Industry Insight

BVRLA

Leasing Outlook

Sept 2024

Mitigating circumstances

Leasing companies are investing in new products and IT systems to enhance efficiency and reduce RV risks

Market spotlight
Leases for electric cars are soaring, but the market for electric vans is tumbling

Quarterly report
Business customers drive car fleet growth with corporate ESG targets and supportive BiK tax rates

Industry outlook
Rising cost of new leases for retail customers collides with cost-of-living crisis

Opinion
Business intelligence coupled with smart work direction are invaluable tools to manage SMR financial exposure

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

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Market Headlines

BVRLA fleet grows 2.95% year-on-year (page 4)

Car fleet up 4.1%; van fleet down 0.2% year-on-year (page 4&9)

BCH car fleet up 6.5% year-on-year; salsac up 59% YOY; PCH down -13.2% YOY (page 5)

BEVs account for 50% of all new BCH cars; average new BCH car CO_2 emissions just 53.6g/km in Q4 (page 6)

73% of new car BCH contracts and 69.6% of new van BCH contracts include maintenance (page 7)

Used cars account for 11,913 BCH contracts, and used LCVs for 7,505 BCH contracts (page 8)

Fleet management in the LCV sector is up 14.7% year-on-year (page 9)

Executive Panel

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

Market Summary

Leasing companies are investing in new products and IT systems to drive efficiencies and mitigate residual value risks.

If this were a tabloid publication, the cover would feature a giant flash in fluorescent ink proclaiming "You heard it here first!" Second-life leasing, profound changes to service and maintenance, the debut of vast data oceans analysed by artificial intelligence, and even residual value insurance have all moved rapidly from pipe dreams and pilot projects to full implementation.

The underlying figures for the leasing industry in Q2 2024 are positive. The BVRLA members' lease fleet size has grown by almost 3% in the past year to a record 1,948,828, and the 2 million threshold will surely soon be breached. But closer examination reveals winning and losing sectors of the market.

Demand for business contract hire is resilient and rising, due partly to Covid-19 backlogs still working their way through the order bank and partly to cash pressures leading outright purchase fleets into leasing to spread the cost of new vehicles.

Leases for electric cars are soaring, but the market for electric vans is tumbling.

And personal contract hire has suffered a double-digit percentage decline as prices have rocketed. The Bank of England made its first cut in interest rates since 2020 in August, but the cost of money allied to inflation in new vehicle prices and a downward realignment of residual value forecasts means customers are facing a 30-40% hike in lease rentals when they change vehicle.

Cost increases of this scale are prompting both business and private customers to scrutinise both their need for a new vehicle, and every element of the lease contract.

"If we can't provide and manage vehicles more cheaply and efficiently than customers can do themselves, then what future do we have?" asked one leasing director rhetorically.

The result is seismic change in internal operations, product development and service delivery. Seven, eight and nine figure sums are now being invested in IT upgrades to capitalise on insights from the trillions of data points that leasing companies capture. At ground level this is enabling the ratio of vehicles per staff member to increase, but the bigger opportunities lie in automating processes where employee involvement adds no value. Leasing companies are racing to connect the entire supply chain digitally; starting to use AI to create predictive maintenance models; and beginning the real-time analysis of used vehicle prices and their own residual value forecasts so that contract extensions and second-life leases can be priced in forensic levels of detail.

Unfortunately, data simply does not exist for historical trends that might help to forecast the residual values of electric vehicles, generating unprecedented risk for leasing companies, which are scouring unprecedented levels of data as they predict future prices. A 57% downward 'realignment' of used EV prices, at three years and 60,000 miles, in just 21 months (tracked by cap-hpi) has created a world of pain and there's little sign of respite as used EV volumes mushroom. In Q2, 2021, 18% of new additions to the BVRLA fleet were battery electric; this quarter that figure stood at 44%, with some companies reporting the electric share of new business contract hire agreements to be in the region of 70%. Salary sacrifice schemes are close to 100% electric.

There is no escaping the fact that the potent combination of businesses' sustainability commitments and company car drivers' eagerness for lower benefit in kind tax bills has created a fleet market that is way out of step with the private car market. The used car market is already struggling to accommodate the limited number of ex-lease EVs being defleeted, with vendors having to accept that used EV prices are almost at parity with petrol and diesel equivalents.

To avoid today's bumper new fleet EV market swamping the used car sector in three or four years' time, leasing companies are engaged in a series of initiatives.

Chief among these is lengthening the term of new leases from three to four and even four to five years, as well as developing second-life leasing products. The early signs are encouraging that SMEs, private consumers and salary sacrifice scheme drivers have an appetite for leasing a used EV if the price is right.

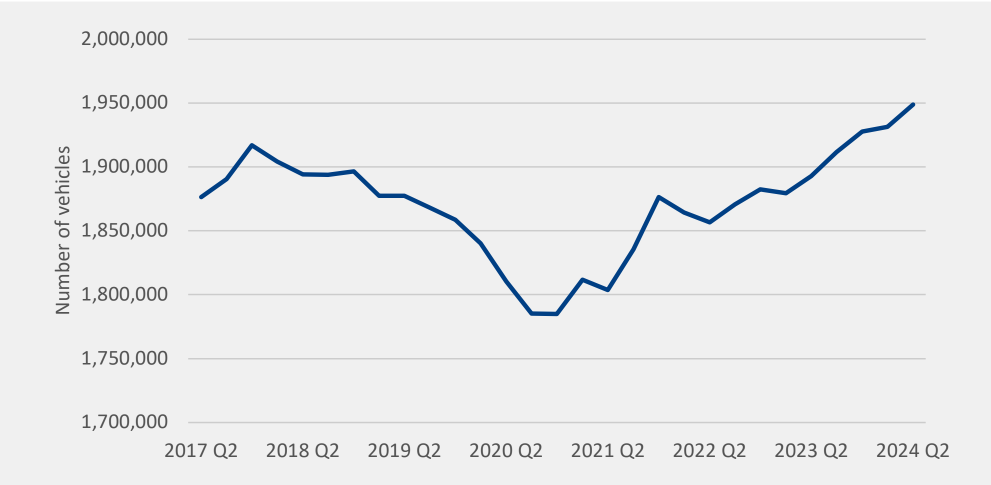
The danger of sustained EV residual value volatility, alongside the uncertainty presented by new entrant manufacturers, has led at least one major leasing company to insure part of its risk. It has judged the cost to its P&L today to be worth the peace of mind of protection from future tumultuous declines.

Short-term volatility is still very much on the cards as certain manufacturers strive to hit their ZEV mandate thresholds with discounts and finance offers. Remarketers highlight the challenge of achieving strong prices for used cars when buyers can access highly attractive terms for new cars, as the consequences of Tesla's sizeable price reductions made all too clear at the start of last year.

