

Q1 2016
USED
VEHICLE MARKET
REPORT



Used Vehicles Sales Summary

Quarter	Total Sales	Franchise Used	CPO
Q1 2011	9,952,228	2,315,712	419,713
Q1 2012	10,345,866	2,563,470	455,032
Q1 2013	9,790,581	2,649,644	483,109
Q1 2014	9,641,800	2,783,454	551,707
Q1 2015	9,803,505	2,819,642	614,366
Q1 2016	10,140,305	2,982,223	646,390

Certified Pre-Owned is a subset of Franchised Used

Key Takeaways

Best Q1 Retail Since 2012: Q1 of 2016 closed with 10.1M vehicles sold in the retail used market, an increase of 3.4% over the previous year. Franchise used sales showed a 5.8% increase over 2015 and had its best Q1 ever.

CPO Sales Set Q1 Record : Certified Pre-Owned sales enjoyed a 5.2% lift in sales over Q1 2015 and accounted for 21.7% of all franchise used sales, which was flat from Q1 2015.

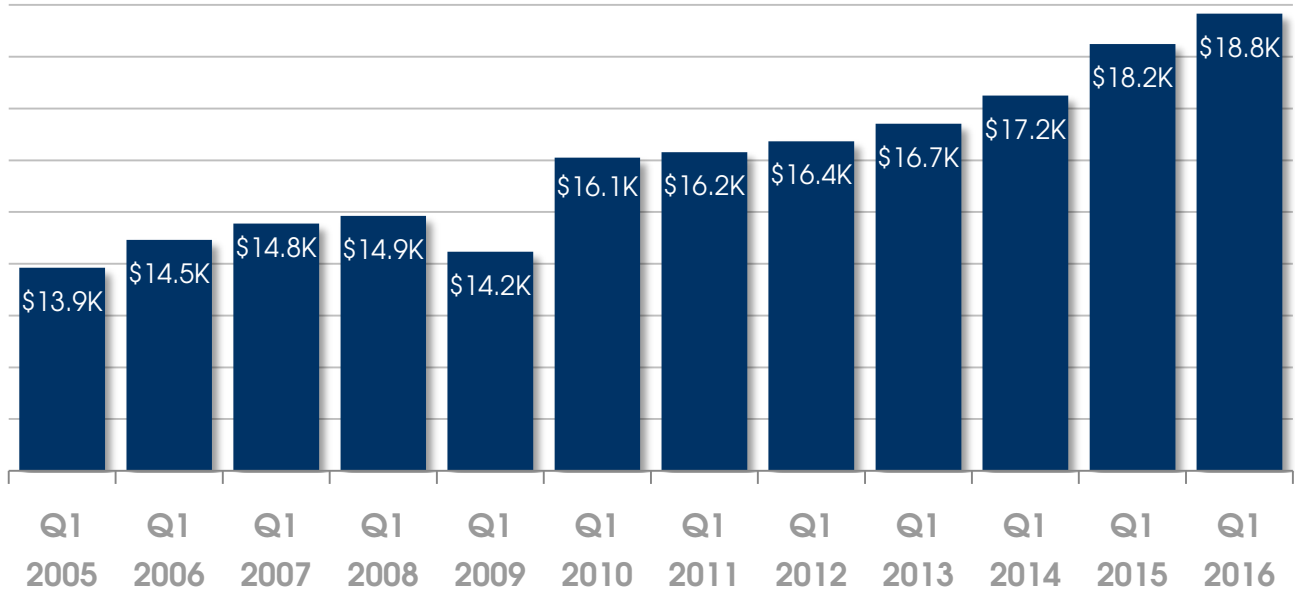
Average Used Prices Reach a High: The average retail used vehicle sold for \$18,838 in Q1 2016 - the highest of any first quarter in history. The market is influenced by newer used models (three year old and younger vehicles comprised over 50% of franchise used sales) which skewed prices high. Also, we are seeing more consumers opt for used SUVs and pickups in the wake of continued low gas prices which carry heftier price tags.

Credit Availability Mitigates High Prices: The spillover effect of increased vehicle values continues to drive both monthly payments and loan terms to higher levels. Loan terms hit a record high 66.7 months while the average monthly payment reached the second highest level ever at \$376.

Inventory Sourcing Changes: Following the recession, the average trade-in age and the percentage of new car sales involving a trade-in was on the rise. Recently, though, trade-in age has leveled off at 6.4 years and there has been a decrease in new car sales involving a trade-in. This trend is expected to continue and will lead to less diverse used car inventories.

