

VEHICLE PURCHASE GUIDE

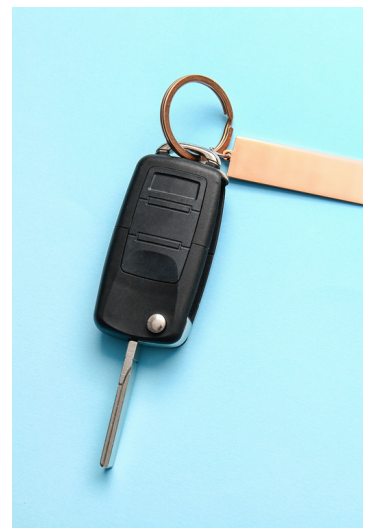


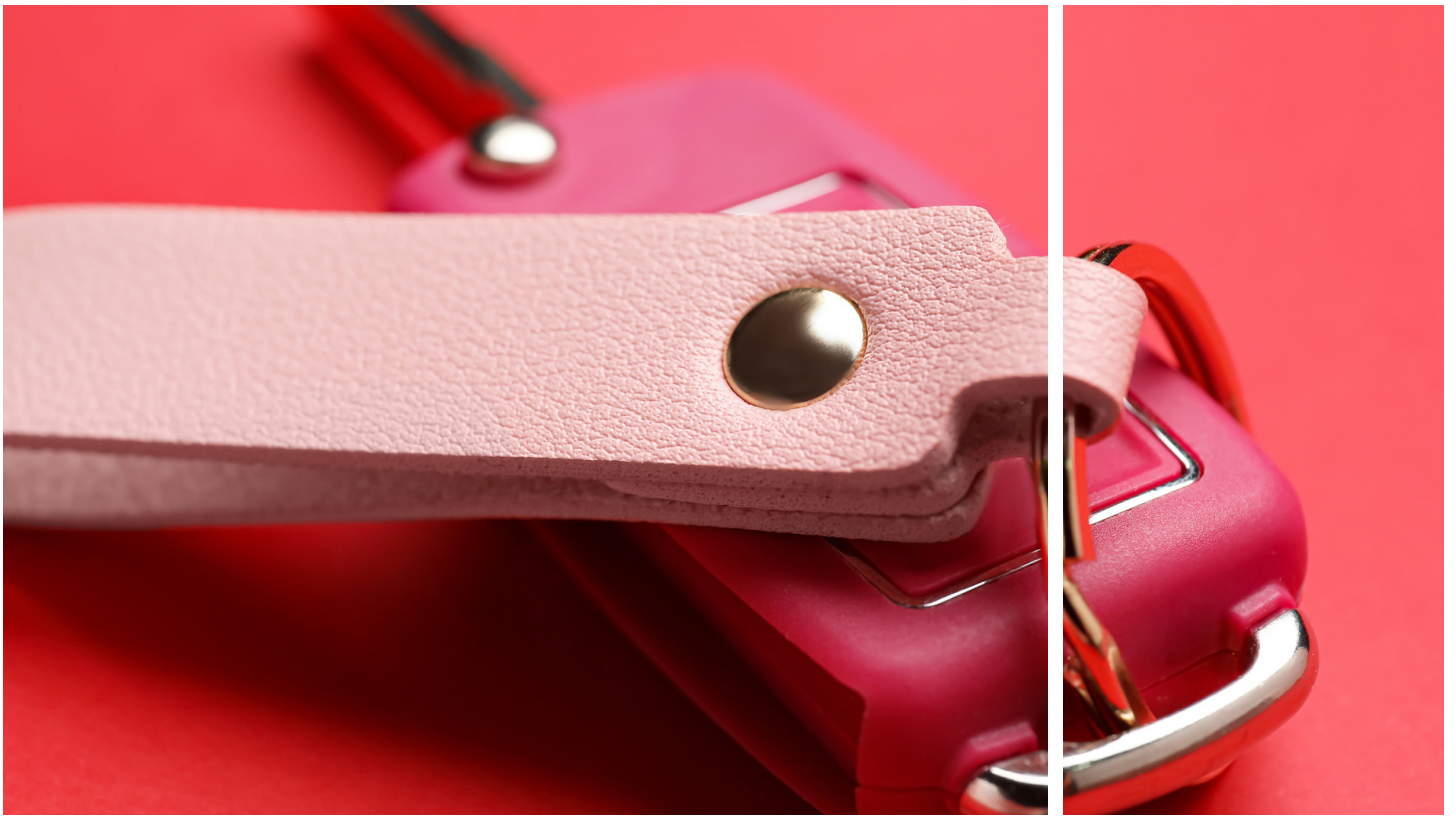
Buying your first vehicle can be exciting, the sense of independence, convenience, and personal freedom is unmatched. You might not be a first time buyer, but there are things we can do better to avoid financial pitfalls. While choosing a car may feel like the most important decision, the reality is that purchasing a vehicle comes with a wide range of costs, responsibilities, and long-term considerations that many first-time buyers overlook. A car is not only a once-off purchase, it's an ongoing financial commitment that can span years.

