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Is It Better To Lease Or Buy A New Car?

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Cars are the second-largest purchase most consumers ever make, after buying a home. But is it better to lease a new vehicle or finance one? The answer depends on your priorities, but 2022's inventory shortages and soaring car prices have given new urgency to the question. *Getty*

Should you lease that new car or should you buy it? It isn't a new question, but production slowdowns, inventory shortages and dealer markups have made navigating the choice more difficult. For one thing, there are fewer cars to lease in 2022 than in previous years, which means leases are costlier, negotiating one of leasing's biggest pluses: being able to drive a nicer vehicle than you could afford if you financed a purchase.

That said, there are still deals to be had, and some consumers prefer leasing. The abnormal market conditions don't make conventional purchases particularly easy either. While the choice ultimately comes down to your vehicular priorities and purchasing power, the fundamental questions of Leasing versus Buying haven't changed. Here's what you need to know before you lease or buy a new car.

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Leasing: The Upsides

Because a leased vehicle is essentially rented for a finite period, typically 36 months though deals exist for other loan terms, the monthly cost is lower than purchasing outright.

Dollar for dollar, this typically nets a driver a higher-end vehicle than they could get for the same amount if they were financing the entire cost of the vehicle. When the lease is over, drivers can buy the vehicle for the agreed upon residual value or it will be sold, which recoups the rest of the price for the lessor.

As with car buyers, lessees are responsible for taxes and registration on their new vehicle, but how it's is taxed depends on the state. Most states charge sales tax only on the depreciated amount of the leased vehicle, while some also charge tax on the down payments as well. However, like purchased vehicles, sales tax can be financed and included in the monthly payment. While some manufacturers may offer "zero-down" leases, many agreements require a down payment to make the monthly payments more affordable or include a mandatory "acquisition fee."

Premium cars are especially popular as leases. Since you're only financing a portion of the car's price, the average monthly payment is lower, meaning the same monthly bill that buys you a Honda Civic Touring might lease you a Mercedes-Benz A-Class. Of course, you have to give the A-Class back in three years. *Mercedes-Benz*

Since most new vehicles have at least three years of bumper-to-bumper warranty coverage, a leased car promises to be a hassle-free one, with few unforeseen expenses. When it's time to move on, there's no haggling with private sellers or any need to sell the car on your own.

Plus, serial lessees can get into a new ride every two or three years with the latest style and features. This might suit customers in need of a short-term transportation solution. For example, a minivan may suit a family's lifestyle while kids are still in strollers and car seats, but after the kid gear is retired, a sleek sedan or more off-road capable SUV may be a better fit.

The downside to leasing is that you get no equity in the car. When the lease is over, you have the option to buy, which due to current market circumstances is attractive but may not always be. Also, picking up a lease every couple of years results in an endless cycle of payments that will certainly cost more than purchasing a vehicle and keeping it for a decade or more. There are also limitations on what you can do with your vehicle.

With a leased car, there's no need to navigate the used car waters, either at the time of purchase or at lease return. Many off-lease cars that are not bought by their lessees, however, are sold as Certified Pre-Owned Cars, which have the advantages of extended warranties and lower depreciation than a new purchase. *AP Photo/Nam Y. H.*

How Many Miles Can You Put on a Leased Car? Who's Responsible for the Maintenance?

Leased vehicles often include routine service in the terms of the agreement, which can save buyers hundreds of dollars in oil changes and upkeep. But finance companies typically limit the mileage of leased vehicles to preserve the value of their vehicle and keep costs low.

Every mile over the contracted amount–typically 10,000 miles–will add to your final bill. Leases with 12,000 to 15,000 miles are available but will increase the monthly payment, which means that drivers with long commutes or frequent carpool runs may also want to consider buying rather than leasing. A move, or a change in commuting circumstances, can also mean big charges at the conclusion of the lease if you're over the limit.

Wear and tear is another hidden expense that often catches drivers off guard. Consumers may be charged for any dents, paint scratches, or stained interiors, so it's important to keep your leased vehicle looking pristine. Customizations, popular for off-road and performance fans, are also off-limits, with many lease agreements requiring any customizations to be removed before lease return time.

