



used vehicle market report

Q3 2017

Key Takeaways

Used-vehicles sales summary

Quarter	Total sales	Franchise used	CPO
Q3 2012	9,355,565	2,531,912	465,051
Q3 2013	9,202,280	2,862,619	540,286
Q3 2014	9,221,601	2,931,736	610,905
Q3 2015	9,448,857	3,014,637	653,286
Q3 2016	9,671,500	3,004,156	675,551
Q3 2017	9,362,679	2,898,942	678,960

Certified Pre-Owned is a subset of franchised used

Q3 sales performance shows impact of hurricanes:

Used sales fell 3 percent from last year as major markets in Texas and Florida both experienced a drop-off in sales from recent hurricanes. CPO sales continue to benefit from the abundance of off-lease inventory and represented 23 percent of all franchise used sales.

SUVs and trucks drive up average used-vehicle prices:

The average transaction price for a retail used vehicle in the third quarter was \$19,402, up just 0.9 percent from last year's \$19,232, after years of more substantial lifts. The share of sales of 3-year-old and newer vehicles has stabilized and isn't pulling the average toward higher "near new" pricing as that segment had in the past. However, pricier light trucks bought new at retail and for rental fleets have still managed to push used prices higher.

Average mileage on used vehicles is dropping:

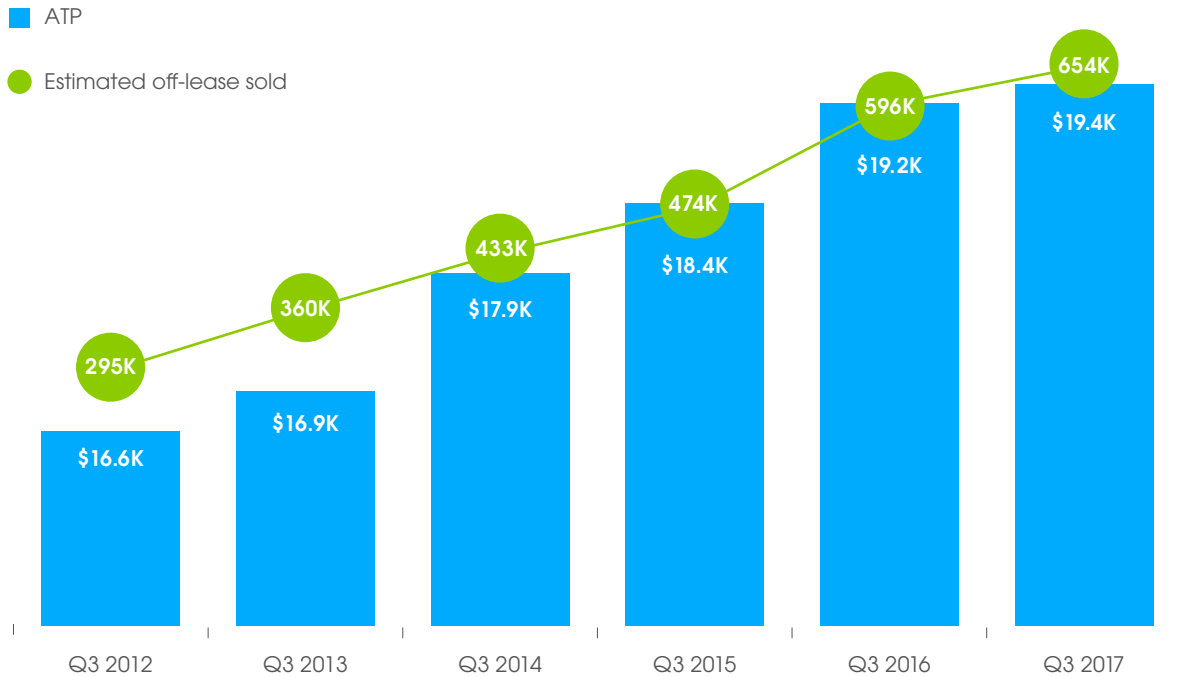
Since Q3 2012, the average number of miles on a used-car transaction has dropped 14 percent. This is largely due to the pipeline of low-mileage lease returns that continue to hit the used market in record numbers. As a result, an overabundance of newer used models are sitting on dealer lots for longer than older — and less expensive — models.