From the moment you sign your finance contract (or hand over cash) to the day you sell or trade in your vehicle, you will face expenses ranging from monthly repayments and insurance to maintenance, licensing, and unexpected repairs.

Even the colour of your car and the type of tyres it uses can influence how much you'll spend in the years ahead.

This guide will walk you through every cost to consider - both obvious and hidden - so you can make an informed choice, avoid financial strain, and enjoy the benefits of vehicle ownership with confidence.





1. The Purchase Price

The sticker price is only the starting point. When budgeting for your car, remember to account for the possibility of:

- Dealer fees: Administration and documentation charges, usually R3 000 – R5 000.
- On-the-road costs: Number plates, initial licensing, and roadworthy test fees, around R3 000 – R6 000.
- Extended warranties/service plans: Optional add-ons, typically R5 000 – R25 000, depending on coverage.

2. Finance Options and Their Pitfalls

Unless you're paying cash, you'll be financing the vehicle through a bank or finance house. Understanding the structure of your repayments is critical.

Expenses vs income: Many banks limit vehicle repayments to 20% of gross monthly income, and total debt to 60% **Example: Monthly income R30,000 gross → max vehicle payment = R6,000**

Affordability Ratios

20/4/10 Rule: 20% down payment, 4-year term, max 10% of income on all car costs (repayments, insurance, fuel) (Always plan for routine maintenance and the worst-case scenario when considering your affordability! Don't only consider the purchase price of the vehicle).

Standard Instalment Sale

You pay the full price of the vehicle over an agreed term (usually 24–72 months) at a fixed or variable interest rate.

Higher monthly instalments compared to balloon deals, but you own the car outright at the end without extra lump sums.

Balloon Payment / Residual Value

A portion (20–40%) of the vehicle price is deferred to the end of the term. You pay smaller monthly instalments but owe a large “balloon” amount at the end. **Example: On a R300 000 car with a 30% balloon, you'll owe R90 000 after the final instalment ($30\% \text{ of } R300,000 = 0.30 \times 300,000 = 90,000$).**

If you can't pay the balloon at the end, you may need to refinance it, extending your debt. You could also end up owing more than the car's resale value if its market price drops.

Finance Type	Term	Balloon	Monthly Payment	Final Balloon Payment	Total Paid Over Term	Notes
Standard Loan	72 mo	None	± R5,400	None	± R388,800	Most predictable; no big lump sum later.
Balloon 25%	72 mo	R75,000	± R4,050	R75,000	± R367,600	Lower monthly, but you must pay or refinance balloon at end.
Short Term (48 months)	48 mo	None	± R7,450	None	± R357,600	Less total interest but much higher monthly cost.



Linked Interest Rate

Your interest rate changes with the prime interest rate. If interest rates rise, your monthly instalments increase.

Examples (R300 000 vehicle): Over 60 months, you'd pay roughly R6 100/month. If initially 8% but rises to 10% midway, your instalment could increase to about R6 300/month, depending on your agreement.

Fixed Interest Rate

Rate is locked for the term of the agreement. You might pay more if interest rates drop, but you avoid increases.

Examples (R300 000 vehicle): Fixed interest rate: Suppose the rate is 8% annually. Over 60 months, you'd pay roughly R6 100/month with total interest around R66 000.

3. Insurance Costs

Vehicle insurance is compulsory if the car is financed and strongly recommended even if you pay cash. When insuring a vehicle in, several factors come into play. Here are some key considerations:

Vehicle Value and Market Cost:

Insured Amount: Ensure your vehicle's insured amount reflects its market value. If the market cost drops, consider adjusting your insured amount to avoid over-insuring and paying unnecessary premiums. Because of interest charges, what you owe the bank might be different to what your insurance will payout. Make sure you are aware of this or have gap cover that will pay the bank to avoid a short fall.

