



The German Leasing Market 2020

COVID 19 Virus Takes its Toll on New Leasing Business in 2020 – but Equipment-Leasing Market Penetration Rate Climbs

Berlin, 18th June 2021 – Because of the measures required to shore up the German economy following the onset of the pandemic, commercial activity was subjected to extreme fluctuations in 2020. According to the joint diagnosis of Germany's leading economic institutes, economic performance in the country slumped in a manner unparalleled in the post-war era. But already by May, a powerful recovery was in progress, and before the end of the third quarter, some two thirds of the lost ground had already been recovered. However, uncertainty about the further course of the pandemic and its longer-term consequences dampened investment activity. Many companies put their investment plans on ice, having found themselves forced to concentrate on crisis management – and even to accept state aid. It is therefore hardly surprising that according to data published by the Federal German Statistics Office in May 2021, investment in equipment fell by 11.3 %.

Although the leasing industry felt the effects of these developments, leasing remained the financing tool of choice for many of the companies that decided to go ahead and invest in IT equipment, vehicles and other goods. Thus, while there was an 8.6 % drop in the worth of new equipment leased, the penetration rate of leasing in the equipment-financing market rose to 25.2%. This was a renewed indication of the great advantages of leasing, in particular for companies caught up in a crisis and struggling to protect their liquidity. Once again, leasing companies demonstrated they were investment partners that Germany's "Mittelstand" sector can rely on.

It total, the German leasing sector enabled companies to make 69.6 billion euro's worth of investments through leasing and hire-purchase agreements.

COVID Crisis Hits Leasing: New Business Declines to 69.6 Billion Euro

Last year, the volume of new investment in Germany financed through leasing came to 61.4 billion euro (down 9.5 % on the figure for 2019). New business acquired through hire-purchase agreements, which many leasing companies offer their customers as a financing alternative, stood at 8.2 billion euro (down by 9 %).

New leasing business comprises investments in equipment (equipment leasing) and in non-residential buildings (real-estate leasing). Both of these segments contracted last year. 60.5 billion euro's worth of business was acquired through the leasing of equipment (down 8.6 %), while the volume of real-estate leasing came to just 0.9 billion euro (down 46.5 %).

Over a Quarter of all Equipment Investments Made through Leasing

Because of the COVID crisis, companies in Germany have been cutting back on investment. But those companies that have invested have made greater use of leasing. Accordingly, the leasing penetration rate in the equipment sector – i.e. the proportion of overall investment in equipment accounted for by leasing – increased from 24.8 % in 2019 to 25.2 %. In other words, a good quarter of all investment in equipment was made through leasing.



Because of the sharp fall in the volume of new real-estate leasing business, the proportion of aggregate investment accounted for by leasing – i.e. the overall leasing penetration rate – fell to 15.8 % (from 16.4 % in 2019).

Gainers and Losers in the Various Leasing-Object Categories

The national and international measures set in place in 2020 to combat the COVID crisis impacted just about every sector of the economy. Disruptions to supply chains caused by the pandemic were particularly acute in the first half of 2020. Germany's key manufacturing sector, the automobile industry, ceased production altogether on a number of occasions, which of course had a knock-on effect on vehicle manufacturers' suppliers. Companies battened down the hatches, and so investment plans were cancelled or postponed. In consequence of this, there was a decline in new business acquired in all of the leasing-object categories, though the fall in demand was more pronounced in some categories than in others. But in so far as companies did decide to invest in equipment, leasing was frequently their financing tool of choice, which explains the increase in the leasing penetration rate in relation to overall investment in equipment.

Leasing Penetration in the Vehicles Segment Climbs

The automobile industry took a severe hit during the first lockdown, in the spring of 2020. Given that the leasing of vehicles, and, specifically, of **passenger cars and commercial vehicles**, accounts for no less than 79 % of the value of the German leasing market, the consequences of the lockdown for the leasing sector as a whole were significant. Road-vehicle leasing fell by 8 %, but recovered slowly over the course of the year. Considerably fewer new road vehicles were registered last year, and there was a fall of 22 % in the numbers of vehicles registered to commercial owners. However, the companies that invested in new vehicles opted increasingly to do so by means of leasing, and so the overall share of the road-vehicle market accounted for by leasing increased. Almost 44 % of all road vehicles newly registered in 2020 were leased, compared with around 42 % in 2019.

The second-strongest segment, **Machine Leasing**, which accounts for some 7 % of the leasing market, put in a below-average performance in 2020, with new business down by around 20 %. This was a reflection of the state of the mechanical and plant engineering sector, which nevertheless staged a concerted recovery towards the end of the year.

The **Office Machines, Computers, Servers and IT Equipment** segment, which accounts for 5 % of the leasing market, experienced a moderate (2 %) fall in the volume of new business transacted. Although one of the first things that companies tend to shy away from in uncertain times is investment in IT, this did not happen to the expected extent in 2020. The pandemic has had the effect of accelerating the digitalization process, and many companies have felt the need to upgrade their hardware and software systems.

Aircraft, Watercraft and Rail Vehicles' share of the overall leasing market stands at 1 %. On account of the structure of its customer base, and of the big-ticket nature of individual transactions, the volumes of new business acquired by this segment tend to fluctuate strongly from year to year. In 2020, new business fell by 55 %. The situation is similar with **Real-Estate Leasing**, which recorded a 47 % fall in new business. This segment accounts for 2 % percent of all leasing business transacted.



There was a marginal downturn in new leasing business acquired in the so-called **Other Equipment** segment, in which Information and Signalling Systems, Medical Technology, Bicycles, and Renewable Energy Systems are subsumed. New business in this hold-all segment, which accounts for 6 % of the overall leasing market, fell by 2 %.

Outlook for 2021

For the current full year 2021, economic research institutes expect equipment investment to grow in a range of 7 – 9 %. As growth in the leasing sector is always a little stronger than growth in equipment investment in the economy as a whole, from today's perspective there could be growth of around 10 % in acquisition values at the end of the year for 2021, thus returning to the level seen at the end of 2019.