
edmunds
USED CAR REPORT
2017

Key takeaways

Quarter	Total sales	Franchise used	CPO
2012	37,582,716	9,992,034	1,833,234
2013	35,775,755	10,793,385	2,112,548
2014	36,241,800	11,178,073	2,340,348
2015	37,254,854	11,400,111	2,553,663
2016	38,602,466	11,600,597	2,641,900
2017	39,203,694	11,461,515	2,644,422

Certified Pre-Owned is a subset of franchised used

HURRICANES PUSH USED-VEHICLE SALES TO NEW RECORD IN 2017:

More than 39.2 million used vehicles were sold in 2017, a 1.6 percent increase over 2016 and a new record high. We attribute some of this growth to expanded demand to replace vehicles that were destroyed by the hurricanes in Texas and Florida. Additionally, massive volumes of off-lease vehicles hit the used market in 2017, which increased used inventory and filled the void left by low recession-era sales. This helped push the average vehicle age on franchise dealers' lots to 4.1 years old in 2017 versus 4.6 years old during 2012.

39.2

million used vehicles were sold in 2017

PRICES OF USED VEHICLES CONTINUED TO GROW, BUT MORE SLOWLY

Used-vehicle prices were up 1.4 percent in 2017, which is much lower than the 3.6 percent average increase the market witnessed between 2012 and 2016. The driving force behind the price growth slowdown was an oversupply of near-new off-lease and prior rental passenger cars flooding the market, which took a toll on residual values. Conversely, strong consumer demand for SUVs and a somewhat limited supply helped fuel the modest price growth the used market was able to eke out in 2017.

