



SLAYING THE COMPETITION?

LUXURY INVESTMENT INDEX
2014



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



ANDREW SHIRLEY
The Wealth Report Editor

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

LUXURY COLLECTORS SEND MIXED MESSAGES

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 slightly behind the performance of the Knight Frank Prime Central London Residential Index (+8%) and the FTSE 100 equities index (+9%) 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%. This year I expect to see a more typical and sustainable level of growth. So far (to September) prices have risen by 12%.”

Art on the up

Art markets improved over the year with average growth of 5% across the principal genres (see page 4 for more details).

“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% on the year. A rare Edward VIII Sovereign, illustrated on the cover of this report, set another auction record when it was sold by Baldwins for £516,000 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.

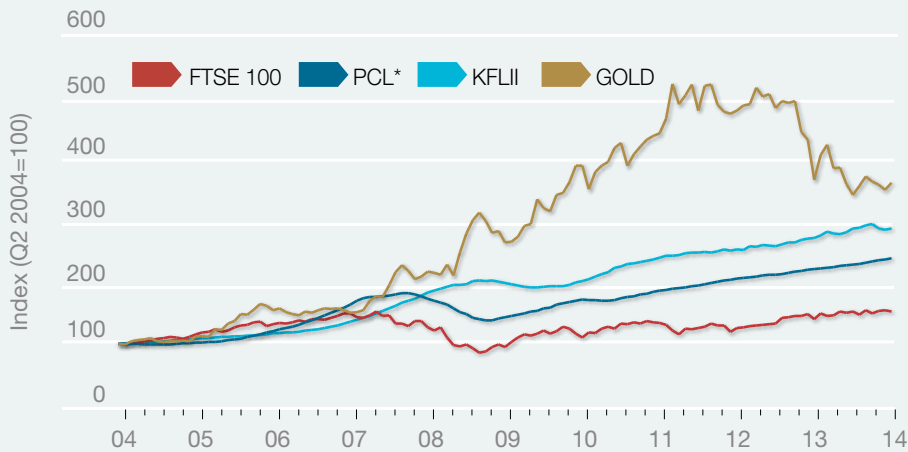
\$9.48m
PRICE PAID AT AUCTION
FOR THE WORLD'S MOST
EXPENSIVE STAMP

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 equities (51%) 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



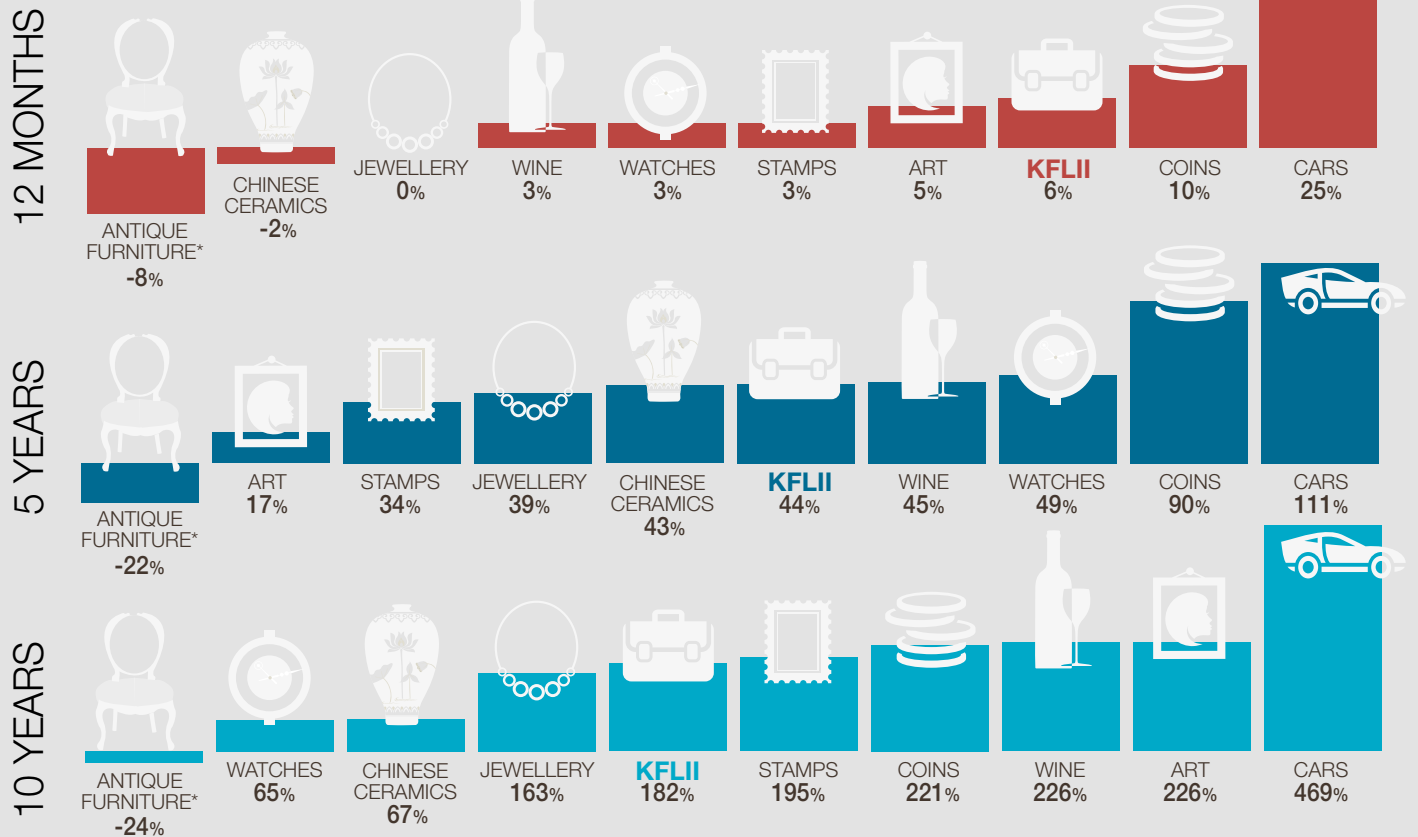
Source: Knight Frank Residential Research
*Knight Frank Prime Central London Residential Index

