Industry Insight

BVRLA

Leasing Outlook

Oct 2023

Moving in the right direction

Fleet growth, rising demand and improving vehicle supply

Market spotlight
LCV fleet continues to outperform car fleet

Quarterly report
Maintenance-inclusive contracts rise dramatically

Industry outlook
Concern over EV residual values and rapidly rising used volumes

Opinion
Volatility and nuance of the used car market

In association with: AutoTrader, SOLERA Vehicle Solutions | cap hpi, fleet assist, asset finance connect

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Disclaimer

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Market Headlines

- **BVRLA fleet grows 2% year-on-year** (page 4)
- **Car fleet up 1.8%; van fleet up 2.4% year-on-year** (page 5&9)
- **BCH car fleet up 4.4% year-on-year; salsac up 54.6% YOY; PCH down -8.4% YOY** (page 5)
- **BEVs account for 48% of all new BCH cars; -24% fall in average car CO_2 emissions since 2019** (page 6)
- **70.5% of new car contracts and 71% of new van contracts include maintenance** (page 7)
- **Used vehicles account for 20,554 lease contracts** (page 8)
- **Fleet management in the LCV sector is up 32% year-on-year** (page 9)

Executive Panel

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Each quarter, we obtain the views of a selection of members of our Executive Panel to enhance our report insights. To join the panel email Phil Garthside at **phil@bvrla.co.uk**.

Market Summary

It would be premature to declare business as usual, but both quantitative and qualitative data point to the BVRLA leasing sector gradually returning to its pre-pandemic business trajectories, before coronavirus hurled a giant spanner into the works.

The new vehicle supply situation is well on the road to recovery, amid shorter lead times and greater certainty that orders will be fulfilled, while the Bank of England has, for the time being at least, lifted its foot off the interest rate accelerator pedal after 14 consecutive increases.

These improving conditions have helped BVRLA leasing companies to increase their combined fleet size by the end of Q2 2023 to 1% ahead of the total for the same quarter in 2019, when lockdowns started to strike.

The light commercial vehicle fleet has surged ahead in the last six months, breaking the 500,000 barrier as the drought of new vans has eased, although Q2's total of 509,986 is fractionally down on Q1's 510,582 units. Industry data has also shone a spotlight on the essential business need for company cars, alongside their recruitment and retention value. New contract hire agreements reveal how working from home and video-conferencing have not removed the need for staff to travel, with the average business contract hire car now supplied on a 40-month, 53,000-mile policy, compared to 36 months and 28,000 miles for personal contracts.

Despite these encouraging green shoots of recovery, it is not difficult to find dark clouds on the horizon, with the eye of the storm centred on the residual value prospects of electric vehicles.

Car choices in the fleet sector are now sharply out of kilter with the retail market. Company car drivers may be flocking towards the benefit in kind tax advantages of zero emission models, but private drivers remain cautious. Almost half (48%) of new business contract hire cars were battery powered in Q2 2023, a market share three times higher than for the total new car market, according to SMMT figures. Strip fleet totals from the SMMT's sales data and the variance widens further.

Industry frustration deepened as this report went to press, following the Prime Minister's announcement of a five-year postponement to the ban on the sale of new petrol and diesel models. Pushing the deadline back to 2035 risks undermining the impetus that had been building towards battery-powered cars and threatens to delay the investment decisions of public charging companies whose networks are vital to underpin demand for used EVs.

New product development teams are now keenly engaged in creating solutions that will give a second life to the first generation of electric cars set to return to the market in the next couple of years, rather than leave them to freefall in the used car market. AutoTrader's tracking of a 19% year-on-year fall in used EV prices in June has left leasing companies anxiously looking at their portfolios. Most report that they are in the black for EVs coming to the end of their contracts at the moment, but only because they made pessimistic forecasts three to four years ago. Unless the supply-demand equation in the secondhand market shifts markedly and swiftly, the rising volumes of ex-lease EVs look set to outstrip retail demand considerably, bringing inevitable downward pressures on prices.

Industry voices are working hard to change the prevailing narrative in the face of negative press reports about EVs, but there's a widespread feeling that the Government needs to send a clear message that battery-powered cars represent the future (not helped by the reprieve to 2035 for internal combustion engine models) as well as introduce measures to stimulate retail demand for electric cars.

The ultra-low benefit-in-kind tax rate for zero emission company cars is succeeding in its objective to transform the powertrains of business fleets, with the BVRLA car fleet the most climate-friendly it has ever been. The average CO_2 emissions of a lease car is now 85.8g/km, down 25g/km in just three years, and the decline in emissions of new cars added to the BVRLA fleet in Q2 2023 was even more pronounced at only 60.1g/km, a full 44% and 47g/km lower than the same quarter of 2020.

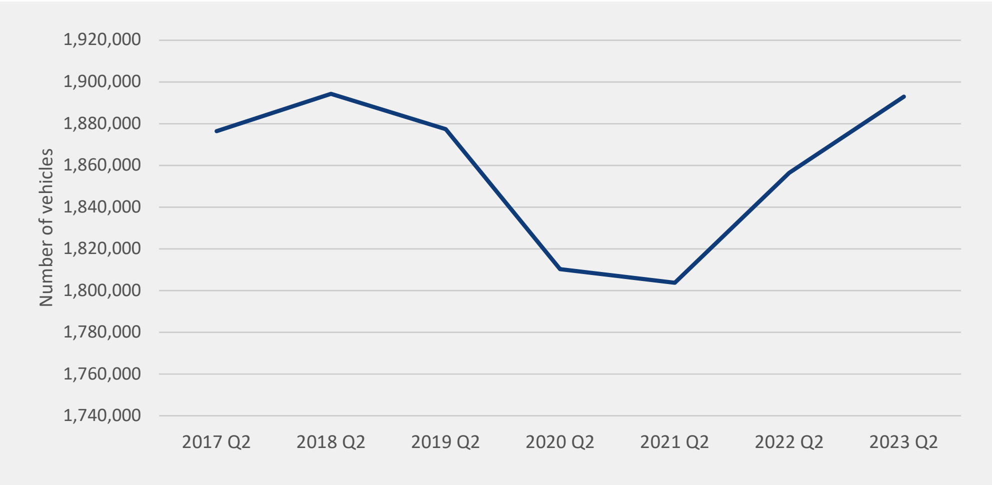
The same tax advantages for zero emission cars financed through salary sacrifice arrangements are also cleaning workplace car parks, with salary sacrifice numbers soaring by 54.6% year-on-year, the brightest beacon in this report.

The LCV sector, however, is failing to match these sharp declines in emissions, with diesel still the dominant source of energy. Average emissions of vans joining the BVRLA fleet were actually higher in Q2 than Q1 2023, due perhaps to heavier, higher emitting vehicles accounting for a greater share of new contracts, and there's little sign of any meaningful switch to electric models. E-LCV performance is improving, but van operators tell leasing executives that cost, battery ranges (especially when loaded and in the cold), payloads and recharging difficulties present an insurmountable operational barrier to widespread adoption. Businesses without a back-to-depot duty cycle are finding the transition to electric vans particularly hard from a charging perspective, and even those businesses whose vehicles dwell peacefully overnight back at base are encountering delays and eye-watering costs if they need to upgrade power supplies to the premises.