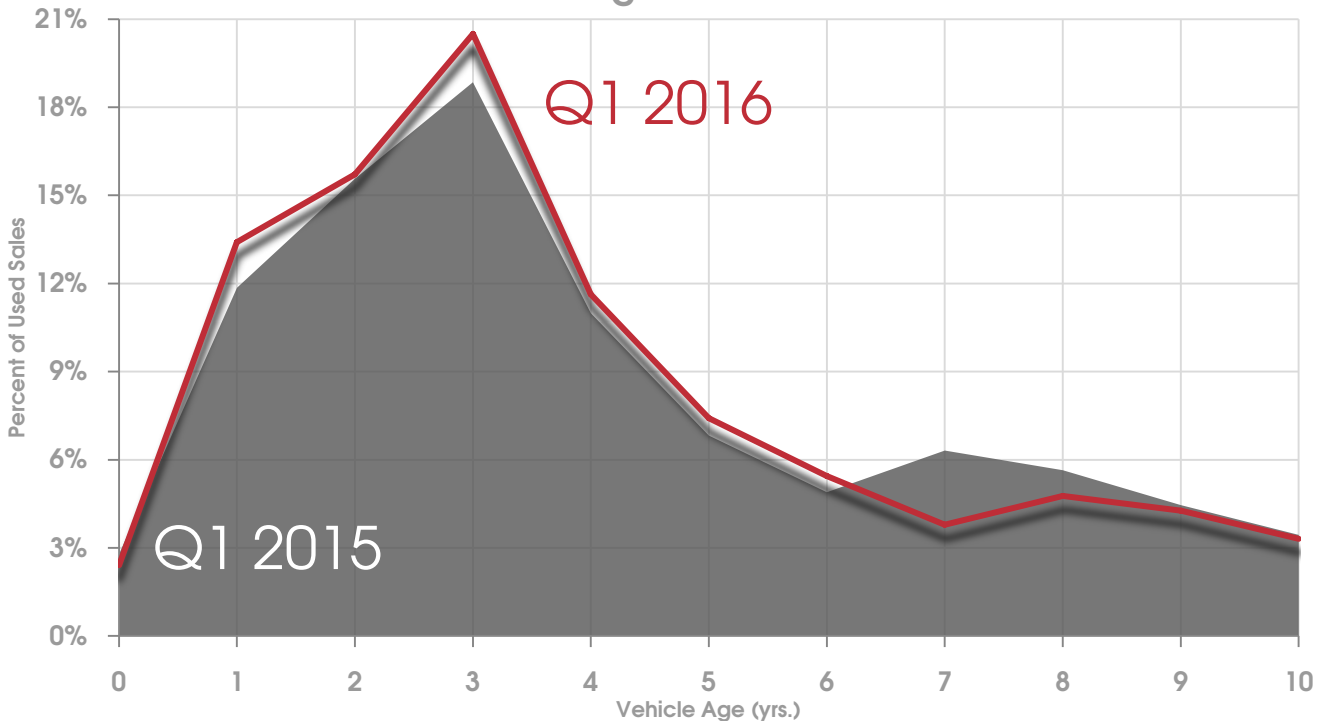
Retail Used Prices Reach All-Time High

Annual Transaction Prices



Last year, retail used prices passed the \$18K threshold for the first time ever and in 2016, prices continued to push upward with a 3.2% increase year-over-year. Prices are climbing due to a stronger mix of near new vehicles (three year old or younger) being sold on franchise dealers lots and a continued consumer demand for utility vehicles which typically have a higher price tag than passenger cars.

