HAGI.

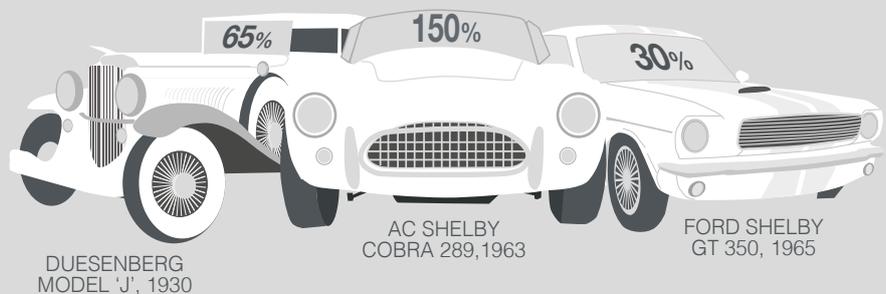
See page 5 for more on wine...

FIGURE 4 Performance of Californian fine wine (Data to 15 Nov 2014)



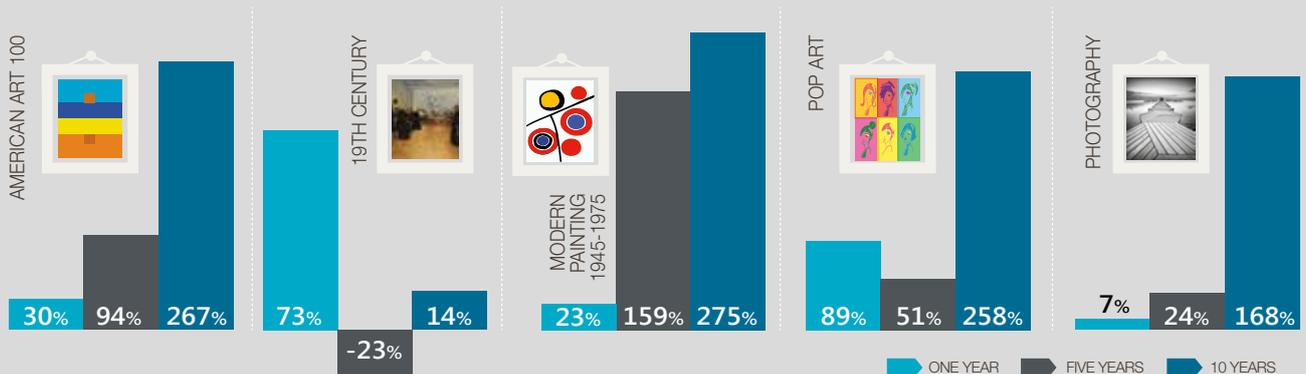
Source: Wine Owners

FIGURE 5 Five-year performance of iconic US cars (Data to November 2014)



Source: HAGI

FIGURE 6 Performance of US art by genre (Auction sales to October 2014)



Source: Art Market Research

# FINE WINE FOCUS

To reflect the top of the fine wine investment market, Knight Frank has teamed up with Wine Owners, an online trading exchange and collection management platform, to create the Knight Frank Fine Wine Icons Index (FWII).

The index differs from the Livex 100, which we were previously using to represent the performance of the sector in our Luxury Investment Index, and traditional fine wine funds, because it includes some rarer, more iconic vintages from a broad range of locations, such as Italy, Spain the US and Australia, and is less reliant on French wines, particularly traditional Bordeaux.

Although the production of some of the wines we've selected may be too limited to offer the liquidity required by a wine fund and to be widely traded on the open market, they will certainly be of interest to wealthy wine connoisseurs and investors and reflect their broadening tastes, says Wine Owners founder Nick Martin.

A number of Champagnes and Ports are also included in the index to highlight the range of wines collected by HNWI's. The average value of wine in the index is £859 per bottle with the most expensive currently a Domaine de la Romanee-Conti Romanee Conti Monopole Grand Cru at over £9,000 and the most affordable subset priced from £70.

Figure 7 shows how the index is broken down by country and region. Despite featuring fewer Bordeaux vintages than a conventional collective wine investment portfolio, wines from the region are still the largest component of the index.

"You can't get away from the fact that it is the world's single largest area of production and produces large volumes of increasingly fine wine. There is a danger of downplaying it too much," says Mr Martin.

In terms of price performance, however, wines from Bordeaux have definitely been outgunned by those from Burgundy and Northern Italy in recent years (Figure 8).

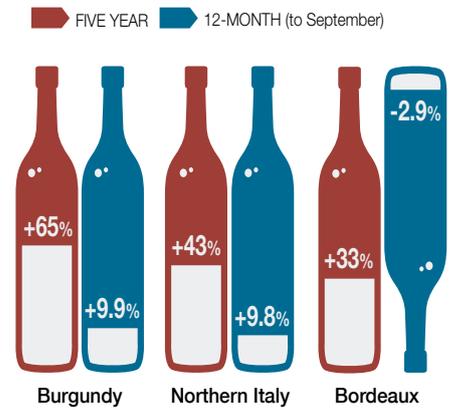
Italian wines dominate the top-20 of the index with interest growing in the best Barolos and Barbarescos from the Piedmont region. The top performer over the past 12 months has been Giacomo Conterno's Monfortino Barolo Riserva, with prices for the four vintages included in FWII rising from 31% to 54%.