While managing residual values dwarfs all of the other challenges facing leasing companies, there are other issues with warning lights attached. Managing a supply chain that is going through its own fundamental changes is a key priority, with established OEMs shaking up their own dealer networks and new OEMs arriving without a nationwide aftersales support structure. Ensuring business continuity for customers, while capturing data that clients can access 24/7 in whatever report format they wish, have become major preoccupations for leasing companies.

BVRLA Fleet Focus Q2 2024

Vehicles operated by BVRLA members



Lease fleet achieves 3% y-o-y growth

The number of vehicles operated by BVRLA leasing companies rose by an impressive 2.95% year-on-year in the second quarter of 2024. Association members have now added 163,874 new vehicles since the pandemic nadir at the end of 2020.

The normalisation of vehicle supply and return to typical three-month lead times is allowing fleets to replace end-of-contract petrol and diesel vehicles, and to satisfy new demand. Leasing companies report steady rather than spectacular demand from corporate and SME customers, but retail business is proving to be more challenging as the significantly higher cost of new leases collides with the cost-of-living crisis.

TREND

+55,910

(+2.95%) YEAR-ON-YEAR GROWTH IN TOTAL LEASE FLEET

Overall fleet

Total fleet

1,948,828 vehicles

(+0.9% Q2, 2024 VS Q1, 2024)

Share of total fleet

	Q2 2022	Q2 2024
Cars	73%	74%
Vans	27%	26%

Fleet reaches record high

The total car and van fleet leased by BVRLA members now stands at a record high of 1,948,828 vehicles. Cars have driven the growth, up 4.1% year-on-year to a total of 1,439,705 units, but vans have slipped back fractionally by -0.2% to 509,123 vehicles.

With business finance accounting for 75% of the BVRLA car lease fleet, the growth in its car fleet still lags behind the wider fleet market, which is up 19.2% over the first eight months of 2024, according to the SMMT.

OEMs appear to be finding alternative fleet channels to leasing in which to maintain their volumes, as they attempt to compensate for a -11.2% contraction in their private car sales over the same period.

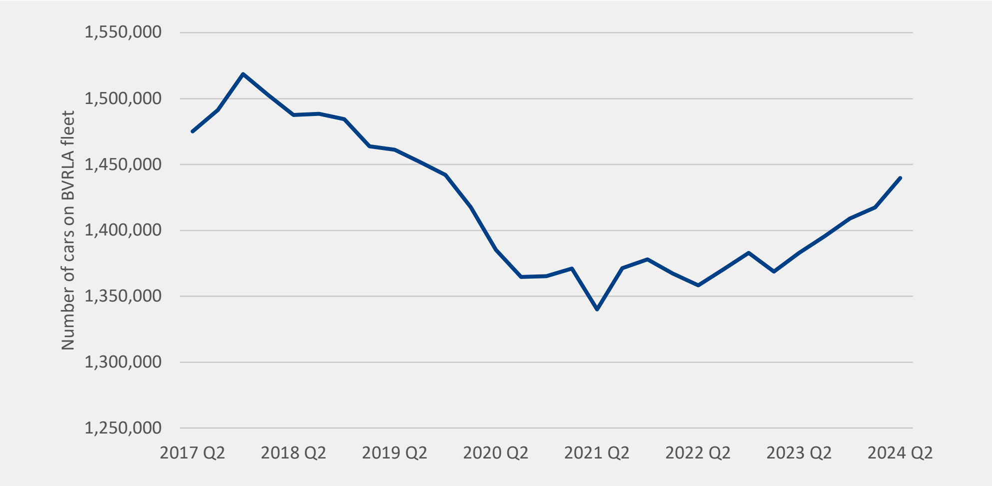
TREND

1,439,705

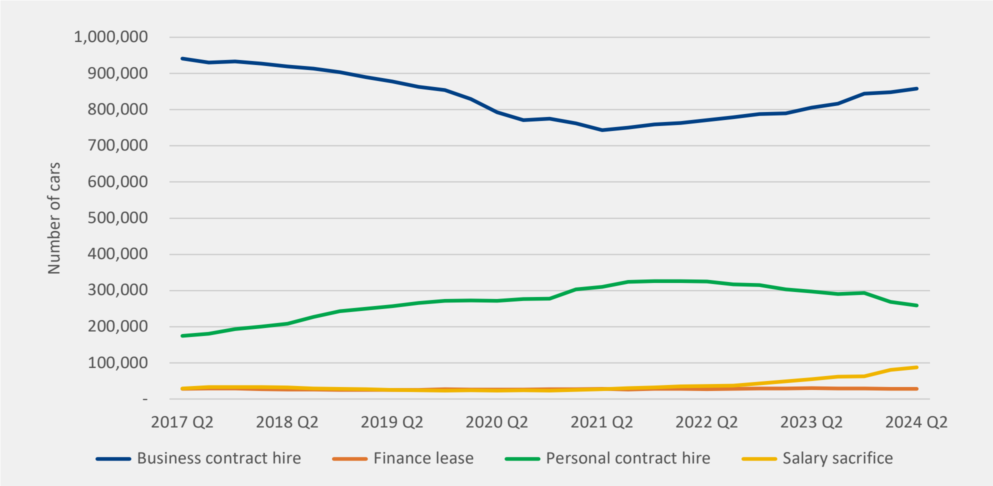
(+4.11% YEAR-ON-YEAR) NUMBER OF CARS ON THE BVRLA FLEET

BVRLA Fleet Focus Q2 2024

Total car fleet



Vehicle funding alternatives



Business customers drive car fleet growth

Five quarters of consecutive growth in BVRLA members' car lease fleet, allied to news that the number of UK company car drivers started to increase for the first time in 2022-23 since the 2015-16 financial year should put a spring in the step of leasing companies.

However, this growth is coming from the business sector, where the supportive benefit in kind tax rate for electric cars is recruiting employees back into company car schemes and driving demand for salary sacrifice offers.

This is good news for the environment, but high risk for leasing companies given the calamitous decline in EV residual values over the last two years. Many are now trying to extend rather than replace EV contracts to avoid disposal losses, hoping to put a brake on renewals until the used market stabilises.

TREND

1,073,268

(+5.89% YEAR-ON-YEAR) BUSINESS CAR FLEET

TREND

366,437

(-0.79% YEAR-ON-YEAR) CONSUMER CAR FLEET

PCH numbers dip sharply

A -20% decline in personal contract hire numbers since Q2, 2022, and a -13.2% year-on-year decline to 258,402 cars, are worrying signs for the PCH market. Leasing companies report instances of severe 'sticker shock' when customers discover that a like-for-like replacement of their current lease will cost anywhere between a third and twice as much. There is also a feeling among brokers that manufacturers are reserving the best terms for their captive finance operations, especially as OEMs deploy tactics to meet their Zero Emission Vehicle mandate targets.

The 59% year-on-year rise [currently under review] in salary sacrifice numbers supports industry consensus that growth continues to be spectacular, and may be even higher, with a feeling that some cars supplied through framework agreements to public sector customers are being recorded as business contract hire.