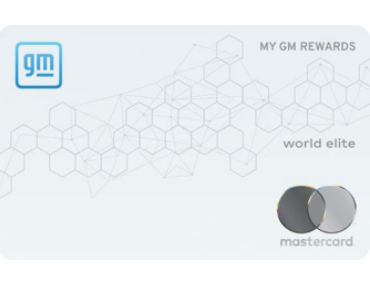
While most new vehicles include bumper-to-bumper warranties long enough to last through most leases, lessees are still responsible for routine maintenance. Some brands (but not all) also include a few years of routine maintenance in new-vehicle purchases, and that extends to lessees.

Typically, buyers looking to get into the newest and latest models every three years are well-served by leasing, but with demand outstripping supply of some hot new vehicles, like the Ford Maverick, there are few if any lease deals to be had. *Scott Olson/Getty Images*

What About Financing a Car?

Financing a car means a buyer purchases their vehicle by securing a loan through a bank or other creditor that will extend over a certain time period and require monthly payments that go toward both principle (what they owe on the car) and interest. Interest is typically determined by the buyer's creditworthiness.

Sometimes auto manufacturers will offer special financing terms, but qualifying for those incentives usually requires a very healthy credit score. Buyers also choose to put a big down payment on the car at the time of purchase, which lowers the loan amount and therefore the interest and monthly payment. Many car buyers use the money received for their trade-in as the down payment on their new vehicle.



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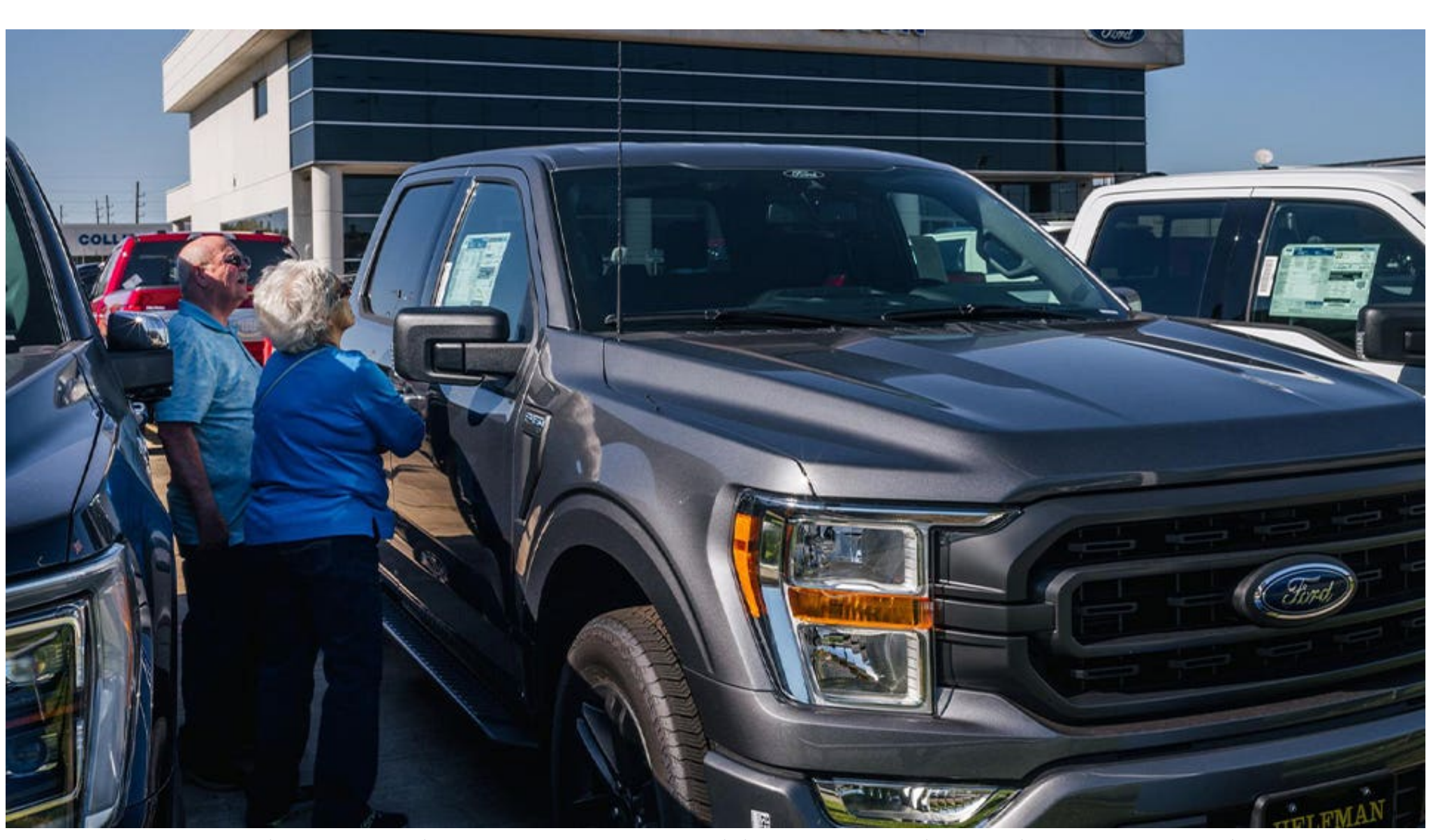
At present, used vehicle prices are at historical highs, which helps offset some of 2022's high prices. However, As the average cost of new vehicles increases,buyers are turning to longer-term loans to lower the monthly payment, with 72- and 84-month terms becoming more common.