Some of the biggest names in Bordeaux litter the bottom of the index with Chateau Margaux Premier Cru Classe 2009 shedding a quarter of its value over the same period.

Over the past 10 years the index has delivered total growth of 226%, which means only classic cars have performed better. Over the shorter term, however, wine has lagged with prices rising by only 3% in the 12 months to June 2014.

"The performance of any fine wine index will reflect the very significant falls experienced by Bordeaux since its peak in mid-2011," says Mr Martin.

FIGURE 8  
Investment wine performance



Source: Wine Owners

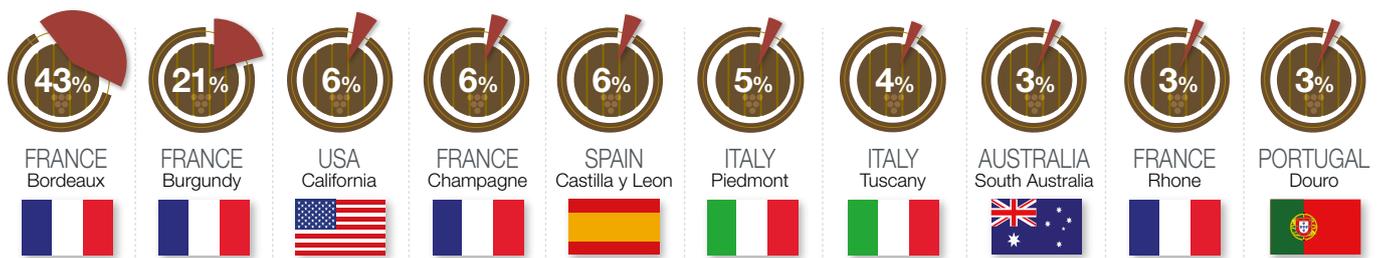
"Those highs were driven by unprecedented demand from China in the years leading up to 2011. Speculation overtook the interests of an orderly market, with brokers betting on which wines would become the next recognised brands in the Chinese market, creating an investment bubble," he explains.

Since the bubble burst, First Growth declines have averaged 28%, with certain wines halving in value, for example Lafite 2005 has fallen by almost 49%.

However, Mr Martin believes these drops are creating opportunities for investors. "Calling the bottom of a market is notoriously problematic, but back vintages are looking more interesting than at any time in the past four to five years."

To track the performance of FWII in detail go to [www.wineowners.com/indexes.aspx](http://www.wineowners.com/indexes.aspx)

FIGURE 7  
Breakdown of Knight Frank Fine Wine Icons Index by country and region  
% change



Source: Knight Frank Residential Research



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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. The index does not take into account any dealing, storage or management costs.

### The Knight Frank Luxury Investment Index

	Index change	12-month change	Five-year change	10-year change
Q2 2004	100	-	-	-
Q4 2004	103	-	-	-
Q2 2005	108	8%	-	-
Q4 2005	112	8%	-	-
Q2 2006	117	8%	-	-
Q4 2006	122	9%	-	-
Q2 2007	135	16%	-	-
Q4 2007	156	28%	-	-
Q2 2008	181	34%	-	-
Q4 2008	194	24%	-	-
Q2 2009	196	9%	96%	-
Q4 2009	190	-2%	85%	-
Q2 2010	199	1%	84%	-
Q4 2010	222	17%	98%	-
Q2 2011	236	19%	103%	-
Q4 2011	244	10%	100%	-
Q2 2012	249	5%	84%	-
Q4 2012	254	4%	63%	-
Q2 2013	267	7%	48%	-
Q4 2013	282	11%	46%	-
Q2 2014	282	6%	44%	182%

Front cover: The Chariot by Alberto Giacometti. Lot 25 of Sotheby's New York Impressionist & Modern Art Evening Sale, 4 November 2014. Sold for \$100,965,000

#### Contacts and acknowledgements

HAGI [www.historicautogroup.com](http://www.historicautogroup.com); Stanley Gibbons [www.stanleygibbons.com](http://www.stanleygibbons.com); Wine Owners [www.wineowners.com](http://www.wineowners.com); Art Market Research [www.artmarketreport.com](http://www.artmarketreport.com). AMR also tracks the price-movement of: sculpture, silver, porcelain, toys, carpets, clocks, photography, prints and many other collectibles. For more information contact [info@artmarketresearch.com](mailto:info@artmarketresearch.com)

## RECENT MARKET-LEADING RESEARCH PUBLICATIONS



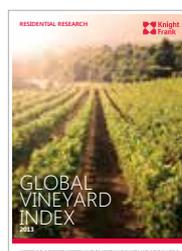
[The Wealth Report 2014](#)



[Prime Global Cities Report 2014](#)



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### INDEX SOURCES

Art	Art Market Research
Chinese ceramics	Art Market Research
Antique furniture	Art Market Research
Jewellery	Art Market Research
Watches	Art Market Research
Wine	Wine Owners
Classic cars	Historic Automobile Group International (HAGI)
Stamps	Stanley Gibbons
Coins	Stanley Gibbons

Please contact [andrew.shirley@knightfrank.com](mailto:andrew.shirley@knightfrank.com) for more details of each index

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