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PERSPECTIVE
SPRING 2023

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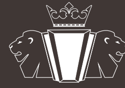

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DEAR READERS,

Welcome to the sixth edition of Perspective – our newsletter. It has been a busy start to 2023 at Keystone with markets continuing to be choppy and a Spring budget that has raised more questions than answers. Pleasingly though, many of you have been kind enough to introduce friends, family and colleagues resulting in some positive conversations.

It was also great to see so many of you support our Charity Concert at the World Heart Beat Music Academy's stunning new venue at Embassy Gardens back in January. For those of you who missed it, do take a look at their programme of events over the rest of this year (https://worldheartbeat.org/whats-on/), it is well worth visiting their new state of the art auditorium which is the first to be built in London in over 15 years. World Heat Beat is also a very worthy charity making a huge difference to young lives through music. If you are interested to learn more about the amazing work they do you can read all about it on their website or ask one of us when we next meet.

In this edition of Perspective, Chris Lewis and Henry Johnstone of Cazenove Capital have provided a macro economic outlook along with some thoughts on how they are positioning client portfolios, we take a closer look at the recent Pensions reforms announced by the Chancellor in his Spring Budget, Charlie Fowler of Collyer Bristow explores the effective use of Residence Nil Rate Band in Estate Planning, Edward Towers of Aykroyd & Co offers guidance on investing in Prime Central London property and John Mayhead of Hagerty International shares his thoughts on the evolving state of the Collector's Car market. As ever, we are extremely grateful to all our guest contributors for their contributions. If an article piques your interest and you would like to learn more, please get in touch with us. As always, we welcome your feedback on this newsletter and indeed previous editions so please do not hesitate to drop us a note with your thoughts at help@keystone-capital.co.uk

With summer only around the corner we hope there will be plenty of opportunities to catch up in person with many of you over the coming months. In the meanwhile, we trust you will enjoy reading the updates in this edition of Perspective.

Samik & David

Markets rally despite a volatile quarter

BY CHRIS LEWIS, HEAD OF INVESTMENT STRATEGY
& HENRY JOHNSTONE, PORTFOLIO DIRECTOR AT CAZENOVE CAPITAL

www.cazenovecapital.com

As the first quarter of 2023 draws to a close, the outlook for the global economy is better than we forecasted at the end of 2022. Economic activity in both the US and Europe has been relatively resilient, primarily due to lower energy prices and the Chinese economy reopening sooner than anticipated. However, more recent developments in the global banking sector have complicated the picture – and introduced more uncertainty over the direction of monetary policy. The Federal Reserve and other central banks have to chart a difficult course between continued inflationary pressures on the one hand and potential threats to financial stability on the other.

The first quarter was marked by elevated volatility and distinctive challenges for investors, both of which we expect to continue as we move through the rest of the year. As Warren Buffet noted, in these market environments: "the most important quality for an investor is temperament". We continue to actively assess the economic and market environment to understand the risks and opportunities that may arise.

ECONOMIC OUTLOOK

At a headline level, inflation continued to decline during the quarter as energy and food prices fell. The pace of change has, however, been slower than investors were expecting, as inflationary forces have proved more persistent. Robust labour markets and continued consumer spending both have driven a continued rise in prices for many services. Certain economies including the UK have also had to contend with continued rises in food prices, resulting in a surprise increase in headline inflation in March.