Looking ahead, there is general industry confidence that demand is rising and fleet sizes are growing, but this has to be countered by the more negative outlook for the UK economy and a majority feeling that margins will contract.

BVRLA Fleet Focus Q2 2023

Vehicles operated by BVRLA members



BVRLA fleet resumes growth trajectory

The increasing supply of new vehicles, after Covid-19 and semiconductor shortages, has helped BVRLA members to resume fleet growth, with the total fleet rising by almost 2% year-on-year to 1,892,918 vehicles.

The increase also represents a quarter-on-quarter rise, with new 23-plate vehicles nudging the total fleet up by almost 25,000 vehicles.

While still patchy in places, vehicle availability is improving and lead times shortening, with three to six months a more realistic order time, although there are still pockets where customers have to wait up to a year for delivery.

TREND

+36,435

(+1.96%)

YEAR-ON-YEAR GROWTH IN TOTAL FLEET

Overall fleet

Total fleet

1,892,918 vehicles

(+1.96% YEAR-ON-YEAR)

Share of total fleet

	Q2 2019	Q2 2023
Cars	78%	73%
Vans	22%	27%

Vans outperform cars

The total number of light commercial vehicles operated by BVRLA members has stayed above the clouds, exceeding the half million mark for the second time, as the LCV fleet continues to outperform the car fleet, pushing ahead 2.4% year-on-year compared to 1.8% for cars.

This growth is even more impressive given the supply constraints that the LCV sector has suffered.

For the fleet as a whole, Q2 figures are 1% ahead of the same quarter in 2019, when the impact of Covid-19 lockdowns first began to be felt, signalling an important recovery in the long-term trajectory of the BVRLA fleet.

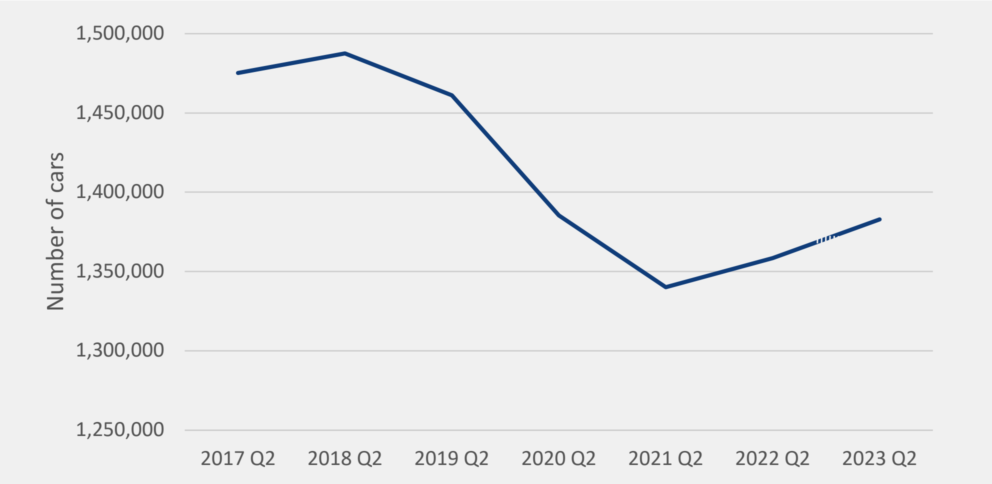
TREND

509,986

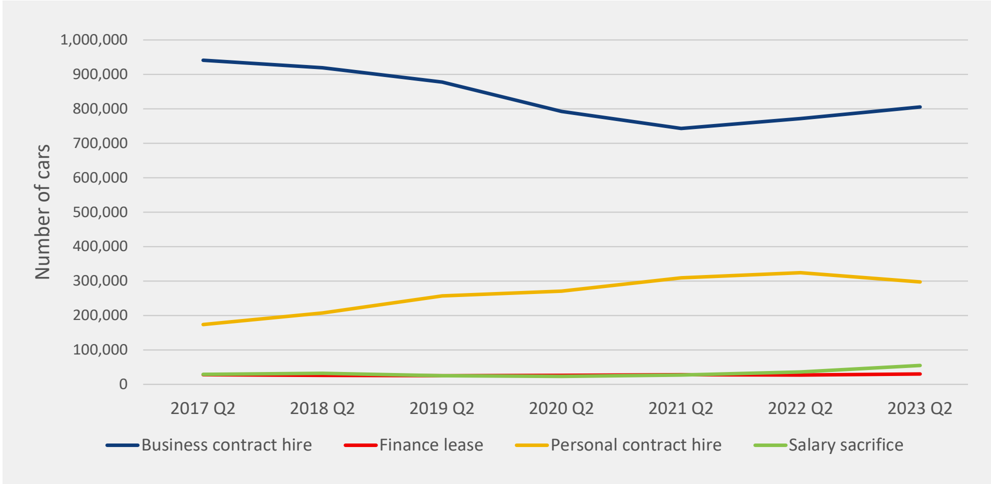
(+2.4% YEAR-ON-YEAR)
NUMBER OF LCVS ON THE BVRLA FLEET

BVRLA Fleet Focus Q2 2023

Total car fleet



BCH v PCH car fleet



Onwards and upwards for car fleet

The direction of travel for BVRLA members' car fleet is positive, maintaining the uptick of two years of growth, but the total is still marginally below the tally for pre-pandemic Q2 2019, and about 130,000 shy of Q4 2017's high point.

New cars are finally starting to replace extended contracts, delivering a welcome refresh to lease fleets, and leasing companies are confident about future growth prospects, reporting that demand is steady rather than spectacular as both business and private customers come to terms with the inflation that has impacted new car prices and interest rates since they last renewed their cars.

TREND

1,382,932
(+1.8% YEAR-ON-YEAR)
BVRLA CAR FLEET

Salary sacrifice continues its surge

Clear winners and losers are emerging in the BVRLA's Q2 car fleet figures from the different funding solutions offered to finance business and private cars.

In the business sector, contract hire, which accounts for the largest volume of cars on the BVRLA fleet, is 4.4% up year-on-year at 805,674 vehicles, while finance lease numbers have jumped 9.8% to 30,119 units. Heading in the opposite direction, personal contract hire volumes have declined by -8.4% as drivers have baulked at the substantial increase in monthly rentals.

Soaring ahead of all of these sectors, however, is salary sacrifice reaching nose-bleed inducing heights of 54.6% growth to account for 55,280 cars.

