Industry Insight

BVRLA

Leasing Outlook

Jan 2024

The pendulum swings

While interest rates and new vehicle pricing have become more stable, residual values look more uncertain

Market spotlight
LCVs continue to drive forward fleet growth

Industry outlook
Focus on future residual value of electric cars and vans

Quarterly report
BVRLA lease fleet reports lowest ever average CO_2 emissions per car

Opinion
Downward movement in values of used BEV cars and vans

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

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- Car fleet up **1.8%**; van fleet up **3.3%** year-on-year (page 5&9)
- BCH car fleet up **4.8%** year-on-year; salsac up **68%** YOY; PCH down -**8.6%** YOY (page 5)
- BEVs account for **47%** of all new BCH cars; average BCH car CO_2 emissions fall to 53.3g/km in Q3 (page 6)
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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

For anyone who can remember what normal looks like, there are indications that the vehicle leasing sector is on more familiar ground, but electric vehicles could still disrupt the industry's new-found stability.

The first green shoots of a 'normal' market emerged in the third quarter of 2023. Interest rates have been static since 3 August, car lead times for many popular models have started to return to a more typical three to six months, van supply resumed, allowing for a steady renewal of lease fleets, and the first mentions of discounts and enhanced fleet terms have appeared in conversations with vehicle manufacturers for the better part of three years.

The result is an increase in the number of vehicles operated by BVRLA leasing members to a near record level of 1,911,660 cars and vans, exceeded in only one previous quarter (Q4 2017).

Light commercial vehicles have driven the rise, up 3.3% year-on-year to an all-time high of 516,253 vans.

Car numbers, too, are up 1.8% year-on-year, but still have significant ground to regain their highs of the mid-to-late 2010s before benefit in kind tax started to squeeze drivers out of company cars. Today's highly supportive BIK tax rates for zero emission company cars, and the confidence of knowing the tax rate out to 2028, has reanimated the company car sector. This looks set to achieve the Government's aim of providing a steadily rising supply of used battery electric cars.

The BVRLA car lease fleet is now the cleanest it has ever been, with new additions in Q3 having average carbon dioxide emissions of just 60.2g/km. There is, however, a chasm in the CO2 output between new business contract hire cars of just 53.3g/km, and the 116.3g/km of new personal contract hire cars.

This divergence in appetite for battery electric models and its impact on residual values is now uppermost in the minds of leasing executives. There are fears that the fleet sector is not only too far out of kilter with demand in the secondhand retail market, but that the Zero Emission Vehicle mandate, which starts in 2024, will make the situation worse as OEMs force the sale of EVs to avoid penalty fines.

The continued success of salary sacrifice schemes shows that private buyers will choose electric cars if the price is right. This point is underlined by used car data, which indicates that secondhand electric vehicles find buyers once their prices fall close to parity with used petrol and diesel equivalents.

The trouble is that electric cars cost considerably more to acquire when new, so someone will have to pay for their higher depreciation, either leasing companies through more slender margins or customers via higher lease rates, and most likely both. Neither development has been sufficient to stem falling demand for personal leasing, where numbers are down by more than 10% as private drivers wrestle with higher lease rentals in a cost of living crisis.

Alarm bells are ringing even louder in the LCV sector, where the ZEV mandate demands that the sales of battery electric vans almost double in 2024 to 10% of total registrations. Leasing companies are already facing pressures to include at least one e-LCV in every 10 van orders, and are working closely with fleets to identify individual vehicles that could transition to electric without operational compromise. While some end-user van fleets are switching to e-LCVs as part of wider corporate sustainability objectives, many more find the range, payload and charging demands of e-LCVs fall below their requirements.

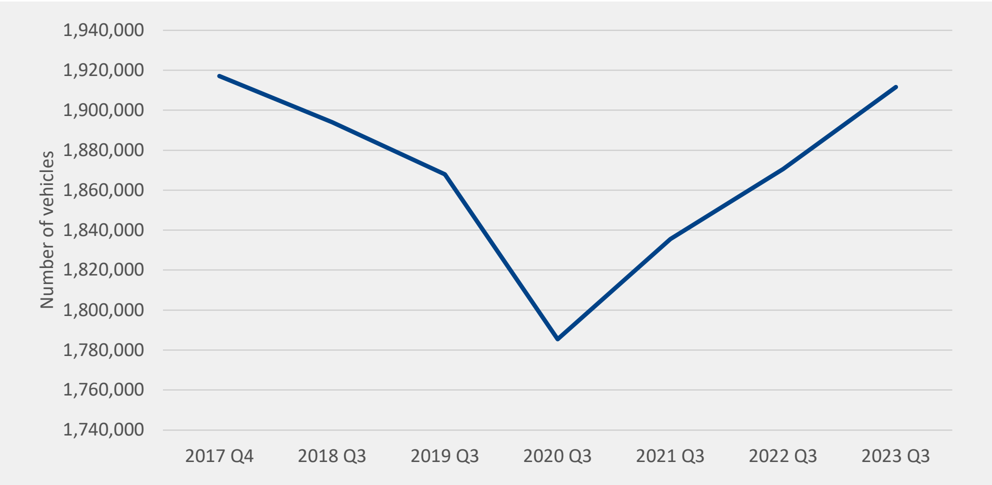
This lack of demand for e-LCVs could be even more acute in the used market, prompting fears among leasing executives about their residual value exposure on battery-powered vans. Unlike cars, the average emissions of new additions to the BVRLA's van fleet actually rose in Q3 as customers remained fixed on diesel.

Elsewhere, industry executives voice concerns about service, maintenance and repair capacity in dealers and independent networks, with customers facing longer lead times to book their vehicles in for work and leasing companies reporting fewer right-first-time fixes. The challenge of workshop access may explain why more customers are looking for maintenance-inclusive contracts, and in the LCV sector fleet management is booming, up 26% year-on-year.

As for the future, the great hope is that stability of interest rates will give customers confidence to invest in new vehicles, while manufacturers' returning enthusiasm for the leasing sales channel will help to make contracts more affordable. Much rests now on future residual values, particularly of electric cars and vans.

BVRLA Fleet Focus Q3 2023

Vehicles operated by BVRLA members



Lease fleet reaches six-year high

The number of cars and light commercial vehicles operated by BVRLA leasing companies has reached its highest level for over six years, at 1,911,660. This total has only been exceeded once, in the final quarter of 2017.

The steep rise in volumes from the nadir of 2020 follows the return of vehicle supply to near normal conditions, allowing leasing companies to release order banks and customers to renew their vehicles.

