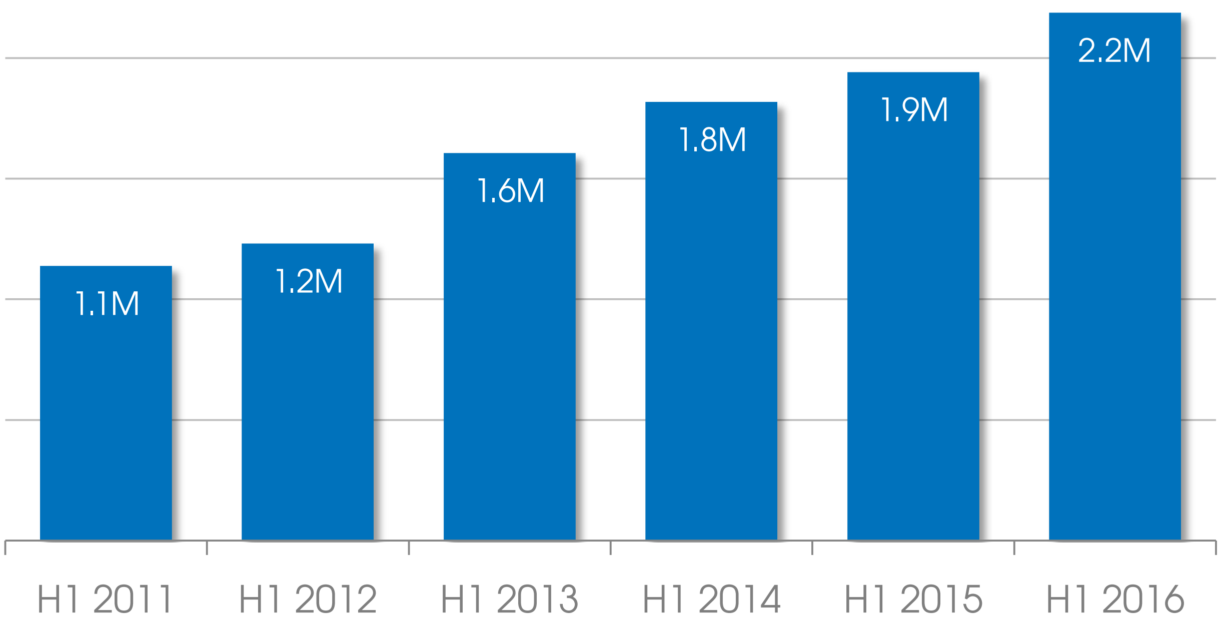
H1 2016
LEASE MARKET
REPORT

Record Lease Volume in H1



Key Takeaways

Lease Volume Climbs: H1 of 2016 closed with 2.2M leased vehicles which is higher than any first half of a year in history. It represents an increase of 13% over the first half of 2015. **Lease volume has doubled in size from just 5 years ago!**

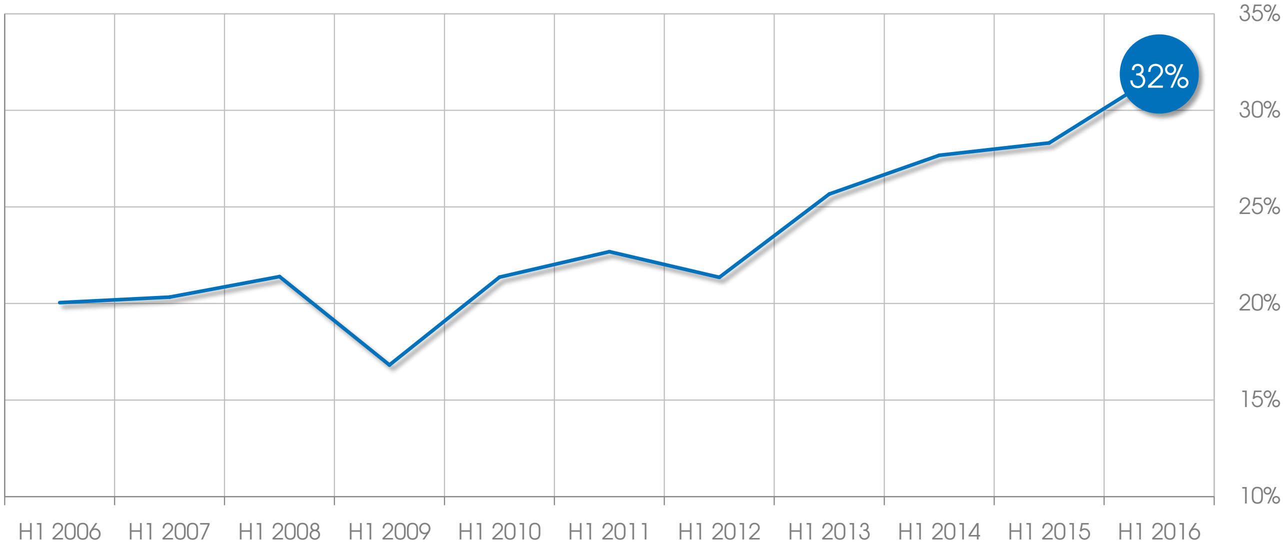
Leasing for the Masses: Once seen as a gateway to the luxury market, **lease volume growth has come from non-traditional segments such as pick up trucks and compact cars**. Growth has also come from non-luxury brands, since low monthly payments (and ease of ownership) had been the hook to get buyers into leasing.

