



What are the economic factors influencing the price of MG V8s?

As part of the review of MGBGT V8 and RV8 prices for our updated price guide, Victor Smith considers the economic factors influencing the current prices of MG V8s, not least the VED exemption which will cover 43% of MGBGT V8s from April 2014.

Classic car prices up by 15.5%

A news item in the Sunday Times in January 2014 suggested that classic car prices in the UK had gone up by 15.5% over the last 3 years. It's very unlikely that all classic cars will have risen to that extent, some more and some less, and the article seemed to imply it was a sector average figure. That of course raises the question of how you calculate an "average", but assuming MGBGT V8 Condition 1 prices have risen by that percentage that would lift the price of a chrome bumper Condition 1 car in our price guide published in September 2010 from £9,750 to £11,261. My feeling is that currently a good Condition 1 chrome bumper car is likely to command around £12,500 particularly as we have seen there are and have been more "wanted" adverts than good cars for sale on our adverts webpage over the last 6 to 9 months.

Road tax saving benefit on VED exempt cars

Logically the value of the VED exemption extension due to apply from 1st April 2014 is likely to flow through to the values of eligible MGBGT V8s. With the current annual VED rates for an MGBGT V8 at £225 for 12 months and £123.75 for 6 months then,

assuming a discount rate of 4%, the present value (PV) of those future savings would be £4,955 and £2,725 respectively. So assuming the market might value the VED exemption saving for a classic car more in terms of the 6 month rate, that suggests, from a financial viewpoint, an uplift in values (by virtue of the future VED saving) of £2,725. That would take a Condition 1 chrome bumper MGBGT V8 to say £15,225. It will be interesting to see how the market reacts to the VED exemption extension factor.

When current V8 values were discussed in a V8BB thread in January 2014, Adam Fiander suggested that even my "£12,500 estimate for a good condition, well maintained, original factory V8 is a little shy of the mark and that £13,000 is probably more accurate with all things taken into account - good looks, rarity and power combined with economy". He added that he spends much time in his lunch hours perusing classic car values and auction results, so his figure is based upon hours of research, in case anyone is wondering!

For those wondering whether classic cars which have previously become eligible for the new road tax free status did gain additional value, Adam commented "it certainly did when the relief was introduced for the "built pre-1973" cars".

What do we mean by "present value"?

In a sentence present value is the value today of a future stream of amounts of money – in this case amounts of money that would become available to the owner of an eligible car by virtue of their not having to spend those amounts on a road tax disc as

you would have had to do before the Budget 2013 announcement that the VED exemption extension would apply from 1st April 2014.

The PV method calculates what sums of money to be received in future periods would be worth today. Usually the future sums would be a stream of amounts of money receivable at future dates and the PV method discounts each of those sums to reflect their current value as if they existed today. The aggregate of those discounted sums is the net present value. The underlying adage is the "time value of money" which means a pound in your hand today is worth more than a pound receivable in one, two or 15 years in the future.

In the case of the VED exemption savings an owner of an eligible car can expect in each of the periods (years) ahead, they are in reality a future stream of money the owner will not have to pay out as routine VED payments. That saving can be regarded as a stream of cash amounts that prior to the exemption extension the owner would have had to make for lawful access to the public roads (to enjoy driving with the pleasures of the car), but now they will no longer have to make. It is that stream of future savings that is being discounted back to the present day to derive a present value of that "income" stream. An additional benefit is the savings are income tax free. In Excel there is a convenient formula that allows you to work out the PV of a future income stream given a discount rate.

The **choice of the discount rate** is the next consideration. In business when alternative investments are being assessed for available funding (usually that funding will be limited with many investment opportunities or proposals under consideration and competing for the funding), the opportunity cost or the cost of capital is taken as the discount rate, sometimes the marginal cost of capital, and in some cases greater sophistication is applied by adding various weightings for the risk profiles of the various investment choices. In this simple case with a stream of future savings, the discount rate is likely to be the available rate the owner of the MGBGT V8 can obtain by investing that stream of savings in a way which has a similar risk profile to that of the stream of future savings. So bank deposit rates or government or high grade corporate bond rates might be chosen. Then of course if you opt for a single rate, that has to be the likely rate for the period covered by the future payment stream, or at least the first 10 years or so. So I chose 4% as a modest rate for my initial PV illustration.

In preparing the updated MGBGV8 price guide, we have **assumed a typical buyer would take into account only a part of the PV of the VED saving** – some 70% of the PV or £1,943 for a Condition 1 car and 34% and 15% for Condition 2 and 3 respectively.

