



Collector CARS

Investment or Indulgence?

By Richard S. Carey

The collector car market has gone from boom to bust to recovery in the past decade. Meanwhile, dreams of easy riches have withered, revealing a basic truth: the market for collector cars is dominated by enthusiasts who value cars as historical artifacts and sources of recreation. Thus, while those who speculate in old cars occasionally make money, playing the collector car market for profit will probably prove to be a costly fling.

Old automobiles aren't simple investments. Unlike fine art, which does just fine hung on a wall or plunked on a plinth and treated to an occasional dusting

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and insurance premium payment, cars require storage, maintenance and regular exercise. Motivations for playing the old-car game range from possessing that which was unreachable in youth, to enjoying the pastime of restoration and tinkering, to being a part of history by owning a vehicle once driven by Juan Fangio – or even Elvis.

The wide scope here explains many seemingly irrational acts of buyers and sellers. For example, it's not uncommon to see a pristine car, just months out of the restorer's shop, offered for sale. Usually it has served its purpose (getting an invitation to Pebble Beach, Hurlingham or Bagatelle Concours d'Elegance) and is ready to be passed down the chain from a concours-oriented collector to one who will drive it proudly in tours and events. At Christie's recent auction in Tarrytown NY, the owner of a spotless 1957 Thunderbird that had won everything it could win, sold his pride and joy because, "I scraped, sanded, primed, painted and polished every square inch of its undercarriage, and I can't bear to drive it and think about it getting messed up." Presumably, the new owner will have no such qualms.

By the same token, fixer-uppers often bring surprising prices. Bonhams & Brooks sold a neglected Squire roadster at its August 2001 auction on California's Monterey peninsula for \$134,500. Though a beautiful and very rare piece – one of only six survivors – it has little history, and in restored condition it will be worth little if any more than its purchase and restoration cost. Yet for the new owner, the process and the pride in saving,

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and eventually displaying, a nearly unique car is a large part of the ownership equation.

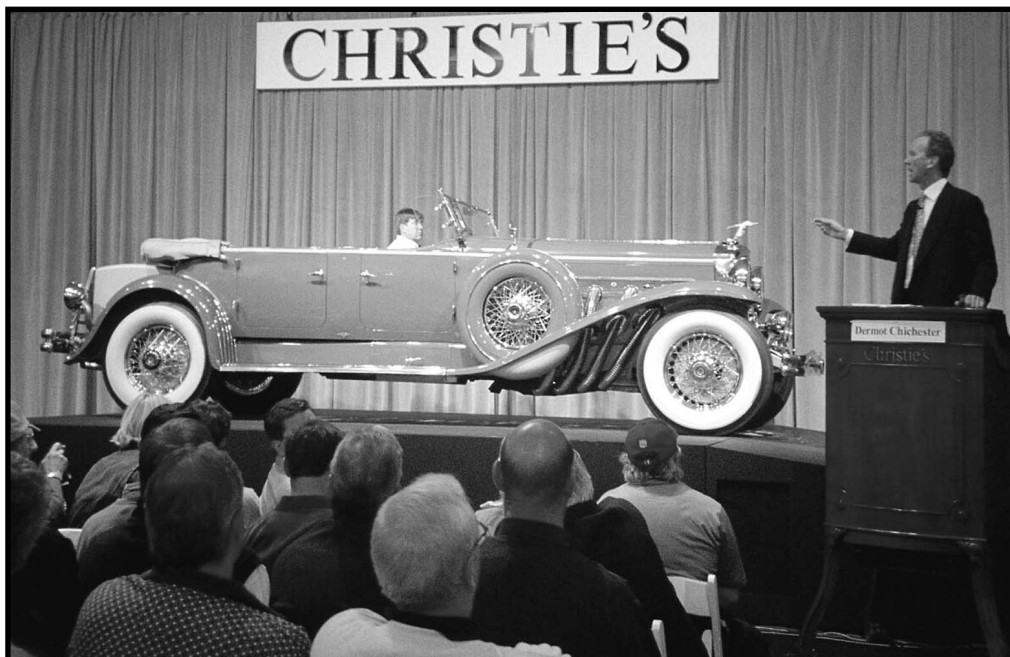
At other times cars sell for far more than comparable transactions suggest they are worth. In one memorable moment last year from the annual Barrett-Jackson auction, a bidder took home a beautifully restored '56 Chevrolet Bel Air convertible for \$86,000 – \$15,000 to \$20,000 more than expected. But those who witnessed the event understand what happened. The successful bidder's wife turned to him with a smile as big as Joe E. Brown's, followed by the most sensual kiss ever seen at Barrett-Jackson.