Used inventory mismatched with demand:

While more consumers are searching for affordable transportation, the bulk of retail used inventory is made up of 3-year-old and newer used vehicles. Higher-mileage vehicles with reduced residuals sell more quickly than their low-mileage counterparts across all model years. Lease returns are slated to continue hitting the used market at unprecedented rates and will exacerbate the disparity between what is desired and what is available in the used market.

Retail used prices begin to level off

Average transaction prices



Source: Edmunds

Multiple market factors are contributing to the slowdown in retail used-vehicle pricing, which had been on a rapid increase:

Volume of lease returns inches higher:

Vehicles coming off lease still present a massive inflow of relatively new used inventory, but the market is acclimatized to elevated lease rates. The consistently high levels of off-lease models mean that the surplus of near-new vehicles has less impact on pricing than in past quarters. A predicted 3.5 million vehicles will be returned from leasing in 2017 compared to 3.2 million units in 2016.

Lease returns shift to light trucks:

Leased vehicles that are being returned reflect the shift in shopper preferences toward trucks and SUVs that began a few years ago. These higher-price vehicles also hold onto their residuals better, which has driven the used transaction prices up. Lease returns in Q3 2017 also showed increased numbers of compact and subcompact cars, somewhat counteracting those price lifts.

Rental composition responds to consumer preferences:

The type of vehicles purchased and being remarketed by rental fleets is also in a state of change. These 1- to 2-year-old vehicles are beginning to reflect more modern consumer tastes for SUVs and trucks, with fewer cars of all sizes. During 2016, rental fleet purchases were 39.6 percent SUV and truck, up from 34.8 percent in 2015 and up from 29.5 percent in 2014.

Values for older vehicles remain strong:

Despite slightly stagnating values for newer vehicles, values are consistently higher for 10- to 15-year-old vehicles. The age group represents slightly less than 10 percent of the sales share, but this pricing strength does help to buoy the overall values.

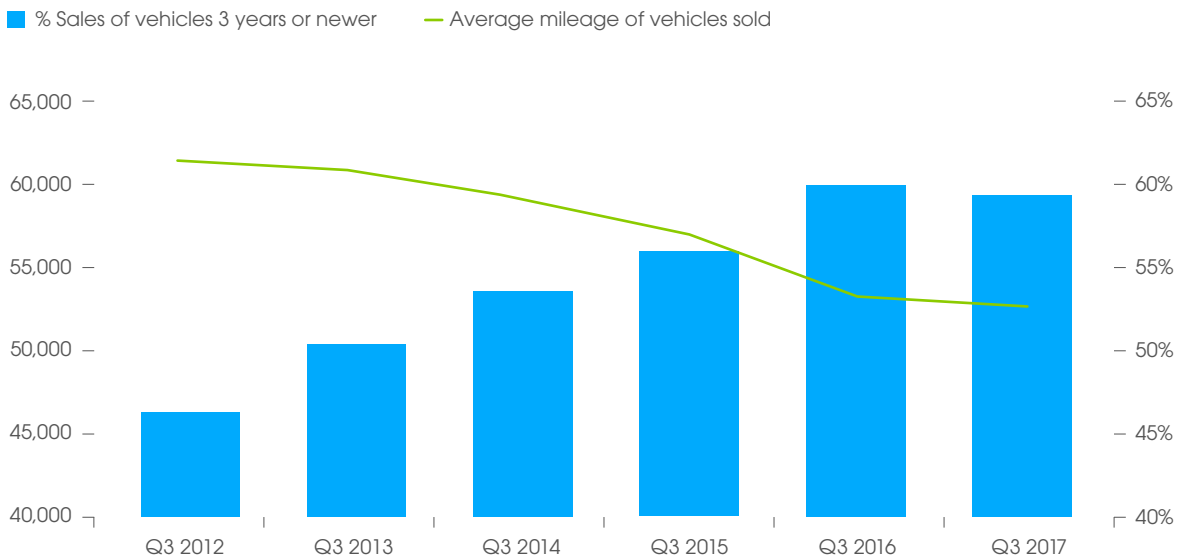
Lease returns push average miles to new lows

