Germany

MARKET REVIEW

The overall economic picture. The German economy has seen a strong and sustained economic upturn for the last five years. GDP for the entire year 2017 was up by 2.2% (after price adjustment). Thus, the growth rate even superseded the estimated rates published by the German Council of Economic Experts in their Annual Report in November 2017.

The recent upturn can in general be characterised as mainly export driven. In real terms, in 2017 German exports grew by 4.6% after 2.6% in 2016. Domestic demand, especially in the field of capital stock formation, has remained weak for almost the whole period of the upswing leading towards an increasing output gap at least from the beginning of the year 2017.

At the same time, growth of private consumption expenditure was rather weak as well. Despite the very healthy labour market and increasing wages, private consumption increased by only 1% on the previous year with another increase in the savings rate. Hence both the development of private consumption and of investment seem to be strong indicators of the feeling of economic uncertainty the German economy has been facing over the last few years.

Overall state of the German leasing market. In 2017, the leasing sector punched above its weight in its contribution to investment activity.

The member companies of the BDL acquired €51.8bn worth of new business in 2017, which was 6.8% more than in the preceding year. On top of this came the new business worth around €7bn acquired by leasing companies not affiliated with the BDL. The total volume of new business acquired in 2017 came to €58.8bn (as compared with €55.5bn in the preceding year).

A number of leasing companies offer their customers hire-purchase agreements as a financing alternative, and the volume of new business acquired in this way stood at €8.2bn. In all, €67.0bn worth of new business was acquired by the leasing sector in 2017, which was 5.7% more than in 2016.

In 2017, the across-the-board volume of equipment investment accounted for by leasing (i.e. the leasing penetration rate) was 16.1% (slightly down from 16.2% in 2016).

The volume of equipment leasing achieved in 2017 was €50.7bn, which was 7.4% more than in 2016, and the leasing of equipment grew at a significantly faster rate than overall investment in equipment. In 2017, the proportion of overall investment in equipment accounted for by leasing reached an all-time high of 24.1%. Real-estate leasing (i.e. the leasing of non-residential buildings), however, fell to €1.1bn in 2017, slightly less than the volume achieved in 2016 (€1.3bn).

Member companies of the BDL. The member companies of the BDL generate approximately 90% of the value of all new leasing business transacted in Germany. In its annual survey, the BDL collects detailed information about the new business acquired by its member companies as recorded in their balance sheets. In the equipment segment, the BDL survey (unlike the survey conducted by the Ifo Institute) covers hire-purchase agreements as well as leasing activity.

The BDL survey showed that its members acquired €58.9bn worth of new business in the equipment segment, which was 6.9% more than in the preceding year. Of this, €8.2bn was obtained through new hire-purchase agreements (up 4.2% on the figure for 2016). Most new real-estate leasing business comes through high-value transactions and is therefore subject to considerable year-on-year fluctuation. Compared with 2016, new business transacted in this segment fell by 12.8% to €1.1bn. The

Table 1: Market penetration of leasing

	2013	2014	2015	2016	2017
Total investment in €bn*	317.6	337.5	344.4	351.6	363.8
Growth in %	–0.4	6.3	2.0	2.1	3.5
Leasing investment in €bn	46.8	50.6	52.2	55.3	58.5
Growth in %	–2.6	8.1	3.2	5.9	5.8
Market penetration in %	14.7	15.0	15.1	15.7	16.1

Note: *without housing
Source: Federal Statistical Office, ifo Institute

Table 2: Market penetration of equipment leasing

	2013	2014	2015	2016	2017
Total investment in €bn	204.0	220.5	228.3	232.6	238.0
Growth in %	–1.0	8.1	3.5	1.9	2.3
Leasing investment in €bn	45.4	48.9	52.1	55.1	58.9
Growth in %	–1.6	7.7	6.5	5.8	6.9
Market penetration in %	22.3	22.2	22.8	23.7	24.7

Source: Federal Statistical Office, ifo Institute number of real-estate leasing agreements concluded in 2017 increased slightly (by 0.9%).

