

## Special Report: New and Used Rental Sales Outlook

The COVID-19 pandemic has caused massive disruptions to virtually every industry. Stay-at-home orders and the virtual cessation of personal and business travel has hit the rental car industry particularly hard.

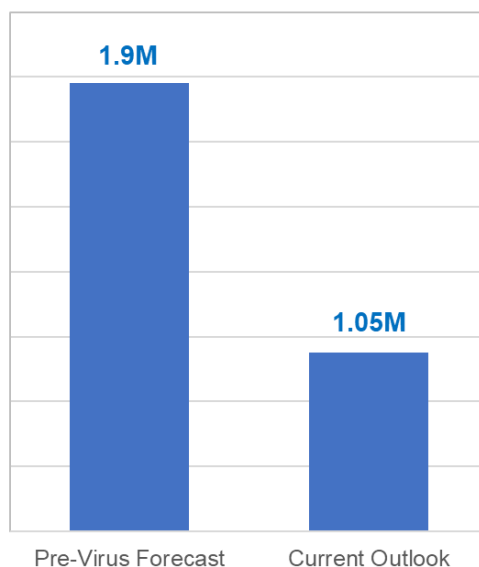
Over the past few years, new vehicle sales into rental fleets have numbered around 2 million units per year, and our pre-virus expectations for sales of new vehicles into rental fleet sales in 2020 was a similar 1.9M units (excluding medium and heavy-duty vehicles).

For obvious reasons, the pandemic has radically altered our outlook. Given the current and expected near-term decline in consumer and business travel, rental companies will need to shrink fleet size to match the reduced level of demand. This will happen in two ways; the reduction of new vehicle purchases, and the right sizing of current portfolios by the remarketing of surplus units already in service.

### Reduction of Fleet Purchases

Our updated forecast estimates that 1.05 million new vehicles will be sold to rental companies in 2020, a 44%, or 831,000-unit, reduction from our pre-virus outlook<sup>1</sup>.

#### New Rental Fleet Sales Scenarios



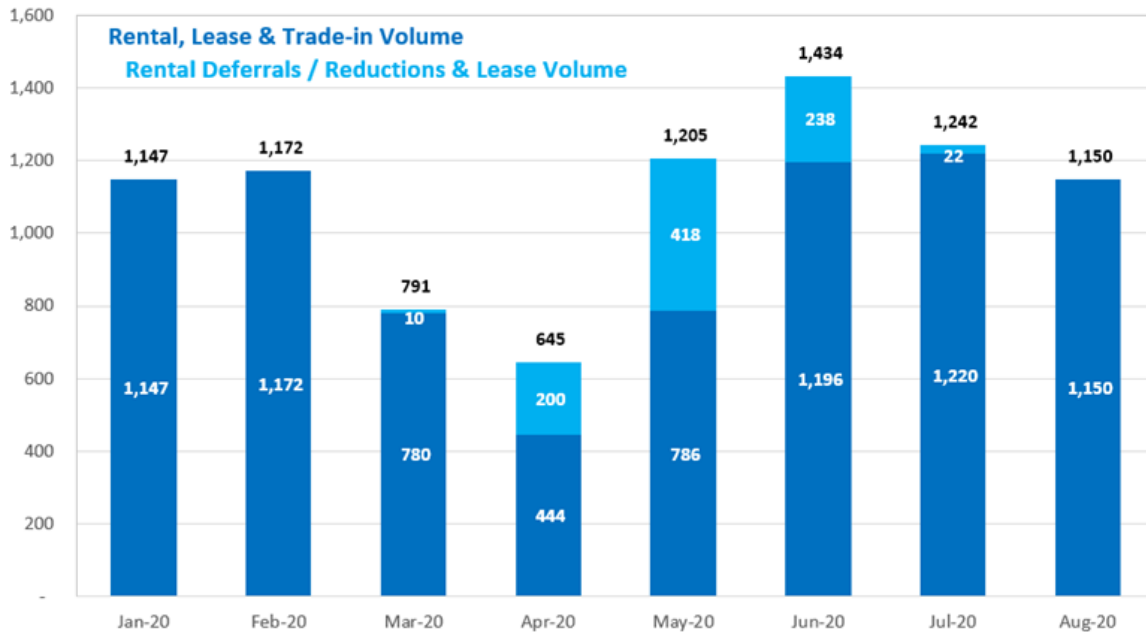
<sup>1</sup> The 1.05M forecast is derived from J.D. Power's Moderate new sales scenario for 2020. Current CY20 total new vehicles sales estimates range from 13.0M to 14.5M versus a pre-virus baseline of 16.8M.