TREND

-8.4%
DECLINE IN PCH FLEET

TREND

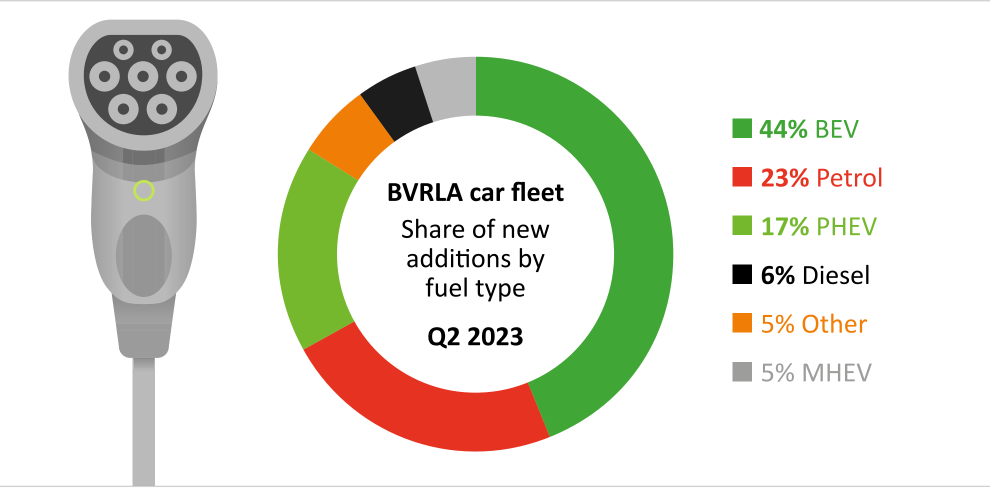
805,674
(+4.4% YEAR-ON-YEAR)
BCH CAR FLEET

TREND

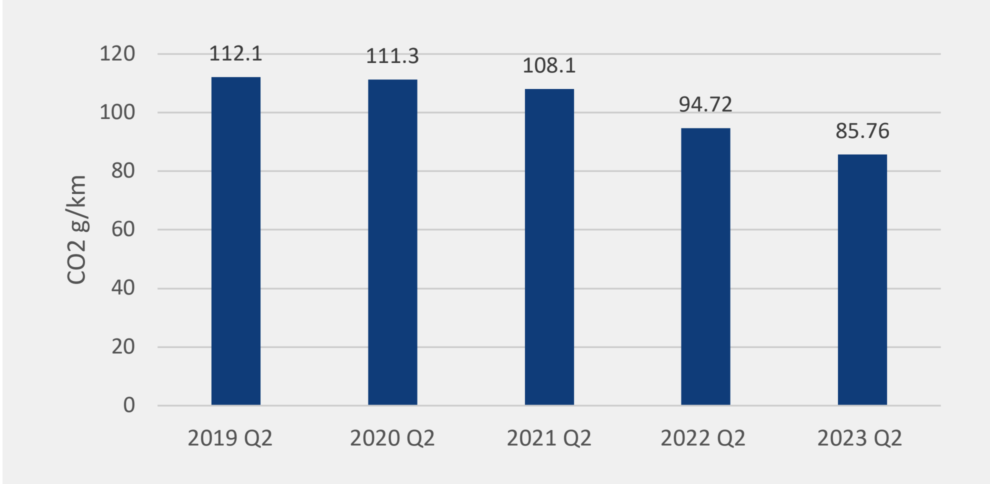
+54.6%
YEAR-ON-YEAR GROWTH IN SALARY SACRIFICE FLEET

BVRLA Fleet Focus Q2 2023

Car fuel choices



BVRLA fleet CO_2 emissions



Huge divergence between fleet and private appetite for EVs

Seven in every 10 new business contract hire cars that joined the BVRLA fleet in Q2 had a plug. Drilling down into the data reveals that 48% of new BCH cars were battery electric, and a further 22% were plug-in hybrid. Diesel crashed to just 6%.

The figures contrast sharply with the private market, where only 17% of PCH cars were electric and 5% PHEV, roughly in line with the SMMT's national sales figures. This disconnect between fleet and retail markets, and the impending imbalance between the supply and demand of used EVs, is alarming residual value setters, who are urging the Government to stimulate demand for secondhand EVs. The danger is that the five-year delay for the ban on the sale of new petrol and diesel cars will drain the urgency and impetus from public charging operators to build their networks, and lead used car buyers to postpone their move to battery power.

44%

PROPORTION OF BEVS IN Q2 ADDITIONS TO BVRLA CAR FLEET

26%

PROPORTION OF BEVS IN TOTAL CAR FLEET

Climate-friendly car fleet cuts emissions again

Tailpipe exhaust from the BVRLA car fleet has reached record lows, with average CO2 emissions falling by 10g/km in a quarter to just 85.8g/km.

The decline is driven by the mass adoption of zero-emission electric models by company car and salary sacrifice drivers, who were responsible for the average emissions of new additions to the BVRLA car fleet plummeting to 60.1g/km in Q2 2023. Just two years ago the equivalent figure was 90.1g/km.

However, emissions from the LCV fleet are proving stubbornly resistant to decline, with new additions to the van fleet in Q2 producing more greenhouse gases (168.5g/km) than the LCV fleet as a whole (164.2g/km). The BVRLA is working with other industry stakeholders to lobby for a new Electric Van Plan that can help stimulate the market.

TREND

60.1g/km

AVERAGE EMISSIONS OF Q2 ADDITIONS TO BVRLA CAR FLEET

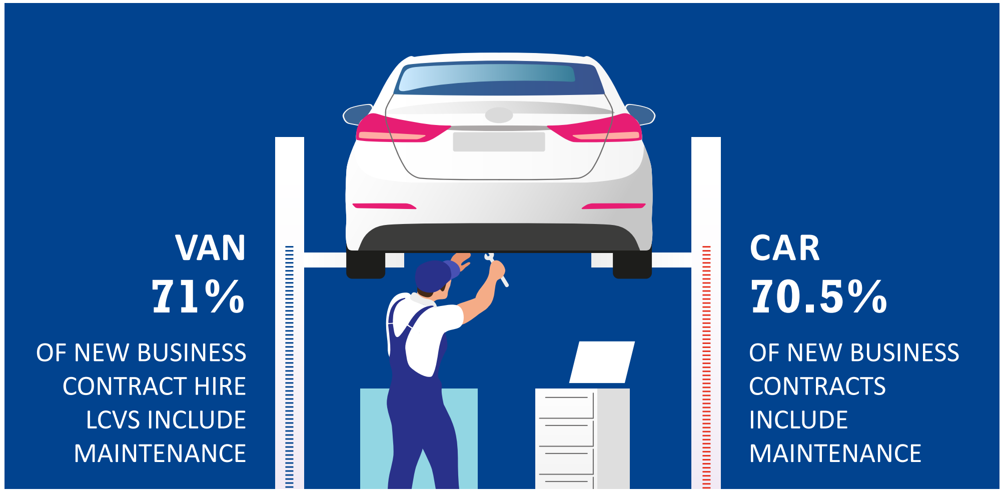
TREND

-24%

FALL IN AVERAGE EMISSIONS OF BVRLA CAR FLEET SINCE Q2 2019

BVRLA Fleet Focus Q2 2023

Maintenance contracts - proportion of maintained fleet by funding method



Maintenance-inclusive contracts rise

The percentage of contract hire agreements that include maintenance is rising, with fixed costs playing into customer demand for budgeting certainty. The share of new contracts that include maintenance has risen from 57% for cars and 51% for vans in Q2 2022 to just over 70% for new cars and 67% for new van contract hire additions to the BVRLA fleet 12 months later.