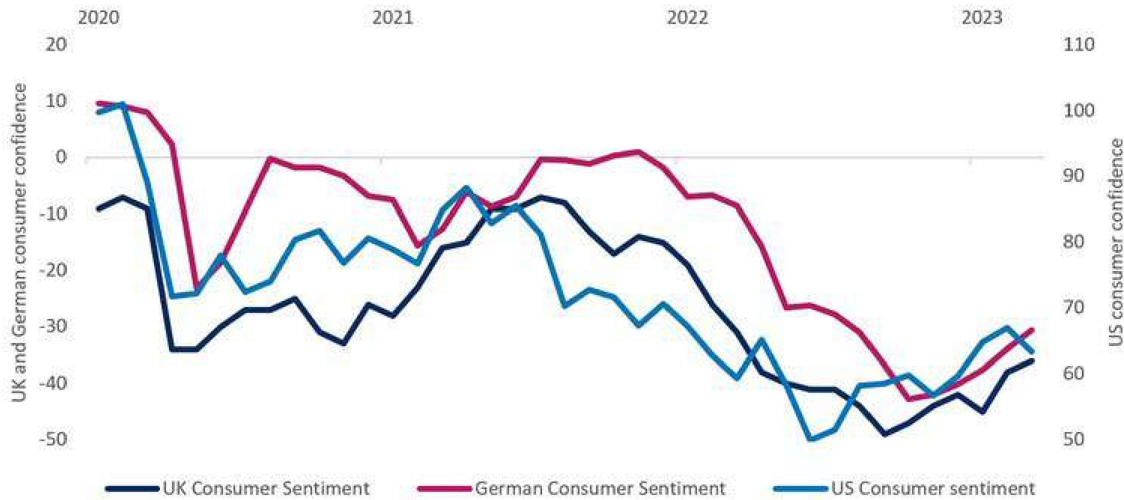
The global economic growth outlook improved over the first quarter.

The sudden relaxation of China's Covid restrictions and re-opening of the world's second-largest economy should support both domestic Chinese growth and the global economy. China's household savings grew by $2.6 trillion in 2022. As normal patterns of behaviour and consumption return, this should fuel higher levels of spending. Historically, an improving Chinese economy has been positive for manufacturing activity in Europe and the US.

In Europe, a relatively warm winter has meant that the threat of an energy crisis has been avoided for now and the near-term economic outlook has improved.

Given the improved growth outlook and expectation of lower inflation, consumer sentiment in Europe, the UK and the US has started to improve, albeit from a low base. This is an important consideration in service-led economies.

CONSUMER SENTIMENT IS PICKING UP



Source: Refinitiv Datastream

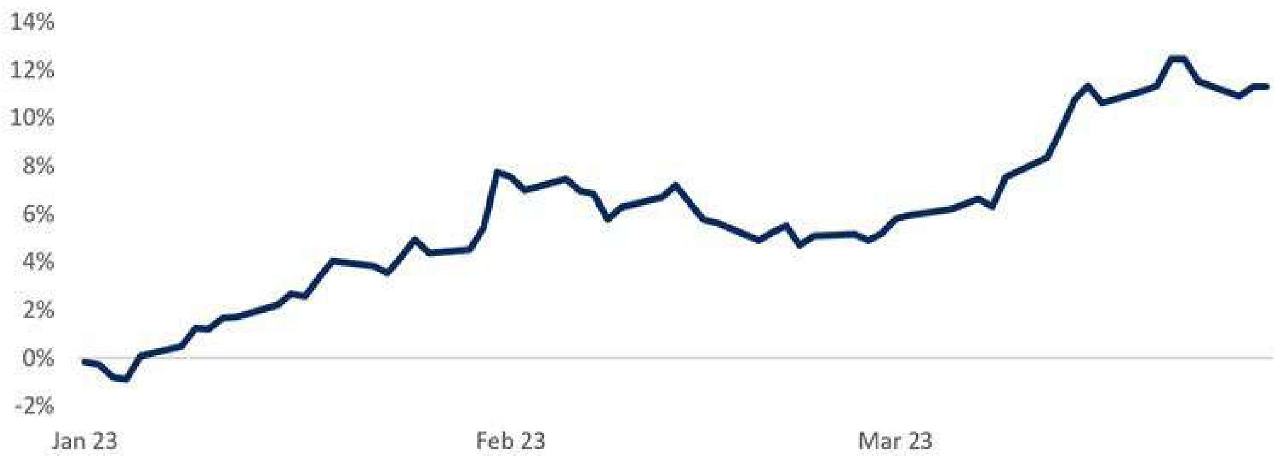
While the outlook has improved, the banking crisis shows that risks remain.

We believe that systemic risks to the banking system are relatively low and that the difficulties at Silicon Valley Bank and Credit Suisse were a result of a loss of confidence in institutions with idiosyncratic risks. Even so, recent stresses in the sector could increase the probability of an economic slowdown and recession, especially in the US.

As we move into the second quarter, uncertainty remains over the direction of monetary policy as the Federal Reserve and other central banks assess the outlook for inflation and risks to financial stability. Markets have been quick to assume that banking sector stress will push the Federal Reserve to cut interest rates. In our view, recent events could see interest rates peak sooner and perhaps at a lower level than previously anticipated. However, we believe that the Federal Reserve and other central banks will be very reluctant to cut interest rates until they consider that inflation is clearly under control.