Millennials vs. the Silent Generation: Buyers aged 75+ have embraced leasing in a big way and have experienced the largest increase in leasing when compared to other age groups. Leasing penetration has increased 74% among these buyers in the past five years. Despite this surge, **Millennials are still the age group that lease the most proportionally.**

Women Lease More: While new vehicle registrations are skewed heavily male (58% Male, 42% Female), **a higher percentage of women lease over their male counterparts.**

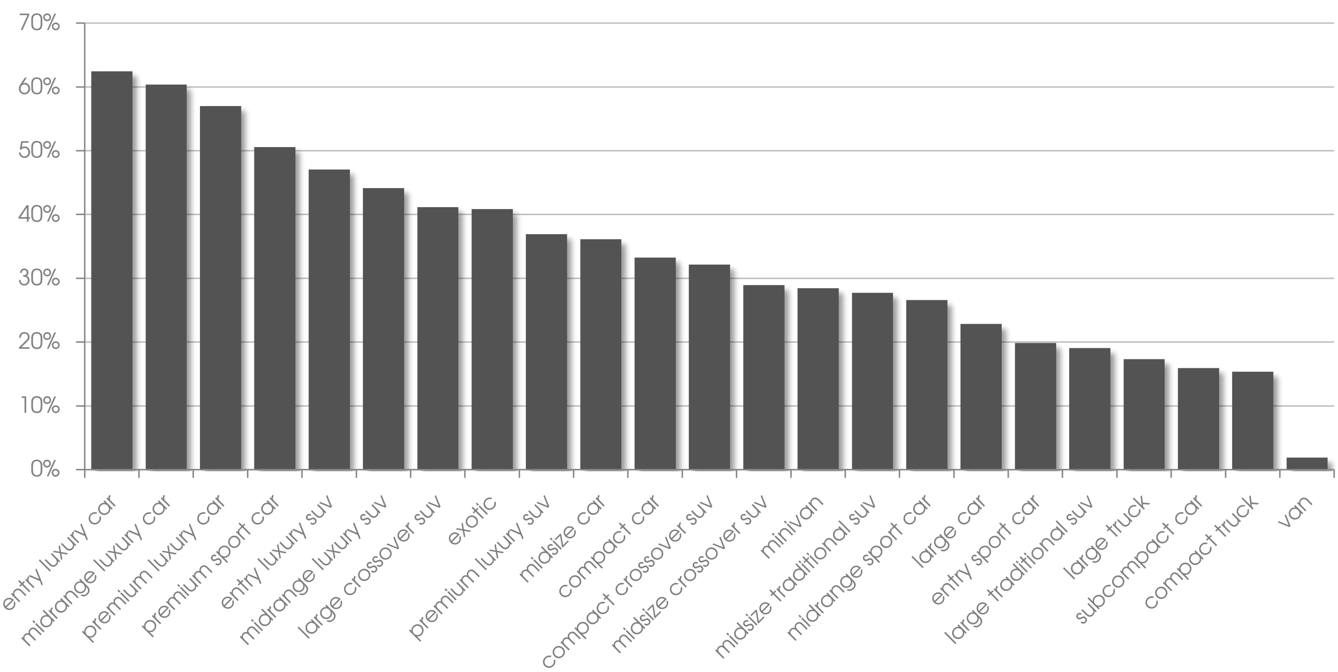
Leasing has Driven Sales to Record Levels

Lease Penetration



In H1 2016, leasing accounted for 32% of new retail vehicle sales. This represents a growth of 13% from 2015 and 41% from five years ago. While this is the highest rate in history, leasing continues to grow and H2 of 2016 will likely see an even higher percentage.