TREND

857,979

(+6.5% YEAR-ON-YEAR) BUSINESS CONTRACT HIRE FLEET

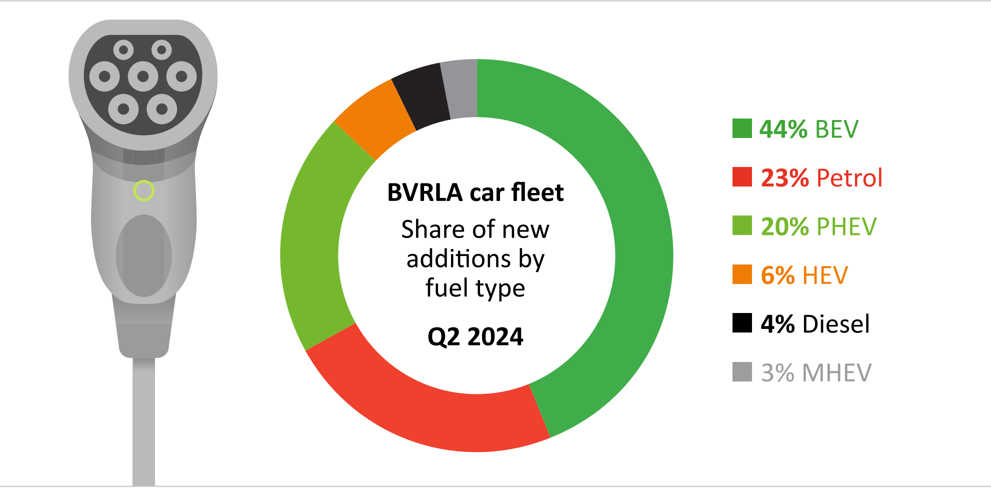
TREND

258,402

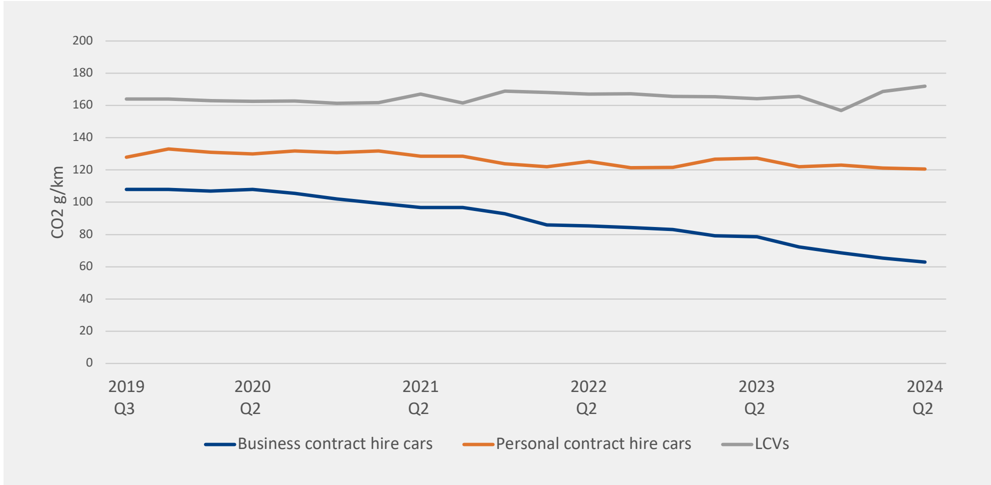
(-13.2% YEAR-ON-YEAR) PERSONAL CONTRACT HIRE FLEET

BVRLA Fleet Focus Q2 2024

Car fuel choices



BVRLA fleet CO_2 emissions



Gap widens between business and personal BEV orders

Half of all new business contract hire cars are now battery electric as the company car market accelerates its progress towards a zero emission future. Unfortunately, this climate-friendly position is years ahead of the wider market, where BEVs have accounted for 17.2% of sales so far this year, according to the SMMT. Its figures for January to August show combined petrol and diesel sales accounted for over 60% of new car sales. Until this chasm between the fuel choices of business and private drivers narrows, the supply of used BEVs risks outstripping demand, undermining their residual values. Plug-in hybrid models are also causing some RV consternation. Some leasing executives view PHEVs as a useful stepping-stone to electrification for customers, but others worry that the technology could soon appear obsolete in an EV-dominated future.

50%

SHARE OF BEVS IN NEW ADDITIONS TO BVRLA BUSINESS CONTRACT HIRE FLEET

21%

SHARE OF BEVS IN NEW ADDITIONS TO BVRLA PERSONAL CONTRACT HIRE FLEET

BCH emissions fall by one fifth

The BVRLA's business car contract hire fleet has recorded another dramatic annual decline in tailpipe emissions, with average CO2 falling by 20% in a year to 62.9g/km. Average emissions from personal contract hire cars also fell, but by a more modest 5% to 120.6g/km, a reflection that 60% of PCH cars are still fuelled by petrol.

The BCH evolution to a zero emission future is accelerating – new additions to the fleet in Q2, 2024 averaged just 53.6g/km, as petrol's share fell to 13% and diesel to just 3%.

The light commercial vehicle fleet, however, is moving in the other direction, with its average emissions climbing by 5% year-on-year. The emissions of new LCV additions have also risen slightly, which may reflect larger vans replacing smaller models, but also provides clear evidence that the vast majority of van operators are not yet transitioning to electric vehicles.