REVIEW OF QI 2023

Overall, the first quarter was positive for risk assets, with investor sentiment supported by the better economic outlook, falling inflation and the expectation of a peak in interest rates. Global equities ended the period up 5.3%. However, the headline number masks significant volatility and a shift in market leadership as a result of changes in interest rate expectations.



January	**February**	**March**
• Brighter growth prospects •Headline inflation falling • Interest rate expectations fall • Government bond yields fall • Equity markets rise and growth outperforms value	• Inflation proves resilient • Federal Reserve remains hawkish implying continued rate hikes • Interest rate expectations rise • Government bond yields rise • Equities fall and value outperforms growth	• Interest rate expectations fall again due to the problems in the banking sector and perceived threats to financial stability • Growth equity re-takes leadership • Government bond yields fall

Bond yields fell in January as investors anticipated a peak in interest rates and in March when they started to anticipate interest rate cuts. In both periods, growth equities outperformed. However, bond yields rose over concerns about a continued hawkish policy in February. Value sectors briefly regained their leadership.

SO, HOW ARE WE POSITIONING CLIENT PORTFOLIOS AT CAZENOVE?

In this environment, we do not feel that it is appropriate to take large bets within our equity allocation on either style or region. We remain focused on identifying high-quality companies with strong balance sheets.

As was the case for much of 2022, the performance of equities and fixed income assets remained closely correlated. Overall, both government bond and credit markets delivered positive returns over the period, with gilts rising 2.3% and UK corporate bonds advancing by 2.4%.

We increased our exposure to government bonds during the quarter. Valuations look more attractive following the re-pricing we saw last year, and we believe the defensive characteristics of government bonds should re-assert themselves as inflationary pressures continue to fall, offering a hedge against the potential for a more meaningful growth slowdown.

Within alternatives, broad commodities declined over the quarter, with the Bloomberg Commodity index falling 8.4% as oil and gas prices continued to adjust to lower-than-expected demand. We remain happy to hold commodities both in the near term as a hedge against further energy market disruptions and longer term to benefit from increased demand for metals to support the energy transition, in an environment where supply is constrained. Within the commodity complex, gold demonstrated its more defensive characteristics, performing strongly in March as investors sought out safe havens amidst banking sector stress. We are maintaining our gold exposureas part of our blend of defensive assets.

Chris Lewis is Head of Investment Strategy at Cazenove Capital and has been with the firm since 2010. He has a degree in History from Cambridge University, a Diploma in Business and Management from the Judge Business School and holds the CISI Masters in Wealth Management. Henry Johnstone is a Portfolio Director at Cazenove Capital, managing portfolios for private individuals, trusts and charities. Henry holds the CISI Chartered Wealth Manager qualification and graduated from Durham with a BA (Hons) in Geography.

Pensions reforms, so what has changed?

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The recent budget was widely reported by the financial press to be a seismic event for pensions tax which would greatly benefit the wealthiest 4 per cent of Brits, and it did indeed see the most significant changes since the pension freedoms were announced back in 2014. It even prompted the Labour Party to respond within 24 hours and pledge to reverse the changes if they were elected to government! But the reality is a lot more complicated, and it is simply not possible to channel significant wealth into pension pots very easily. It does however bode well for a small number of high earners who might find themselves in a fortunate position to accelerate savings for retirement. This was certainly not the Chancellor's intentions when he announced these changes, which were primarily to encourage doctors in the NHS to continue in work for longer. Let us then take a closer look at what was announced and what this might mean in practice.

LIFETIME ALLOWANCE

What did the Chancellor say?

"Some have also asked me to increase the Lifetime Allowance from its £1 million limit. But I have decided not to do that. Instead, I will go further and abolish the Lifetime Allowance altogether. It's a pension tax reform that will stop over 80% of NHS doctors from receiving a tax charge, incentivise our most experienced and productive workers to stay in work for longer and simplify our tax system, taking thousands of people out of the complexity of pension tax."

What does this mean in practice?

