Industry Insight

BVRLA

Leasing Outlook

Aug 2023

Green shoots

Improvements in vehicle supply are finally enabling leasing companies to fulfil their order banks

Market spotlight
Business contract hire grows, but personal leasing struggles

Quarterly report
Used values provide cushion against interest rate rises and cost inflation

Industry outlook
Nail-biting anxiety over the future of EV residual values

Opinion
How EVs are challenging SMR provision in dealers and garages

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

Contents

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- **Car fleet up 0.1%; van fleet up 2.8% year-on-year** (page 5&9)
- **BCH car fleet up 3.5% year-on-year; salsac up 41% YOY; PCH down 7% YOY** (page 5)
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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

Buffeted by the wrecking-ball winds of double-digit inflation and ever-rising interest rates, BVRLA leasing companies have proved remarkably resilient. Their overall fleet size has nudged upwards slightly, with the prospect of more significant growth as order banks eventually turn into deliveries.

New vehicle supply is not 'normal' by pre-pandemic standards, with lower sales volumes and longer lead times than 2019, but leasing companies report that it is steadily improving. Regular, reliable supply is vital to minimise the pressure to adjust rentals between order and delivery due to manufacturer price rises and higher interest rates.

The strength of the used car market, where ex-lease vehicles continue to exceed their residual value forecasts, is providing a cushion against the higher costs experienced in every link of the leasing supply chain, from vehicle to finance to service, maintenance and repair. And there is no escaping the trepidation with which leasing companies are viewing their exposure to the future values of electric vehicles.

Almost half of all new business contract hire cars are battery electric, an uptake that is seeing the average greenhouse gas emissions of the BVRLA car fleet tumble. But these figures are massively out of kilter with the retail new car market where electric cars account for about 16% of sales. The need to stimulate demand in the used car market for the ex-lease EVs that will be remarketed in two to four years' time is acute, with a focus on educating dealers and private motorists about the benefits of battery power, alongside an industry-wide campaign for a rapid expansion in public charging stations.

The UK Government is sticking firmly to its 2030 date for the phase out of cars and vans powered by internal combustion engines, and it appears the fleet sector is well ahead of this deadline, with two-thirds of new business contract hire cars in the first quarter having a plug. In stark contrast, the fortunes of diesel have fallen so far that a barely believable 5% of new business contract hire cars, delivered in Q1, were powered by the fuel, and only 18% were powered by petrol.

Diving further into the detail of Q1 leasing figures reveals more winners and losers amid the general sense of a plateauing market. Business contract hire remains positive, with the van sector performing particularly strongly – BVRLA members now operate 100,000 more vans than they did pre-pandemic.

The biggest winner has been salary sacrifice schemes, with a phenomenal 41% year-on-year rise in volumes as employees, including drivers who had previously accepted a cash allowance in lieu of a company car, have seized this cost effective opportunity to access zero emission cars. For their part, employers have welcomed the chance to offer a highly valued, no cost benefit during a period of wage inflation, and to make an early dent in their Scope 3 emissions from staff commuting to work.

Not all figures, however, look so positive. Personal contract hire is struggling as private individuals confront renewal lease rates that are hundreds of pounds per month more expensive than the rentals they have been paying. The decision by certain manufacturers that are adopting agency distribution models to stop supplying leasing brokers has also restricted the number of PCH routes to market.

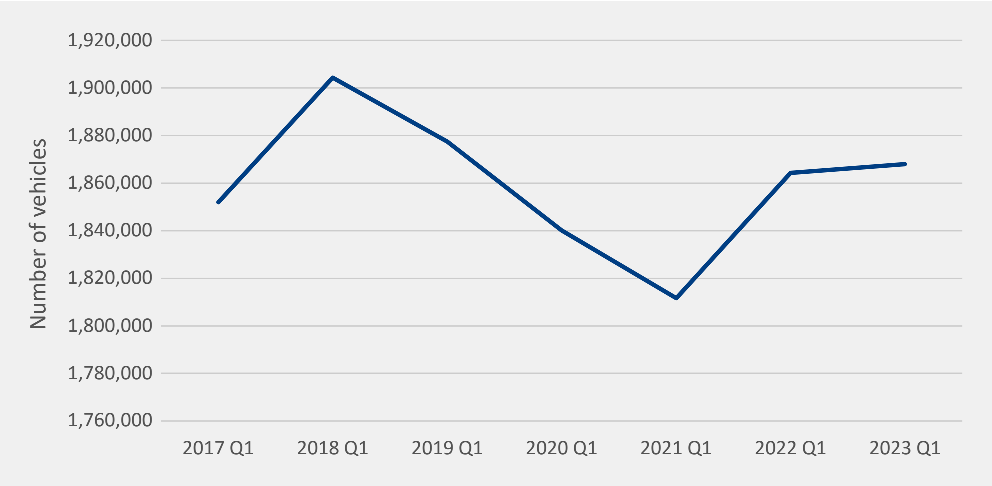
The affordability of new leases, especially for electric vehicles, has made second-life leasing a key area of focus for leasing companies, both as a B2B and B2C product.

In the B2C arena, the FCA's Consumer Duty came into force on 31 July, introducing a new set of regulations for providers of financial services to private individuals. Extensive preparations, supported by the BVRLA, mean leasing companies and brokers with products and services governed by the new rules believe everything is in place to comply, with annual audits to follow.

As for the outlook for the rest of this turbulent year, there are encouraging signs. The first six months of 2023 have seen the strongest van market since 2019, while fleet car sales were 38.4% up on last year, according to the SMMT. Leasing companies are ideally placed to support these rising volumes, although there's no avoiding the nagging concern of future electric vehicle residual values.

BVRLA Fleet Focus Q1 2023

BVRLA Fleet Focus Q1 2023



Overall fleet

Total fleet
1,879,381 vehicles
(+0.8% YEAR-ON-YEAR)

Share of total fleet

	Q1 2020	Q1 2023
Cars	77%	73%
Vans	23%	27%

BVRLA fleet size plateaus

The growth trajectory in the number of vehicles operated by BVRLA members, which increased sharply in the immediate aftermath of the pandemic, has flattened in recent months. Inconsistent vehicle supply continues to act as a brake on growth, with leasing companies still reporting unprecedentedly large order banks.

The positive news is that the availability of some makes and models has improved, while the certainty of order fulfilment is far more robust, with fewer cancellations. However, the punctuality of delivery dates continues to be an issue.

Overall, the combined car and van fleet operated by BVRLA members was slightly up (0.8%) year-on-year at 1,879,381 vehicles in Q1 2023, but down marginally (less than 3,000 vehicles) on the final quarter of 2022. There is, however, a sense of optimism that when outstanding orders have been delivered, there will be net growth in the total fleet size.

TREND
+15,138
YEAR-ON-YEAR GROWTH IN TOTAL FLEET

Vans increase share of fleet

Light commercial vehicles have increased their share the total BVRLA fleet by four percentage points between Q1 2020 and Q1 2023 to account for 27% of all vehicles.

This increase in van share reflects the growth in demand for LCVs during Covid-19, a rise in the popularity of van leasing, as well as a modest decline in car numbers since the pandemic.