TREND

53.6g/km

AVERAGE CO_2 EMISSIONS OF NEW BUSINESS CONTRACT HIRE CARS

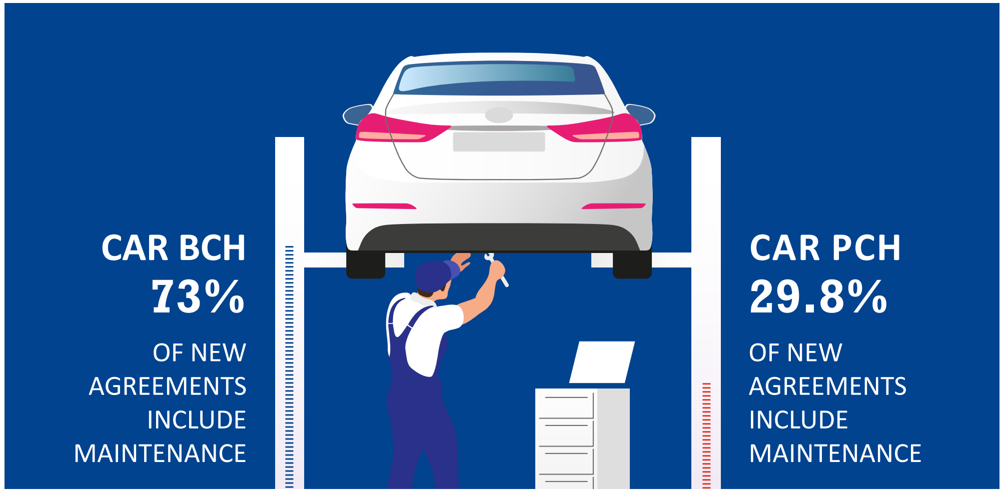
TREND

120.6g/km

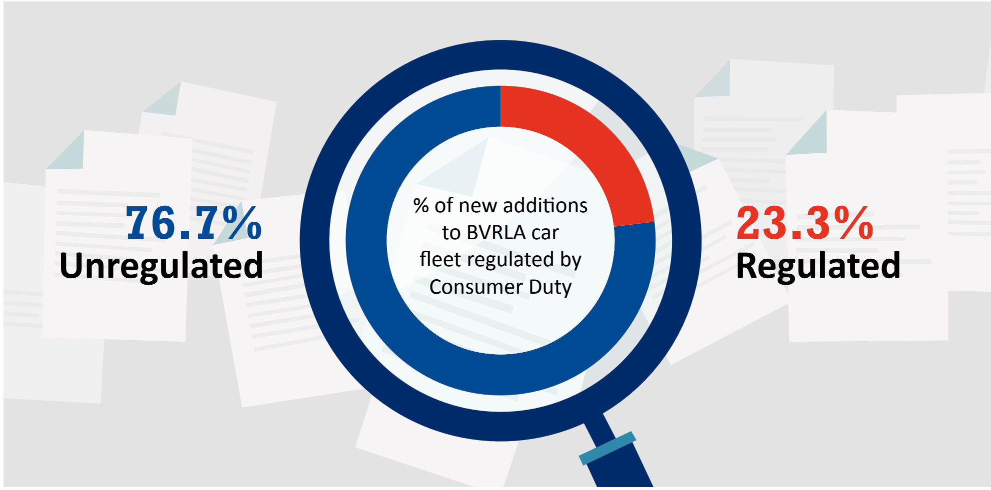
AVERAGE CO_2 EMISSIONS OF NEW PERSONAL CONTRACT HIRE CARS

BVRLA Fleet Focus Q2 2024

Maintenance contracts - proportion of maintained fleet by funding method



Regulated contracts



How long will BCH include maintenance?

Data still shows that business customers continue to appreciate the peace of mind and budgeting ease of bundling maintenance into contract hire agreements, but leasing executives make no secret of the fact that every element of contracts is being scrutinised for potential cost savings as customers grapple with higher rentals. Many of the first wave of EVs now reaching the end of their contracts have barely visited a workshop in three or four years, building the confidence of fleet and procurement managers to switch to pay-as-you-go arrangements. Consequently, leasing companies are thinking about how to replace SMR profits if customers do move away from full service leasing. They are also focused on ensuring vehicle uptime when some OEMs are dramatically revising their dealer networks in moves that are curtailing workshop capacity.

69.6%

NEW VAN BCH CONTRACTS INCLUDE MAINTENANCE

99.6%

SALARY SACRIFICE CONTRACTS INCLUDE MAINTENANCE

Consumer Duty celebrates its first anniversary

The furore over the sale of tickets for the Oasis reunion converts has raised a few eyebrows among leasing directors well versed in Consumer Duty. If car lease pricing were as opaque and 'dynamic' as gig tickets, they suspect the FCA would be knocking on the door by lunchtime.

Consumer Duty prompted many companies to examine not just their regulated business, but their entire legacy sales process, and executives speak favourably about how the focus on fairness, transparency and clarity has not only improved their customer service, but also led to a re-evaluation of the entire corporate culture, building a better business for the future.

2.7%

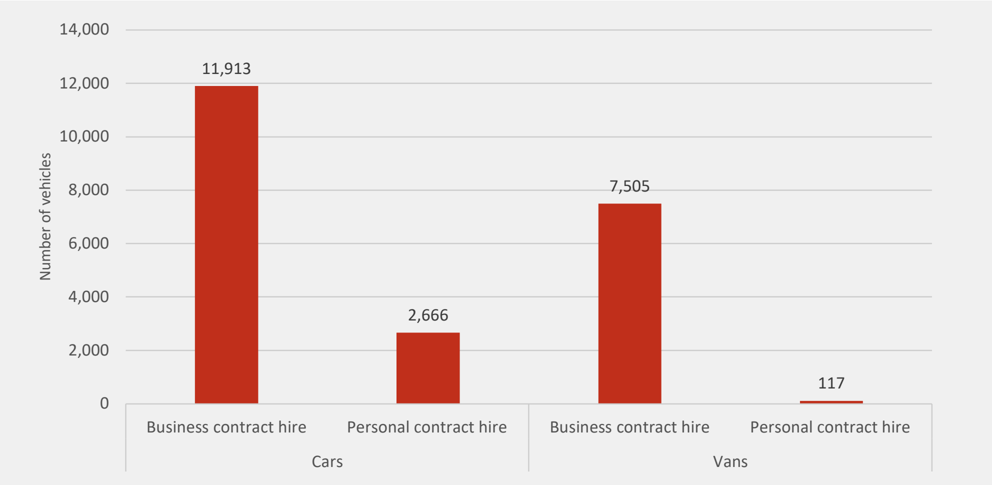
OF VAN BUSINESS CONTRACTS ARE REGULATED

0%

OF SALARY SACRIFICE CONTRACTS ARE REGULATED

BVRLA Fleet Focus Q2 2024

Used vehicle leasing



Major resource devoted to second-life leasing

If leasing companies meet their targets for second-life leases, the product will overtake finance leasing in BVRLA members' portfolios by the end of next year. Current volumes do not reflect the time, effort and resource devoted to developing this new sector of the market. The initial impetus may have been to avoid residual value losses on electric vehicles coming to the end of their contracts, but there is also keen interest in the commercial opportunities presented by leasing out an asset two or even three times. Older EVs are showing robust battery health and cheaper maintenance than ICE equivalents, while vehicle connectivity is giving leasing companies a granular understanding of which vehicles will prove reliable over seven years or longer. Second-life leasing of vans, however, is a tougher nut to crack, with the first e-LCVs significantly outperformed by newer models in terms of range and payload.