THE AUCTIONS – A CAPSULE HISTORY

The idea of auctioning collector cars is relatively new. It began in England, where Sotheby's held its first dedicated car sale in the mid-1960s. Christie's followed suit in short order. Parke Bernet began auctioning cars in the U.S. before its acquisition by Sotheby's.

Early auctions were held in cooperation with pioneer collectors like James Leake in the U.S. and Lord Montagu of Beaulieu in the U.K. In the 1960s and 1970s, collecting was a gentlemen's affair with cars trading among a small club-like group. Indeed, until the late-1960s collector car auctions routinely named the cars' purchasers in their published sales results – stark contrast to today's secretive world where anonymous bidders hide behind telephones. David Patridge, former head of Sotheby's car department, marks the February 1979 auction of the collection of Mayer L. "Bud" Cohn in Los Angeles as the moment when the collector car market shifted to a period of serious accumulation.

The market really only became visible to the mainstream media with the sale of the almost mythical collections of Bill Harrah in 1986. Harrah's holdings were vast and eclectic.



tic, from Model Ts to Bugatti Royales. Indeed, so many cars were stuffed into his warehouses in Reno, Nev. there was concern that their disposition would glut the market. Yet Harrah's cars brought high prices that seem barely reasonable even today, creating the core of several storied collections. The last of the four scheduled Harrah's sales, including the best cars in the collection, was never held. General William Lyon bought all of them in a single transaction for some \$29 million.

The Harrah's sale launched a boom that would generate eight-figure prices at the peak. The frenzy was particularly acute for Ferraris. Enzo Ferrari's death in 1988 prompted speculators to bet that someone would pay large premiums for Ferraris manufactured before the company was taken over by Fiat. When it became apparent there weren't enough Ferraris around to satiate speculators' appetites, the mania spread to anything Italian.

But the bubble burst when speculators woke up to the reality that they'd been trading the most pricey cars among themselves. Sotheby's auction of the Rick Carroll collec-

tion in May 1990 effectively marked the end. Christie's managed to eke out a few sales at precollapse prices at Pebble Beach in August 1990, including a unique McLaren M6B GT for \$1.32 million. (The McLaren's buyers were still trying to dig their way out from under it in 1998 when it was offered at RM's Monterey Sports Car Auction, but attracted a high bid of only \$370,000.) Japanese buyers, who had accumulated collections of cars (as well as Impressionist paintings and first-growth Bordeaux wines) on the strength of soaring Tokyo real estate values and easy bank loans, simply vanished. The capital gains that had fueled American buyers dried up.

The market that followed in the early 1990s was so thin that it wasn't uncommon to see good cars offered with no takers. Enthusiasts, who just wanted fun wheels to tool around on weekends, to take to shows, or to race in vintage events, had been priced out of the market. Those who did have serious money to invest had no idea what the cars were worth, and sat on their wallets waiting for enlightenment.

The 1991-93 period was one of retrench-

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ment as prices plunged and the plungers eventually swallowed seven-figure losses. Then, gradually, the market recovered. Today it's surprisingly healthy and active, given the recent softness of the economy.

AUCTIONS TRANSACTIONS

Auctions are the only resource for publicly announced transactions in the collector car market. Experience has shown their results to be consistent, and in retrospect many transactions that were questioned when first reported have stood up well in the glare of hindsight.

The Barrett-Jackson auction is held each January in Scottsdale, Ariz. It began in 1972 and has the longest continuous history under consistent management in the same location. B-J has become known for the catholicity of its offerings and its stature as the bellwether of each year's collector car market. In 2001, its 30th year, B-J sold 83.8 percent of the cars that rolled across its auction block, ringing up a total of \$26.7 million in sales.

B-J's first auction was organized by classic car dealer Tom Barrett and collector Russ Jackson. Held at Scottsdale High School, 40 cars – mostly from Tom's and Russ' own collections – were offered. No one remembers how many were sold, but the auction brought in about \$650,000 (about \$2.8 million in today's money). By the mid-1970s, B-J was doing over \$1 million in sales. Its transactions faltered in the early 1980s, then began to pick up steadily. The graph (page 67) shows results for the past 22 years in both absolute amounts and inflated to January 2001 prices.

In recent years B-J has benefited both from the market's recovery and from Craig Jackson's vision of creating an event around the auction. The auction offers vast numbers of high quality, accessible cars, largely without

minimum-reserve bids. Buyers can feel confident that the cars are really for sale, not brought for show or to create some phony legend by being bid up by shills. The formula has paid off. In 1982 there were 0.92 registered bidders for every car offered. By 1988 that had grown to 1.13. This year there were 3.77 registered bidders per car offered – 3 times as many as in 1988.