H1 2016 Lease Penetration by Segment

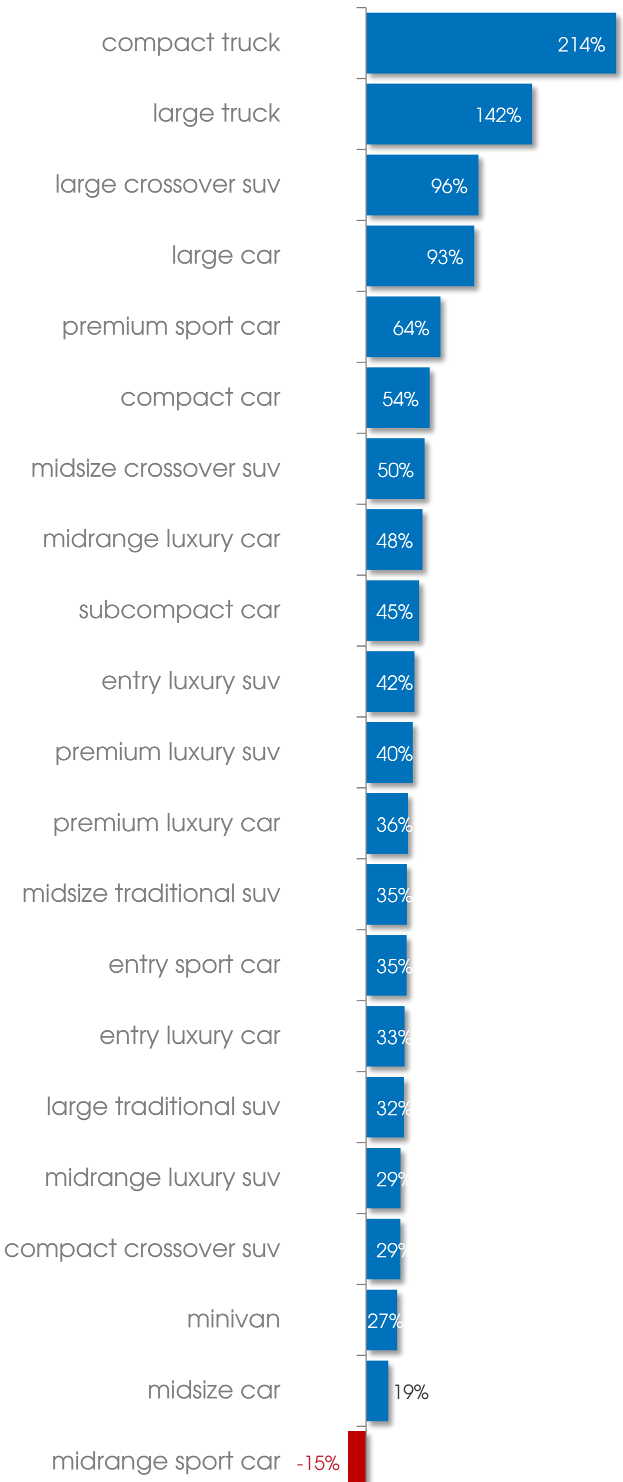


The most popular types of vehicle leased are entry luxury vehicles (e.g. BMW 3-Series, Audi A4.) Luxury vehicles, overall, have the highest concentration of leases, a trend that has been consistent for many years. Affordable payments (and demand for a new vehicle every few years) accounts for the continued elevated levels of leasing among vehicles in the luxury space.

