

LEASE OR BUY?

THE CHOICE IS YOURS

AN EDUCATED BUYER WILL ALWAYS
BE ABLE TO GET A BETTER DEAL

*"If it appreciates, buy it.
If it depreciates, lease it."*
J. Paul Getty

 **Al-Futtaim sons**

Hertz®

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I GENERAL OVERVIEW



A BIRD'S EYE VIEW OF THE LEASING LANDSCAPE

For those who have never leased a car, leases can seem confusing, complicated and structured towards companies or individuals that are adept at accounts and cash flow management. These perceptions may be outdated. Before eliminating leasing as a financing option, car buyers should gain a solid understanding of the different purchasing processes.

A lease is essentially a long-term agreement, offering exclusive use of a car for a set period at a fixed monthly price. It's already hugely popular, and both individuals and corporate buyers are now considering leasing as an attractive alternative to buying a new car with a bank loan, dealer finance or their company's financial reserves.

Leases and purchase loans are simply two different methods of automobile financing. Leasing finances the use of a vehicle; buying with a loan finances the purchase of a vehicle. Each has its own benefits and considerations.

When making any important financial decision it pays to be thoroughly prepared. Knowing what form of car finance is best value for money given your circumstances, can have a significant impact on the costs of operating a car.

The more information and knowledge that you have on a subject, the more likely you will be in a position to find the most attractive deals and to negotiate contracts that work best.

II

HOW DOES IT WORK?

Buying a vehicle means full, upfront purchase. It can be funded through financial reserves or using alternative methods of raising finance. The finance may or may not be linked to the purchase of a specific vehicle. As legal owner of the vehicle you continue to bear all the risks of ownership including maintenance and repair costs, depreciation and resale value.

With leasing, vehicles are owned by the lessor and are hired to you for a set period of time at a fixed

monthly rate. This method of finance can be useful when wanting to free up credit lines or improve cash flow by implementing fixed cost fleet operation.

The monthly lease charge is calculated based on the cost of the vehicle, the contract period and the anticipated resale value. It also takes into consideration the predicted mileage, service and maintenance costs, together with any additional services such as relief vehicles.

BUYING AND LEASING ARE DIFFERENT

Let us guide you through this with simple comparisons.

Buying

- You pay for the entire cost of a vehicle regardless of how many miles are driven or how long the vehicle is kept
- If financed via a loan for the entire cost of a vehicle then monthly payments can be more expensive than a lease
- You typically make a down payment to the dealer for the vehicle
- The remaining cost is then financed by a loan with the first repayment made a month after signing your contract
- At a later stage, you may decide to sell or trade the vehicle for its depreciated resale or trade value

Leasing

- You pay only a portion of a vehicle's cost, which is the part that you "use up" during the time you're driving it
- The monthly payments for lease are generally lower than monthly amounts for a fully financed car loan
- You may be required to pay three months upfront as a first payment upon signing the contract
- At the end of the lease contract, you may either...
 - *return the vehicle with no obligation*
 - *extend the current agreement*
 - *purchase it for a previously agreed resale value, or*
 - *take a lease for a new vehicle*

LOAN AND LEASE PAYMENTS - THE DIFFERENCE IS BLACK AND WHITE

Loan Payment

Loan payments have two parts: a principal charge and a finance charge. A loan company or bank issues money directly to you or a dealer, and you agree to repay that money, with interest, over time. The principal charge pays off the full vehicle purchase price over the length of the loan, while the finance charge is loan interest on the monthly unpaid balance. The finance company or bank will hold the vehicle's legal title until the loan has been completely repaid.

Lease Payment

Lease payments are also made up of two parts: a depreciation charge and a finance charge. The depreciation part of each monthly payment compensates the leasing company for the portion of the vehicle's value that is lost during your lease. The finance part is interest on the money the lease company has tied up in the car while you're driving it. In effect, you are borrowing the money that the lease company used to buy the car from the dealer. You repay part of that money in monthly payments.



However, since all vehicles depreciate in value by the same amount regardless of whether they are leased or purchased, part of the principal charge of each loan payment can be considered as a depreciation charge, just like with leasing – it's part of each monthly payment that you never get back, even if you sell the vehicle in the future.

With leasing, as the monthly lease charges are lower than a bank loan for a full purchase value, you may have the option of putting these monthly savings into more productive investments for your company. Many finance experts encourage this practice as one of the benefits of leasing.

III

BENEFITS



WHY BOTH OPTIONS HAVE THEIR OWN MERITS

Buying

- The customer buys the vehicle for the full purchase amount directly from the dealer or manufacturer
 - The customer manages all costs and risks associated with vehicle management
 - If financed by the customer's own reserves, the vehicle is owned by him/her immediately
- If financed by a loan then the vehicle is owned by the customer once all payments have been made
- The car can be sold at any time although banks that have a financial interest in the vehicle may require full repayment of any outstanding amount

Leasing

- This is a simple agreed fixed monthly fee that covers the full vehicle management and associated services
 - The leasing company takes on all risks associated with the vehicle including running costs, depreciation and resale
 - The customer can request a set budget for each month and the leasing company can provide a relevant offer
 - The leasing company can also provide policy advice and development, a vehicle replacement service, consolidated management reporting, reduced administration management and a full driver support service
 - Monthly payments are usually lower than a similar bank loan for a full purchase amount of the vehicle
- New vehicles can be supplied every few years
- It involves fixed cost motoring for a fixed number of months

IV

CONSIDERATIONS

SEEING CLEARLY: THE KEY CONSIDERATIONS

Buying

One key consideration of owning versus leasing is the monthly payment, which, if financed by a bank loan is usually higher on a purchased vehicle. Additionally, dealers usually require a reasonable down payment, so the initial out-of-pocket cost is higher when buying a car.