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)



*Furniture data to Q1 2014

Source: See back page for details of data suppliers

THE DEVIL IS IN THE DETAIL

Andrew Shirley takes a closer look at some of the asset classes tracked by the Knight Frank Luxury Investment Index (KFLII), including our exclusive new wine portfolio

An index can only tell you so much. KFLII, for example, shows that our basket of luxury collectables is performing very nicely compared with some other asset classes.

However, as detailed on page 3 of this report, there are wide variations between the various asset classes that we track.

This big picture view may provide enough detail for those looking to compare the general performance of the index's separate components over a particular time period, but the real collector and anybody thinking of making a serious investment will probably want much more detail.

A classic car enthusiast may well get revved up by an individual marque like Ferrari or Porsche, while art buffs are usually drawn to a specific genre or artist. Connoisseurs and sensible investors are not generally magpie-like in their habits, grabbing whichever trinket takes their fancy, but tend to carefully research and curate their collections and portfolios.

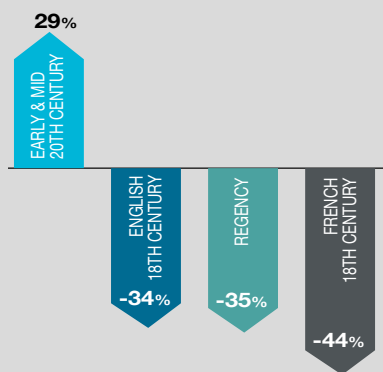
For them, a wealth of data exists behind our broad headlines. For example, HAGI, whose main index we use to track the performance of classic cars, produces separate indices for Porsche, Ferrari and Mercedes-Benz.

As Figure 5 shows the performance of the marques, having been fairly well correlated for a number of years, is now starting to diverge. Is this the start of a longer-term trend? HAGI's Dietrich Hatlapa says it is too early to tell.

Taste and fashion play an important role in the performance of many collectables. The subsets of our art and furniture indices (Figures 4 & 6) provided by Art Market Research clearly show what has been in vogue over the past decade and in the case of "brown" furniture what most definitely has not.

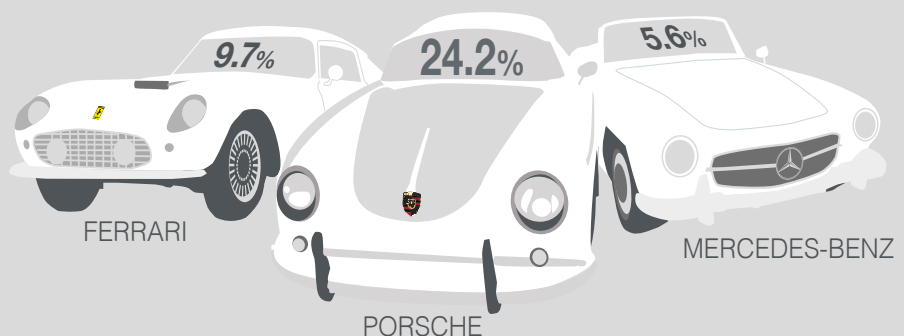
See page 5 for more on wine...