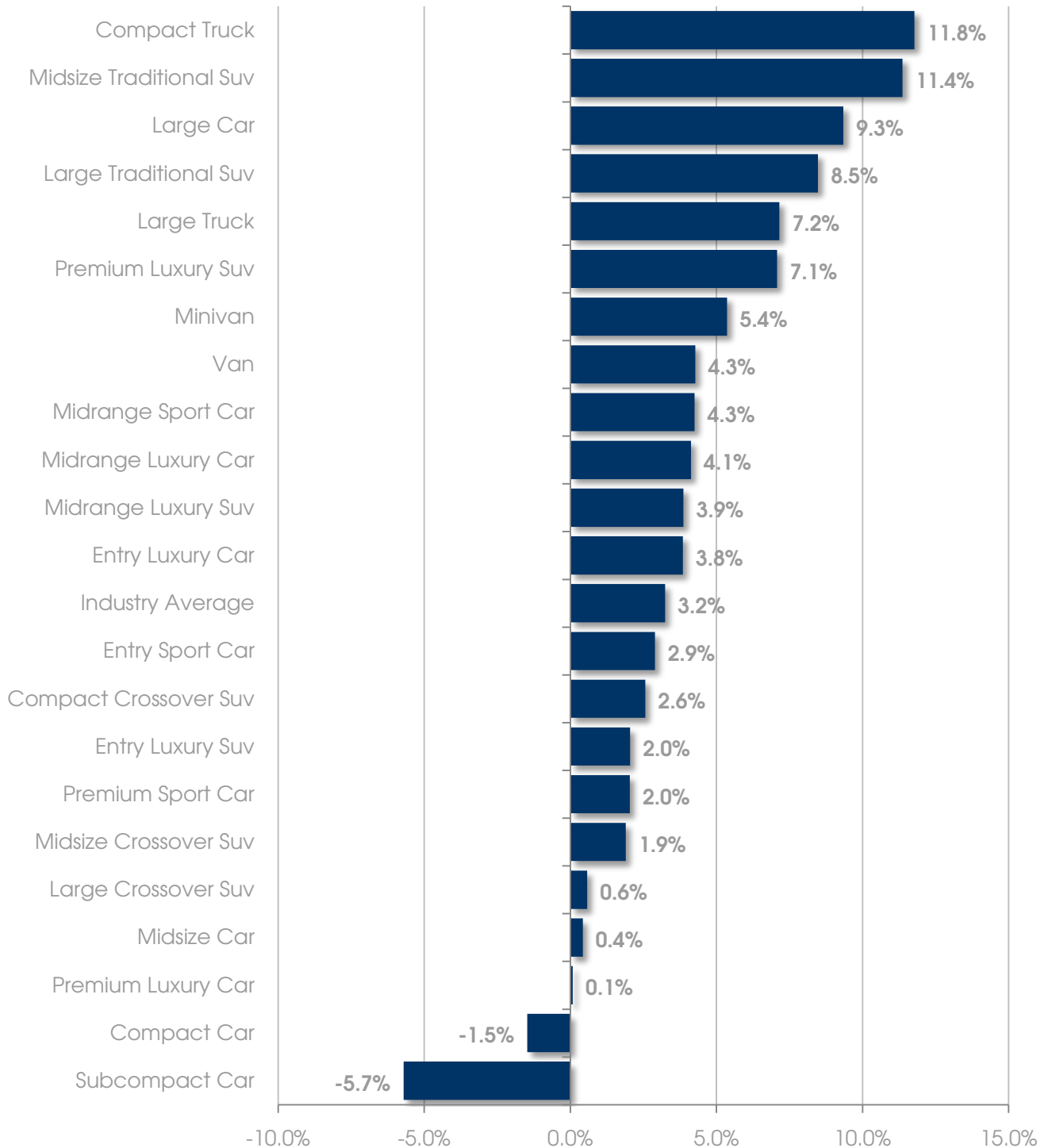
Used Sales - Age Distribution



The average age of retail used vehicles sold during Q1 2016 was 4.5 years, which is a slight reduction from last years' 4.7 years. One- and three-year-old vehicles had the largest gains among all ages year-over-year.