While a change to this report's database may explain some of the increase, leasing companies also report that customers are keen to protect themselves from bill shocks with unknown EV technology, as well as difficulty in accessing service and maintenance appointments in workshops. Leasing companies have looked to expand their own maintenance networks, while their negotiating power is more likely to secure a convenient appointment.

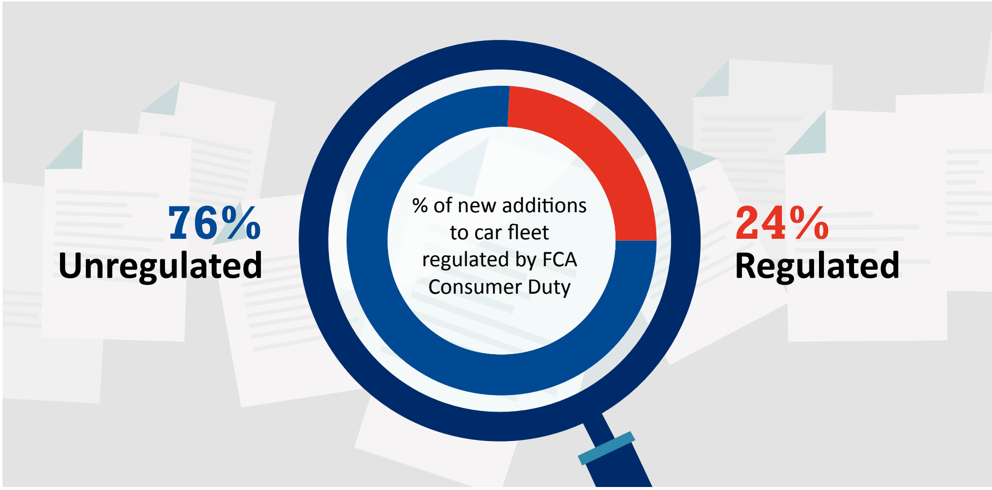
34.9%

OF NEW PERSONAL CONTRACT HIRE CARS INCLUDE MAINTENANCE

99.3%

OF SALARY SACRIFICE CONTRACTS INCLUDE MAINTENANCE

Regulated contracts



First Consumer Duty cases reported

Leasing companies are starting to report pockets of incidents where private clients are flexing their new rights under the FCA's new Consumer Duty.

The regulations came into force on 31 July with the aim of ensuring a higher and more consistent standard of protection for users of financial services, preventing harms before they happen.

However, they are also being cited by a handful of drivers who want to return electric vehicles without paying early termination penalties, on the grounds that advertised WLTP ranges are overly optimistic, rendering the vehicles unsuitable in real life, or because delays in the supply chain of replacement parts are leading to unacceptable months of downtime.

9%

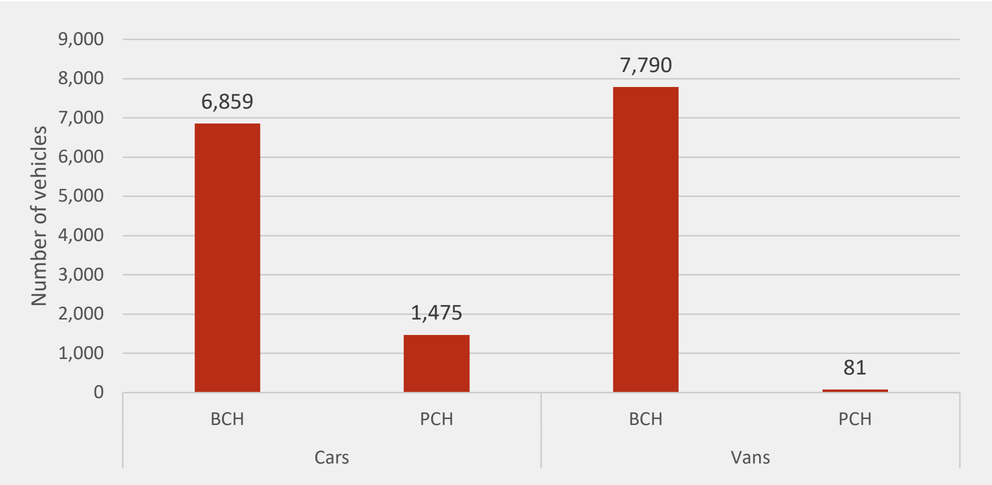
OF NEW SALARY SACRIFICE AGREEMENTS ARE REGULATED

86%

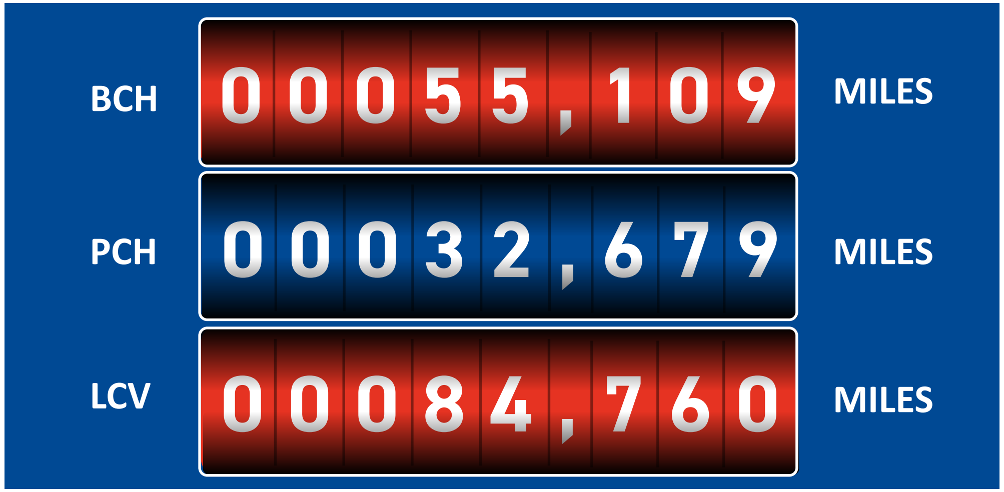
OF PERSONAL CONTRACT HIRE AGREEMENTS ARE REGULATED

BVRLA Fleet Focus Q2 2023

Used vehicle leasing



Contract mileage



Fledgling used vehicle leasing schemes launched

Fast-forward 12 months and the figures for used vehicle leasing could be significantly higher than today's modest total of 20,554, as leasing companies seek innovative ways to protect their residual value exposure, especially for electric vehicles.

Two companies have already launched used car salary sacrifice schemes, promoting the fact that a secondhand model can save hundreds of pounds per month. As large volumes of EVs reach the used market in the next year, drivers will enjoy an ever greater choice of model and budget.

However, the process of collecting, inspecting and refurbishing used cars to retail standard is time consuming and costly, with the potential for 'conflict' if drivers are disappointed with the quality of a used vehicle.