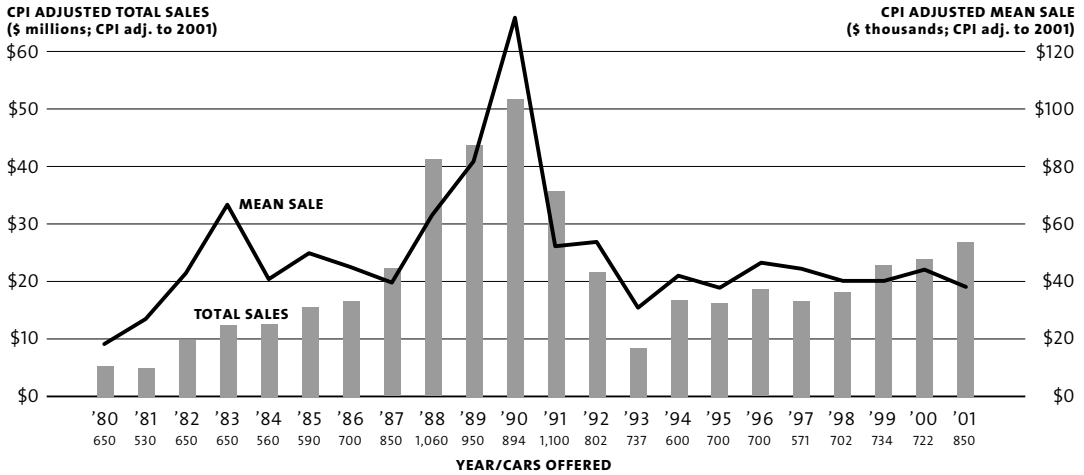
Christie's U.S. sales moved around until management noted the success Rick Cole was having with an annual auction on the Monterey peninsula during the Pebble Beach Concours d'Elegance/Monterey Historic Races weekend. After that, Christie's established its own sale at Pebble Beach in 1990. The market was diving into the previously described crater, but Christie's persistence and deep pockets overcame its bad timing, and "Christie's Pebble Beach" has become a great success. In 2000, it sold 98 of 112 cars offered (including the bulk of two major collections) for a total of \$26.5 million in just over four hours.

Sales at Christie's Pebble Beach are hard to analyze because of the irregular appearance of blockbuster cars and major collections:

- In 1990, 10 cars of only 26 offered were sold, yet nine of them brought over \$250,000 in the last gasps of the late-1980s frenzy.
- In 1995, the "Rimoldi Alfa" 8C 2300 Touring-bodied Spider (sold by Christie's in 1989 at Monaco for – ouch – \$2.958 million) brought \$1.8 million. Raymond Lutgert's parade of 15 spectacular Rolls-Royces, 11 of which brought six-figure prices, added depth. The CPI-adjusted median sale was \$121,200.
- In 2000, a Ferrari 330/P3 (the most voluptuous of all Ferrari racing cars) copped \$5.616 million. Two collections, of Bob Sutherland and Matt and Barbara Browning, made up much of the balance of the sale in which the quality and reputation of their cars

BARRETT-JACKSON AUCTION, SCOTTSDALE, ARIZONA

CPI ADJUSTMENT BASE JANUARY 2001



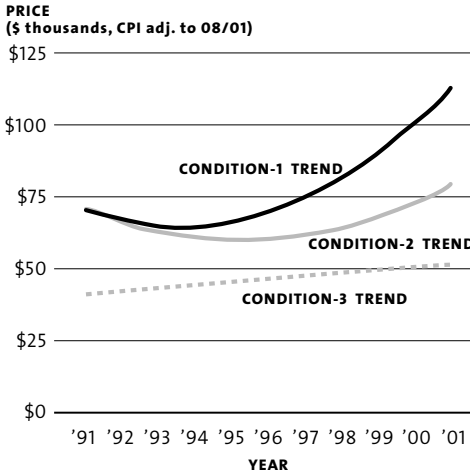
brought outstanding prices. Fifteen cars of the 112 offered brought over \$500,000 each.

- The 2001 auction, the first after the dot-com collapse, brought a return to reality. Cars

consigned were down by 25%. The sale's performance plunged to a 64.7 percent sale rate, in some measure burdened by a collection of Indy cars that attracted little interest. More

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JAGUAR XK 120 ROADSTER PRICES CPI ADJUSTED TO AUGUST 2001



est U.S. market prices in relatively strong U.S. dollars.