Low Gas Prices Depress Small Car Demand

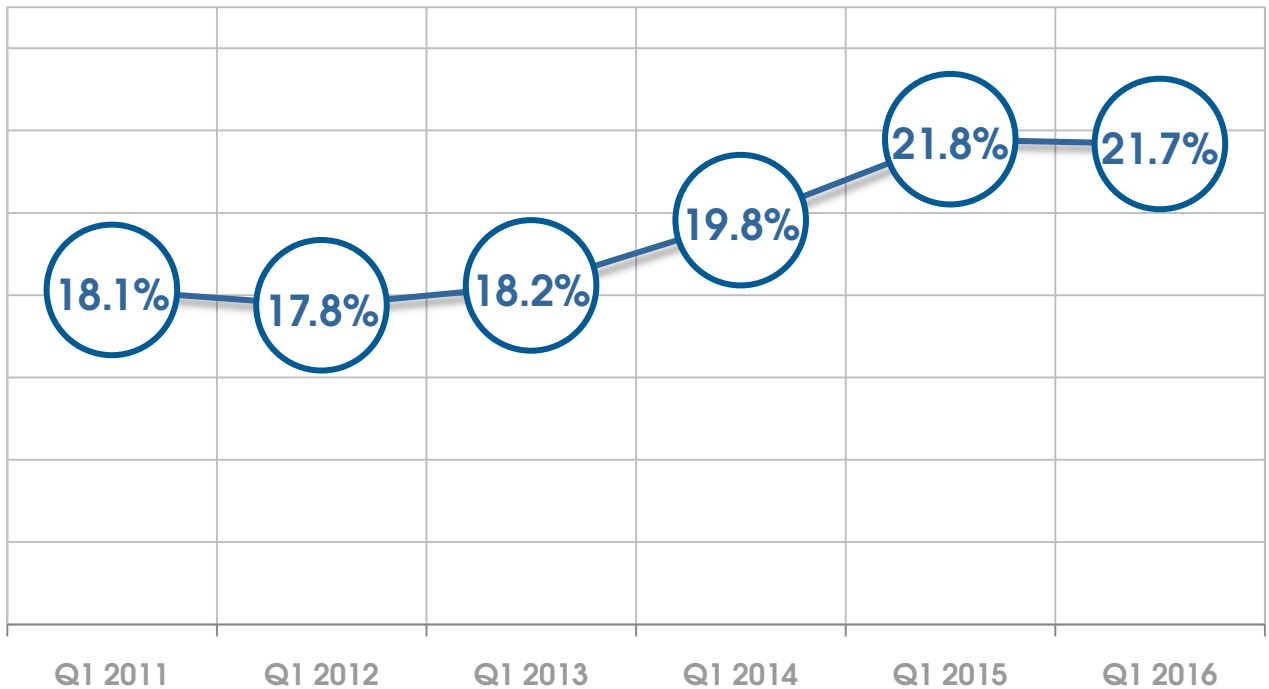
Q1 2016 vs. Q1 2015 Average Transaction Price



With the average age of vehicles on the market ratcheting downward, it is no surprise to see a majority of vehicle categories experiencing a bump in values. High consumer demand for utility and pickup segments, however, are keeping small car values at bay. On the other hand, we see large car prices trending upward with an increased share of Dodge Charger and Chrysler 300 sales helping to pull the segment's values upward.

2016 Poised to Be a Big CPO Year

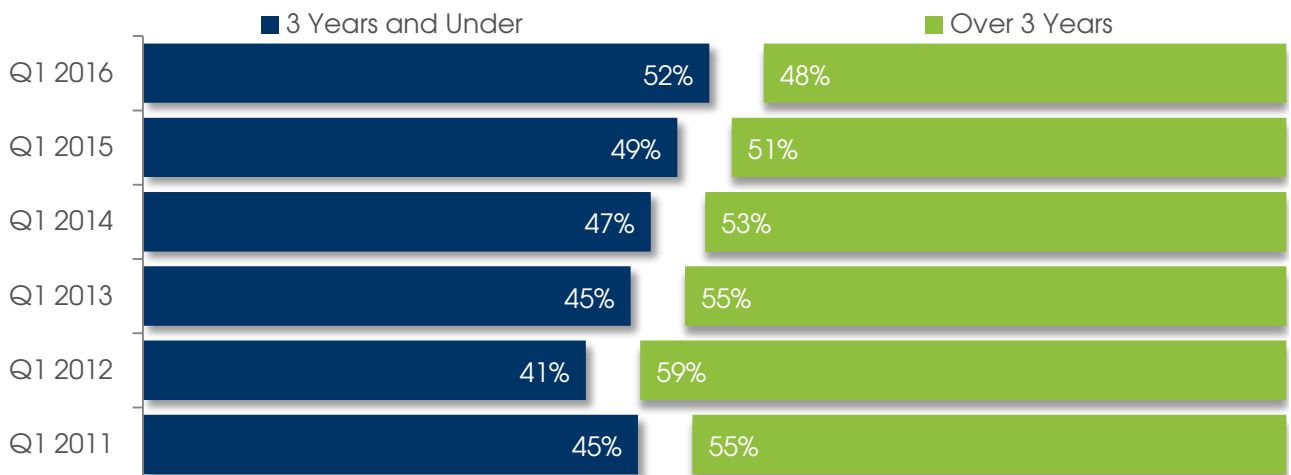
CPO % of Franchise Used Sales



A record 646K CPO vehicle sales in the first quarter of 2016 represented a 5.2% increase over last year's 614K units. CPO vehicles made up 21.7% of the retail used market, which is flat year over year. This is a bit surprising, given the massive influx of lease returns. Nonetheless, we predict that this share will increase throughout the rest of 2016.