Comprehensive Coverage: Consider comprehensive insurance to protect against damage, theft, vandalism, and natural disasters.

Coverage Limits and Deductibles: Review your policy's coverage limits (the maximum amount the insurer will pay for damages or losses) and deductibles (the amount you need to pay out-of-pocket when making a claim eg. Excess) to ensure they align with your financial situation.

Usage and Mileage Restrictions: Familiarize yourself with any usage and mileage restrictions in your policy, as these can impact your coverage. Eg. Whether the vehicle is used for personal use and business and whether insurance will cover a driver other than yourself.

Policy Endorsements and Add-Ons: Consider additional coverage options, such as rental car coverage, roadside assistance, or loss of use coverage.

Vehicle Modifications: Declare any modifications or enhancements made to your vehicle, as these can impact your premium costs.

Premiums vary based on:

- **Age and driving experience:** Younger or less experienced drivers are statistically more likely to claim or be in accidents, so insurers charge more.
- **Driving history:** A clean record means lower risk.
- **Vehicle make/model:** High-value or high-performance vehicles cost more to insure. These are models with powerful engines - think BMW 3 Series, Mercedes C-Class - which are costlier to repair and more likely to be stolen.
- **Colour:** Some colours, especially metallic or pearl finishes, are more expensive to repair due to paint-matching complexity. White, silver, and basic solid colours often cost less to repair and may have slightly lower premiums.
- **Optional tyre & rim insurance:** Covers day-to-day hazards like potholes or debris, but not wear and tear. Some insurers may refuse claims if your tyres were deemed not roadworthy at the time of an accident
- **Security features:** Immobilisers, tracking devices, alarms - these can lower premiums.

Hijacking risk models often require tracker devices: Certain vehicles are especially targeted in South Africa; insurers may mandate even two independent tracking devices, or else strip theft/hijacking cover. Common high-risk models include (2025): Toyota Hilux, Volkswagen Polo, Toyota Fortuner, Ford Ranger, Nissan NP200, BMW 3 Series, Mercedes-Benz C-Class

4. Fuel Costs

Fuel efficiency can make or break your budget. The average fuel consumption is typically measured in liters per 100 kilometers (L/100km) or kilometers per liter (km/L). For example, a vehicle consuming 7 L/100km means it uses 7 liters of fuel to travel 100 kilometers.

To calculate your car's average fuel consumption, you'll need to track the distance traveled and the amount of fuel used.

- Average petrol price (2025): Around R25 – R27/litre.
- If you drive 1 200 km/month at 7L/100km, expect around R2 100 – R2 300/month.

What is considered "good" fuel consumption?

- Small cars: 5-6 L/100km.
- SUVs: 8-9 L/100km.
- Utes/Pickups: 7-8 L/100km.
- Hybrids: 4 L/100km.



Factors Affecting Fuel Consumption:

- Vehicle type: Different car types have different fuel consumption rates.
- Driving style: Aggressive driving can increase fuel consumption.
- Traffic conditions: Stop-and-go traffic can decrease fuel efficiency.
- Car maintenance: Proper maintenance can improve fuel economy.

5. Tyre Replacement

Tyres wear out faster than most first-time buyers expect.

Average lifespan: 40 000 – 60 000 km, depending on driving style and road conditions. Have tires inspected by a professional at least once a year, especially after 5 years of use, and regardless of tread depth, tires should be replaced after 10 years.

Replacement cost:

- Small hatchback: R1 200 – R1 800 per tyre.
- SUV: R2 500 – R4 000 per tyre.
- Performance vehicles: R4 000 – R8 000 per tyre.

Check tyre size before buying — larger, low-profile tyres are more expensive.