20,554

NUMBER OF USED VEHICLES ON BVRLA FLEET

Contract terms reveal essential use of company cars

The terms and mileages of contract hire agreements underline the importance of company cars as business tools. The rapid adoption of working from home and video conferencing may have threatened the role of the traditional fleet car, but new data shows that the average new business contract hire agreement is for 40 months and almost 53,000 miles, whereas new personal contract hire agreements are for an average of 36 months and just 28,000 miles.

In the LCV sector there has been a sharp decline between the average terms of vehicles already on the BVRLA fleet and new contracts. The current fleet average is 51 months and 85,000 miles, whereas new contracts average out at 45 months and 67,000 miles.

40 months

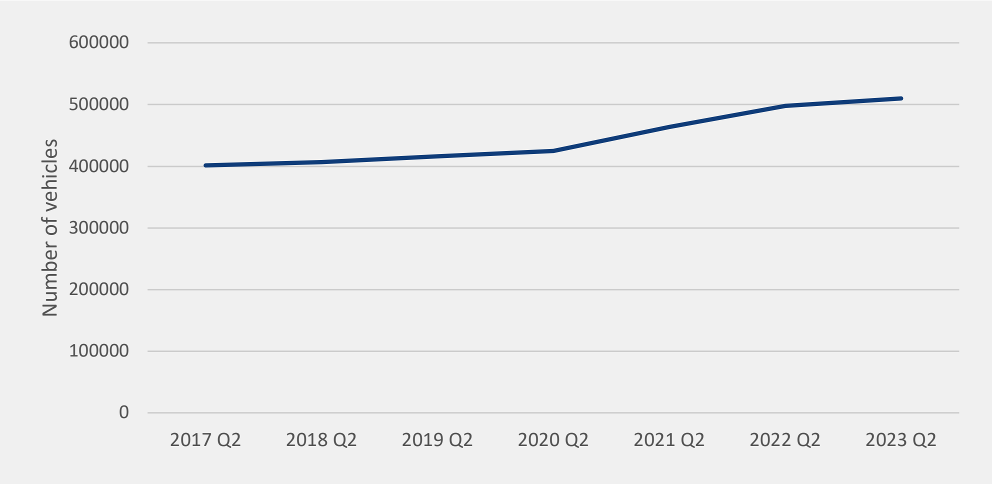
AVERAGE LENGTH OF NEW BCH CAR CONTRACT

45 months

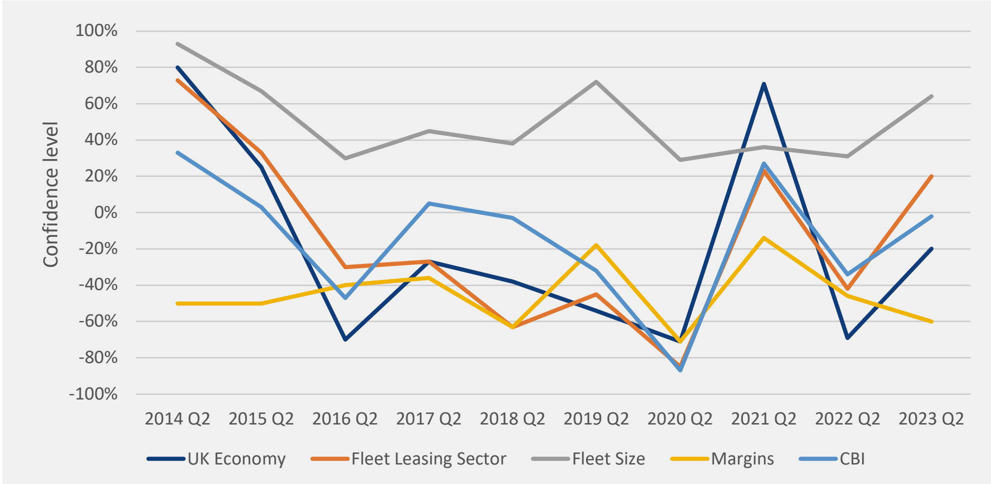
AVERAGE LENGTH OF NEW LCV CONTRACT

BVRLA Fleet Focus Q2 2023

Van fleet



Industry confidence



Larger vans drive LCV rise

Substantial improvements in the supply of new light commercial vehicles have helped BVRLA members start to refresh the vans on their fleets. SMMT figures show that LCV sales for the first six months of the year were 17.7% up year-on-year, making 2023 the strongest market since the pandemic, and the momentum has gathered pace, with the market 22% up year-on-year for the first eight months of 2023.

The big winner in the BVRLA fleet is fleet management, which has enjoyed a 32% year-on-year increase, while business contract hire has remained static.

Data from the SMMT shows that heavier vans are responsible for market growth, with a 10% half-year rise in 2.5-3.5t LCVs and a 54% increase in 2-2.5t vehicles, while sub-2t vans are down -34%, which helps to explain why LCV emissions have not fallen.

TREND

509,986
(+2.4% YEAR-ON-YEAR)
TOTAL BVRLA VAN FLEET

TREND

+32%
YEAR-ON-YEAR INCREASE IN LCV FLEET MANAGEMENT

Leasecos forecast fleet growth and declining margins

The dramatic zig-zags in the indicator lines of business confidence among BVRLA members expose the turbulent trading conditions that the industry has faced in recent times. Covid-19, followed by crippling vehicle supply shortages, then 14 consecutive increases in interest rates have challenged companies' faith in the future.

The most alarming line on the graph above illustrates margins, where industry confidence has taken a -60% hit, as companies anticipate that the bumper residual values of the past two years are coming to an end, and may even go into the red with EVs.

There is cause for optimism, however, with almost two-thirds of BVRLA leasing companies forecasting growth in their fleet sizes.

64%
OF BVRLA LEASING COMPANIES EXPECT TO INCREASE THEIR FLEET SIZE IN THE NEXT QUARTER

BVRLA Member Outlook

While a hundred different issues clamour for attention in leasing industry leaders' in trays, one subject dominates discussions. The residual values of electric vehicles (EVs) were already the number one topic of conversation before the prime minister delayed the ban on the sale of new petrol and diesel vehicles from 2030 to 2035.

There was already a degree of scepticism among directors that the UK could meet the end of decade deadline to electrify, especially for light commercial vehicles, and the Government's confirmation of the postponement effectively acknowledged that the price and range of EVs, as well as public charging infrastructure, were not ready for mass market adoption in six and a half years' time.

In the company car market, corporate carbon net zero commitments allied to unignorable benefit in kind tax savings have overcome these issues, with zero emission cars now accounting for almost half of all new business contract hire agreements.

The challenge facing leasing companies is how to remarket these electric cars today, and the rapidly growing volumes due to de-fleet in the next two to three years, to a secondhand market where the needle of demand flickers between reticent and reluctant.

As one leasing director said, used car buyers accustomed to paying £15,000 for a typical three-year old ex-lease car are already taking a sharp intake of breath when they see those same cars now cost £20,000. Paying another £5,000 to £10,000 for an electric car that is less convenient is a step too far.

"Electric cars work well for many households as a second car. The trouble is, they cost a lot more than the first car," he said.

