Industry Insight

BVRLA

Leasing Outlook

April 2023

Lease now, lease later?

Firms explore second-hand BEV leasing options in a bid to tackle used market fragility

Market spotlight
Extended BiK rates and salary sacrifice schemes lead growth agenda

Industry outlook
Dramatic uptake of BEVs and decline in carbon emissions of fleets

Quarterly report
Total lease fleet exceeds pre-pandemic levels

Opinion
New car demand helped by a steady improvement in the availability of stock

In association with: AutoTrader, leasing.com, SOLERA Vehicle Solutions | cap hpi, asset finance connect

Contents

Disclaimer

Any views set out in this report are from a range of different contributors and do not necessarily reflect the official opinion of the BVRLA. Full disclaimer details and guidance on how we manage compliant publication of members' data is available by visiting **https://www.bvrla.co.uk/resource/bvrla-data-hub.html**

Market Headlines

- **BVRLA fleet grows 0.3% year-on-year** (page 4)
- **Car fleet up 0.35%; van fleet up 0.2% year-on-year** (page 5&9)
- **BCH car fleet up 4% year-on-year; salsac up 34% YOY; PCH down 3% YOY** (page 5)
- **BEVs account for 53% of all new BCH cars; 79.7g/km average CO2 of new additions** (page 6)
- **65% of new car and van contracts include maintenance** (page 7)
- **Used van leasing contracts rose 123% Q3 to Q4 2022** (page 8)
- **Van fleet up 0.2% year-on-year** (page 9)

Executive Panel

Keith Townsend
Managing Director, Agility Group

Tim Laver
Managing Director, ALD Automotive

David Cooper
Managing Director, Arnold Clark Finance

Elliott Woodhead
Deputy Managing Director, Arval

Andy Bruce
CEO, Fleet Alliance

Jon Lawes
Managing Director, Novuna Vehicle Solutions

Matthew Rumble
CEO, Kinto UK

Chris Black
Commercial Director, LeasePlan

Neal Francis
Divisional Managing Director, Pendragon Vehicle Management

Gordon Stephen
Managing Director, Ogilvie Fleet

Paul Parkinson
CEO, Synergy Car Leasing

Mark Hammond
Managing Director, TCH Leasing

Craig McNaughton
Corporate Director, Lex Autolease (part of Lloyds Banking Group)

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

"If we could source more vehicles, we would have no trouble finding customers to lease them."

This positive note from the head of a major leasing company strikes a welcome tone of optimism at the end of a quarter buffeted by the turbulence of Liz Truss's infamous mini-Budget, and at the end of a year beset by steep inflation, soaring energy bills and nine hikes in interest rates.

Leasing companies report healthy demand, as the recovering UK economy needs new vehicles to maintain its growth. As 2023 starts, fresh orders are topping up bulging order banks more quickly than leasing companies can source new cars and vans.

Hopes that the market would be back to normal by the start of 2023 have proved unfounded, with no significant improvement in lead times for new vehicles, especially vans, but leasing companies at least report signs of greater punctuality in when vehicles will actually be delivered. The arrival of batch orders placed up to a year ago is helping to relieve pressures, while any pockets of vehicles that do come available at late notice, typically from dealers, are snapped up on behalf of customers eager to refresh their fleets.

These fleets are becoming increasingly electrified as businesses decarbonise their company cars and, to a lesser extent, vans. There has been a 16% decline in the average emissions of the total BVRLA car fleet in the last five years, from 113g of CO2/km to 95.6g/km, and an even more marked fall among new additions to the fleet, which plummeted to 79.7g/km in Q4 2022.

This is being driven by a dramatic uptake of battery electric cars, which accounted for 53% of all new business contract hire cars in Q4 2022. The Government's supportive benefit in kind tax regime for zero emission vehicles is clearly having its desired effect, and the company car sector is leading the UK's drive to zero tailpipe emissions.

After years of decline between 2017 and 2020, the BVRLA car fleet showed growth in Q4 2021, and continued this upwards trajectory in 2022.

Leasing companies are optimistic that employees who opted for a cash allowance in lieu of a company car are now returning to the fold because of the beneficial tax situation, their numbers boosted by the uptake of salary sacrifice schemes across entire workforces.

Equally striking in the powertrain figures is the death of diesel, which accounted for just 7% of new car orders in Q4 2022. Before 2014's dieselgate scandal, diesel's share stood at 83%.

Diesel still dominates van lease fleets, with electrification progressing at a much slower rate.

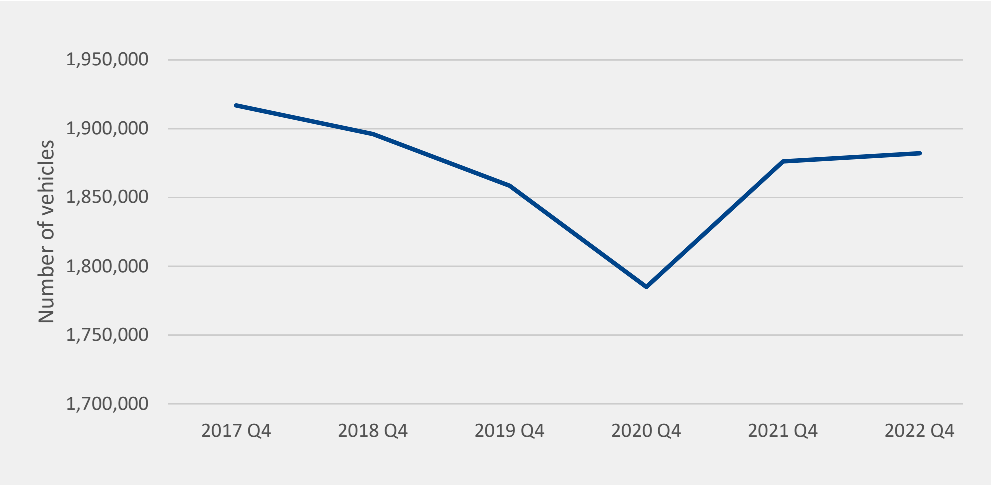
The cost, range and recharging inconveniences of electric vans are proving to be far more challenging issues to resolve than in the BIK tax-sweetened car sector.

Contract mileages for both cars and vans are creeping up as businesses return to in-person meetings after the virtual world of pandemic lockdowns, but the duration of leases has remained constant. The greater reliability of electric vehicles compared to ICE vehicles, particularly as they age, has opened the possibility for six or seven-year leases, although leasing industry leaders are more focused on second-life leasing opportunities. Leasing used EVs would amortise depreciation over a much longer period, lowering residual value risks and opening a new market of SMEs and private individuals who cannot afford new EV leases. The number of used vehicle leases is currently a tiny percentage of the total BVRLA fleet, but a 123% increase in used van contracts between Q3 and Q4 2022 shows that the concept can work if the right vehicles are available at the right price.

While forecasts for the wider UK economy remain gloomy, the outlook is much less pessimistic for leasing. The headwinds of inflationary cost pressures and interest rates remain, but businesses still need cars for employee travel and vans to deliver goods and services, an underlying demand that offers a glimpse of green shoots of recovery.