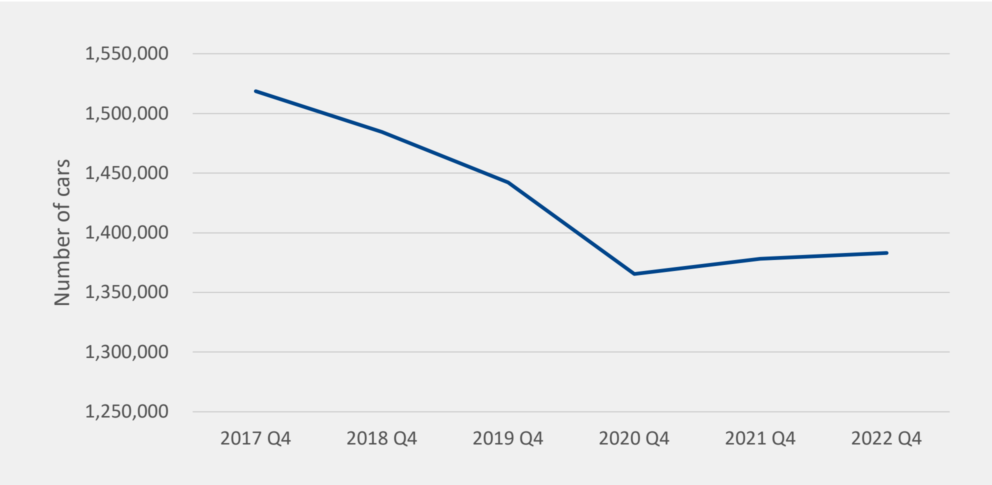
The number of vans rose by 3% in a year to stand at 510,582 in Q1 2023, compared to a 0.1% increase in car numbers to 1,368,799 over the same period.

Overall, the combined car and van fleet has finally recovered its pre-pandemic fleet size, and now stands almost 2,000 vehicles larger than Q1 2019.

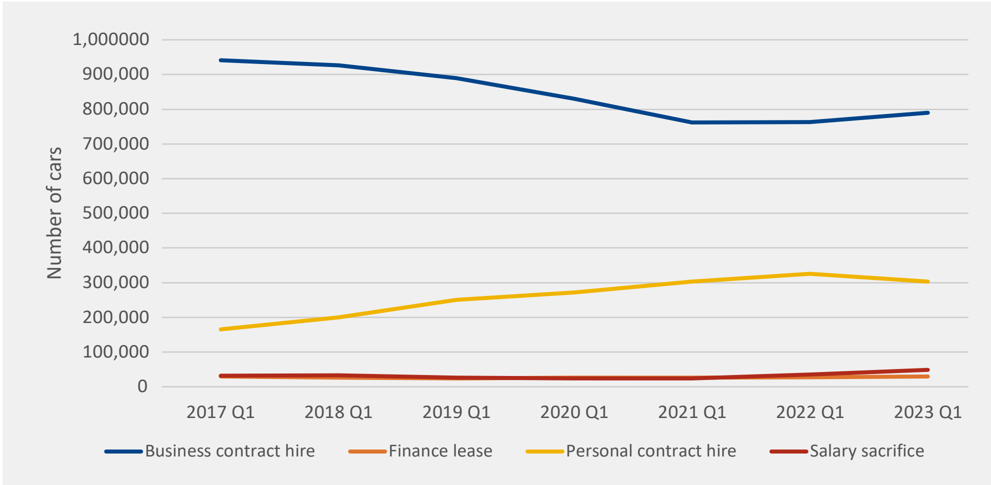
TREND
+0.8%
YEAR-ON-YEAR GROWTH IN TOTAL FLEET

BVRLA Fleet Focus Q1 2023

Total car fleet



BCH v PCH car fleet



Car fleet remains stable as replacements arrive

The 40.1% increase in fleet car sales reported by the SMMT during the first quarter of 2023 has not filtered through to BVRLA members' car fleet, which remained virtually static between Q4 2022 to Q1 2023, at 1,368,799 vehicles.

On the plus side, the rising availability has allowed leasing companies to start replacing cars whose contracts had been extended, although supply is still insufficient to generate net growth. Some of the new fleet sales have also been channelled to other sectors, such as rental and Motability, that have also been starved of supply.

The profile of the car fleet is changing as electrification opens the door for more brands to compete for fleet business, a trend that looks set to accelerate as manufacturers from China offer competitively-priced battery-powered cars.

TREND

1,368,799
(+0.1% YEAR-ON-YEAR)
BVRLA CAR FLEET

Mixed fortunes for contract hire

There is a marked divergence in the fortunes of business and personal contract hire, with the former increasing its volumes year-on-year, while the latter has suffered a sharp decline. Business contract hire numbers rose by 3.5% between the first quarters of 2022 and 2023 to 789,742 cars, but personal contract hire declined by 7% over the same period to 303,092 vehicles. The combination of significantly higher new car prices and soaring interest rates have meant replacing a car on a like-for-like basis can now cost hundreds of pounds per month more, an increase that many private drivers are unable or unwilling to stomach. Leasing brokers report that motorists are switching to secondhand cars and even reconsidering the need for a second car in two-car households as hybrid working practices see more home-based workers. Meanwhile, salary sacrifice continues its vertiginous growth rate, increasing its volumes by 41% year-on-year as employees seize this cost-effective opportunity to switch to a zero emission car.

TREND

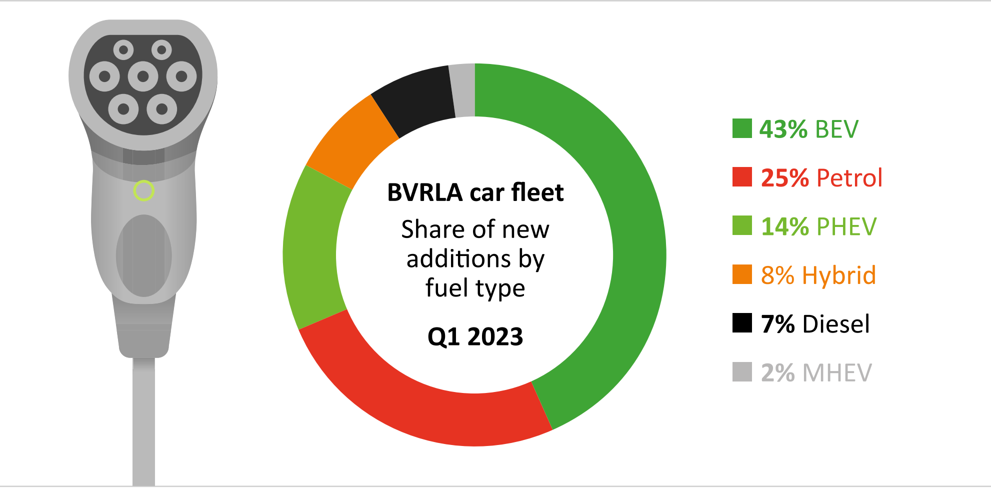
789,742
(+3.5% YEAR-ON-YEAR)
BCH CAR FLEET