TREND

1.19%

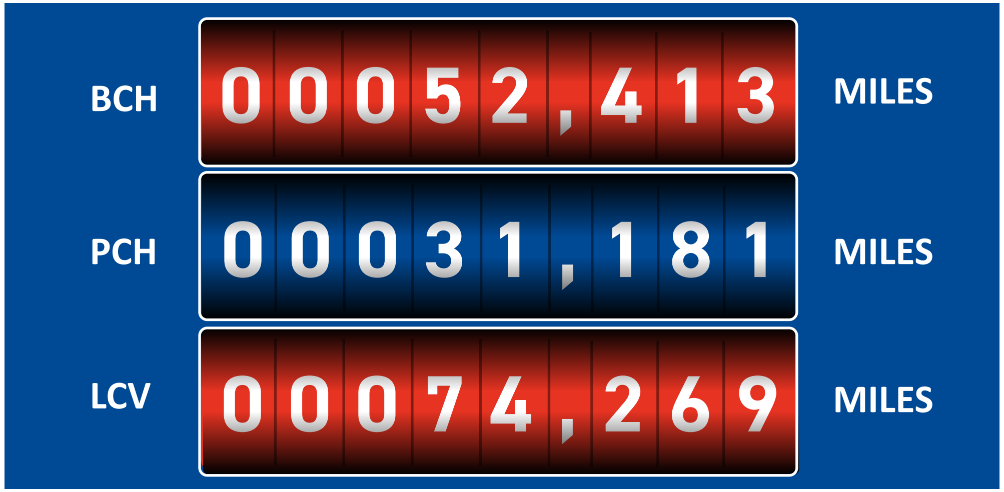
THE PERCENTAGE OF USED CARS ON BVRLA BUSINESS LEASE FLEET

TREND

1.8%

THE PERCENTAGE OF USED VANS ON BVRLA LEASE FLEET

Contract mileage



Longer contracts, shorter mileages

Contract data seems slow to react to the widespread view among leasing executives that typical lease mileages are falling and durations extending.

Changes in working practices, both hybrid working from home and greater use of teleconferencing to communicate with customers, means employees are driving shorter distances. At the same time, longer leases are giving customers the chance to access lower monthly lease rentals in an era of steep inflation.

New business contract hire agreements for cars are now an average of 39 months long, and for 50,000 miles.

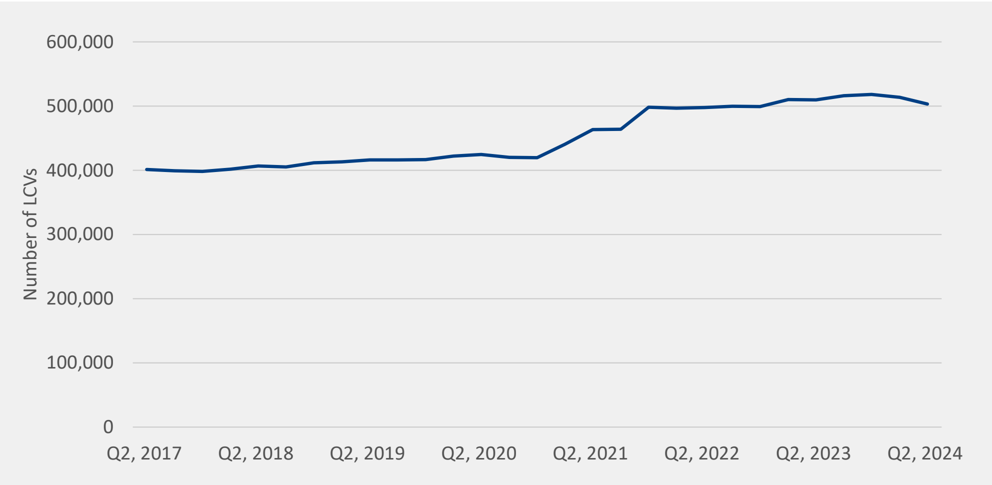
LCV leases appear to be following the opposite trajectory, with new additions in Q2 averaging 44 months and 63,000 miles, which is significantly shorter than the average 50 months, 74,000 miles of the existing van fleet's contracts.

35 months / 25,600 miles

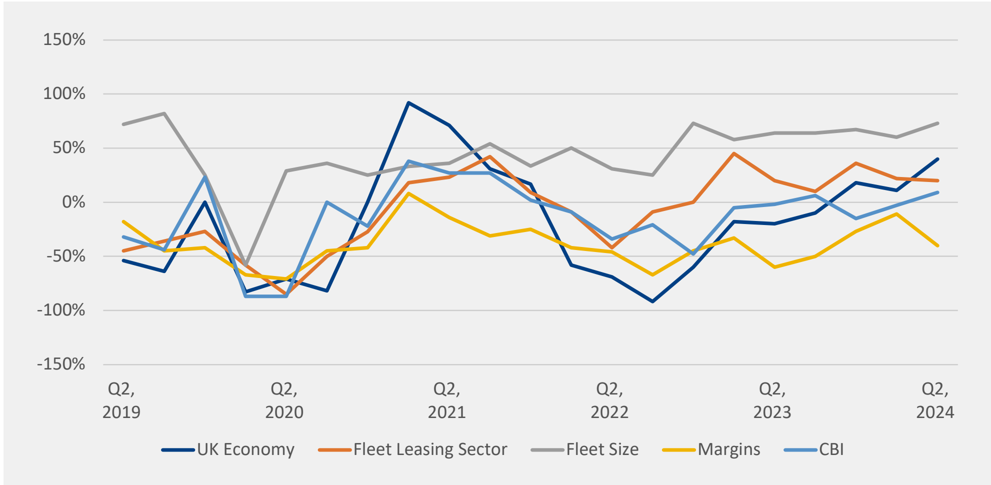
THE AVERAGE TERM OF NEW PERSONAL CONTRACT HIRE AGREEMENTS

BVRLA Fleet Focus Q2 2024

Van fleet



Industry confidence



LCV fleet size flattens

The BVRLA van fleet dipped -0.2% year-on-year in Q2, 2024, to 509,123 vehicles, with numbers plateauing since Q1, 2023.

The biggest issue is electrification, with the cost, charging, and payload complications of running e-LCVs prompting many operators to schedule another cycle of diesel vans before the switch to battery power, according to leasing executives. Their views are borne out by SMMT figures which show e-LCV registrations down -7.1% for the first eight months to a market share of 4.8% – less than half the 10% demanded by the Zero Emission Vehicle mandate.

Executives report that OEMs have tried to pressure larger fleets to match the ZEV mandate percentages in orders, but not to the point where they risk losing valued customers. There is now a widespread scepticism of the LCV sector's ability to meet a 2030 ban on diesel sales, and serious doubts about hitting next year's 16% ZEV mandate.

TREND

509,123

(-0.2% YEAR ON YEAR) LCVS ON BVRLA FLEET

TREND

+14.7%

YEAR-ON-YEAR RISE IN LCV FLEET MANAGEMENT (ONLY)

Growth up, margins down

Measures of industry confidence are at their highest levels for three and a half years. Vehicle supply has returned to the market, interest rates appear to have started a slow downward trajectory, and demand from the business sector is steady. The new Government may not have been greeted with an instant economic uplift, but after years of political uncertainty there is at last a sense of stability.

Consequently, four of the five confidence measures are now positive (above zero) and showing an upward trajectory.

Faith in margins, however, is moving in the other direction, driven primarily by severe concerns over residual value proceeds as prices of used petrol and diesel models return to more normal levels, and the vulnerability of EV values.

TREND

+73%

BVRLA MEMBERS' CONFIDENCE IN FLEET SIZE

TREND

-40%

BVRLA MEMBERS' CONFIDENCE IN MARGINS

BVRLA Member Outlook

To whoop or to weep, that is the question (with apologies to Hamlet). Remarketing departments do not know whether to celebrate selling a used electric vehicle for guide price, or commiserate because the price achieved is four or even five figures below their forecast three years earlier.