After three years of prioritising higher margin retail sales, vehicle manufacturers are once more courting leasing customers with fleet support (discounts) as the sector will be a vital route to market for Zero Emission Vehicle mandated battery electric cars and vans.

TREND

+41,100

(+2.2%) YEAR-ON-YEAR GROWTH IN TOTAL FLEET

Overall fleet

Total fleet 1,911,660 vehicles

(+1% Q3 VS Q2)

Share of total fleet

	Q3 2019	Q3 2023
Cars	78%	73%
Vans	22%	27%

Record numbers of LCVs on the BVRLA lease fleet

Light commercial vehicles continue to drive forward the BVRLA leasing sector's fleet growth, reaching a record number in Q3 2023 of 516,253.

LCV volumes outstripped cars both quarter-on-quarter and year-on-year, where their 3.3% increase was almost double the 1.8% rise in car numbers. The higher penetration of LCVs on the BVRLA lease fleet mirrors improvements in van sales reported by the SMMT, which had recorded eleven consecutive months of year-on-year gains by November.

With vehicle supply returning to normal, leasing companies see further encouraging support for growth in the stability arising from the Bank of England holding interest rates level at its last three reviews.

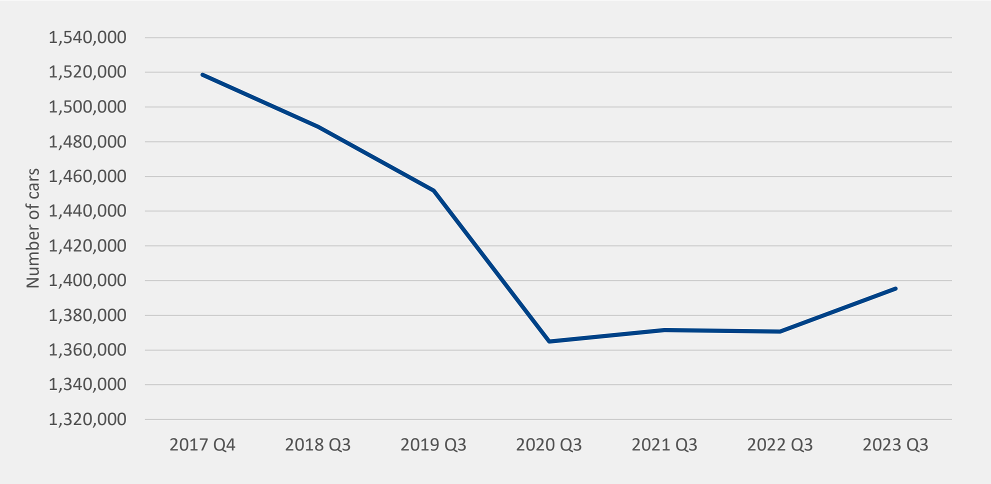
TREND

516,253

(+3.3% YEAR-ON-YEAR) NUMBER OF LCVS ON THE BVRLA FLEET

BVRLA Fleet Focus Q3 2023

Total car fleet



Car fleet climbs steadily

The BVRLA lease car fleet is up both quarter-on-quarter and year-on-year as it slowly recovers the ground lost during the pandemic.

The Q3 standing total of 1,395,407 cars is the highest since Q2 2020, but still a long way below the 1.5 million reported in the final quarter of 2017 and first of 2018.

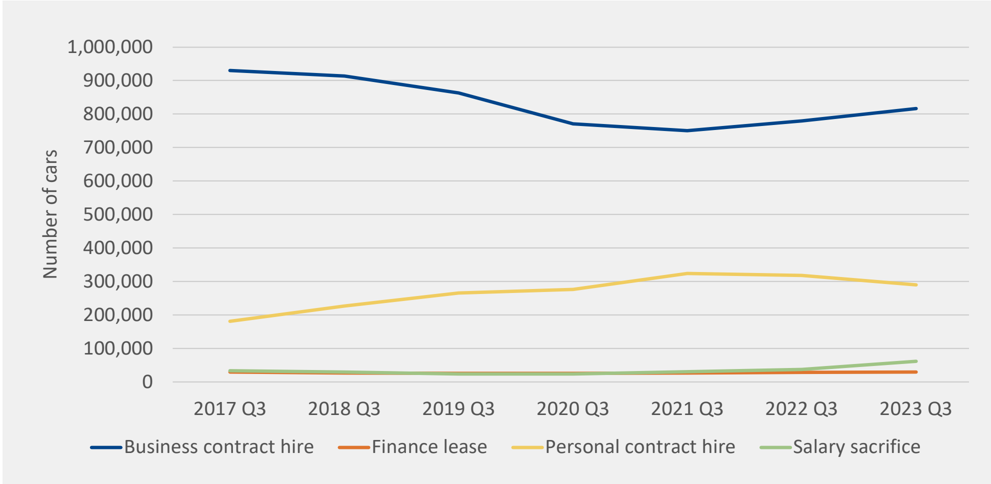
Business demand and salary sacrifice schemes have driven the quarter's growth, echoing findings from the SMMT that fleet share of the new car market had risen to 53% for the first three quarters of 2023, up from 45% for the same period last year.

The reappearance of enhanced terms and discounts from OEMs, as car supply returns to more normal levels, is also fuelling growth by allowing leasing companies to offer more competitive rentals.

TREND

1,395,407
(+1.8% YEAR-ON-YEAR)
BVRLA CAR FLEET

BCH v PCH car fleet



Business car finance outstrips personal sector

All forms of business car finance are on the up, whereas the opposite is true for private car finance, apart from the grey area of salary sacrifice. Both business contract hire and finance lease volumes are up by more than 4% year-on-year to 816,753 and 29,267 cars respectively, but personal contract hire numbers have fallen by -8.6% over the last 12 months, the sector falling victim to a perfect storm of higher interest rates, higher car prices and a cost of living crisis.

The boom sector, however, is salary sacrifice, up 12% since Q2 2023 and 68% since Q3 2022, with leasing companies forecasting further rapid growth as cash allowance drivers join the wider employee base in switching to this surrogate fleet scheme when their current car finance contracts end. Some OEMs are even reported to be working with leasing companies on how to position their cars attractively within salsac schemes.

