Appraiser Blog

Should Leasing Rates Return to Pre-Recession Levels?

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Retail leasing returns in the United States are poised for a roller-coaster ride, as we head into 2024. According to Experian, one of the leading consumer credit reporting companies, the upcoming year will bring both highs and lows to the automotive leasing industry.

While the second quarter of 2024 is expected to see a surge in leasing returns, with numbers reaching a staggering 1.1 million, the excitement is predicted to be short-lived as this figure is anticipated to plummet to 640,000 by the end of the same year. This downward trend is expected to continue through late 2025, with the lowest expected number of returns being 510,000.

Impact of Lease Terminations

The projected decline in leasing returns is a topic of concern for industry experts and analysts. Lease terminations play a crucial role in the automotive market, bringing customers back into the showroom while also acting as a vital supply of late-model used vehicles.

However, in recent years, leasing rates have experienced a downtrend, and a significant drop in lease terminations could result in a "drought" of late-model used vehicles, warns Melinda Zabritski, Experian's senior director of automotive financial solutions.

Balancing Loyalty and Affordability

The full implications of this decline in lease returns hinge on several factors. Firstly, it depends on the supply of new vehicles and the level of competition dealers face from fleet companies at auctions. Increased demand for used vehicles earlier in the year led to surges in prices, but improvements in new vehicle inventory and incentives managed to temper this trend. However, a looming supply crunch, brought on by a declining leasing cycle, could once again drive prices upward, according to Zabritski.

In terms of statistics, the leasing landscape has undergone noticeable shifts in recent years. In the second quarter of 2023, the lease rate for all new vehicles stood at 21 percent, a notable decrease from the 28 percent observed in the same quarter of 2021. Despite this drop, Zabritski points out that 2023's leasing rates are quite comparable to those recorded before the recession, highlighting that leasing remains a strong driver of customer loyalty.

However, the question remains whether leasing rates need to return to their pre-recession levels, reaching 30 percent. Zabritski refrains from speculating, as it's a complex and dynamic market that is influenced by a multitude of factors.

Satyan Merchant, Senior Vice President at TransUnion, underscores the challenges the industry has faced, particularly in 2021, where steep declines in inventory were observed due to supply chain disruptions and pandemic-related production constraints. Now, as we approach late 2024, it marks the three-year anniversary of these inventory shortages, making it an opportune moment for dealers and manufacturers to capitalize on the wave of lease terminations for the next six months or so.

Loyalty and Affordability

Loyalty and affordability are two key drivers in the leasing landscape. Leasing serves as an incentive program for automakers, but as leasing rates have decreased, dealers are having to work harder to maintain customer loyalty.

Merchant points out that while there will always be a market for leasing, there might be fewer consumers returning leases in the future, which is why it's crucial to target and engage with these consumers.

Monthly Payments: Leasing vs. Loans

Affordability is another critical aspect of customer loyalty in the automotive industry. As interest rates on loans continue to rise, leasing becomes an attractive alternative. In the second quarter of 2023, the average monthly lease payment was $586, compared to the average monthly loan payment of $729, according to Experian.

Notably, this gap widens for specific vehicle types, particularly large pickups. For instance, the average loan payment for a Ford F-150 was $382 more than the average lease payment during the same quarter. This makes leasing a viable option for consumers looking to mitigate increased payments amidst rising interest rates.

In conclusion, the automotive leasing landscape is poised for a year of fluctuation in 2024, with returns expected to surge and then plunge. The full impact of this shift will depend on a variety of factors, including new-vehicle supply, competition from fleet companies, and consumer preferences. As the industry adapts to these changes, customer loyalty and affordability will remain essential considerations, ensuring that leasing remains an appealing option for consumers in the ever-evolving automotive market.