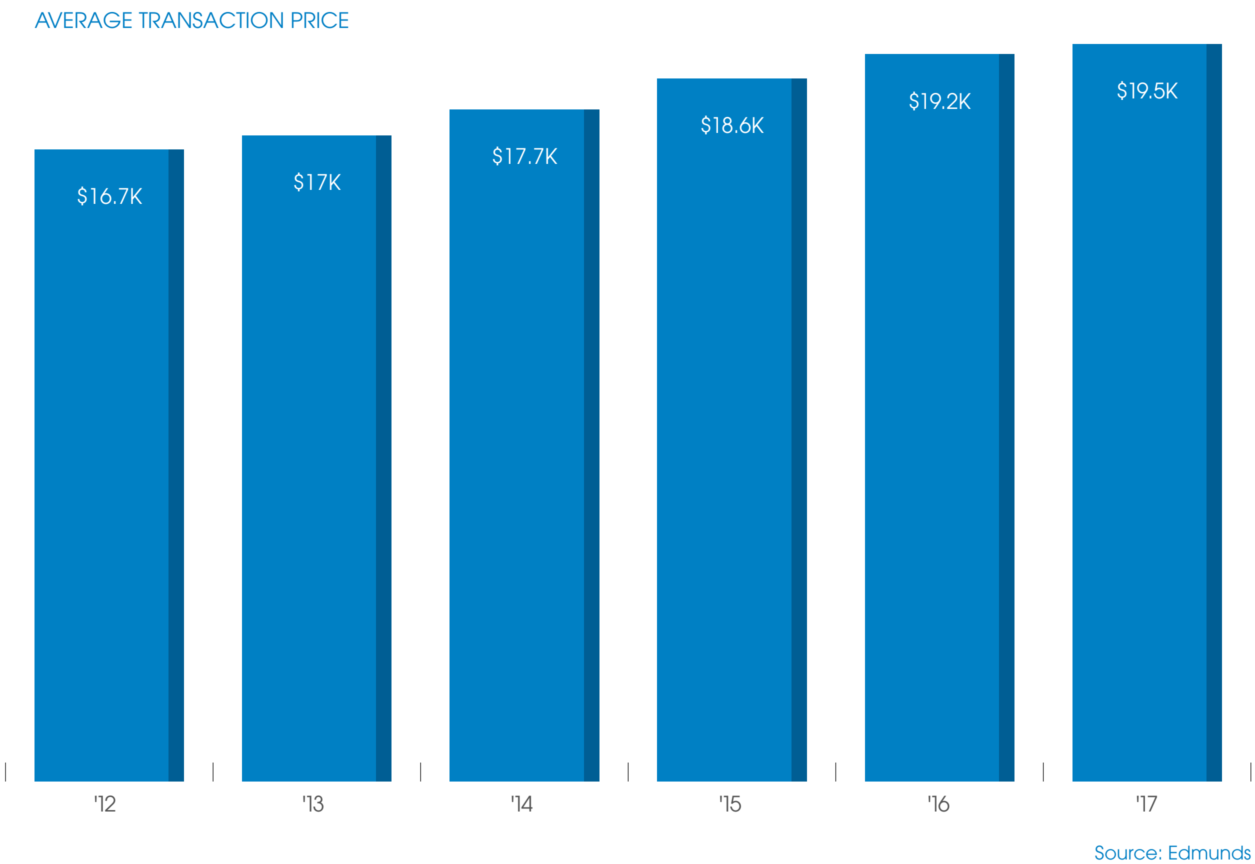
LIGHT TRUCKS DRIVE DEMAND

Days to turn (DTT) for near-new vehicles has fallen from 49 to 45 days, signaling strong demand within the used market. The positive effects are even further amplified when examining segments such as Large Trucks, Midsize SUVs and Large SUVs that overperform with a winning combination of decreased time spent on dealer lots and increased values.

DAILY RENTAL COMPOSITION HAS SHIFTED TO REFLECT MARKET TASTES

Over the last five years we've seen a dramatic shift in vehicle purchases by the rental agencies. While brands such as Toyota and Ford have maintained the same level of presence within the rental market, we've seen GM and FCA pull back volumes only to have Nissan and Hyundai fill in the gap. The vehicle types on rental lots have also evolved — reduced residuals for cars has led to a shift toward SUVs and pickups in order to protect resale values and provide customers with vehicles that fit changing tastes. For brands entering the rental sales business, volumes supplied to these fleets and retail lease volumes will require additional oversight because too much of one or the other is detrimental to residual values.

Used price increases continue at slowed rate



The average price of a used vehicle reaches all-time high in 2017 despite mixed dynamics in the market:

Average age of vehicle sold stands still:
The average age of a used vehicle sold was 4.1 years old in 2017, the same as in 2016. This reflected a pause from the steady drop in average age that occurred between 2012 and 2016, primarily due to the large year-over-year leaps in off-lease volume. While we expect off-lease volume will still grow in 2018 as more inventory from the post-recession era becomes available, we anticipate the average vehicle age will increase, signaling more affordable options in the year to come.

Lease returns power light-truck transition:
While it takes some time to see trends from the new market reflected in used sales, we're now seeing increased used sales from SUVs and trucks. During 2012, SUVs and trucks made up 36 percent of sales of 3-year-old vehicles, but in 2017 the figure has increased to 47 percent. The shift in body style sales is helping to keep values moving upward.

Older vehicles not getting cheaper:
While near-new vehicles are in abundance, they also pose the problem of carrying a higher price tag. This forces consumers looking for affordability to turn toward older vehicles; however, with the recession having slowed sales, the market of older used vehicles has low levels of supply. The net result is these older used vehicles are experiencing greater retained value. In 2012, a 10-year-old vehicle retained 21 percent of its original MSRP, but in 2017 that number rose to 26 percent.

SUVs and trucks made up

47%

of sales of 3-year-old vehicles in 2017

Light trucks spending less time on dealer lots and demanding higher prices

0-3 Year Old - Days-to-Turn	2012	2017	Days-to-Turn Change
Midsize Car	49.3	44.9	-8.8%
Compact Car	48.6	42.5	-12.6%
Compact Crossover Suv	48.0	42.6	-11.1%
Large Truck	47.4	44.5	-6.1%
Midsize Crossover Suv	48.8	43.5	-10.8%
Minivan	52.6	44.6	-15.2%
Van	55.3	50.0	-9.6%
Large Car	58.4	48.9	-16.4%
Subcompact Car	49.9	44.4	-11.0%
Midsize Traditional Suv	49.1	43.0	-12.5%
Large Traditional Suv	47.1	43.4	-7.9%

