

Is it better to buy or lease?

Question: Can you provide an answer to this ongoing dilemma – is it better to buy or lease a vehicle?

Answer: You should know when leasing a vehicle that someone is actually buying the vehicle – it's just not you. In most lease deals, the lessor (usually a bank, independent leasing company or captive finance company) buys the vehicle from the dealer or manufacturer and then leases it back to you. You, in turn, pay the lessor for the right to drive the vehicle during the term of your lease. The monthly payments made on a vehicle lease are actually quite similar to monthly payments of a vehicle loan. A loan payment is made up of principal and interest.

Similarly, a lease payment goes to reduce a balance you are repaying under the lease. The main difference between the two is the amount you are repaying. In a vehicle loan, you repay (through a combination of down payment and monthly payments) the unpaid purchase price of the car. In a lease, you repay the portion of the purchase price that represents the vehicle's decline in value, or depreciation, over the lease term. In addition to the depreciation, you must also repay any other items you rolled into your lease, such as acquisition fees, negative equity on a trade-in and after-market products (i.e., extended warranties). And, let's not forget mileage overage. Together, these items represent the balance to be repaid over the lease term.

If leasing is so fraught with peril, is buying always the best option? It depends on your personal priorities and the experience from a pure financial planning perspective. Perhaps the best route is to pay cash for all items.

Unfortunately, most people cannot afford cash for a vehicle, so Plan B is necessary. Leasing has become popular as a way of dealing with the rising cost of buying a new car or truck. Nevertheless, a car loan is generally a better option than leasing if you intend to keep the vehicle for more than three years. Some people want a flashy, expensive car, though. Leasing allows you to drive vehicles you normally couldn't afford to buy with a loan.

If you plan to trade frequently or are looking at a luxury car or loaded utility vehicle, leasing can also make sense. But make sure you know what questions to ask the salesperson, and what to look for in the lease agreement before you enter the dealership. Here are some recommendations from the Canadian-based Automobile Protection Association to help you get a better deal:

- Look for the lowest total cash outlay (down payment plus monthly payments), and don't worry about the end value because, ideally, you should turn the car in at the end of a lease.
- Try to find a lease with a low interest rate. Interest-rate rebates from the manufacturer and high residual values can save hundreds of dollars compared to regular auto lease rates of nine per cent or more.
- Leave the lowest possible down payment.
- Choose a lease with the end value guaranteed by the automaker, not the consumer. If in doubt, check with a qualified financial planner who can do the necessary financial calculations for you.

So, as you see, there is no clear-cut answer – each of us have our own specific situation to be concerned with. In most cases, it may be better to negotiate a good loan interest rate with a bank or trust and buy yourself that new vehicle!

Need further clarification or help, give us a call at 613-475-5109,
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