Leasing companies are paying dearly for their leading role in helping to save the planet. Having supported the rapid electrification of the vehicle parc and delivered dramatic reductions in greenhouse gas emissions, they now find themselves with an oversupply of used assets and an under-demand among secondhand car buyers.

Unless this supply-demand equation achieves a better balance and EV residual values stabilise, leasing companies face an 'existential threat', the BVRLA has warned.

The scale of the problem is evident in the results of companies required to publish their financial results, with one major player posting an additional charge of £100 million in its Q2 results, due to "declines in used electric car prices". Anecdotal feedback supports this, with one contributor indicating they had lost an average of £2,750 per BEV terminated in the first quarter of this year.

Worryingly, their forecasts anticipate a further seven percent reduction in EV prices during the second half of this year, followed by a two to three percent decline in 2025.

This is an industry-wide epidemic, say senior directors of leasing companies. The combination of the Zero Emission Vehicle mandate, which is forcing vehicle manufacturers to push their electric car and van sales, corporate ESG commitments, and the supportive benefit in kind tax regime for zero emission company cars has created an artificial market for new EVs in the fleet sector, which is not mirrored by demand for either new or used EVs among retail buyers.

These push factors have sound environmental intentions, but without equivalent pull factors leasing companies say are left to deal with the unintended consequences of a market stimulated to unnatural levels. The result has been an oversupply situation that has fuelled a 58 percent decline in used EV prices in just 22 months.

The used prices of electric cars are now almost the same as their petrol and diesel equivalents, despite costing thousands of pounds more when new. Depreciation on this scale is inevitably leading to higher lease rentals for new contracts, and in the short term leasing companies are nursing significant losses on premium, mainstream and smaller electric cars.

Faced with this bleak outlook, the industry would like to see urgent financial support for used car buyers to protect residual values. Grants, scrappage schemes or the removal of VAT from used EVs would all help to keep first life leases affordable and maintain the UK's momentum towards zero emission motoring. But leasing directors acknowledge that any Government prepared to withdraw winter fuel payments from almost 10 million pensioners, seems unlikely to find the funds to help motorists replace their cars.

As a result, residual value mitigation strategies are widespread as companies attempt to avoid, or at least minimise disposal losses. At least one is insuring its residual value exposure and working with OEMs to share future risks. Almost all are engaging as many remarketing channels as possible to sell vehicles where prices are highest – one reports that EV drivers are twice as likely to purchase their company car at the end of the lease, most likely because they like the technology and have a charge point installed at home.

The optimum alleviation approach, however, is to avoid selling cars and further distressing today's over-supplied market. Consequently, leasing companies are actively encouraging businesses and drivers to extend contracts for another 12 or even 24 months, and given the steep inflation in lease rentals over the past three years, many business customers are happy to oblige.

Car and van fleet forecast

	Q2, 2020	Q2, 2021	Q2, 2022	Q2, 2023	Q2, 2024	Q2, 2025 forecast	Forecast change Q2 2024-25
CAR	1,385,338	1,340,173	1,358,411	1,382,932	1,439,705	1,475,548	2%
LCV	424,925	463,637	498,072	509,986	509,123	518,445	2%
TOTAL	1,810,263	1,803,810	1,856,483	1,892,918	1,948,828	1,993,993	2%

Car fleet forecast by fuel type

	Q2, 2021	Q2, 2022	Q2, 2023	Q2, 2024	Q2, 2022	Q2, 2023	Q2, 2024	Q2, 2025 forecast	Forecast change Q2, 2025 over Q2, 2024
Diesel	39%	27%	21%	11%	366,771	248,928	154,368	131,623	-15%
Petrol	37%	35%	32%	27%	475,444	428,709	384,662	359,877	-6%
BEV	8%	16%	22%	35%	217,346	359,562	506,272	612,063	21%
PHEV	7%	13%	16%	18%	176,593	76,498	262,147	343,553	31%

BVRLA Member Outlook

Personal contract hire customers, however, are being offered such generous offers to lease a new EV from manufacturers desperate to hit their ZEV mandate targets, that it's harder to make contract extensions attractive.

Whether extensions offer anything more than temporary respite, or simply "kick the can down the road," as one leasing director suggested, is unclear. The return of these cars to the used market will coincide with exponentially more 'cans' arriving, which could further undermine residual values.

One longer-term solution gathering momentum is to refurbish end-of-contract EVs and offer them on second-life leases to new customers. By historic standards, EVs are returned with relatively low mileages, and are proving reliable and cheap to maintain as they age. This mechanical efficiency will be vital, as directors suggest rentals will have to be 30 to 40 percent cheaper than new cars to prove attractive.

Second-life leasing is also bringing into play independent battery health certification to reassure customers. Encouragingly, EV batteries are exceeding all expectations of their longevity, with leasing companies bullish about how little degradation they are measuring. This is facilitating the extension of second-life leases until vehicles reach seven years of age, at which point leasing companies are planning to sell them with at least one year of manufacturer warranty left on the batteries.

Complicating this fractured picture is the different response of individual OEMs. Some are discounting heavily to hit their ZEV mandate targets, while others are confident that they will meet this year's threshold. Leasing companies, too, are balancing their portfolios to spread their risk, with brokers reporting wide variations in lease rates for new EVs. Fleets prepared to shop around can save up to £100 per month for the same vehicle.

If the electrification of the car fleet is problematic, in the van market it is proving to be exponentially more challenging. The leasing industry is highly sceptical that manufacturers will hit their ZEV mandate for electric light commercial vehicles this year, and sentiment is rising that a 2030 ban on the sale of new vans with internal combustion engines is going to be impossible – even 2035 looks a stretch.

Leasing companies report that some large fleets have successfully transitioned to electric light commercial vehicles for certain duty cycles, but equally there have been cases where operators have returned e-LCVs and reverted to diesel because the range, payload and charging difficulties of the battery-powered vans proved too much of a compromise for the business.

There is broad accord, too, that building a positive total cost of ownership for e-LCVs is extremely challenging, and that their adoption is far more likely to be due to corporate ESG commitments than any cost saving initiatives.

Referring to the decline in new e-LCV sales this year, one director said bluntly, "If manufacturers had a good product at the right price, then clients would pick it."

As for the future, there is a strong appetite for investment in technology to transform internal efficiencies and improve front-end quoting and reporting functionalities for customers. Building API links throughout the supply chain, with manufacturers, dealers, garage workshops and brokers are high on the agenda, which will be music to the ears of a broker who complained that pricing still arrived in a monthly download, rather than real-time Cloud access.

The mesmerising scale of investment and innovation within the leasing sector points to an exciting future, but there are turbulent months, and potentially years, ahead before the market settles and the fruits of these endeavours are reaped.