Cost of restorations and rebuilds

The high cost of restoring an MGBGV8 to a very good, rust free, structurally sound and mechanically excellent condition is a serious concern for classic car buyers and owners. Whilst it may take a long time before you recoup the full outlay of restoring any classic car, it must still be a factor influencing the sale price. Recently we have seen MGBGV8s fetching close to £20,000 from dealers and Howard Guiney noted on a V8BB thread "my car (0528) is currently undergoing a nut and bolt rebuild that will probably cost in excess of £28,000! As yet I have not determined what the agreed valuation for insurance purposes will be but I imagine it may be round the £20,000 plus mark."

The high restoration cost is an interesting factor but how it feeds into the marketplace and plays a part in determining prices of an MGBGV8 is not straightforward. Basic economics would suggest **prices are determined simply by supply and demand and by the affordability** of an item for potential buyers. But where cars are being restored to a reasonably high standard so that they are seen as good or very good Condition 1 cars, with very good examples looking very close to new cars, then in effect the supply of Condition 1 cars is maintained. Given a growing level of demand for good and very good Condition 1 cars, and the reality that there are relatively fewer cars of that quality becoming available in the market, the tendency would be for prices to rise.

Now the MGBGV8 model is 40 years or so old and with the poor level of anti-corrosion resistance built into MGs manufactured in the mid-1970s, a high proportion of the remaining unrestored MGBGV8 production will be reaching a stage when cills and wings are corroded and substantial parts replacement and restoration is required to avoid the car slipping into an expensive lower Condition 2 or 3 recovery job or even a scrap case.

In many cases a careful owner will have comprehensively Waxoyled their car and kept the car garaged and avoided exposing the car to seriously wet conditions or corrosive road conditions in winter. That will have helped a great deal in reducing the rate of the dreaded rust attack over the years.

As time goes on the majority of the stock of Condition 1 and part of the stock of Condition 2 cars will have undergone restoration, some twice, so the market expectation on buying a Condition 1 car will be that most examples will have had restoration at some stage and at the time of purchase those cars will be in a good Condition 1 state. That type of car will need careful inspection by buyers to judge the quality and thoroughness of the restoration to ensure that any premium they pay for a high Condition 1 grade is matched by the reality of the quality of its restored condition.

I agree with Howard Guiney that the heavy cost of restoration will begin to become a factor in determining the price of Condition 1 cars with also a trickle-down effect to Conditions 2 or even 3 to some degree, although in those groups a car in need of restoration will probably have a negative economic residual value. The decision to buy a car in need of some structural restoration or a need to embark upon a **major rebuild is likely to continue to be an exercise that has little economic sense and a great deal to do with passion for the car!**

I don't feel there is an easy way of calculating the impact of the restoration factor on Condition 1 values but monitoring the market to get a feel for the market's expectation that a car in that grade should be a well restored example may inevitably be seen to cause prices to rise because unless prices do reflect restoration costs to some extent, the supply of well restored cars will be held back if you assume that even restorations primarily undertaken for passion are undertaken to some extent with the influence of an economic sanity test.

Comparative classic car pricing

The final factor is the wider classic car market on a comparative basis. If prices for the classic car "cherries", as seen by the chequebook investor, rise strongly then I feel there is inevitably a "pull up" factor on other classic cars like the MGBGV8. Clearly the "cherries" like classic Ferraris, Astons, Jaguars and so on are seen as sexy or "statement investments" by many buyers and they have a natural attraction for both the knowledgeable and the less knowledgeable chequebook flexible investor.

A classic car like the MGBGV8 is in so many ways an undiscovered gem as it has understated qualities, not least its performance and the sheer pleasure of V8 power, but also its appearance to the less knowledgeable or "cherry inclined" buyer is likely to be a factor too. They might easily

feel an MGBGV8 to all intents and purposes looks like an 1800 MGBGT whereas we know that, whilst it looks the same in many respects, it is a world of difference when driven on the road with the sheer pleasure that flexible V8 power offers. Once the V8 is "discovered" by some of those classic car buyers as both a wonderful car and exceptional value for money in every sense, the prices of Condition 1 MGBGV8s could rise substantially from the impact of that additional demand.

Attraction of future MGBGV8 price growth

Over the years since the MGBGV8 was launched prices have been very reasonable and the cars have been owned and enjoyed by real classic MG enthusiasts as an affordable classic. But if prices start to rise substantially what will happen then? It's likely many buyers may be "chequebook investors" for whom their "investment decision" might be based on their view of future capital growth of the value of the car. That view of future growth may be on the basis the increasing attraction of the MGBGV8 to that type of speculative buyer or trader - heaven forbid!

But life is too short to contemplate heathens like that ever becoming V8 enthusiasts, so I think I will stop here and let the pleasure of thinking of my next drive in my V8 take over!

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www.v8register.net/v8/profileprices.htm
 (February 2014)