SERVICE & MAINTENANCE

Understanding Car Warranty, Service, and Maintenance Plans

When buying a car, understanding the differences between warranty, service, and maintenance plans can save you a lot of stress and financial trouble down the line. Here's a breakdown:

Warranty Plan

- Covers defects in materials or workmanship, including mechanical and electrical failures
- Typically included with new car purchases, with some manufacturers offering extended warranties
- Does not cover wear and tear, routine maintenance, or damage from accidents or negligence
- Examples: Manufacturer's warranty, extended warranty

Service Plan

- Covers routine maintenance services like oil changes, filter replacements, and brake inspections
- Designed to help manage costs and keep your car running smoothly
- Typically covers labor costs and standard parts, but not wear and tear items like brake pads or wiper blades
- Can be purchased separately or included with new car purchases

A Service Plan covers all your vehicle's scheduled maintenance services. Think oil changes, filter replacements, fluid top-ups, according to the manufacturer's service schedule. A service plan pays the full cost of a scheduled motor service which maintains elements that are guaranteed to wear down during normal use and has a specified time or mileage limit. Service plans usually have a set duration or mileage limit, such as 5 years or 60,000 km, whichever comes first. Yearly cost ranges from approximately R2 500 to R20 000 depending on vehicle make and requirements.

Most vehicles should be serviced either every 10,000 to 15,000 kilometers or every 12 months, whichever comes first. Major services are typically recommended every 30,000 to 45,000 kilometers. However, it's crucial to consult your car's manual for the specific service schedule recommended by the manufacturer.

Even with a service plan, some items may not be covered, make sure you understand the limits if your plan. Example of additional costs if you are not covered:

- Minor service: R2 000 – R4 000.
- Major service: R5 000 – R15 000.
- Brake pads: R1 200 – R3 000 per set.
- Battery replacement: R1 500 – R4 000.



Items typically not covered by a service plan:

- Wear and tear items: This includes items like brake pads, brake discs, clutches, and wiper blades.
- Friction components: Clutches and flywheels are often excluded.
- Suspension components: Shock absorbers and related parts may not be covered.
- Tyres and wheel alignment: These are generally not included in a service plan.
- Electrical components: Batteries and alternators might not be covered.
- Accident damage and insurance claims: These are usually handled by car insurance.
- Negligence or abuse: Damage resulting from improper use or lack of maintenance is not covered.
- Repairs to non-factory components: Modifications or aftermarket parts are typically excluded.

Cost comparison -Service Plan vs Out-of-Pocket:

A Service Plan might cost ~R4 000–R6 000 and cover scheduled servicing within a certain time range. Without it, a single major failure (e.g. cambelt) could cost 5–10 times as much.

Maintenance Plan

- More comprehensive than service plans, covering routine maintenance, mechanical failures, and wear and tear
- Includes coverage for parts like brake pads, wiper blades, and shock absorbers
- Designed for car owners who want extensive protection against unexpected repair costs
- Often more expensive than service plans, but provides greater peace of mind

A maintenance plan covers everything a service plan covers but is more comprehensive (and therefore more expensive).



Extended Warranty

All new cars come with a manufacturer's warranty, which is a promise from the manufacturer that the car is of good quality and the parts won't fail. However, as the car gets older, parts get weaker and present a higher risk of breaking or failure, so manufacturers limit the time or kilometers that their warranty is valid. Once the limits on your manufacturer warranty are exceeded, the components are no longer covered. At this point, you can extend your warranty.

Extended Warranty covers major mechanical failures like engine, transmission, electrical systems, turbo, clutch.

Extends your manufacturer's original warranty to cover major mechanical repairs (e.g. engine, transmission) that would otherwise be out of pocket. It offers more comprehensive protection than a Service Plan but tends to cost more - typically R5 000 to R30 000 per year. It can be purchased for both new and older vehicles.

So, when you buy a plan, make sure you know:

- What parts are covered
- What parts are not covered
- If labour costs are covered
- How claims are made and paid
- If there is a limit to the amount of any one claim or total claims
- If there is a limit to the number of claims each year

Should you not have any of these plans in place and you require repairs, you will need to find out the extent of the work required to make a decision as to what course of action to follow and how much money it will ultimately cost. As an example, engine replacement costs in South Africa can vary significantly, but generally range from R28,000 to R180,000 for new or remanufactured engines, [according to AutoTrader South Africa](#).

The exact cost will depend on factors like the vehicle's make and model, the age of the engine, the technology involved, and whether a new or remanufactured engine is chosen. Also consider the fact that if your car is with an auto mechanic, they will charge you a strip and quote. This is them partially or completely disassembling or removing the engine to find out how far the damage goes. Typically, this will be charged at an hourly rate that can go anywhere from R250 an hour to R5000 an hour, depending on the complexity of the car.