Franchise Dealer Inventory Skewing Newer

Near New vs. Older Used Sales



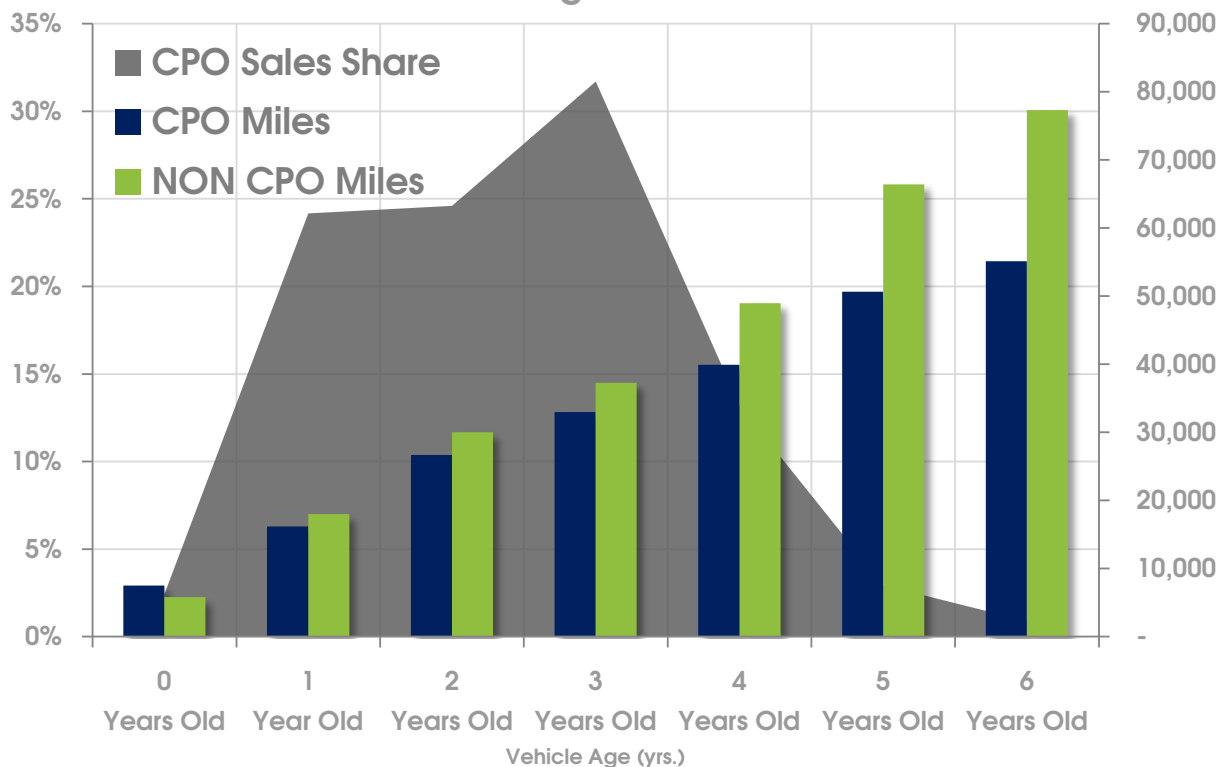
With vehicles age three years or younger representing a majority of used vehicles on dealer lots, consumers in the market for an older – and often lower-cost option – might have better luck at an independent lot versus a franchise dealer.