Currently there is a Lifetime Allowance (LTA) of £1,073,100 on an individual's combined pension pot. Any amount in excess of this sum would have been subject to an LTA charge on the excess of 55% if taken as a lump sum withdrawal or 25% if taken as an income. The budget paperwork confirms that the LTA charge will be removed for the 2023/24 tax year. The LTA will then be abolished altogether from April 2024 in a future Finance Bill.

Additionally, the Pension Commencement Lump Sum (PCLS or more commonly referred to as the tax-free lump sum) will also be affected. Previously, this had been capped at the lower of 25% of the fund value or 25% of the available LTA at the time this is taken. Going forward an upper monetary cap of £268,275 (25% of the current LTA) will apply to the PCLS and will be frozen at this amount. However, those who already have a protected right to take a higher PCLS will continue to be able to do so. Where the excess amount over the LTA is paid out as a lump sum, instead of the 55% tax charge that applied previously this payment will now be taxed at the individual's marginal rate of income tax.

Removal of the LTA also begs the question if there is a net benefit to be made. For someone who is a higher rate taxpayer now and will remain so in retirement, if any additional contributions made will not benefit from a PCLS then it could be a cost neutral exercise for them. It would cost them £60 to get £100 in a pension, and when taken if taxed at 40% they would get their £60 back assuming no growth. This would still be better than the current rules where if they had the 25% LTA charge applied they would have received £45 back. The only obvious benefit for a higher rate taxpayer to continue funding beyond the current LTA would be the potential of gross roll up of any growth free of taxes within their pension.

However, if they were basic rate taxpayers in retirement, under the new rules with no LTA charges this would return them £80 (a 33.33% return). This needs to be carefully weighed up as the chances would be that a pension pot of this magnitude is very likely to propel them into the higher rate tax band.

There may also be other matters such as IHT planning to take account of, but this would then depend on the beneficiaries' marginal rates of taxation.

ANNUAL ALLOWANCE

What did the Chancellor say?

"I have listened to the concerns of many senior NHS clinicians who say unpredictable pension tax charges are making them leave the NHS just when they are needed most…I do not want any doctor to retire early because of the way pension taxes work. As Chancellor I have realised the issue goes wider than doctors. No one should be pushed out of the workforce for tax reasons. So today I will increase the pensions annual tax-free allowance by 50% from £40,000 to £60,000."

What does this mean in practice?

Annual Allowance (AA) is the maximum amount of pension contribution that an individual can make in a given tax year and benefit from tax relief at their highest marginal rate. This allowance has been raised from £40,000 to £60,000. Quite simply this means it will be possible for the majority of high earners to contribute more into pensions from 2023/24. For those with defined contribution pension plans (such as a Personal Pension or a SIPP) this will give them a higher value of total pension contributions that can go into their pensions from them, their employers or a third party paying on their behalf. With corporation tax changes also on the way from 2023/24, this may make pension contributions even more attractive for those companies that will be paying higher corporation tax rates as any contributions they make into employee pensions will attract corporation tax relief.

TAPERED ANNUAL ALLOWANCE

What did the Chancellor say?

Nothing specific was mentioned by the Chancellor in his speech. However, the Tapered Annual Allowance minimum will be increased from £4,000 to £10,000 and the adjusted income limit from £240,000 to £260,000 from 6 April 2023.

What does this mean in practice?

Currently the full Annual Allowance (AA) can be limited for those with a high income. For adjusted income (income including any employee & employer pensions contributions) in excess of £240,000 the AA drops by £1 for every £2 earned over this limit until it reaches a minimum taper of £4,000. This has meant that anyone with adjusted income over £312,000 had previously been limited to a maximum contribution of £4,000.

The good news for the high earners is that tapered annual allowance will increase by 150% from £4,000 to £10,000. From 6 April 2023 taper will start to apply for an adjusted income in excess of £260,000 with minimum tapered level being reached for an adjusted income of £360,000. For those with income over £360,000 and hoping to build up their pensions further, it will continue to be difficult to do so in any significant way, albeit the situation is marginally better now.

MONEY PURCHASE ANNUAL ALLOWANCE

What did the Chancellor say?

Nothing specific was mentioned by the Chancellor in his speech. But the Money Purchase Annual Allowance (MPAA) will be increasing from £4,000 to £10,000. This is part of the measure to encourage older workers back to employment.

What does this mean in practice?