Retail Used Sales	Q3 2012	Q3 2013	Q3 2014	Q3 2015	Q3 2016	Q3 2017	Q3 2017 vs Q3 2012
Average mileage of vehicles sold	61,330	60,791	59,094	56,963	53,303	52,648	-14%
% Sales of vehicles 3 years or newer	46.3%	50.4%	53.6%	55.9%	60%	59.4%	28%

Source: Edmunds

As the industry absorbs more off-lease vehicles into the marketplace, the sheer volume of 3-year-old vehicles has drawn the mileage average down 14 percent within five years. These newer, low-mileage vehicles carry the highest price tags that represent the upper corner of the price spectrum, with pricing that rivals that of new vehicles. This presents the industry with a dilemma that is only primed to get worse. **High levels of lease returns coupled with increasingly stringent mileage limits will feed an expanding pool of low-mileage used vehicle inventories that have proven to have a limited buying audience.**

Retail Used Sales



Source: Edmunds

100K-mile myth is busted

Residual value

Mileage	2010 MY	2011 MY	2012 MY	2013 MY	2014 MY	2015 MY	2016 MY	2017 MY
0-10K				63%	66%	71%	76%	83%
10-20K	53%	55%	57%	60%	65%	70%	73%	73%
20-30K	50%	53%	55%	58%	63%	68%	69%	69%
30-40K	48%	50%	53%	57%	61%	66%	63%	66%
40-50K	45%	48%	51%	55%	59%	62%	60%	
50-60K	43%	46%	49%	53%	57%	61%	61%	
60-70K	41%	44%	47%	51%	55%	59%		
70-80K	40%	42%	45%	48%	53%	57%		
80-90K	37%	40%	42%	46%	51%			
90-100K	35%	38%	40%	43%	48%			
100-110K	33%	36%	37%	41%				
110-120K	32%	35%	36%	39%				
120-130K	30%	33%	35%	37%				
130-140K	29%	31%	32%					
140-150K	27%	30%						

Source: Edmunds

In the used market, price is the No. 1 constraint for buyers, and they are forced to make concessions with mileage, model year and amenities to get the vehicle that fits within their budget.

The above table shows a color band in which prices are similar for a range of model years and mileage levels. This highlights the dilemma that some shoppers will come across: Purchase a newer vehicle with high mileage or an older vehicle with fewer miles. Overall, depreciation curves for mileage are very linear regardless of vehicle age. Additionally, it appears as if consumers are not as picky about high-mileage vehicles as perceived. **There has always been an perception that consumers have a psychological barrier to buying vehicles with 100,000-plus miles on the clock, but those vehicles don't show a significantly greater depreciation loss when compared to vehicles just under the 100K-mile mark.**

Case Study: notable depreciation differences among vehicle categories

Midsize SUV residual

Mileage	2010 MY	2011 MY	2012 MY	2013 MY	2014 MY	2015 MY	2016 MY	2017 MY
0-10K					74%	77%	82%	84%
10-20K		67%	68%	70%	71%	75%	78%	73%
20-30K	55%	61%	69%	67%	68%	72%	73%	69%
30-40K	55%	58%	64%	65%	65%	70%	67%	67%
40-50K	52%	54%	59%	61%	63%	67%	65%	
50-60K	49%	51%	55%	58%	60%	65%	64%	
60-70K	46%	48%	52%	56%	58%	62%	63%	
70-80K	42%	45%	49%	52%	55%	57%		
80-90K	39%	43%	45%	49%	53%	56%		
90-100K	37%	39%	43%	45%	48%	50%		
100-110K	34%	37%	39%	43%	45%			
110-120K	32%	35%	38%	39%	40%			
120-130K	29%	34%	33%	38%				
130-140K	28%	29%	32%	37%				
140-150K	26%	30%	29%					

