



USED CAR REPORT

Q3 2018



Key takeaways

Year	Total Sales	Franchise Used	CPO
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	9,728,450	2,912,983	678,960
Q3 2018	10,217,810	2,981,892	670,796

Source: Edmunds

USED SALES STAY STRONG

10.2 million used vehicles were sold in Q3 2018, a 5.0 percent increase over Q3 2017. This marks the third quarter in a row with sales over 10 million units during 2018. Franchise dealer sales increased by 2.4 percent, which were mostly weighted toward increases in returned leases and helped offset the reduced volume from 20,000 fewer trade-ins compared to the third quarter of last year.

RECORD-HIGH USED PRICES

In the third quarter of 2018, used-vehicle transaction prices hit their highest level on record since 2005. The used car market typically sees a 1 percent decrease in pricing from Q2 to Q3 due to seasonality, but this quarter saw a more modest drop of 0.3 percent. The average used-vehicle price reached \$20,085 in Q3 2018, marking a 3.5 percent increase year over year.



\$20K+
in Q3 2018



AFFORDABILITY ISSUES

Consumers looking to escape record-high new and used vehicle prices are coming up short in the used market. Vehicles under \$35,000 are selling rapidly and spending an average of 37 days on the lot, a 5.3 percent decrease from five years ago. To make matters worse, used vehicles under \$10,000, the most affordable segment, are growing increasingly scarce — this segment has dropped from 25 percent of sales during Q3 of 2013 to only 16 percent of sales this quarter. Another factor contributing to an overall vehicle cost increase is the cost of borrowing money. Used vehicles generally incur higher interest rates than new vehicles, and used vehicle APRs continue to grow, up 11 percent from a year ago. Consumers looking to maintain lower monthly payments are not only putting more money down as prices rise, but they're also extending their term lengths to 66.9 months on average, the lengthiest Edmunds has on record since 2008.

USED, LEASE OR NEW

While purchasing a vehicle isn't getting any cheaper, the rising costs for each purchase type could be prompting buyers to explore alternatives. The average price of a new vehicle in the third quarter reached \$35,992, and the market's oversupply of off-lease vehicles could provide tremendous savings while providing a path to ownership. However, many used-vehicle shoppers are now facing the prospect of payments that could easily put them in a lease for a new vehicle. As new and used prices continue to rise, shoppers may begin to look at purchase types that never would have initially crossed their minds.

Used prices over \$20K are the norm

AVERAGE TRANSACTION PRICE



Source: Edmunds

Used vehicle values reached \$20,085 on average during Q3 2018, a 3.5 percent increase over last year and a minor drop of 0.3 percent from last quarter. Typically the third quarter experiences a drop of 1 percent in values from Q2, but this year we've seen an uptick in demand for used vehicles later in the year, helping to keep values afloat.



Lower-priced vehicles are selling quickly

DAYS TO TURN

Price Range	Q3 2013	Q3 2018	Q3 2018 vs. Q3 2013
\$5K or Less	27.2	24.5	-9.8%
\$5K to \$10K	29.8	28.6	-4.0%
\$10K to \$15K	37.3	36.1	-3.2%
\$15K to \$20K	44.2	40.8	-7.8%
\$20K to \$25K	44.8	42.4	-5.5%
\$25K to \$30K	45.4	43.6	-3.9%
\$30K to \$35K	46.7	45.4	-2.8%
\$35K to \$40K	49.3	49.6	0.6%
\$40K to \$45K	45.1	47.8	5.9%
\$45K to \$50K	46.5	47.2	1.6%
Industry Avg.	39.4	39.3	-0.1%

Source: Edmunds



Despite a slight reduction in the industry figure for days to turn, the urgency with which consumers are flocking to lower-priced vehicles is clear. Vehicles that are priced below the average cost of a new car (\$35,992 in Q3 2018) are selling at some of the quickest rates we've ever seen. This highlights the demand for more affordable transportation, but as more buyers enter the used vehicle market, we've seen rising prices and constricted availability.

