Lease vs. Buying: What every car dealer doesn't want you to know

Let's face it, buying a car is usually one of the most strenuous and, dare I say it, unpleasant experiences. When you are approached by the salesperson the conversation is typically steered towards the "buy or lease" question.

Now I admit I am biased, and there are sometimes good reasons to lease, but let's go through why leases are so sought after by the *dealers* and *manufacturers*.

1) What do you pay? Most vehicle purchases can be negotiated down from the MSRP, often 10%-20% or more off the cars MSRP. The last client we helped was able to negotiate $5,000 off their $30,000 car. Leases do not allow negotiation of purchase price…the lease and your payments are based on MSRP and thus in this example, you are behind $5,000 right out of the gate.

2) Imbedded interest rates. When you buy a car today, the interest rate is around 0.9% to 1.9% for someone with at least decent credit. The imbedded capitalization cost (the lease's interest rate) is typically 7.9% to 11.9%. When combined with point #1 above, you often have very similar payments on a 4 or 5 year purchase versus a 2 or 3 year lease.

3) Mileage. If you own your car and drive it more than expected, it probably has no affect. But if you lease and drive more than the negotiated allotment of miles, you pay big time with a per mile over the limit charge. These overage charges are as high as $0.50 per mile…so if, as an example, you were to drive 5,000 miles over the lease's limit you would owe $2,500 at lease end!

4) Residual value. The dealer gets to pre-determine the value of your car when the lease expires. This means that if you want to buy it out when the lease is over (perhaps because you drove over the mileage limit) then you may end up paying more than the car's fair market value… and this price is rarely negotiable.

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5) Ordinary wear and tear. When the lease is over the dealer can charge you for items like dings in the door and stains in the carpet. These charges can add up quickly!

6) Many leases require thousands of dollars in up front "capital reduction costs" in the form of cash or a trade to help defray the cost of paying commissions and/or to lower the monthly payments. If you are offered a lease with this provision, calculate the monthly payments including the monthly share of the all of the up-front expenses.

7) Equity. If you purchase a car, when the term is up you own your car and hopefully can drive it for years to come. Now you have an asset that you can sell or trade in. You have equity! At the end of a lease you have nothing other than the need for another car.

As mentioned above, there are certain circumstances where leases make sense. But if you have an option, we hope the above will help you make an informed car acquisition decision.

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