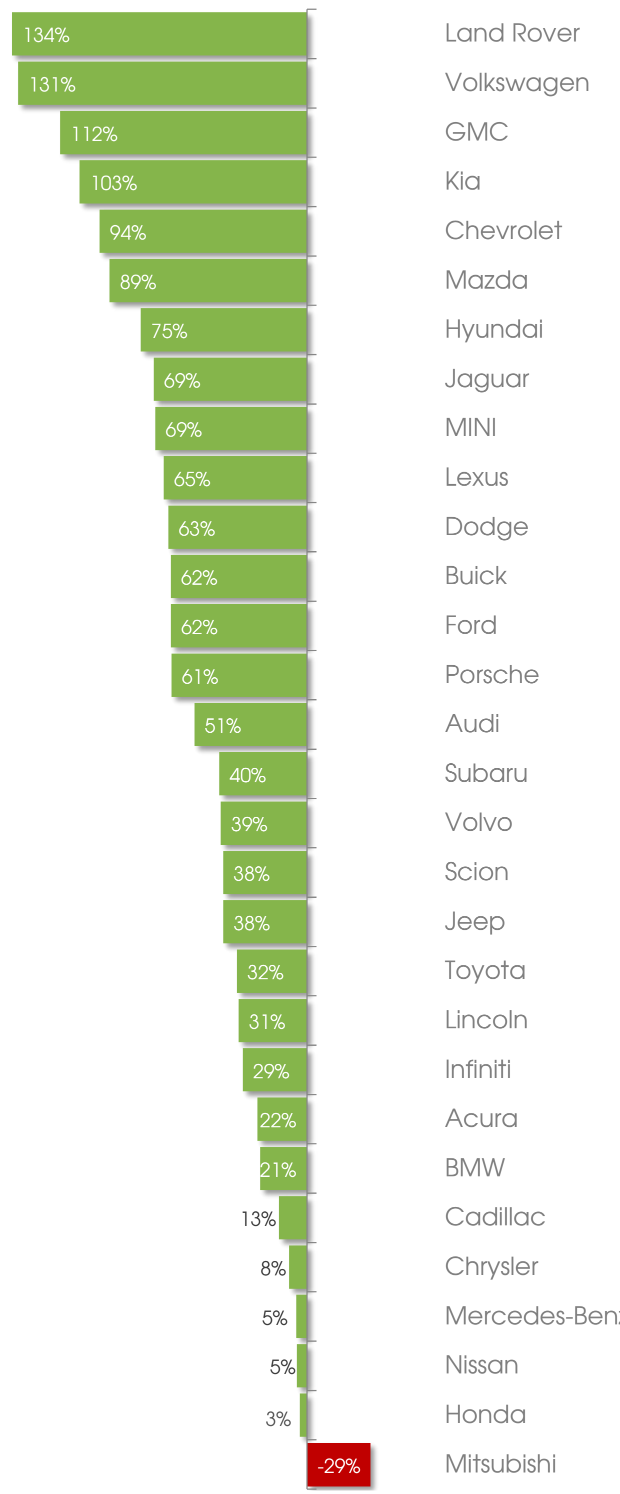
Source of Leasing Growth

Democratization of Leasing

Growth of Lease Penetration by Segment: H1 2016 vs. H1 2011



Growth of Lease Penetration by Make: H1 2016 vs. H1 2011



Despite luxury sales accounting for the highest percentage of leased vehicles, mainstream vehicles have seen the most growth in leasing over the past five years. Once seen as a buy-and-hold segment, pick-up trucks have seen the largest gains. Non-luxury brands - particularly those with truck/SUV offerings - have grown significantly.

Growth Factors

Why the Explosion of Leasing?

Financial: It's Less Expensive

- On average, monthly lease payments are 23% lower than the monthly purchase payments.

Lease vs. Purchase Payment Savings by Segment

28%	Midsize Cars
29%	Full Size Pick Ups
30%	Compact Car

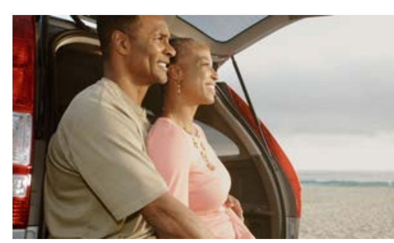
Social: The internet age has brought fundamental shifts in lifestyle and financial management

Monthly payments are a part of life

- Smart phones, Cable, Netflix, etc. have made monthly payments an indelible part of personal finance with no payoff date expected

Hassle Free Ownership

- Predictable maintenance schedule and minimal costs
- Big repairs are unlikely to occur in the first three years of ownership
- More uncertainty (and anxiety) of the timing of large repair jobs
- Routine maintenance appointments are quick (oil change, tire rotation can be done in an hour)
- Several automakers (e.g. Toyota, BMW) offer free maintenance programs for lessees - it's gas and go!