TREND

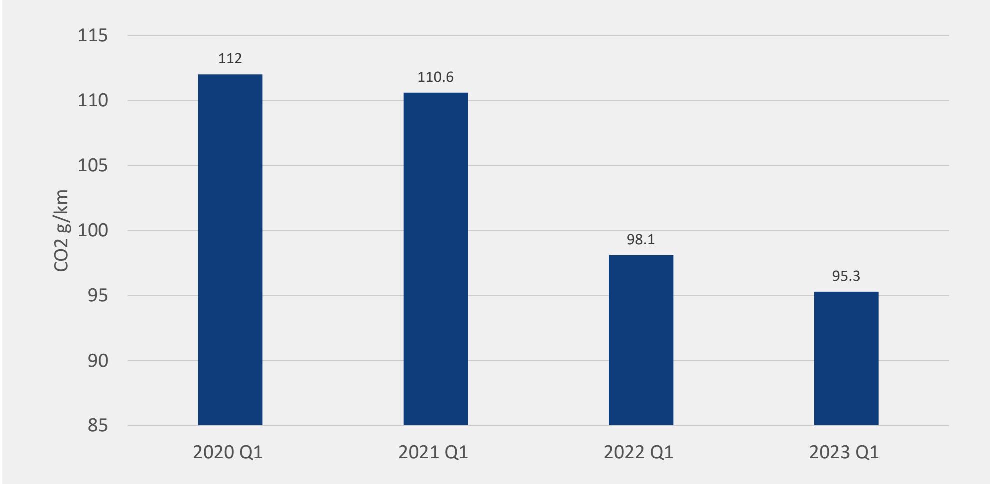
+41%
YEAR-ON-YEAR GROWTH IN SALARY SACRIFICE FLEET

BVRLA Fleet Focus Q1 2023

Car fuel choices



BVRLA fleet CO_2 emissions



BEVs account for half of new BCH cars

The BVRLA car fleet is racing towards a carbon net zero profile, with 43% of new additions in the first quarter of 2023 being battery electric models. A further 14% of new cars in Q1 were plug-in hybrids, making rechargeable cars eight times more popular than diesel fuelled cars. In particular, the supportive benefit in kind tax regime for zero emission cars has maintained BEV momentum in the business contract hire sector, where 49% of new additions in Q1 were pure electric, a figure topped only by the 91% of new salary sacrifice cars.

To put this skyrocketing demand into context, only 15.4% of total new car sales in the first quarter were battery electric, prompting concerns among leasing companies that demand for BEVs in the used car market needs to accelerate quickly if these rising volumes of zero emission lease cars are to find buyers in three or four years' time.

24%
PROPORTION OF BEVS ON BVRLA CAR FLEET

43%
PROPORTION OF BEVS IN Q1 DELIVERIES

Car fleet emissions are cleanest ever

Leasing companies are funding and supporting the UK's transition to low emission cars, with a step-change fall in average emissions to 95.3g/km of CO2 in the first quarter of 2023. Moreover, the trend is gathering pace as the average emissions of new cars joining the fleet in Q1 tumbled to an all-time low of 75.8g/km.

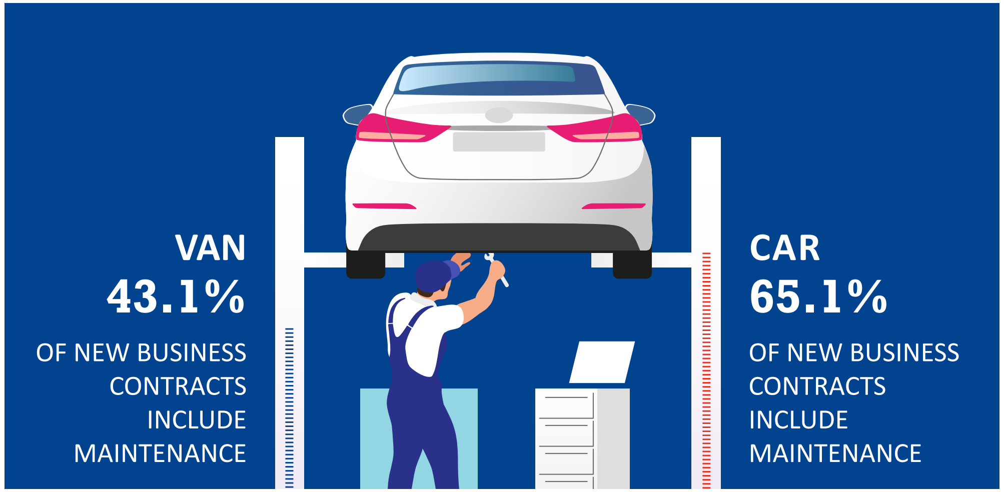
A similar decline is proving slower to materialise in the van sector, where leasing companies report that even committed EV adopters have had their plans thwarted by operational issues, such as range, payload and charging infrastructure, especially if vehicles do not return to a depot. Average new van emissions were only 4g/km lower in Q1 2023 than in the first quarter of last year.

TREND
75.8g/km
AVERAGE EMISSIONS OF Q1 ADDITIONS TO BVRLA CAR FLEET

TREND
-30.5%
FALL IN AVERAGE EMISSIONS OF BVRLA CAR FLEET SINCE Q1 2020

BVRLA Fleet Focus Q1 2023

Maintenance contracts - proportion of maintained fleet by funding method



No evidence yet of unbundling

There is scant evidence of fleets switching to pay-on-use maintenance arrangements, despite reports of growing interest in unbundling vehicle lease contracts. The rising cost of rentals has prompted discussions among fleets about taking service and maintenance risk in order to reduce monthly payments, especially with electric vehicles forecast to have much lower running costs than internal combustion engine models. However, almost two-thirds of new business contracts added in Q1 2023 include maintenance, a figure only slightly below the 71% figure for the entire fleet. Leasing directors report that the simplicity and budgeting certainty of maintenance-inclusive contracts remain popular, particularly in the face of untested and unknown battery technologies. However, the combination of different use profiles and the higher likelihood of internal fleet resource among larger van operators makes pay-on-use maintenance solutions more likely for light commercial vehicles, with only 43% of new business van contracts including maintenance.

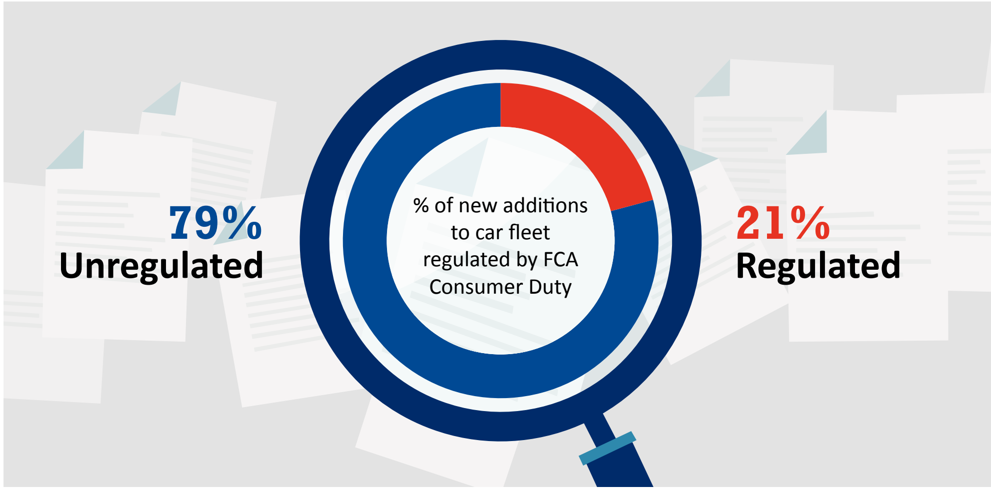
99%

OF SALARY SACRIFICE CONTRACTS INCLUDE MAINTENANCE

31.6%

OF NEW PERSONAL CONTRACT HIRE CARS INCLUDE MAINTENANCE

Regulated contracts



Consumer Duty comes into force

The FCA's new Consumer Duty regulations came into force on 31 July 2023 setting higher standards for leasing companies to meet in their dealings with private customers.