Car and LCV fleet forecasts by funding method

Finance Product	Q2, 2018	Q2, 2019	Q2, 2020	Q2, 2021	Q2, 2022	Q2, 2023	Q2, 2024	Q2, 2025 forecast	Forecast change, Q2, 2024-Q2, 2025
BCH cars	919,231	878,366	793,171	743,154	771,557	805,674	857,979	890,503	15%
PCH cars	207,790	256,528	271,264	309,978	324,692	297,539	258,402	246,453	-24%
BCH vans	283,071	286,862	289,040	320,073	343,121	343,073	345,438	355,909	4%
PCH vans	4,667	4,706	6,636	7,492	8,062	7,369	5,818	5,532	-31%
Total	1,414,759	1,426,462	1,360,111	1,380,697	1,447,432	1,453,655	1,467,637	1,498,397	4%

Opinion - service, maintenance and repair

Vincent St Claire – Managing Director, Fleet Assist

As we are nearing the time of year when many fleet professionals' focus turns to their year-end forecasting for their service maintenance and repair (SMR) costs and 2025 budgeting, we thought it was appropriate to turn the spotlight on trends and understanding what SMR data is available and how it can be best used.

It seems at times that as an industry we have an insatiable appetite to seek the next headline-grabbing data that looks dramatic on the surface but invariably lacks depth of detail on closer examination.

Best practice suggests that we don't just take these statistics at face value, but instead take a deeper dive into them beyond the headline and accompanying short summary in the trade media. Invariably it is better to start with understanding what a fleet operator is trying to identify or solve, rather than being distracted by headline statistics, as they can often be misleading.

Wearing our Fleet Assist business intelligence hat we have taken this opportunity to understand the underlying trends and intelligence sitting behind the headlines and more importantly what the outlook is and what should be built into plans for 2025 and beyond.

Average SMR transaction / invoice cost trends. Firstly, have UK-wide average SMR invoice values commonly known as Average Transaction Values or Average Invoice Values (ATVs or AIVs) increased? The answer is yes, but you need to first consider the results by splitting out the LCV and car SMR work and corresponding BEV and ICE jobs.

Average invoice values have increased but the brunt of this is from LCVs whilst cars are far less affected. The reason is that the average age of LCVs is older than historic trends suggest so more major components are being replaced, such as gearbox and engines. This is a trend we may see continue as some commercial fleet operators continue to stall their switch to commercial vehicle EVs despite the ZEV mandate pressures.

Average SMR transaction / invoice cost ICE and BEV compared. To further evidence the variations in SMR cost performance its worth understanding what the comparable performance of BEV and ICE car is.

Our early prediction back in 2022 appears to be correct despite contrary views that BEV SMR costs could be higher. BEV ATVs are lower (see chart). However, those companies that are extending the operating life of their BEV fleets shouldn't just take these stats at face value. The probability is that as BEV vehicles get extended to five and seven years that we will see an upturn in major component replacement on those vehicles with the work falling out of warranty.

Commercial outlook. So, what are the key drivers and where are we seeing the biggest increases and what's the future outlook?

Parts and fluid pricing continues to be erratic primarily affected by global supply chain challenges including conflicts, exchange rate fluctuations and supply constraints and there appears to be no sign of this changing anytime soon. Pressure on garage labour costs continues to be a challenge. Yes, there has been inflation driven salary costs but as an industry we continue to struggle to retain and encourage new talent into our sector. The underlying trends are:

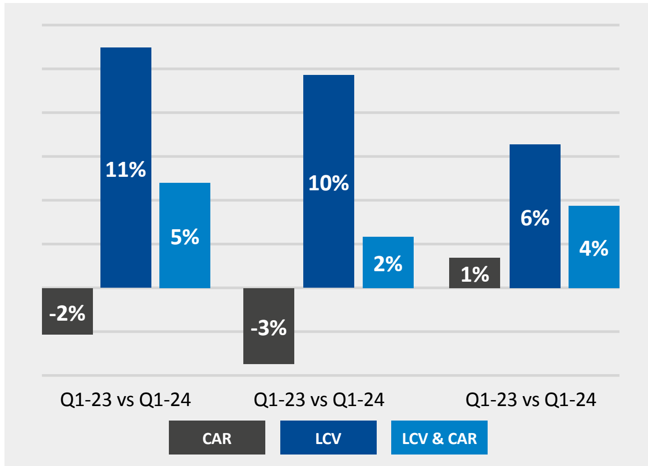
- Salary increase rates are slowing down but still inflationary for the industry.
- Vacancy numbers reduced from 24k to 20k in Oct 2023 but are still high despite the fall.
- The motor trade has reached its highest vacancy rate of 4.0 per 100 employees.

Outlook for 2025. So, in summary we hope this has highlighted the need to look beyond the data headlines and seek qualified business intelligence.

We believe there will be continuing supply chain and inflationary pressures but hopefully the increases seen over the pandemic period have now calmed. The unknown is to what degree average fleet age may increase and what affect this will have.

What we do know is that Business intelligence coupled with smart work direction are invaluable tools to manage SMR financial exposure.

% Average Transaction Value Variance 23/24 Cars and LCVs



Opinion - used car values

Derren Martin - Director of Valuations, cap hpi

Q2 has seen a stabilisation of used car values, with only a slight movement of 1.1% over the summer months, and worry has slightly abated. However, as we approach the end of the year, is this the calm before the storm?

2024 has experienced a summer of stability for used car values. Values only moved by 1.1% in the three months from June and by just 2% since May's Cap Live values, so 0.5% per month on average. This cumulative figure mirrors the summer of 2022, but that year's values had already experienced a 4.2% realignment in April and May; we have not had that this year. 2018 was dubbed "the year of the used car" due to market strength, but even in that year, values dropped by 3% over the summer – 1% more than this year and an average of just over 0.7% per month. As a comparison, last year's values dropped by 6.5% over the four summer months, over three-times more than this year. The market has certainly proved robust.

The 10.5% reduction of values in the final quarter of 2023 took some of the necessary heat out of prices, that had been prevalent since the much-publicised increases of 2021, but without returning them completely to where they were (values remain, on average c.15% above the start of 2021). It seems used car prices reached a fair level for retailers and consumers at the start of this year and as a result they have been largely stable ever since. Values have been helped by the shortage of 3–4-year-old cars in the market, due to low registrations in 2020 and 2021, and by healthy consumer demand.

There are obviously nuances within this, and where supply outstrips demand for certain models and of course fuel-types, values have fallen, but as an average used car prices have experienced a stable year so far, particularly for internal combustion engine models.

