Germany

MARKET REVIEW

According to the calculations of the ifo Institute, €65.3bn worth of new leasing business was transacted in Germany in 2019. This was 9% more than the €60.1bn transacted in 2018. New business acquired through hire-purchase contracts – a financing alternative that many leasing companies still offer their customers – totalled €9.5bn, which was 5% up on the figure for 2018 (€9.1bn). Altogether, the value of new business acquired by leasing companies rose by 8% to €75bn.

Equipment leasing increased to €63.8bn, according to the ifo Institute. This was an increase of 9% on the figure for 2018.

The ifo Institute calculated that real estate leasing (i.e. the leasing of non-residential buildings) increased by 6% to €1.5bn. The volume achieved in this segment in 2018 was €1.4bn.

Equipment leasing penetration rate reaches record level. The ifo Institute put the overall leasing penetration rate at around 15.9% in 2019, as compared with 15.2% in 2018. The equipment leasing penetration rate climbed from 22.5% in 2018 to 24.0% in 2019. In other words, almost a quarter of all investment in equipment was achieved through leasing. And leasing accounted for 53.5% of all externally financed investments.

New leasing business dominated by vehicle leasing. The following figures are taken from the analysis of the new equipment leasing business acquired by the BDL's member companies, whose leasing transactions account for around 90% of the entire value of the German leasing market.

By far the main driver of growth in the leasing sector in 2019 was vehicle leasing. The share of the leasing market attributable to passenger cars and commercial vehicles was 80%. This segment grew by 15%, with new business in the leasing of passenger cars up by 15%, and the leasing of buses, trucks trailers and transporters up by 12%.

These healthy increases were attributable, on the one hand, to the build-up in demand created by the WLTP (Worldwide Harmonised Light Vehicle Test Procedure) legislation introduced in the second half of 2018, and, on the other, to the simple fact that leasing in general – and vehicle leasing in particular – has become more attractive than ever for commercial companies.

Currently, two out of five newly registered motor vehicles are leased. Besides being attracted by the inherent flexibility of leasing, companies have come to view the extras that leasing

Table 1: Market penetration of leasing

	2013	2014	2015	2016	2017	2018	2019
Total investment in €bn*	319.4	333.0	345.9	357.0	373.9	395.4	410.6
Growth in %	–0.6	4.3	3.9	3.2	4.7	5.8	3.8
Leasing investment in €bn	46.8	50.6	52.2	54.9	59.0	60.1	65.3
Growth in %	–2.6	8.1	3.1	5.3	7.5	1.8	8.7
Market penetration in %	14.7	15.2	15.1	15.4	15.8	15.2	15.9

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

Table 2: Market penetration of equipment leasing

	2013	2014	2015	2016	2017	2018	2019
Total investment in €bn	206.0	216.3	230.1	237.4	248.4	261.0	265.6
Growth in %	–1.3	5.0	6.4	3.2	4.6	5.1	1.8
Leasing investment in €bn	45.4	48.9	51.2	53.6	57.8	58.7	63.8
Growth in %	–1.6	7.8	4.7	4.6	7.9	1.5	8.7
Market penetration in %	22.0	22.6	22.3	22.6	23.3	22.5	24.0

Source: Federal Statistical Office, ifo Institute

Table 3: Market penetration of real estate leasing

	2013	2014	2015	2016	2017	2018	2019
Total investment in €bn*	113.4	116.7	115.9	119.6	125.5	134.4	145
Growth in %	0.6	2.9	-0.7	3.2	4.9	7.1	7.9
Leasing investment in €bn	1.4	1.7	0.9	1.3	1.2	1.4	1.5
Growth in %	-26.0	19.1	-44.6	39.8	-7.7	17.5	6.4
Market penetration in %	1.2	1.4	0.8	1.1	1.0	1.0	1.0

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

partners can offer (in the form of, for example, maintenance and inspection services and accident-claims management) as decisive advantages.

Machinery leasing, the second most important segment, put in a below-average performance in 2019, and accounted for no more than 8% of the leasing market. The increase in new business of just 2% was a reflection of the state of the mechanical-engineering sector, which had already suffered a falling off in orders in the preceding year.

Following years of decline and stagnation, there was a moderate (4%) increase in new business in the leasing of office and IT equipment. In 2019, this market segment accounted for 5% of the leasing market.

New business in intangible assets increased by 10%. Although intangible assets account for just 1% of the leasing market, this bare statistic perhaps underplays the importance of developments in this segment, for software and licensing agreements are rapidly becoming a significant part of the value of virtually every capital good. They are therefore present as constituent elements in all the various market segments.

There was a significant increase in new business in the aircraft, watercraft and rail vehicles segment, which accounted for 3% of the leasing market in 2019. But it should be remembered that on account of its customer structures and the volume of individual transactions, this segment is known for its volatility.

Medical technology, whose share of the leasing market in 2018 was 1%, grew by 17%. In view of the dizzying pace of technological development in healthcare, and of the comparatively low leasing penetration rate in this sector, it seems fair to say that the potential for tapping into healthcare investment budgets is nowhere near exhausted.

Clinics and hospitals, medical centres and specialist practices have yet to fully realise the advantages in terms of convenience that leasing provides in the important task of ensuring their medical systems and equipment remain state of the art. Furthermore, the supplementary services offered by leasing will help them get the best out of the technology they have invested in.