Fewer lower-priced vehicles available

SALE BY PRICE



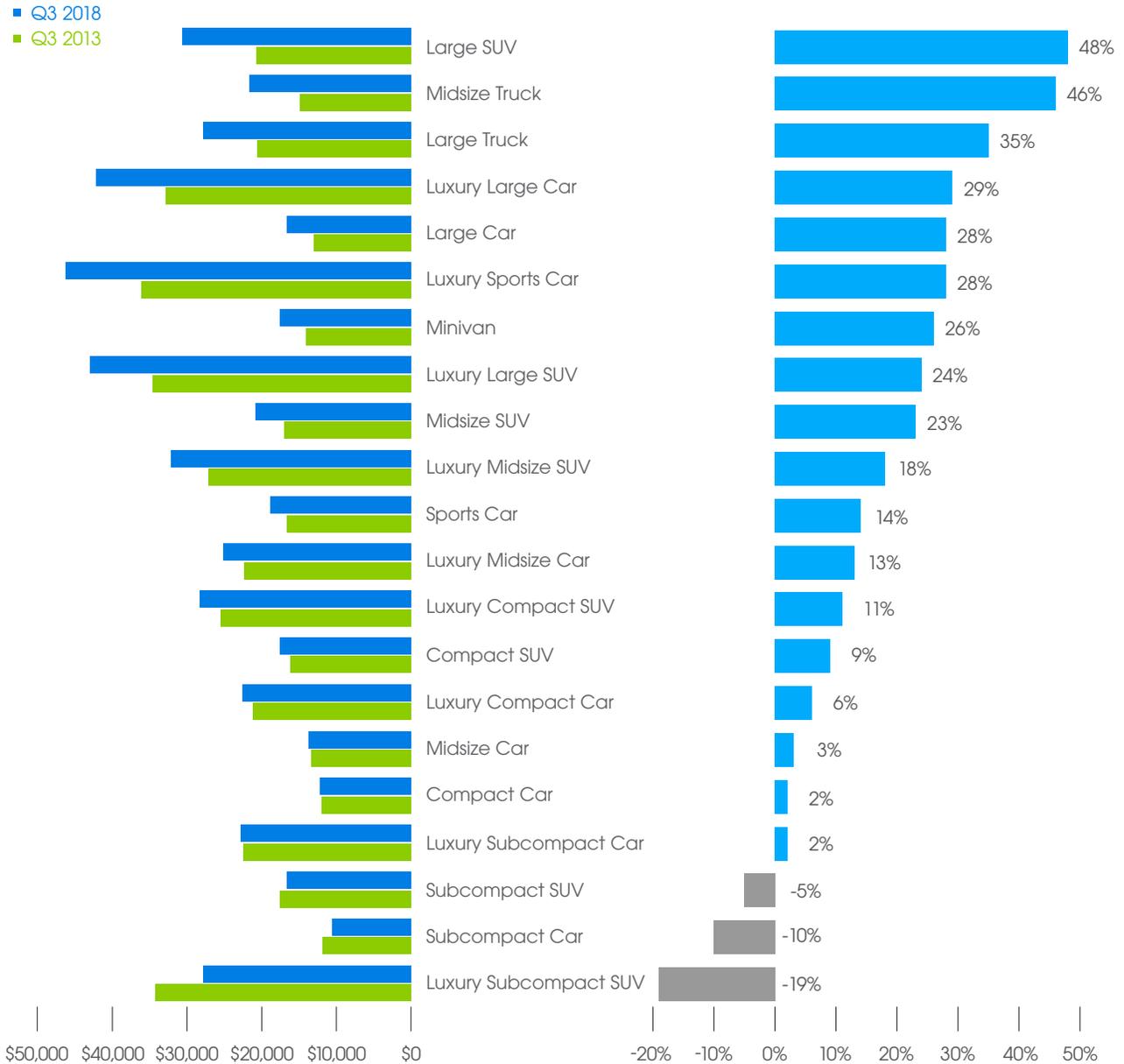
Many factors are involved in the decrease of lower-priced options in the used vehicle market. One of the largest factors is the lack of older vehicles due to the decline in new car sales during the recession, which naturally constricted the supply of older vehicles. Even if demand for older vehicles were to stay the same, the decreased supply would result in higher prices. But the drop in days to turn for these vehicles shows that the demand has increased, further compounding the issue. The abundance of off-lease vehicles is helping to fuel inventories, and while these units have lower residual values than in