BVRLA Fleet Focus Q4 2022

BVRLA Fleet Focus Q4 2022



Overall fleet

Total fleet
1,882,261 vehicles
(+0.31% YEAR-ON-YEAR)

Share of total fleet

	Q4 2022	Q4 2021
Cars	73%	73%
Vans	27%	27%

BVRLA lease fleet continues to rise

Vehicle supply issues are still stalling the leasing sector's recovery from COVID-19, with the BVRLA's total lease fleet only 0.31% larger in the final quarter of 2022 compared to the same period 12 months earlier.

Leasing companies report bulging order books and no shortage of new business, but a shortage of new cars and light commercial vehicles has slowed their growth trajectory after the rapid gains of 2021.

The encouraging news is that the total lease fleet was larger at the end of last year than in 2019, prior to the pandemic, with 1,882,261 vehicles compared to 1,858,650.

TREND

+5,835
(YEAR-ON-YEAR)

INCREASE IN TOTAL FLEET SIZE

Fleet growth defies negative news

Given the stormy headlines generated by inflation, industrial action and the cost-of-living crisis, any growth in the current economic climate represents good news. So, the fact that the number of cars leased by BVRLA members rose between the third and fourth quarters of 2022 to 1,383,038 units is positive.

The increase was modest, at 0.9%, but sufficient to offset a marginal -0.14% decline in LCV numbers, which were down to 499,223 vehicles. Overall, this represented a 0.63% increase in fleet size between Q3 and Q4.

Leasing executives expect the car-van imbalance to increase next quarter, with the supply of new cars improving more quickly than the availability of new LCVs, which are still struggling with production volume issues.

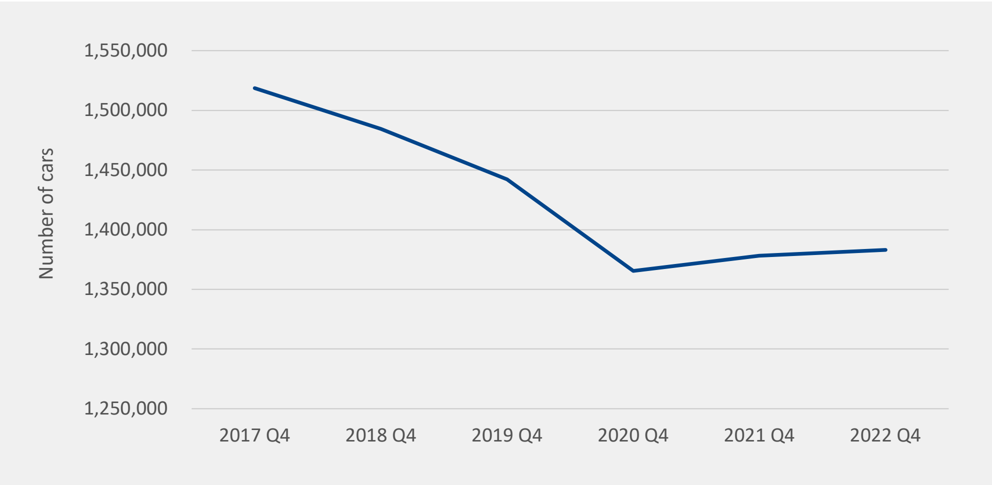
TREND

+11,701
(Q4 VS Q3)

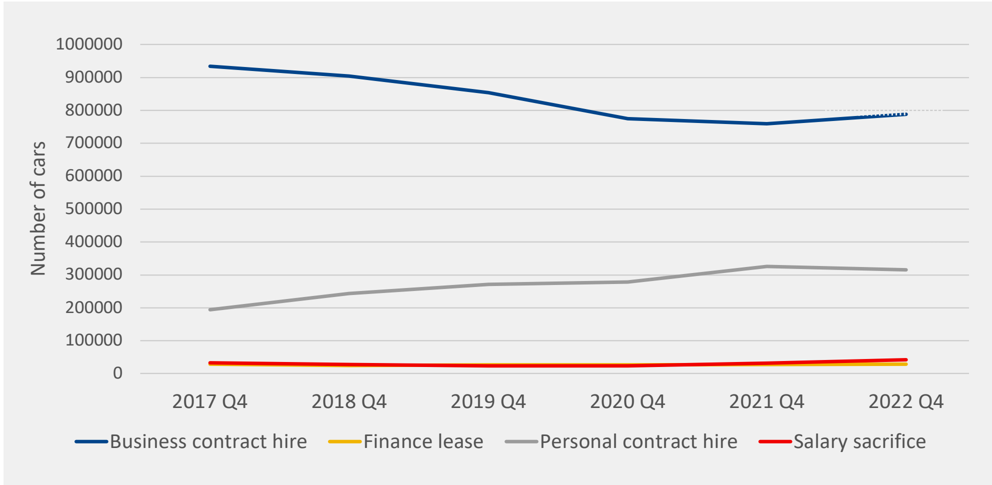
INCREASE IN TOTAL FLEET SIZE

BVRLA Fleet Focus Q4 2022

Total car fleet



BCH v PCH car fleet



Car fleet plateaus, but increases expected

The seventh consecutive month of growth in new car sales figures, reported by the SMMT in February, suggests that by the time of the next Leasing Outlook report this graph will look very different. Fleet sales were 40.3% up year-on-year for the first two months of 2023, but the rise came too late to feature in the Q4 2022 figures for the BVRLA car fleet.

Instead, Q4 proved to be minimally ahead of the same period of 2021, with the car fleet totalling 1,383,038, about 4,900 vehicles up.

The positive news is that the trajectory is now upwards, arresting a longer-term decline between 2017 and 2021, although the car fleet still has some catching up to get back to where it was in the final quarter of 2019.

TREND

1,383,038
(+0.35% YEAR-ON-YEAR)
LEASE CAR FLEET

Salary sacrifice schemes lead growth agenda

The wide variation in market shares of different funding methods means the graph above obscures the dazzling growth of salary sacrifice. The number of salary sacrifice cars rose by 34% year on year between Q4 2022 and Q4 2021, to 42,616 vehicles, maintaining last year's double-digit growth trajectory. With supportive benefit in kind tax rates for battery electric vehicles confirmed until 2028, salary sacrifice is a sector where leasing companies expect their groundwork of setting up schemes for clients will now start to pay dividends as mountains of orders follow.

In the bigger volume sectors, business contract hire grew by 4% year on year, to 788,284 vehicles, while personal contract hire declined by -3% to 315,383 orders. Anecdotal evidence suggests private customers are struggling to stomach increases in monthly rentals of hundreds of pounds for like-for-like vehicle replacements.

