

Buying Versus Leasing Your Next Vehicle

If you are in the market for a new car, make sure you know the pros and cons of purchasing and leasing before you sign the dotted line.



By Karen Rex

Is it better to buy? Less expensive to lease? Will I get more satisfaction from pride of ownership or does the thought of being able to have a more extravagant car really turn me on? These are just some of the questions you've probably been asking yourself if you are thinking of getting a new vehicle.

And, like everything else in life that truly matters, the answer is: it depends.

Money Matters

If keeping costs to a minimum is your main goal with respect to your new vehicle, then most experts agree that buying is more economical than leasing.

Edmunds.com, a Web-based consumer resource for unbiased automotive information, published an article by Philip Reed comparing the overall cost of buying vs. leasing a \$20,000 car for a five-year period. The study showed that at the end of the five-years, when the value of a purchased car is figured in, the true price tag of leasing is revealed. During the five year period, the cost of leasing came out as being slightly lower than the cost of purchasing — \$32,140.00 for the leased car vs. \$32,388.00 for the purchased car. However, at the end

of the five years, the car buyer now had a car worth approximately \$7000.00, while the person leasing had nothing.

Suze Orman (www.suzeorman.com), an internationally acclaimed personal finance expert, also believes leasing is not a smart financial decision. Orman considers leasing an "ego stroker" and believes that many people who lease have status symbolitis—a desire to drive a better vehicle than they can reasonably afford. Orman maintains that the least expensive way to own a vehicle is to purchase a used one and keep it for a long time.

Probably not the advice most of us want to hear when we want a new vehicle.

Looks Matter


While most people will agree that the above information against leasing makes a lot of fiscal sense, many will argue that the thrill of driving a really cool car can easily make up for added costs.

People who tend to lean towards leasing are usually those who become bored with a vehicle after a few years, believing that driving a new vehicle is more important than owning one. They are comfortable with never-ending car payments and don't see ownership as a benefit because they figure they will want a new car every three or four

years anyway. Many people who lease do so because they own a business and want to claim their lease payments as a business expense.

Basic Differences

Although the major difference between buying a vehicle and leasing a vehicle is ownership, you might want to keep in mind a few specifics:

- With purchasing, monthly payments are applied to the eventual purchase of the vehicle. Once the car is paid off, it's yours to do with as you please. With leasing, monthly payments are applied to the depreciation and use of the vehicle, not the actual purchase. At the end of the lease term, you can either return the vehicle or buy it from the leasing company (usually paying more than it's worth).
 - Financing the purchase of a vehicle usually requires a down payment; often, leasing does not.
 - For the same vehicle, monthly lease payments will be lower than financing payments. This is because lease payments are based on the depreciation of a vehicle while financing payments are based on the total cost of the vehicle.
 - When leasing a vehicle, you will agree to a predetermined mileage limit. If you go over the limit you will be charged a per-mile fee. When financing a vehicle, there is no mileage limit (although the higher mileage will cause greater depreciation).
 - When you purchase a vehicle, you can customize it to your heart's delight. When you lease a vehicle, customization is not an option — you must return the same vehicle you leased.
 - Finance periods usually extend past the manufacturer's warranty period, making post-warranty upkeep more expensive. Leased vehicles are usually covered by a factory warranty for the length of the lease.
 - Terminating a lease early could result in a large termination penalty.
- And remember, whether you buy or lease a vehicle you are responsible for costs of license, registration and car insurance. 

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