years prior, they still carry high price tags since they are newer vehicles that have been sold during a time of aggressively rising transaction prices. As used transaction prices move upward, we've seen vehicles at the entry-level price point of \$10,000 and below transition from representing 25 percent of sales during Q3 of 2013 to only 16 percent of sales this quarter. On the opposite end of the spectrum, vehicles priced between \$25K and \$50K now maintain a 26 percent share of sales, but in Q3 of 2013 they constituted only 17 percent of sales.

Values up across major segments

ATP BY CATEGORY

Q3 2018 VS Q3 2013

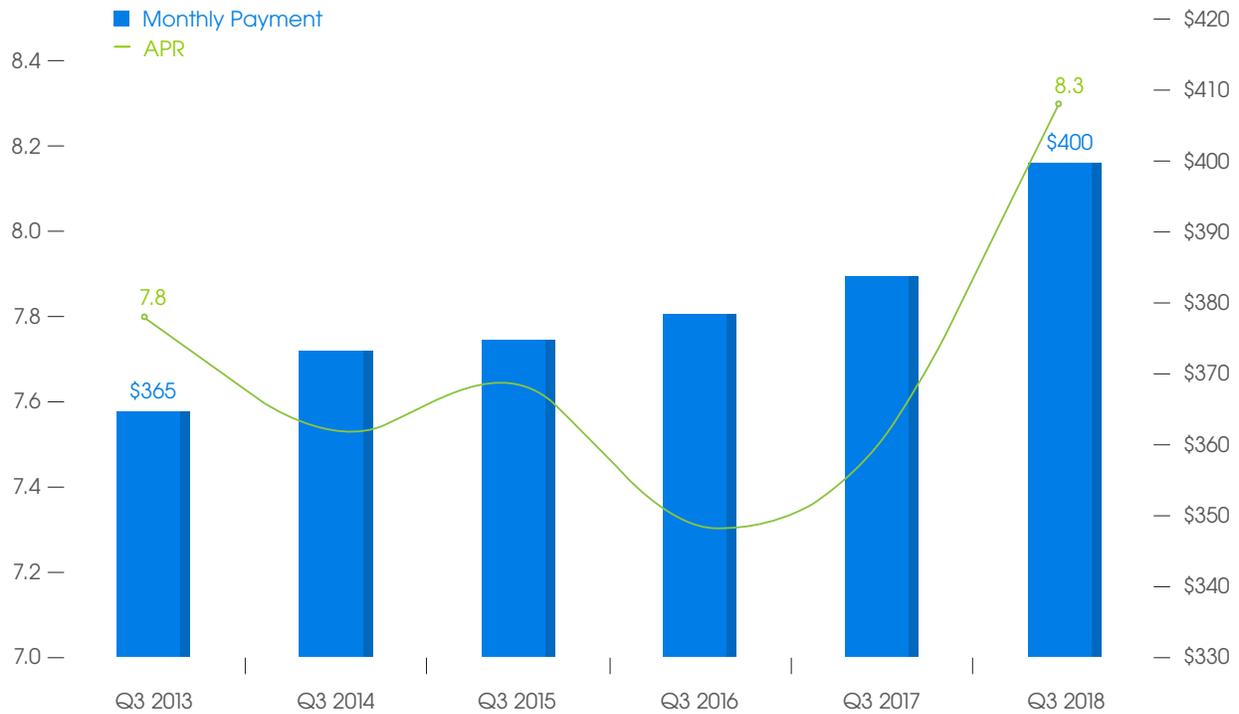


Source: Edmunds

Average transaction prices for used vehicles are essentially elevated across all vehicle types. Only a few segments including the subcompact car, subcompact SUV and luxury subcompact SUV (which together represent a mere 6 percent of the

market) have seen price decreases compared to five years ago. On the other end of the spectrum, the top five categories have gone up by an average of 37 percent and make up 17 percent of all transactions.

