

The German Leasing Market 2021:

Leasing Industry Delivers 70 billion Euro's Worth of Investment

2021 was the second year spent in the shadow of the coronavirus pandemic and the measures taken to contain it. As expected, economic catch-up effects were already discernible in the spring, but these were repeatedly overtaken by events in the ensuing months. In their Joint Economic Forecast for the Spring of 2022, Germany's leading economic research institutes summed up the situation as follows: "During the pandemic, international supply chains were subjected to considerable stresses. German industry, too, had to contend with materials shortages of historic proportions, and this massively hindered production at a time when well-filled order books were indicating a strong recovery in demand". The Germany economy managed to pull out of the sharp contraction it underwent in 2020, but economic performance failed to return to pre-crisis levels.

Supply Bottlenecks Slow Down Leasing Activity

German leasing companies financed around 70 billion euro's worth of investment in machinery, vehicles, IT equipment, real estate and other assets in 2021. Compared with the preceding year, acquisition of new business stagnated, mainly on account of delivery problems in the automotive industry. Vehicle leasing has for years been the most lucrative segment of the leasing market, and demand for leased vehicles remained very strong last year, with well-filled order books. However, leasing companies are not permitted to use the accounting methodology adopted by the research institutes in their spring forecasts; instead, they have to wait until a leased asset has been delivered to the customer before the transaction may be reflected in the balance sheet, and only after that will it show up in the leasing sector's annual statistics. Supply bottlenecks and long delivery times held up the delivery of leased vehicles in the second half of 2021, precisely when demand for leased vehicles – and thus for the financing services of leasing companies – happened to be particularly high.

The volume of new leasing investment in Germany stood at 60.2 billion euro last year, which was 1.9 percent down on the figure for 2020. New business acquired through hire purchase agreements, which many leasing companies offer their customers as a financing alternative, increased by 14.7 % to 9.4 billion euro.

New business comprises the business obtained through the leasing of "movables" (i.e. equipment) and through the leasing of "immovables" (i.e. non-residential buildings). Both types of leasing contracted last year: new business acquired through equipment leasing fell by 1.8 % to 59.4 billion euro, and the volume of new business obtained through business property leasing was down 9.1 % at 0.9 billion euro. (It should be noted that the leasing of non-residential buildings tends to be volatile as it is generally driven by large-scale projects.)

Lower Leasing Penetration Rate in the Equipment Segment

In 2020, the year in which the coronavirus pandemic descended upon us, the equipment leasing penetration rate reached its all-time high of 28.3 %. In spite of high levels of demand, the penetration rate last year fell back to 26.4 % because of supply-side shortages. Even so, this means that just over a quarter of the volume of overall investment in equipment was made through leasing. And if new business obtained through hire-purchase transactions is

included in the calculation, the leasing industry could rightly claim to provide the financing for around a third of all investments in equipment.

Because of the decline in new “immovables” leasing, the proportion of aggregate investment (i.e. overall investment in equipment and non-residential buildings) accounted for by leasing was down, and the overall leasing penetration rate fell from 16.9 % in 2020 to 15.7 %.

Vehicles Dominate New Leasing Business

Last year, the dynamics of growth (or contraction) varied in the different asset groups. However, virtually every segment was affected by supply-chain disruption. The leasing of passenger cars and commercial road vehicles once again accounted for the lion's share of the leasing market (76 %). And while supply shortages led to a 4 % reduction in new passenger-car leasing, there was a 17 % increase in the leasing of commercial vehicles (i.e. buses, trucks, transporters and trailers) on account of the booming road-transport sector and the greater availability of commercial vehicles.

