“WHY SHOULD I LEASE RATHER THAN BUY?”

By

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Why Lease?

John Paul Getty, the billionaire oil tycoon and said to be the richest man in history, once remarked: “If it appreciates, buy it. If it depreciates, lease it.”

A lease is essentially a long-term rental agreement, offering exclusive use of a car for a set period at a fixed monthly price.

It’s already hugely popular in the US, and many UK drivers are now considering leasing as an alternative to buying a new car with a bank loan or dealer finance.

In fact, the number of new cars funded through either a business or personal lease has grown by over 50% since 2009 and is continuing to climb.

A car is not like a house which usually appreciates in value after purchase. When you drive away in your brand new car, it is already losing value! If you take out a car loan or car finance agreement to purchase a car, you are simply paying a set amount a month for something that is losing, not gaining value.

In simple terms, you are buying a product which is depreciating in value not only every time you drive it but also when it is sat on your drive!

The greatest cost of buying any new car is depreciation, and many new cars will lose more than half their initial value after the first three years of ownership.

Yes, the recent recession means that new cars are very cheap at present, but are also correspondingly lower in value – so if you buy now, your car could be worth rather less than you bargained for in a few years’ time!

Leasing Explained

Leasing a car lets you avoid any unexpected costs by offering a fixed monthly payment for the term of the lease.

You can even add an extra charge for maintenance to this monthly bill to spread the cost of servicing.

Leasing companies tend to charge a non-refundable deposit, usually equivalent to three or six monthly payments, at the start of the lease. Then, at the end of the lease period (typically two, three or four years), you simply hand the car back.

The job of selling the car and picking up the tab for depreciation falls to the lease company.

Monthly payments for leasing are often much lower than for buying a car on finance, but the overall cost over three years is often higher, as you don't benefit from the sale of the car at the end of the term.

The cost of leasing versus buying with finance can vary hugely depending on which car you choose.

A new vehicle in high demand such as the Range Rover Evoque (which has a 7 month + waiting list at time of publication), would hold a high percentage of its original value after three years for example, so may prove more economical to buy on finance.

However, a fast-depreciating Ford Mondeo retains just 36% of its value after three years, so it's cheaper to lease.

The principle with leasing is that your monthly payments cover the cost to the lease operator of the vehicle's fall in value while you rent it, plus their profit. That's why it can often be surprisingly cheap to lease upmarket makes such as a Mercedes-Benz or BMW, or special editions of other marques expected to hold their "residual" value.

Other factors affect depreciation, such as fuel efficiency and tax. When tax or fuel goes up, gas guzzlers will depreciate faster.

The significance of a vehicle's anticipated level of depreciation also explains why the mileage conditions in a lease contract can sometimes seem harsh.

Heavy mileage devalues cars faster, and so lease agreements, generally of 24 or 36 months, include mileage limits (typically 10,000 – 15,000 per year) and pence per mile penalties if these are exceeded. Leasing is great for those wanting a comfortable or eye-catching vehicle, but no so much if they are going to rack up serious mileage.

Doing The Sums. How Leasing Compares With Buying

Lease deals require a deposit payment, usually calculated as a multiple of the monthly rental figure. A bigger initial payment (for instance, equivalent to six months rather than three) reduces the subsequent monthly payments. There is usually a choice. Monthly payments also cover the cost of road tax for the duration of the contract.

Take an example of one of our most popular recent deals, a 47 month personal lease on a Mercedes A180 1.5 CDI Auto Sport. Your initial payment would be £1473.84, which is six times the following 47 months' payments of £245.64. The annual mileage limit on this vehicle was 10,000.

After 47 months, your use of this car – excluding insurance and fuel – has cost you £13,018.92

Say you bought it. The brochure price is slightly less than £22,785 and "What Car?" magazine gives a target price of £20,890 (March 2015 edition).

This particular example also includes £600 worth of extras, which along with the road tax cost over the 4 years (at the current rate of £20 per year for a Band B), takes the total value to £21,570 (assuming target price achieved).

You also need to factor in the cost of your money over the period if buying outright, or the total cost of repayments if buying the vehicle by way of a loan.

Based on an APR of 6.1%, this would equate to a total cost of £24,275 over the 4 years.

Motoring organisation the AA puts average depreciation across all makes at 20% per year – although this average figure works best over long periods of ownership because in the first year, the vehicle's value can slump by anything between 10% and 40%, it says.

Assuming a 20% annual depreciation from the target price, this Mercedes would be worth £8802 after four years (assuming 40,000 miles on the clock).

Therefore, the true overall cost of buying this car outright would be £15,473, compared to an overall leasing cost of £13,019 – a saving of £2454!

