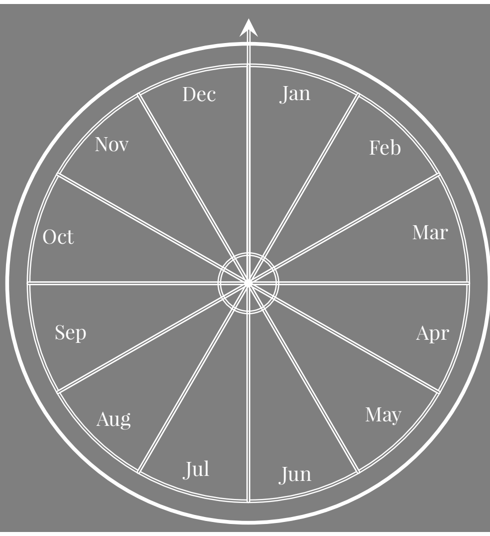

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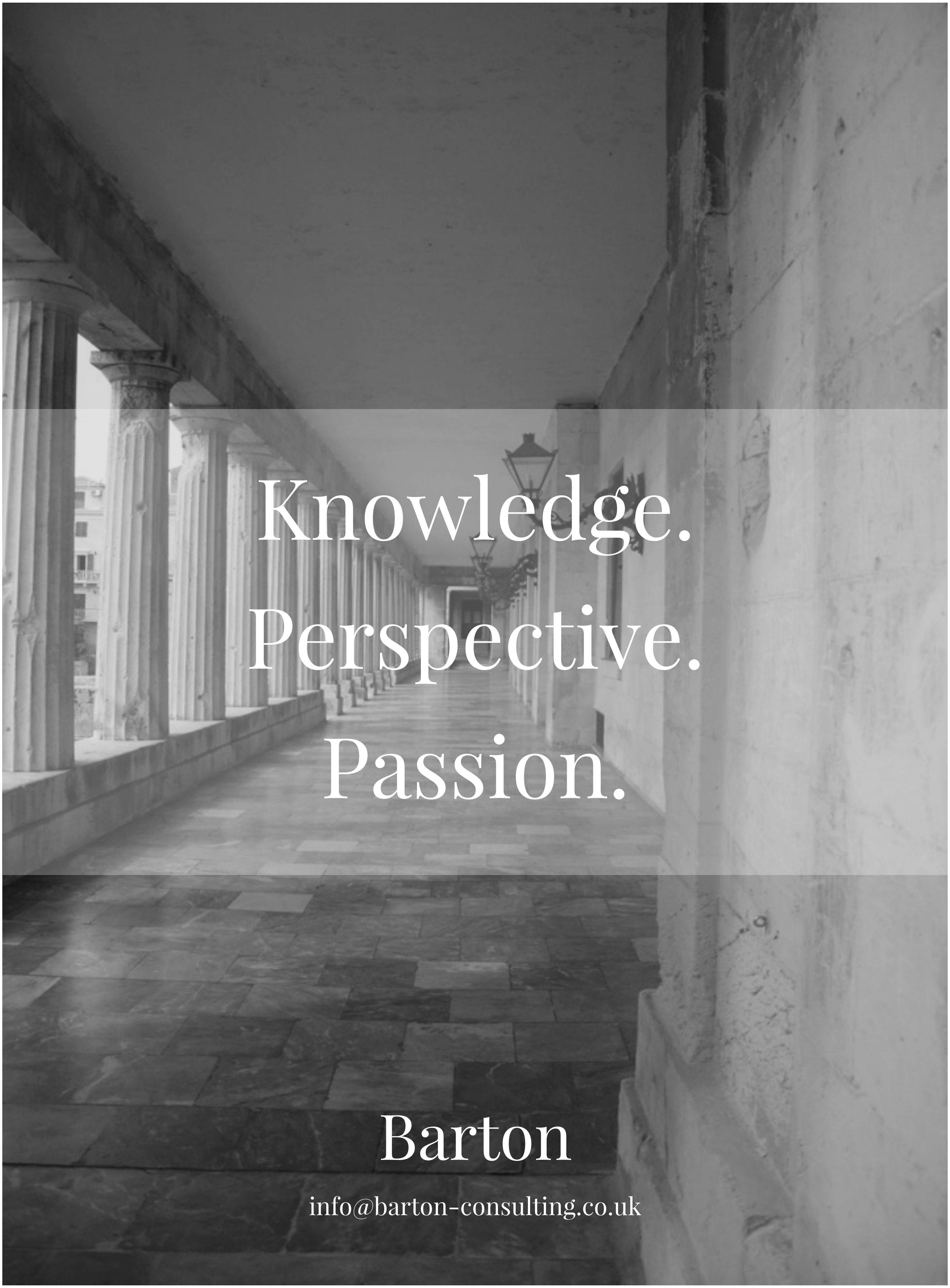
Knowledge.
Perspective.
Passion.
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GILDED VALUES

An HBO production called *The Gilded Age,* produced by *Downton Abbey* creator Julian Fellowes, is well into its second season. And between the bustles, petticoats and straw boaters there is some genuine history on display. The series is set against the backdrop of, er, The Gilded Age, which began in approximately 1870 and carried on until just before the First World War. This era is famous for great advances in industrialization and transportation, for immigration and labour movements and for technological invention and innovation. It is also an era synonymous with wealth: colossal amounts of wealth.