TREND

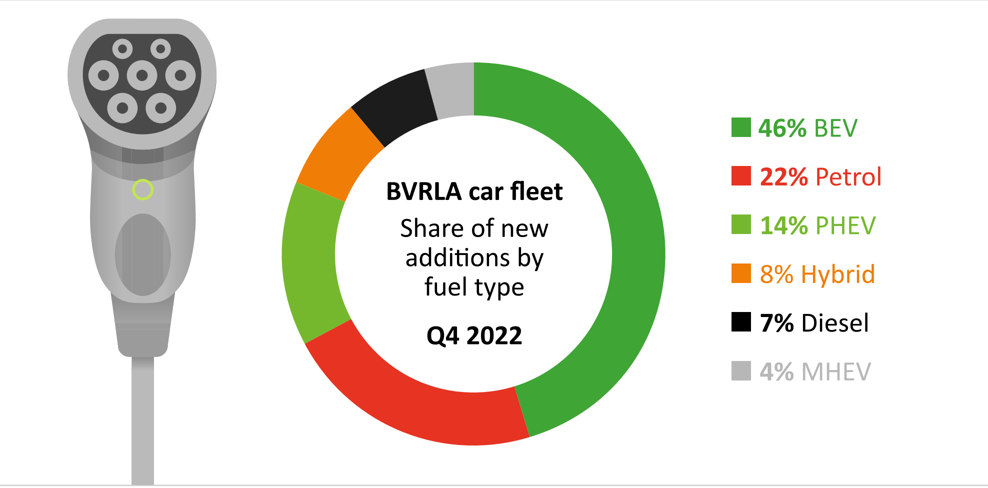
788,284
(+4% YEAR-ON-YEAR)
BCH CAR FLEET

TREND

+34%
YEAR-ON-YEAR GROWTH IN SALARY SACRIFICE FLEET

BVRLA Fleet Focus Q4 2022

Car fuel choices



BEVs approaching half of all new lease deliveries

The better availability of battery electric cars is transforming the energy mix of new additions to the BVRLA fleet. BEVs accounted for 46% of new additions to the fleet in Q4 2022, their numbers swelled by drivers' growing confidence in recharging infrastructure, as well as their eagerness to avoid high benefit in kind tax bills for petrol and diesel models.

BEVs have surged ahead of petrol cars among new deliveries, and industry leaders say it is rare now to find business customers that are not electrifying parts of their fleets, with only a handful of industries, such as driving schools and bodyshop courtesy cars, sticking with ICE models.

The decline of diesel is equally stark, accounting for just 7% of new orders. In Q4 2014, before the 'dieselgate' scandal, 83% of the BVRLA's car fleet was fuelled by diesel.

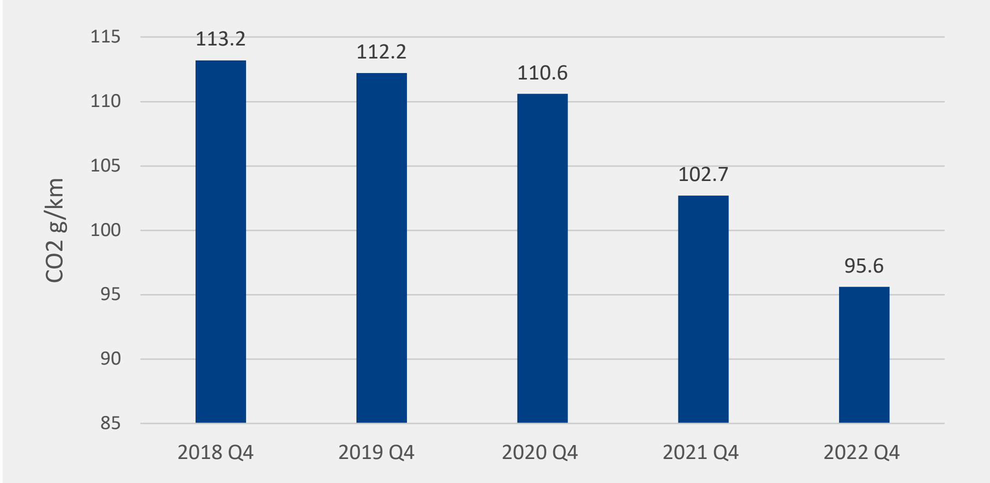
46%

BEV SHARE OF NEW ADDITIONS TO LEASE FLEET

53%

BEV SHARE OF NEW BUSINESS CONTRACT HIRE CAR ADDITIONS

BVRLA fleet CO_2 emissions



Decarbonisation of car fleet charges ahead

The greenhouse gas emissions from the tailpipes of BVRLA cars has continued its precipitous decline, falling to an average of 95.6g/km in Q4 2022.

However, the average emissions of new cars joining BVRLA members' fleets during the final quarter of last year was substantially lower, at 79.7g/km, as customers ramped up their electrification commitments.

The decarbonisation of the association's van fleet however, is significantly slower, with customers sticking stubbornly to diesel. The average emissions of new vans were actually higher in Q4 than Q3 of 2022, and only fractionally lower than the final quarter of 2021. The data does not, however, distinguish between weight of vans, so fleets may well be leasing more efficient vehicles, but if the model mix is heavier the emissions will rise.

TREND

-16%

DECLINE IN AVERAGE EMISSIONS OF BVRLA CAR FLEET SINCE 2018

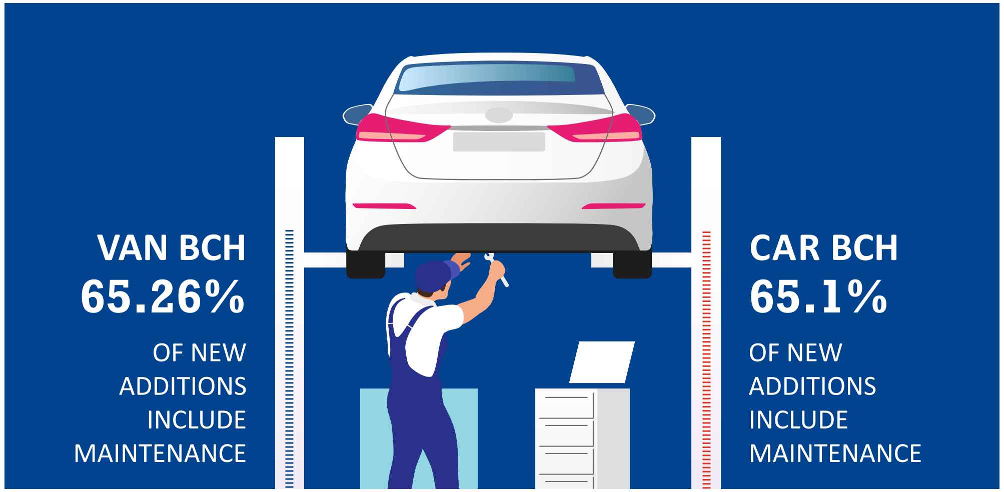
TREND

79.7g/km

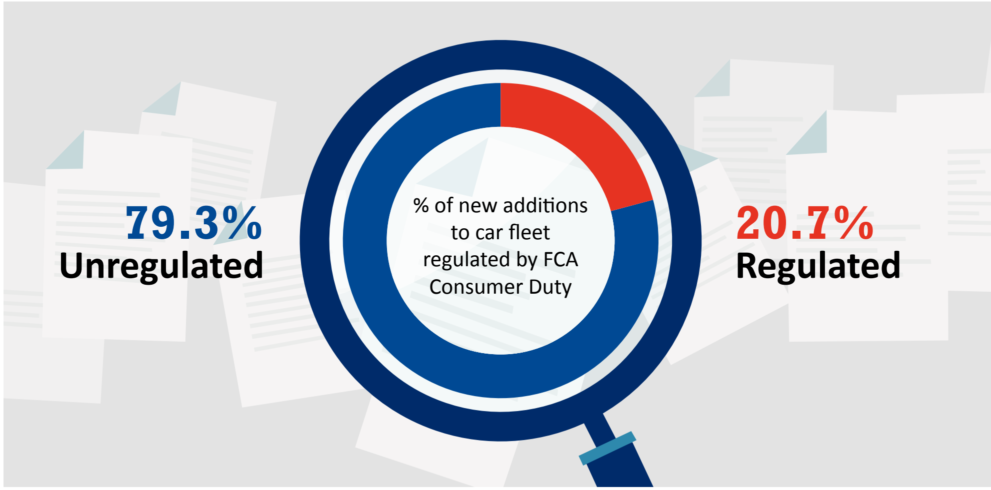
AVERAGE EMISSIONS OF Q4 ADDITIONS TO BVRLA CAR FLEET

BVRLA Fleet Focus Q4 2022

Maintenance contracts - proportion of maintained fleet by funding method



Regulated contracts



Will lower SMR costs for EVs lead to fewer maintenance contracts?