Presumably, as you pay down your car loan, you have the ability to build equity in the vehicle. However, this is not always the case. When you purchase a car, your payments reflect the whole cost of the car, usually amortised over a four- to six-year period. Depreciation can take a significant toll on the value of your car, especially in the first couple of years. As a result, buyers who put down modest down payments can end up financing a considerable portion of the car and even find themselves in an "upside-down situation," in which the car comes to be worth less than what the buyer still owes on it at a given time.

Like the monthly payments of a mortgage, monthly car payments are divided between paying principal and interest, and the amounts

dedicated to each vary from payment to payment. In the first years in which you pay back your car loan, the majority of each payment goes toward interest rather than the principal. But in the first couple years after being purchased, most new vehicles depreciate 20 to 40%. The loss in equity is a double whammy: your car depreciates dramatically, and because the monthly payments you've been making have mostly gone towards the interest rather than the principal, you are left with very little equity in the car.

Leasing

By leasing a car, you always have a monthly payment. As long as you lease, you will never own it. However, depending on your type of lease, when your lease term is up, you either hand the keys over to the leasing company and look for another vehicle, or finance the remaining value of the vehicle.

Excess mileage charges apply should the vehicle be driven more than the previously agreed contracted annual mileage.



V

QUESTIONS YOU MAY HAVE

LEASE OR BUY? WHICH DIRECTION SHOULD YOU TAKE?

Depending on what your priorities are, car lease-versus-buy decisions must be made with your own strategic objectives and financial considerations in mind. What's right for one individual or organisation can be different for another.

- *Is having a new vehicle every two or three years with no risks important?*
- *What impact does my purchasing decision have on my company's cash flow?*
- *How will a purchasing or lease decision affect my company's drivers?*
- *What level of expertise does my company have in the world of fleet management?*
- *How important is ownership to me or my organisation?*



Buy

If you...

- agree and understand the probability of higher monthly payments
- prefer to own the vehicle
- prefer to build up some trade-in or resale value (equity)
- like the idea of paying off a loan
- can manage the variable cost of maintaining a vehicle
- are likely to use the vehicle for significant numbers of years

...then buying may be the most attractive option.

Lease

If you...

- want fixed cost motoring
- enjoy driving a new car every few years • want lower monthly payments
- like having a car that has the latest safety features
- enjoy the freedom of knowing all repair, maintenance and servicing costs are covered
- are unsure about trading and selling used cars

...then leasing may be the most attractive option.

VI

FLEET MANAGEMENT REQUIREMENTS



THE COMPLEXITIES OF FLEET MANAGEMENT, SIMPLIFIED BY THE EXPERTS

When obtaining a vehicle from a leasing company you also gain expertise on fleet management that may be beneficial for your organisation. The below specialist roles are key to ensuring the productive and efficient operation of a vehicle fleet. This list is not exhaustive although it does provide a guide for necessary expertise.

Vehicle Purchasing

Leasing companies are able to negotiate at multiple levels with dealers and manufacturers. The buying power and negotiation skills deployed can help achieve significant discounts which are passed on to companies in the form of the monthly lease rate.

Service & Maintenance Management

Managing any volume of vehicles requires technical expertise and a detailed understanding of mechanics. The best leasing companies have the capability to manage the wide variety of suppliers relating to fleet management including all aspects such as tyres, windows, breakdown service, accident management and insurance.

Administration Management

Purchasing vehicles does require a significant volume of administration surrounding registration, legal paper work and vehicle preparation. Leasing companies can also manage this on the customer's behalf.

Finance Management

Running a vehicle fleet through the whole life cycle inevitably results in variables for vehicle related spending such as vehicle purchase, maintenance costs, fine administration, vehicle resale. The invoicing, cash flow management and supplier management for all of these are handled by the leasing company.

Vehicle Disposals

As leasing companies regularly manage sales of thousands of vehicles per year, there is a considerable level of expertise built in the understanding of vehicle resale channels and the used vehicle market.

Driver Support

The leading leasing companies can also provide full operational support and customer service management of all driver queries, vehicle delivery, collections, quotes and order processes.

VII

SUMMARY & CONCLUSIONS



A CLEAR ROAD AHEAD - MAKING YOUR FINAL DECISION

To summarise, car **leasing** can be an effective solution for companies that want to save on monthly vehicle costs and prefer the security of knowing a fixed monthly fee will cover all vehicle related eventualities. In addition, leasing a vehicle can give companies a regular supply every few years, of new, up-to-date vehicles.

Purchasing can be a more attractive option for companies that wish to keep vehicles for

an extended period and prefer to have the knowledge that the asset is owned and managed by themselves.

The decision to lease or buy will always depend on your organisation's strategic objectives. For many organisations, leasing is a hassle-free, cost-effective and productive experience that decision makers return to time and time again.

