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NADA Used Car Guide

PERSPECTIVE

Moving Upscale: Used Luxury Car Options
for the Non-Luxury Car Budget

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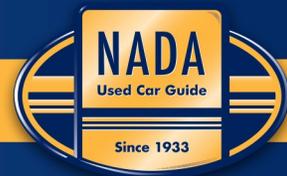


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Moving Upscale: Used Luxury Car Options for the Non-Luxury Car Budget

Automobiles represent some of the most expensive purchases Americans make and owning a car has traditionally been a rite of passage of sorts, marking an adolescent’s transition into adulthood through self-transport after years of catching rides from mom and dad. Unfortunately, motor vehicles are depreciating assets, which is why a new car’s value retention is of such great importance: the high resale value works in the owner’s favor. On the flip side, consumers can win big in the used market since many models can be attained at attractive prices after sufficient depreciation takes place. This is especially true when it comes to expensive, more premium offerings.

While the prospect of buying a new car fresh off the assembly line can be enticing, there are cases in which consumers can find a comparably-sized used luxury vehicle within three model years of a new mainstream model for the same price. Looking solely at retail prices—without getting into the discussion of overall cost of ownership—someone looking for more content and premium features can essentially trade mileage and newness for a considerably upscale model by foregoing new for used. With this tactic in mind, we analyzed which used luxury vehicles—model year 2012 and newer—could be purchased as alternatives to mainstream compact cars and mid-size sedans. Mileage and used retail price¹ versus MSRP was considered as a part of this analysis.

¹ “Used Retail Price” reflects NADA Used Car Guide’s clean retail price and represents vehicles that fall within the stated mileage range and are in clean condition. A clean condition vehicle means the automobile has no mechanical defects and passes all necessary inspections with ease; paint, body and wheels may have minor surface scratching with a high gloss finish; interior reflects minimal soiling and wear, with all equipment in complete working order; vehicle has a clean title history; vehicle will need minimal reconditioning to be made ready for resale.

In order to refine the scope of the study, we identified the average retail transaction prices for new compacts² and found the average offering costs roughly \$20,000. We also broke mid-size sedan³ buyers into two groups—those with smaller budgets who gravitate toward models with base 4-cylinder engines and those that prefer either 6-cylinder or comparable turbocharged 4-cylinder models—and recognized respective price points of around \$25,000 and \$30,000. Given a \$500 cushion above each budget level, we listed the most expensive trim for each model that could be purchased.

Baby Boomers and Millennials Seek Best Bang for the Buck

Although \$20,000 is a relatively small budget to shop for an automobile, a significant percentage of car buyers purchase compacts, which fall right around that price point. The compact car market is growing as not only are empty nesters looking to downsize, but Generation Y (born 1977-1994) also prefer smaller vehicles according to a [July 2014 J.D. Power survey](#). Although Baby Boomers (born 1946-1964) consume the most vehicles overall, Millennials are unique in that 20 percent of all cars purchased by this generation come from the compact segment.

For many younger drivers, which include recent college graduates and young professionals, cost is of great concern as careers are just getting started and student loans need to be repaid. For example, the [average starting salary for 2014 college graduates](#) was just \$48,707 as many younger car buyers have low purchasing power. This does not mean, however, they have lowered their tastes in automobiles. As was alluded to in a [Fortune article](#) last year, Millennials are savvy, selective shoppers looking to get the most value for their money. These image-conscious consumers with a penchant for premium features are faced with a question of how to purchase a luxury car on a strict budget. For them, the answer resides in the luxury compact car market.