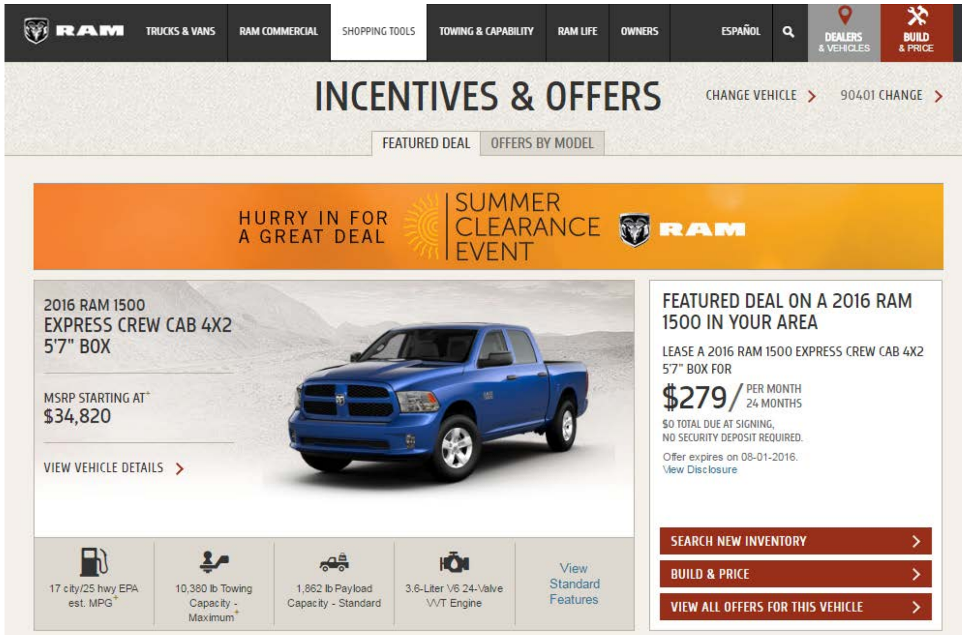
Desire for an Upgrade

- Getting a new car is nice for some but with a nation of technophiles, having a car older than three years means out-of-date technology

Escalation of Leasing

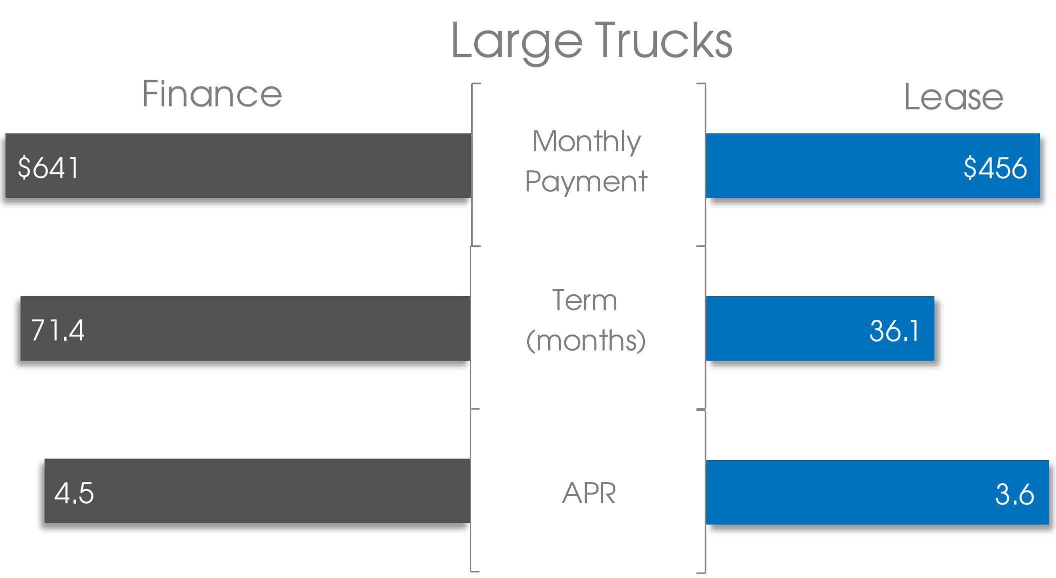
Case Study: Full Size Truck Becomes Affordable

As content for full size pick-up trucks has increased so have transaction prices. New full size pick- up prices hit a record in June 2016 - $45,388 - making leasing an attractive option.