This is a massive out of pocket cost and you need to ensure you have additional funds available if you do not have a maintenance plan in place. Most people rely on credit for these large expenses – why not save for large expenses, or even better yet, invest for them!



WEIGHING THE OPTIONS

Whether saving cash, investing or opting for a service or maintenance plan is better depends on your specific situation and costs. Here are some factors to consider:

Benefits of Service and Maintenance Plans

Peace of mind: A plan can protect you from unexpected, costly repairs.

Coverage for older models: If your warranty has expired, a maintenance plan can be beneficial for older cars that require more frequent repairs.

When Saving Cash or Investing Might Be Preferable

New cars under warranty: If your new car is still under warranty, you might not need a maintenance plan, as major repairs and parts are likely covered.

Low maintenance costs: If you drive under normal conditions and don't expect high maintenance costs, saving cash might be a viable option.

Factors to Consider

Driving conditions: Poor road conditions, long distances, or frequent driving can increase wear and tear, making a maintenance plan more valuable.

Your financial situation: Consider your ability to cover unexpected repair costs and whether a plan provides financial security for you.

Ultimately, the decision depends on your individual circumstances, driving habits, and financial situation.

7. Vehicle Licensing and Registration

Annual licence renewal: R600 – R1 500 depending on vehicle weight.

Drivers licence renewal every 5 years: The cost to renew a license is typically around R250. If your license has expired, you may need to pay an additional fee for a temporary license, which can range from R72 to R100.

8. Depreciation

A new car's value depreciates rapidly, especially in the first few years of ownership. Typically, a new car can lose 15-20% of its value within the first year, and up to 50% or more within five years. The rate of depreciation then slows down as the car gets older.

Here's a more detailed breakdown:

- **First Year:** New cars experience the steepest depreciation, often losing 15-20% of their value in the first year.
- **First Five Years:** Over five years, a car can depreciate by 30-60% of its original value, according to Kelley Blue Book.
- **Beyond Five Years:** While depreciation continues, the rate tends to decrease as the car ages.

Several factors influence how quickly a car loses value, including:

- **Make and Model:** Some brands and models depreciate faster than others.
- **Age:** Older cars naturally depreciate more than newer ones.
- **Mileage:** Higher mileage can lead to faster depreciation.
- **Condition:** A well-maintained car with a good service history will generally hold its value better.
- **Market Demand:** Popular cars with strong demand will depreciate slower.

9. Leasing

Leasing a vehicle can be a viable option for individuals who want to drive a new car every few years without the long-term commitment of ownership. Here's a detailed breakdown of the pros and cons:

Pros

- 1. Lower Monthly Payments:** Leasing often requires lower monthly payments compared to financing a car purchase.
- 2. Latest Models:** Leasing allows you to drive a new car every few years, giving you access to the latest models and technological advancements.
- 3. Warranty Coverage:** Leased vehicles are usually under warranty during the lease period, reducing maintenance costs.
- 4. No Trade-In Hassle:** At the end of the lease, you can simply return the vehicle to the dealer, eliminating the need to sell or trade-in the car.
- 5. Tax Benefits:** For business users, lease payments can be tax-deductible as operational expenses.

Cons

- 1. No Equity:** At the end of the lease, you won't own the vehicle and won't have any equity in it.
- 2. Mileage Restrictions:** Leases often come with mileage limits (e.g., 20,000 km per year). Exceeding these limits may result in additional fees.
- 3. Wear and Tear Fees:** You may be charged for excessive wear and tear on the vehicle when you return it.
- 4. Limited Customization:** Since you don't own the vehicle, you may be limited in the customizations you can make.
- 5. Penalties for Early Termination:** If you need to end the lease early, you may face penalties or fees.



Who Leasing is Suitable For

Business Users: Leasing can be beneficial for business owners who need vehicles for work purposes and want to claim lease payments as tax deductions.

High-Mileage Drivers: If you're not a high-mileage driver, leasing can be a good option, as you'll be less likely to exceed mileage limits.

Those Who Want New Cars Frequently: If you enjoy driving new cars every few years, leasing can provide a convenient and cost-effective way to do so.

Who Leasing May Not be Suitable For

Long-Term Drivers: If you plan to keep a vehicle for an extended period, buying might be a more cost-effective option.