From the perspective of empty nester Baby Boomers, cars this size are attractive as they have no need for utility to carry more than a few family members. Similar to how young buyers must stretch what little disposal income they have, it is critical retirees make best use of their nest eggs. This requirement, however, does not mean they've become dispassionate about automobiles according to a [Bloomberg Business article](#) from 2013. Extending one's youth has become a central theme of the older generation's golden years and many Boomers see cars as a medium of expression. This is one of the reasons why many of the vehicles targeted toward younger buyers are particularly attractive to Boomers. Consequently, while being at opposite ends of the career spectrum, both

² Average compact car retail transaction price was calculated using the following models: Honda Civic, Toyota Corolla, Chevrolet Cruze, Hyundai Elantra, Ford Focus, Kia Forte, Subaru Impreza, Volkswagen Golf, Volkswagen Jetta, Mitsubishi Lancer, Mazda Mazda3, Nissan Sentra and Hyundai Veloster.

³ Average mid-size sedan retail transaction price was calculated using the following models: Chrysler 200, Honda Accord, Nissan Altima, Toyota Camry, Ford Fusion, Subaru Legacy, Chevrolet Malibu, Mazda Mazda6, Kia Optima, Volkswagen Passat and Hyundai Sonata.

younger and older generations share a common goal of finding cars that best reflect their personalities without blowing their budgets. This is where the used entry-level luxury market comes into play.

Model Year	Model	Trim Level	Mileage	Base MSRP	Used Retail Price ¹
2012	Infiniti G Sedan	2.5L V6	45,001 - 50,000	\$32,400	\$ 20,500
2012	Mini Cooper Convertible	S 1.6L I4 Turbo	45,001 - 50,000	\$27,950	\$ 19,600
2012	Lincoln MKZ	AWD 3.5L V6	45,001 - 50,000	\$36,535	\$ 19,575
2012	Volvo C30	2.5L I5 Turbo	45,001 - 50,000	\$24,700	\$ 19,500
2012	Acura TSX	2.4L I4 Auto	45,001 - 50,000	\$29,810	\$ 19,450
2012	Volvo S60	T5 2.5L I5 Turbo	45,001 - 50,000	\$31,450	\$ 19,250
2012	Audi A3	2.0T Premium 2.0L I4 Turbo Auto	45,001 - 50,000	\$27,270	\$ 18,825
2012	Mini Cooper Clubman	S 1.6L I4 Turbo	45,001 - 50,000	\$24,900	\$ 18,425

On the used side of the market, \$20,000 will buy a pre-owned entry-level luxury car. All of the vehicles that made our list are 2012 model year units with an average of 45,001-50,000 miles on them. Mimicking a diverse field of vehicles like the compact segment—which incorporates a variety of body styles, including the Honda Civic, Ford Focus and Mazda Mazda3—examples of sedans, hatchbacks and even a convertible can be found in this group of luxury models. This mix of vehicles permits a broad range of style palettes to be filled. In terms of original MSRPs, these entry-level luxury cars were priced approximately \$25,000-\$37,000 when new, so purchasing them used will yield a buyer a minimum of around \$5,000-\$17,000 in potential savings. Although the total number of used luxury offerings is relatively limited compared to the many compact car models on the market, finding a premium vehicle with exceptional content and features can be done with just \$20,000, which is great news for Millennials and Baby Boomers yearning for the status and ownership experience attached to owning a luxury marque.

Used Luxury Mid-Size Sedans Prove to be Great Values

The average market share for cars from 2012 to 2014 was 49%, per registration data from R.L. Polk, which reflects just how sizable their overall market is. Medium-sized cars, both mainstream and luxury, are significant in that they comprise nearly 40% of all cars. Due to their size and versatility, mid-size sedans are practical purchases for a wide range of buyers across all generations. According to sample data from J.D. Power’s 2014 survey, Generation X (born 1965-1976) exhibits a greater penchant for mid-size vehicles than Gen Y does, as many of those aged roughly 40 to 51 are mid-career professionals with children in their teens. As such, they have more mature tastes from the standpoint of design and performance and require cars with more interior space that can accommodate both adults and older children.

