



Automobile Expenses – Better to Buy or Lease?

This past week, one of my clients asked if I thought she should buy or lease her next vehicle. Here are my thoughts on the topic:

Automobile purchases are an important area of financial decision making because [the average American family spends 13-17% of their household income on transportation](#) (mostly on automobile expenses). This is more than many American families can comfortably afford, thereby crowding out other financial priorities.

Leasing is less expensive in the short-term, but more expensive long-term:

Leasing will give you a lower monthly payment than the typical car loan. However, let's suppose you buy your car and keep it for 11 years (the average age of a car on the road today). That means you would have five to eight years of no car payments. You would also receive some of your money back when you sell the car, which can then be used for the down payment on your next purchase. Alternatively, you will always have a payment if you lease.

It makes sense that leasing is more expensive in the long run because you are only driving the vehicle for the first 2-3 years when it is depreciating (losing value) the fastest.

Lease vs. Buy Example:

Let's look at an example, which I borrowed from an article on Businessinsider.com a couple of years ago. A new Jeep Grand Cherokee was selling for approximately \$29,395. You could buy it and get a 36-month car loan with a down payment of \$5,879 and a monthly payment of \$754. Leasing the same vehicle required less than half as much for a down payment (\$2,499) and only \$485 per month. [Lease payments are 23% lower on average than payments on car loans, which is one reason that a record number of people are leasing.](#)

Leasing makes sense if...

Leasing can make sense in certain situations such as:

- If you are cash poor,
- You are going to get a new car every 2-3 years,
- You can use the car for business purposes and thereby write off all or part of your lease payment,
- You drive less than 12,000 miles a year.

Many people like the convenience of leasing and always having a car that is under warranty. Another reason leasing has become more popular is that car technology is evolving so quickly. Many people want the latest electric car, the most current safety sensors, and the best integration with their smartphones. It makes sense that you would be reluctant to get too attached to a new car or mentally commit to keeping it more than a few years. Why would you want to be saddled with an outdated car?

One thing to keep in mind is that it's important to take great care of any leased vehicle. Dealerships will charge you for any little ding or damage when you return the car at the end of the lease term. Therefore, leasing may not be advisable if you have young kids who have been known to spill stuff in your car. 😊

The best financial advice:

The wealth-maximizing strategy, as it relates to automobile expenses, is to buy the car and drive it until the wheels fall off. On a related note...one of the best pieces of financial advice you can give to an aspiring millionaire is "Never borrow money for a depreciating asset." It is much less likely that you will [overspend on a car](#) if you are paying cash. It is not as easy to justify paying \$60,000 vs. \$40,000 in a lump sum, as it is to justify a monthly payment of \$800 vs. \$530.

All that being said, there is nothing wrong with leasing if you can afford the higher expenses over the long-term and always want to drive the latest model.

Email me with questions.

-Jeremy Kisner, Director of Financial Planning and Senior Wealth Advisor

For more, read: [Buying vs. Leasing a Car](#)