Once someone has started taking benefits from their pension (ignoring the PCLS or tax-free cash sum) such as a regular income or ad hoc withdrawal, the Money Purchase Annual Allowance (MPAA) is triggered. This means they can still contribute into pensions tax efficiently (for example from a part time job) but could only do so up to a maximum amount of £4,000 p.a.

Once again, there is a bit of good news for anyone who has already triggered the MPAA. From 6 April 2023 the amount they can pay into money purchase pensions is increasing by 150% to £10,000. This will still apply on total contributions from them, their employers or a third party paying on their behalf.

FIXED PROTECTION

What did the Chancellor say?

Nothing specific was mentioned by the Chancellor in his speech.

What does this mean in practice?

Whilst the Chancellor has abolished the Lifetime Allowance LTA, there will be some individuals who have built up their pensions some years ago under a different and more generous set of pension regulations that existed at the time, and they will likely have applied for and secured Fixed Protection certificates from the HMRC to preserve a higher LTA and PCLS (typically 25% of this higher LTA).

With the LTA being abolished, they can once again start contributing into pensions if they have relevant earnings and can afford to do so. It is, however, important to recognise that any new contributions will result in loss of the existing Fixed Protection, and this would affect the amount of PCLS (tax-free cash sum) they can take as there is now a limit of £268,275, which is invariably lower than 25% of any previously protected LTA. In addition, the Labour Party have already pledged to reverse these changes if they were elected to government. With such high levels of uncertainty over the future of the pensions regime, it would take a brave person to risk losing their existing fixed protection for the relatively small gains they would stand to make through tax reliefs on any new contributions.

The devil will be in the detail of the Spring Finance Act on the LTA charge change and the future Finance Act that will deal with the LTA abolition. One thing is clear though, pension planning has just become even more complex and nuanced, as if that was lacking in the first instance.

There has also been a fair bit of commentary on the beneficial Inheritance Tax (IHT) status of pensions and how the wealthy may now be able to avoid even more IHT by squirrelling away further funds into their pensions. This is a whole topic in itself but the reality is that for a host of reasons, some covered here already, it may not be as feasible or practical to achieve such an outcome in any truly impactful way.

Needless to say, the complexity means that it will affect every person in a slightly different way depending on their existing pension situation, any fixed protections they currently have in place as well as their personal circumstances and evolving tax position now and in retirement. Over the coming weeks and months as more detailed information becomes available on this, we will be reviewing what this all means for our clients individually. If you have any questions regarding your pensions, we would highly encourage you to seek professional advice if you have an existing financial adviser or alternatively, we would be happy to hear from you.

Residence Nil Rate Band – Effective use in Estate Planning

BY CHARLIE FOWLER

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Introduced in 2015, the residence nil rate band (RNRB) has been the sole significant extension to the inheritance tax (IHT) allowance in the last decade. Currently, it gives an individual up to £175,000 of additional tax-free allowance, broadly where a qualifying residential property passes to a person's lineal descendants on their death.

As with the standard nil rate band (which has been fixed at £325,000 since 2009 until at least 2028, bringing an increasing number of estates within the scope of tax), any unused RNRB can be passed to a surviving spouse, providing an estate with up to £350,000 of RNRB allowance on second death. This allows an additional tax saving of up to £140,000.

Although the RNRB is an increasingly well-established part of estate planning, there are still pitfalls which individuals should be aware of, to ensure that they can use the RNRB successfully when passing wealth to the next generation.

USE OF DISCRETIONARY TRUSTS

For various valid reasons (tax-efficiency, flexibility, asset protection) discretionary trusts are frequently used in Wills and, equally frequently, the beneficiaries of such trusts will be the lineal descendants of the testator.

However, where a residential property passes into a discretionary trust on death, and even where the only beneficiaries are lineal descendants of the deceased, the IHT rules prevent the RNRB from applying. This is because the property must be 'closely inherited' on the relevant person's death, but an appointment out of a discretionary trust will not satisfy this requirement. The result? A significantly increased tax burden for the estate.

Fortunately, help is at hand. Where an appointment is made out of a discretionary trust within two years of the testator's death, and provided certain conditions are satisfied, an election may be made so that the appointment is considered to have taken place directly under the Will . Therefore, if the trustees appoint the qualifying residential property to a lineal descendant within two years, this is considered to be sufficiently 'closely inherited' under the RNRB rules, meaning that the additional allowance can be used.