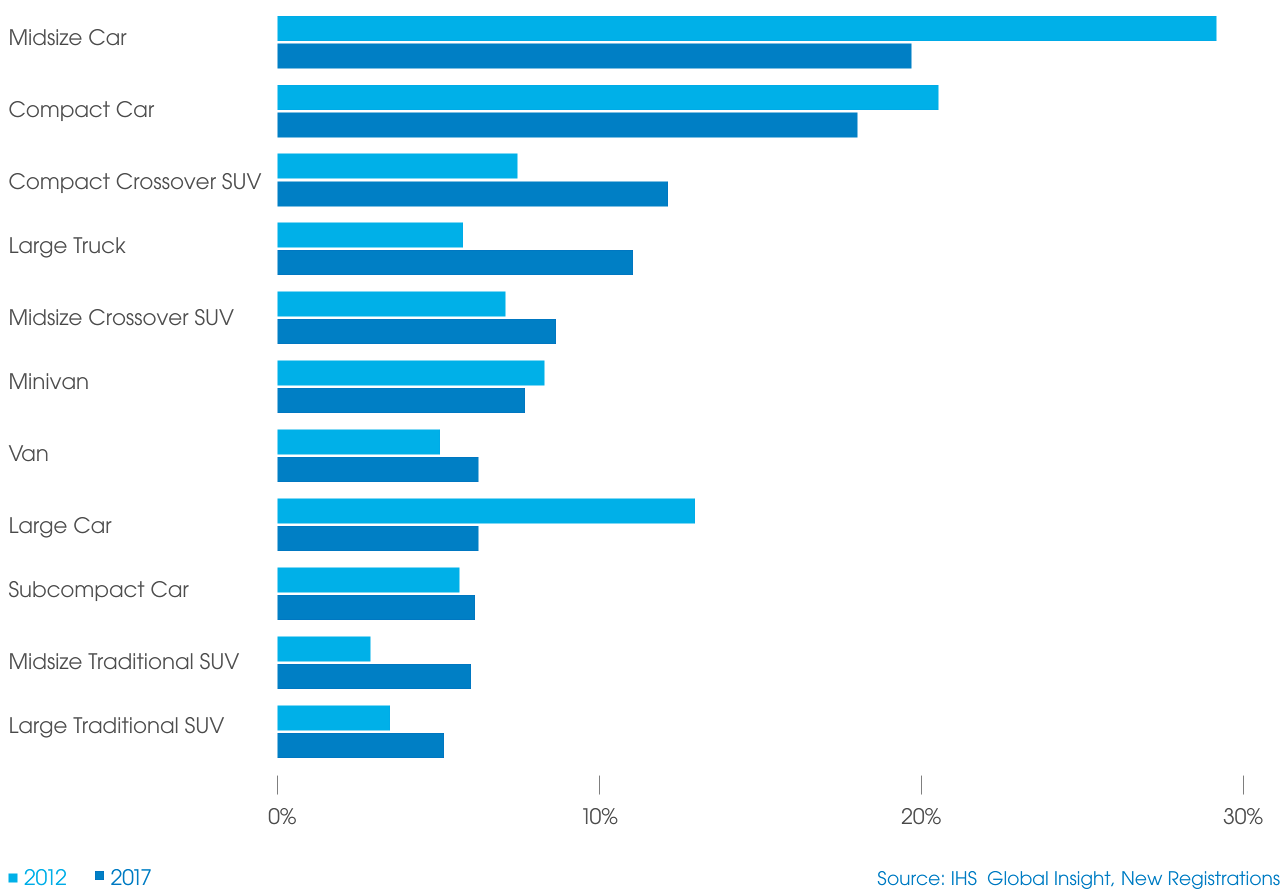
0-3 Year Old - Retail Price	2012	2017	Price Change
Midsize Car	$17,592	$16,490	-6.3%
Compact Car	$15,213	$14,061	-7.6%
Compact Crossover Suv	$19,159	$19,174	0.1%
Large Truck	$27,709	$33,752	21.8%
Midsize Crossover Suv	$23,040	$22,269	-3.3%
Minivan	$21,991	$22,399	1.9%
Van	$21,546	$23,439	8.8%
Large Car	$18,953	$21,486	13.4%
Subcompact Car	$14,304	$12,971	-9.3%
Midsize Traditional Suv	$26,388	$29,367	11.3%
Large Traditional Suv	$34,219	$39,932	16.7%

Source: Edmunds

The used market is absorbing the high volume of off-lease and prior rentals in an interesting manner. While used prices and days-to-turn are highly correlated (because lower-priced vehicles sell more quickly than higher-priced vehicles), an examination of the segments over time shows very healthy near-new sales of SUVs and trucks resulting in a decrease in days-to-turn and an increase in price. Conversely, many of the car-based segments are showing the more traditional trend of lower days to turn, driven by lower values. While this isn't the ideal scenario for the passenger-car segments, at least they're not experiencing an increase in days to turn as well as a decrease in values, which would signal a larger crisis for cars.