TREND

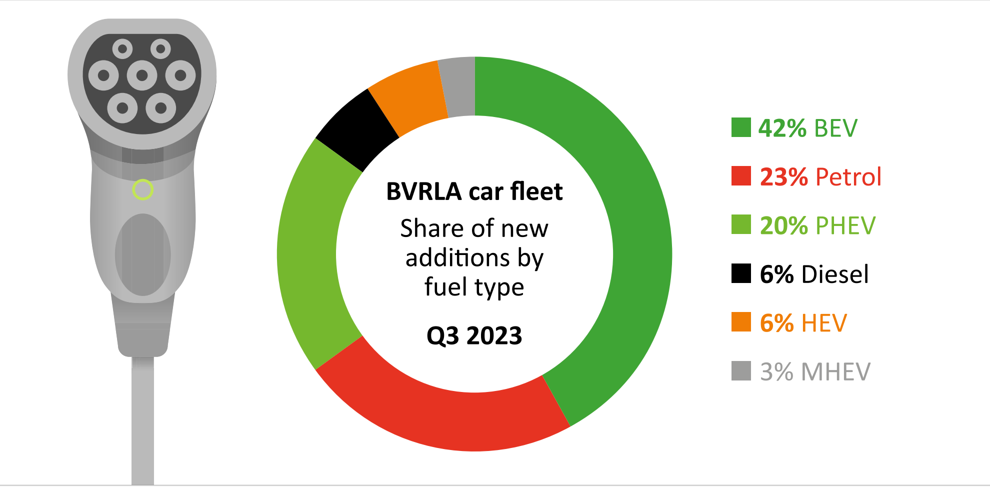
816,753
(+4.8% YEAR ON YEAR)
BCH CAR FLEET

TREND

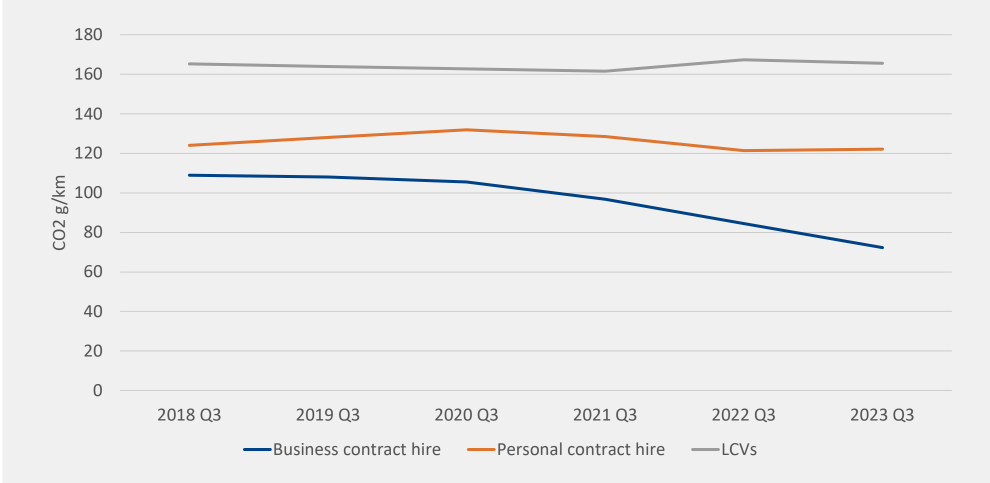
+68%
YEAR ON YEAR INCREASE IN SALARY SACRIFICE CAR FLEET TO 61,937 CARS

BVRLA Fleet Focus Q3 2023

Car fuel choices



BVRLA fleet CO_2 emissions



BCH far exceeds PCH in EV demand

An astonishing 79% of new business contract hire cars that joined the BVRLA fleet in Q3 2023 are capable of driving in zero emission mode. Battery electric models dominated the BCH market in the three months from July to September, accounting for 47% of deliveries, followed by plug-in hybrids with 25% and hybrid cars with 7%. Petrol and diesel power represented just 15% and 4% of new BCH additions respectively. This rapid green renewal of the BVRLA lease fleet means over half (51%) its cars are now zero emission capable, although the environmental progress is due largely to business rather than private customers. Battery electric penetration of new personal contract hire agreements was only 15% in Q3, three times lower than BCH, in a sector where petrol remains the driving force (62%). Stimulating demand for BEVs in the retail sector, especially secondhand cars, is a major priority for leasing companies amid widespread residual value concerns.

47%

PERCENTAGE OF BEVS IN Q3 BCH DELIVERIES

51%

PERCENTAGE OF BEVS, PHEVS AND HYBRID CARS ON TOTAL BVRLA CAR LEASE FLEET

Decarbonisation gathers pace

The BVRLA lease fleet has maintained its march towards a zero emission future, reporting the lowest ever average CO_2 emissions per car of 83.2g/km. The average emissions of new additions to the fleet during Q3 was lower still, at 60.2g/km, although the figures expose the wide divergence between company car and private drivers.

The average emissions of new business contract hire cars was just 53.3g/km, less than half the 116.3g/km of new personal contract hire cars, highlighting the need for the Government to find a retail stimulus for electric cars as powerful as the benefit in kind tax rate has been for business drivers.

Equally pressing is a workable operational solution for electric light commercial vehicles, with the average emissions of the diesel LCV fleet actually rising quarter on quarter and year on year.

TREND

53.3g/km

AVERAGE CO_2 EMISSIONS OF NEW BUSINESS CONTRACT HIRE CARS IN Q3 2023

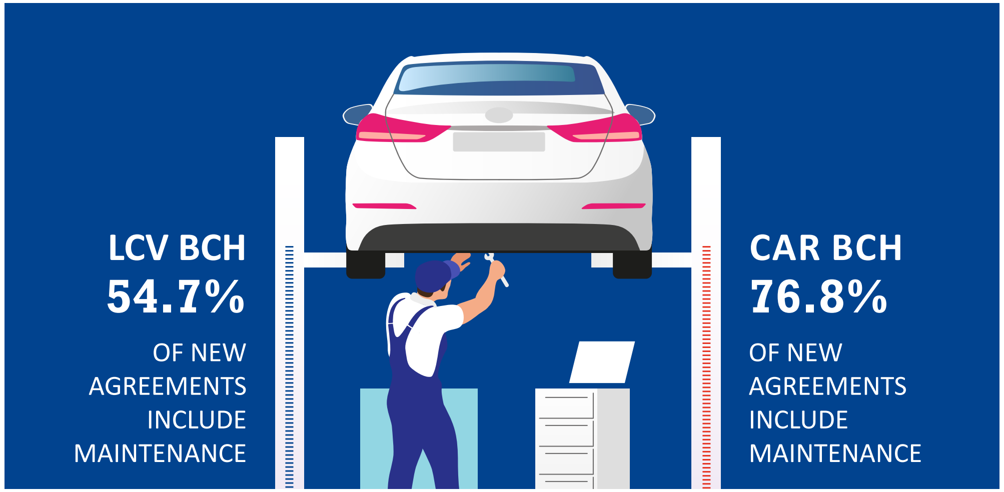
TREND

-26.3%

FALL IN AVERAGE CO_2 EMISSIONS OF BVRLA FLEET SINCE Q3 2020

BVRLA Fleet Focus Q3 2023

Maintenance contracts - proportion of maintained fleet by funding method



Maintenance: a new headache for leasing companies

Maintenance has become a key area of focus for leasing companies amid shrinking workshop capacity in dealerships and independent garages. A perfect storm of parts delays, technician shortages and new vehicle technologies has led to long lead times and increased downtime for service, maintenance and repair work. As the middleman between customer and workshop, leasing companies find themselves in a difficult position, blamed for delays over which they have little control. The good news is that in key sectors, such as business contract hire, more customers are opting for maintenance-inclusive contracts. The challenge is that a high proportion of these new BCH cars are electric, and SMR networks are not yet at full speed to serve them. Early reports indicate that service work is minimal for EVs, but that if repairs are required the downtime far exceeds that of ICE vehicles.