High-Mileage Drivers: If you drive extensively, leasing may not be the best option due to mileage restrictions and potential fees.

Those Who Want to Customize: If you want to make significant customizations to your vehicle, buying might be a better option.

Cost Comparison

Leasing can be 10-30% cheaper than buying, depending on the vehicle, lease terms, and interest rates. However, at the end of the lease, you'll have no equity in the vehicle.

Let's consider a R300,000 vehicle:

- Leasing: R5,000 per month for 3 years (R180,000 total)
- Buying: R300,000 purchase price, with R5,000 per month loan payments for 3 years (R180,000 total interest)
+ R300,000 purchase price = R480,000 total

In this example, leasing might be more cost-effective in the short term, but buying could provide long-term value if you keep the vehicle beyond the loan period.



FINANCES & FEELINGS

Cars represent identity, achievement, and community, not just a means of transport. The drive to impress others through a car purchase is deeply rooted in several psychological and sociocultural factors:

Social Status & Signaling Theory

In psychology and economics, signaling theory explains how we use visible symbols to communicate traits that may not be directly observable, such as wealth, taste, or competence. Dopamine release in the brain makes “big purchases” feel exciting and rewarding. That high is short-lived; in psychology this is called hedonic adaptation - people quickly get used to new pleasures and seek the next “hit.” In many societies, cars are linked to independence, success, and adulthood.

Why cars?

A car is large, highly visible, and often encounters both strangers and acquaintances in public settings, making it a prime status signal. Vehicles offer an immediate, visible narrative - sporty, luxurious, eco-conscious, rugged, etc.

- **Cultural conditioning: Movies, ads, and influencers constantly portray luxury or sports cars as “rewards” for hard work.**
- **Cars often connect to aspirations. People imagine themselves in a better, more admired version of their life behind the wheel.**
- **A car represents mobility, autonomy, and freedom, all deeply desirable traits.**

Example: Driving a luxury German sedan signals high income, refined taste, and perhaps even ambition, regardless of whether those are accurate. Someone who sees themselves as adventurous may lean toward a 4x4 SUV, even if 99% of their driving is on urban roads.

What We Should Actually Consider When Buying a Car

While the desire to impress is human, it's worth rethinking the decision through a more rational, values-based lens.

Total Cost of Ownership (TCO)

Calculation: Purchase price + insurance + fuel + maintenance + depreciation.

Example:

- Car A: R800,000 luxury sedan
 - Depreciates 20% in first year → R160,000 loss in value.
 - Maintenance & insurance over 5 years: R350,000.
 - Fuel: R200,000.
 - 5-year TCO: R1,510,000.
- Car B: R400,000 mid-range sedan
 - Depreciates 15% first year → R60,000 loss.
 - Maintenance & insurance over 5 years: R200,000.
 - Fuel: R150,000.
 - 5-year TCO: R810,000.

Status premium paid: R700,000.

Financial Opportunity Cost

If you spend R700,000 more on a "status" car, that's capital you could:

- Invest (potential growth of R1.1m over 10 years at 7% return).
- Use for property, education, or early retirement.

Cars are depreciating assets. Status comes at the cost of long-term wealth.

The Numbers Reality Check

Let's take a practical example to see the hidden cost of "impressing".

Scenario:

- Two friends both need a car for work.
- Person A buys a brand-new luxury SUV for R1,200,000.
- Person B buys a reliable used hatchback for R250,000 and invests the difference.

Step 1: Depreciation after 5 years

The average new car loses ±50% of its value in 5 years.

- Luxury SUV value after 5 years** = R1,200,000 × 50% = R600,000 loss.
- Hatchback value after 5 years (same % drop)** = R250,000 × 50% = R125,000 loss.