Depending on their ownership backgrounds, leasing companies in 2017 performed with varying degrees of success. Independent leasing companies saw a 7.3% increase in their new business, and captives increased theirs by 8.8%. Bank-owned companies attracted 3.9% more business than in 2016.

Road vehicles remain the most leased asset category. In terms of the types of asset being leased, the overall market structure has remained fairly stable in recent years, and in 2017 road vehicles once again constituted the largest market segment. Cars and estate vehicles (58%) together with buses, transporters, trailers and trucks (17%) accounted for the lion's share of all new equipment leasing. The second-largest category of equipment leased was production machinery (13%).

Office equipment and IT systems and so-called other products followed (both with 4%), and then aircraft, watercraft and rail vehicles with just under 2%. In joint last place came intangible assets (software, patents, trademarks) and medical technology, each of which accounted for 1% of the value of all new equipment leased.

Levels of demand for the various types of leasable asset. The levels of demand for the various types of asset varied.

In 2017, demand for medical technology grew at the strongest rate (albeit from a very small base and mostly due to the very strong volatility of the market for medical technology), with new business in this segment up by 18.9%. Captives profited most from this increase (+25.7%), but the lion's share of the new business is clearly held by bank-owned companies.

The growth of 18.3% seen in the production machinery segment was for the most part generated by bank-owned leasing companies. In the past, the leasing of aircraft, watercraft and rail vehicles has tended to be just as volatile as the leasing of real estate. In 2017, new business acquired in this segment was up by 11.8% compared to the volume achieved in the preceding year. This fluctuation is attributable on the one hand to the nature of the customer base, and on the other to the disproportionate effect on the statistics of small numbers of high-value transactions. As in previous years, most of the new business can be found on the balance sheets of bank-owned leasing companies.

New cars and estate vehicles business grew by 8.2%, and demand for buses, transporters, trailers and trucks rose by 9.0%. These rates of increase were slightly below those for the preceding year. The subsidiary leasing companies of the automobile manufacturers have long been the main beneficiaries of the demand for motor vehicles. Their dynamism in 2017 was rewarded with a 9.7% increase in new business both for cars and estate vehicles and commercial vehicles.

New business in the office equipment and IT systems segment failed to pick up following the decline in demand seen since 2014.

Road vehicles are the most important type of leasable asset. Measured in terms of acquisition costs, the leasing penetration rate in this segment was 67%.

Some 41% of all newly registered cars in Germany are leased vehicles. The increase in the number of new leased cars (+4.4%) more than kept up with the overall increase in the number of new car registrations (+2.7%). Most leased vehicles are used for business purposes; in 2017, 80% of all newly leased cars were company cars. However, just 64% of all new cars on the roads were registered in the names of commercial owners.

The number of commercial vehicles leased in 2017 was 0.7% higher than in the preceding year. New commercial vehicle registrations overall were up by 4.6%.

Production machinery is the next most important asset type for the leasing industry after road vehicles. The increase in new business acquired through the leasing of production machinery was greater than the overall growth of investment in machines.

ASSOCIATION

ASSOCIATION OF GERMAN LEASING COMPANIES
BUNDESVERBAND DEUTSCHER LEASING-UNTERNEHMEN e. V.
Markgrafenstraße 19
D – 10969 Berlin
Germany
Tel: +49 (0) 30 20 63 37 0
Fax: +49 (0) 30 20 63 37 70
Email: bdl@leasingverband.de
Website: www.leasingverband.de

Board Members:
Kai Ostermann (Chairman)
Thomas Kolvenbach (Vice-Chairman)
Jochen Jehmlich (Vice Chairman)
Anthony Bandmann
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Director General:
Horst Fittler