The rapid rise in EV leases raises questions about demand for maintenance-inclusive contracts. While uncertainty over the servicing costs for new technologies nudges customers towards maintenance-inclusive leases, mounting evidence shows EV maintenance spend to be significantly lower than those of their ICE predecessors, which is leading customers to expect cheaper SMR provision in their lease contracts, and in the longer term might lead to unbundled leases with pay-on-use SMR. Leasing executives report higher labour rates and parts prices for EV work, but say each job takes less time and requires fewer replacement parts, meaning lower overall costs. Tyres are the exception, with the extra torque and weight of battery power pointing towards more frequent tyre replacement. In Q4 2022, 65% of new business contract hire (BCH) agreements for cars included maintenance, a lower share than the 72% for the total car fleet.

569,184
BCH MAINTAINED CAR FLEET

99%
SALARY SACRIFICE CONTRACTS INCLUDE MAINTENANCE

More lease contracts are subject to Consumer Duty rules

Leasing companies have welcomed the FCA's new Consumer Duty regulations, designed to set higher and clearer standards of consumer protection across financial services, for the positive role they play in building customer confidence in leasing.

A significantly higher share of new leasing contracts are now regulated; in the business contract hire (BCH) sector more than 10% of new leases fall under the Consumer Duty umbrella, compared to less than 4% of the total BCH fleet.

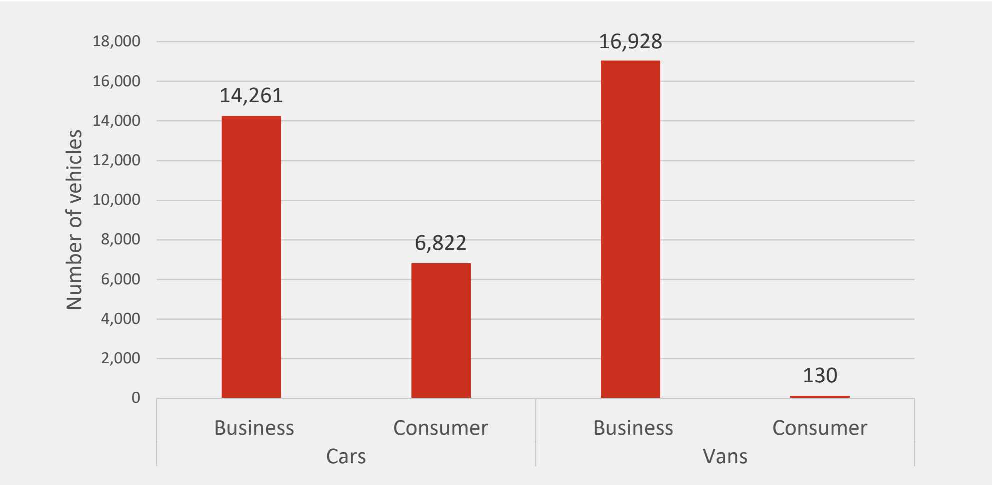
While 99.7% of personal contract hire agreements are covered by Consumer Duty rules, salary sacrifice schemes depend on their individual structure. Some leasing companies are implementing salsac arrangements where the business is the customer, thereby avoiding Consumer Duty, while others have a more direct relationship with employees and are subject to the regulations.

10.37%
OF NEW CAR BUSINESS CONTRACT HIRE AGREEMENTS ARE REGULATED

4.5%
OF NEW VAN BUSINESS CONTRACT HIRE AGREEMENTS ARE REGULATED

BVRLA Fleet Focus Q4 2022

Used vehicle leasing



Second-life leases gather pace

A shortage of new vehicles, especially vans, combined with a growing interest in the commercial opportunities for second-life leasing electric vehicles, is increasing the volumes of used vehicle leases among BVRLA members.

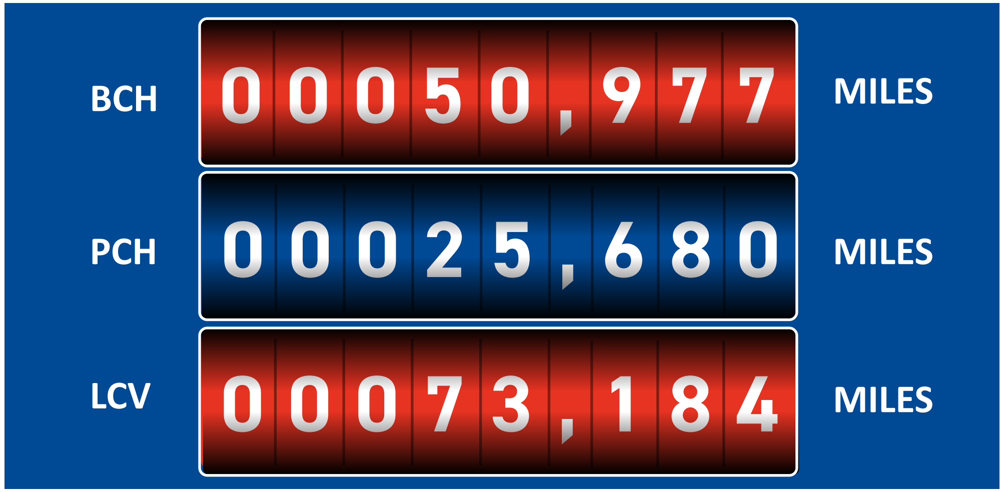
The number of secondhand LCV leases increased by almost 10,000 to 17,061 between Q3 and Q4 2022, reflecting the acute scarcity of new LCVs. The number of used cars supplied to businesses, largely on contract hire, also rose sharply, by 56%, during the second half of last year, as companies sought solutions to bridge the gap until new deliveries arrive.

Several leasing companies are exploring the possibilities of second-life leasing, confident that older EVs will not suffer a steep rise in maintenance bills, and keen to tap into a new market of SMEs and private drivers who cannot afford new EV leases. Future success depends on clear communication of used vehicle condition, as well as attractive pricing.

38,141
TOTAL USED VEHICLE CONTRACTS

123%
GROWTH IN USED VAN CONTRACTS, Q3 TO Q4 2022

Contract mileage



Contract mileage (new additions)

The average mileages of new business contract hire agreements has crept back up over the 50,000 miles threshold, as company car drivers resume work journeys.

However, the mileage terms of new contracts remain below the average of the total fleet, with the full impact of changed travel patterns and video communication, in the wake of the pandemic, yet to wash through.

The average 73,184 mileage of new LCV contracts is higher than the van fleet average of 71,373.