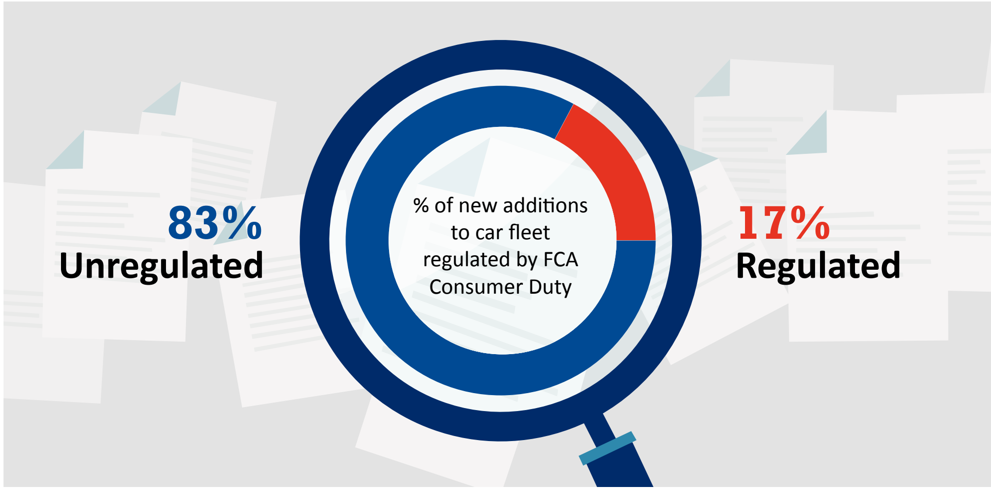
898,144

NUMBER OF CAR CONTRACTS, BOTH BUSINESS AND CONSUMER, THAT INCLUDE MAINTENANCE (64% OF TOTAL)

288,213

NUMBER OF VAN CONTRACTS THAT INCLUDE MAINTENANCE (56% OF THE TOTAL)

Regulated contracts



New Consumer Duty comes into force

Q3 was the first quarter in which the FCA's new Consumer Duty (CD) applied. Leasing companies report that their processes, customer communication and staff training were all well prepared to comply with the new regulation. However, the FCA is clear that this is not a one-off tickbox exercise, and that firms need to learn and improve continuously, and be able to evidence this in their annual board report.

Some unregulated businesses, such as salary sacrifice providers, are adopting CD regulations on a voluntary basis, as both good practice and a precaution that the FCA might extend the remit of the new rules.

Smaller brokers report that the regulatory burden is heavy, and would like the major leasing companies to develop a uniform checklist, so they only have to fill in their CD credentials once.

7%

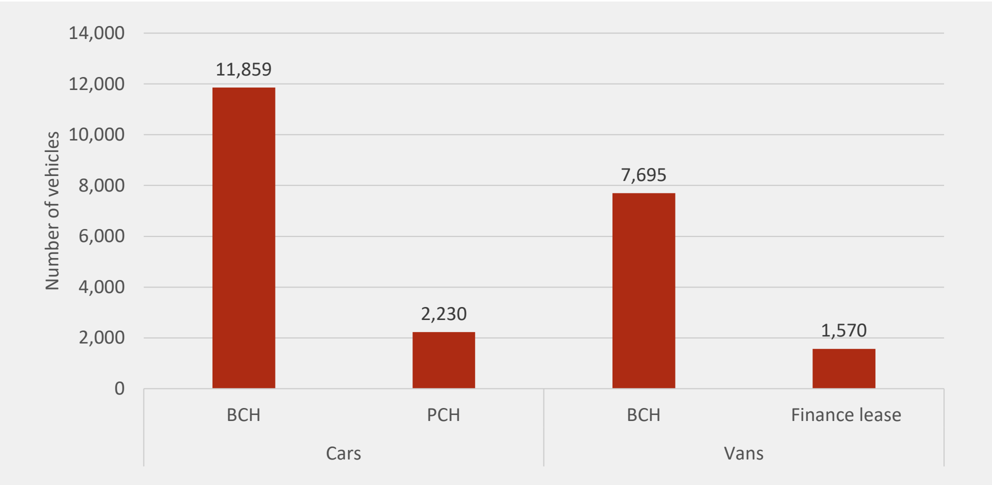
PERCENTAGE OF VAN FINANCE CONTRACTS THAT ARE REGULATED

75%

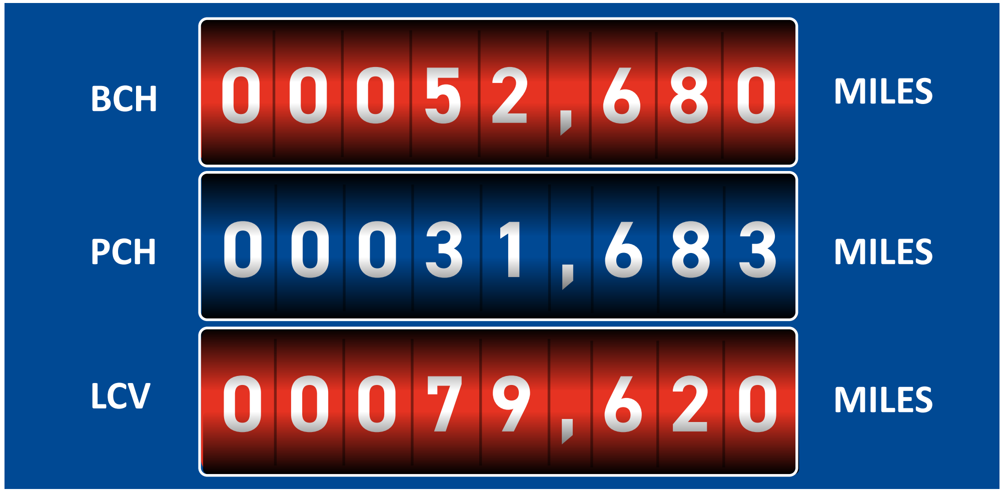
PERCENTAGE OF NEW CAR CONSUMER FINANCE CONTRACTS THAT ARE REGULATED

BVRLA Fleet Focus Q3 2023

Used vehicle leasing



Contract mileage



Used leasing demand starts to grow

A quick Google search of 'used car leasing' reveals a plethora of leasecos and brokers offering secondhand cars, although total volumes remain extremely low.