Managing Director/Accounting and Taxation:
Dr Martin Vosseler

Permanent Representative of the BDL in Brussels
Anja Patricia Gruhn

Finance and Business Administration:
Dr Matthias Pytlik

Statistics and Training:
Harry Marschke

Legal:
Stefanie Holitschke
Claudia Rautenberg

Public Relations:
Heike Schur

Table 3: Market penetration of real estate leasing

	2013	2014	2015	2016	2017
Total investment in €bn*	113.5	117.0	116.2	119.0	125.8
Growth in %	0.7	3.1	–0.7	2.4	5.7
Leasing investment in €bn	1.4	1.6	0.9	1.3	1.1
Growth in %	–26.0	14.3	–43.8	44.4	–15.4
Market penetration in %	1.2	1.4	0.8	1.1	0.9

Note: *without housing
Source: Federal Statistical Office, ifo Institute

The penetration rate in this sector increased to around 6.7%, thus remaining on the level of the previous year.

The leasing penetration rate in the office equipment and IT systems segment, which constitutes the third-largest group of leasable assets, was slightly down again at 9.3%. This rate was still at around the 50% mark in the early 1980s, but it then fell sharply before finally settling over the course of the 1990s at a level that has remained more or less constant ever since.

Leasing companies have reacted to the availability of ever more efficient hardware, falling prices per unit of computing capacity, and the increasingly high cost of software licences and services in relation to overall IT investments by offering even the smallest packages of equipment at efficient and competitive rates, by developing special software-leasing agreements, and by providing supplementary service packages.

Medical technology still accounts for only a very small fraction of all new leasing business. In 2017 the value of new business acquired in this segment remained unchanged at €0.5bn. Given the rapid pace of innovation in healthcare technology, and the comparatively low leasing penetration rate in the healthcare sector, it seems fair to say that there is still plenty of untapped potential in the medical technology segment.

In the fields of medicine and healthcare, keeping up with the latest technological developments is essential, so hospitals, health centres and specialist practices may yet come to recognise the advantages of leasing. Nor should it be forgotten that it is possible to encourage the utilisation of technologies by providing related supplementary services.

Services sector still the top customer. In 2017, new business increased in all of the leasing customer groups apart from the State sector, which failed to match its growth of the preceding year.

The most impressive rates of growth were achieved by private households, which were up 10.2%, and in the services sector (up 9.9%).

Since the mid-1990s, the services sector has served as the engine room of the German economy, and it is by far the German leasing industry's most important source of business. This heterogeneous sector includes credit institutes, insurance companies, hotels and the hospitality industry, consultancy firms and IT service providers. Cars and office equipment (including IT systems) are the types of assets most frequently leased by service companies.

As in previous years, business transacted with the services sector accounted for around 38% of the value of the leasing market. New business was up by 9.9%, which was a higher rate of growth than in the investment market overall. The leasing penetration rate in the services sector is 13%, so there clearly remains plenty of potential here for growth.

Demand from manufacturing companies, the equipment leasing industry's second most important customer group, increased by 6.6%. The share of this segment remained stable and accounted for 18% of all leasing investments. The leasing penetration rate in this sector (16%) has remained fairly stable over the last five years.

Some 12% of all new business acquired in 2017 was obtained from private households. This was a slightly higher percentage than in 2016. Cars and estate vehicles accounted for more than 90% of the business transacted with private households; as might be expected, captive leasing companies benefited most from this

Table 4: Equipment business by type of asset in 2017

	Breakdown (%)	Trend 2016–17 (%)
Passenger cars	58	8
Commercial vehicles	17	9
Production machinery	13	18
Office and IT equipment	5	1
Aircraft, ships and rail vehicles	2	12
Medical technology	1	19
Intangible assets	1	–22
Other equipment	3	–6
	100	**7**

Source: BDL

Table 5: Equipment business by type of customer in 2017

	Breakdown (%)	Trend 2016–17 (%)
Services	37	10
Manufacturing	18	6
Transport and telecoms	10	4
Private households	12	10
Trade and commerce	9	4
Construction	7	8
Agriculture, mining and public utilities	4	5
Government	2	–11
	100	**7**

Source: BDL

Table 6: Equipment business by distribution channels in 2017

	Breakdown (%)	Trend 2016–17 (%)
In cooperation with manufacturers/retailers	56	7
Business acquired directly	24	1
At bank counters	12	7
Freelance sales consultants	8	22
	100	**7**

Source: BDL

Table 7: Equipment business by type of contract in 2017

	Breakdown (%)	Trend 2016–17 (%)
Finance leasing	47	5
Operating leasing	39	9
Hire purchase	14	4
	100	**7**

Source: BDL

demand. Since the mid-1980s, the captives have been very successfully offering private households innovative leasing agreements accompanied by attractive supplementary service packages. Compared with 2016, new business obtained from private households grew by 10.2%.