Interestingly, as was presented in articles by [Fortune](#) and [CBS MoneyWatch](#) a year ago, Gen X is saddled with more debt than Millennials, while holding fewer assets than Boomers despite earning slightly higher incomes. Many from Generation X were just entering the workforce when a recession hit in the early 1990s. They were entering the

prime of their careers when the dot-com bubble burst and Great Recession took place in the early and late 2000s, respectively. The result is a generation of people who—in addition to raising a family— now struggle with saving for retirement and face significant home debt as result of depressed housing values. This only exacerbates the need for Gen X to be prudent with their money, while managing personal needs and preferences when making a vehicle purchase decision. As can be seen in the two lists below, a number of used luxury models offer the combination of sophistication, style and affordability desired by this demographic.

Model Year	Model	Trim Level	Mileage	Base MSRP	Used Retail Price ¹
2012	Lexus IS	IS250 AWD 2.5L V6	45,001 - 50,000	\$37,225	\$ 25,450
2012	Lexus ES	ES350 3.5L V6	45,001 - 50,000	\$36,725	\$ 25,225
2012	Mercedes-Benz C Class	C250 1.8L I4 Turbo	45,001 - 50,000	\$35,220	\$ 24,350
2012	Acura TL	Technology 3.5L V6	45,001 - 50,000	\$39,335	\$ 24,225
2012	Hyundai Genesis Sedan	4.6L V8	45,001 - 50,000	\$44,500	\$ 23,825
2012	Infiniti G	X AWD 3.7L V6	45,001 - 50,000	\$37,800	\$ 23,700
2012	Lincoln MKS	AWD 3.7L V6	45,001 - 50,000	\$43,390	\$ 23,450
2014	Acura ILX	Premium 2.4L I4	20,001 - 25,000	\$29,200	\$ 23,300
2012	Audi A4	2.0T Premium AWD 2.0L I4 Turbo Auto	45,001 - 50,000	\$33,300	\$ 23,175
2013	Cadillac ATS	2.5L I4	35,001 - 40,000	\$33,095	\$ 23,125
2012	Cadillac CTS	AWD 3.0L V6	45,001 - 50,000	\$42,250	\$ 23,050
2013	Volvo S60	T5 2.5L I5 Turbo	35,001 - 40,000	\$31,750	\$ 22,075

A relatively modest budget of \$25,000 will typically buy someone a new mid-size car with a base engine, cloth seats and few premium features, if any. When applied toward a used vehicle, however, luxury vehicle traits—such as all-wheel drive, impressive power and higher performance—are accessible. While the bulk of the models on this list are 2012MY (model year) and have 45,001-50,000 miles, those looking for more recent models can even find a 2014MY Acura ILX that is fairly new and has fewer than 25,000 miles. If it’s power that whets a buyer’s whistle, the 2012MY Hyundai Genesis Sedan with its 429 horsepower 4.6L V8 engine is available for less than \$24,000. Among this healthy list are some of the most popular luxury nameplates, including the Mercedes-Benz C Class, Audi A4, and Lexus ES and IS. Bargain shoppers should find satisfaction in discounts of at least \$6,000-\$21,000 for this set of used models.

Model Year	Model	Trim Level	Mileage	Base MSRP	Used Retail Price ¹
2012	Acura RL	Advance AWD 3.7L V6	45,001 - 50,000	\$55,650	\$ 30,450
2012	Audi A6	2.0T Premium Plus 2.0L I4 Turbo	45,001 - 50,000	\$45,920	\$ 30,325
2012	Audi A4	2.0T Prestige AWD 2.0L I4 Turbo Auto	45,001 - 50,000	\$42,800	\$ 30,000
2012	Infiniti M	3.5L V6 Hybrid	45,001 - 50,000	\$53,700	\$ 29,800
2014	Infiniti Q50	3.7L V6	20,001 - 25,000	\$36,700	\$ 29,450
2013	BMW 3 Series	328i 2.0L I4 Turbo	35,001 - 40,000	\$36,500	\$ 28,775
2012	Mercedes-Benz C Class	C350 Sport 3.5L V6	45,001 - 50,000	\$40,575	\$ 28,575
2013	Cadillac XTS	3.6L V6	35,001 - 40,000	\$44,075	\$ 28,550
2012	Acura TL	Advance AWD 3.7L V6	45,001 - 50,000	\$45,085	\$ 28,500

