

The Werkman Hulst Group Insights

BAIRD

Private Wealth
Management

Buy or Lease?

By Brad A. Hulst, CFP® and Gary L. Werkman, JD, CFP®

Many of us face the decision of whether to buy or lease a vehicle. For those of us living outside of large metro areas without widely available mass transit options, it is a decision that will come up frequently. Like many topics in the financial world, there isn't necessarily a clear-cut answer. We wanted to provide some thoughts that might aid those trying to make a decision.

First, let's take a look at some of the advantages of leasing. With leasing, you have the comfort of a full warranty over the duration of the lease. Most will come with at least a three year or 36,000 mile warranty, and as long as you aren't driving excessively over the limits, you'll have the warranty for at least the majority of the lease. Maintenance costs will be low, seeing as you will have the car from the start with everything new. Technology is advancing quickly within vehicles, and leasing every few years will give you access to those advancements. This can be useful if you spend a lot of time in your car and/or you simply enjoy the usefulness of modern technology. There's also a fairly minimal down payment required to get into a new vehicle, so you aren't required to tie up as much of your cash reserves or other non-retirement investment accounts, but rather you use your incoming free cash flow to make the payments on the lease. This also keeps more options open for potential better "use of money" by keeping (or adding to) appreciating assets versus depreciating assets (like a vehicle).

What about the downsides of leasing? With leasing, you aren't building any equity in the vehicle as you make payments, but rather making payments to cover the depreciation. So you'll need to make another new decision in a few years once the lease comes up to either buy the vehicle you've been leasing, buy a different vehicle, or do another lease. Also, if you go over your mileage limit, you will owe extra money per mile of overage on top of what you've already paid during your monthly payments. Car lease payments can look attractive to many, so be careful not to go too high on the monthly payment commitment and get a vehicle that's a little too much than what you need.

Benefits of buying: For those that buy a new car, they will also have a full warranty for a period of time. If you buy used, it will likely be a warranty that isn't quite as robust, but will give you at least some coverage. Keep in mind it's very prudent to pay attention to what would be offered with a used purchase from a warranty standpoint. Also, with buying, you'll be building some equity as time goes on (but keep in mind this diminishes over time, given that vehicles depreciate in value -- especially for those that put on a lot of miles). You also won't be tied to the mileage limits. This is of particular importance to those that put on over 15,000 miles per year on their vehicle. A new or slightly used vehicle's maintenance costs should be pretty low, particularly throughout the warranty period. Financing options have become widely available to everyone, and can be customized depending on your credit and how far out you want to extend the loan. This leaves flexibility to decide how much money to put down initially. There are plenty of calculators online that can calculate monthly payments for you, depending on the term and interest rate of the loan, along with the down payment amount. Naturally, financing is more attractive in a low interest rate environment.

What about the downsides to purchasing? Your vehicle will continue to depreciate in value as time goes on, which shrinks your equity from a resale or trade-in standpoint. Along with the depreciation there is mileage accumulation which results in more maintenance upkeep and costs, which can be unpredictable. The need to continue to track your repairs over time also comes into play so you know



Gary Werkman, CFP®, J.D.
Director
616-546-6700
gwerkman@rwbaird.com



Brad Hulst, CFP®
Financial Advisor
616-546-6700
bhulst@rwbaird.com



The Werkman Hulst Group
Robert W. Baird & Co.
werkmanhulst.com

Have questions?
[Contact us!](#)

what may be coming up next. More maintenance also means more of your time spent at the dealership or vehicle repair shop which can be logistically challenging at times and take up your time that could be spent doing other things. For those that need to finance their purchase, the monthly payments will most likely be higher than in a lease, which will impact free cash flow. This is because with a lease you're simply paying for the depreciation of a vehicle versus building equity or ownership.

So in summary with all the pros and cons of both buying and leasing, how do you make a good, sound decision? We believe asking yourself some questions will take you down the right track:

- How many miles per year will I drive?
- Do I want to make a large or small down payment?
- Do I enjoy having modern technology in the vehicle?
- Is a full warranty important to me?
- Do I like dealing with frequent vehicle maintenance over the long-term?
- Is my vehicle simply to get me from point A to point B, or do I enjoy vehicles and spend a lot of time in them?
- Do I mind having a car payment over the long-term, or do I want to be able to eventually pay off a vehicle and have a period of no payments?
- Would I rather deal with a vehicle dealer with a good reputation, or am I okay with dealing with private parties?
- Do I currently have a vehicle with some equity or trade-in value that is paid off, that would result in a trade-in opportunity?

These questions are some to get your thinking and analysis started. We hope you find this helpful and feel free to contact us if you have any questions.

Please feel free to visit our website (wekmanhulst.com) for our contact information and other interesting content.

Robert W. Baird & Co. does not provide tax or legal services. Member SIPC



Certified Financial Planner Board of Standards, Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ and federally registered CFP in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirement. Robert W. Baird & Co. Incorporated. 777 East Wisconsin Avenue, Milwaukee, WI 53202. 800-RW-BAIRD. rwbaird.com.