The main theme of the production is the accurate depiction of the struggle for social recognition by newly wealthy 'robber barons' and their families, and the resistance to this by 'old' money families who traced their positions in high society to before or around the time of the American Revolution, which, we must remember, was barely a century before. It is this pettiness which captures the era so well, and provoked some of the most astonishing deployments of capital yet seen.

The wealthy of 1880s New York – where this series first enters – had but a few tools to display their success and power and receive acceptance: business dominance, philanthropy - and real estate. Later, the battle amongst the ultra-wealthy to build ever larger and more luxurious steam yachts (a battle which carries on around the globe to this day) would also feature.

Dominance in business was no guarantee of social acceptance, however. Despite 'Commodore' Cornelius Vanderbilt's complete supremacy in railroads and steamships in the first decade of the era, he was socially unacceptable, known for his vulgarity, poor manners and groping hands.

When he died in 1877, the Commodore was, at the time, the richest man in America with a fortune of $105m and – save for some royals – likely the wealthiest man in the world.

This brings us to a point about evaluating wealth from this era in current terms. Although many wealth comparison authorities use the 'real wage or wealth value' measure, it is better to look at such wealth relative to total economic output – 'relative output.' This shows the relative "influence" the owner of this wealth has within the economy, using their share of GDP.

As an example, Elon Musk – the world's wealthiest man in 2023 - currently has a fortune of around 1.06% of US GDP ($245bn of $23trn). In 1877, US GDP was around $8.7bn so the Commodore's fortune was similar, around 1.2% of GDP. As a 'relative output' estimate, this fortune would be around $304bn today, very different to the less impressive 'real wage or wealth' value of $2.8bn.

Philanthropy didn't do Vanderbilt any favours either. In 1873, he donated $1m as a foundation endowment to the eponymous

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Vanderbilt University in Nashville, Tennessee, the largest single donation at that time. Again, though many wealth comparison sites claim this is equivalent to $22m in today's money, as a foundational endowment, this would be nowhere near sufficient. In 1869, Harvard University's *total endowment* was about $2.3m, so a foundation gift of half of that a few years later would be substantially more than $22m in 2023 terms. If we use the 'relative output' value again, this would be around $2.8bn which, given Vanderbilt University's current endowment of $10.9bn, feels a lot closer to today's equivalent of a foundation endowment.

Despite this astonishing philanthropy, the Vanderbilts that came after the Commodore struggled to ingratiate themselves to the old guard, which was led by Caroline Astor, otherwise known as 'The Mrs Astor', who had married into the Astor family – the real estate kings of New York. William Henry Vanderbilt became head of the family after the death of the Commodore – a role he would hold for 8 years, time enough for him to double the family fortune to $200m – around $432bn in 2023 'relative output' terms.

What came next was the use of this colossal fortune by his descendants to buy their way into New York society and, by doing so, change it beyond recognition. The way in which the Vanderbilt children did this was, by and large, to build some of the most spectacular real estate the young country had ever seen. At one stage, the Vanderbilt scions had ten mansions on Fifth Avenue in New York. One of them, built by Cornelius Vanderbilt II – the Commodore's grandson – remains the largest private residence ever built in the city of New York. On its site is now Bergdorf Goodman.

The Russell family of the HBO series *The Gilded Age* are loosely based on the Vanderbilt family and Mrs Russell herself is strongly modelled on Alva Vanderbilt, who married into the family and sought to become accepted onto the Four Hundred list, an exclusive club of elite society controlled almost entirely by Mrs Astor. At the start of the series, the scaffolding is coming down on Mrs Russell's brand new enormous Fifth Avenue mansion. Alva herself built a similar mansion in 1883 on the corner of 52nd and Fifth, at a cost of $3m. Using wealth and income comparisons for such projects is inaccurate and so estimates of it costing $70m in today's money, whilst not a small sum, do not account for all the labour and materials for a three year project. At the time, the cost of the house was also a sensation. The city's most extravagant house until that point had been the A.T. Stewart mansion on 34th and Fifth Avenue, completed at a cost of $2m in 1869, and was considered the most expensive home in the entire country. Given the most expensive homes in the USA, nowhere near as grand, command prices of around $300m, the 2023 valuation of $44m of A T Stewart's 'Marble Palace' also feels inaccurate.