At around \$30,000, mid-size sedan buyers with deeper pockets can find the best value from either an age or content standpoint. Vehicles that are two model years old or newer include the 2014 Infiniti Q50 with less than 25,000 miles and the 2013 BMW 3 Series and 2013 Cadillac XTS with less than 40,000 miles. All are great buys in terms of quality and price for luxury vehicles as new as these. With regards to best bargains, any version of the large 2012 Acura RL and 2012 Infiniti M sedans are within reach, which means not only can consumers potentially get their hands on incredible tech—such as Acura’s Super-Handling All-Wheel Drive or the Infiniti M35h’s sporty hybrid powertrain—but top-notch interiors with wood-grain trim, advanced safety technology and convenience goodies like climate control and heated and ventilated seats. Used retail prices that are at least \$7,000-\$25,000 below new prices only help to emphasize how attractive these models can be secondhand. Anyone in the market for this sized vehicle—be it from Generation X or any other demographic—can feel good about their options when it comes to finding exceptional cars on a limited budget.

The Merits of Buying Used Versus New

One of the benefits of buying a used late-model luxury vehicle is its warranty coverage. Luxury brands come with longer new vehicle warranty periods than their mainstream counterparts, so all of the vehicles on our list could still be covered under their respective new vehicle limited warranties (assuming the vehicles original in-service date and mileage fall within the warranty period guidelines established by each manufacturer).

For the 2012 model year, Lincoln, Volvo, Acura, Audi and Mini vehicles all came with bumper to bumper warranties of 4 years or 50,000 miles. Infiniti was even better with 4 years or 60,000 miles of coverage. Although warranty coverage for this group of vehicles is beginning to run thin in terms of both time and mileage, buyers will find comfort in knowing they are still covered for a short period if any post-purchase issues are encountered.

Certified Pre-Owned Vehicles

For those worried about warranties running out on used models, certified pre-owned (CPO) programs can be an attractive avenue to consider in alleviating any potential concerns. All CPO vehicles must meet certain criteria involving mileage and condition. Any deficiencies found following a rigorous inspection process are corrected and the vehicle is reconditioned to like-new condition. Once the automobile passes through this multi-point inspection, it’s ready for resale as a CPO vehicle. One of the many benefits of buying a CPO vehicle is that it’s backed by a warranty, which covers any future problems, just like a brand-new vehicle warranty.

It is important to note that CPO car warranties vary by manufacturer in terms of how long the vehicle is covered and what car parts and services are included. Often a manufacturer will honor the remainder of the original new car warranty on their "factory" certified used cars along with an additional short-term bumper-to-bumper coverage package. However, other car manufacturers may not transfer the original "factory" warranties and instead offer a new bumper-to-bumper coverage package.

Another factor to consider is the difference between a manufacturer-certified car and a dealer-certified car. Manufacturer-certified cars can be repaired at any like-branded dealership. A dealer-certified car may have to be returned to the dealership where the buyer purchased the car for any necessary work to be done under the warranty.

Purchasing a CPO vehicle does come at a premium, and buyers should expect to pay approximately \$750 to \$3,500 more than a comparable non-certified model. Often, CPO vehicles are offered with reduced-rate loans which could balance out the premium down the road.

Wrapping Up

Whether buying a new mainstream car or a used luxury one, it is important for consumers to know what their options are depending on their financial status, life stage and preferences. As far as getting the most value for the money, a strong case can be made that buying one of a wide range of late-model used luxury cars makes most sense. Nevertheless, anyone looking for more information on any new or used vehicle, including the ones mentioned in this study, can visit <http://www.nadaguides.com> for more information on vehicle specifications, pricing, comparisons, incentives and manufacturer CPO details.