Industry interest is growing, spurred on by the opportunity to capitalise on the greater reliability of older electric vehicles and the chance to avoid a residual value hit.

SME, private contract hire and salary sacrifice channels are all target markets, but require leasing companies to operate a retail-style used car operation. Each vehicle requires individual inspection, refurbishment and pricing for what is still a minority consumer product.

BVRLA volumes remain very limited, but grew in business contract hire by 73% from Q2 to Q3 2023, and accounted for 5.3% of new personal contract hire agreements in Q3.

TREND

73%

THE INCREASE IN USED CAR BCH AGREEMENTS BETWEEN Q2 AND Q3 2023

TREND

27,252

THE NUMBER OF USED LEASING AGREEMENTS IN THE BVRLA FLEET

Car and van contracts move in opposite directions

The average terms of business contract hire agreements have crept up slightly over the past year to stand at 52,680 miles and 40 months, almost identical to new contracts delivered in Q3. The respective figures for Q3 2022 were 49,680 miles and 39 months.

Vans are moving in the other direction, with contracts shortening slightly to an average of 79,620 miles and 49 months as improving supply allows customers to renew their vehicles. The average new van contract is for 71,898 miles and 43 months.

There are still no reports of customers pushing out contracts to five years and higher mileages to take advantage of the promised greater reliability of electric vehicles, even though this would allow them to amortise more expensive vehicles over a longer period and secure cheaper lease rentals.

39 months

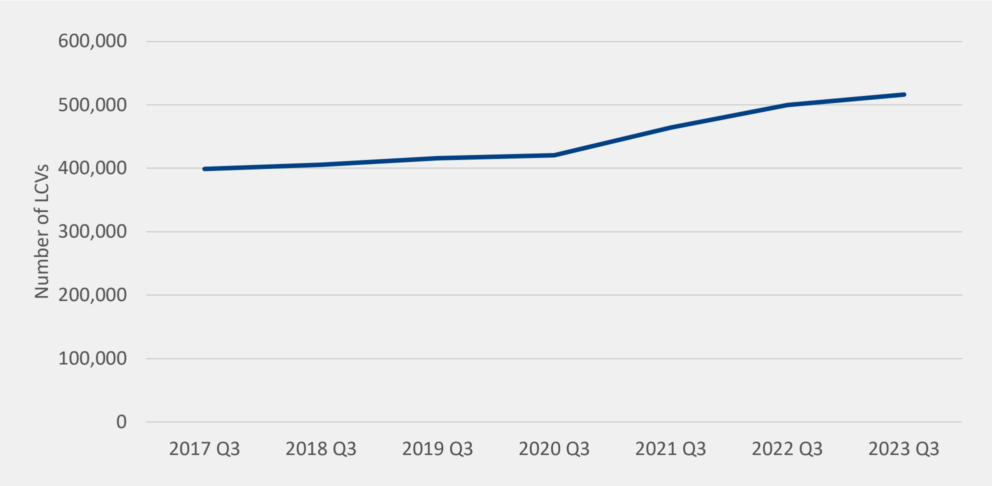
AVERAGE LENGTH OF NEW BCH CONTRACTS

35 months

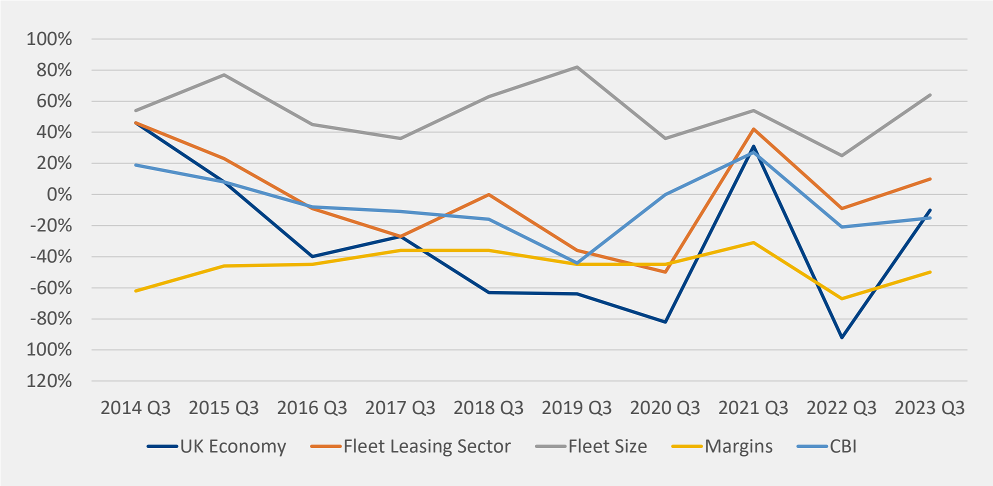
AVERAGE LENGTH OF NEW PCH CONTRACTS

BVRLA Fleet Focus Q3 2023

Van fleet



Industry confidence



LCV numbers at record high

After three successive quarters at record levels above half a million vehicles, the van fleet operated by BVRLA leasing companies would appear to be in rude health. Yet leasing executives report significant issues in the sector.

Vehicle availability improved in 2023, but there are still bottlenecks in the supply chain, particularly with conversions. Executives also reported concerns about the steep price increases of new LCVs, with some costing close to double their pre-Covid prices, driving up lease rates. Above all are fears over the Zero Emission Vehicle mandate which requires 10% of an OEM's sales to be electric in 2024, forcing sales ahead of customer demand.

Among LCV products and services, fleet management has enjoyed the strongest growth, increasing its volumes by 25% year-on-year, whereas business contract hire was up 2.5% and finance lease fell by -3%.

TREND

+25%

YEAR-ON-YEAR INCREASE IN LCV FLEET MANAGEMENT

TREND

516,253

(+3.3%) BVRLA VAN LEASE FLEET

Indicators all point up

Don't be misled by the graph above. All Q3 indicators of business confidence may be pointing upwards, but some are still negative. The outlook for both the UK economy and especially margins are bad... just not as bad as in the third quarter of 2022.