Profile of the CPO Vehicle

% of Used Sales

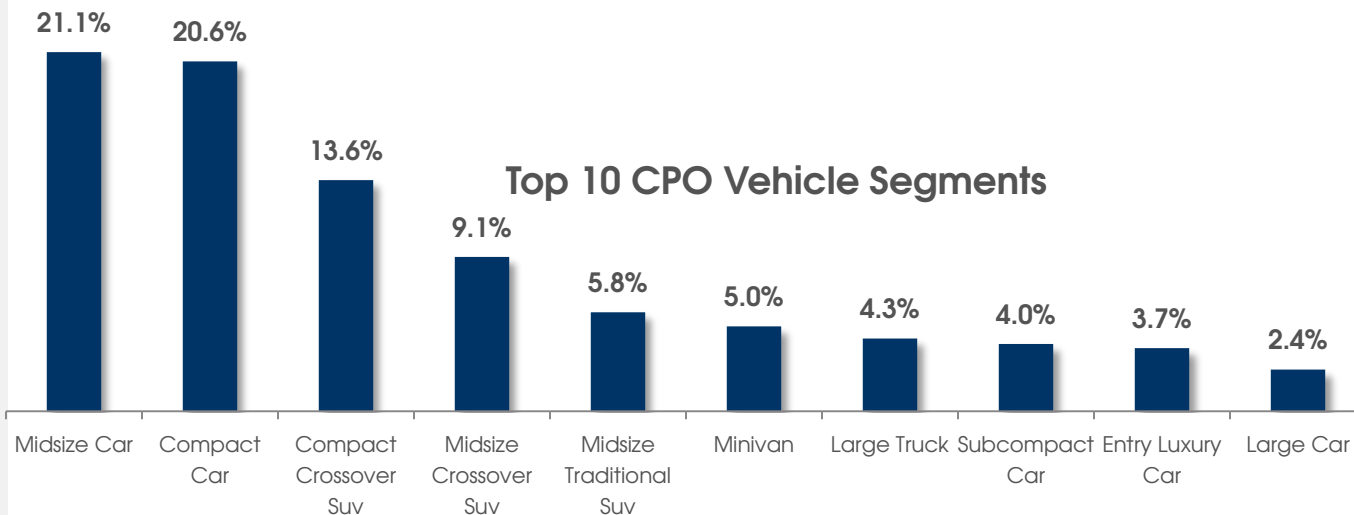
Used Sales - Age Distribution

Average Mileage



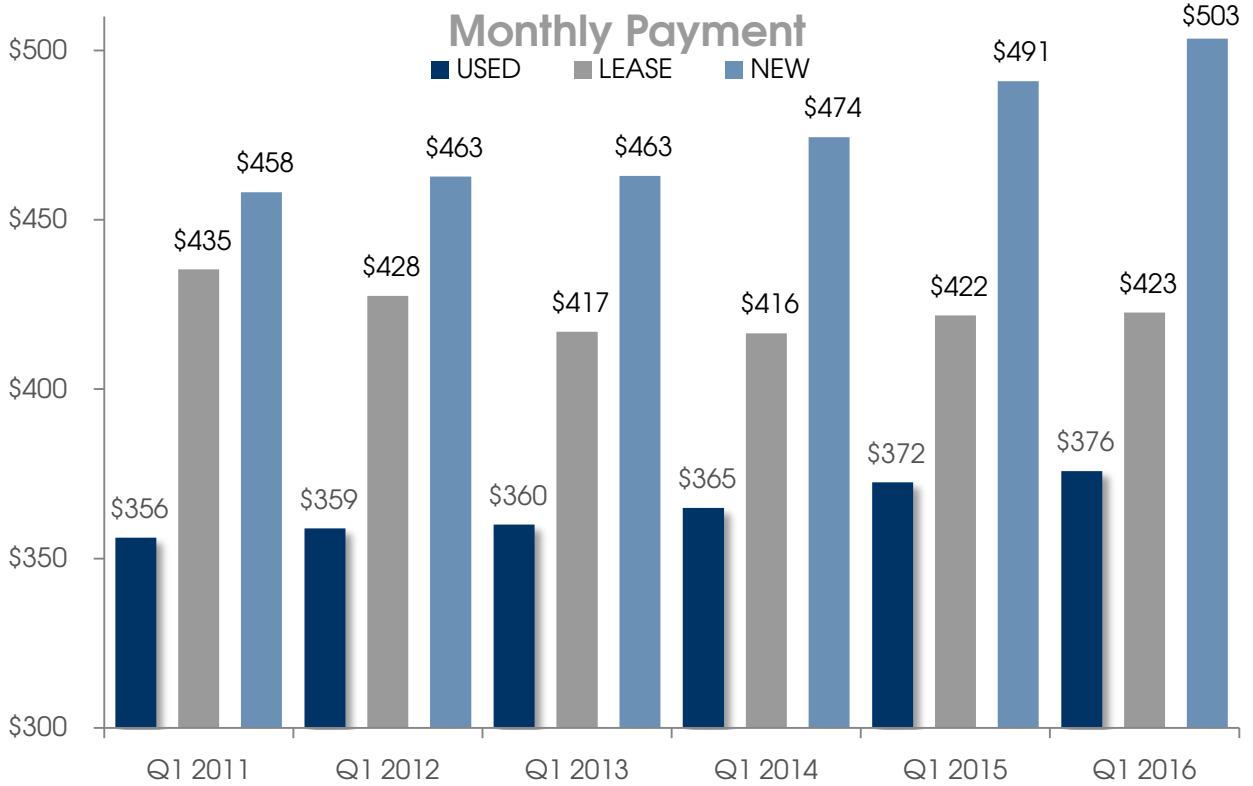
The typical CPO vehicle is between one and three years old but there are older vehicles that have maintained good enough condition and fall within mileage limits to be certified. There is also the increasing disparity between CPO and non-CPO used vehicles when it comes to mileage. This trend is most noticeable at the four year old mark when a typical non-CPO used vehicle has 22.7% more miles on the odometer vs a CPO vehicle. This gap grows with each subsequent model year.