The transport and telecoms sector is particularly sensitive to the ups and downs of the macroeconomy. After sound growth in 2016, in 2017 new business in this sector was again up by almost 4%. The sector as a whole generated a good 10% of all new leasing business obtained in 2017.

Fifth place in the customer-group rankings was occupied by trade and commerce, which contributed just under 10% of the overall value of the leasing market. This sector is very leasing-oriented. The current penetration rate is a healthy 25%, which is well above the across-the-board average. There was a 4.2% year-on-year increase in the volume of new business obtained from this sector.

Leasing has established itself even more firmly in the construction industry. Suppliers of construction technology, equipment and services have been profiting from consolidation within this sector, and from the current healthy state of the housing construction market. New business acquired from this sector increased by 7.7% in 2017. Apart from the severe downturn caused by the financial crisis in 2008, leasing investment in the construction sector has been on a steeply rising curve since the turn of the millennium, and the penetration rate is currently almost 57%.

The primary sector – i.e. agriculture, mining and public utilities – contributed some 4% to the total value of the leasing market. Agricultural and forestry equipment are the types of asset most frequently leased in this sector. New business in 2017 was up by 4.7%.

New business transacted with the state sector performed rather poor (–10.8%, the only sector that was shrinking in 2017). Measured in terms of absolute business volumes, leasing accounts for no more than 2% of all the investments financed out of public funds – i.e. investments made by regional authorities and social security funds. For statistical purposes, state-owned corporations, state-funded research institutes, public healthcare bodies and charities are normally lumped into other customer groups, but if their leasing activities are included in the figures for the state sector, a rather different picture emerges: this sector then accounts for a significantly higher proportion of all new leasing business transacted.

The various types of equipment leasing agreement. In 2017, the member companies of the BDL concluded 1.63 million new equipment-leasing agreements, which was 7% more than in the preceding year. Both in 2016 and in 2017 the average value of a new agreement was €31,000.

Measured in terms of acquisition values, the new equipment procured and leased on to customers by the member companies of the BDL in 2017 was €58.9bn, which was 6.9% more than in 2016. Of this, 86% (i.e. €50.7bn) of the value was generated through leasing agreements, and the remaining 14% (€8.2bn) through hire-purchase transactions. Compared with 2016, the volume of new business acquired through both leasing and hire-purchase agreements increased significantly (by 7.4% and 4.2%, respectively).

If hire-purchase agreements are disregarded, and leasing considered on its own, well over half (55%) of all German leasing business was conducted in accordance with the so-called Leasing-Erlasse. These are the legal guidelines that govern all medium- and long-term agreements whose basic lifetimes are shorter than the ordinary useful life of the items being leased (in other words, leasing agreements in their "classical" form). Items leased in this way are generally amortised in full by the lessee.

The remaining 45% was transacted through operating leasing agreements. With this type of agreement, the financial/investment risk is borne by the lessor, for the only way the leasing company can recover the residual value of the asset it has leased out is by selling it on after the agreement expires, or by persuading the original lessee (or a subsequent assignee) to sign up to a new leasing agreement. Operating leasing agreements have become the standard instrument for the leasing of IT equipment and motor cars, particularly when service components form part of the package on offer.

Equipment-leasing sales channels. Leasing companies reach their customers in a variety of ways.

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 the manufacturer relies on a dealer to set up contact between the customer and the leasing company. There was a year-on-year increase of 7.0% in the volume of business acquired in this way, and around 56% of all leased-equipment business was acquired by manufacturers, their subsidiaries, their captive partners, or by dealers working together with manufacturers.

