

Vehicle leasing gaining popularity

Dealerships are offering incentives to lure consumers

By DAVID WELCH

ARLINGTON — Fort Worth money manager Paul Greenwell remembers all too well the paltry sum he received when trading in an Audi 5000 in the 1980s.

Articles about the car's brake and accelerator problems beat down its residual value, and Greenwell, along with a slew of other Audi buyers, were caught in the whipsaw.

This time around, Greenwell doesn't have to worry about declining car values. The Infiniti J30 touring sedan he now drives is leased.

"I didn't want to take on the risk of a low resale value," Greenwell said. "I didn't want the same thing to happen to me again."

Neither do millions of other American drivers, who are heading in droves to lease — rather than buy — their vehicles. As a result, car dealers and private leasing companies are getting aggressive — and creative — in their methods of bringing more customers to their lots.

Arlington-based D&M Leasing has leased 7,000 cars. During the past five years, the company has had 21.75 percent annual growth in business volume, said Mike Hernandez, D&M president.

In the past three years, the percentage of drivers in North Texas with leased vehicles has increased to about 11 percent from 4 percent, said Steven Lee, manager of Auto Flex Leasing's Arlington office.

And nationally, more than 35 percent of the new cars owned by private consumers are leased, up from 16 percent in 1990, according to figures from CNW Research/Marketing in Bandon, Ore.

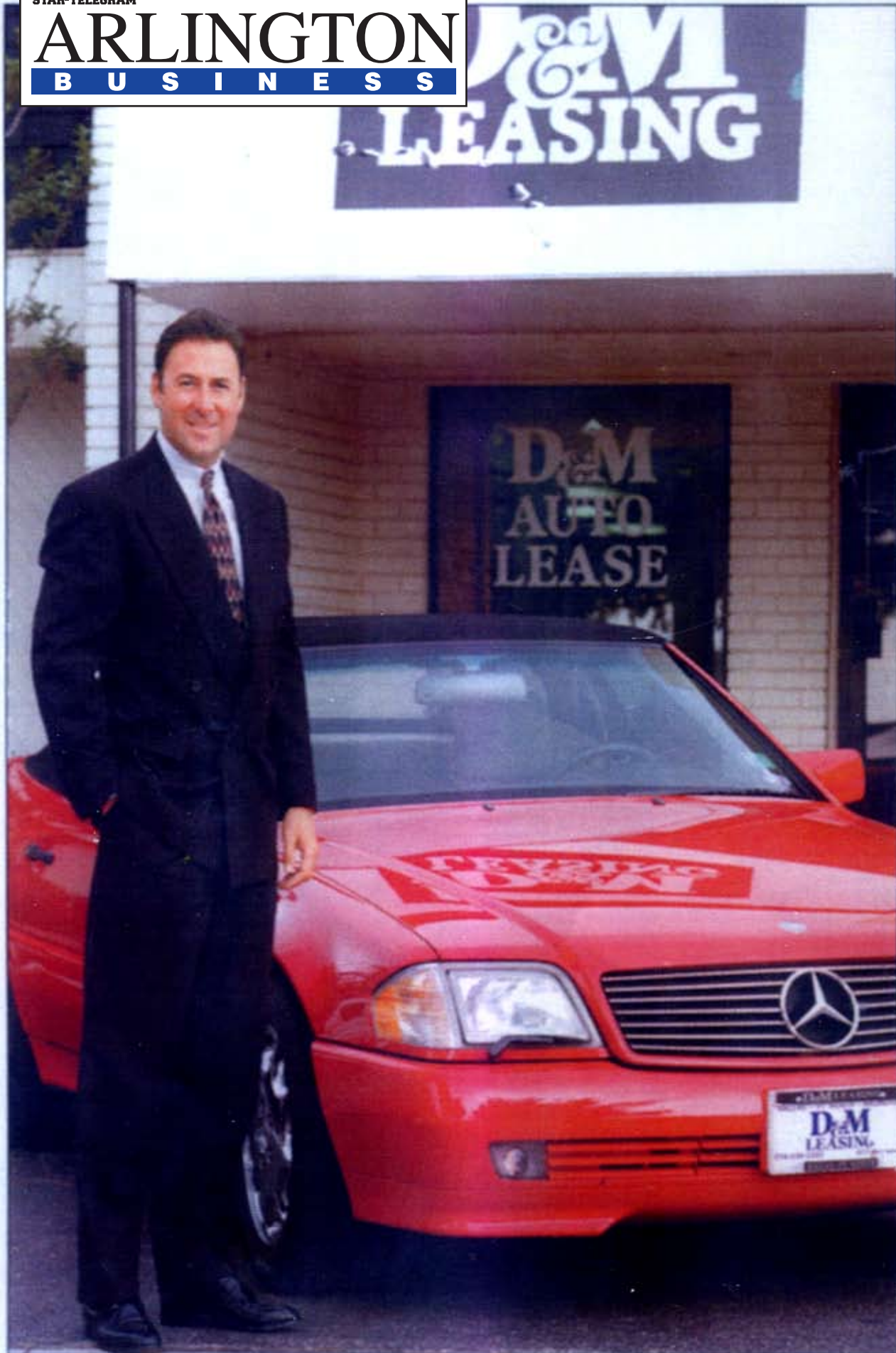
To capitalize on the interest, leasing companies and dealerships are plunging money into advertising and marketing. Manufacturers are offering special low-interest rate programs to lure buyers, and some dealerships are offering purchase programs that closely mirror leasing terms.