Cars are Most Sold CPO Vehicles



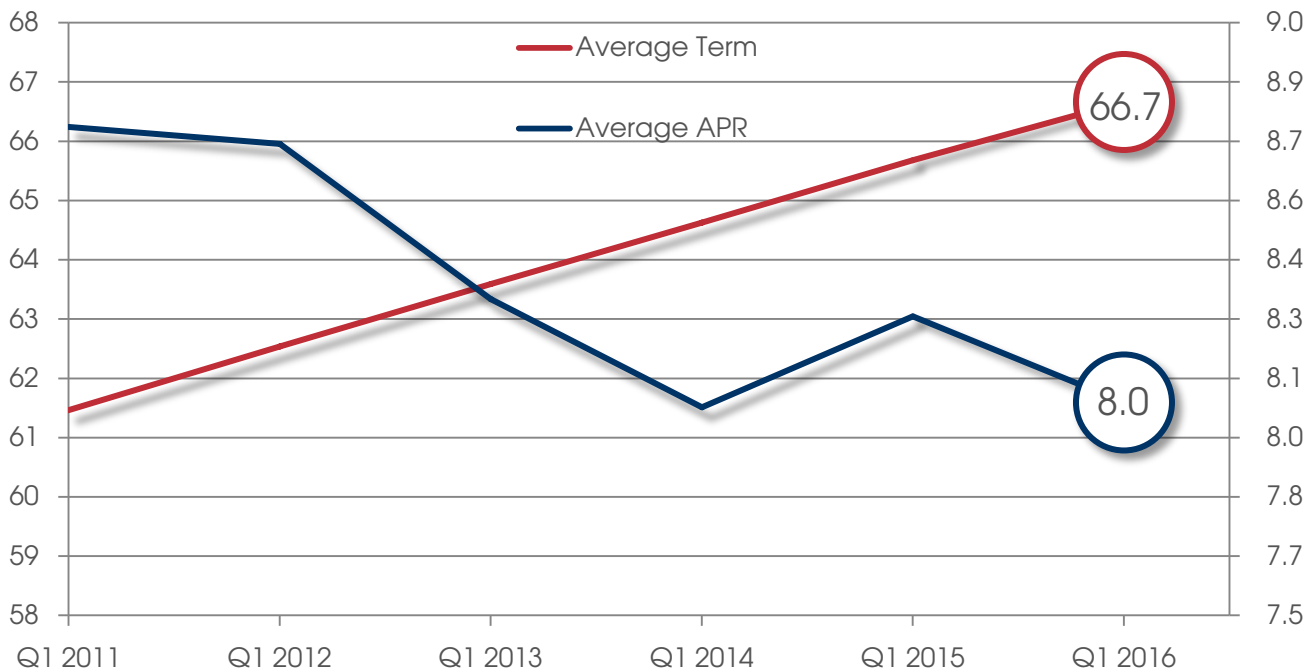
Despite having little to negative year-over-year price growth, midsize and compact cars are the largest CPO segments. Leasing in these segments has become quite prevalent and has led to a healthy supply of vehicles that meet certification standards.