RNRB THRESHOLD

Higher value estates cannot claim the RNRB. For estates valued above £2m, the RNRB will taper down by £1 for every £2 above that £2m limit, meaning that any estate worth £2.35m or more will lose the RNRB completely. It is understandable therefore if wealthier individuals think that the RNRB is not relevant for them. However, that might not be the case.

If an individual makes a gift prior to their death, broadly speaking they need to survive that gift by seven years before the gifted asset falls out of their estate for IHT purposes. However, slightly curiously that seven year rule does not apply for establishing the availability of the RNRB. For example if someone with a £2.35m estate makes a £350,000 gift immediately before their death, their taxable estate for IHT purposes will still be £2.35m, but the RNRB allowance can nonetheless be fully available.

DISCLAIMERS / DEEDS OF VARIATION

Other weapons in the armoury include disclaimers and deeds of variation.

Where a residential property passes to an heir who is not a lineal descendant of the deceased, the RNRB will not be available. However, if circumstances allow, that heir can renounce or disclaim their benefit so that the property devolves to a lineal descendant who is next entitled to the property under the Will. This can bring the RNRB into play once more.

Similarly, another option could be to amend the deceased's Will by deed of variation. As with a disclaimer, this must be done in writing within two years of the testator's death, but the effect is that the variation is treated as if it were effected in the original version of the Will . Where circumstances allow, this can allow the RNRB to be available where previously it was not.

CONCLUSION

The RNRB is a beneficial but also a complex (some would say unnecessarily so) tax-saving device. There are several ways in which the rules can restrict the eligibility of the allowance, but through careful estate planning (before or after death) it is possible to mitigate these risks and to navigate around the pitfalls. As ever, careful advice can lead to a valuable saving down the line, both for a deceased's estate and for the generation that follows.

Charlie Fowler is a Senior Associate in the Trusts, tax and estate planning team at Collyer Bristow providing a wide range of private client tax advice and personal and corporate immigration advice to domestic and international clients. Prior to this he trained at Speechly Bircham. Since 2018 he has been a STEP Tax and Estate Practitioner

A Guide to Investing in Prime Central London Property

AYKROYD & CO

www.aykroydco.com

With so much global change it is more difficult than ever to reliably forecast the direction of markets, and the Prime Central London (PCL) residential property market is no exception. This is why Edward Towers of Aykroyd & Co, a UK buying agency that specialises in London residential property, has developed guidelines to help his clients futureproof their property investments.

"The PCL residential property market is extremely complex and competitive" says Edward. "Investing with much noise in the UK press naturally entails some risk, but it also offers the potential for significant rewards. Savvy investors can protect themselves against a changing market by seeking expert advice and following a few key rules.

WHY PCL?

The market has changed dramatically over the last decade, since its peak in May 2014, with factors such as the Scottish Referendum, Brexit, the threat of a Labour government and finally Covid disrupting the market. The first three had a negative effect on values driving them down 15-20% in PCL whereas after an initial pause Covid was a driver upwards for house prices as families realised they needed more space. For the first time in years, the domestic market was leading the charge in PCL. We are now in a two-tier market where the best blue-chip country or town houses at any budget are still going for strong prices and yet the mainstream markets have cooled slightly (although still above pre covid levels) as the costs of living and higher mortgage interest bites and more properties come to the market.

London will always be a magnet for global investment. From an international perspective, London continues to offer some extraordinary advantages: excellent schools and medical care, a straightforward and trustworthy legal system, political stability, low crime rates, a central location and time zone and superb cultural offerings. It is a secure, open, cosmopolitan English-speaking city, and it still offers asset protection to investors from less stable environments around the world, which means property in London will continue to hold its value far into the future.

Edward says "In recent times, we have seen a huge uptick in buyers from Hong Kong, Brazil and South Africa who are seeking to diversify away from home due to political instability. The UK and London in particular is always their first choice and the recent weakness of the Pound has added to the attraction".

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BUY BEST IN CLASS

"Whatever the market conditions, we always advise our clients to buy only best in class or blue-chip properties," explains Edward. "These tend to be liquid even in a downwards market and still achieve strong values whilst appreciating at the highest rates in a rising market."