Difference in depreciation alone: R600,000 – R125,000 = **R475,000.00 lost just to look more "impressive."**

Step 2: Finance Cost (assuming 9% interest over 5 years)

Luxury SUV: R24,942/month × 60 months = R1,496,520 total paid

Interest paid = R1,496,520 – R1,200,000 = R296,520

Hatchback: R5,196/month × 60 = R311,760 total paid

Interest paid = R311,760 – R250,000 = R61,760

Extra interest cost for "status": R296,520 – R61,760 = R234,760.00

Step 3: Insurance & Running Costs (5 years)

- Luxury SUV** = R3,500/month insurance → R210,000 total
- Hatchback** = R1,200/month insurance → R72,000 total

Difference: R138,000.00

Fuel (SUV uses 12L/100km vs hatchback 6L/100km, at R25/L, 15,000km/year):

- SUV fuel** = 12 × 15,000 ÷ 100 × R25 × 5 = R225,000
- Hatchback fuel** = 6 × 15,000 ÷ 100 × R25 × 5 = R112,500

Difference: R112,500.00



Total 5-Year Extra Cost for Status Car:

Depreciation: R475,000

Extra Interest: R234,760

Extra Insurance: R138,000

Extra Fuel: R112,500

Grand Total = R960,260 spent just to impress

That's nearly a million rand not building your wealth.

Ask yourself: Is this car about me, or about how I want others to see me?

Buying a car to impress is a mix of natural human psychology, cultural messaging, and personal identity projection. It's not inherently wrong - status symbols have existed throughout history, but the risk is letting social perception override personal financial security and practical needs.

A wiser approach is to blend emotional satisfaction with rational decision-making: choose a car that meets your needs, fits your budget, and reflects your values, not just society's scoreboard.



INVESTING FOR A CAR

Investing for a car or deposit instead of relying on credit or a full loan can make a significant difference in your financial well-being. By saving for a substantial deposit, you'll reduce your loan amount, lower your monthly payments, and minimize interest charges. This approach not only saves you money in the long run but also helps you avoid debt traps and builds a healthier financial foundation. With a sizeable deposit, you'll have more control over your finances and enjoy greater flexibility and peace of mind.

The Car Loan

- Vehicle price: R300,000
- Term: 72 months (**6 years**)
- Interest: 9%
- Monthly repayment: ±R5,386
- **Total paid: R387,792**
- **Interest wasted: R87,792**

The Investment Alternative

Imagine instead of taking the loan, you invest the same monthly amount (R5,386) into a solid growth investment.

- Investment vehicle: 10% p.a. — achievable over the long term)
- Contribution: R5,386/month
- Timeline: **6 years (same as the loan term)**

Result after 6 years: R470,000 – R490,000 (depending on compounding and fees)

Use our vehicle investment calculator on our [Dream Builder Tools](#) page.

You won't believe the difference it can make to invest instead of using credit!



Vehicle Purchase Expense List

Use this list to ensure you have an informed budget for your vehicle purchase.

Cost Checklist:

- ☐ Purchase price (cash or financed)
- ☐ Deposit (if financing)
- ☐ Monthly instalment (if financing)
- ☐ Interest charges (total over loan term)
- ☐ Balloon payment (if applicable)
- ☐ Admin/on-road costs (dealer admin, licensing, registration, number plates)
- ☐ Extended warranty (optional but can be costly upfront)
- ☐ Budget if Extended Warranty/Extended Service Plan is not in place
- ☐ Service or maintenance plan (if not included)
- ☐ Tyre replacement fund (averaged over lifespan)
- ☐ Insurance premium (comprehensive cover)
- ☐ Insurance excess (if a claim happens)
- ☐ Annual licence renewal fee
- ☐ Tracker if required
- ☐ Aftermarket accessories (tints, mats, tow bar, smash-and-grab film)
- ☐ Car wash/detailing costs
- ☐ Minor repairs (wipers, bulbs, scratches)
- ☐ Major mechanical repairs (if out of warranty — e.g., gearbox, engine)
- ☐ Seasonal maintenance (aircon regas, coolant, brake pads)
- ☐ Roadside assistance subscription (if not included)
- ☐ Fuel (monthly usage cost — biggest ongoing expense)
- ☐ Traffic fines (planned or unplanned)
- ☐ Parking fees (daily work parking, shopping centres, events)
- ☐ Toll fees (if you drive on toll roads regularly)
- ☐ Loan settlement penalty (if you pay off early)
- ☐ Trade-in shortfall (if car's value drops faster than loan repayment)
- ☐ Detailing for rust prevention (especially in coastal areas)
- ☐ Car battery replacement (every ± 3 years)

My GOTO is more than just a financial guide – it's a personalized wellness tool that helps you identify areas where you can improve and celebrates the aspects where you're thriving. With our expert advice, interactive tools, and tailored recommendations, you'll gain a deeper understanding of your financial health and develop strategies to achieve your goals.