D&M spends \$30,000 to \$40,000 a month on its (More on LEASE on Page 3)

STAR-TELEGRAM

ARLINGTON

B U S I N E S S



Mike Hernandez, president of D&M Leasing at 7225 Lamar Blvd., says more drivers are leasing automobiles instead of buying. The company, which has leased 7,000 cars, has seen an increase in its volume business.

Star-Telegram/DAVID WELCH

Lease

From Page 1

advertising, which is "significantly more" than the local leasing company spent about three years ago, Hernandez said. Hernandez is one partner in D&M; the other partners are Arlington car dealers Don Davis, the "D" of D&M, and David Moritz, the "M."

Other companies, such as Overseas Motors, an import car dealer in Dallas, are offering special low-interest leases for certain vehicles. Sam Hunter, senior sales administrator for Overseas Motors, said the dealership offers lessees 3 percent to 4 percent interest for leases on certain Jaguar sedans.

Compare that with the typical car-lease rate of about 8 percent, and it can be attractive to choose a nice Jaguar over many competitors in the passel of luxury vehicles that are heavily leased these days.

Drivers have many reasons for leasing. Some are like Greenwell, and want to avoid the pain that comes with depreciating car value. Others find leasing a convenient way to write off business expenses. Most, however, simply like driving a better car than their monthly budget allows them to purchase, said Randall McCathern, a principal of Bank Lease Consultants Inc. in Nashville, Tenn.

"Consumers are becoming more comfortable with leasing because it's been around longer," McCathern said. "The cost of new cars has gone up much faster than disposable income."

Leasing's share of vehicle sales



SOURCE: CNW Marketing Research, Bandon, Ore. (Bar: Sales)

He said car prices have risen 7 percent a year during the past 10 years, while the inflation rate for other goods has been a little less than 3 percent a year. Disposable income, meanwhile, has risen at a rate of just about 1 percent a year, McCathern said.

Hernandez said leasing was once a way for wealthy businessmen and investors to drive expensive cars without paying the heavy taxes that came with owning them. Now, he said, middle-class drivers have become the driving force of the growing leasing business.

Buying a \$25,000 vehicle, including interest, means payments of more than \$500 a month, Hernandez said. Lease that same vehicle and the consumer finances \$18,000 at about \$350 a month — and has an option to buy the vehicle by paying the remaining \$7,000 at the end of the three- or four-year lease.

New car sales really haven't been hurt by leasing, Art Spinella, vice president of CNW, said. Manufacturers use leasing as a way to get drivers

Decision to lease depends on consumer taste, experts say

Is leasing a good idea? The answer depends, in part, on how often you trade in.

Experts say leasing is a good idea for people who have resigned themselves to always having a car payment. Many consumers have been financing car purchases and trading the vehicle after two or three years with thousands still owed on the note.

In such cases, the car often is not worth the debt owed on the vehicle, and buyers end up adding the old debt to the financing of the new vehicle.

For such buyers, some form of leasing is a better option because the payments are lower and the consumers don't continually accrue more debt.

Other consumers, however, like to buy a car, pay off the debt and keep the vehicle for years, happy that they have escaped the budget binding of monthly car payments.

That group, which still makes up 35 percent to 40 percent of the driving population, is better off buying, said Art Spinella, vice president of CNW.

For people who do lease, there are added costs to consider when deciding.

Typically, there's an acquisition fee, which consumers pay when picking up the car to begin the lease, and return fees, paid when the lease ends. Each fee often runs about \$400.

Other fees to watch out for include special charges for early termination and excess mileage. D&M offers packages of 12,000 miles a year and 15,000 a year, which is standard in the business.

Drivers who exceed the mileage requirements may have to pay heavy costs, sometimes as much as 10 cents per mile, said Chuck Bohan, editor of Ward's Dealer Business, a car dealer trade publication based in California.

Bohan suggests shopping around thoroughly before leasing a car. He said consumers should carefully read language about fees and terms of the lease.

— David Welch

in nicer cars. What has suffered, he said, is used-car sales.

Sales of cars that are four to seven years old has fallen somewhat, while sales of vehicles older than that has fallen off dramatically, he said.

Car dealers have begun finding ways to compete with leasing companies. Mike Cohn, assistant new car sales director of Hudiburg Chevrolet in North Richland Hills, said Hudiburg does no leasing, but has the Chevrolet Smart Buy program.

With Smart Buy, the dealer sells a car valued at, say \$25,000, for \$18,000. The buyer finances that \$18,000 for three or four years, paying roughly the same monthly rate as he would on a lease for the same vehicle.

At the end of the term, the

buyer may purchase the car by financing the remaining \$7,000 or the dealer will buy the car back at its value, but never for less than the \$7,000 residual value. The differences between a Smart Buy plan and leasing are slim and mostly legal.

Cohn said GM started the Smart Buy program in the 1970s for salesmen only, but opened it to customers as leasing became more popular.

Still, with the many consumers who like trading cars every few years, leasing keeps building in popularity, said Chuck Bohan, editor of Ward's Dealer Business.

"A lease is just a way for people to look at buying a new car," he said. "They get that initial flush of pleasure that comes in the first six months of owning a new vehicle."