Rentals mirror mass market

RENTAL COMPOSITION BY SEGMENT

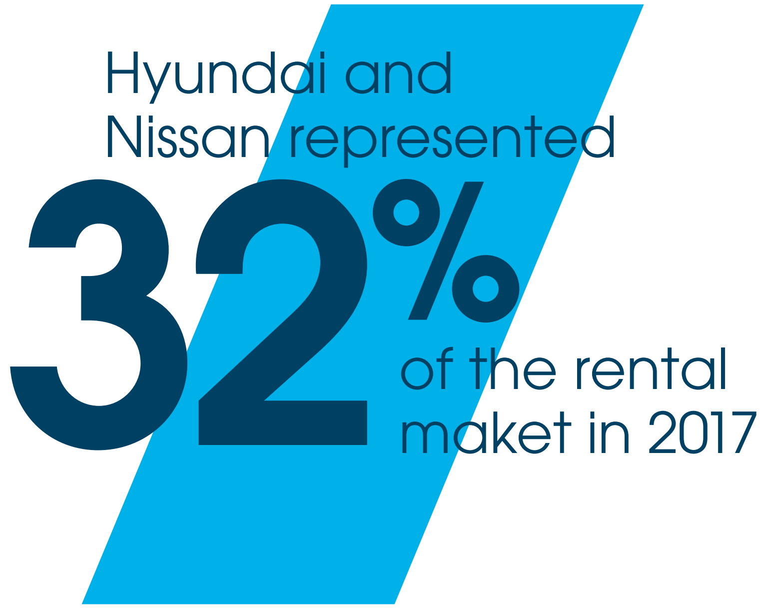


Source: IHS Global Insight, New Registrations

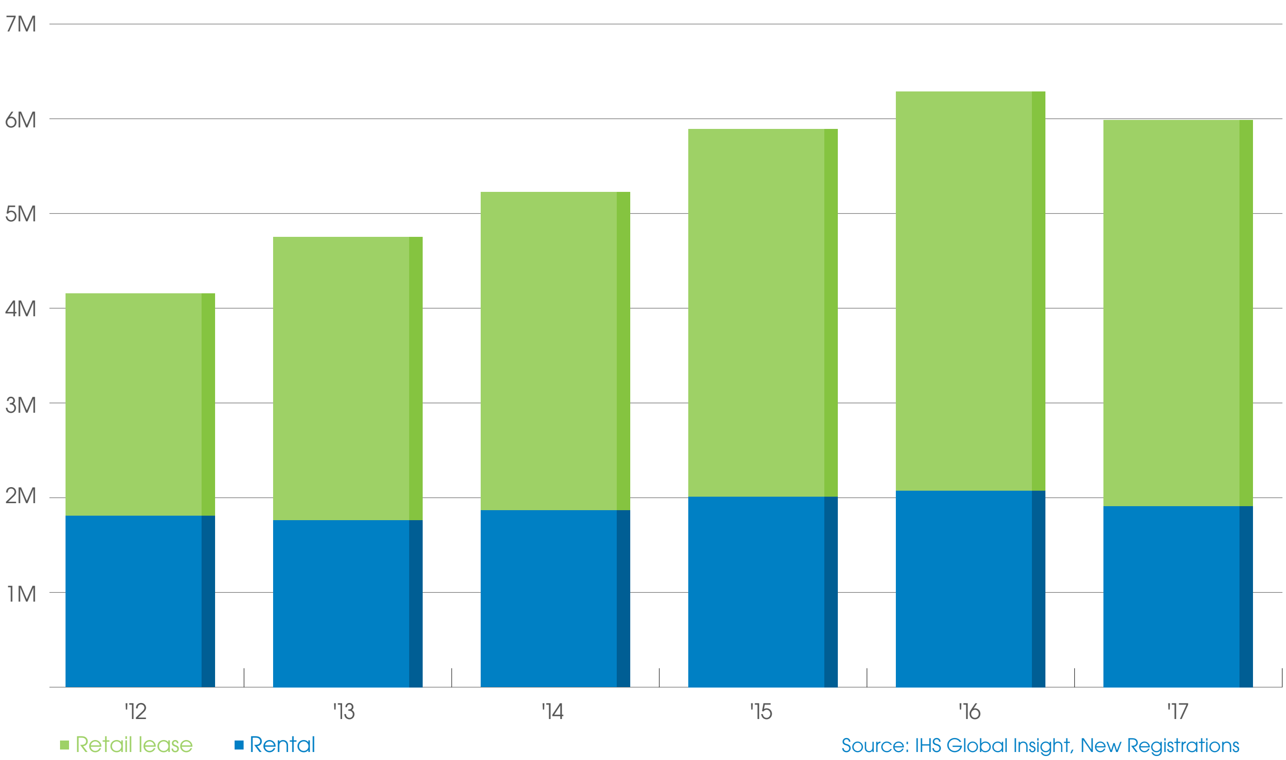
Consumer preferences for SUVs and trucks are being reflected within the rental market. As rental companies begin to purchase these vehicle types to appeal to consumers and replace vehicles that are out of commission due to accident or repair, they're also helping to mitigate losses on the residual end. These vehicle types also command a premium over car-based equivalents for daily rental rates. For rental agencies that find success with high utilization rates on these SUVs and trucks, it would prove beneficial to increase purchases as residual values are still stronger for these vehicle types because far more car-based rentals and off-lease are slated to hit the used market in the near future.