Increased Shares of Market

There were 10 % fewer new car registrations in 2021 than in 2020. But there was only a 6.6 % drop in the number of new passenger cars leased, so the proportion of new registrations accounted for by leased cars increased from 46 % in 2020 to 48 %. This increase in the leasing penetration rate over the past two years is attributable to unusual market factors that have resulted in a downturn in the availability of small vehicles in particular. However, it is expected that the leasing penetration rate will adjust itself in the coming years. Manufacturers have reacted to the shortage of semiconductors by focusing on the production of higher-value cars, and since such vehicles are more frequently leased than purchased outright, the decline in the number of new leased-car registrations has been less steep than the overall drop in new car registrations.

Engagement in Decarbonizing Transport

For the first time, the BDL has gathered separate data on the leasing of bicycles and e-scooters. 1.4 billion euro's worth of these two-wheelers were leased out by the member companies of the BDL last year and contributed some 2 % to the overall value of the leasing market. The flourishing Electric Vehicles segment, which has a leasing penetration rate of 44 %, and the boom in the leasing of bicycles and e-scooters provide two clear indications of the important role the leasing industry is playing in the decarbonization of road traffic in Germany.

New business obtained through the leasing of production machinery, the second most important leasing segment, fell by 5 % in 2021. The proportion of new leasing business accounted for by production machinery stood at 8 %. However, it should be noted that the BDL has restructured the gathering and presentation of its market data: construction machinery (with a share of 3 %) and agricultural technology (1 %) have been removed from the Production Machinery and Commercial Vehicles segments and treated separately for the first time. Figures for comparison with 2020 are therefore not available for these “new” segments.

The Office Machines, Computers, Servers and IT Equipment segment last year shrank by 3 %. Again, shortages of pre-products – of computer chips in particular – caused problems. This segment accounts for 4 % of all new leasing business.

The Medical Technology segment developed positively, with the volume of new business up by all of 11 %. This segment currently accounts for 1 % of all new leasing business transacted, but given the furious rate at which health-care technology is developing, and health-care providers' continuing underuse of leasing services, the potential this sector has to offer seems far from exhausted. Many hospitals, health centres and specialist practices have yet to discover that leasing can help them take advantage of important new developments in medical technology. And the supplementary services provided by leasing companies can help health-care providers make the best possible use of these new technologies.

The volume of new business acquired through Intangible Assets fell by 30 % in 2021. In statistical terms developments in this segment, which generated 1 % of new leasing business, are underrepresented, for although software and licences nowadays account for a rapidly increasing proportion of the value of virtually all capital goods, they are often statistically subsumed in other market segments.

New business acquired through Aircraft, Watercraft and Rail Vehicles was down by 28 % and accounted for just 1 % of the overall leasing market. Customer structures and the magnitude of individual transactions have always tended to make this a particularly volatile segment.

How the Customer Sectors Developed

The make-up of the leasing industry's customer base has remained stable for years, and 2021 delivered no surprises. Because of certain changes in the structuring of the BDL's statistics, no direct comparisons between new-business acquisition trends in 2021 and in 2020 are possible.

Service companies are by far the largest customer group. The services sector is very heterogeneous: it comprises credit institutions and insurance companies, hotels and the hospitality industry, as well as consultancy firms and IT service providers. The most-leased commodities in this sector, which last year accounted for 38% of the leasing market, are motor vehicles and IT and office equipment.

Companies active in the Manufacturing Sector make up the second-largest customer group. They last year delivered 17 % of all leasing investments.

12 % of new leasing business comes from Private Households. This customer group, which tends almost exclusively to lease vehicles, is now an important source of demand in the ever-widening e-mobility market. Leased bicycles are generally used by employees, no matter whether they are used privately or for business purposes. But the lessee is generally the employer, who, by signing the leasing agreement, can be said to be an investor in environmental sustainability.

Trade & Commerce accounted for 10 % of new leasing business transacted. Close behind in the customer-sector rankings came Transport & Telecoms at 9 %.

Leasing has long been recognized as a useful financing tool in the Construction Industry, which contributed 8 % of new business transacted last year.

The Agriculture, Forestry, Energy and Water Supply segment accounted for 4 % of the value of the overall leasing market in 2021.