On the plus side, there is positive sentiment around fleet growth, with the apparent plateau of interest rates bringing a degree of stability to pricing, and giving customers more confidence to invest in new vehicles.

However, BVRLA leasing members expect the overall fleet size to grow while margins decline, with the combination of higher new vehicle prices and stumbling residual values continuing to squeeze profits.

TREND

+64%

BVRLA MEMBERS' CONFIDENCE IN FLEET SIZE

BVRLA Member Outlook

There's a black sense of humour at play in the UK's vehicle leasing sector. No sooner does some form of stability return to the front end of leases, with a plateauing of both interest rates and acquisition costs, than instability runs rampant at the back end. A year ago, the very opposite was true, with desperate uncertainty over borrowing costs and vehicle pricing, but buoyant residual values.

First, the good news – after the better part of three years in which vehicle manufacturers have held the upper hand in negotiations with leasing companies, a more balanced relationship has returned as vehicle supply has increased. With fleet sales dominating new car registrations, and contract hire dominating fleet finance, OEMs are once again eager to engage with the leasing sector. Discounts have returned, alongside a willingness to work in partnership with leasing companies and end-user fleets to position company cars in appropriate grade bands.

The industry also breathed a collective sigh of relief at the last-minute resolution to the UK's 'rules of origin' trade issue with the European Commission, which would have added more than £3,000 to the price of electric vehicles from the start of January 2024.

There is a further degree of comfort in the fact that the residual values of petrol and diesel models have remained firm. Disposal proceeds per car may have slipped from the heady heights of 2021 and 2022, but they are still well ahead of forecasts made three or four years ago, and likely to stay there. Covid-19 closures cost the UK car industry about 2.5 million new registrations, which should ensure the supply of used cars does not outstrip demand over the next couple of years. Autotrader has reported 27% fewer sub-five-year-old-cars in the UK parc compared to 2019.

But now the bad news – leasing company portfolios are increasingly populated by electric cars whose used values have tumbled by more than 30% in the past year. If the peak prices paid by early adopters were unlikely to continue, few industry experts expected the decline to be as rapid or as sharp, with used EV prices almost at parity with petrol and diesel equivalents, despite costing substantially more when new.

As a result of this dramatic depreciation, there are now widespread calls for Government intervention in the used EV market, with suggestions ranging from an equalisation of VAT rates on home and public charging, to interest free loans for used EVs, and greater support for charging infrastructure, which remains geographically uneven.

In the short term, leasing companies fear the unintended consequences of the Zero Emission Vehicle mandate, with the risk that it artificially fuels the market for new EVs and thereby creates a subsequent glut in the used sector. There are already reports that larger leasing companies are either stockpiling used EVs, rather than oversupply a market that does not want them, or redeploying them into their own rental fleets to provide pre-contract wheels for company car drivers awaiting delivery of their new cars.

Leasing brokers are also concerned that the mandate will exacerbate a situation in which they cannot source the smaller, cheaper new cars that private drivers want, and instead will push supply of larger, more expensive electric cars. New personal leasing numbers are down significantly as drivers contend with increases of several hundred pounds per month in rentals for a like-for-like replacement, due to the double-whammy of higher interest rates and more costly new car prices.

The impact of the ZEV mandate is even more worrisome in the light commercial vehicle arena, where even green-committed fleets are dragging their heels over transitioning to battery power. Electric LCV registrations accounted for only 5.5% of new van registrations for the first 11 months of

Car and van fleet forecast

	2017 Q3	2018 Q3	2019 Q3	2020 Q3	2021 Q3	2022 Q3	2023 Q3	2024 Q3 forecast	Forecast change Q3 2023 to Q3 2024
CAR	1,491,456	1,488,521	1,451,803	1,364,848	1,371,425	1,352,991	1,395,407	1,405,498	1%
LCV	399,134	405,432	416,077	420,520	464,056	499,548	516,253	528,289	2%
Total	1,890,590	1,893,953	1,867,880	1,785,368	1,835,481	1,852,539	1,911,660	1,933,787	1%

Car fleet forecast by fuel type

	2018 Q3	2019 Q3	2020 Q3	2021 Q3	2022 Q3	2023 Q3	2024 Q3	Forecast change Q3 2023 to Q3 2024
Diesel	1,034,522	852,208	668,776	507,427	377,652	223,998	189,309	-15%
Petrol	355,757	476,191	464,048	466,285	479,014	414,995	399,508	-4%
BEV	4,609	9,991	42,310	137,143	222,704	388,332	544,830	40%
PHEV	68,173	80,388	72,337	150,857	190,428	209,198	227,485	9%

BVRLA Member Outlook

2023, but need to almost double to 10% in 2024.

To increase the share of eLCVs in their sales mix, OEMs have two principal options – pressure customers to take one electric van in every order of 10 vehicles (leasing companies already report this to be happening), or restrict sales of diesel vans. Neither solution is attractive to leasing companies at a time when van supply has started to return to normal levels.

The longer term answer, naturally, is to build e-LCVs with better ranges, greater payloads and more affordable prices, but until this happens leasing companies talk of extensive work with customers to identify the vans in their fleets that could transition to battery power without undue complications or compromises in their duty cycles. For the other vehicles, there is still a diesel option until 2035.

To support e-LCV adoption, leasing companies are desperate to see the creation of public charging infrastructure large enough to accommodate vans, and even LCVs with trailers, rather than the car-sized bays of most charging stations.

They are also pushing hard to change the narrative surrounding all electric vehicles to focus on what these can do in terms of decarbonisation, smooth, near-silent performance and automatic transmission, rather than what they can't do. Unless this story changes, demand for used EVs, and especially secondhand electric vans, is likely to remain weak, undermining their residual values.

Between purchase and disposal, the in-life operation of lease vehicles has become more challenging due to a shortage of capacity in the service, maintenance and repair sector. Supply chain issues for replacement parts allied to a lack of technicians (especially those trained to work on EVs) has led to unwelcome delays in securing appointments in workshops and longer downtime. Every leasing company appears to have cases of EVs being grounded for weeks awaiting repair.

Leasing companies are widening their maintenance networks to add capacity and encouraging customers to book vehicles in earlier for routine services. They are also starting to explore the opportunities presented by connected vehicles not only to automate service bookings at scheduled intervals, but also to pre-inform workshops of the work and parts required so that everything is in place when the vehicle drives into the garage. There are exciting pilots of preventative maintenance based on monitoring data from vehicles to spot anomalies that signal the risk of breakdown and fixing the vehicle before the driver gets stranded.