Used Payments Approaching Avg. Lease Payments



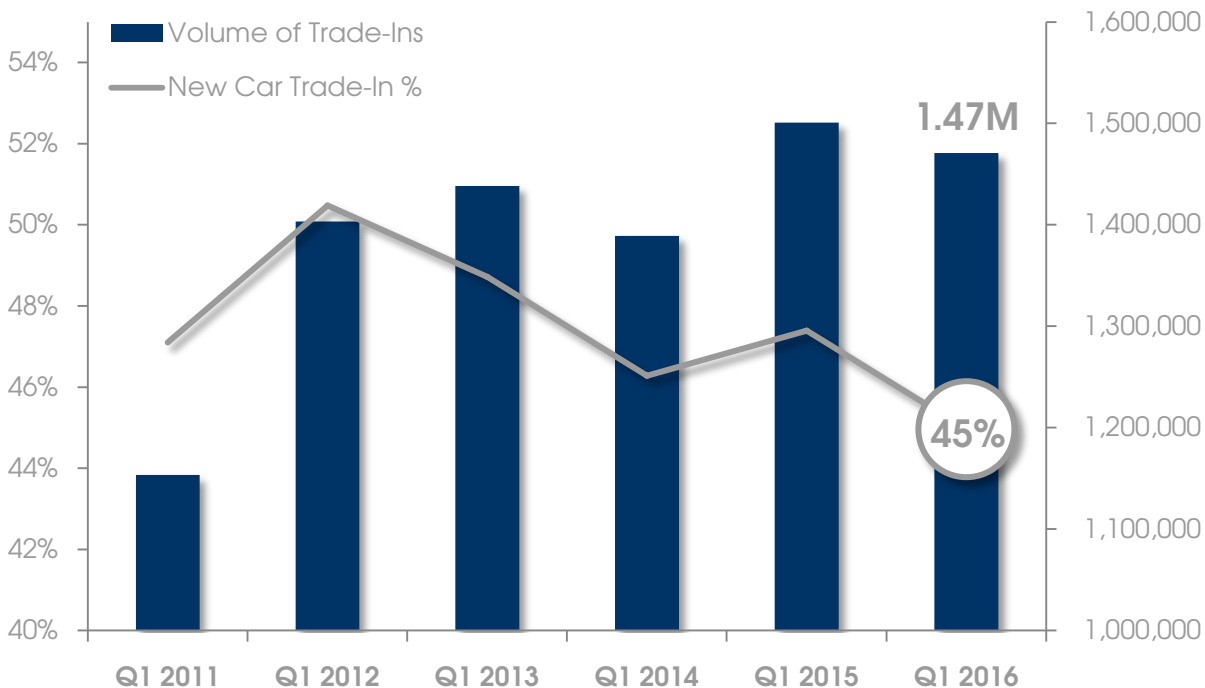
As used vehicle values continue to increase, we see the monthly payments inch closer to the \$400/month mark. As a result, there could be an increase in the number of used car shoppers who might be willing to consider a new car lease over financing a newer used vehicle.

Used Cars Loans Continue to Stretch Out



Interest rates continue to be favorable for used buyers but loan term lengths are showing no signs of decreasing as buyers attempt to keep monthly payments at manageable levels.

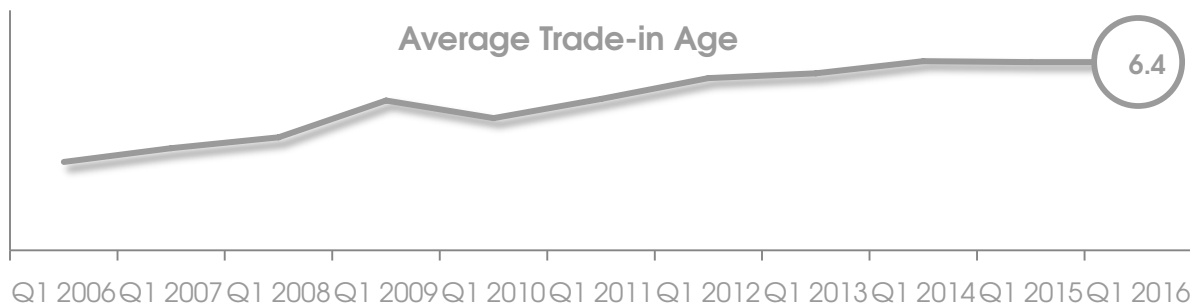
Less Diversity Expected in Future Used Inventory



Used inventory is experiencing two counter forces when it comes to future availability:

1. Growing number of lease returns
2. Lower overall trade-in volume

Trade-ins are a good source of used inventory but the rate of consumers trading vehicles has been on a decline since the economy has recovered. With lease returns growing in population on dealer lots, trade-ins bring diversity, since they are generally older than 3 years (average trade-in age is 6.4 years) and are from a wider variety of brands.



Since lease returns are expected to increase and trade-in volume are sliding, the rest of 2016 could result in an increased presence of near new used vehicles on dealer lots.