Source: http://www.ramtrucks.com/en/incentives/?modelYearCode=CUT201613

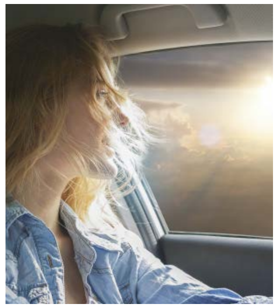
Payments: Buy vs. Lease



Higher prices have pushed potential buyers out of the new pick up truck market causing used demand to soar higher than normal. As a result, resale values for large pick-up trucks are high, making compelling lease deals possible.

Who's Driving the Surge in Leasing?

Lease Penetration by Gender

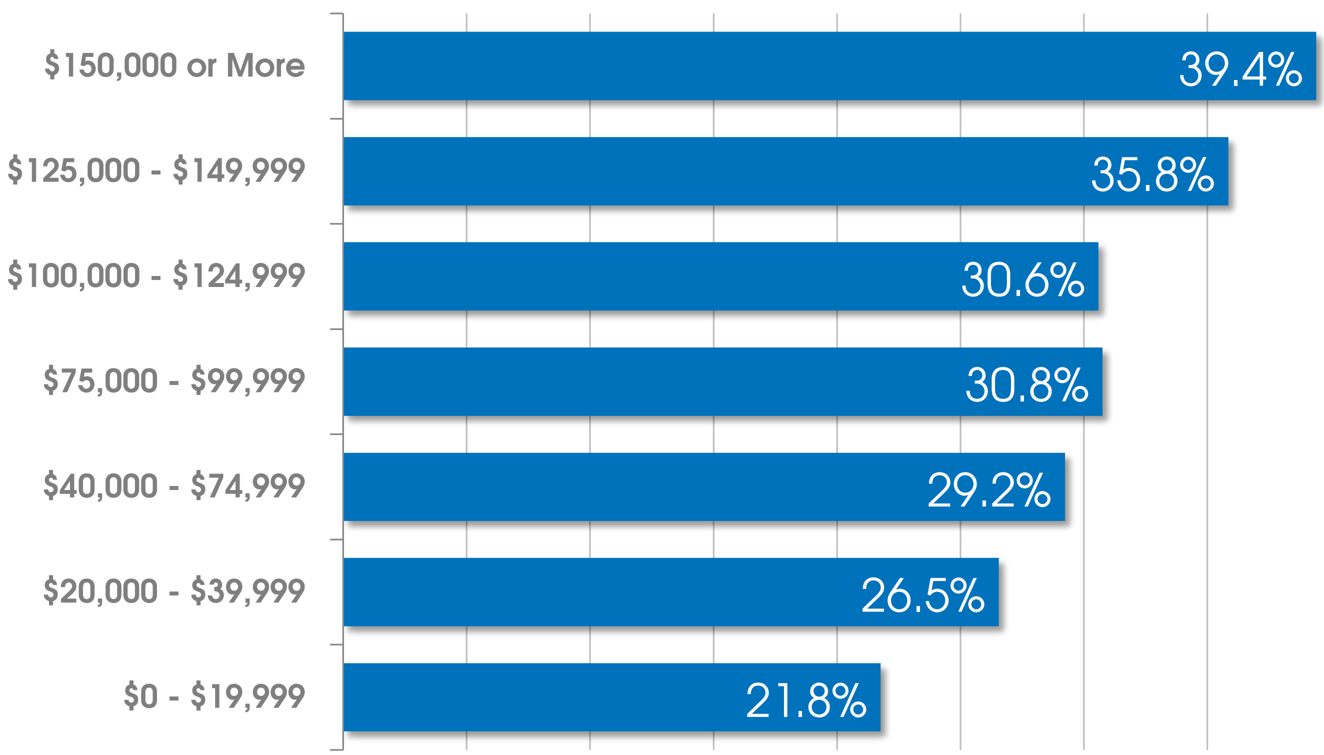


Female: 32.3%

Male: 29.9%

Leasing More Popular Among Women
While overall new vehicle registrations are split 58% male, 42% female, a higher percentage of women lease than men. The gap is shortening, though, with women having a lease penetration rate 19% higher than men five years ago compared to just 8% this year.