Those long auto loans mean you'll pay *much more* interest over time compared to 48- or 60-month terms. This puts buyers at risk of "being underwater," which means their still-not-paid-off vehicle is worth less than they owe.

This is an especially significant risk in 2022, as many new and used vehicles are selling far above historical values or MSRPs. The resale value of those vehicles may not hold up as well if inventories and prices fall back to historical norms in 2024 or later. While a dealer may mark up a $20,000 Nissan Versa to $32,000 because of inventory shortages, in five years that same Versa is likely to be worth a fraction of the original MSRP. What goes up will eventually come back down, and when faced with a markup that massive, a lease is a better call.



Many consumers have found sizable "market adjustment" markups at the dealership in 2021 and 2022. While these prices reflect demand, their resale values may fall hard if and when vehicle supplies normalize. While leasing is usually less cost-effective in the long term, 2022 isn't likely to be a year of "normal" purchasing options. *Brandon Bell/Getty Images*

What Happens at the End of a Lease? Can you End a Car Lease Early?

The biggest difference between buying and leasing a vehicle comes down to ownership. Buyers build equity with every loan payment and have the option to sell their vehicle. Whatever the difference is between the sale price and the loan is theirs to keep.

With leases, drivers return the vehicle to the finance company and pay a flat turn-in fee–typically $350 to $500. If they want to purchase it or a new vehicle, they'll need to come up with a new down payment and agree on another term of monthly payments on what is now a two- to three-year-old used vehicle.

Drivers that need to end their lease prematurely may have trouble finding someone to take over the lease. Finance companies are not obligated to accept an early lease termination, and even if a driver is able to find someone that the finance company approves to assume the lease–which is not guaranteed–they may be subject to penalties for early lease termination.

If they come with the vehicle, great, but if you're going to lease you'll need to forego any major customizations. While leasing companies may be okay with installing a tow hitch on a truck, it's best to check your lease agreement as some forbid aftermarket modifications. *Ford*

Making a decision

Purchasing a new vehicle is one of the largest financial decisions buyers make, and calculating payments, maintenance and resale value before heading to a dealership will help prevent making an impulsive or emotional choice.

Automotive and lending sites, including our sister site *Forbes Advisor*, offer lease payment and loan calculators to help plan as accurately as possible. It also never hurts to speak to a financial advisor at your bank or credit union about your options before heading into the potential high-pressure environment of the dealership.

Over the long run, leasing is the more expensive option compared to buying a car and driving it into the ground, but record-high prices for new vehicles and a shortage of fairly-priced used vehicles are two good reasons to weigh both options.

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