
Depreciation in the UK



You lose around 40% in the first year

It's true: the value of your car plummets the moment you drive it off the forecourt. The average new car in the UK loses about 40% in the first year. Then the depreciation eases off to a more manageable level of about 10% per annum, assuming you drive around 10,000 miles per year.

That's why the smart new car buyer will choose a car that's already a year or so old: that way, the depreciation monster will have already taken its biggest bite, but there will still be plenty of new-car guarantee left.

Whichever way you look at it, however, depreciation is a depressing business: after four years, the average car will be worth just 40% of its original value. That is, your £10,000 new car is now worth £4000. Ouch.

However, not all cars depreciate equally: depreciation in the UK is a relatively simple equation of desirability plus practicality. If you have a vehicle that people desire, and it's thought of as practical, depreciation is lower and slower. If you have a vehicle that's impractical but desirable, depreciation is a bit lower, but not as low as on a vehicle that's both desirable and practical. If you have a vehicle that's neither desirable nor practical, you're in trouble: few buyers will want it and they won't pay much for it, even if it's a relatively new vehicle.

Desirable, by the way, doesn't always mean high in status or looks (although it can, in certain circumstances). It simply means that people want one of these vehicles. For example, the Daihatsu Terios, Audi Q5 and Volvo XC60 all hold their value a bit better than the average car.

Before you rush out and buy an Audi Q5, however, be aware that they still plummet in value, just like everything else. After four years, the Q5 will have lost around half its value. That's better than average, but still vicious.

Why do the Daihatsu Terios, Audi Q5 and Volvo XC60 all hold their value better than average? The answer is that pretend offroaders like these three are the estate cars of the early 21st century. Buyers believe them to be a practical option. Plus, depending on your peer group, you may be admired for owning one. That's right. The typical Daihatsu Terios owner takes a fierce pride in making a practical choice. They (and their friends) probably hate Jeremy Clarkson and they lament the fact that shows like *TopGear* tend to promote impractical, expensive vehicles. Buy a Terios and you're part of a fiercely proud peer group who take pride in their unfashionable, practical, affordable vehicles.

These days, a 'practical' vehicle must generally give decent fuel economy, be easily useable on the daily commute and also be reasonably reliable.

However, the depreciation figures don't tell the full story: vehicles like the Mazda MX-5 (about 37% depreciation in the first year), and Lamborghini Gallardo (just over 40% depreciation in the first year) may seem similar in their loss of value, but the situation with expensive and impractical vehicles is even worse than it sounds.



LAMBORGHINI GALLARDO

A high-status vehicle, but it loses over £100,000 in value in just four years.

If you can't get a decent trade-in price on your four-year-old Mazda MX-5 at a dealer, it should be easy enough to find a private buyer on eBay. Your £21,500 MX-5 is now worth just £7500, but there are plenty of people who can lay their hands on £7500 in cash; you shouldn't have much trouble finding a buyer.

When you come to sell a vehicle like the Lamborghini Gallardo, however, you won't find many buyers. You can't just offer a Lamborghini Gallardo on eBay and pick up a buyer on Saturday morning. After four years, your £170,000 quid Lambo is now worth less than £60,000, assuming you can find a genuine buyer with 60,000 quid in his pocket. Most private buyers can't lay their hands on £60,000, even though they wish they could. You'll be besieged by dreamers wanting to take your Lambo for a test drive, and people offering to swap their equally unsellable Ferrari or Rolls-Royce for your Lamborghini. Or they'll offer to take your Lambo as a deposit on their new property development; the one that the Fraud Squad is currently investigating. Genuine buyers will probably be pretty thin on the ground.

Instead, your only genuine buyers will probably be car dealers. They won't give you cash, unless you're prepared to sell for well under market value; almost certainly they'll try and take the Lambo as a trade-in on another expensive car, so you'll end up repeating this cycle of endless loss. Worse, if you're in a hurry to sell, or you don't want to buy an expensive car in place of an expensive car, you're probably going to end up cutting your losses and selling at an awful loss anyway.

Also high up the 'hit-hard-by-depreciation' list is any sporty model that has a poor reputation for durability. For example, the Alfa Romeo 159 loses a cool 50% in its first year and is worth around 25% of its original value after four years.

Mileage is a huge issue on any vehicle: not only do low-mileage vehicles tend to look and feel better, but also they're generally more reliable. Therefore, the lower the mileage, the less depreciation. However, low mileage won't save you if you buy an impractical car with a poor reputation.

Partially due to badge snobbery, the desirability of any particular model tends to nosedive once a new model is released (badge snobs have to have the latest model). So, if you buy, say, a VW Polo just



ALFA ROMEO 159
Lost 50% of its value in the first year.

before a new model is released, it will depreciate far faster than the newer model. That's why car dealers often offer discounts on the last versions of an older model. These cars seem attractive: however, if you're not careful, the discount won't be as much as your own losses due to depreciation.

If you had waited a year and bought a low-mileage one-year old version of the same car, you might get it at, say, £6000. That's much smarter buying. After a year, your vehicle has lost another, say, 10%, so it's now worth £5400. You've lost £600 instead of £4600 (£10,000 minus 40% in the first year minus 10% in the second year).

By the way, don't fall for the salesman's line that desirable vehicles hold their value because (he says) so many punters are after the same type of car. It does happen, about that same number of times you find an honest politician. At best, your 'desirable' vehicle will lose its value a little slower than average, that's all. Go back after a year and ask the salesman to buy it back for the same price you paid for it and he'll laugh in your face.

If you own a vehicle that's neither desirable nor practical, the value plummets. Luxury cars, by their very nature, are desirable when new and less desirable when old (unless they're old enough to be a classic). Strangely enough, the more you pay for a new vehicle, the less practical it generally is: luxury cars like the Rolls-Royce Phantom are notoriously thirsty, not especially reliable, as well as being next-to-impossible to park in tiny urban parking spaces. Luxury cars quickly lose their status (and therefore desirability) as they cease to be new. Are you driving a five-year-old Rolls-Royce Phantom? As far as the rich and snobbish are concerned, you're simply advertising the fact that you can't afford a newer model. Humph.

If you have an expensive, impractical vehicle that never really connected with the car-buying public, that's the worst possible combination. If you paid around £370,000 for your Mercedes Maybach, your depreciation would have been 50% or so in the first year. By four years old the Maybach would be worth around 30% of what you paid for it, assuming you could find a buyer,

So, the moral of the story is: to avoid the depreciation monster, buy a car that's both loveable and practical and more than a year old. Any other scenario will probably have an unhappy ending •



TOYOTA COROLLA / AURIS
Practical vehicles still lose value from new, but tend to hold their value better as they age.