Lease Penetration by Household Income: Jan-Apr 2016

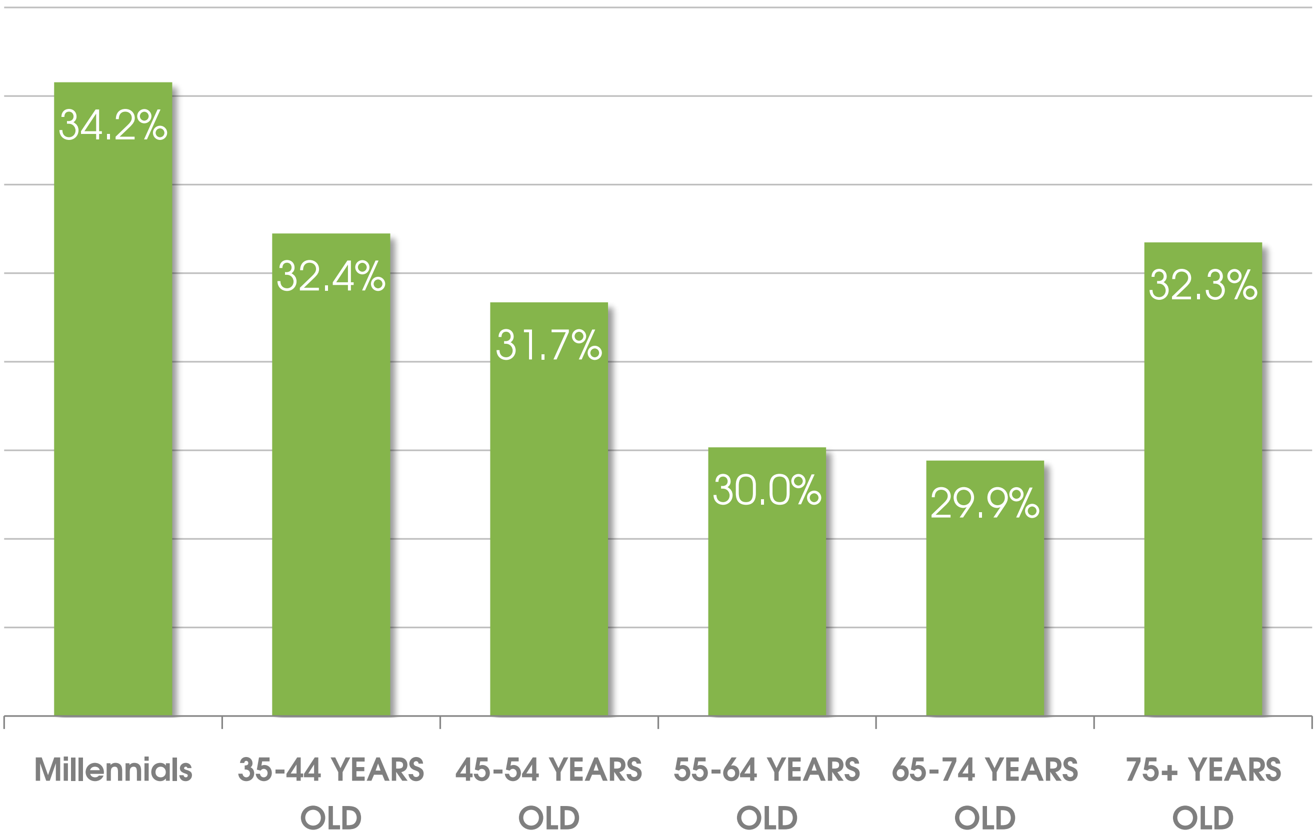


Leasing Still Most Popular Among Nations' Wealthiest
Due to the high levels of leasing in the luxury space, it's not a big surprise that the income levels of lessees skews high. At the lowest income levels, however, leasing still comprises of more than 1 in every 5 vehicles sold at retail.

Source: Edmunds analysis of Polk data

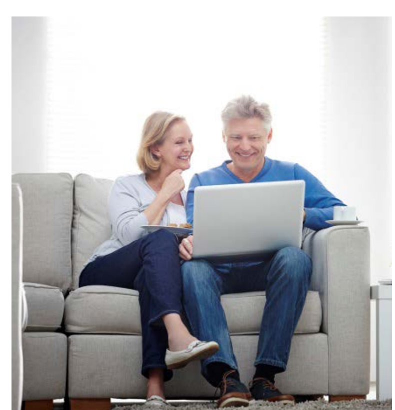
Who's Driving the Surge in Leasing?