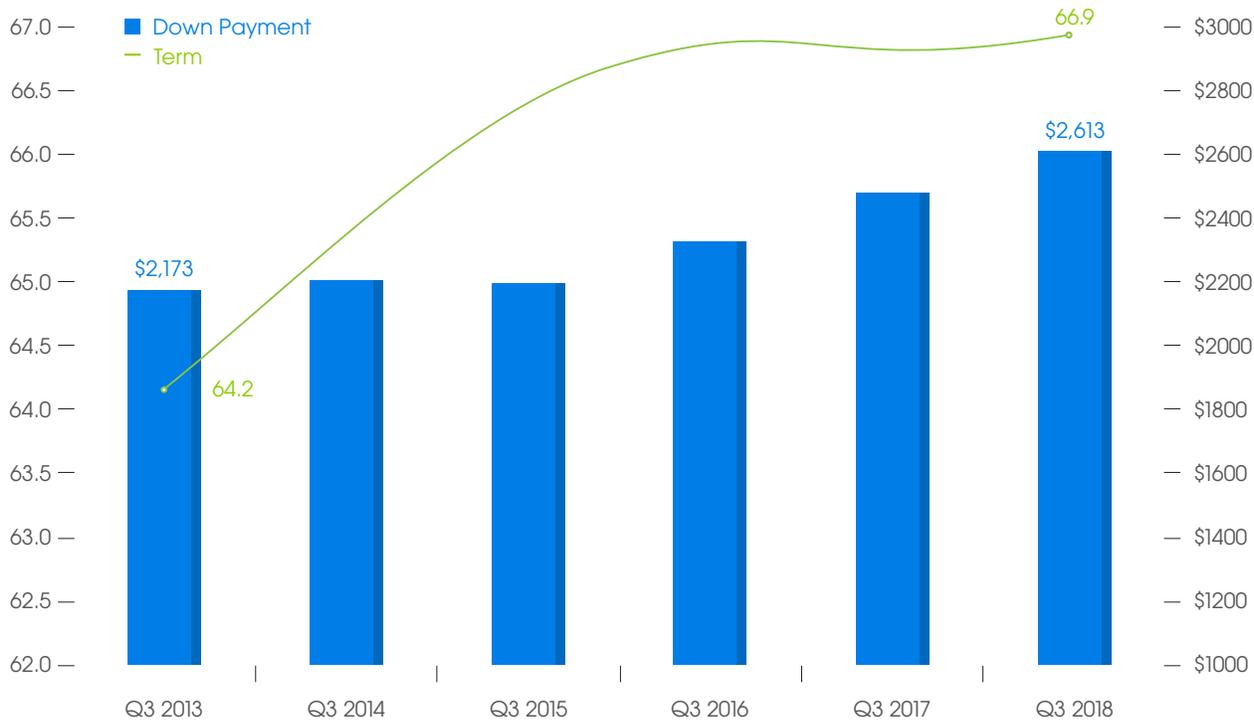
Financing adding pressure



Source: Edmunds

Further compounding the issue of affordability is rising interest rates, of which there's no end in sight. While new car sales almost always have the potential for incentives revolving around subvented rates, that same benefit is only available on CPO inventory and specific brands when shopping the used market. Used-vehicle buyers might need to begin the cost-benefit analysis of purchasing a CPO vehicle from a brand they might not have previously considered or settling on a price point above their original budget in order to take advantage of a subvented rate.





