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TODAY'S NEWS

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End of auto leasing could result in market correction

By RISA POLANSKY

Some of the nation's biggest car companies are putting the brakes on auto leasing, a move that could hurt dealers' business and force drivers from behind the wheels of cars they can't really afford.

Late last month, Chrysler's financial arm announced it planned to stop all US leasing deals. The financing branch of General Motors is expected to pull back on leasing, and Ford could raise lease prices on sports utilities and trucks, according to media reports.

The groups are smarting from faltering financial markets and devalued SUVs and trucks, which are falling out of favor as gas prices rise.

The emerging trend away from auto leasing could hamper business initially, experts say – but it could also spur a sensible market correction and prove beneficial to drivers.

"Leasing always allowed people an opportunity to drive more car than they would otherwise be able to buy, because, in essence, they were paying to borrow it," said attorney Alex Kurkin, who concentrates on auto dealer law, representing dealers and the Florida Automobile Dealers Association.

"People were stretching that dollar. Now with leases being less available on some models or not available at all, people are not going to have that option. Instead of getting the 5-Series BMW, they may have to get the 3 Series, or instead of the 3 Series, they might have to go to a non-luxury brand."

It may not be fun for dealers or drivers, he said, but "you might want to look at it as a market correction... maybe they shouldn't have been driving a car that was far greater than their yearly income."

Agreed Mario Murgado, president and chief executive officer of Brickell Motors: "I'm of the old school that I think you can't live beyond your means," he said. "It might in the beginning hurt us a little bit. It could also be a correction where people will realign themselves, purchase a car they can afford."

Mr. Kurkin said South Florida could feel the effects more than other areas.

"In South Florida, it probably makes a bigger impact than it does nationally because South Florida is one of the larger car markets where a car is not just a means of transportation but a status symbol."

But the change could mean good deals for buyers, said George Joseph, chief executive officer of the Dade County Federal Credit Union.

The credit union has long encouraged buying instead of leasing, he said, offering a Dade Auto Desk to steer buyers to the right car.

It discontinued its leasing program more than a year ago.

With fewer leasing options from major automakers and with lots full of once-leased cars, dealers "are going to be dying

for the sales," Mr. Joseph said. "I'm sure that it's going to be a very good market for buyers."

Greg Barnes, general manager of Mercedes-Benz of Coral Gables, said he's noticed car financing deals are already becoming more attractive.

"We've started to see over the last few months some better finance offers," he said, such as better annual percentage rates. "There's been a slide toward financing because the lenders are making that a little more attractive than leases."

Though there may be perks for consumers, dealers might not fare so well.

"This time next year there will be fewer dealers in South Florida," Mr. Kurkin predicted.

Sales volumes could drop, and dealers will probably end up selling less-expensive cars, he said.

Customers who may have leased three cars during a 10-year period in the past may now buy two during the same timeframe.

Maintenance revenue could also be a casualty.

"If people buy their cars, they'll probably take better care of their cars... if they maintain them more, then you expect less customer pay work," Mr. Kurkin said.

Some dealerships may end up closing, realizing selling their property could make them more than selling cars, he said. Others may combine similar brands into single operations.

"At some point, there will be less suppliers in this area, and ultimately when the market turns around, less competition and less options for consumers."

Mr. Murgado shared a sunnier forecast, pointing out that auto dealers have been consolidating since World War II.

The number of dealerships may continue to drop some, he said, but "dealers are very adaptive. I think dealerships will adapt and look for alternative sources" of revenue.

'We've started to see over the last few months some better finance offers.'

Greg Barnes

None of the makes he carries – Honda, Buick, Pontiac and General Motors – have officially announced they'll be changing lease practices, though he predicted they could.

"On our General Motors side, I think we'll start seeing some effects," Mr. Murgado said. About 25% of his GM business is leasing.

Leasing makes up about 45% of his Honda business, but Honda has always relied heavily on leasing and may not pull back, he said.

Though luxury dealers have yet to rein in leasing, Mr. Barnes

said, "even in the luxury business, people are coming back, they're turning in the SUVs they've had for three years and saying 'I'd like something more fuel efficient.'"

Leasing is about two-thirds of the Mercedes dealership's business, he said, predicting that could slow in the coming years.

"It might go to 50/50 over the next year or two," Mr. Barnes said, though the full effect "remains to be seen."

In the end, "I don't think it will hurt that much, especially if everyone else is moving in that direction."

Should business suffer as the playing field changes, Mr. Murgado said, he has no plans to fold.

To adapt, dealers could try expanding their used car departments or growing their service and parts business, he said.

His plan: "At the end of the day, scale my business to what the needs of the marketplace are."