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COMMERCE

Real estate and classic cars will hold value in tumultuous economy

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Money

By FORREST CARDAMENIS

NEW YORK Despite stock market volatility, geopolitical instability and new regulations, prime residential real estate still has a good outlook, according to panelists speaking at a presentation of Douglas Elliman and Knight Frank's The Wealth Report 2016.

Oil prices have plummeted, governments and the IMF are tracking the flow and origin of incoming money and many assets have had negligible appreciation in the past year. Nevertheless, a look at recent history and wealth projections show that a bet on long-term growth and on real estate, as well as classic cars, is a safe one.

"The people who lost 30 percent in the market [when the Shanghai Stock Exchange and Chinese real estate fell] didn't want to lose the other 70 percent," said Howard M. Lorber, CEO of Douglas Elliman. "They wanted to as quickly as money out and moved it here, so we saw an uptick in those type of buyers.

"The turmoil creates a need to go to safe havens, and there is no better safe haven than right here," he said.

Homes and automobiles

Over the past 10 years, the number of individuals with at least $30 million has grown 61 percent, with a projected increase of 41 percent over the next 10 years (see story). Although the increase is smaller in percentage terms, the higher base means that the absolute increase, currently projected at 80,000, is higher.

13 Downing Street, NY listed by Douglas Elliman

Every asset class with the exception of furniture has seen positive growth in recent years with Chinese ceramics and watches having the most modest appreciation of 50 and 67 percent, respectively, from Q4 2005 to Q4 2015. Coins, wine and art have grown by 232, 241 and 226 percent, respectively, although with the latter two categories five-year growth is disproportionately slower.

Classic cars, however, have outpaced all other assets, with an average appreciation in value of a whopping 490 percent.

"It was remarkable during the recession to see the whole world on fire and the collector cars even in the worst categories were holding their own or even continuing to increase," said McKeel Hagarty, CEO of Hagarty Collectibles. "When you start talking about things like Ferraris, these are the most investment-worthy cars that you can find.

"We have finally cracked the ability to look at things like classic cars as an asset class and track their movement across the world," he said.

However, moderator Robert Frank, wealth expert at CNBC, pointed out that the demographic shift could pose a threat for the classic car market, as well as the art market. In both cases, the coveted products have become more recent and the markets have not kept up.

In the car market specifically, millennials are less interested in cars than the baby boomer generation that has long controlled that market. As that market dies off or loses interest in seniority, the classic car market could be hampered by less interested consumers.

On the other hand, the sheer size of millennials, as well as the oldest group of them, ranging up to 35, and Generation X will likely sustain the market for decades. Even as millennials get drivers licenses in smaller percentages than any other generation, the enormity means the number of consumers vying for an unchanging number of 50s and 60s racecars could continue to grow.

Additionally, car markets are more than a good investment. They often provide exclusive access to experiences.

Ferrari GTO

"People buy a lot of the best classic cars for the purpose of using it for something," Mr. Hagarty said. "There are lots of global tours.

"The only way you can get on the Ferrari GTO tour is to own a Ferrari GTO, and they are $50-60 million each but you aren't going on that tour unless you own one," he said. "The same is true for a lot of rallies, so buying a car is different than maybe a painting you can put in your study."

Douglas Elliman's Mr. Lorber explains that real estate will also continue to be a popular investment, especially with the wealth leaving China.

"If you own equities, every day you wake up, as I do, with CNBC on, you're miserable seeing how much you lost the day before and how much you may lose today," Mr. Lorber said. "Do you ever wake up and think about how much you have lost on your home? It never happens."

Indeed, the S&P 500 was close to flat last year, and trading tended to hover within one percentage point, while bond markets are faced with negative interest rates.

"Ultra-high-net-worth people don't want to deal with this turmoil," agreed Chris Toomey, private wealth manager at

Morgan Stanley. "These clients are looking for exclusivity, they're looking for stability. They don't wake up in the morning and see someone trying to sell and buy their apartments."

Dubai, United Arab Emirates

The challenge of real estate will be navigating new regulations. Cash transactions of over $3 million in New York and over $1 million in Miami will be checked, and many international cities and countries have similar precautions to ensure that money was not sourced, however long ago, with illegalities.

Ultimately, however, turmoil will work in favor of real estate given its relative stability.

Navigating volatility
Despite relative stability, real estate is not immune to global turmoil and uncertainty.

London real estate growth has fallen more than half a percentage point over the past six months for the biggest decline since June 2009, according to a report by Knight Frank.

Prices fell by 0.1 percent in February compared to the previous month, and growth was slowest in neighborhoods with more expensive property, such as Westminster and the Royal Borough of Kensington and Chelsea. Like everywhere else, market volatility has potential buyers on edge, and the impending European Union referendum further complicates the market (see story).

Other important cities to the UHNW population have also seen home prices decline recently.

Falling real estate prices in the United Arab Emirates' city of Dubai may continue through 2016 and into 2017, according to a report by Core Savills.

"Market In Minutes: Dubai Residential Market" notes that lower oil prices and a large supply have organically lowered prices, but expectations of falling rates have served as a self-fulfilling prophecy and compounded the drops. After years of economic growth following the end of the great recession, Dubai is experiencing a market slowdown as global regions show signs of volatility (see story).

"I think volatility is here to stay, for a couple reasons," Morgan Stanley's Mr. Toomey said. "There is obviously tremendous macro-issues we have talked about, and we are in a political election cycle which typically increases volatility, but I think once the candidates are assigned and they can move away form the base and start moving toward the center the rhetoric starts to come down and the volatility starts to come down a little bit.

"But we're dealing with some big issues with the oil markets, which drives a lot of that volatility, as well as the credit market," he said. "In many cases the credit cases look very similar to 2008 and 2009 in the sense that liquidity is basically being pulled out, so a lot of that volatility is the fact that a lot of market participants have left, and with that and ongoing regulations within the banks you have this increased volatility.

"The good news is that a large part of our economy is dominated by the consumer, who is benefiting from a lot of the different things that are going on. I think in the next six months we're going to be in a better place than we are today, but it could be a pretty tough ride."