

Automotive News

You may not reproduce, display on a website, distribute, sell or republish this article or data, or the information contained therein, without prior written consent. This printout and/or PDF is for personal usage only and not for any promotional usage. © Crain Communications Inc.

May 16, 2022 12:00 AM

Longing for leasing to return to the level seen before pandemic

It's in the vested interests of the whole industry to restore leasing to its previous levels when production and inventory stabilize.



LARRY P. VELLEQUETTE

Reporter covering Toyota and Volkswagen for Automotive News

New-vehicle leasing has dropped by more than 36 percent during the pandemic, for a variety of reasons. But it's in the vested interests of the whole industry to restore leasing to its previous levels when production and inventory stabilize.

There was an understandable, if troubling, statistic that stuck out amid the double-digit sales declines of April, one that ought to give dealers some anxiety about the future: Leasing, as a percentage of sales, fell to just 19 percent last month — a significant drop from its pre-COVID level of around 30 percent.

While it may not be the shrewdest long-term financial play for some consumers, leasing has evolved into an important piece of the U.S. auto industry, a piece that should be fully rebuilt and prioritized once production levels stabilize and new-vehicle inventories recover from their historic lows.

For dealers and automakers, robust new-vehicle leasing has historically been a flexible, multilevel strategy that helps build brand loyalty, consumer engagement and customer satisfaction while making the vehicles more affordable on a monthly basis. But for the last couple of years, we've been living through more historic than historical times, and the leasing market has taken it on the chin, as shrinking incentives and rising prices teamed up with relatively low interest rates to make purchases more economically attractive to consumers.

Ups and downs of buying

For many, if not most, consumers coming out of leases over the last two years, sky-high used-vehicle prices and low incentives meant that the cheapest replacement vehicle to buy was the one they'd already been driving, explained Tyson Jominy, vice president of data and analytics at J.D. Power. That was especially true if those consumers had their driving or commuting habits curtailed by the pandemic, leaving them significantly under-miled compared with the lease residual levels they had agreed to three years earlier, before the pandemic began. Many simply bought out their leases and kept their vehicles, or bought them out at the residual price and sold them in the current inflated market, pocketing the difference.

But those traditional lease customers – especially in luxury segments – who took advantage of their good fortune and bought their cars outright "may be in for a nasty surprise," Jominy warns.

"During [COVID], a lot of consumers that have shifted over from leasing to buying have never known a day of maintenance in their lives, let alone the costs of luxury repair, and I do think there's a bit of risk there," he said. "Those luxury consumers tend to be pretty happy because they don't know any of the bad things of owning a luxury car; they've never experienced it."

But that is likely to change when they're on the hook for the basic maintenance trip that can easily run into the hundreds of dollars.

Leasing's biggest value to the industry is something that most consumers rarely think about: control. Leasing gives automakers, lenders and dealers the ability to entice their consumers to return to the dealership at a time largely of the lessor's choosing. Consider that a lessor knows before any of its competitors when a lessee will return to the market for a new vehicle and as a result can target marketing resources very efficiently to get them back into another vehicle.

RELATED ARTICLE



Here's our 2022 list of the top U.S. dealership groups

Perpetuating profits

Lease pull-aheads and targeted incentives also populate the profit-rich certified pre-owned pipeline, allowing dealers to make additional profits on the same vehicle from subsequent owners while building their brands.

When production levels normalize and pent-up demand is met, allowing inventory levels to grow again, I hope that automakers and lenders can restore leasing levels to something closer to their previous norm.

It's something that's important to the whole industry, even if the resulting incentive spend might bite into those fat bottom lines they've grown so accustomed to over the last few years.

"The lease market is a beautiful thing," Jominy mused. "when it's working."

Inline Play

Source URL: <https://www.autonews.com/commentary/new-vehicle-leasing-dropped-more-36-percent-during-pandemic>