8 THINGS YOU SHOULD KOW BEFORE LEASING A NEW CAR

Should I lease? What is leasing anyway? Here's what you need to know.

1. Leasing Is Paying For What You Use

Let's imagine that a particular car costs $30,000 new and that it has an estimated value of $21,000 after three years of use. The amount of depreciation incurred is $9,000. Divide this amount by the number of months in the lease (in this case, 36 months) and you get your monthly lease payment: $250.

Now, there are also finance charges and taxes to include, but in essence, leasing is paying for the depreciation that occurs over time from your use of the vehicle. At the end of the lease, simply return the car or buy it outright by paying the remaining value of the car (in our example, $21,000).

2. Some Cars Lease Better Than Others

Cars of the same price and type can cost vastly different amounts of money to lease.

These variations mostly boil down to the details of each manufacturer's lease program. Every month, automakers release new lease programs that establish the following:

- Residual value: The car's estimated value at the end of the lease.
- Money factor: The interest rate expressed in a different way.
- Cash incentives: If available, these lower the final selling price of the car.

3. Leases Can Be Negotiated

Advertised "lease specials" create the impression that lease prices are set by the manufacturer—as if they were promotional menu items from McDonalds or something.

In truth, individual dealers determine the selling price of a car, who then apply the manufacturer's lease program to arrive at the actual cost. A manufacturer's lease special simply assumes a particular selling price that they expect dealers to honor. The selling price can most certainly be negotiated.

4. Watch Out For Marked Up Rates And Fees

Aside from setting the sales price, dealers can also mark up the money factor. This may result in hundreds or thousands of extra dollars paid over the course of a lease. Leasehackr.com posts the official money factor for hundreds of vehicles, so you can check if you're being charged too much.

With a lease, you'll also pay an acquisition fee and often a disposition fee. These are legit fees, but some dealers mark them up as well. In exchange for paying these fees, you benefit from certain inherent advantages of leasing—which we explain below.

5. Someone Else Takes On The Risk Of Depreciation

When an automaker sets the residual value of a particular model, they often overestimate the car's actual lease-end value.

For example, Leasehackr leased a 2013 Mercedes-Benz E350 BlueTEC, which had a residual value of $44,036 after two years of use. In actuality, the car was worth about $34,000 on the open market when it came time to return the car.

By leasing, Leasehackr avoided $10,000 in depreciation that we would have otherwise incurred if we purchased instead. This amounts to over $400 per month saved!

Some automakers are spot-on with their estimates. Others intentionally inflate their residual values to make their leases cheaper. And sometimes they just get it wrong. Regardless, when you lease, someone else takes on the risk and uncertainty of depreciation.

6. You Can Cash Out On Any Lease Equity You Have

Sometimes, the opposite scenario happens: your car is worth more at lease-end than its official residual value. This might occur if your car becomes highly desirable in the used car market.

With many automakers, you can actually arrange a third-party, such as CarMax or Beepi, to buy out the car. If CarMax offers you, say, $23,000 for the car, but the residual value is $21,000, then they will write you a check for the difference ($2,000).

7. You Only Pay Sales Tax On The Cost Of The Lease

When you purchase a car, you pay an amount of sales tax based on the selling price of the car. This can amount to thousands of dollars that you never get back, even if you end up selling the car a few years later.

In most states you pay sales tax only on the cost of the lease. These tax savings more than make up for the acquisition fee required on a lease.

8. Never Put A Down Payment On A Lease

- If your car is ever totaled or stolen, you can always walk away from a lease without penalty (thanks to GAP insurance). However, you won't always get your down payment back—so don't pay one to begin with.
- A down payment obscures the cost of the lease and makes it more difficult to compare deals. Any car can be leased for $199 per month if there's a sufficient down payment.