Any sensible investment made in a blue-chip property should reap rewards as a result. Conversely, the danger in a secondary or tertiary property is one can over capitalise the property where perhaps a basement has been added to a house on a street where such things are not common, as a result the value becomes too high for the street, and you have to sell at a discount per square foot.

So, what constitutes a best-in-class blue chip property?

There are best in class properties at all levels, they are not just in Prime Central London. Location is obviously key, as are elements that cannot easily be changed – such as ceiling height, garden aspect etc. Certain squares and roads – even certain sides of certain squares or roads – are especially coveted, as perhaps the gardens are bigger on one side or face the right way for maximum sunlight.

"There is an especially low supply of best-in-class properties. Stock levels are not going to change especially in the ultra-competitive family house market where buyers move for the long term and schools also have an impact on decision making" advises Edward.

Prime Central London's residential property market is complex and competitive in the extreme. Although it may look at first glance that there are plenty of properties available, there is actually a very low supply of best-in-class properties, and for these there are often highly competitive bidding situations with multiple buyers and a fairly strong pound per square foot (psf) achieved. For example, the best houses on communal gardens in Notting Hill are now trading as high as £4,500 psf when pre Covid they were £3,000 psf.

BUY AT THE BEST PRICE

In today's climate, most sellers are quite motivated because if they weren't motivated, they would not be selling in the first place. There is very little debt in PCL (a recent survey showed only circa 30% of owners had a mortgage which is the opposite to the rest of the UK). For this reason, negotiation plays a massive part in achieving the best possible price.

BUY SMART

Expert structuring of transactions is another essential when it comes to navigating the London property market. Stamp Duty Land Tax (SDLT) has been steadily increasing since 2014 but London is still ranked only 9th in the world overall in terms of the cost of buying and holding property.

"We always recommend buying unmodernised properties where possible, as the lower purchase price obviously means a lower SDLT and the saving can be spent on your dream fitout" says Edward. "Although it must said that since the war in Ukraine and in the aftermath of Brexit, build costs have increased up to 30% as both shortage of labour and materials take their toll."

When purchasing flats, buyers should not overlook short and mid-term leases. This is because they will have the right to renew almost all leases either now or in 2 years' time, and the SDLT could be significantly lower as they are two separate transactions at lower values than on the same flat with a long lease or share of freehold. It is essential to have professional advice on such a purchase, but the potential rewards can be huge as most of the market don't understand them. Also, it is worth noting that investors in residential blocks of more than six properties will have the option of paying commercial rates of SDLT which is significantly less than residential.

Buying properties held in corporate structures can minimise or negate any SDLT outlay, however, there are other taxes to be aware of, and the legal and other professional fees involved in the acquisition are higher than for an average purchase therefore it only suits some buyers.

BUY TO HOLD

Property should never be a short-term investment and in today's climate it is wise to look at a minimum 5 year and ideally 10+ year hold period to mitigate the variances in the market and SDLT outlay. This means investors should only buy properties they are comfortable holding for a long time.

"If clients are buying for their personal use, we challenge them as to what exactly they need out of this house, both in the short and long term," says Edward. "We often mediate and find common ground between couples. What is most important? Transport links, schools, amenities, gyms, airport, room for an expanding family, parking, lift, porter etc. You have to imagine your needs well into the future. This would avoid the need to move again and incur associated costs."

An experienced buying agent will help investors find properties that are truly best in class and identify and meet an investors longer term requirements. More often than not they are able to use their vast network of contacts to arrange viewings of properties that are not available on the open market. They can also help an investor negotiate firmly given their thorough knowledge of the market to secure a sensible purchase price. For all of these reasons, it is worthwhile engaging with a buying agent when purchasing a property as an investment. After all most people seek professional advice when making more traditional equity & bond market investments and so why should they not take a similar approach for what is effectively a sizeable investment.

Edward Towers is an experienced agent and a Chartered Surveyor practicing in London for nearly 20 years. He is able to use his analytical surveying skills to good effect with an emphasis on adding value through refurbishment, development, and short leases. His experience and strong connections in this highly competitive marketplace helps him source the right property, negotiate the best price for his clients, and closely monitor each transaction from start to finish.

