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Wealth building considerations are key for sustainable car ownership

A car may be the biggest purchase you make after a house, and it could be considered an asset (a depreciating asset), however, a car is not an investment. This is why it is so important to know the best ways to buy, sell and own a car as to avoid overspending on something that doesn't provide an obvious monetary return.

Source: pixabay.com

This is according to Colin Morgan, director at car retailer getWorth, who has studied this subject and has some wealth-building advice for car owners.

He starts with a few tips on sustainable car ownership:

- Holding a car for longer costs you less in transaction costs and in depreciation. The next time you're tempted to get a new car soon after buying the one you have, consider holding on for another year or two.
- Reduce the depreciation you suffer. Newer cars depreciate faster – so it's a good idea to rather buy second-hand. It's also important to buy cars (new or second-hand) that hold their value well.
- Make sure you buy and sell at fair, market-related prices.
- Cars are a cost rather than an investment. If buying a certain car means that you can't invest money for the future, rather look at a cheaper model.

But how much does a car cost you over a lifetime? Morgan uses an example of three different car owners, each with different car-owning behaviour.

All three of these owners buy their first car at 22 years of age and own a car all the way through to the age of 72. The cars are of similar class – something that would cost around R250,000 brand new today.

However, Morgan says that each car owner has a very different approach to how they buy, sell and own cars:

- Owner 1 likes his cars shiny and new. He trades his older model in every three years for the latest model, straight from the factory.
- Owner 2 is less particular. She buys pre-owned cars that are around two years old and holds on to them for five years before selling again.
- Owner 3 isn't interested in brand new cars and buys them much older, at around five years of age, and drives the cars for as long as it can go. He owns a car for an average of ten years.

"Using some simple assumptions and parameters that include car depreciation, transaction costs, average inflation, interest, maintenance costs and more, we calculated the total cost of owning these cars," explains Morgan. "We excluded insurance, fuel and consumable parts like tyres, which would be broadly similar for all three."

His model shows that the difference in total cost over a lifetime is dramatic. Over 50 years of driving, he says that the three will spend the following on car ownership:

- Owner 1: R2.6 million (R51,500 per year)
- Owner 2: R1.8 million (R36,100 per year)
- Owner 3: R1.1 million (R21,100 per year)

Morgan elaborates, "These results are in today's money. The effect is far greater if the cost savings are invested. The money saved would really compound over 50 years. An after-inflation return of 5% each year can roughly quadruple the difference in today's money."

Morgan also points out, "It is natural that people will differ in what they are willing to spend on their cars. However, I don't think many are aware of the extent to which it affects your wealth. You would do well if you gave a similar level of thought to the long-term financial impacts of your car ownership patterns as you would to your house or retirement fund."