In direct selling, the leasing companies' own sales teams establish direct contact with the customer. In 2017, there was a year-on-year increase of 1.0% in the volume of business acquired by such teams, and direct selling in 2017 accounted for 24.1% of all new equipment-leasing business.

Leasing facilities are frequently offered by banks as an alternative to normal bank loans. Given current capital-market conditions, many banks view this as an attractive marketing alternative. The volume of new business generated at bank counters was 6.6% higher than in 2016. Some 12% of all new leasing business came through this channel.

Freelance sales consultants find customers, negotiate leasing agreements with them, and then call in a leasing company. Freelancers in 2017 acquired 22.2% more business than in 2016, and they contributed 8% to the value of all new equipment leased.

In e-commerce, potential customers bypass vendors and sales consultants by seeking out companies' internet portals for themselves. In theory at least, the internet offers an efficient medium for the marketing of small-ticket items, and in 2017 there was a year-on-year increase of 43.1% in the volume of business transacted online. But internet transactions still account for less than 1% of the value of all equipment leased in Germany.

International leasing business. Foreign leasing business can be conducted through cross-border agreements or through so-called domestic leasing. German leasing companies started to expand into foreign markets in the early 1980s by offering cross-border leasing facilities. In this type of operation, the leasing agreement is concluded directly between the German leasing company and the foreign lessee. In domestic leasing, the agreement is concluded between a local subsidiary of the German parent company and the foreign lessee.

The setting up of foreign subsidiaries with local expertise offers a number of advantages: on-the-ground representation increases service efficiency, and also makes it easier to assess customers' creditworthiness, the state of the local financial markets, and the demand that exists for specific types of goods.

The foreign activities of German leasing companies are highly sensitive to the economic conditions prevailing in the various national marketplaces. In 2017, the total value of cross-border leasing transactions was €0.33bn, which was 53.8% more than in the preceding year. This growth was achieved through a small number of high-value production-machinery transactions and the leasing of "other products".

The volume of domestic-leasing transactions outside Germany, in which standardised transactions predominate, also grew (by 6.1%); the total value of new business transacted through domestic leasing came to €3.5bn. It should be noted that domestic leasing outside Germany is not taken into account in the statistics compiled by the BDL about its members' acquisition of new business. Instead, these transactions are included in the volumes of investment recorded for the respective foreign countries. In 2017, around a third of the member companies of the BDL were active in markets outside Germany.

The outlook for 2018. In their Spring 2018 Joint Economic Forecast, the leading German economic research institutes state that "as a consequence of the persistently strong growth of recent years, the German economy has now reached a boom phase".

Contrary to the expectations during the past 12 months this development was driven rather by growth stimuli coming from abroad and no longer primarily by domestic demand. Germany benefits from a stronger foreign demand, and its exports to key markets as China, the Eastern European EU member states and to other member states of the euro area are growing significantly. This trend is expected to continue.

Private demand, on the other hand, due to the oil price hike in the second half of 2017 and die dampening effect this had on real incomes has developed unexpectedly weak. But in the light of a robust labour market and positive wage growth experts expect the private consumption to develop positively.

The investment climate remains inclement. Despite the high degree of capital utilisation and strong external demand private companies are still putting projects involving capital outlay on hold.

According to the BDL's quarterly Trend Report, the value of new equipment leased out or supplied on hire-purchase terms in the first six months of 2018 was 4.9% higher than in the corresponding period in 2017. The leasing industry expects new business to continue to pick up in the coming quarters, and over the year, as a whole, to exceed the volume achieved in 2017 by between 3% and 5%. This is based on the assumption that the global economy remains stable. It is expected that the leasing of equipment will continue to account for an increasingly large proportion of overall investment in equipment.

Author:
Kai Ostermann
Chairman
Association of German Leasing Companies
Markgrafenstraße 19
D–10969 Berlin
Germany
Tel: +49 (0) 30 20 63 37 0
Email:
bdl@leasingverband.de
Website:
www.leasingverband.de