savills

Savills World Research
UK Residential

Spotlight
Property and Art

Summer 2014

savills.co.uk/research

Performance analysis
THE ART OF INVESTMENT

Where to put your money? Real estate scores high, but there are significant returns elsewhere

Savills has been the exclusive property partner of the Masterpiece Arts and Antiques Fair for the past three years. This year we have undertaken some bespoke research analysing the relationships between the performance of art, other chattels and property.

Using our own indices, and those from Art Market Research, and Nationwide, we have compared indices for the Art 100 (mid-80%*), Old Masters (mid-80%*), classic cars (mid-80%*), 18th century furniture (mid-80%*) with house prices across the UK and Prime Central London (PCL), as well as UK farmland.

An Investment?

Real estate has long been seen as a key investment asset for high net worth individuals (HNWI). Globally, 20% of HNWIs' financial assets are real estate†, excluding their primary residence. In Europe this increases to 26.7% and in Latin America 30.1%.

Although art is not a traditional investment asset class, HNWIs typically invest for both personal enjoyment and financial return. HNWIs across the globe allocate 16.9% of their investments of passions to Art and 19.0% to Luxury Collectibles including automobiles†.

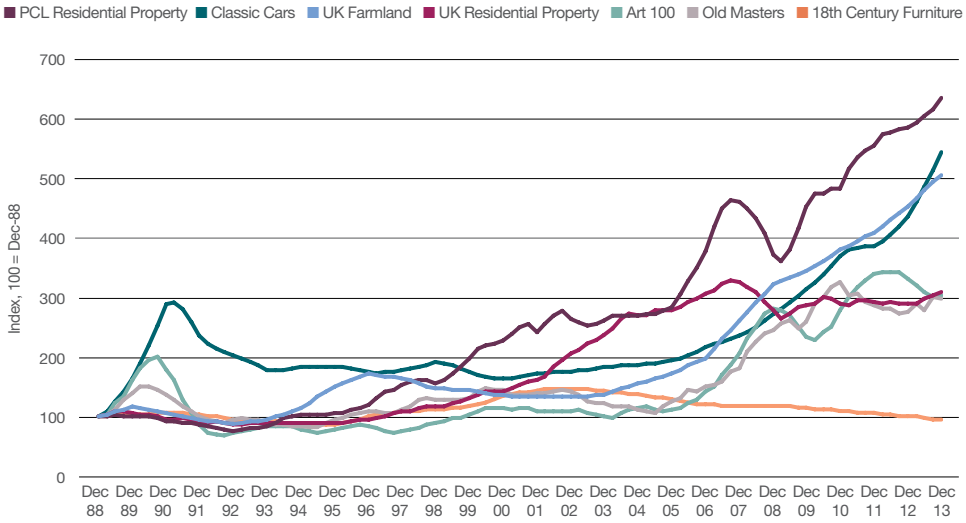
While the long term debate continues as to whether art should be classed as an investment asset, the fact remains that if you invest wisely in art, the returns can be very rewarding. The Art

> "If you invest wisely in art, the returns can be rewarding"
> Sophie Chick, Savills Research

** We have used the mid-80% to prevent one-off sales influencing the results*
†According to the 2013 Capgemini and RBC Wealth Management 'World Wealth Report'

GRAPH 1

25 year capital value growth for investment assets



Source: Savills Residential Research, Art Market Research, Nationwide

100 index has recorded growth of 200% over the past 25 years (Dec 88 to Dec 13), which compares favourably with the average UK house price increase of 205%.

Winners and losers

Over this 25 year period, there has been a huge variation in the performance of individual asset classes. The strongest growth has been in Prime Central London house prices, which have recorded an increase of 523.1%. This outperformance in PCL property prices reflects the fact that demand is primarily driven by global wealth attracted to a political and economic safe haven – although culturally diverse, this also has a strong investment track record. These attributes have been heightened over the past eight years as global wealth has increased significantly, resulting in house prices in central London notably outperforming all other areas of the UK.

At the other end of the spectrum the value of 18th century furniture has fallen by 5.9% over the same period.

Since the Crunch

Since the peak of the housing market in September 2007, the real winner has been classic

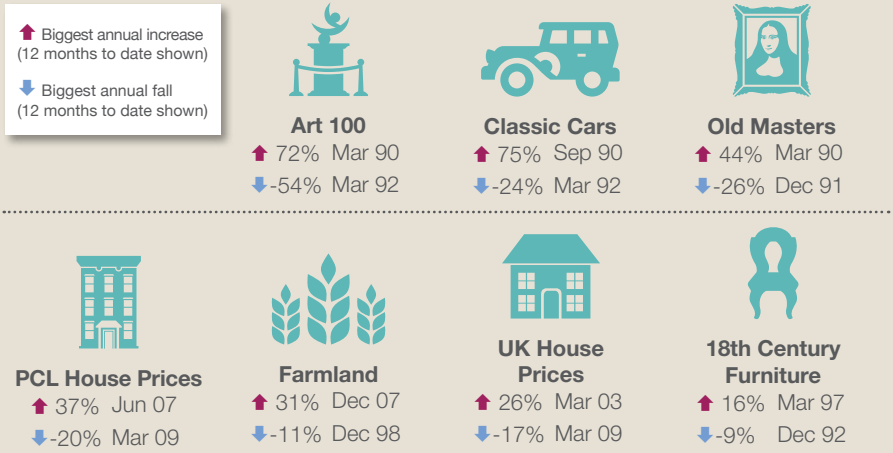
VOLATILITY

Volatile assets do not always indicate unwise investments

Despite the strong performance of the Art 100 index over the past 25 years, it is the most volatile of the assets we have looked at. Over this period of 25 years, the index has recorded the second largest annual increase of 71.5% in March 1990 but it was followed two years later by the largest annual fall of -53.6%. This certainly makes investing in art more risky but it also carries the potential for big returns. The least volatile asset is 18th century furniture, but the returns have been comparatively poor. Since 1988 it has maintained its original cost but values have been falling consistently since 2003 following a growth of 66% over the preceding seven years.

FIGURE 1

When were the biggest annual increases/falls over the past 25 years?



Source: Savills Residential Research, Art Market Research, Nationwide

cars, recording a staggering growth of 134.9%. Since March 2006, prices have not fallen and, perhaps rather surprisingly, they have remained unaffected by the recession. It seems that an increasing number of investors have chosen to invest their money in classic cars rather than more conventional ventures.

Farmland has always been considered a safe asset and a hedge against inflation. Prices have historically performed well during economic downturns and this recession was no exception – average values have not fallen since 2003 and have increased on average by 105.2% since September 2007.

"An increasing number of investors have chosen to invest their money in classic cars rather than conventional ventures"
Sophie Chick, Savills Research

Correlation

While there are some obvious correlations between similar assets such as the Art 100 index with the Old Masters and UK house prices with Prime Central London house prices, all of the other assets are largely uncorrelated. This offers a clear opportunity for those looking to achieve a diverse portfolio that offers a hedge against the more traditional asset classes.

OUTLOOK

HNWIs and their investment potential

Global HNWI investable wealth is expected to grow by 6.5% to US$55.8 trillion† by 2015. The search for safe stores of wealth will continue, benefitting a variety of asset classes that we have considered. But the investment credentials are only part of the picture, with the amenity enjoyed by the owners of art and property far less tangible but potentially more valuable.

†*According to the 2013 Capgemini and RBC Wealth Management 'World Wealth Report'*

Research Residential

Sophie Chick
Residential Research
020 7016 3786
schick@savills.com

Jonathan Hewlett
Head of London Region
020 7824 9018
jhewlett@savills.com

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.