At the same time, there remains ample liquidity among collectors for the very best cars. Machinery of impeccable provenance, great beauty, superb condition and technical refinement still draws buyers like bees to nectar. Examples from Monterey are plentiful, whether they are fantastic Ferraris (RM's 410 Sport, the weekend's top sale at \$3.9 million), beautiful Bugattis (Bonhams & Brooks' Type 57S Atalante), marvelous Mercedes-Benzes (Christie's 540K Cabriolet) or famous Ford race cars (Russo & Steele's ex-Bud Moore Trans Am Mustang).

Sales totals are still impressive. But the composition of the sales' consignments has changed to high quality but lower priced models accessible to larger numbers of collectors.

This more diverse market is inherently more stable than one heavily dependent upon a few deep-pocketed collectors and high-rolling speculators.

SELECTED MARQUES AND MODELS

In the world of collector cars some features are much more desirable than others, which sometimes yield order-of-magnitude differences in market value between otherwise similar models.

Condition and originality also contribute to value. Individual transactions are fraught with subjective considerations of time, place, presentation and configuration. To minimize these variations, I've selected a few popular collector cars that appear frequently with common characteristics and enough sales to be representative. Each of these cars is essentially like



cars were sold under Christie's low estimate than over the high. The median sale, however, was a healthy \$110,500.

Enthusiasts this past summer were less willing to step up to top-dollar bids. Collectors in Japan and Europe still send cars to the U.S. (a flow amply demonstrated in Monterey) where they sop up as much of collectors' liquidity as they can, accepting mod-

the others except for condition.

Condition, of course, is important. Dave Brownell originated a condition grading scheme when he was editor of *Old Cars Weekly*. It's simple and has become widely accepted, rating cars' conditions on a 1-5 scale as follows:

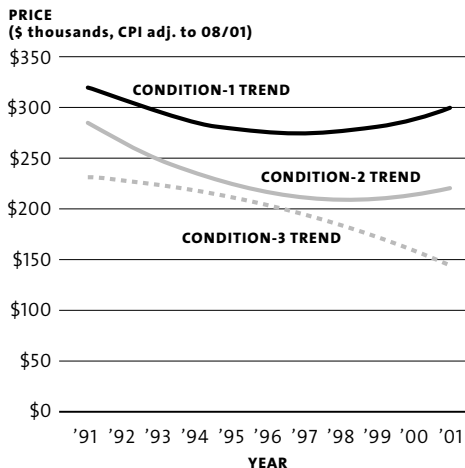
1. Perfect to an extent that's better than the car was when delivered.
2. As it would have been displayed on a dealer's showroom when new.
3. Presentable and fully functional.
4. Flawed in some serious degree.
5. Rough, not running or seriously damaged, or deteriorated.

The auctions see a lot of 3s, a fair number of 2s and a few 1s. The 4s and 5s are rare at auction, simply because buyers faced with a good selection of well presented, usable cars turn their backs on all but the most intriguing project cars. Observers' condition evaluations are highly consistent over time.

Jaguar XK 120s are staples of the collector car hobby. Restorers have ample experience and parts supplies, so maintenance, repairs and restorations can be consistent. That shows in the reported transactions. XK 120 Roadsters mirror almost exactly the qualitative impression of the market's performance: a depression in the early 1990s followed by recovery since '95 or '96. These data show a steady increase following the post-frenzy confusion with the greatest strength in the high quality show and near-show condition cars.

Mercedes-Benz Gullwings bring four times the prices of XK 120s. They're one of

MERCEDES BENZ 300SL GULLWING PRICES CPI ADJUSTED TO AUGUST 2001



(61 transactions: 42 U.S., 19 Europe)



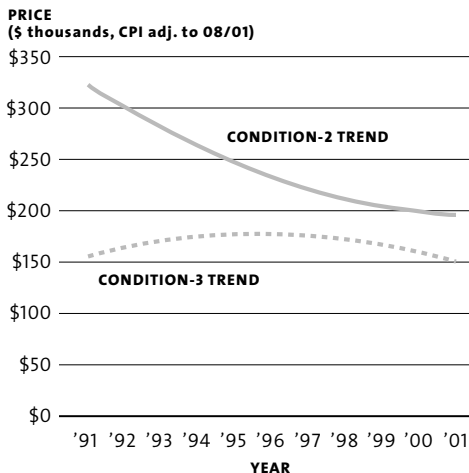
few mid-six-figure cars to be produced in some quantity that show up at auction frequently with consistent specifications.