FIGURE 4 10-year performance of furniture by period



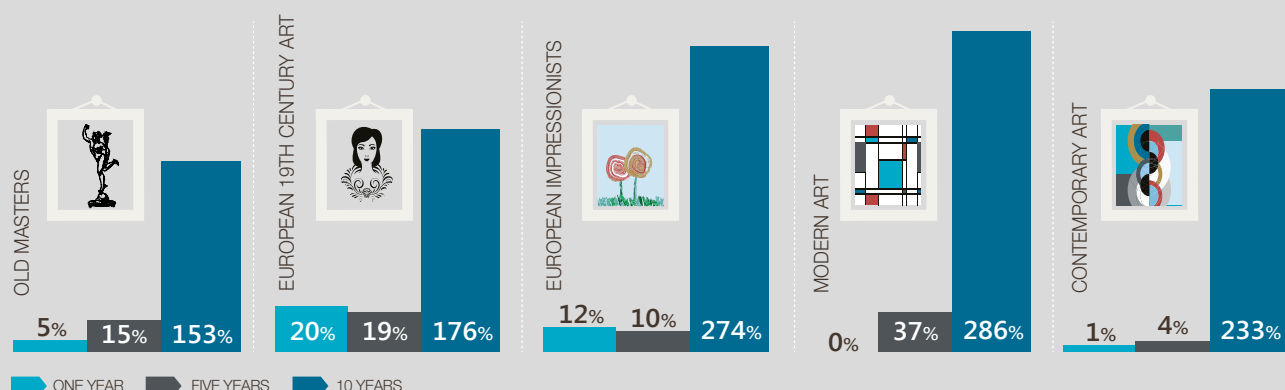
Source: Art Market Research

FIGURE 5 Classic car performance by marque (Jan 2014 to Sept 2014)



Source: HAGI

FIGURE 6 Performance of art by genre



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, a specialist data provider and online self-directed portfolio manager, 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).

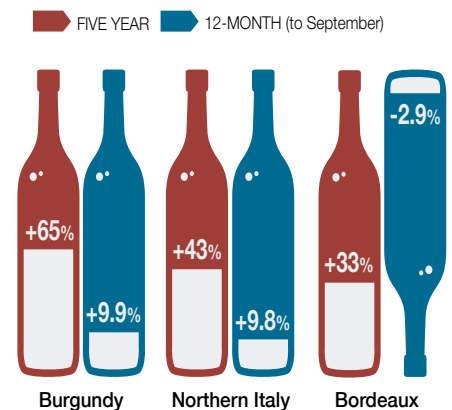
Italian wines dominate the top-20 of the index with interest growing in the best Barolos and Barbarescos from the Piedmont region. The top performer over the past 12 months has been Giacomo Conterno's Monfortino Barolo Riserva, with prices for the four vintages included in FWII rising from 31% to 54%.

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

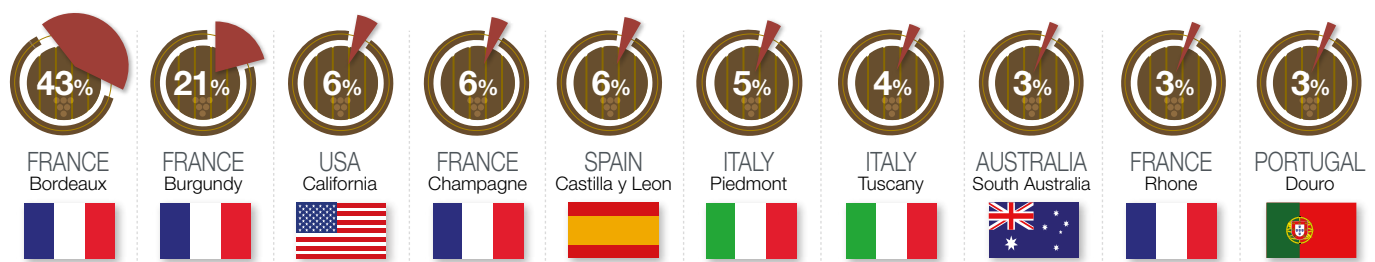
"Those highs were driven by unprecedented demand from China in the years leading up to 2011. Speculation overtook the interests of an orderly market, with brokers betting on which wines would become the next recognised brands in the Chinese market, creating an investment bubble," he explains.

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

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



Source: Knight Frank Residential Research



GLOBAL BRIEFING

For the latest news, views and analysis
on the world of prime property, visit
KnightFrankblog.com/global-briefing

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: A rare Edward VIII Sovereign sold at auction by Baldwins for £516,000 earlier this year

Contacts and acknowledgements

HAGI www.historicautogroup.com; Stanley Gibbons www.stanleygibbons.com; Wine Owners www.wineowners.com; Art Market Research 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

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



[The Wealth Report 2014](#)



[Prime Global Cities Report 2014](#)



[The London Review Summer 2014](#)



[Global Vineyard Index 2013](#)

Knight Frank Research Reports are available at KnightFrank.com/Research

RESIDENTIAL RESEARCH

Andrew Shirley

The Wealth Report editor
+44 1234 720534
andrew.shirley@knightfrank.com

MEDIA & MARKETING

Bronya Heaver

+44 20 7861 1412
bronya.heaver@knightfrank.com

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 for more details of each index

Knight Frank Residential Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.



© Knight Frank LLP 2014

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.