Near-new driven by retail lease and rental sales

Since retail lease vehicles and rental fleet vehicles come back into the used market early in their lifecycle, we conducted an analysis to determine the combined impact these two sectors had on the used market overall.

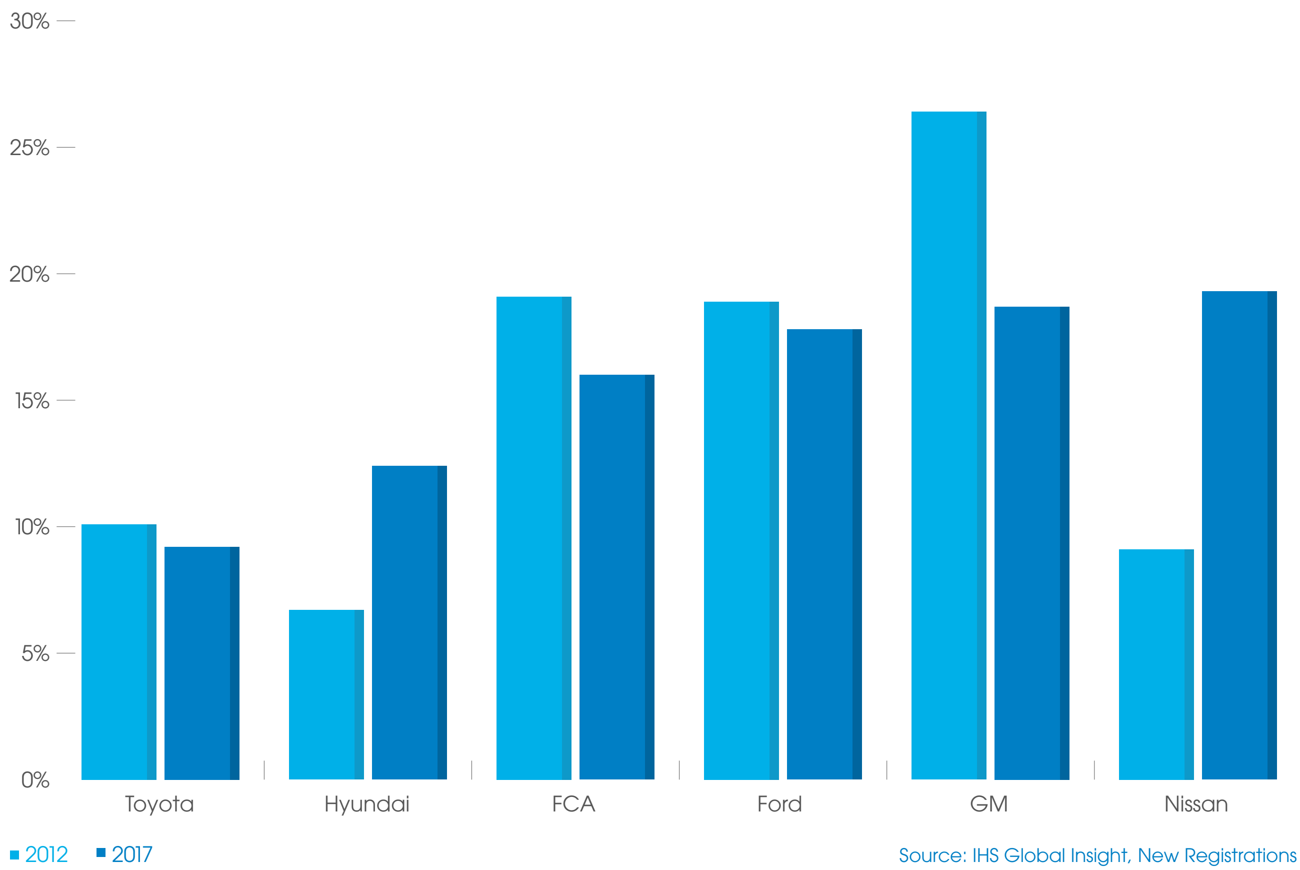


ANNUAL SALES BY RETAIL LEASE AND RENTAL



Source: IHS Global Insight, New Registrations

SHARE OF DAILY RENTAL SALES



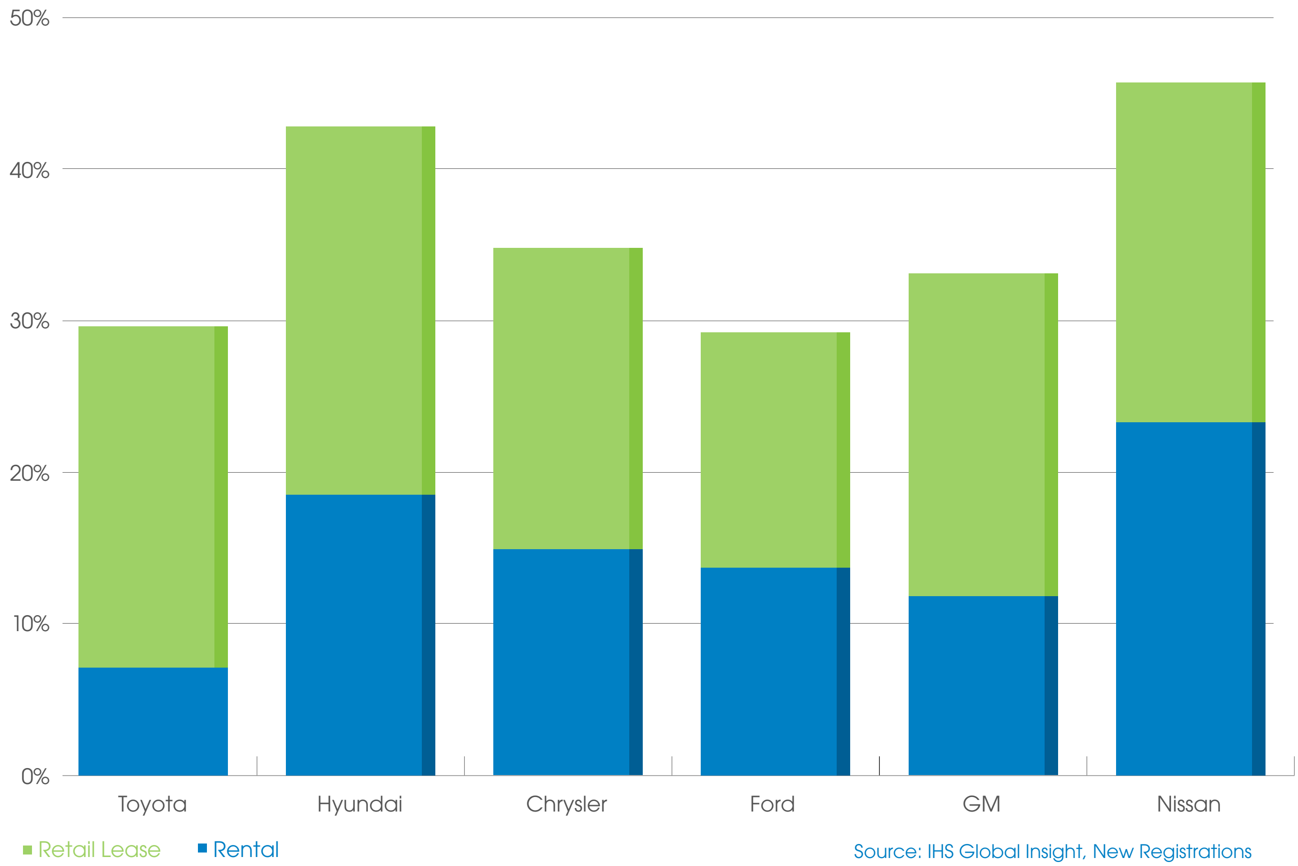
Source: IHS Global Insight, New Registrations