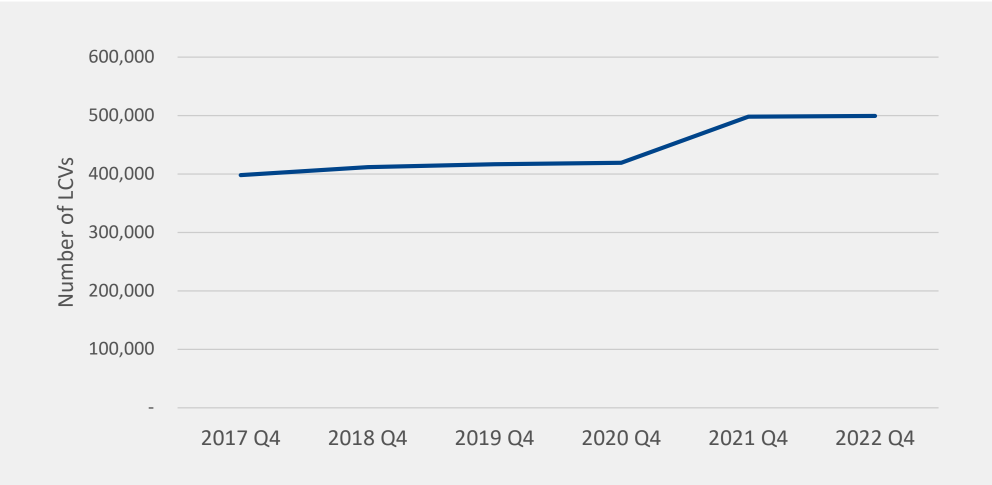
The typical duration of contracts – 39 months for cars, 46 months for LCVs – has been consistent for a year, although new vehicle supply issues undermine the accuracy of these terms, with many leases going into formal extension.

39months
AVERAGE LENGTH OF NEW BCH CAR CONTRACT

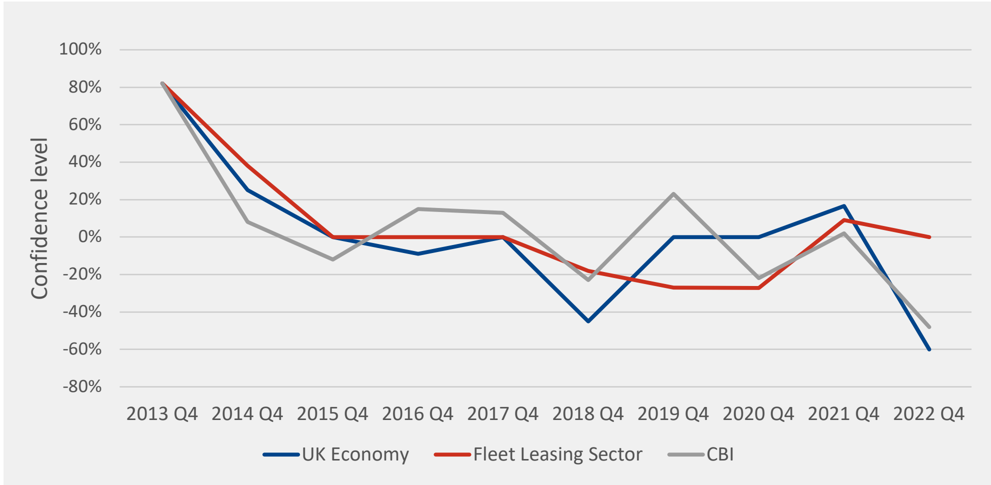
46months
AVERAGE LENGTH OF NEW BCH LCV CONTRACT

BVRLA Fleet Focus Q4 2022

Van fleet



Industry confidence



Vehicle supply shortages thwart LCV leasing growth

TREND

499,223
(+0.2% YEAR-ON-YEAR)
TOTAL VAN FLEET

Leasing companies have outperformed the finance market in the light commercial vehicle sector, maintaining the size of their total fleet at 499,223 LCVs in Q4 2022, a hair's breadth above the 498,280 total for the final quarter of 2021, despite new LCV sales declining by 20.6% year-on-year.

Persistent supply chain issues meant leasing companies could not fulfil orders, although their total end of year fleet was still an impressive 82,634 vehicles larger than it was in Q4 2019.

Business contract hire accounts for 69% of LCV agreements, followed by finance lease with an 18% share, and leasing companies expect both forms of leasing to rise as fleets seek ways to afford new vans, given the steep rise in acquisition costs.

Leasing confidence defies market pessimism

Any year which started with conflict shattering supply chains and sending energy prices skyrocketing, and ended with the turmoil of Kwasi Kwarteng's mini-Budget was likely to witness a dip in economic confidence, although the scale of the downturn in business sentiment is still shocking.

BVRLA members' lack of faith in the outlook for the UK economy as a whole mirrors the CBI's pessimistic view, although confidence in the prospects for the leasing sector is more robust.

Leasing's optimistic trajectory since the end of lockdown may have dipped, but not by much, and full order banks and a steady flow of new interest suggest the sector may buck the gloom of the wider economy.

BVRLA Member Outlook

The record residual values that reached their zenith midway through 2022 provided leasing companies with a cushion against the cocktail of challenging trading conditions that has continued into 2023. The heady mixture of unreliable vehicle supply, surging interest rates, rising SMR costs, a growing regulatory burden and an increasingly complicated array of fleet decarbonisation conundrums was already enough to give any leasing executive a headache, but the additional shot of a rapid slump in used BEV prices over the past six months threatens to induce a major hangover.

The positive news is that the shortage of new vehicles fuelled a chain reaction that ended with higher-than-forecast used vehicle prices but, to quote the Book of Job, "the Lord giveth and the Lord taketh away". Five months of consecutive declines in the prices achieved for used electric vehicles has led to the leasing sector casting anxious glances at its forecasts for future values.

The combination of supply rising to match or exceed demand, sharp price cuts for new cars by market leader Tesla, and the cost-of-living crisis making EVs appear expensive, have caused jitters among companies taking residual value risk. Industry leaders are hopeful that the market has now stabilised after the 17% downward correction in used EV prices between November 2022 and March 2023.

Executives do, however, highlight the need for the industry to play its role in building demand for used EVs to create a market for the growing numbers of cars set to return. With no financial or tax incentive to buy a used EV, the secondhand market needs reassurance that their running costs will offset higher acquisition prices and that it will be easy to recharge EVs.

A recent survey of over 3,000 EV drivers by Zenith found exceptionally high satisfaction levels with the ownership experience, although only 9% of these early adopters use the public charging network as their main energy source. This percentage will have to rise if there is to be a viable market for secondhand EVs. Interestingly, the drivers surveyed prioritised charging convenience, such as at the workplace or supermarkets, over charging speed, yet central Government funding is largely devoted to rapid and ultra-rapid chargers on the strategic road network.

"The UK Government has passed responsibility to local authorities and there is no common policy or approach. In seven years, there is due to be a ban on the sale of new ICE vehicles, but is that feasible with the pace of charging infrastructure installation? Until this gets resolved there will not be mass adoption of EVs," said one leasing executive.

In the meantime, there needs to be a concerted communication campaign to broadcast the lower running costs of EVs, both in terms of energy and maintenance, in order to stoke demand for used models. As one leasing director pointed out, the proliferation of domestic solar panels shows that the case for cost savings and eco wins can be successful.

