

Used-car values reach new heights

Vehicle sellers could get thousands of dollars

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The used-car market has gone crazy, and it could mean thousands of dollars to anyone looking to sell a quality used vehicle. The value of a 3-year-old vehicle on Kelley Blue Book is up an average of 39 percent to 45 percent over the past three years.

"People are finding they have more equity in their car than they thought," said Rick Bress, owner of Galaxy Auto Place in West Seneca. "I had '06s that I sold two years ago that are probably pulling the same price now."

What happened?

Three years ago, vehicle manufacturers cut down on production, offering fewer leases and fewer daily rental sales, the traditional pipelines for used cars.

The "Cash for Clunkers" program in 2009 took thousands of potential used cars out of the system. And the slower economy and slowdown in the manufacturing and sales of new cars has tightened the supply of trade-in vehicles. It has created a potential trade-in bonanza for some car buyers.

Used-car values in July of each year

| Model | 2008 3-years-old (new) | 2011 3-years-old (new) |
|--------------|-------------------------------|-------------------------------|
| Toyota Prius | \$17,500 (\$21,500) | \$17,100* (\$21,650) |
| Honda Acoord | \$11,000 (\$20,360) | \$16,025 (\$21,380) |
| Chevy Tahoe | \$11,500 (\$34,630) | \$22,475 (\$37,980) |

** Price has dropped \$2,500 from early summer because of a drop in gas prices*

Source: Kelley Blue Book

John Ehrig, of West Seneca, wasn't in a hurry to buy a used car, but when Basil Resale offered him more than the Kelley Blue Book value for his '03 SLS Seville Cadillac, he took the opportunity.

"That's the only reason it worked out: They were willing to give me more than it was worth," said Ehrig, who is upgrading to an '05 Chrysler 300c. "It was the car that had everything that I wanted ... An '08 is much more expensive."

One-year-old vehicles may be worth more than 70 percent of the manufacturer's suggested retail price, said Alec Gutierrez, manager of vehicle valuation for Kelley Blue Book.

"We have seen an increased demand in used cars, [and] we've seen a shortage of available inventory," said Duane Paddock, owner of Paddock Chevrolet in Kenmore. "It makes [the car] a better investment when you're buying it."

Used-car dealerships, such as DK Auto Sales, in Buffalo, and Galaxy Auto Place, have raised prices \$1,000 to \$2,000, owners of both dealerships said.

"I see more people fixing more junk that they normally wouldn't have fixed," Richard DeRouche, owner of DK Auto sales, said. "We're doing more repairs than anything else."

Three-year-old cars are the standard for used cars, Gutierrez said. When vehicle sales dropped in 2008, a 2011 used-car crunch was inevitable.

There were 16 million new vehicles sold in 2007 and 13 million sold in 2008, he said. There were only 10.5 million sold in 2009.

Before the supply was tightened further by the March tsunami in Japan, 2011 was on track for 13 million vehicles. Now estimates are 11.5 million to 12 million vehicles, at best a half million more than last year, Gutierrez said.

"It's all from the economy slowing down and the lack of sales of new cars," said Corey Clark, sales manager at Basil Resale Center on Sheridan Drive. "You cannot build a used car ... We're just in the ripple effect of a lack of new cars."

Nearly 680,000 older used cars were taken off the market through the Car Allowance Rebate System, commonly known as "Cash for Clunkers," in late summer 2009, according to statistics from the U.S. Department of Transportation.

"A lot of the stuff they took in and scrapped is a lot of the stuff we would have taken in here to sell," DeRouche said. "I figured right from the start it would take five to six years for the 'Cash for Clunkers' to level out."

Another factor in the higher used-car price was the end of many incentives and rebates for new car purchases in 2007 and 2008, Clark said.

"That price on the new car ultimately affects what the used car is worth," Clark said.

Adding to the demand for used cars, as consumer confidence stays low, many people feel they don't have the resources to purchase a new car, said Edmunds.com Senior Analyst Joe Spina.

"It's just this continued bad news in the economy," Spina said, citing housing and employment woes. "The prices were already so high, it just didn't seem rational that consumers would continue to pay more."

Although small, fuel-efficient used cars have seen price hikes of up to 17 percent annually since 2008, large truck and SUV prices have nearly kept pace, rising up to 12 percent each year, Gutierrez said.

Since July 2010, compact-car prices have jumped 14.9 percent, and minivans are up 14.5 percent. But the largest SUVs have stalled, with prices dropping 0.1 percent, according to data from Edmunds.com.

"The compact cars are very expensive for what you get," Bress said. "If you have to put a used car out [on the lot] for \$12,000 to \$14,000, you can buy a new one for \$20,000."

Fuel-efficient cars are also a risky investment at auction, Gutierrez said, because their prices are directly impacted by gas prices.

The Prius, the poster car of the fuel-efficient segment, shows an almost instant change in value when gas prices change. Because of the high gas prices in the summer of 2008, a 3-year-old Prius was worth \$17,500 according to Kelley Blue Book.

In 2011, a 3-year-old Prius went up \$5,000 from January to early summer, when gas prices peaked around \$4 a gallon. As gas prices decreased, the Prius lost nearly half of that increase, Gutierrez said. In July, the 3-year-old Prius was worth less than it was in July 2008, \$17,100.

No one knows when used-vehicle prices will come down. Spina predicts more than a year of continued high prices as leases, daily rentals and new-car sales increase.

"The leasing market is the highest we've seen in a very long time," Spina said, a good sign for future used-car sales.

At the end of 2009, foreign manufacturers began offering incentives to encourage leasing, and domestic manufacturers began building more small cars that will hold their value, allowing dealers to lower lease prices, Spina said.

Gutierrez anticipates the used-car values to climb five to eight percent over the next few years before peaking and coming back down.

"I would hope that this is the top of the market," Spina said. "Prices on used cars are so close to new cars. If someone is looking at a 1- to 2-year-old used car, they should be looking at a new car, too."

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