Source: Edmunds

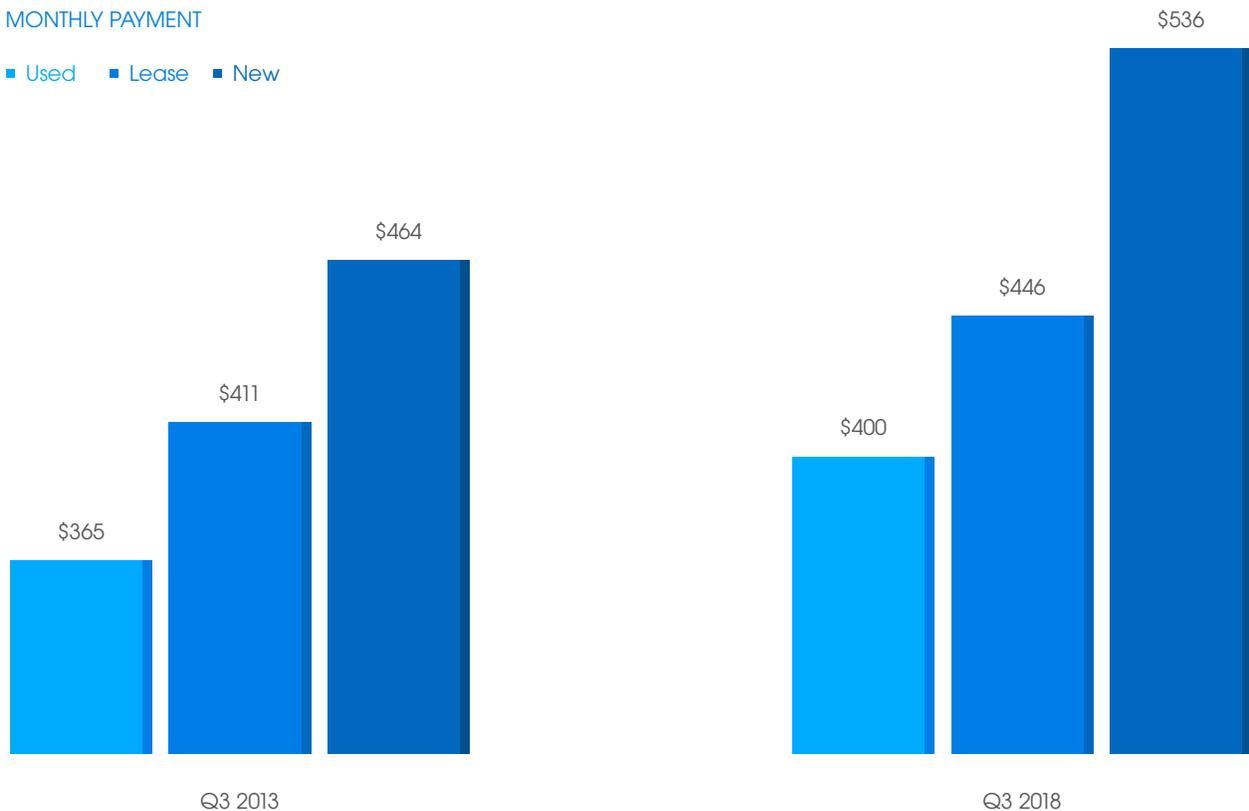


Buyers trying to mitigate increasing costs have only a few options to consider. We see that both down payments and terms have increased to help keep monthly payments in check. However, neither has been effective enough at keeping monthly payments at levels closer to historical figures. Even as loan terms begin to flatten out, the prospect of owning a car that is nearly 10 years old when it is fully paid off could be a daunting one for some consumers.