Smiles per Mile

BY JOHN MAYHEAD

www.hagerty.co.uk

I recently wrote an article with a colleague at Hagerty about the rise of the Ferrari Dino 246 and the relative fall of the 365 GTB/4 Daytona. He was amazed that the slightly older car, with the legendary V12 Colombo engine purring under the bonnet and with proper racing history was dropping in value while its younger sibling with half as many pistons was shooting up in price.

I wasn't surprised. There's been a fundamental shift in the classic car market over the past few years, and the rules have changed. Unlike my co-writer, I am Gen X, born in the seventies. I had a poster of a glistening black Porsche 911 Turbo on my wall, watched Don Johnson drive a white Testarossa through the pink-lit streets of Miami and yearned after the Alfa Romeo GTV6 that my rich friend drove. My generation is now in their 40s and 50s, and we've reached peak earning potential; many of our kids have left home, our garages are empty and our hearts are now aching for us to relive our youth. What better way than by driving the cars we lusted over.

Photo Credit: Jamie Lipman for Hagerty

The UK Hagerty Price Guide is now in its 12th year of production. Updated quarterly, it tracks the values of around 15,000 year, make and models of classic and collectable cars from 1907 through to the present day, and it shows that the change in car values has happened really quickly. Take three cars that used to be the mainstays of the British classic car world, the Aston Martin DB5, the Jaguar E-Type Series I OTS and the MGB Mk I roadster. In the last five years, the average Hagerty value of the DB5 is down 16% (avg £608,713 to £510,000), the E-Type is down 17% (avg £110,075 to £91,250) and values for the MGB are totally static at £15,875. Factor in inflation, and that's a big hit on prices.

Now look at some of the newer cars. In the same period, the Ferrari F40 is up 106% (avg £1,027,500 to £2,125,000), the Sierra RS500 Cosworth up 67% (from £61,975 to £103,300) and even the lowly VW Golf GTI Mk II 16V is up 13% (from £13,375 to £15,100). These may be extreme examples, but there are plenty more of them: in general, more modern classic car values have been rising, fast.

With such a bull section of the market, I'm often asked if there is an opportunity for investment. On the one hand, cars are very easy to buy, any increase usually doesn't attract capital gains tax and they can be disposed of relatively easily should the need arise but it's a tricky path. For every F40 soaring in value, there's another eighties classic that remains static in value. Also, the very ease of purchasing means that there's more risk taken: to purchase a £1M house you need weeks of searches, assessments and legal agreements. To purchase a £1M car, you pay your money, sign the V5C and away you drive. To buy a valuable painting, handbag or watch, you confirm the provenance and agree a price. But a car, built with thousands of different parts that have often been replaced over the years, is almost impossible to inspect fully unless you dismantle the engine and remove the paint. Plus, you need to know which version of a particular car is the collectable one: a first series 1977 Lamborghini LP400 can be worth around three times that of the 1978 LP400S model. Now, there's a lot of information out there on the internet and in Whatsapp groups, but unless you live and breathe a particular model, there's always risk involved in buying a car.

Photo Credit: Silverstone Auctions. Sold at The Race, Retro, Classic & Competition Car Sale on 25th February 2023 for a sum of £590,500

My advice is simple: go for the biggest smiles per mile and you won't go far wrong. By this, I mean buy the car you love and suits your life: if you've lusted over a convertible to drive on winding country roads or if you want something like a camper van that can take your whole family on adventures, then there will surely be someone else who matches your wants when you come to sell. Still do your due diligence before buying but try not to worry too much about the value increasing; focus on that and the soul is removed; the whole point of owning a classic. If the price goes up and you cover your costs, then that's a bonus for the future you.

That's why I think the 246 Dino has risen so much in value. It may be less powerful than the Daytona, but both would today be outmatched by any competent modern performance saloon, and just look at it: nimble, undeniably beautiful and with a sound that makes heads turn from twenty paces. Smiles per mile? That thing has it in spades.

John is the Editor of UK Hagerty Price Guide and European Bureau Chief for Hagerty Insider. He has a monthly market analysis page in Classic Cars magazine, often features on the This is Money website and is the UK's leading commentator on classic car values on TV (BBC, ITV, GB News), radio, podcast and vlogs. His book Goldie, the biography of speed-record driver Goldie Gardner, is to be released this year and he is also a concours judge at various prestigious international events.

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