The impact is likely to be most heavily felt by leasing brokers and companies with large retail operations, and while the new rules have forced detailed reviews of procedures and operations, they have been broadly welcomed by the industry. Any step that reassures customers they will be treated fairly is positive, said one leasing chief, adding that the BVRLA had been extremely supportive in helping companies with compliance.

Consumer Duty has also prompted leasing companies to pay closer attention to the terms and conditions operated by their broker channels, although none report any issues.

99.8%

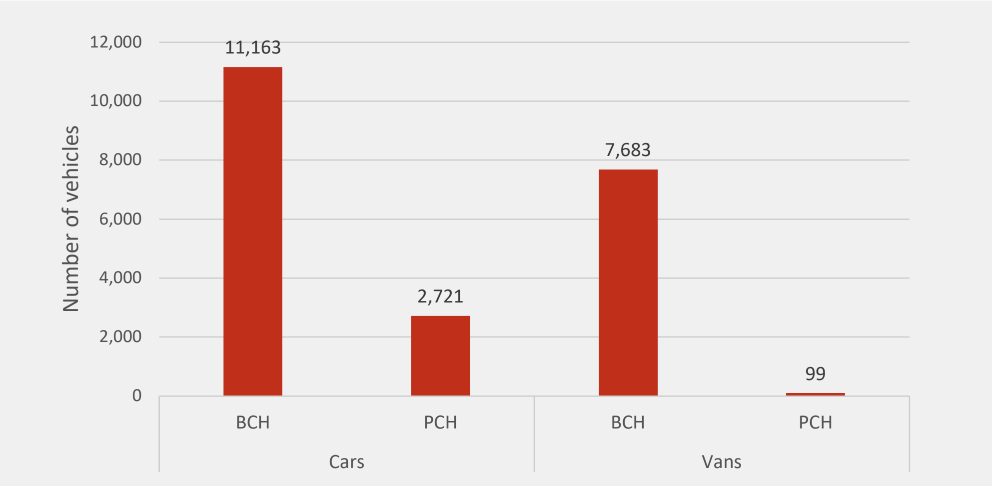
OF NEW PERSONAL CONTRACT HIRE AGREEMENTS ARE REGULATED

0.3%

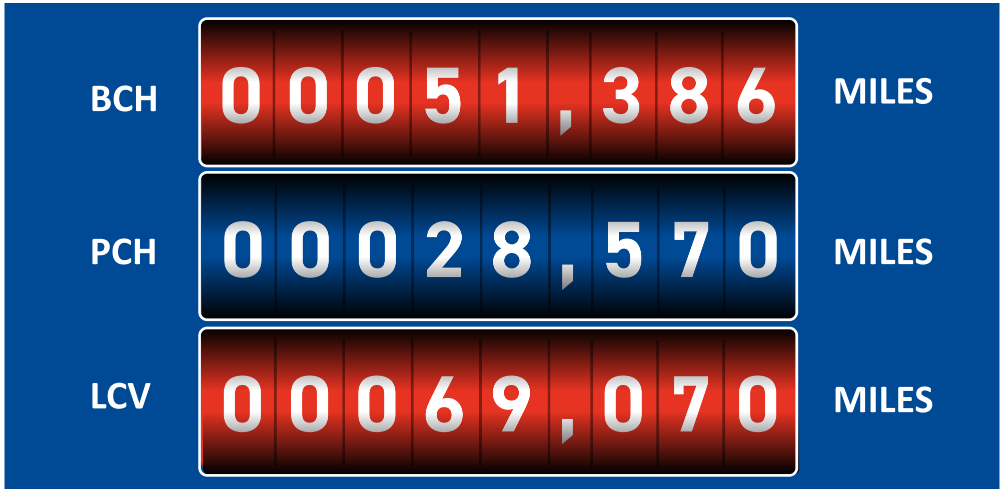
OF SALARY SACRIFICE AGREEMENTS ARE REGULATED

BVRLA Fleet Focus Q1 2023

Used vehicle leasing



Contract mileage



Second bite of the cherry

Leasing companies are starting to devote time, energy and resource into exploring the opportunity of second life leases for used vehicles. Volumes are currently low, but uncertainty over the residual values of electric vehicles allied to confidence in the long-term reliability (and low maintenance costs) of EVs has prompted significant interest in the opportunity to re-lease a used vehicle.

The upsides include fresh profit opportunities on finance, amortising depreciation over a longer period, and opening new customer bases, both retail and SME, that might otherwise not be able to afford EVs. But the product is not as simple as it sounds, as one leasing director outlined. Whereas the condition and quality of all new vehicles is standard, used vehicles are returned at different ages, mileages and in varying states, and therefore require individual inspections and residual value forecasts before their lease rentals can be calculated.

28,917
NUMBER OF USED VEHICLES ON BVRLA FLEET

50,000 miles is new standard

The traditional industry benchmark leasing contract of three years and 60,000 miles appears to have gone for good, with new car leases closer to 50,000 miles, undercutting the average for the entire fleet.

Previous sentiment that businesses would extend the terms of their contracts in a bid to reduce monthly rentals does not appear to have materialised. Shorter holding periods arguably suit both leasing companies and drivers, facilitating an earlier exit from first generation EV technologies, should new models in OEM pipelines render today's EV performance obsolete in terms of range and charging times.

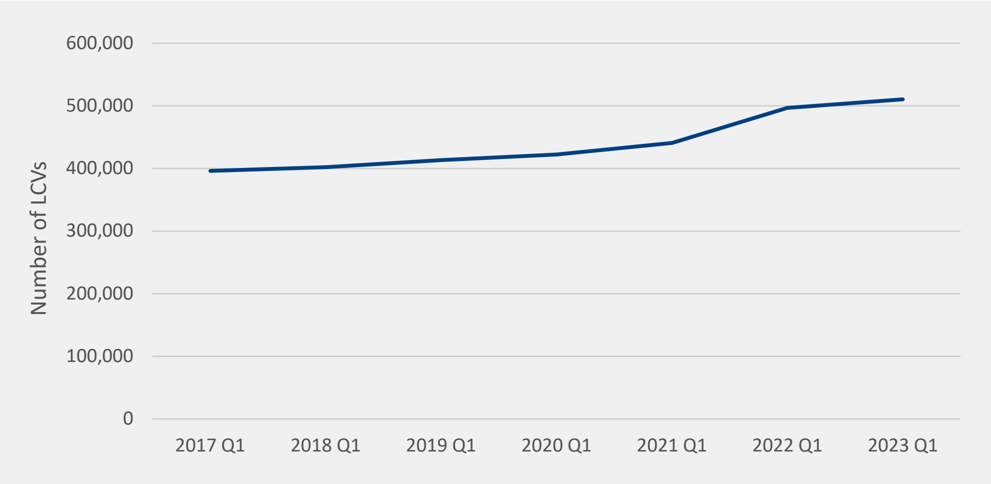
Interestingly, new LCV contracts are for shorter periods and lower mileages than the van fleet as a whole (69,000 miles and 43 months versus 75,500 miles and 47 months), perhaps indicating an intention to transition to e-LCVs as soon as practically possible.