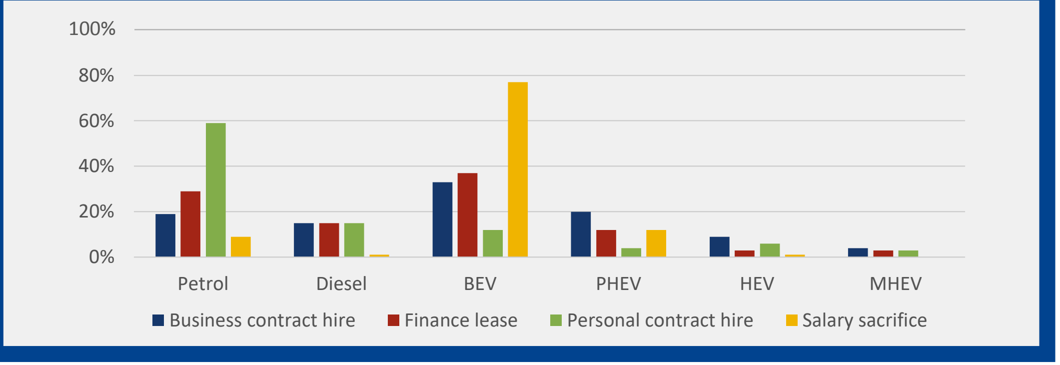
Securing open access to this data from vehicle manufacturers looks like being a future battleground for leasing companies.

Maintenance support is becoming a key area of discussion as fleets and private drivers consider new manufacturers, particularly of EVs, with direct rather than dealer-based distribution models. With no control over where their customers use their vehicles, there are suggestions that leasing companies are favouring brands with nationwide dealer support, although competitively priced Chinese brands are finding a ready audience in the booming salary sacrifice sector.

Salary sacrifice has benefited from the certainty provided by HMRC publishing benefit in kind tax rates out to 2028, but with 2024 bringing the likely prospect of a general election, leasing companies are primed for fiscal and policy changes. How will a new government of whatever political persuasion tax cars and vans? How will it invest in infrastructure designed to support the UK's net zero ambitions? How will it negotiate with Europe over future rules of origin? And how will its policies impact inflation, with a knock-on impact on interest rates? Future risks for the risk-based leasing industry are as keen as they have ever been.

Car fuel choices by funding method

	Petrol	Diesel	BEV	PHEV	HEV	MHEV	TOTAL
Business contract hire	19%	15%	33%	20%	9%	4%	100%
Finance lease	29%	15%	37%	12%	3%	3%	99%
Business ALL	22%	17%	30%	18%	9%	4%	100%
Personal contract hire	59%	15%	12%	4%	6%	3%	99%
Salary sacrifice	9%	1%	77%	12%	1%	0%	100%
Consumer ALL	50%	13%	23%	5%	5%	3%	99%



Opinion - service, maintenance and repair

Vincent St Claire – Managing Director, Fleet Assist

Fleet Assist's MD Vincent St Claire discusses the latest SMR talking points, from SMR pricing and workshop capacity to vehicle data. As 2023 nears completion and the industry prepares for 2024 the one certainty is that we can guarantee the pace of change in the automotive sector will continue.

SMR workshop capacity

Capacity remains an issue. The key drivers are physical workshop space constraints as OEMs reduce their garage networks and the general nationwide shortage of technicians.

On a positive note the forecasted BEV technician shortage has yet to materialise thanks to garage investment and upskilling of the workforce.

It is anticipated that as we move into 2024, driven by capacity challenges more garages and in turn leasing and rental companies will explore the practicality of SMR aftersales from mobile units. Trials with mobile servicing have been undertaken by a number of companies and where successfully deployed are showing a positive trend in reducing booking lead time and in turn overall downtime.

It is important to note that whilst the mobile offering reduces the need for courtesy vehicles and addresses the challenges of providing delivery and collection for drivers, it is not the single golden bullet to solve all the SMR network. However, there is an opportunity for it to form a valuable part of any SMR network strategy of a professional managed network offering the panacea to direct work to the most appropriate garage facility.

SMR pricing landscape

In terms of budgeting for 2024 it is important to be mindful that the commercial drivers for garages continue to evolve around ongoing investment requirements and a changing car parc that is moving in favour of BEVs.

Against this backdrop the traditional heartland of garage SMR work being ICE SMR work is being diluted as BEV work continues to rise. A paradigm shift in what is provided and charged for will possibly come under further scrutiny. This year alone average combined invoice values for car SMR work has started to decrease. We have seen a 5.4% reduction due in the main to the overall vehicle parc being newer and a high percentage being BEV.

There is also the spectra of a potential counter impact from the ZEV mandate, and we could see commercial vehicle operators looking to extend their current LCV fleets holding periods even further rather than prematurely switch from diesel to battery electric vans.

OEMs

As the appetite for new OEMs to join the UK automotive space continues and with new supply generally easing, SMR aftersales are set to become a far more important part of all vehicle purchasing decisions. It is anticipated that those newer predominantly EV OEMs will be looking for robust ways to meet their aftersales demands though a viable network of garages, which can also manage their warranty needs of both their car and battery.

Data

As we look to 2024, we feel sure the number of companies with the ability to provide vehicle data through their own access or via aggregating data from OEMs will grow. Whilst this can provide benefits to some specific customers its wider scale application may be hindered in the short term by several factors for example: Actual driver contact data not being easily available and the majority of data is generated post event so the advent of AI to predict unscheduled events would be seen as a significant step change and invaluable.

The other important aspect is the changes OEMs have made to heighten security requirement for garages accessing its cars' Electronic Control Units (ECUs). ECUs are typically accessed during a vehicle service to reset the service lights with only certain dealerships being authorised to access specific hardware and software based on the payment of costly subscriptions.

In turn this could add to the cost of vehicle repairs which garages will have to pass on to its customers in the form of increased diagnostic costs.

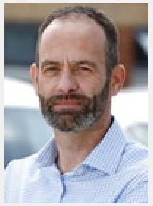
Diagnostics

Garages will require continued investment in the latest diagnostics equipment which allows two-way communication technology to perform the authentication as part of the security requirement of accessing the data from OEMs.

The data is also increasingly removed from the diagnostics terminals and transferred to remote servers that can only be accessed with the two-way authentication described above.

So, it looks like 2024 will not disappoint in terms of challenges and as always will deliver some surprises on the way which will see our industry display its resilience and appetite to adapt to change.

Opinion - outlook for new and used BEV vans



Julian Pullen - Senior Editor, Commercial Vehicles and Motorcycles

A little later to the market than with their BEV cars in most cases, some BEV LCV manufacturers were forced to rush out poorly executed versions of their ICE models in a bid not to get left behind. This was not a good start for this essential piece of our zero emissions future, and many have been playing catch up ever since, with newer, more capable models, or further iterations of those early underperforming vehicles still coming through.