\Total sales of retail lease and rental units hit a high of 6.2 million units in 2016 but dipped to 5.9 million in 2017. Reductions in volume were almost equal between both sale types. The rental market will feel the effects more dramatically given that this represented a 9 percent drop on the rental side compared to a 3 percent drop on the retail lease side. Moving forward, each of these types of sales faces different challenges. Leasing will become more expensive as interest rates climb and residuals within lease-heavy segments continue to fall. Rental sales could slow as more consumers lean toward using ride-hailing services in place of daily rentals.

Five years ago, consumers would find nearly two-thirds of all the vehicles on a rental lot were from the Domestic Three. However, they have lowered their sales to rental fleets and in 2017 make up only 53 percent of vehicles on rental lots. Today, consumers are much more likely to find themselves in a Hyundai or a Nissan. These two brands represented only 16 percent of the market in 2012, but in 2017 their share has doubled to 32 percent.

Residual drop-off expected for Nissan and Hyundai

2017 PERCENT OF SALES FROM RETAIL LEASE AND RENTAL



Source: IHS Global Insight, New Registrations

As FCA and GM have reduced sales to rental fleets, their overall near-new sales mix has seen a noticeable reduction; however, Hyundai and Nissan stepping up sales to rental show a very dramatic composition shift in their overall sales mix.

The combination of retail lease and rental sales is pushing Hyundai and Nissan overall sales mix above 40 percent. Given the nature of these transactions, each brand will begin to suffer from an oversupply within the near-new market signaling the beginning of a drop-off in residual values.

Case study: Rentals depress used prices by 9 percent on average

Rental sales can provide an effective way for OEMs to move more units and possibly a way to expose new customers to the brand. The downside comes when these prior rentals reach the secondhand market, carrying a branded fleet title and higher mileage than equivalent non-rental inventory, these program vehicles are listed at lower asking prices.

We conducted an analysis of used-vehicle inventory, comparing vehicles of the exact same trim level and within certain specific mileage brackets to determine the difference between used vehicles that came from rental fleets and those that did not.

We found that the average price difference was 9 percent, with the below factors contributing most significantly to the price fluctuations:

