Knight Frank

THE WEALTH REPORT.

The global perspective on prime property and investment

2017

11th Edition

THE DRIVE TO QUALITY

For classic cars, "2016 was the year of the slowdown," says HAGI's Dietrich Hatlapa. For anybody not familiar with the market, that looks like a slightly downbeat claim as annual growth was still a very respectable 9%. But set against total growth of 151% over the past five years, it is clear that the market has dropped down a few gears.

"Those who were in it just for the money have moved on," says Mr Hatlapa. "The market is now more in the hands of the collectors and specialists, which I think is good news for the real enthusiast."

According to data from the Kidston 500, another market-tracking index, of the cars put up for sale at the top international auctions during 2016, 78% sold by number – down from 84% in 2015 – while the proportion of cars selling for below their low estimate rose by 20%.

The pattern is the same in the US, says Brian Rabold, Vice President of Valuation Services at specialist insurer Hagerty. The firm's Blue Chip index, which tracks the value of 25 of the European, US and Japanese cars most prized by US collectors, fell by 1% last year. "Over the past year or so we've seen a shift from a sellers' to a buyers' market," he says. "People are becoming more selective. Last year there were 26% fewer auction sales of cars over US$1m in North America." He also notes a shift in interest towards new models like the Porsche 911R. "Our top 1,000 clients are buying cars from the 2000s like never before."

But despite the slowdown, the rarest cars in the right condition with the most desirable provenance will continue to set world records, says Mr Hatlapa.

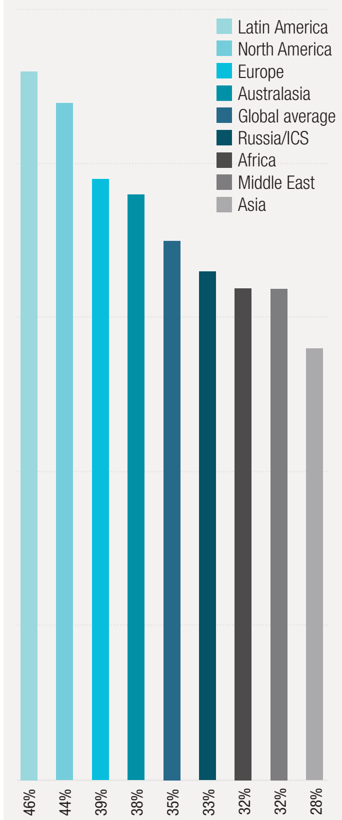
Simon Kidston, who set up the Kidston 500, agrees: "Yes, the pace of deal making is noticeably slower, and the headline figures don't convey that the underlying mood is much more reflective and uncertain amongst buyers and sellers. But until there are better, more mobile and tax efficient havens for cash, the market is likely to remain active and capable of reaching new peaks when fresh discoveries emerge from hiding."

As if to prove the point made by Mr Hatlapa and Mr Kidston, a Ferrari 1957 335 Sport became the most expensive car to go under the hammer ever, in euro terms at least, when it was sold by Artcurial in Paris for €32m.

In the US, the annual Monterey sales also delivered new benchmarks. An historic 1962 Shelby Cobra went for over US$13m with RM Sotheby's, making it the most expensive American car to sell at auction. A 1955 Jaguar D-type grabbed the record for the priciest British car to go under the hammer when it fetched almost US$22m. And, dispelling the myth that nobody is interested in older cars any more, Alfa Romeo joined the party with a 1939 8C Lungo Spider making just under US$20m – a new record for a pre-war vehicle.

However, the most expensive car sold last year was handled privately by Mr Kidston. The exact price achieved for the 1962 Ferrari 250 GTO (pictured below) has not been revealed, but it exceeded the highest sum ever paid at auction (US$38m for another 250 GTO sold by Bonhams) for a classic car and was possibly the biggest deal ever struck.

THE COLLECTORS
% of UHNWIs who already collect investments of passion



Source: *The Wealth Report* Attitudes Survey

Image courtesy of Kidston SA

FEELING BLUE

Several of the other asset classes that feature in KFLII also produced some record-breakers in 2016, even though their overall performance was relatively muted. The sparkliest was the sale of the Oppenheimer Blue, a vivid blue 14.62-carat diamond sold by Christie's Geneva for the equivalent of almost US$51m, making it the most expensive jewel to ever sell at auction.

Blue seemed to be the colour of 2016. "This has certainly been the year of the Kashmir sapphire," says Jean Ghika, Head of Jewellery for Bonhams UK and Europe. "They have performed well at our auctions in London, New York and Hong Kong and are among

the most highly prized gems for serious collectors." After worldwide bidding, Bonhams London sold a 14.13-carat ring for £1.4m in December against a high estimate of £800,000.

Male "jewellery" also reached new heights. A rare stainless steel 1941 Patek Philippe ref. 1518 perpetual calendar chronograph with moon phases broke the record for the most expensive wristwatch sold at auction when it went under the hammer with Phillips Geneva for US$11m.

Bonhams' Global Head of Watches, Jonathan Darracott, says collectors are moving away from dress watches towards more functional timepieces, such as sports chronographs and military models.

This shift partly explains why indices tracking the market show more limited growth than might be expected, considering the increase in the number of people collecting watches, he reckons. "Some of the most popular watches today weren't really considered that desirable when the indices were put together."

top left: The Oppenheimer Blue diamond *bottom left:* Patek Philippe ref.1518 (image courtesy of Phillips) *right:* *Girls on the Bridge* by Edvard Munch

PAINTING BY NUMBERS

Even the best efforts of wine and classic cars couldn't prevent KFLII, which tracks the performance of 10 collectable investments of passion, posting overall growth of just 2%, its weakest performance since 2009's 2% drop.

The biggest contributor to last year's slide was art, which dropped by 14% according to auction data analysed for *The Wealth Report* by Art Market Research. There was, however, a marked variation in performance across different genres.

European Impressionist painters, such as Matisse and Cézanne, saw the largest annual drop in the value of works sold at auction, while 19th-century artists like Constable and Turner rose by 19%. Modern and contemporary works, which have previously been the stellar performers in our art index, recorded drops of 8% and 2% respectively.

However, Viola Raikhel-Bolot, Managing Director of 1858 Ltd Art Advisory, says auction results are only part of the story. "They only represent 45% of the market and this year there has been reluctance among vendors, perhaps concerned by Brexit and other economic worries, to consign their best works to auction unless they really had to sell."

Buyers at the lower end and middle of the market have also become more circumspect, she says. "Since the global financial crisis people have been much more wary of overpaying for things."

By the end of 2016, however, the market looked more positive with November's New York sales, which traditionally mark the end of the auction year, attracting strong bidding. The top price of the year was achieved by Christie's when it sold one of Claude Monet's iconic *Grainstack* paintings for US$81m, way above its US$45m estimate.

Other big sellers included *Girls on the Bridge* by Edvard Munch, which was sold by Sotheby's for US$54m – a big jump from the US$31m it fetched when sold in 2008 – and *Untitled XXV* by the Dutch-American artist Willem de Kooning, sold by Christie's for US$66m, a record for the artist.

"At the top end, seminal works that are fresh to the market will always do well," explains Ms Raikhel-Bolot. Two works from very different parts of the art spectrum exemplified this trend earlier in the year. Showing that the Old Masters still have life in them, Peter Paul Rubens' *Lot and his Daughters* was sold by Christie's London for £45m, the second-most expensive work to sell by the artist after his *Massacre of the Innocents*, which made almost £50m in 2002. And *Untitled* by the modern US artist Jean-Michel Basquiat set a record for the artist when it fetched US$57m with Christie's New York in May.