Car and van fleet forecast

	2017 Q4	2018 Q4	2019 Q4	2020 Q4	2021 Q4	2022 Q4	Forecast 2023 Q4	Forecast change Q4 2023 vs Q4 2022
CAR	1,518,615	1,484,455	1,442,061	1,365,410	1,378,146	1,383,038	1,405,559	2%
LCV	398,439	411,853	416,589	419,544	498,280	499,223	502,882	1%
Total	1,917,054	1,896,308	1,858,650	1,784,954	1,876,426	1,882,261	1,908,441	1%

Car fleet forecast by fuel type

	2018 Q4	2019 Q4	2020 Q4	2021 Q4	2022 Q4	2023 Q4
Diesel	979,740	778,713	614,435	441,007	331,929	269,747
Petrol	400,803	504,721	477,894	496,133	442,572	430,282
BEV	5,938	15,863	68,271	165,378	290,438	370,601
PHEV	72,738	34,609	81,925	165,378	207,456	235,466

* Based on forecasts from seven BVRLA members. Total sample 680,000 vehicles. Fleet size forecast data rounded to nearest 1,000.

BVRLA Member Outlook

First, however, leasing companies need to secure new vehicles, and there's no escaping the fact that lengthy lead times are straining relationships with customers. Leasing companies report a slight improvement in the reliability of delivery times, but they are still confronted by the problem of cars arriving with slightly different specifications to original orders, forcing a recalculation of lease rates.

In many instances it appears that manufacturers and their dealers are equally in the dark, with factories holding all the power.

"The message to fleets is that we need to be looking at 2024 and 2025 orders today," said one leasing director.

This situation has led to a significant broadening of makes and models joining lease fleets, with Tesla, Kia, Hyundai, Polestar and MG rapidly establishing themselves as core fleet suppliers. When leasing companies talk of disruptors, they are referring to Chinese manufacturers, a reflection of how vehicle electrification is transforming the UK's lease parc.

The pace of electrification is dramatic, turbo-charged by HMRC's confirmation of supportive benefit in kind tax rates for zero emission cars until at least 2028. EVs have won the battle for the hearts and minds of company car drivers, but two further battlegrounds remain.

"Our van orders are still 99% diesel, and e-LCV range remains a real issue, especially for fully laden vans," said one leasing executive. "A real-world range of less than 100 miles represents too much of a risk for a lot of businesses, which don't want their drivers stopping for an hour to recharge."

Mushrooming low and zero emission zones provide a localised exception to this rule, with daily entry charges for ICE vehicles making the additional cost and inconvenience of battery power worthwhile.

At a national level, leasing companies and the BVRLA need to play a leading role in this "once in a lifetime opportunity" to accelerate the UK's net zero ambitions, said one leasing director. BVRLA members already account for the lion's share of electric vehicles on the road, but there is more support required to help reluctant fleets switch to battery power.

"Fleets need our help to pilot e-LCVs, learn how they can embrace them in their operations, understand the problems they will face, and identify the solutions," said a leasing executive. "They cannot wait until 2030 before addressing these issues."

Early data from operations departments suggests EVs offer better reliability, uptime and lower maintenance costs, although conclusive proof is still 12 to 24 months away. Rising labour rates and higher parts prices have pushed up service and maintenance costs for all types of vehicles, forcing forensic focus on expenditure to remain with budgets forecast two or three years ago, but there are encouraging reports that average SMR bills for EVs are not rising as quickly, thanks to shorter labour times and fewer replacement parts.

This is, however, a delicate balance for leasing companies: too much fanfare over the competitive maintenance costs of EVs will steer customers to expect SMR provision within leases to be significantly cheaper for EVs than for ICE equivalents, and potentially lead to the unbundling of services as clients take on SMR risk.

Car fleet by fuel type

Fuel type	2018 Q4	2019 Q4	2020 Q4	2021 Q4	2022 Q4
Diesel	66%	54%	45%	32%	24%
Petrol	27%	35%	35%	36%	32%
Electric	7%	11%	20%	32%	45%
BEV	*0.4%*	*1.1%*	*5%*	*12%*	*21%*
PHEV	*4.9%*	*2.4%*	*6%*	*12%*	*15%*
Non plug-in hybrids	*1.9%*	*7.0%*	*9%*	*8%*	*10%*

BVRLA Member Outlook

In the short-term, workshop capacity at main dealers has become an issue, with lengthy lead times for service appointments pushing leasing companies and drivers towards independent garage networks for a faster service.

“We are also seeing tiered labour rates for EVs and ICE vehicles, and moves towards menu pricing. It makes budgeting really hard when there are all these variations between manufacturers and dealer groups,” said a leasing director.

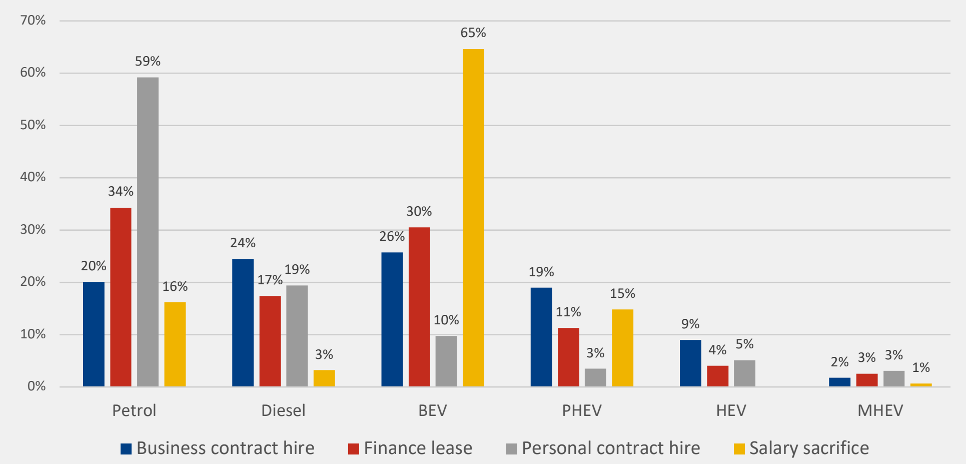
Leasing companies are also facing up to the technical challenge of complying with the Financial Conduct Authority’s new Consumer Duty regulations to protect consumers. The new rules are leading to root and branch reviews of all business processes and communication with private customers, and have been embraced by the industry despite the time, resource and training involved in compliance.

“Consumer Duty is a positive because it wants to provide fair outcomes to customers, which is exactly what we want to do to secure repeat business. It’s helping us improve our business and raise standards within our industry,” said one industry leader.