AT NADA USED CAR GUIDE

What's New

The NADA Appraisal Suite is launched! Tired of the back and forth? Turn your entire appraisal process into something your customers can truly understand. Select NADA Appraisal, starting at \$99/month with an annual subscription, or upgrade to NADA AppraisalPRO to include additional market data from trusted industry sources. Both provide you with an official appraisal document, backed by NADA, which gives customers the confidence to sign. Learn more at nada.com/appraisal or call 866.974.6232.



NADA Used Car Guide is launching a newly designed website! Coming soon in April, we have updated and reorganized our website to make your experience even better! Look forward to easier access to reports, whitepapers and blogs, as well as:

- Dedicated Insight & Analysis section with market overview videos, data and reporting
- Products and related information grouped by relevant business segments
- Data tables for additional insight

On the Road

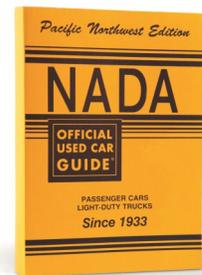
Jonathan Banks, John Beckman and Steve Stafford will be attending the Auto Finance and Compliance Summit in San Diego, May 18—19.

Jonathan Banks will speak May 20th on Key Trends in Risk Management at the CU Direct Lending and Marketing Conference, May 20—21. Be sure to say hello to Doug Ott as well.

May 27—29, Steve Stafford, Larry Dixon and John Beckman will attend the 19th Annual Non-Prime Auto Financing Conference held in Plano, Texas.

About NADA Used Car Guide

Since 1933, NADA Used Car Guide has earned its reputation as the leading provider of vehicle valuation products, services and information to businesses throughout the United States and worldwide. NADA's team collects and analyzes over one million combined automotive and truck wholesale and retail transactions per month. Its guidebooks, auction data, analysis and data solutions offer automotive/truck, finance, insurance and government professionals, the timely information and reliable solutions they need to make better business decisions. Visit nada.com/b2b to learn more about solutions for your business and nada.com/usedcar to stay abreast of the latest used and new vehicle market trends.



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NADA CONSULTING SERVICES

NADA’s market intelligence team leverages a database of nearly 200 million automotive transactions and more than 100 economic and automotive market-related series to describe the factors driving current trends to help industry stakeholders make more informed decisions. Analyzing data at both wholesale and retail levels, the team continuously provides content that is both useful and usable to the automotive industry, financial institutions, businesses and consumers.

Complemented by NADA’s analytics team, which maintains and advances NADA’s internal forecasting models and develops customized forecasting solutions for automotive clients, the market intelligence team is responsible for publishing white papers, special reports and the Used Car & Truck Blog. Throughout every piece of content, the team strives to go beyond what is happening in the automotive industry to confidently answer why it is happening and how it will impact the market in the future.

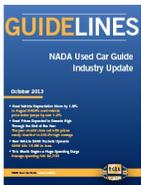
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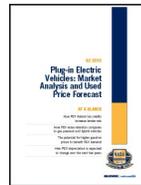
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ADDITIONAL RESOURCES



Guidelines

Updated monthly with a robust data set from various industry sources and NADA’s own proprietary analytical tool, *Guidelines* provides the insight needed to make decisions in today’s market.



White Papers

NADA’s white papers and special reports aim to inform industry stakeholders on current and expected used vehicle price movement to better maximize today’s opportunities and manage tomorrow’s risk.



NADA Perspective

Leveraging data from various industry sources and NADA’s analysts, *NADA Perspective* takes a deep dive into a range of industry trends to determine why they are happening and what to expect in the future.



Used Car & Truck Blog

Written and managed by the Market Intelligence team, the Used Car & Truck Blog analyzes market data, lends insight into industry trends and highlights relevant events.

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