So, to Summarise, Let’s Take a Look at The Main Benefits of Car Leasing:

- Monthly repayments will be on average between 35% and 55% lower than the repayments on a car loan. Also, in the majority of lease agreements, only a small deposit is necessary, usually amounting to either 3 or 6 monthly payments.

- One of the biggest attractions of car leasing is that you are able to drive away in a car that might be out of your price range in terms of purchase price.

- The car manufacturer warranty will normally cover the period of the lease and maintenance costs can be covered. Road tax is also usually included in the lease.

- No huge up-front costs, capital outlay or car loans.

- Fixed price motoring where most costs remain the same for the period of the lease.

- You can drive a brand new car every two to four years and benefit from the safety, fuel economy and performance advancements found on newer models

Finance Methods Explained

Business Contract Hire (BCH)

Contract hire is a vehicle leasing contract for sole traders, partnerships, limited companies and PLCs. The Hirer benefits by paying a single fixed rental each month. This includes road fund licence in most cases and, if required, service and maintenance.

Rental periods typically vary between 18 and 48 months, there is no large initial payment to be made as deposits are usually equivalent to 3 or 6 months rental.

VAT is payable on rentals but is partially reclaimable (50%) by VAT registered businesses on cars and fully reclaimable on commercial vehicles.

At the end of a contract the vehicle is returned to the lender at the agreed contract mileage with no final or balloon payment to be made. If the mileage on the vehicle at the end of the contract is higher than the contracted mileage, then there will be an excess mileage charge to pay (which is stipulated in the agreement). This is typically 5p - 10p per mile.

Personal Contract Hire (PCH)

Personal Contract Hire (PCH) has been specifically designed for people opting out of a company car scheme or joining a new company that provides a company car allowance, instead of a company car.

A PCH contract includes road fund licence and, if required, service and maintenance. Rental periods typically vary between 24 and 48 months.

There is no large initial payment to be made as deposits are usually equivalent to 3 or 6 months rental.

At the end of a contract the vehicle is returned to the lender at the agreed contract mileage with no final or balloon payment to be made. If the mileage on the vehicle at the end of the contract is higher than the contracted mileage, then there will be an excess mileage charge to pay. This is typically 5p - 10p per mile.

Personal Contract Purchase (PCP)

Personal Contract Purchase (PCP) is available to everyone, subject to status.

PCP provides a new or used vehicle for a pre-determined period, normally 24 - 48 months. Like contract hire the contract has a low initial payment, usually 3 monthly payments, followed by fixed payments for an agreed period with an agreed mileage.

At the end of the contract period, there is a guaranteed future value that you have the option of paying to take ownership of the vehicle, or you can hand back the car to the finance company without penalty.

Hire Purchase (HP)

Hire purchase is a simple, straightforward way to spread the cost of buying a new car. It is fixed rate finance - with a fixed monthly payment.

The deposit you pay is flexible - from as little as £99. The remaining balance, plus fixed interest, is repaid in equal instalments over an agreed period, usually 12-60 months.

Lease Purchase

Lease Purchase is essentially Hire Purchase with a balloon payment at the end of the contract. Lease Purchase offers lower monthly payments than normal hire purchase. Instead, at the end of the agreement, you can make a final lump sum payment (or 'balloon') to own your car.

It's fixed rate finance - but with a lower fixed monthly outlay since you defer repayment of some of the borrowing. At the end of the agreement options include car purchase, refinance, part exchange or resale.

The deposit you pay is flexible - from as little as £99. The remaining balance, plus fixed interest, is repaid in equal instalments over an agreed period (12-60 months) plus a final balloon payment.

Finance Lease

Finance lease is a financing option available to businesses only. It allows payment of the entire cost of the vehicle over the life of the contract with or without a final 'balloon' payment.

At the end of the agreed term and after the balloon payment (if applicable) has been paid, you can either:

- Continue to use the vehicle by paying an annual 'peppercorn' rental or,

- Sell the vehicle to a third party and retain 98% of the proceeds of sale. The remaining 2% must be paid to the finance company.

This type of finance is often attractive to the building and construction industry as there is no damage re-charge at the end of the contract and no mileage restrictions, although a higher mileage will affect the residual value if the contract incorporates a 'balloon' payment.

Non Status/Sub Prime Contracts

These are available for new start companies and businesses or individuals that have experienced credit problems in the past. Initial payments are typically 6 times the monthly rental.

Sale And Leaseback

If your company already has vehicles that have been purchased in the past, we can arrange for a finance company to buy the vehicles off you to give a capital injection to the business. The vehicles would then be leased back to you at competitive rates. This would be subject to age, mileage and value of the vehicles concerned.

Get In Touch!

For further information on any of the aspects included in this report, or for a quote on a vehicle, please contact us on the details shown below.

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