

Understanding Auto Depreciation - What the Salesman Won't Tell You

The question in the back of your mind after you've bought a used or new car is always, "I wonder how long I can drive this car till I have to sell it." Hand-in-hand with selling your car comes the question of what will it be worth in the future. This price will be contingent upon the automotive depreciation of your car, how much it loses its value from original price paid to price sold. The question of depreciation pricing especially comes into play when buying a used car; are you paying the correct price, or is the salesman taking you for a ride?

The standard rate of depreciation of automobiles in the U.S. market can be estimated at around 15-20% of the car's value the prior year. A 1 year old car will be worth around 80-85% of the original cost, a 4 year old car will be worth around 80-85% of the 3rd year value, etc.

New cars have the most staggering and quick depreciation, with first year depreciation hurting the most due to the "off the lot" value drop. This occurs due to the fact that the customer pays retail price at the dealership, which is the price the dealer chooses for the car. As soon as you leave after signing on the dotted line, the car is worth the wholesale or actual price of the car, which could range from 5-15% less than the original, retail value of the car.

"The retail price is what you would expect to pay for the car at a dealership. The wholesale price is what you would be offered if you sell it to someone who will turn around and resell it to someone else. The wholesale price is essentially the same as the trade-in value." - autos.yahoo.com/consumerreports

Let's say you bought a brand new 2006 Z06 Corvette at a 7% retail mark...you know the salesman...at the dealership for around \$74,000. The wholesale price plus a year of depreciation would place the 1 year old price of your Corvette at around \$60,000. The second year value of the car ($60,000 \times .83$) would be around \$49,800, third year value ($49,800 \times .83$) at \$41,334.

Depreciation is a particularly important issue when buying a used car, because you need to know the value of your wanted car compared to the asking price of the dealership. Here are a few pointers to finding the information for yourself, so you can possibly avoid the expensive lemon.

1. Do Your Homework - Consult as many resources as possible, especially reputable automotive tools such as Edmund's Automobile Buyers Guide and Kelley Blue Book. Find out the price offered by the officials and arm yourself with that knowledge before you start seeing the plaid sport coats of salesmen.
2. Compare the local market to the CarMaxs - Don't take the easy way out and go to the most popular brand name. Look at local markets and classified ads to see what is in your area.
3. Don't be swayed by aesthetics - Scratches and slight dings are not the end of the world for a buyer as they are for a dealer. Many of these exterior damages are easily rectified and offer the buyer a much lower rate.
4. Financing Through Credit Union - It's true, your local credit union can offer great deals on financing your next new or used car.
5. Use The Internet - Not that you have to be told, but the best friend a buyer has during the process of securing a car is the web. All the aforementioned resources are available of the Internet, as well as the ability to search almost every market a car can be found.

Source: <http://www.articlecircle.com>

About the Author

Neil Lemons represents <http://www.corvettegearusa.com>. Corvette Gear USA offers Corvette gift ideas, apparel & other corvette accessories online for Corvette fans and enthusiasts alike.