Lease Penetration by Age: Jan-Apr 2016



Leasing Appeals to Price Conscious Buyers of All Ages

With a need for low payments and a proclivity for technology, it's no surprise Millennials that have the highest concentration of lessees. This group is conditioned to the idea of monthly payments for goods and services as well as product upgrades every few years.



Another price conscious group, Americans ages 75+, have a high tendency to lease. This has not always been the case. Five years ago, only 19% of new vehicle buyers in this age group chose to lease compared to 32% today, which represents a growth rate of 74%. While there are many social changes that had led to the increase in leasing, the affordability factor seems to be the chief driver.

Source: Edmunds analysis of Polk data

Leasing: Too Big to Fail?

Birth of a Serial Leasing Culture:

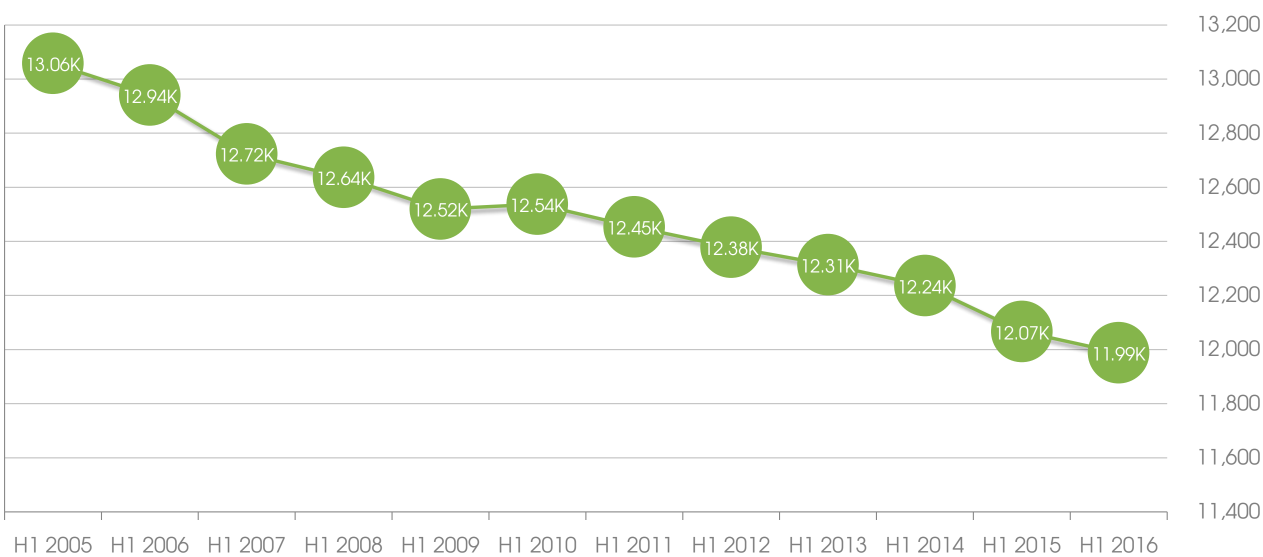
With 4.5 M vehicles expected to be leased this year, leasing has turned into a very normal way that Americans own cars. The attractiveness of low payments and the lure of hassle free ownership has been a big driver for Millennials who will be the predominant consumption group in the years to come.

However, the viability of leasing comes into question when leased cars flood the used market for a sustained period of time. The consequence is a big hit to residual values which will undoubtedly impact the attractiveness of lease payments. Automakers are left in a quandary of keeping their customers happy with low lease payments but managing the swell of lease returns.

Tactics to Keep High Lease Rates Afloat:

- Lower allotted miles - this leads to better condition of off-lease vehicles, which can command higher used prices. In fact, mileage has been on the decline over the last decade.

Leasing Average Annual Mileage



- Low miles also lead to a greater possibility of CPO-able vehicles, which allows automakers to have a hand in used vehicle profits
- The introduction of used leasing is a strong opportunity. Currently, used leases account 1% of the used retail market
- Automakers may consider pushing out highly contented leased vehicles so returned vehicles will be closer in line with future used shopper expectations.