

# Car Leasing Secrets: Understanding Residual Values

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Lease-end residual values are very important in the calculation of monthly lease payments since leases are based on the difference between residual value and negotiated selling price. The higher the residual value, the lower the lease cost.

Residual values are usually expressed as a percentage of MSRP (Manufacturer's Suggested Retail Price) -- not negotiated price as many people often believe -- based on length of lease and average mileage. For example, if a vehicle's MSRP is \$30,000 and its 36-month residual is 50%, assuming 15,000 miles per year, the dollar value of that residual is \$15,000.

Residual values reflect anticipated depreciation of vehicle values over time. These values are estimated, based on a number of factors including annual mileage, number of months in the lease, vehicle make/model, past resale history, and expected future economic conditions. In short, setting residuals is an educated guessing process based on the best data available.

Residual values can be different depending on who is doing the estimating. One dealer who uses a particular lease company may offer a significantly different residual value than another dealer who uses a different company, for exactly the same vehicle and same lease. It is often misunderstood by consumers that residuals are constant and fixed for a particular vehicle make and model.

Lease companies often choose to use industry sources of residual data (ALG, Blackbook) rather than do their own research. However, they may adjust those values up or down as they see fit. It is very common for example to temporarily boost residuals for limited-time promotions.

Over the last few years, residuals have been abnormally high due to the extremely competitive nature of the automobile sales industry. This has been a great benefit to leasing consumers, but a financial disaster to leasing companies and banks. Many banks have now stopped offering leases, unable to keep up with the artificially high residuals still being offered by deep-pocket car manufacturers.

Many potential car lease consumers are often frustrated by not being able to predict exactly what residual value they might expect from a dealer. In this sense, residuals are much like interest rates on car loans.

The only sure way to know what residual value you'll get from a particular dealer who uses a particular lease company for a particular vehicle on a particular day is to ask. Al Hearn is owner and operator of LeaseGuide.com, a popular web site for automotive consumers interested in leasing. The site provides information, advice, and calculators that have helped thousands of visitors since 1995.