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Lease or Buy? Either Way, Own Your Decision

For decades, those looking to buy a new car struggle with the decision of leasing or buying. I'm providing this synopsis, so this decision does not overwhelm you one day.

Leasing is simply renting with the option of buying. Like many things in life, this option has a cost associated with it. The question for you should be, is the cost worth it? Let's look at an example to illustrate this concept. Below are the details:

Vehicle: 2018 Lexus NX 300 AWD			
MSRP:	\$38,380 plus tax	Monthly Payments:	\$499.50 ¹
Down Payment:	\$3,446	Purchase Price at the End of the Lease:	\$22,431
Lease Term:	36 months	Sales Tax to Buy a Car in Denver:	7.65% ²
Monthly Payments:	\$499.50 ¹	Price of the Car Plus Tax:	\$41,316.07

¹ Includes tax, title, government fees, bank fees, and vehicle registration fees

² Colorado State Tax of 2.9% plus RTD Tax of 1.1% plus Denver City Tax of 3.65%

At the end of the lease, the total payments would equate to \$20,047 (money down of \$3,446 plus \$499.50 x 36 months). At this time, you have the option to buy the car for \$22,431. If you buy the car, this brings the total money spent to \$42,478 (\$22,431 to purchase the car plus \$20,047 for the total payments made); or \$1,161.93 more than buying the car outright.

The decision to lease or buy will depend on the idiosyncratic circumstances of the individual. Here are some factors to consider:

Optionality

At a cost of only \$1,161.93 more to lease a car, some prefer this option due to the optionality of leasing. What is the value of this optionality? The answer depends on individual circumstances. If you know you will stick with your Lexus NX 300, you may not want to pay the extra cost. Someone else may not be confident they will enjoy a Lexus. For this person, the extra costs may be worth it.

Liquidity

Some individuals may deplete their emergency funds by paying for the car outright. If this leaves them with less than three months of expenses in their bank accounts, leasing may be a better option to keep them solvent. For another with too much cash in their bank account, buying could be more beneficial.

Opportunity Cost

By using your savings to pay for the car outright, you are paying an opportunity cost. Could these funds have been used more efficiently elsewhere? Would investing these funds yield a

greater return than the additional cost which ends up being about 0.9288% annually?¹ The answer would depend on the investment environment and opportunities available.

Other Perks

For business owners, lease payments are deductible as a business expense. Also, leased cars do not show up as debt on a credit report.

Unfortunately, this decision is more of an art than a science, and there is no straightforward answer of the superior option. Leasing may be a better option for some while buying could be the best route for others. Car buyers don't decide what wheels to buy until they know what car they're putting the wheels on. This decision is no different. Don't make this decision without first considering your financial position, the investment environment, and your unique circumstances.

Enjoy the ride.



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¹ Solve for the interest rate using the following variables: present value: \$41,316.07; future value: \$42,478; payment: \$0; time: 36 months; then calculate IRR, which turns out to be 0.9288%.