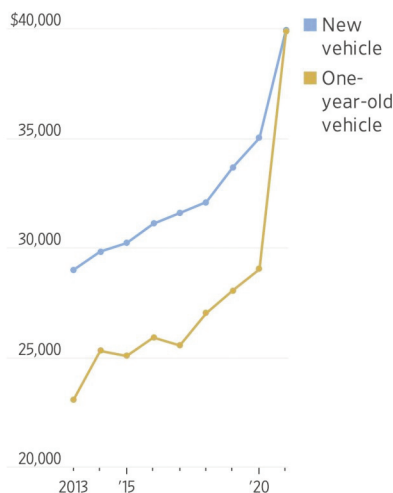


Before You Turn in Your Leased Car—Look, There Might be Money in That Car

Over the years of serving clients, we have heard funny stories on how people hide money in different places around their home in preparation for real disasters. Sometimes grandchildren will open the freezer of their grandparents and see dollar bills rolled up in a soft drink can. Others have found a few special coins under the couch cushions. Money has been found in the curtains, under the ironing board cover and even inside of pill bottles. Maybe you have money hidden that you don't know about—in your car lease.

Used car prices have soared recently, mostly because of the supply chain issues like the shortage of semi-conductors for new cars. This has driven up the price of new cars. We are seeing a drastic shift in the auto industry due to the effects of COVID-19 and supply chain management. Today, the average price of a new vehicle is around \$40,000 depending on the brand and model. Research done by J.D Power reported the average price for a new vehicle was less than \$30,000 in 2013. That's a big increase and that's if you can get a new car. This increase in new car prices, and the problems of getting a new car, have also increased used car prices. See the figure below.

Average price paid for new vehicles compared with one-year-old used vehicles



Note: For June of each year
Source: J.D. Power

Over the last 10 years, leasing vehicles has become very popular. A lease contract allows the borrower to put down less money up front, drive a certain number of miles every year, turn in the vehicle at the end of the lease, or buy the vehicle. This tends to resemble the concept of “renting.” The monthly payment for a lease is less than the monthly payment to finance the same vehicle. The lessee finances the estimated use of the value of the vehicle.

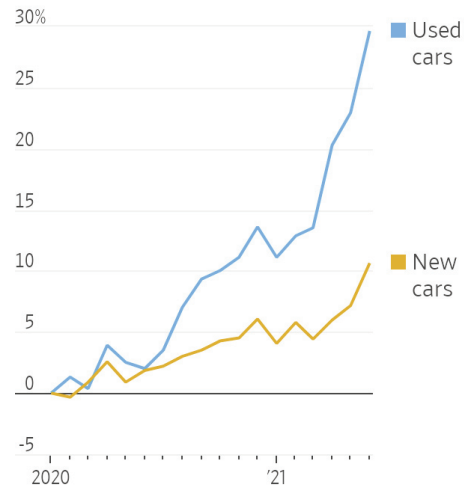
In today's market, the vehicle may be worth more at the end of the lease than the buy-out price. In the past, no equity would be expected when seeking to sell a financed car or turning in a vehicle at the end of the lease.

Historically, it has been cheaper to buy a used vehicle over a new one. But for some used models—mostly those with low mileage and bought in the past year or two—the differential is closing quickly. Research from J.D. Power showed the average price paid by a customer in June 2021 for a one-year-old vehicle was only about \$80 less than the selling price of a brand new vehicle. That gap has been typically closer to \$5,000 or more.

This is where you might find significant money in your car: if the buy-out price to purchase your car at the end of a lease is less than the car's current value, you have the opportunity to buy the car and sell it. Therefore, we find it to be an important time to know how much your vehicle is worth. Edmunds.com, a car shopping website, found that the average selling price for a used car with between 100,000 and 110,000 miles was \$16,489 in June 2021, the highest ever recorded and up 30 percent from a year ago. These older models seem to be on the rise. Most auto analysts

believe we have a long way to go before prices come down.

Change in average price paid since January 2020



Source: Edmunds.com

One industry insider Greg Webb, who has worked in the auto industry as a sales consultant for over 29 years, feels this is a unique season because production of new cars is getting cut back by 40 percent due to the shortages of global computer chips. Now is the time to appraise your vehicle.

How do you find value of your leased car? There are various online services, like Kelly Blue Book, TrueCar and Carvana, that will supply a trade-in estimate based on your location, the vehicle's age, mileage and general condition. We encourage using one of these online services to value your current vehicle prior to asking for an appraisal at a local dealership.

Whether you have financed or leased your vehicle, you may have more equity than you think.

Sincerely,

Melissa Montalvo, CFP®
Financial Advisor

Any opinions are those of Melissa Montalvo and not necessarily those of Raymond James.