34 months
AVERAGE LENGTH OF NEW PCH CONTRACT

43 months
AVERAGE LENGTH OF NEW LCV CONTRACT

BVRLA Fleet Focus Q1 2023

Van fleet



Van fleet maintains long-term growth

Three consecutive months of growth in new light commercial vehicle sales during the first quarter of the year helped the van leasing sector maintain its steady rise.

However, the improvement in the availability of stock, after months of drought, has to be put in the context of volumes falling 15.1% short of LCV sales in Q1 2019, before the pandemic, according to SMMT data.

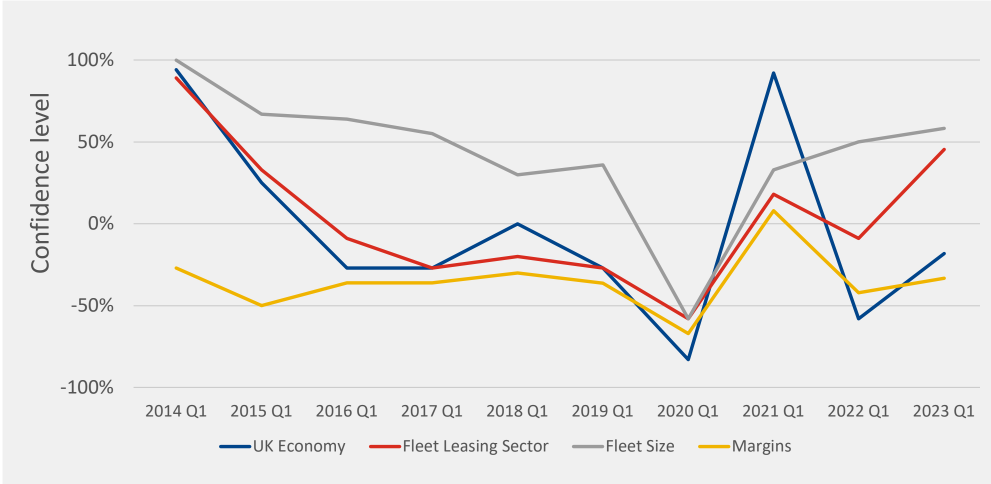
What is clear from the figures is the rising share of new LCVs funded by BVRLA members, with almost 100,000 new vans on their books since 2019, despite the supply crisis.

Contract hire now funds 68% of BVRLA business vans, followed by finance lease with 18%, while 11% are supplied only with fleet management, a year-on-year increase of 27%.

TREND

510,582
(+2.8% YEAR-ON-YEAR)
TOTAL VAN FLEET

Industry confidence



Industry confidence enjoys an uptick

First impressions of the leasing industry confidence chart are misleading, unless the vertical axis is taken into account. Yes, all four of the graph's lines are heading in an upwards direction, but two of them remain below zero – confidence in the health of the UK economy, beset by inflation and high interest rates, and confidence in business margins. Both confidence indices are weak, just not as weak as they were in the first quarter of last year.

On a more positive note, leasing companies are significantly more confident in the outlook for their own sector than they were in Q1 of 2022, with electrification rapidly reversing the decade-long decline in company car numbers, and there is even greater positivity around the leasing fleet size, due no doubt to vehicle supply starting to unlock order banks.

58%
OF BVRLA LEASING COMPANIES EXPECT TO INCREASE THEIR FLEET SIZE IN THE NEXT QUARTER

BVRLA Member Outlook

There is no escaping leasing companies' genuine sense of concern, verging on alarm, at the current mismatch in demand between the new and used market for electric vehicles. Their new car order banks are approaching 50 percent battery electric in some cases, yet BEVs accounted for only 16.9% of the new car market in the first five months of this year, and the majority of these went to company car drivers eager to take advantage of supportive benefit in kind tax rates.

Auto Trader's most recent Market Intelligence Report indicates used EV prices appear to have settled at about 19% below last year's levels, with increasing supply, the cost of living crisis and soaring interest rates all contributing to several consecutive months of falling residual values. Leasing companies do sense a bit more stability in the fledgling used electric car market, but there is no avoiding the fact that the supply-demand seesaw is at risk of tipping sharply in the wrong direction as the first major volumes of used BEVs hit the market, unless authorities and the fleet industry can stimulate greater demand.

Putting himself in the shoes of a used car buyer, one leasing chief questioned why any secondhand car buyer one would pay several thousand pounds more for an electric vehicle that was less convenient than its petrol or diesel equivalent, more difficult to charge for anyone without off-street parking, and which failed to inspire confidence in the long-term health of its batteries.

Moreover, new EV entrants are starting to offer brand new models with cheaper prices and longer ranges than the secondhand values forecast for the first wave of leased EVs, a scenario that threatens to undermine values further.

Thanks to pessimistic residual value forecasts made three or four years ago, leasing companies are still comfortably in the black for these first end-of-contract EVs. But the forecasts they feel forced to adopt for contracts written today, due to competitive pressures, are shredding nerves.

"If we forecast what we really think, we wouldn't write any business," said one director. Leasing brokers confirm wide variances in residual value forecasts for the same vehicle as leasing companies take different risk positions.

Independent certification of battery health, a massive expansion of the charging network, the removal of VAT from public charging, and a Government-supported cash incentive or scrappage scheme for used car buyers choosing an electric vehicle, are all on the urgent wish lists of leasing companies.

Even more work is required to support the electric light commercial vehicle market, where operational obstacles are thwarting the best intentions. Range, payload, and especially charging issues are delaying e-LCV adoption, even among fleets with ambitious sustainability targets. Leasing companies are finding that they need to advise clients on a case-by-case basis through their decarbonisation plans,

Car and van fleet forecast

	2019 Q1	2020 Q1	2021 Q1	2022 Q1	2023 Q1	2024 Q1	Forecast change Q1 2023-2024
CAR	1,464,000	1,418,000	1,371,000	1,367,000	1,374,000	1,387,949	1%
LCV	414,000	422,000	440,000	496,911	510,582	518,097	-1%
Total	1,877,000	1,840,000	1,812,000	1,864,243	1,879,381	1,906,046	1%

Car fleet forecast by fuel type

	2019 Q1	2020 Q1	2021 Q1	2022 Q1	2023 Q1	2024 Q1	Fleet size Q1 2023	Forecast fleet size Q1 2024	Change
Diesel	64%	52%	41%	30%	20%	19%	351,000	237,317	-32%
Petrol	29%	37%	36%	36%	32%	34%	483,000	417,824	-13%
BEV	0%	2%	6%	14%	24%	34%	267,000	422,009	58%
PHEV	5%	3%	7%	12%	14%	13%	212,000	158,042	-25%

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with significant new resource ploughed into consultancy services. As a rule of thumb, use profiles that combine consistent daily mileages with return-to-depot schedules are proving much easier to electrify (albeit with costly charging infrastructure investment) than home-based vans with unpredictable routes.

In other areas, too, such as service, maintenance and repair, the imbalance between fleet and retail demand for electric vehicles is having serious consequences. Dealers and workshops are understandably keeping their investment in the tools and training to support EVs in line with market uptake. But with fleet adoption of battery-powered vehicles running three times ahead of the market as a whole, leasing companies are experiencing bottlenecks in trying to access SMR work.