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Early adopters in the form of national fleets and utility providers initially boosted new vehicle sales in a bid to put their best 'green' foot forward, while the average SME van buyer has stood back for the most part, for all of the well understood and often discussed reasons.

The significant downward movements in used BEV LCV values seen through 2023 have done a lot to make them a more attractive purchase to the potential second users of these vans. But it has also presented an equally significant challenge to manufacturers and RV setters trying to manage holding costs and make the various payment options attractive to the first user.

There are some obvious fundamental differences between the BEV car and van markets, many of which make the van proposition a far harder one to resolve, and this is evidenced in the stubbornly low sub 6% new vehicle market share seen through 2022 and 2023, and highlighted in the BVLRA Road-to-Zero Report Card.

Of course, the ZEV mandate will start to force this issue over the coming years, but if the challenges set out here remain, or are slow to be resolved, then it is hard to see how current realistic RV positions could improve much compared to the tried and tested ICE alternatives.

The challenge of balancing range, payload, and towing weights in the BEV van world is fairly well understood, and selection of the right vehicle for the right job by the first user is essential. But with examples of unutilized vans of varying ages frequently appearing for sale online and in auction halls, confidence for the second owner, who we must remember is not the second user, but is actually speculating on the used market for the vehicle, is not high, especially in comparison to ICE versions that can be sold to near 100% of the market.

Re-marketeers could do better in this space though, and better descriptions including WLTP Combined Range, payload, and charging rates could all help with Used market understanding. Vendor expectations and resistance have their part to play too, as we have seen many used BEV vans sold for significantly less than established market values as part of a well performing overall sale.

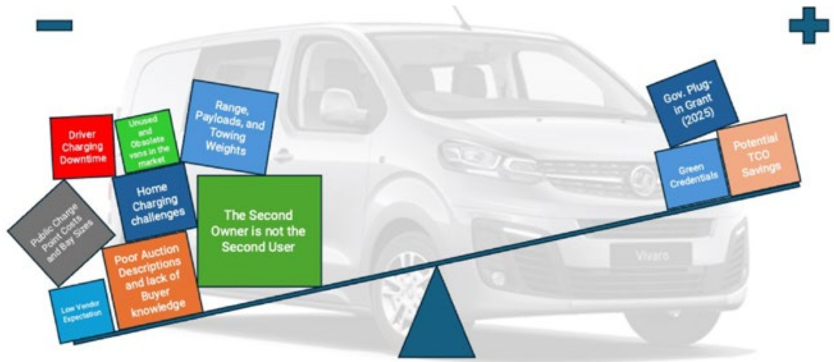
Add to these issues, the challenges of home charging and driveway space, public charge point availability, bay sizes, costs, and lost hours of driver downtime, and the picture becomes quite difficult.

But, with many technological improvements coming, reducing production costs, and further government interventions almost certain, this is a future the LCV world will need embrace, if just at a slower pace than many anticipated.

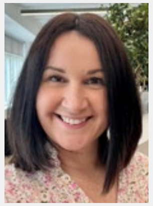
Road to Zero Report Card 2023 - Overall Vehicle Scores

	Cars	Vans	HGVs
Demand	Cruising	Brakes on	Parked
Infrastructure	Accelerating	Brakes on	Parked
Supply	Cruising	Accelerating	Parked

BEV LCV Residual Value Challenges



Opinion - new and used market overview



Rachael Jones - Director of Automotive Finance, Auto Trader

I attended the BVRLA Industry Outlook 2024 conference recently, which not only provided a good opportunity for me to share some of the latest insights from our marketplace, but also to reflect on the last 12 months, and our expectations for the year ahead. In this edition of the report, I thought I'd share some of the key themes we saw play out over 2023, and those we think will shape the market this year.

The year in rear-view…

Without doubt, one of the biggest trends of last year, was, of course, electric vehicles, specifically, the steep decline in pricing. The sudden oversupply of vehicles entering the market, fuelled by the de-fleeting of the circa 750,000 EVs sold over the last three years, resulted in used prices falling circa 20% year-on-year in 2023. The enticing combination of better affordability (with many models reaching price parity with their ICE equivalents) and greater accessibility saw demand for second-hand EVs reach record levels towards the end of the year. Whilst supply growth has eased, consumer demand has remained very robust, and as a result, we're seeing positive signs of retail prices stabilising.

2023 was the year when EVs took another big step towards mass appeal and became a real and meaningful part of the new and used market. With the ZEV mandate kicking in this year, their importance is only set to grow.

The health of the used car market more broadly was another highlight last year. Used EVs aside, supply was expected to return in 2023, but whilst we've seen growth in new car volumes, it was slightly lower than expected and much of the volume was channelled through to fleet rather than retail channels. As a result, overall used car supply was up around just 2%, but importantly, consumer demand on our marketplace grew nearly 9% on the previous year, while transactions (at the time of writing in mid- December) were up around 5%. So, 2023 was once again a year when the used car market showed real strength and resilience and where the UK consumer chose to prioritise car buying over other purchase decisions.

In store for 2024…

There's no doubt 2024 is going to be another year full of change, and a number of key issues will be front of mind for many businesses, not least the implementation of Consumer Duty, and the increased focus on ESG reporting. However, EVs will again play centre stage, and have a huge impact as the market adapts to the new ZEV mandate requirements; the fleet sector will play a large and important role this year in driving volume growth, helping more people than ever get behind the wheel of an electric car.

We've recorded a softness in demand for brand-new EVs, largely driven by the high price position. As such, we can expect to see the recent heavy discounting and attractive finance deals on offer to continue this year to help stimulate consumer interest.

However, in contrast, used electric cars have started the year in a very robust position, and we remain committed to support the BVRLA in its endeavours to boost the growth and health of the second-hand EV market.

The supply and demand dynamics will continue to shift over the coming months, and so it's critical to keep a close eye on the live retail market, particularly pricing.

More broadly, despite the pressures on UK consumers (inflation, interest rates, and potentially, a general election thrown into the mix), there's reasons to remain positive about consumer demand for cars overall, especially used. We've seen record breaking levels of engagement on our marketplace over 2023, which translated through into used car transactions.

Our consumer sentiment trackers continue to point to buyers prioritising car buying over other categories and ongoing confidence in affordability. For those reasons, we're confident for another robust year for consumer demand, and overall sales.

As ever we'll be keeping a close eye on our data, and I'll report back in the next edition on how the market is progressing.

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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