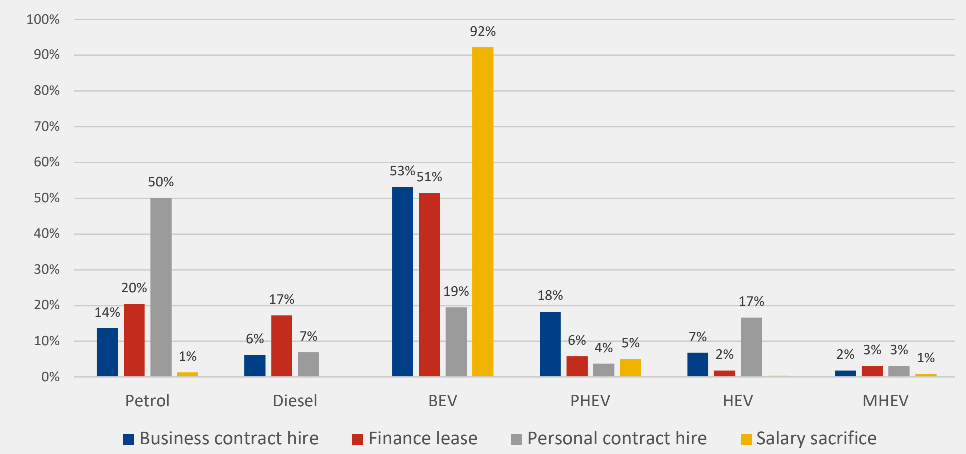
Leasing brokers are in the frontline of the Consumer Duty changes, and also appear to be in the crosshairs of certain manufacturers transitioning to agency distribution models. One car maker is refusing to supply brokers if the end-user does not hold a corporate account with it, while another is refusing to extend fleet discounts to broker clients. Leasing chiefs report that the transition from franchised dealers to agency sales is suffering a few teething problems, and that manufacturers are already concerned at closing off what has historically been a useful route to market. When vehicle supply better matches demand, the leasing sector expects a relaxation of some of the stricter terms of agency arrangements.

For now, though, healthy new orders, bulging order banks and buoyant residual values give cause for optimism, despite the gloom in the wider economy.

Car fuel choices by funding method, total BVRLA fleet



Car fuel choices by funding method, new additions Q4 2022



Opinion - used market prices

Dylan Setterfield - Head of Forecast Strategy, cap hpi

It has been a tumultuous time in the used market for battery electric vehicles. In the middle of last year, exceptionally strong demand combined with supply shortages, further supported values after the incredible increases seen in 2021.

At cap hpi, we didn't think that values for most BEVs were sustainable, and we had been including significant negative adjustments in our forecasts to take account of this, especially since we already knew that used volume would increase significantly in line with historical new car registrations.

So, it wasn't a surprise that used values have come down, rather that it took so long for them to start to do so. However, the speed of the price drops has been remarkable. It certainly didn't help that Tesla announced massive list price reductions in the middle of January, but there were bigger reductions in their used values before the cost new changes than afterwards.

The graph (above right) shows the difference between the current 36/60 used value in each month and the forecasted 36/60 value from 3 years previously. Back in July 2022, used values were 30% HIGHER than when forecast in July 2019, whilst in March 2023 and the used values are within 2.75% of our forecast in March 2020.

Most of the models which have seen the biggest price falls have now stabilised, but others look like they have further to fall.

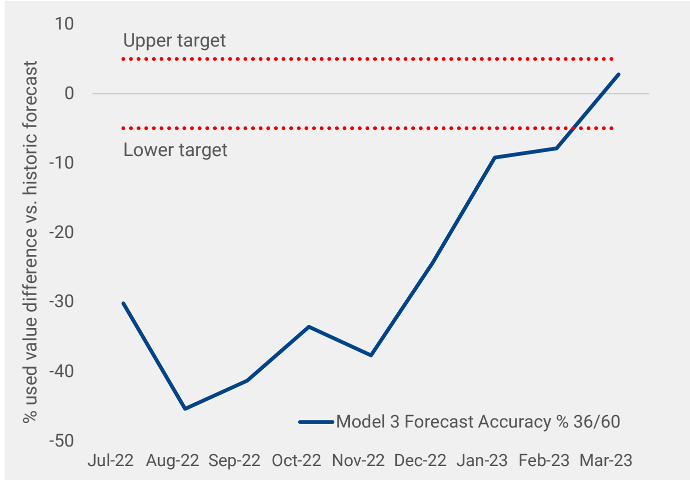
Several elements combined to drive this extreme change: increased used volumes; new cars becoming available again following supply issues; high cost vehicles less attractive in a cost of living squeeze; increased new car registration activity at the end of the year, including discounting; consumer concerns about costs of electricity and charging; media stories about queues for chargers; anti-BEV anecdotal stories in the mainstream media and more recently consumers considering new car Tesla offers instead of used (following the list price cuts).

Many of these factors are likely to be short term and it should certainly help that the government support for household electricity bills has been extended until prices come down.

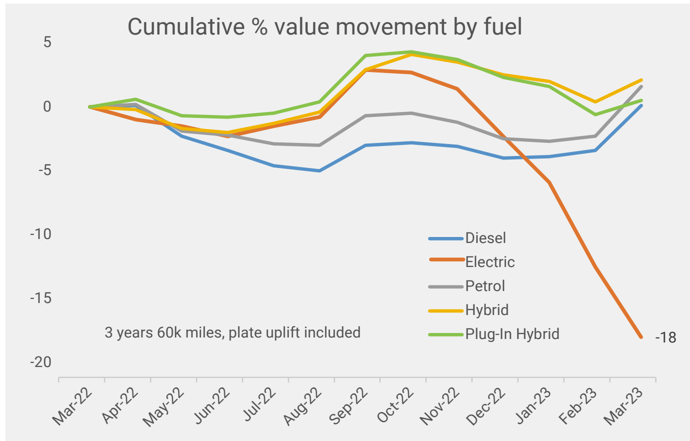
Interestingly, retail prices on battery electric models have remained much more stable than trade prices in general; dealers are placing very large margins across cars to avoid market prices dropping quickly and crystalising losses on aged stock bought at much higher prices. This signals a gradual change in retail pricing, retaining dealer confidence in BEVs, making them more affordable to consumers and supporting demand.

The cost of ownership equation is particularly favourable to battery electric models now and used demand continues to increase, but we already know that there are significant increases in supply in the pipeline. Watch this space.

Following used car price reductions, forecasts from 2020 now on target



BEVs one of the best performing fuel types in September, now -18% down



Opinion - new car leasing market

Paul Harrison - Chief Partnerships Officer, Leasing.com

The final quarter of last year was another turbulent time for the UK economy and consumer confidence. While the political instability of the autumn started to stabilise with the appointment of a new Prime Minister and Chancellor of the Exchequer, difficult economic conditions persisted.

Inflation of course remained high and that triggered further increases to the Bank of England base rate which pushed up the cost of funds for leasing companies and the cost of car rentals for private and business motorists.

Many consumers were not looking at big-ticket items in Q4 and were instead focused on conserving their household budgets for energy costs as we entered the winter months and the Christmas holiday period. Our research found that 39% of people planned to stay at home for Christmas to save money rather than travel to see family and friends.

Reduced Q4 vehicle demand was felt in the SMMT's figures, which showed that 1.61 million new cars were sold in 2022 – a decrease of 2% from 2021 and a 30-year sales low. One positive of the subdued Q4 period was that it gave manufacturers time to catch up on new vehicle orders and reduce production lead times. Our advertising partners reported that factory orders for more and more vehicle ranges are within 3-6 months, which was a typical lead time before the pandemic.