This lack of capacity is exacerbated by supply chain delays in sourcing replacement parts, with one leasing director commenting that everything on an EV appears to be bespoke, including tyres and windscreens. Stories of vehicles being grounded for weeks are commonplace, with leasing companies conscious that off-road time reflects poorly on them, even if they are powerless to do anything about it. Moves are afoot to expand maintenance networks, but leasing companies still report that some tenders are trying to impose service level agreements that reflect yesterday's SMR provision, rather than today's curtailed capacity.

"The reality is that the market is not yet able to provide the service that our customers would like, and that impacts negatively on our customers' perception of us," said one director, referring directly to EVs.

The situation is compounded by inflation pushing up the prices of lubricants, tyres, parts and labour rates for both ICE and electric vehicles. Nor can leasing companies readily source short-term hire replacements for vehicles that are off the road, due to the well-documented supply shortages that have impacted the daily rental sector. Turn-down rates have improved from 15 to 20 percent, to below 10 percent, say leasing directors, but are still uncomfortably high, especially for one and two-day hires. This has forced leasing companies to expand their pool of suppliers, diluting their purchasing power in a market where hire fees have skyrocketed.

The situation is better for longer term, non-urgent rentals, and it is interesting to note leasing companies moving into this space, taking strategic decisions to build their own substantial rental fleets to supply flexible, short-term leases for customers wanting to cover fixed length contracts or requiring a temporary vehicle while they wait for delivery of a long-term lease. One major leasing company has expanded its medium-term rental fleet by more than 50% in a year to close to 4,000 vehicles, with further growth scheduled.

Looking for good news, vehicle lead times appear not only to be shortening, but also to becoming more reliable, with directors reporting fewer cancelled orders. These shorter, more predictable time frames are reducing the incidence of prices, interest rates and residual value forecasts changing between order and delivery, which has led to countless awkward conversations between leasing companies and clients in the past two years. In some cases, interest rates have more than doubled between orders placed 12 months ago and only just being delivered.

Shorter lead times are also helping to avoid customers, and SMEs in particular, from having to undergo more than one credit check between order and delivery, with each check holding the potential for failure. Encouragingly, leasing chiefs report that bad debts do not appear to have become an issue, despite challenging economic conditions, with the pandemic already having whittled out weaker businesses.

Car fleet forecasts by funding method

Funding type	2018 Q1	2019 Q1	2020 Q1	2021 Q1	2022 Q1	2023 Q1	2024 Q1 F	Forecast change Q1 2023-24
Business contracts	1,242,000	1,170,000	1,098,000	1,018,000	984,000	999,000	807,585	-19%
Consumer contracts	261,000	294,000	320,000	353,000	384,000	370,000	298,809	-24%
TOTAL	1,503,000	1,464,000	1,418,000	1,371,000	1,367,000	1,369,000	1,106,394	-19%
Business contracts	0.83%	80%	77%	74%	72%	73%	73%	
Consumer contracts	0.17%	20%	23%	26%	28%	27%	27%	

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"All of the problems we have had to deal with are 50 percent less than 12 months ago, but they still exist," said one director.

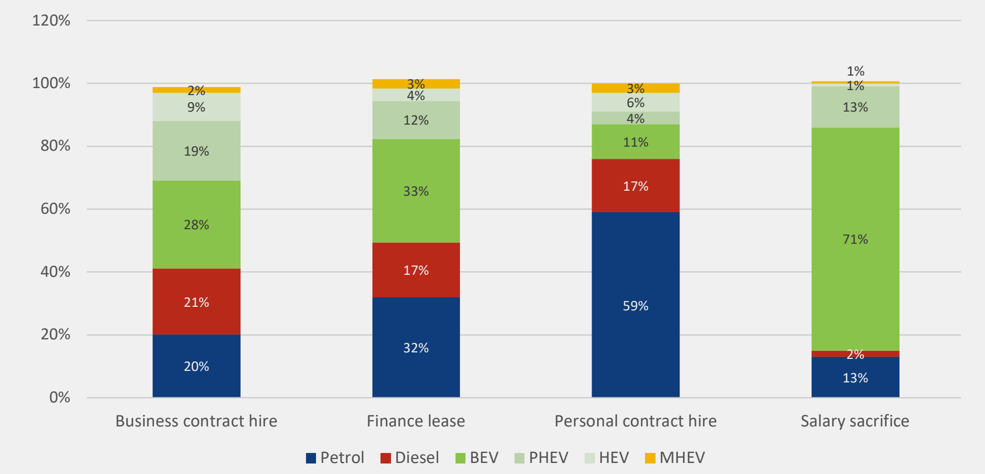
Vehicle supply, for example, is still not 'normal' by pre-Covid standards. Both total market and fleet sales remain down on pre-Covid levels, and as the cost-of-living crisis cools demand in the retail sector, there are indications that discounts are starting to return.

Meanwhile, those manufacturers that are more advanced along the road to an agency distribution model may well be wishing they had not closed off their broker channels, a traditional relief valve for over-supply situations. Industry insiders point to recent rental and Motability deals as indications that the agency model is not stimulating sufficient demand to match the available supply of vehicles.

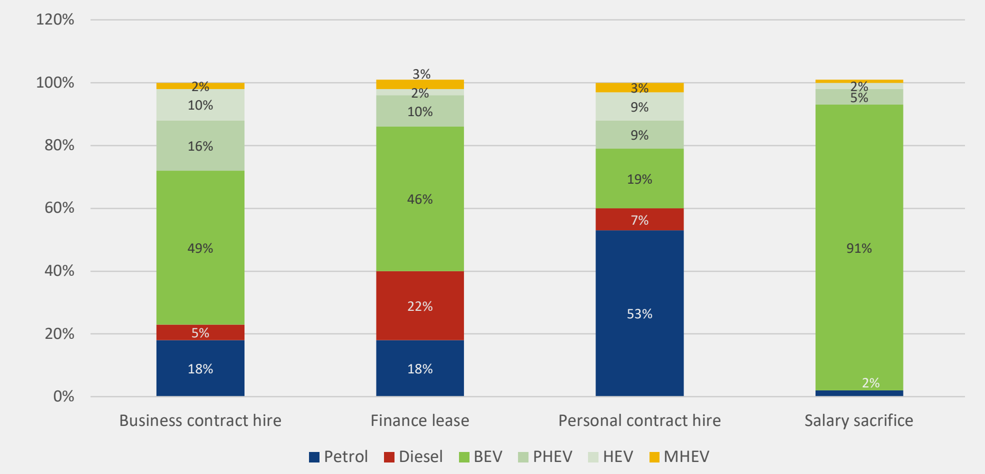
And there are further signs of OEMs flexing their muscles in what remains largely a seller's market, by insisting that leasing companies buy vehicles they have ordered as soon as they become available, even if this is months ahead of schedule, or risk losing them to another customer. In some instances, the continued strength of the used car market has allowed leasing companies to accept the early termination of contracts (or more typically extended contracts) without penalty, but they say each case has to be reviewed individually.

As for the year ahead, a steady supply of vehicles, stable interest rates and a massive improvement in the UK's EV infrastructure would all be on the wish lists of leasing companies.

Car fuel choices by funding method, total BVRLA fleet



Car fuel choices by funding method, new additions Q1 2023



Opinion - service, maintenance and repair

Vincent St Claire – Managing Director, Fleet Assist

Vincent St Claire, MD of Fleet Assist says now is the time to have a robust SMR network strategy in place as garages reinvent themselves for a zero-emission future

Just as the leasing and rental industry is facing challenges with a growth in EV sales so garages are coming to terms with re-inventing their aftersales businesses as the differences between EV and ICE car SMR starts to become clearer.