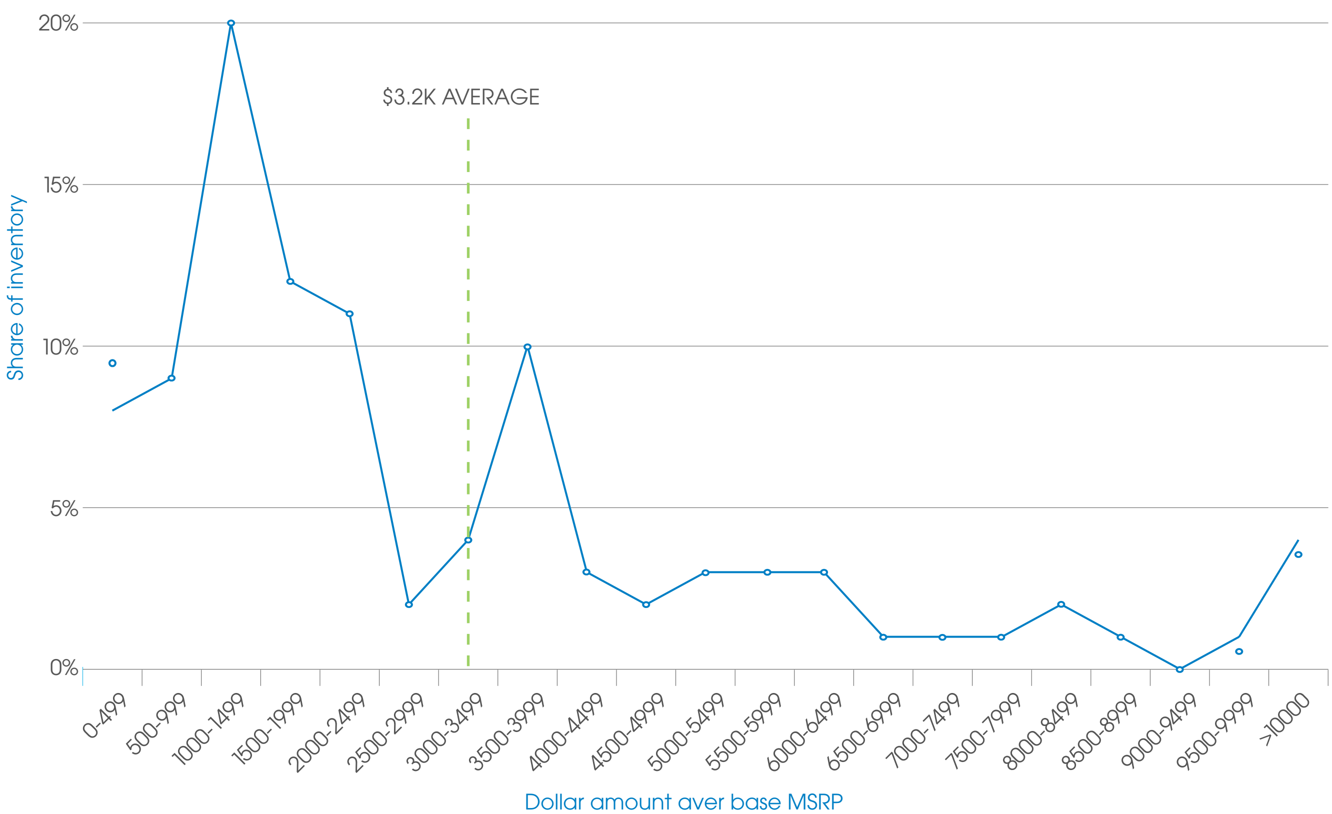
- Individual vehicle rental volume
- Changing segment demand
- Fleet-specific trim levels
- Retail lease volumes
- Redesign timing coupled with continued production of older generation for fleet

Mileage	Model Year	Make	Model	Style	Dealer List Price	Rental List Price	Discount
40-49K	2016	Dodge	Dart	SXT	$12,431	$11,039	-11%
40-49K	2016	Chrysler	Town and Country	Touring	$19,654	$18,347	-7%
40-49K	2016	Ford	Mustang	V6 Convertible	$17,166	$14,944	-13%
10-19K	2017	Ford	F-150	XLT SuperCrew 4WD	$34,182	$31,871	-7%
20-29K	2017	Buick	Verano	Sport Touring	$17,267	$14,658	-15%
20-29K	2017	Chevrolet	Tahoe	LT 4WD	$46,442	$43,240	-7%
40-49K	2016	Kia	Sportage	LX	$14,951	$13,225	-12%
40-49K	2016	Hyundai	Sonata	SE	$13,307	$12,177	-8%
30-39K	2016	Nissan	Rogue	S	$16,668	$15,079	-10%
40-49K	2016	Nissan	Altima	2.5 S	$14,019	$12,790	-9%
30-39K	2016	Toyota	Yaris	L	$11,615	$9,817	-15%
40-49K	2016	Toyota	Camry	SE	$15,604	$14,758	-5%

Source: Edmunds

Rental units now have better content

DISTRIBUTION: RENTAL VEHICLE MSRP OVER BASE MSRP



Source: Edmunds

In addition to stocking up rental lots with more of the SUVs and trucks consumers are interested in, rental agencies are also purchasing vehicles that are contented an average of $3,200 over the starting MSRP. This is a winning strategy for both OEMs and consumers: Rental customers get to enjoy more creature comforts in their vehicles, and automakers are able to better protect residual values and give customers a more favorable impression of their brands.

In conclusion

Years ago strong residual values allowed automakers the ability to be more liberal in their short-term sales strategies, but as residuals begin to fall in more vehicle categories, sales driven by retail leasing and daily rental will become increasingly scrutinized. Neither sales type will cease to exist; however, companies will need to balance their portfolios going forward to minimize residual losses. Retail leasing is driven by a myriad of factors, some within the automaker's control, but daily rental sales are entirely at the hand of the automaker. The years to come will show an evolving market, and each year there will likely be a more diversified lineup of brands and vehicle types to choose from on rental lots.