The State Sector came in last in the customer-sector rankings and contributed just 2 % to the value of new business. In terms of absolute transaction volumes, public bodies – i.e. regional authorities and social insurance agencies – and the German state make very little use of leasing as an investment tool. However, a different picture emerges when the state-owned corporations, state-funded research institutes, public health-care bodies and charities normally classified statistically as belonging to other sectors are included in the calculation. Then, the amount of new business transacted with the state increases significantly.

Over 50 % of All New Business Acquired by Manufacturers and Dealers

Leasing companies acquire their customers through various marketing channels:

The lion's share of new business is acquired through agreements concluded with manufacturers and dealers. In manufacturer leasing, manufacturers offer the end customer leasing facilities either through their own subsidiary leasing companies or through a captive leasing partner. A variant of this approach is vendor leasing, where a distributor of capital goods will set up the contact between the customer and the leasing company. There was a year-on-year increase of 3 % in the volume of business acquired through manufacturers and distributors, and around 59 % of all leasing business was transacted via these channels.

In direct selling, the leasing companies' own sales teams establish direct contact with the customer. In 2021 this sales channel underperformed, and the volume of equipment-leasing business acquired by such teams fell by 7 % compared with the preceding year. Even with all the digital communications options now available, this sales channel was hard hit by the reduction in personal contacts that followed in the wake of the coronavirus pandemic. Direct transactions accounted for 25 % of all new equipment-leasing business in 2021.

Banks now offer leasing facilities as an alternative to bank loans, and they transacted 1 % more new leasing business than in 2020. Their share of all new leasing business transacted last year stood at 8 %.

Freelance sales consultants find customers, negotiate leasing agreements with them, and then call in a leasing company. New business obtained by freelancers grew at the above-average rate of 5 %, and freelance leasing agents were last year responsible for 8 % of all new equipment-leasing business transacted.

With the e-commerce sales channel, the contact between the customer and the leasing company is established via the leasing company's internet portal. Dealers and freelance sales consultants are not involved in any stage of the transaction, right up to the conclusion of the agreement. E-commerce provides an efficient platform for the marketing of small-ticket items, but since online transactions only accounted for a very small proportion of all new leasing business conducted last year (less than 1 %), they are not represented in the graphic.

Providing efficient qualitative-research and consulting services contributes decisively to the maintenance of good personal relations with customers. Digital services and online leasing offerings doubtless have their place, but (business) customers generally prefer to have the option of obtaining personal advice.

Outlook

The leasing industry got off to a reasonably good start in the current year. New business (i.e. leasing and hire-purchase business) in the first quarter of 2022 was up by about 1 % on the corresponding period last year, with the Production Machinery, the Medical Technology, and

the Aircraft, Watercraft & Railed Vehicles segments all putting in above-average performances.

However, the automotive industry, which remains of key importance to the leasing sector, continues to suffer shortages of pre-products. Supplies of new vehicles of every class remain stretched. In addition to the reduced availability of semiconductors, there have also been difficulties with the delivery of cable harnesses produced in Ukraine. On top of these specific problems, vehicle manufacturers are having to contend with ongoing supply-chain disruptions and the threat of power shortages. GDP forecasts for the current year have repeatedly been revised downwards. The averaged-out baseline-scenario projections of the economic research institutes indicate an increase in GDP of just over 2 % for the full year 2022. Given the current supply shortages, they also expect little growth in investment in equipment. But, as with all forecasts in these uncertain times, the great unknown is the availability of energy. Any interruption in the supply of gas from Russia will not only cause prices to increase further, but also disrupt production. A recession in the current year would then be inevitable.

The Leasing Industry: Sure and Steadfast

The leasing sector continues to serve many companies as a steadfast financing anchor in very choppy seas. Leasing-services customers can be sure that this anchor will hold until they take delivery of the new assets they have invested in. And leasing companies' expertise in assets and asset leasing will help lessees optimize the timing of their capital-goods orders.