For the rental and leasing sector it is important to be aware of these challenges faced by the garages and some of the new initiatives likely to be forthcoming to ensure both industries continue to work in harmony.

The EV element of our customer fleets continues to grow. EVs comprised 9% of all SMR work managed by our 5,000+ strong garage network in 2022 compared with 6% in 2021 which correlates with new EV sales.

As work volumes build across our 1m vehicle plus customer fleet, the early signs are that EVs with fewer moving parts and with regenerative braking prolonging pad and disc life, are less expensive to service and maintain. (Please note these trends quoted only relate to mechanical SMR not tyre provision). This has the potential to impact garages from an overall volume of work and already is seeing average job value changing alongside the complexity of work and skillset required. The time worked on these vehicles is reducing, as are the parts values and the margins derived from the components in an average job basket.

However, this cost saving to some extent continues to be masked by the backdrop of SMR costs increasing across the board since the pandemic due to the increase in the average age of fleet, parts price increases, labour inflation which has been made worse by staff shortages, Brexit, and the war in Ukraine.

The marketplace remains in flux, and whilst currently BEV mechanical SMR work is cheaper, the comparative SMR costs of a mixed fleet will most probably indicate costs have risen exponentially over the last 24 months due to the multiple factors mentioned.

Vehicle mileage is another cause of the difference in SMR profiles with electric cars currently covering fewer miles, however we feel this will even itself up as vehicle range continues to rise and company employees start to travel more on company business. Against this backdrop garages require more workshop investment to support EV work such as technician training, new tooling, improved diagnostics, ramps, and the installation of charging points.

The garages already coming to terms with future proofing their aftersales operations are expressing concerns that conducting a first-year EV service inclusive of collection, delivery, valet, and courtesy car could mean these jobs are at best breaking even. To counter this, we have seen some garages launch their own mobile service business which visits the driver at home or at work and conducts basic servicing remotely, thus increasing capacity and freeing up their workshops for more complex higher margin work.

We also envisage that with battery health likely to impact future EV trade values so garages will no doubt play their part in recording capacity of a battery throughout a vehicle's life cycle.

Other options under consideration maybe are menu pricing for value-added services such as collection, delivery, courtesy vehicles, and valeting. This intelligent pricing is already being effectively used in other areas of the automotive industry to ensure customers only pay for the services they require.

Some OEMs have a view that fleet pricing is the answer, but how can prices increase with no reference to service or quality be the route forward? Potentially in the longer term EVs will cause excess capacity within the UK garage network with more companies chasing less work. This means increasing labour rates will risk garages overpricing themselves and reducing their workshop volumes.

We know franchised dealers are very resilient but now the microscope is on SMR they need to ensure revenues and margins are protected, whilst offering value and high customer service with reduced lead times to minimise vehicle downtime. On this basis we are suggesting that garages work smarter to increase their productivity and efficiencies.

We maintain that both garages and OEMs should consider adopting a smart approach to managing drivers' needs that focuses on customer service delivery. Providing a meaningful service charter such as our network agreements that outline how garages will collaborate and serve their customers could be a solution and not just focus on the commercial terms.

Opinion - used market prices

Dylan Setterfield - Head of Forecast Strategy, cap hpi

There's no doubting the main topic of concern across the industry in recent months: the seeming freefall in used values for battery electric cars.

Several different elements have combined to deliver a perfect storm in EV residual values: a significant, sudden increase in used volume; concerns about charging costs as electricity prices surged; high prices relative to petrol and diesel cars; negative anecdotal stories in the media; well-publicised queues for chargers over Christmas, and all this on top of existing consumer concerns about switching to electric.

Our 36/60 cap Clean trade values for BEVs decreased by an eye-watering average of -35% between November and June monthly publications.

It wasn't a surprise that values came down. In fact, the market for BEVs had been far stronger than expected through the middle of last year and we had been telling customers that an adjustment was on its way, especially given the expectation of increased volumes as a result of historical new car market penetration for BEVs.

However, the speed of reductions was certainly unexpected, exacerbated by a glut of Tesla vehicles hitting the open market at just the wrong time. The list price reductions that Tesla implemented in January certainly didn't help the overall situation, but used values for Model 3 and Model Y both fell far further before the price cuts than after.

Values have fallen to such an extent that most models are now below ICE equivalents. Of the 55 models where a comparison is possible, trade prices for 33 of them are now cheaper than petrol or diesel. At 36/60, BEVs were -£1,732 lower on average (-7.8%) in July book, with some as much as £10,000 below ICE vehicles and some smaller cars -30% lower.

This is slowly filtering into retail prices as aged stock clears and consumers will face the prospect of a wide choice of used electric models which are not only cheaper to run, but cheaper to buy than ICE vehicles. Previously the upfront cost was one of the biggest barriers to increasing adoption, but this will effectively have been removed, even if (as we expect) there is an element of recovery in used values for many BEV models.

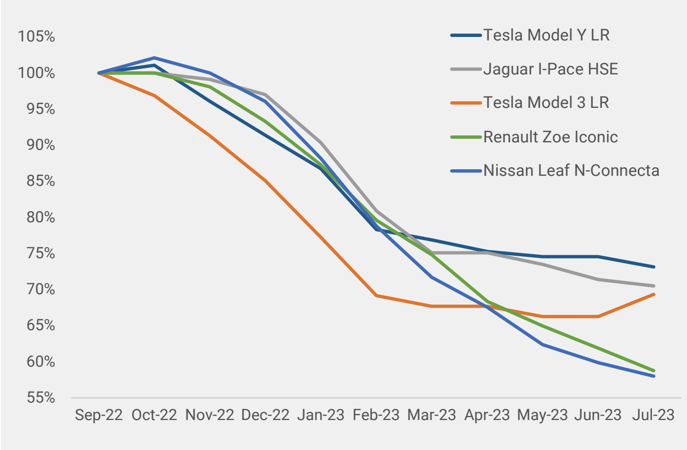
Many models have come down so far that they are now looking really great value and appear to have stabilised. In the case of Tesla Model 3, for example, we have seen increases so far during May and June after values had remained flat and many other BEV models are now moving in line with the rest of the market.

The market is expected to remain fragile, but the worst seems to be over. At least for now.

Jul-23 used value comparisons - cap hpi Clean values at 10,000 miles per annum

	12/10	24/20	36/30	48/40	60/50
Average £ BEV Premium vs. ICE	462	-253	-1,732	-1,241	-1,245
Average % BEV Premium vs. ICE	0.5%	-0.7%	-7.8%	-11.9%	-13.6%

12/10 cap hpi Clean values indexed back to Sep-22 book



Opinion - new car leasing market

Paul Harrison - Chief Partnerships Officer, Leasing.com

Following a subdued final quarter in 2022, consumers and businesses emerged from the Christmas holiday with renewed interest in new cars and vans.

This improved demand was illustrated through higher volumes of leasing enquiries to our advertising partners and data from the Society of Motor Manufacturers & Traders (SMMT) which showed that new car sales grew 14.7% in January and 18.4% in Q1 compared to the same period in 2022.