With EV residual values down 22% year-on-year and used volumes rising rapidly, the leasing sector is engaged in a series of initiatives designed to protect itself from depreciation losses. Lease rates for new orders have been adjusted upwards, although it's too late to do anything about vehicles supplied at the height of market optimism in the early months of 2022 and due to terminate in the next couple of years. It is also fiendishly difficult from a customer relationship perspective to increase rentals on orders taken 12 months ago but only just being delivered. As a result, leasing companies are investigating a variety of measures to avoid disposing of EVs at the end of their first lease. Some are reconditioning these vehicles to use as flexi-lease solutions for customers seeking short term contracts, or as pre-contract cars for customers facing long lead times for a new vehicle (a requirement that is declining as lead times shorten).

Longer-term solutions include offering these cars to SMEs, personal lease and salary sacrifice customers, with the potential for substantially lower monthly lease rates once the cars have suffered the depreciation of their first three years. This is not straightforward, however, given the costs and time involved in collecting, inspecting and refurbishing used cars to retail standard. It also paves the way for potential conflict between leasing companies and private drivers over the condition of vehicles sold on the basis of online photos. As one leasing director drily noted, drivers are quick to complain about BVRLA fair wear and tear standards when they return a lease car, but quick to cite the same standards when complaining about the condition of a secondhand lease car.

Car and van fleet forecast

	2019 Q2	2020 Q2	2021 Q2	2022 Q2	2023 Q2	2024 Q2	Forecast change Q2 2023-24
CAR	1,461,078	1,385,338	1,340,173	1,358,411	1,382,932	1,396,991	1%
LCV	416,241	424,925	463,637	498,072	509,986	517,816	2%
Total	1,877,319	1,810,263	1,803,810	1,856,483	1,892,918	1,914,807	1%

Car fleet forecast by fuel type

	2019 Q2	2020 Q2	2021 Q2	2022 Q2	2023 Q2	Q2 2022	Q2 2023	Q2 2024 forecast	Forecast change Q2 2023-24
Diesel	62%	52%	39%	27%	18%	366,771	248,928	213,821	-14%
Petrol	31%	35%	37%	35%	31%	475,444	428,709	425,789	-1%
BEV	1%	2%	8%	16%	26%	217,346	359,562	457,301	27%
PHEV	5%	5%	7%	13%	15%	176,593	76,498	90,647	18%
Other	2%	6%	9%	9%	10%	122,257	117,513	115,252	-2%

BVRLA Member Outlook

Second-life leasing does at least mean that leasing companies could sell these cars at six years of age with a couple of years remaining on their battery warranties to reassure secondhand buyers.

The sharp decline in the performance of smartphone batteries has poorly served the interests of an EV sector trying to persuade used buyers that the battery capacity of vehicles is reliable for the long-term. As a result, independent certification of battery health is on the wish list of many leasing directors to instil confidence in used EV buyers, especially in the light commercial vehicle sector.

"As a second car in a family, an EV could work with a range as short as 100 miles for school runs, commutes and shopping trips," said one leasing chief. "But if an electric van has a WLTP of 150 miles, that's 120 miles in the real world when it's loaded and cold, and if that falls further due to battery degradation the vehicle is virtually useless as a secondhand prospect."

The experience of fleets that have dipped their toes in the e-LCV pool is that these vehicles are not worked as hard, with duty cycles well within their daily range, rather than relying on top-up charges out on the road, where lost productivity and plug-in prices are proving unpopular with van operators, reported a leasing director. Only back-to-depot operational cycles allow for manageable, cost effective charging, and even then there are widespread reports of fleets facing unpalatable costs to upgrade power supply to their premises to satisfy charging demand. Furthermore, allowing drivers with a standard licence to drive e-LCVs weighing up to 4.25 tonnes, but bringing these larger vans under O'Licence regulations, is another headache for businesses trying to decarbonise their transport operations, added one leasing director.

In the plus column of the EV experience, early indications from limited data suggest not only that EV batteries are maintaining their capacity, but also that the vehicles are proving more reliable than their combustion engine equivalents.

There is no escaping the fact, however, that even though their values have fallen, used EVs are still significantly more expensive than petrol or diesel alternatives, and as secondhand models enjoy none of the financial subsidies and advantages of new EVs, such as the van grant and hugely supportive benefit in kind tax rate for company cars. Even the zero rating for Vehicle Excise Duty will disappear from 2025, leaving EVs liable to the standard £180 charge from their second year, plus the £355 'expensive car supplement' for any with an original list price in excess of £40,000, which is a much higher proportion than for ICE vehicles.

Among incentives that leasing chiefs would like to see the Government introduce are the removal of VAT on the sale price of a used EV, a reduction or removal of VAT from public charging so tariffs more fairly match the 5% VAT rate on domestic electricity, the offer of interest-free loans to buy used EVs, and even a scrappage scheme to incentivise the replacement of older, more polluting cars with zero emission cars.

There is also a widespread desire for the Government to counter the prevailing negative narrative surrounding EV ownership, particularly stories about queues at charging stations and out-of-service chargers, with strong messages emphasising that the future of motoring is battery powered, and that these vehicles are good to drive and good for the environment. The rhetoric around the extension of London's Ultra-Low Emission Zone in the Uxbridge by-election, and the the five-year extension to the sale of petrol and diesel have done little to advance the case for EVs.

Car and LCV fleet forecasts by funding method

	Finance product	2017 Q2	2018 Q2	2019 Q2	2020 Q2	2021 Q2	2022 Q2	2023 Q2	2024 Q2	Forecast change Q2 2023-24
Cars	Business contract hire	941,116	919,231	878,366	793,171	743,154	771,557	805,674	817,339	1%
	Personal contract hire	174,298	207,790	256,528	271,264	309,978	324,692	297,539	297,598	0%
LCVs	Business contract hire	272,166	283,071	286,862	289,040	320,073	343,121	343,073	353,007	3%
	Personal contract hire	4,007	4,667	4,706	6,636	7,492	8,062	7,369	7,330	-1%
	Total	1,391,587	1,414,759	1,426,462	1,360,111	1,380,697	1,447,432	1,453,655	1,475,274	1%

BVRLA Member Outlook

Now concerns are mounting about the ramifications of the Government maintaining the Zero Emission Vehicles (ZEV) mandate while backtracking on the ICE ban. The provisional mandate will require vehicle manufacturers to ensure that at least 22% of their new car sales and 10% of their new vans (twice the sales penetration of e-LCVs this year) are zero emissions in 2024, with the percentages rising incrementally every year to reach 80% for cars and 70% for vans by 2030. OEMs will be fined £15,000 per vehicle that misses the target.