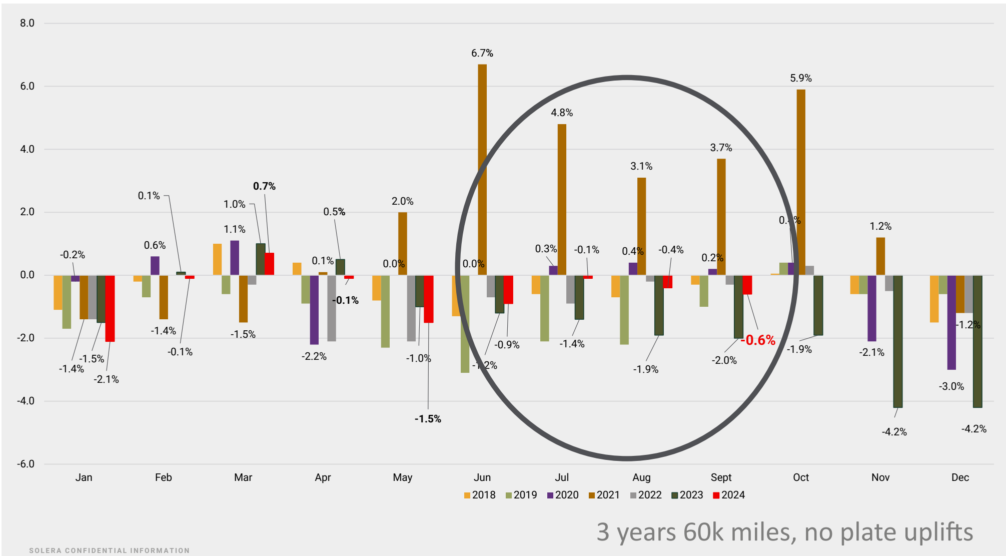
As we approach the final quarter, there may be some trepidation due to the large realignment during this period last year, with values dropping by that average of 10.5% from October to December 2023. It is highly unlikely that there will be a repeat in 2024. There will not be the same high volumes of defleets all at the same time, interest rates are more stable and cost-of-living concerns less prevalent, meaning less of a drop in demand.

Flies in the ointment can always appear, and the new car market will be one to watch, although if manufacturers deliberately reduce sales of ICE cars to assist with their ZEV mandate targets, this could make similar used models more desirable. Discounting could put more pressure on late-plate BEV values, however (although many are now a long way from new car prices for equivalent cars), with new cars looking particularly desirable to consumers, especially when viewing monthly payment offers.

Responsible remarketing is also key to ensuring a stable market.

Cap HPI are forecasting a relatively stable final quarter, with deflation likely to be as much as 75% less than the 10.5% of the same period last year. Cap Live will, as always, continue to reflect the many nuances in used car pricing as we move into the final three, and arguably most interesting, months of the year.

Valuations - Percentage movements by month, 2018-Present



Opinion - new and used market overview

Rachael Jones - Director of Automotive Finance, Auto Trader

With circa 81 million cross platform visits each month, and representing circa 14,000 automotive retailers, we have a very unique and privileged view of the market. As we fast approach the closing quarter of the year, in this edition of the Leasing Outlook Report I thought I'd share some of the latest insights that we're observing across the new and used retail market and offer my expectations for the closing months of 2024.

New car demand ramps up

The new car market continues to see fairly flat lining retail sales, but contrary to what the headline figures may suggest, consumer interest in new cars remains robust. In fact, we entered September with a good sense of optimism as new car demand on our platform ramped up ahead of the key plate change month.

New car visits rose over 9% on a month-on-month basis in August, and at the time of writing, our metrics suggest this demand continued into September.

As ZEV mandate pressures mount, we've seen a slight increase in discounting and, so far, it's proving to help turn heads, with private demand for electric vehicles on Auto Trader is currently at its highest point since 2022. In fact, 1 in 5 new car enquiries on our platform are now for electric, which is a big increase – time will tell if this trend continues.

As well as improving affordability to help stimulate demand, many retailers are ensuring their new cars are visible to buyers online. As a result, we've seen a 49% increase in new cars advertised on our platform year-on-year.

Our latest research shows that 1 in 3 buyers on site are open to considering both new and used options - a potential 3.6 million buyers deciding between used and new.

Used car market enters Q3 in robust condition

The used car market remains very robust, with strong underlying health. Our data suggests used car sales are currently up around 3% year-on-year (YoY) and 6% year-to-date with vehicles leaving forecourts quickly - three days faster than this time last year.

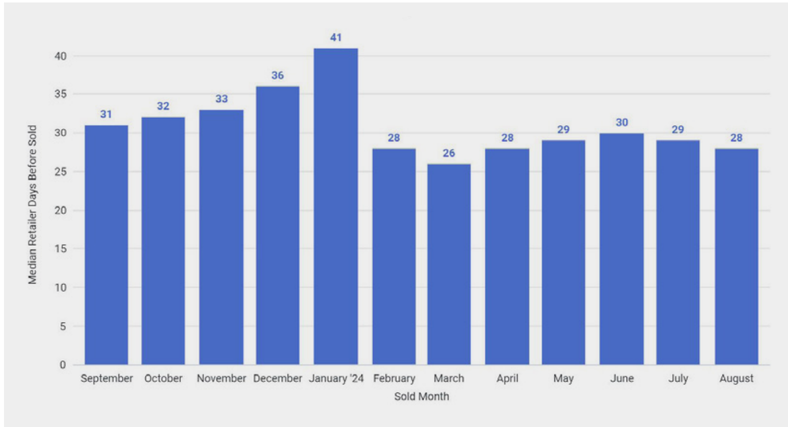
Supply remains the main constraint, especially in the 1–5-year age bracket, but all other factors are positive. From a demand perspective, despite the country being gripped by the General Election, the Euros and the Olympics over the last few months, visits to our platform are currently up around 5% YoY, and a whopping 20% on the same period two years ago.

Declines in used car retail pricing are levelling off and beginning to improve on a YoY basis.

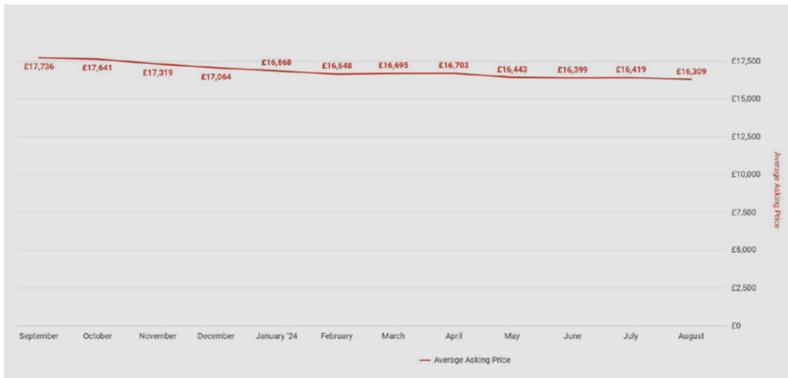
Looking ahead, we remain cautiously optimistic. All of the macro consumer confidence indicators we look at suggest there's an improving degree of confidence in the market. And at a wider economic level we're expecting improving inflation and interest rates to have a positive impact on people's purchasing power.

As ever, we'll continue to follow the market closely, and if anyone would like to discuss any of these insights in more detail, please don't hesitate to get in touch with me.

Used Car Market Days to Sell



Used Car Market RPI Index: Year-on-Year



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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