COLLAS CRILL

Collectible cars: Investment or lifestyle asset?

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Investing in cars has long been a passion for automotive enthusiasts. While many people enjoy classic cars for their timeless beauty and historical significance, others see them as lucrative investment opportunities. This is evident in the highest price ever paid for a classic car at auction: the 1955 Mercedes-Benz 300 SLR Uhlenhaut Coupé was sold on auction in May, 2022 at the Mercedes-Benz Museum in Stuttgart for an incredible €135million[1]. Named after it's creator and chief engineer, Rudolf Uhlenhaut, it's considered by experts and enthusiasts to be one of the finest examples of automotive engineering and design in history. Not only is the car one of only two ever made as prototype for endurance racing, at the time of its creation in 1955 it was also the fastest road-legal car with a top speed of 290km/h (180mph).

In recent years, a new trend has emerged with the rise of new car collections as a form of investment. This article explores both classic car collections and new car collections as potential investments, highlighting their unique characteristics, risks, and rewards and how they compare to traditional investments.

Classic car collections

Classic cars hold a special place in the hearts of automobile fanatics on a global scale. They represent an era gone by, embodying elegance, craftsmanship, and automotive heritage. Classic car collections are often built around iconic models from manufacturers like Ferrari, Porsche, Aston Martin, and others.

1. ***Appreciation in value***

Classic cars can appreciate significantly over time, especially rare and well-maintained models. Their limited supply, historical significance, and desirability among collectors contribute to their increasing value. Of the top 10 prices ever paid on auction for any car, 6 were manufactured in the 50's and 4 in the 60's.[2]

2. ***Maintenance and storage***

Classic cars require meticulous maintenance and proper storage conditions to preserve their value. Regular servicing, authentic parts, and professional care are essential to keep older vehicles in top condition. It's important for storage facilities to have the appropriate climate control and security features to protect these valuable assets against the elements and theft/damage.

3. ***Rarity and authenticity***

The rarity and authenticity of classic cars are major factors in determining their value. Originality, matching numbers, and documented history play a vital role in assessing a classic car's worth. In some cases a car's

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historic significance may also play a role, like the Aston Martin DB5 that appeared in the academy-award-winning Bond film *Goldfinger* (released 1964) which was sold for £5.2million in 2019[3]. Just like expert investment managers are employed to invest in the stock market, expert appraisals and inspections are often necessary when buying or selling classic cars.

New car collections

While classic cars have traditionally dominated the investment landscape, the emergence of new car collections as a form of investment has gained attention in recent years. Collecting new cars involves acquiring limited-edition models, high-performance vehicles, or vehicles with unique specifications.

1. ***Limited production and exclusivity***

Manufacturers often produce limited quantities of special edition or high-performance models, which creates exclusivity and drives demand. Collectors seek out these limited-run cars, anticipating their value to appreciate over time due to their rarity.

2. ***Brand reputation and innovation***

Investing in new cars allows collectors to capitalize on the reputation and innovation of renowned automakers. Collectors focus on specific brands known for their technological advancements, design prowess, or racing heritage. Of the top 10 most expensive new cars on the planet in 2023, *Bugatti* claims 6 of these spots, with the *Bugatti La Voiture Noire* priced at £11.4million[4]. It has an 8.0-litre W16 engine and it's the only one ever made[5]. As these manufacturers continue to innovate, the value of their exclusive models may rise.

3. ***Brand collaborations and partnerships***

Collaborations between automobile manufacturers and luxury brands, fashion designers, or celebrities can create unique and highly sought-after models. These limited-production collaborations often become collector's items, attracting both automotive enthusiasts and fans of the associated brand. A good example of this is the collaboration between Lamborghini and Versace, In the 2006 Paris Motor Show, Lamborghini's Murciélago LP 640 was redesigned by Versace to include some of the latter's signature patterns and included Versace luggage. Only 20 of these were ever produced since 2006, which makes it a rare collectors item. One of these were sold in February 2021 for €149,500 (US$177,905)[6] and another one a year later in June 2022 for US$315,000[7].

Considerations and risks

Like any investment, there are a few risks associated with car collections. Like any investment, the market for classic and new cars can experience fluctuations. Economic conditions, changes in consumer preferences, and supply-demand dynamics can impact the value of automotive investments.

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Investing in cars also requires expertise and extensive research. Collectors should consult with automotive specialists, appraisers, and financial advisors to make informed decisions and navigate the complexities of the market. This may be the difference between enthusiasts and investors- where a car is held for personal sentimental value, the market may not share the sentiment. As stated hereinbefore, collecting cars come with additional responsibilities of maintenance and care that should be factored into the investment decision.

Comparison with traditional investments

When comparing classic car collections and new car collections as forms of investment to traditional investments, such as stocks, bonds, or real estate, several key differences and considerations arise:

1. ***Return on investment (ROI)***

Traditional investments generally offer more predictable and quantifiable returns compared to car collections. Stocks, for example, can provide dividends and capital appreciation, while bonds offer fixed interest payments. Real estate investments can generate rental income and property appreciation. Classic car and new car collections, however, rely on market demand, rarity, and the appreciation of collector value, making their returns less certain.

2. ***Market liquidity***

Traditional investments typically offer higher liquidity compared to car collections. Stocks and bonds can be easily bought and sold on exchanges, allowing investors to access their funds relatively quickly. Real estate may require more time to sell but still provides a liquid market. In contrast, selling a car collection, especially if it consists of rare or niche models, may require finding the right buyer and could take longer to complete.

3. ***Diversification***

Traditional investments allow for greater diversification across asset classes, sectors, and geographic regions. This diversification helps mitigate risk by spreading investments across various opportunities. Car collections, however, are concentrated investments focused solely on the automotive sector. This lack of diversification increases the risk if the market for classic or new cars experiences a downturn.

4. ***Risk and volatility***

Traditional investments have their own risks and market volatility, but the risks associated with car collections are unique. Classic car values, for instance, can fluctuate depending on factors such as market trends, the economy, and the overall interest in vintage vehicles. New car collections also face risks such as changes in consumer preferences, manufacturer reputation, and the limited-edition nature of certain models.

5. ***Expertise and ongoing costs***

Investing in classic or new cars requires specialized knowledge and ongoing costs. Collectors must stay informed about market trends, authentication processes, maintenance requirements, and storage

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considerations. These additional costs and expertise can make car collections more complex and potentially more demanding than traditional investments.

6. ***Emotional attachment and enjoyment***

One advantage of car collections over traditional investments is the potential for emotional attachment and enjoyment. Car enthusiasts derive pleasure from owning and showcasing their collection, which can provide intrinsic value beyond financial returns. Traditional investments may lack this emotional connection and sense of enjoyment.

Conclusion

While classic car collections and new car collections offer unique investment opportunities, they differ significantly from traditional investments in terms of ROI predictability, liquidity, diversification, risk factors, ongoing costs, and emotional attachment.

Classic car collections and new car collections offer unique opportunities for investors and automotive enthusiasts. Where classic cars provide a glimpse into automotive history and can appreciate significantly over time, new car collections leverage exclusivity, limited production, and brand collaborations to create potential investment value.

Want to know more about how a car collection fits in with an offshore wealth structure? Please talk to any of our business development team members.

References:

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