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Hunting for deals on wheels in China's developing used car market

MARK ANDREWS, Contributing writer

SHANGHAI -- Zhu Xiaohong closely examines a 4-year-old Volkswagen Touran, using the flashlight on his mobile phone. The gray VW sits in what looks like a multistory parking lot but is in fact the Shanghai Used Car Trade Market, the largest of a cluster of secondhand dealers on the city's Zhongshan North Road.

Zhu's conclusion: "I want to buy this car."

Zhu, who has bought used cars twice before, said he cannot afford to buy new. But while used cars are significantly cheaper than new ones in China, prices are higher than in developed overseas markets, and there is often greater uncertainty about quality.

Yasuhiro Konta, a senior manager responsible for secondhand sales at Dongfeng Nissan Passenger Vehicle, explained that it is rare to see a standard going rate for a used car in China. "Each price is decided by negotiation," he said.

This informal system reduces the pressure on sellers to keep prices down, according to Cameron Macqueen, general manager of Southern Cross Warranty, the Chinese arm of Australian financial company Presidian.

"Pricing in China is a lot higher than in the U.S. or Australia -- maybe up to 30% or more for some makes and models," Macqueen said. He estimated average secondhand sale prices at 60,000 yuan (\$9,770) nationally, but added that the figure rises to 200,000 yuan in big cities such as Shanghai, where top-end luxury cars are popular.

Trust issues

China's used car market has expanded alongside a dramatic rise in demand for new cars. Sales of new passenger vehicles hit 17.92 million in 2013, according to Deloitte's 2014 China Auto Finance Report, confirming China's status as the world's largest car market.

Bill Russo, managing director of consultancy Gao Feng Advisory, said the supply of used cars is increasing

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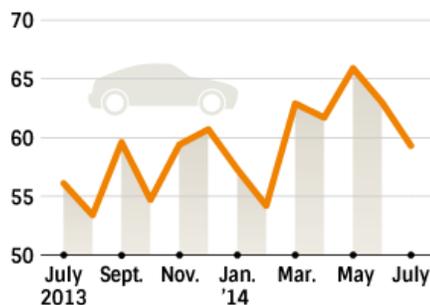
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as owners sell into the market rather than handing on vehicles to other family members. Demand, Russo said, is picking up as younger drivers become more comfortable buying preowned.

On the other hand, Russo pointed out that the ratio of secondhand sales to new car sales is much lower in China than overseas, suggesting that there is a lot of room for growth. In the U.S., three used cars are sold for every new car purchased, whereas in China only one used vehicle is sold for every four new ones.

Average secondhand car sale price in China; in thousands of yuan



Source: China Automobile Dealers Association

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