Over 50% residual

Source: Edmunds

While all vehicles generally follow a similar path when it comes to value retention, the rate of residual loss varies greatly within each vehicle segment. Examining the two prominent categories — midsize SUV and midsize car — reveals that the point at which a vehicle reaches 50 percent of its original value arrives much later for midsize SUVs than for midsize cars. **Midsize SUVs are viewed as having more life left in them — and more consumer demand — compared to midsize cars at every point along the mileage and aging process.**

Midsized car residual

Mileage	2010 MY	2011 MY	2012 MY	2013 MY	2014 MY	2015 MY	2016 MY	2017 MY
0-10K					63%	65%	71%	79%
10-20K		46%	50%	55%	61%	64%	68%	70%
20-30K	42%	47%	49%	53%	59%	61%	64%	64%
30-40K	40%	44%	48%	51%	58%	59%	59%	61%
40-50K	40%	43%	45%	50%	55%	54%	57%	
50-60K	38%	40%	43%	48%	52%	53%	55%	
60-70K	36%	39%	42%	45%	50%	51%	51%	
70-80K	34%	37%	39%	42%	48%	49%		
80-90K	33%	35%	37%	40%	45%	48%		
90-100K	30%	33%	34%	38%	42%	42%		
100-110K	28%	31%	32%	35%	39%			
110-120K	27%	29%	31%	33%	38%			
120-130K	26%	27%	29%	31%				
130-140K	26%	26%	27%	28%				
140-150K	24%	25%	24%					

Over 50% residual

Source: Edmunds

Older, high-mileage vehicles move the fastest

Days to turn

Mileage	2010 MY	2011 MY	2012 MY	2013 MY	2014 MY	2015 MY	2016 MY	2017 MY
0-10K				39	35	47	60	61
10-20K	36	36	35	40	38	41	52	47
20-30K	30	36	37	46	41	42	49	42
30-40K	36	37	39	48	42	42	47	35
40-50K	35	39	36	43	43	46	44	
50-60K	34	35	36	40	40	41	38	
60-70K	33	36	37	39	39	40		
70-80K	34	36	37	40	41	39		
80-90K	35	36	36	41	40			
90-100K	34	37	39	40	39			
100-110K	36	37	39	41				
110-120K	34	36	35	37				
120-130K	34	37	37	34				
130-140K	34	34	35					
140-150K	30	34						
								Below MY average
Model year average	34	36	37	42	41	43	51	55

Source: Edmunds

Examining Days to Turn* (DTT) reveals that consumers' purchasing patterns change with vehicle age and mileage. For the most recent model years, a vehicle with fewer miles tends to sit on a dealership lot unsold longer than average because the vehicle's retained value is close to a new vehicle's value. This holds true particularly when factoring in the incentives that a

*Days to Turn measures the number of days a vehicles sits on a dealer lot before it is sold

new car is eligible for and the used car is not. The opposite holds true for vehicles that have accrued heavier miles within a shorter period — these tend to sell quicker due to lower prices.

As the vehicle age increases, lower-mileage vehicles become more desirable to consumers who are looking for that “new” car experience but do not want the initial depreciation hit. The one type of vehicle that will always move quickly is the high-mileage, older vehicle because the greater reduction in residual value of these vehicles appeals to consumers looking for a deal. **The newer used vehicle is in abundance, while the older, less expensive vehicle is scarce, creating a retail situation in which supply is not closely matched to demand.**

Looking ahead:

Within the next few years, we will continue to see the population of off-lease used vehicles swell, which is likely to drop their values due to market saturation. This trend is likely to put pressure on the market downstream when their values become closer in line with those of older and higher-mileage vehicles.