## Portfolio Right Sizing Will Add Units to Used Inventory in May & June

We expect rental companies to sell the bulk of their underutilized inventory, which we estimate to be 20% to 30% of pre-virus fleet levels, in May and June of 2020. This closely aligns with our expectations for when the bulk of deferred off-lease volume will also enter the used market.

The rise in off rental and lease volume will be tempered by a reduction in trade-in volume due to lower new vehicle sales. We expect used rental, lease and trade-in volume entering the market to peak in June at around 20% higher than our pre-virus expectations for the month. This increase in used supply, combined with softer consumer demand, will put downward pressure on used prices. Specifically, we expect used vehicle prices to be 8% to 11% lower in June versus our pre-virus baseline. However, we expect prices will gradually recover after June as used inventory slowly recedes and consumer demand recovers.

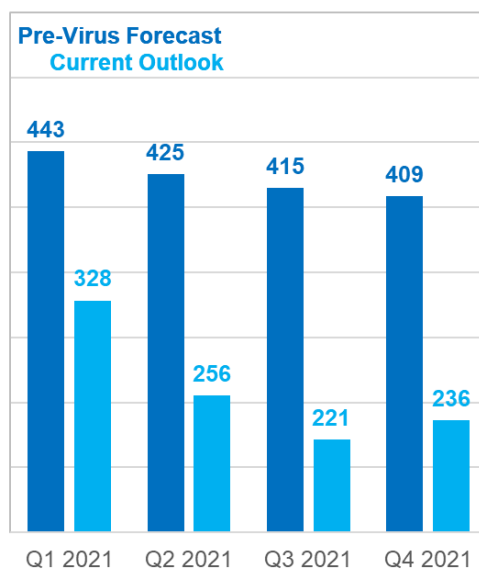
**Rental, Lease, and Trade-in Supply Outlook (000s)**



### Rental Purchase Reduction Will Significantly Lower Used Supply in 2021

While there will be temporary pain associated with higher used rental volume hitting the market in the short term, the reduction in new rental sales will be supportive of used vehicle prices when looking further out. In 2021, we expect that used rental supply will fall from an average of approximately 423,000 units per quarter to an average of 260,000 units. Further, used rental supply will get progressively lower as we move deeper into the year. By Q3, for example, rental supply is expected to reach just under 221,000 units – a significant 47% decline from pre-virus levels. Overall, we expect used rental supply will be down 38% in 2021 when compared to baseline estimates for the year.

#### Used Rental Supply Scenarios



The reduction in used rental supply will impact inventory availability for near-new used vehicles and will, as stated earlier, provide a lift to used vehicle prices. To put the former point in broader context, off-rental units usually comprise 50% to 55% of the 2-year-old or younger units that enter the market in any given year. This fact, combined with current expectations for used rental supply in 2021, means the total supply of very late model units will be down approximately 70% over the course of the year – a large and extremely significant number. As such, dealers will find it much more difficult to fill used vehicle inventory holes for these units than in the past – especially as the year wears on.

## **Tighter Supply in 2021 Is Expected to Raise Used Prices in 2021**

In terms of used prices, all else equal, we estimate that the reduction in used rental supply would lift prices of units up to 2-years-old by 3% to 4% in 2021, with the greatest lift associated with the supply trough expected in Q3 2021. So, while dealers, and ultimately consumers, may pay more than they would under more usual market conditions for vehicles in this age group, the lift in used prices will lead to a stronger return on investment for rental car companies.

In summary, here's the takeaway—outsized de-fleeting of rental units currently in service will weigh down used prices near-term, but a radical reduction in new rental fleet sales this year will act as a strong tailwind to near-new used vehicle prices down the road.