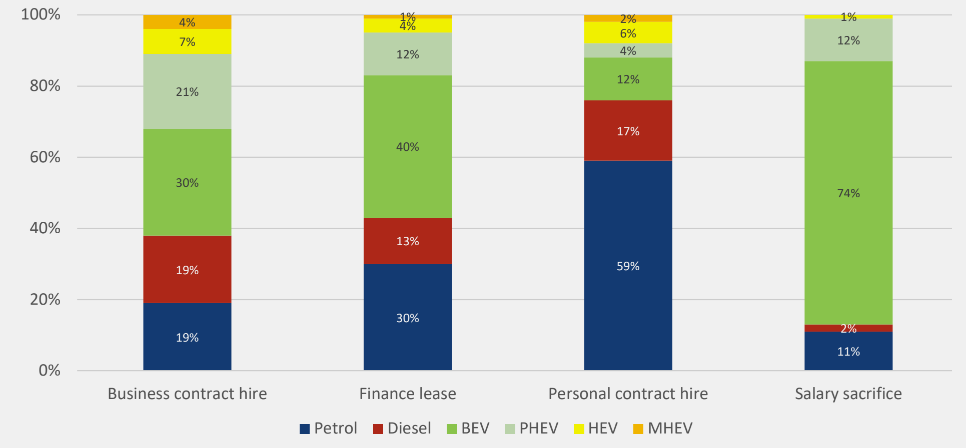
Leasing companies already report that some OEMs are trying to link EV and ICE sales, obliging leasing companies to include a certain share of battery powered vehicles with their petrol and diesel orders, or changing delivery cycles so that EVs are available almost instantly, while ICE vehicles have lead times of several months.

The prospect of penalties also means OEMs in danger of missing the ZEV targets are introducing discounts for EVs, as they face the iniquitous choice of cutting transaction prices now, holding a fire sale in December, or incurring fines in 2024. Lowering prices, however, risks undermining residual values, as the leasing industry discovered at the start of this year when Tesla slashed thousands of pounds from the tickets of certain new cars.

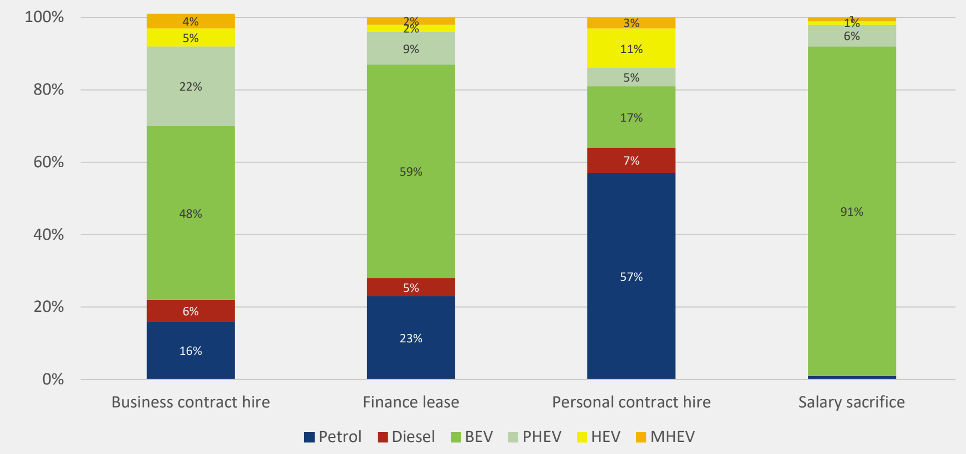
Keeping all of these new EVs on the road is also proving to be a headache, with labour shortages shrinking workshop capacity for all engine technologies. EV-trained technicians are particularly scarce, which is a particular issue for leasing companies, given the high proportion of battery electric models in their clients' company car fleets. And while the service and maintenance requirements of EVs are typically lower than for ICE vehicles, their tyre costs are proving to be higher, and patchy availability of replacement components and panels means it is not hard to find horror stories of individual EVs being off the road for months.

To conclude on a more positive note, leasing companies that had braced themselves for defaults from personal customers facing steep increases in the cost of living, as well as bad debts from business customers confronted by a challenging trading environment, report that neither scenario has materialised. The outlook is tough, but innovation and careful planning are keeping the wheels of UK plc turning.

Car fuel choices by funding method, total BVRLA fleet



Car fuel choices by funding method, new additions Q2 2023



Opinion - service, maintenance and repair

Vincent St Claire – Managing Director, Fleet Assist

BEVS are once again in the headlines but what we can reveal is that the volume of SMR work continues to rise each month as the growth in new EV sales transfers into more electric vehicles visiting our network for servicing, maintenance, and repair.

Vincent provides an overview on the latest SMR trends from the entry of new OEM brands into the UK to how electric and diesel vans compare.

Secondary leasing and extended operating periods

With the uncertainty surrounding used EV prices the trend for leasing and rental companies to extend operating periods and put them on a secondary lease at the end of the contract appears to be growing. With EV mileages tracking historically 30% less than an ICE vehicle EVs would appear to be a strong secondary lease proposition.

When analysing costs by mileage at between 50-60,000 miles the average transaction value of an EV is 81% of that of an ICE car while between 60-70,000 miles that rises to 89%. Meanwhile, over 70,000 miles this rises again to 98% which puts EVs and ICE cars on par with one another.

High mileage BEV SMR data

However, as mentioned previously there is far less data to support SMR cost forecasts for BEV vehicles with much higher mileage. We look forward to keeping a close eye on this trend as volumes rise driven by necessity and growing confidence to operate EVs beyond previous age and mileage parameters.

The data currently suggests BEVs will continue from a routine service perspective to remain less expensive than ICE. However, as age and mileage increase beyond historic BEV operating parameters we are moving into uncharted waters. BEVs will be operated outside of their initial warranty period on everything other than the battery and we will see the durability of the components and wear rates on items such as motors and suspension parts. The latter will be of particular interest as BEVs are heavier vehicles.

Battery health

With the likelihood of battery SOH (state of health monitors) being mandated on all new vehicles from 2025 and a UK wide standard being applied the focus on battery condition to build confidence to consumers buying EVs for the first time, especially older vehicles. We feel sure that this will generate heightened focus on reviewing battery condition during and at the end of a contract. We are already exploring and developing capabilities within our garage network to support this.

Commercial BEV vehicles

We are still seeing comparably few electric vans through our garage network. The latest data which is still very small in terms of scale suggests the average mileage of electric vans requiring SMR work is currently 50% less compared to ICE vans. That said there is a requirement to future proof the garage network so that it can work on vehicles up to and above 4.25 tonnes GVW.

Fleet Assist has already addressed this by expanding its Premier van network to ensure it can accommodate BEV vans from both a technician and infrastructure perspective, to over 775 garages.

OEMs

We are seeing a growing number of predominantly Chinese, 100% electric brands considering how they will support their aftersales requirements in both the short and longer term. They will require an expanded garage network in place to support their aftersales network as they to start selling new models to UK fleets and consumers.

As a new OEM establishing themselves in the UK it is essential that as part of the vehicle buying decision the support of a franchised network is considered. Having a robust SMR garage network in place will increase confidence with drivers, consumers and company fleets in brands that have previously never sold cars here in the UK. With a network of over 5,000 garages in place, over 86% of which are 'EV ready', Fleet Assist is well placed to set up and manage all elements of their SMR needs.

Against the background of the ever-changing world of franchised dealer networks, some of which have, or are destined to reduce in size, coupled with workshop congestion the trend continues whereby customers are selecting independent garages for a proportion of their work.