For houses, we should use the 'relative cost' measure, which is measured as a multiple of the resources used in production. For A. T. Stewart's mansion, that would mean the modern-day equivalent of $722m. For Alva Vanderbilt's $3m mansion, it would be around $991m. There is almost nothing to compare to the cost of such buildings today, but the closest contemporary example – using similar materials and techniques – would be the palace allegedly built by Vladimir Putin on the Black Sea, near Gelendzhik in Russia. This was estimated to cost around $956m.

Whilst the mansion buildings of Fifth Avenue were out of fashion by the end of the era, the land on which the Vanderbilts built in Manhattan had massively increased in value. Alas, the same could not be said for Newport, Rhode Island. The little enclave became popular as an escape from broiling city summers and by the 1870s, was filled with New York society for just 8 weeks of the year. They built grandiose mansions on tiny plots next door to one another on Bellevue Avenue with direct frontage onto the Atlantic Ocean. Cornelius Vanderbilt II bought a property on Ochre Point for $450,000 in 1885. Again, CPI led 'real price' estimates that this is around $14m in today's money feel inaccurate. Only the wealthiest in America could get close to buying summer homes of this value, but $14m is now the price for a modest shingle house in the Hamptons.

The likely value of this purchase is closer to the 'income value' – the multiple of average income needed to buy a property, around $165m. If this feels high, consider that when the old house burned down in 1892, Vanderbilt ploughed $7m into constructing The Breakers which has a 'relative cost' today of $2.2bn. Sadly, Newport real estate has declined since the giddy Gilded days. The Miramar, one of the giant Bellevue Avenue 'cottages' sold in 2021 for $27m. A high price, but given its near neighbour, the Marble House, cost $11m (relative cost: $3bn) to build in 1892 and Miramar itself was built at an estimated cost of $2m in 1913 ($475m in today's money), it is a spectacular fall from grace, elegantly revealed by the fact that today's $27m was the equivalent in 1913 of around $142,000, a 90% loss on the investment.

Sector updates

Multi-brand e-commerce giant **Farfetch**, once touted as the Amazon of luxury, has entered choppy waters. At the end of November, it postponed a quarterly earnings report – usually a fairly strong sign that all is not well. Credit rating agency Moody's downgraded Farfetch's rating, pushing it into "junk" territory. Farfetch's share price is now under a dollar, a huge fall from its valuation in 2022 of around $45 a share and a 2021 peak of $70. CEO José Neves is hatching a plan with the company's top shareholders including Alibaba & Richemont to take the company private. Analysts see the immediate problem as a dwindling cashflow, caused by lower fashion and accessories sales, a phenomenon Barton notes that all luxury brands are experiencing, with too much stock and not enough demand. Luxury fashion had become too seductive of, and eventually too reliant on, the type of consumer for whom shifts in interest rates and increases in living costs caused them to slash discretionary spend. And after binging during lockdown, luxury 'stuff' lost more than a little of its shiny appeal.

Image: Farfetch

Saudi Arabia's **Public Investment Fund (PIF)**, never shy of making flashy investments, bought a 49% stake in **Rocco Forte Hotels** and is planning to double the chain's number of properties over the next five years with new hotels in Italy, the US and, naturally, the Middle East. The deal implies an enterprise value of £1.4bn ($1.75bn). PIF's love affair with luxury hospitality brands continues, following minority investments in Habitas (also invested in by A&K Travel Group) and Aman. The Crown Prince Mohammed Bin Salman sees a bright future in Saudi Arabian luxury hospitality, with the Red Sea project, Saudi's answer to the Maldives, opening 16 hotels from brands such as Four Seasons, Rosewood and St Regis. And that's just the start, with a multitude of coastal, inland and mountain hospitality experiences expected, to help reshape the Saudi Arabian economy which has been primarily reliant on the sale and refinement of oil since the middle of the 20th century. That the first Middle Eastern properties will open in Saudi Arabia will be no surprise to Barton, but it does mark a big shift given all its current hotels are in Europe.

Image: Rocco Forte Hotels

Another luxury industry that benefited from the curious era of the pandemic is donning gloomy, grey-tinted spectacles and calling time on its boom years. The luxury watch industry's **Bloomberg Subdial Index** – which tracks a basket of 50 of the most desirable watches in the second-hand or used market - has seen nothing but declines for the last 12 months. Interest rates have hit demand right at the time that supply was increasing, flooding the market with more watches than people wanted, or at least were able to afford, pushing down prices. Just as Rolex was turning its retail stock, Barton notes, into 'Exhibition Only' museum pieces, the reality of the resale market began dressing down such hubris. Since its April 2022 peak, the Subdial Index has dropped a huge 42%. There may be further drops to come, with the Fed's rate cut likely to be May 2024 at the earliest. Subdial found that the slide in the watch market "perfectly" correlated with the Federal Reserve's rate hikes, and so a rate cut is expected to have a positive impact on sales, and eventually prices.

Image: Rolex