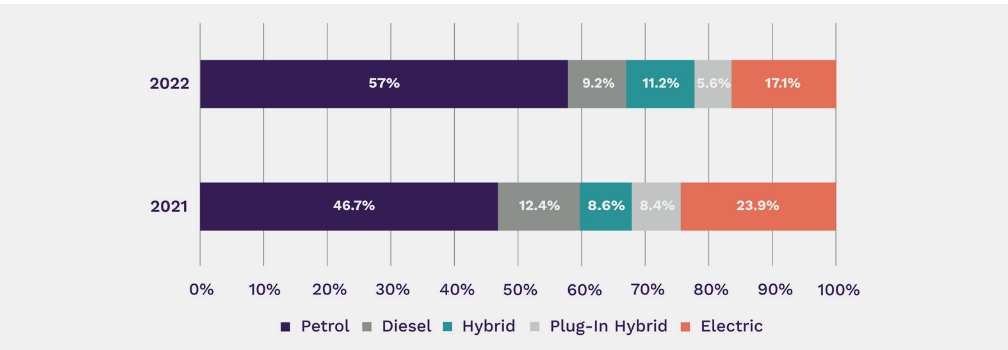
Our data showed that growing demand for electric vehicles was a constant theme throughout 2022. All electric vehicles (plugin, hybrid and battery) accounted for 35.3% of total demand seen on Leasing.com, up 17.6% on 2021. SMMT data shows battery electric vehicles (BEVs) accounted for 16.6% of new car sales last year, whereas BEV demand on Leasing.com outperformed the market accounting for 18.8% of total sales enquiries – an increase of 15.3% on 2021 BEV demand. Demand for diesel continued to decline last year with diesel-engine vehicles accounting for 10.6% of Leasing.com sales enquiries, down from a market share of 17.2% in 2021.

Consumer focus on affordability meant that four-year lease agreements were the most popular profile in 2022, overtaking three-year terms as consumers seek to spread costs and lock down payment certainty. Average annual mileage allowances also increased as motorists returned to the office and increased their social travel. 8,000 miles was the most popular mileage bracket requested in 2022, up from the 5,000 miles in 2021 during the pandemic. The average personal leasing rental was £354 per month last year.

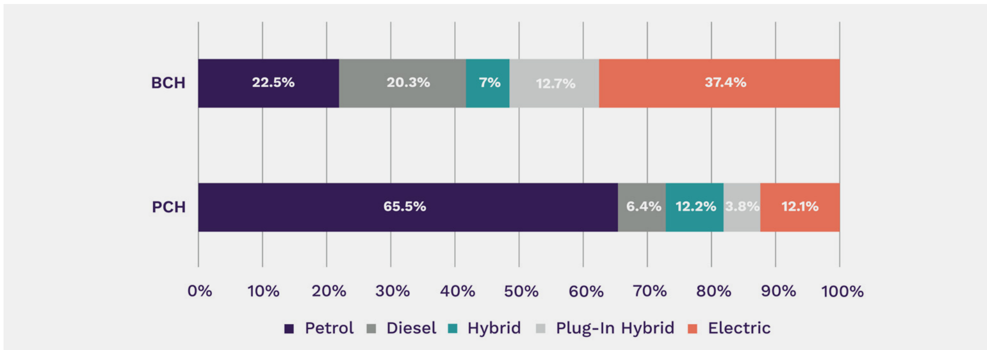
In the business leasing market, business users on average sought out three-year lease agreements with an annual mileage allowance of 10,000 and paid an average monthly rental of £425 excluding VAT. Uptake of BEVs was also far higher amongst business users as you can see in our charts.

This year has started strongly with significant new car demand seen from private and business motorists, helped with a continued steady improvement in the availability of stock. Several manufacturers are introducing their new agency sales models this year and it will be interesting to see how those models work against a backdrop of improving supply and volume discounts. Overall, there is much to be optimistic about in 2023 and this is reflected in the SMMT's forecasted 11% growth in new car sales.

New Car Fuel Type Demand - Q4 2022 versus Q4 2021



New Car Fuel Type Demand Q4 2022 - Personal vs Business Leasing



Opinion - used market overview

Ian Plummer - Commercial Director, Auto Trader

We have a unique and privileged position within the automotive ecosystem which gives us an exceptionally large and accurate view of the UK retail market. In this first edition of the Leasing Outlook Report of 2023, I wanted to use the opportunity to share some of the key trends we've been tracking since the start of the year.

AutoTrader

A retail market with momentum

The first (and perhaps the most important) observation to report, is that despite the backdrop of political and economic turbulence, 2023 started with some real momentum behind it, and critically, it's been able to maintain it.

In fact, as soon as we exited the quiet festive period, we saw signs of a retail market that was in very robust health. In January, our marketplace saw a record 80 million cross-platform visits, which was up nearly 10 million on the same period last year. It was then followed by a 19% year-on-year (YoY) uplift in February, and, at the time of writing , a 20% increase in March.

Reassuringly, this growth in demand is translating into used car sales, which according to our data, are currently up circa 6% YoY in March. And in terms of the new car market, February's solid performance as reported on by the SMMT is a further indicator of growing consumer confidence, as well as the gradual improvement in supply. Heavy constraints remain of course, but the taps are slowly reopening, with levels of new car stock on our marketplace up over 30% on this time last year.

Used car price growth accelerates

Growth in demand, coupled with the ongoing shortfall in stock, is also resulting in very strong used car values. As of mid-March, the average price of a used car is £17,720, which is up 2.3% YoY. Rising from the 1.3% YoY recorded in February, it marks the first acceleration in the rate of YoY growth in 10 months, having gradually slowed from the all-time high of 32.2% YoY in April 2022.

At a month-on-month (MoM) level, March prices grew 0.7% on February, marking the third consecutive MoM increase. It's well ahead of the 0.1% MoM growth recorded in both March 2022 and 2021, as well as the average -0.4% contraction recorded between 2011 and 2019.

This acceleration in growth could not be a clearer barometer of the current market, which despite the wider economic picture, is going from strength to strength this year. Although growth rates may begin to soften again, with no immediate or dramatic change expected in the current supply and demand dynamics, prices will remain strong for the foreseeable future.

EV prices in reverse in wake of supply surge

Despite this acceleration, average used car price growth is being held back by the ongoing contraction in used electric vehicle (EV) values, which as of mid-March, are down -13% YoY. In contrast, the average price of a used petrol and diesel car is up 4.3% and 2.4% respectively.

Our data shows that the drop in EV prices is the result of a huge overbalance of supply. In March, the volume of used EVs in the market has rocketed 261% YoY, whilst supply of petrol and diesel cars is down circa. 20%. And contrary to some headlines that suggest consumer interest in EVs is collapsing, on our marketplace, levels of demand are currently up 47% YoY.

With the sub-5-year-old EV parc expected to grow 62% this year, the industry will need to work together to change the negative narrative currently surrounding EVs, and we'll need to change it fast to avoid more than just a pothole on the road to 2030.

The cost of borrowing continues to rise

Running in parallel to wider price increases, inflation has resulted in a significant rise in the cost of borrowing, with the Bank of England's base rate increasing from 0.5% to 4.0% over the last year. This has been reflected in average new and used car APRs powering finance calculators on our marketplace. New car APRs have risen from 5.2% in February 2022, to 8.2% just 12 months later, whilst used car APRs have risen from 9.3% to 11.2% over the same period.

Despite this, however, there's been little change in the terms selected by consumers enquiring about used car finance on Auto Trader, and as our positive demand data highlights, the rising cost of borrowing is having little impact on consumer appetites.

As ever, we'll continue to monitor these trends, and report back in later editions of the Report.

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.

British Vehicle Rental & Leasing Association
Badminton Court
Church Street
Amersham
Buckinghamshire HP7 0DD

01494 434747
bvrla.co.uk

@bvrla bvrla bvrla @bvrla bvrla.co.uk/videos