This trend could be set to continue if OEM and franchised dealers fail to respond to the market conditions and just focus on increasing labour rates and other charges. Whilst it's understood that investment in charging and infrastructure is required a focus on customer service delivery focusing on lead times and vehicle down time is required to sustain customer retention.

Opinion - new challenges to OEM future planning

Dylan Setterfield - Head of Forecast Strategy, cap hpi

Towards the end of September, the government unexpectedly delayed the ban on the purchase of new petrol and diesel cars to 2035, in line with the rest of Europe. As mentioned on our customer webinars, we viewed the 2030 timetable as a very aggressive target and expected the next government to take this action, blaming the current administration for insufficient progress to make it a reality.

SOLERA | cap hpi

The Zero Emission Vehicle (ZEV) Mandate had been due to start from 1st January, requiring an increasing proportion of new vehicle sales (22% of cars in 2024) through to 2030, with fines of £15,000 per car for non-compliance. The fact that the full details still had not been communicated just over three months from planned implementation tells its own story; only recently was it confirmed it will take effect as originally suggested, with details for passenger cars otherwise unchanged.

In general, new electric cars remain more expensive to buy than petrol or diesel. Although battery costs continue to reduce, the immediate problem is that with increasing interest rates, expensive vehicles are clearly less attractive to many consumers. Factor in the existing barriers to mainstream adoption: charging anxiety, battery degradation concerns and widespread ignorance of the considerable cost of ownership benefits and the challenge is daunting.

However, recent falls in used values have brought used BEVs into the price brackets of many buyers who would not previously have considered electric. Where comparisons are possible, trade prices for most BEV models are now cheaper than their ICE equivalents. This has even enabled some brands to offer new car discounts to retail consumers, without impacting the attractiveness of a used purchase. Fleets are also seeing improved terms, but BEV penetration is already high and further significant growth from this channel may be limited.

Further BEV growth is expected to be fuelled by new manufacturers entering the European market. MG Motor UK are already in 9th position in the UK in terms of market share, thanks to the market's second-best selling BEV (MG4) costing less than £27,000 when new. Ora launched the Funky Cat, BYD will soon have three models available in the UK, swiftly increasing to nine and many other serious contenders will follow.

The proposition is clear: can these brands persuade consumers to part with their money for a car from a manufacturer they have probably never heard of? The cars are all of excellent quality - Euro NCAP concerns are a thing of the past – consumers are less brand loyal than ever before and pricing will be extremely keen. Watch this space.

BEV valuation differences vs. ICE equivalents

	12/10	24/20	36/30	48/40	60/50
Average £ BEV Premium vs. ICE	-£142	-£1,108	-£1,175	-£1,786	-£1,222
Average % BEV Premium vs. ICE	+1.0%	-3.2%	-4.5%	-13.4%	-15.6%

- Comparisons are often difficult – currently 55 new and used BEV ranges compared
- Adjustments made for trim, engine power, transmission differences
- Significant variation in premiums/penalties and no clear trends identified
- Averages exclude models from two very low volume manufacturers
- Model mix impacts variation observed by age

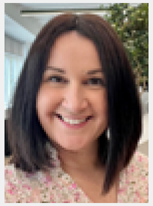
New manufacturers in the UK: what's coming?

BYD: 9 New models	MG: 5 New models	MAXUS: 6 New models	ORA: 2 New models
NIO: 8 New models	XPENG: 6 New models	CHERY: 3 New models	ZEEKR: 6 New models

In the next 2 years we expect 45 new models from Chinese manufacturers.
Plus expanding ranges from: Polestar (4), Fisker (1), Smart (3) and more from traditional OEMs.

Data: IHS forecasts

Opinion - new and used market overview



Rachael Jones - Director of Automotive Finance, Auto Trader

With circa 80 million cross platform visits each month, and representing circa 14,000 automotive retailers, we have a very unique and privileged view of the market. Given some of the recent speculation, in this edition of the Leasing Outlook Report I thought I'd share some of the latest insights that we're observing across the market and look at the overall health of the new and used retail market.

New car market has reached a pivot point

From a new car perspective, the headline figures have been positive, but with sales growth being fuelled almost exclusively by various fleet channels in recent months, the market has reached a pivot point. After years of heavily constrained supply struggling to keep pace with consumer appetite, for the first time since the pandemic we're seeing production exceed natural demand, as evidenced by the recent flattening in private retail sales.

It's good news for new car buyers though. Not only have lead times dropped significantly, but the market's currently awash with enticing offers, particularly for new EV models, from manufacturers hoping to stimulate demand for the September plate change. At the time of writing – mid September - there's signs it's working, as we've seen a notable rise in new car activity across our platforms over recent weeks.

Headlines are masking underlying health of the used car market

Our data highlights the current volatility and nuance of the used car market, with recent headlines masking its underlying health, and, crucially, the pockets of demand and profit opportunities available. In mid-September, the average price of a used car is up 0.7% on a year-on-year (YoY) and like-for-like basis. Although it marks a notable softening on the previous record rates, it's worth highlighting that current values remain exceptionally strong, 36% above the same period in 2021 and 45% above pre-pandemic levels in September 2019.

Looking at the data on a more granular level, however, reveals just how nuanced today's market is, with significant variances in supply and demand dynamics fuelling disparities between vehicle age cohorts and fuel types.

As an example of this trend, the prices of younger age cohorts, such as those aged below 12 months, are down -1.5% so far this month because of supply levels (44.3% YoY) outpacing the otherwise strong levels of demand growth (33.6% YoY), while older vehicles are outperforming the overall market. In fact, current values for those cars aged between 10-15-years-old are up 10.9% on September last year, which is the highest rate of price growth since January and underpins the importance of utilising data to look beyond the headline figures.

EV prices recording growth for the first time in over a year

Prices of these younger cohorts are being further compounded by the current surge in second-hand electric vehicles entering the market; the volume of EVs aged up to three-years-old advertised on our platform increased around 55% YoY by the mid-September point. And with the average price of a used EV down -21.4% YoY, not only are the average prices of younger age cohorts being supressed, so too is the overall market.

However, there is encouraging news on the EV pricing front. After 12 consecutive months of contraction, the average retail value of a used EV is currently up around 0.8% on a month-on-month basis, which marks the first retail price growth since August last year. The growth is being fuelled by very strong levels of demand for second-hand EVs, which despite the Prime Minister's unexpected U-turn on 2030, shows no sign of slowing on our marketplace.

Although it's still early days, it's positive to see green shoots emerge. With the continued 'de-fleeting' of circa 750,000 electric vehicles sold over the last three years it'll be some time before the market reaches maturity, but with clear signs of prices beginning to stabilise, the industry should have more confidence in the profitability of this segment of the market. As ever, it's something we'll keep a close eye on, and report back on in the next edition.

BVRLA DATA HUB

For full data, visit the BVRLA data hub at:
https://www.bvrla.co.uk/resource/bvrla-data-hub.html

This report provides a consolidated view of the Quarterly Leasing Survey and the forward-looking Leasing Outlook report. In addition to the data highlights provided in this report, you can now access an extensive list of tables as part of the Quarterly Leasing Survey online, by following the link provided above.

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