Payment by purchase type

MONTHLY PAYMENT

■ Used ■ Lease ■ New



Source: Edmunds

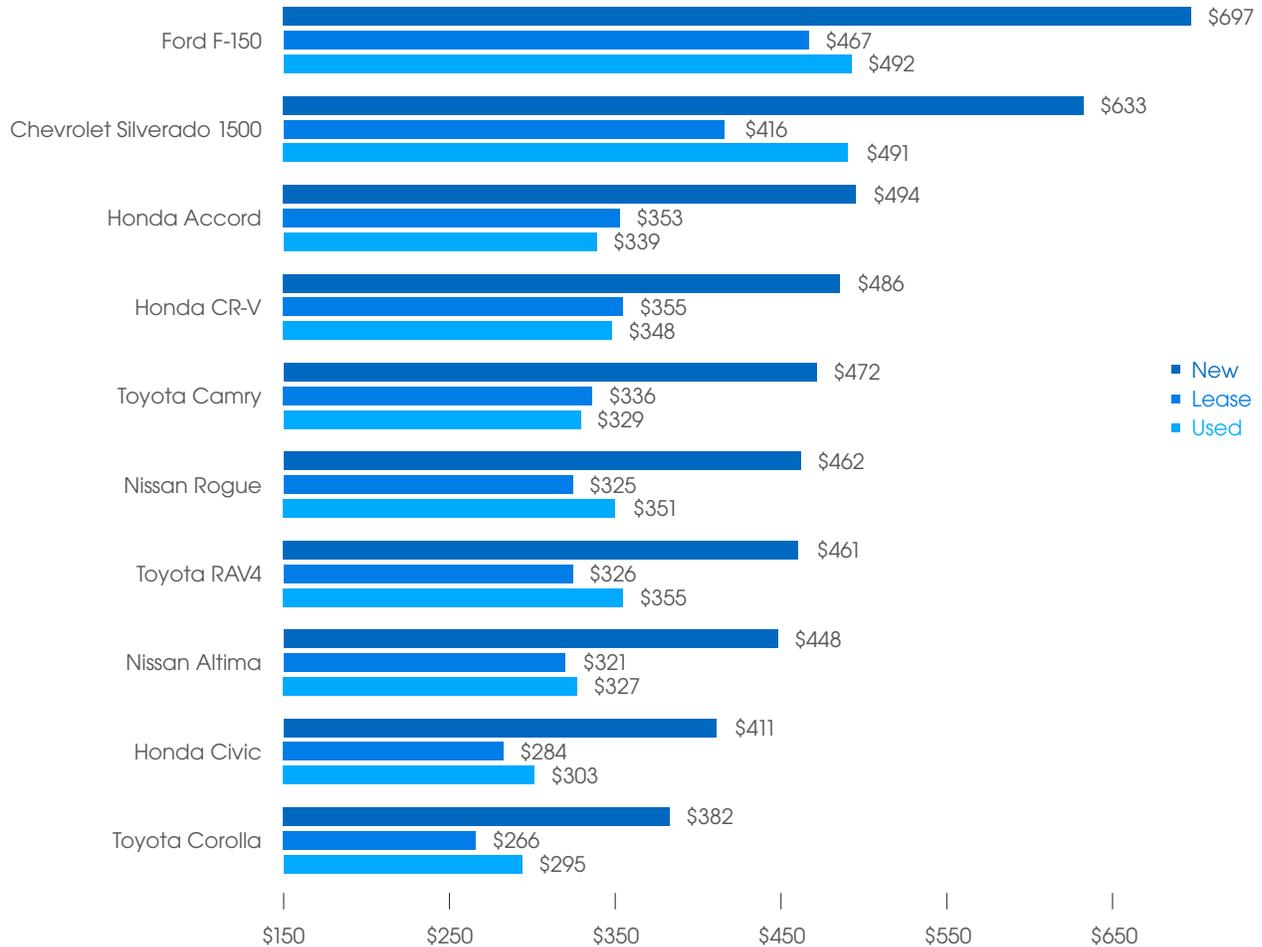
Monthly payments have increased for all three types of vehicle purchases, with used and lease vehicles increasing by an identical \$35 a month and new financed vehicles rising by an astounding \$72 a month. Buying used continues to represent a better value from a monthly payment point of view, but this quarter used-vehicle monthly payments reached \$400 a month, which sets another milestone as the highest level we have on record.

this quarter
used-vehicle monthly
payments reached

\$400

Model details differ

MONTHLY PAYMENT BY PURCHASE TYPE



Source: Edmunds

This aggregate view of payments on used, leased and new vehicles helps demonstrate what's going on in the overall industry. However, it's important to note that leased new vehicles typically reflect a higher mix of luxury vehicles when compared to financed new vehicles and used vehicles. With that in mind, the average lease payment skews upward in an aggregate view. Once broken down to a more granular view that shoppers will see, as demonstrated in the above chart, the story can

differ. There are many instances in which a lease will be competitive with a payment for a used vehicle and occasionally even be cheaper. As used and lease vehicle payments continue to rise, it will be interesting to see whether there is a price point or a price premium that will compel used-vehicle shoppers to begin to shop leases or whether used shoppers are willing to keep playing the long game in hopes of eventually building equity in their vehicle.