In the first quarter of this year, consumers continued to seek out longer four-year lease terms to help keep their monthly expenditure as low as possible and manage their household budgets. The average enquired on leasing rental in Q1 was £361 per month for consumers and £446+VAT for business users.

There has been much commentary about the impact of Tesla's price cuts on the market. While residual value volatility does not help consumer confidence in the used electric vehicle market, those announcements have boosted new car demand for that brand. The Tesla Model Y, Ford Ranger and Volkswagen Tiguan were the top three most popular cars chosen by business users in Q1 and consumers opted for the Nissan Qashqai, Volkswagen Tiguan and Hyundai Tucson (with the Tesla Model Y the sixth most enquired on car on PCH in Q1).

Rather than pricing announcements, it is the cost-of-living crisis that is having a much deeper impact on confidence and demand for electric vehicles.

Our accompanying charts show new car leasing demand by fuel type. While business demand for battery electric vehicles (BEVs) continues to follow the growth trend of recent years, quarter-to-quarter BEV demand from private motorists fell for the first-time in Q1 2023. BEV demand from business accounted for 36.5% of total Leasing.com enquiries in Q1, up from 32.7% in Q1 2022. BEV demand from consumers accounted for 10.4% of demand in Q1 this year, versus 17.2% last year.

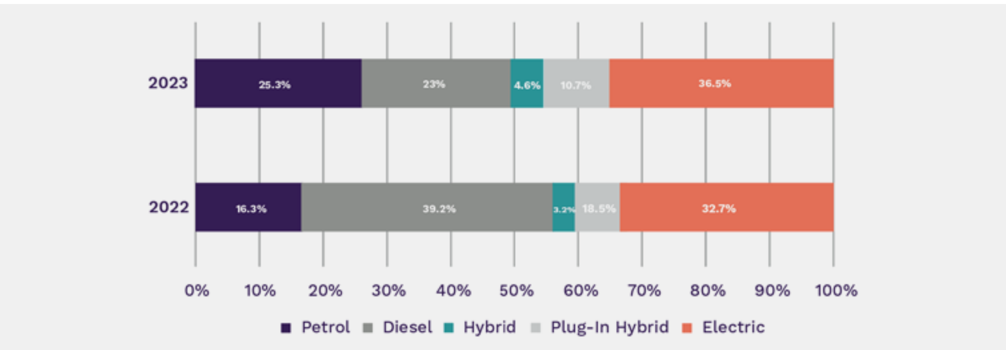
It will be interesting to see if the emergence of the new Chinese manufacturers and their lower-cost BEV models – as well as continued improvements in the availability of BEVs from all manufacturers – will boost BEV demand again as the year progresses.

The SMMT is currently forecasting a 26% increase in total BEV registrations this year to 337,000 units and a 31% increase next year to 444,000 total units.

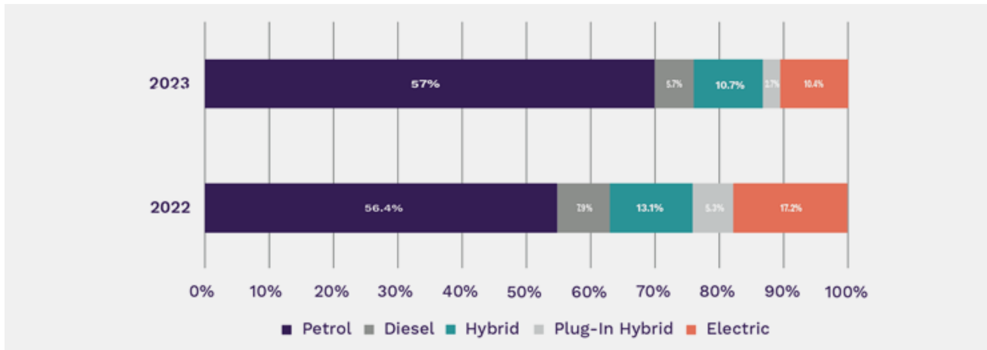
Here at Leasing.com we have introduced a number of website changes to make it easier for motorists to find key information on BEVs and understand which model may be right for them, including new EV range filters and clearer technical information.

We are also revamping our EV-related partnerships to help consumers not only find their first electric vehicle, but also a compatible home charger and home energy tariff to accompany it.

New car fuel type demand - Q1 2023 versus Q1 2022 - business leasing



New car fuel type demand - Q1 2023 versus Q1 2022 - personal leasing



Opinion - used market overview

Rachael Jones - Director of Automotive Finance, Auto Trader

As we reach the mid-way point in the year, I thought I would use my first contribution to the Leasing Outlook report to share some of the key trends we've been tracking since the last edition, particularly around electric vehicles.

AutoTrader

The retail market remains in good health

Before I get into EVs however, it would be remiss of me to not first highlight the wider health of the retail market. Unfortunately, the uncertainty around the economy and the squeeze on consumer finances has not shown any signs of improving.

However, the automotive market remains in good health, which is being fuelled by very robust levels of consumer demand, reflected in the strong consumer engagement we've been tracking on our marketplace. In May, we received over 77 million cross platform visits, which equates to a 12% increase on last year.

Although strong consumer demand remains, so do supply constraints, particularly among the three-five-year-old age cohort (down circa 23% on May 22) following the huge dearth in new car supply over recent years.

Combined, these market dynamics are resulting in very strong used car values. As of mid-June, average prices are up nearly 4% year-on-year (YoY), which is the highest level of growth we've seen since November 2022. On a month-on-month basis, prices are up 0.3%.

This imbalance of supply and demand is not only keeping used car prices stable, but it's also supporting a healthy and profitable sales market.

EV prices continue to tumble but are showing signs of stabilising

Despite recording positive growth, second-hand car prices are being held back by tumbling used EV values, which as of mid-June, are down -18%.

To put that into context, since January, average prices have fallen around £4,600, and since July 2022 when prices were at their peak, they've fallen over £9,000.

Although marking the sixth consecutive month of YoY price contraction, there are signs of used EV values beginning to stabilise, with the rate of decline softening slightly on the -18.6% drop seen in May, and the -18.1% in April.

When we look at our data at a more granular level, we can see just how fragile the used EV market is. Although the current rate of used EV supply growth is slowing slightly, we're still seeing a massive influx of stock.

There's currently about 15,000 used EVs for sale each day on our site. This time last year, there were closer to 5,000.

Importantly, 29% of the current stock on Auto Trader is now under £20,000, which is up significantly on the 7% we recorded last summer.

As the availability of more affordable electric cars has increased, so too has consumer demand, with the share of EV enquiries through our channels for the one-to-five-year age range almost doubling over the last 12 months and reaching the highest levels we've ever recorded.

The drop in average EV prices has significantly closed the upfront price gap between many electric models and their ICE counterparts, and in some cases, made them cheaper.

For example, a three-year-old electric Jaguar I-PACE is now £600 cheaper than a traditionally fuelled F-PACE. And with retailers slashing the prices of used Teslas more than any other brand in response to new car price reductions, the average price of a used three-year-old Model 3 is now just £3,600 more expensive than a BMW 3 Series of the same age - in August the price gap was a comparatively whopping £22,000!

It's probably not surprising then, that the Model 3's market share of electric enquiries through Auto Trader has shot up from 8% to nearly one in five over the same period.

It's clear that the EV market is very fast moving and one we'll continue to keep a very close eye on. I look forward to updating you on the latest trends and movements in the next edition of the Report.

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

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

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