The Gullwing data reveals today's strong preference for cars in very good condition. The declining trend line for condition-3 cars shouldn't suggest their prices are going through the floor, but rather that the

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FERRARI 275 GTB PRICES

CPI ADJUSTED TO AUGUST 2001



(19 transactions: 8 U.S., 11 Europe)



preference of low-six-figure buyers is for sound cars that can be driven with both confidence and pride. It often takes a big wad of cash to make iffy Gullwings reliable and presentable. Spending a known amount for cars that have already had their shortcomings remedied reflects an economically rational preference for minimizing the risk of expensive work on shaky examples.

[Note: The transactions on which the

graph is based are “plain” 275 GTBs: 3-carb, 2-cam cars with steel bodies.]

Ferrari 275 GTBs get everyone’s juices flowing. It is one of Italian car-body designer Pininfarina’s most alluring shapes and it’s the last of Ferrari’s front-engine V12-powered production cars that could be driven off the showroom floor directly to the race track with good prospects of success. The alarming plunge in values of condition-2 275 GTBs tells the story of production Ferraris’ values following the late-1980s frenzy. 365 GTB/4 Daytonas’ values look even worse. Values of 275 GTBs have stabilized in the \$200,000 range over the past couple of years, supported by their seductive shape.

The 1955 Thunderbird had few options and most appear in very consistent trim. ’57

’Birds may be more sexy, but their expanded options list makes comparison impractical. The performance of condition-2s and 3s is clear. Their CPI-adjusted values cratered in the early 1990s and have only just climbed back to break-even. Unlike Ferrari 275 GTBs, however, the ’55 T-birds’ decline barely ventured into five figures in real dollars, and a 1990 buyer has had a decade’s enjoyment of a charismatic

and affordably maintained machine.

The transaction histories presented here are supported by much other data, all showing comparable trends. The frothy market of the late 1980s carried over to a few transactions at high prices in the early 1990s, settled down to build a new base from 1993-95, then began a slow increase that has brought inflation-adjusted prices nearly to their early 1990s levels in the past two years. Today’s dol-

lars buy just about as much collector car as they bought a decade ago – nice to know if you enjoy cars, but bad news for folks who think of them as investments.

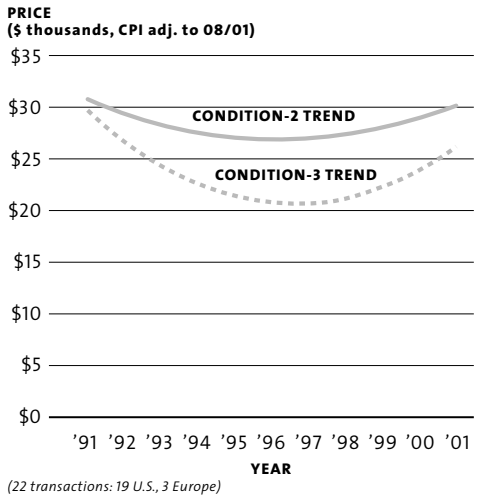
The cars, overall, have improved in quality and presentation. There is no shortage of good cars. And buyers who once stood on their financial toes to grab a shaky Ferrari 275 GTB now appear willing to purchase a very good 365 GTB/4 Daytona instead. The speculators of the late 1980s, who flipped cars like pancakes at IHOP, are gone, replaced by car enthusiasts who are using their purchases for vintage racing, rallying and touring.

CONCLUSION

There are plenty of accurate anecdotes about collectors who’ve hit home runs in cars. Used but uncompetitive Cobra Daytona Coupes have changed hands for a few thousand dollars and are worth \$4 million today. These are, however, the rare exceptions. Once in a while a collector’s choice will turn out to be a prescient investment, but that is the exception. The rule is that car collectors are enthusiasts who buy cars that give them pleasure from ownership and use, not for financial gain or inflation hedge. Eventually they will sell their cars into a market of other like-minded enthusiasts who will value their acquisitions in essentially the same way they were valued when acquired: in terms of recreational value.

Collecting cars doesn’t stack up well as an investment, even buying when the market is weak. As is clear from the graphs, the return on investment in the 1990s was positive, but

**1955 THUNDERBIRD PRICES
CPI ADJUSTED TO AUGUST 2001**



nothing to crow about. Early signs from the current slowdown indicate values are climbing even more slowly, if at all, than in the recent past. As an avocation, however, there may be few other ways to have so much fun, meet so many good people, visit such neat places as honored guests and participate in the preservation of an important part of modern history at such reasonable cost and acceptable risk. **M**