Largest customer sector is services. For years, the structure of the leasing customer base has been stable, and 2019 delivered no surprises. By quite some distance, the services sector constituted the largest customer group. New business transacted with companies in this sector grew by 13%. The services sector is extremely heterogeneous, comprising as it does such diverse constituents as credit institutes and insurance companies, hotels, restaurants, cafes, bars and caterers, consultancy firms and IT service providers.

The most important commodities financed for this sector, which accounted for 37% of the leasing market in 2019, are motor vehicles and IT and office equipment. The leasing penetration rate in the services sector currently stands at around 15%.

At a time of anaemic industrial activity, new business with customers in the manufacturing sector, the leasing industry's second-largest customer group, grew by 8%. This sector delivered 17% of all leasing investment in 2019. The leasing penetration rate in the manufacturing sector is around 15%.

Some 12% of new leasing business in 2019 was transacted with private households. The healthy rate of growth in this sector (14%) was attributable to the positive development of vehicle leasing, for private German households restrict their use of leasing almost exclusively to the acquisition of cars.

The transport and telecoms sector, which accounts for 12% of the German leasing market, delivered the strongest rate of growth. Leasing business with this sector increased by 22%.

Trade and commerce contributed 9% of all new business transacted. The leasing penetration rate in trade and commerce currently stands at 23%. In 2019, however, growth in the volume of new business with this sector was a below-par 3%, which fell short of the rate of growth achieved in the preceding year.

Leasing has over the years been well accepted in the construction industry. New leasing business transacted with construc-

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Table 4: Equipment business by type of asset in 2019

	Breakdown (%)	Trend 2018–19 (%)
Passenger cars	66	15
Commercial vehicles	14	12
Production machinery	8	2
Office and IT equipment	5	4
Aircraft, ships and rail vehicles	3	161
Medical technology	1	17
Intangible assets	1	10
Other equipment	2	2
Total	**100**	

Source: BDL

Table 5: Equipment business by type of customer in 2019

	Breakdown (%)	Trend 2018–19 (%)
Services	37	13
Manufacturing	17	8
Transport and telecoms	12	22
Private households	12	14
Trade and commerce	9	3
Construction	8	15
Agriculture, mining and public utilities	3	4
Government	2	12
Total	**100**	

Source: BDL

tion companies increased by 15% in 2019, and 8% of all leasing business is currently obtained from this sector.

Construction companies were one of the mainstays of the German economy in 2019, and across-the-board investment in construction projects increased by 8%, with leasing companies punching above their weight in the financing of these projects. The leasing penetration rate in the construction industry is 50%, which is higher than in any other customer group.

The rate of growth recorded for the agriculture, forestry, energy and water supply segment (3% of the leasing market) was below average in 2019, and stood at just 4%. New business in this segment is being adversely affected by uncertainties in the farming sector. Ongoing trade disputes and difficult sowing and harvesting conditions have led to reduced investment in new machinery.

New business transacted with the state sector was up by 12%; however, this increase was achieved from a low base. The state sector contributes some 2% of the new business acquired by leasing companies, which puts it in last place in the customer-group rankings.

Measured in terms of absolute transaction volumes, public bodies – i.e. regional authorities and social insurance agencies – and the German state make very little use of leasing as an investment tool. However, a different picture emerges when the state-owned corporations, state-funded research institutes, public healthcare bodies and charities that for statistical purposes are generally counted as belonging to other sectors are included in the calculation. Then, the amount of new business leasing companies transact with the state increases significantly.

More than half of all new business transacted with manufacturers and dealers. Leasing companies acquire their customers through various marketing channels. 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 a distributor of capital goods will set up the contact between the customer and the leasing company. There was a year-on-year increase of 16% in the volume of business acquired through manufacturers

€65.3bn worth of new leasing business was transacted in Germany in 2019.

Table 6: Equipment business by distribution channels in 2019

	Breakdown (%)	Trend 2018–19 (%)
In cooperation with manufacturers/ retailers	57	16
Business acquired directly	25	14
At bank counters	11	2
Freelance sales consultants	7	4
Total	**100**	

Source: BDL

Table 7: Equipment business by type of contract in 2019

	Breakdown (%)	Trend 2018–19 (%)
Finance leasing	47	20
Operating leasing	38	7
Hire purchase	15	5
Total	**100**	

Source: BDL

and distributors, and around 57% of leasing business was acquired through these channels.

In direct selling, the leasing companies' own sales teams establish direct contact with the customer. In 2019 there was a year-on-year increase of 14% in the volume of equipment-leasing business acquired by such teams, and direct selling last year accounted for some 25% of all new equipment-leasing business.

Leasing facilities are frequently offered by banks as an alternative to normal bank loans. The volume of new business generated at bank counters was 2% up on the figure for 2018, which was below the usual rate of increase for this channel. Around 11% of all new leasing business was transacted in banks.

Freelance sales consultants find customers, negotiate leasing agreements with them, and then call in a leasing company. Freelancers, too, put in a below-average performance last year, and achieved no more than a 4% increase in new business. Their contribution to the overall volume of new equipment-leasing business stood at around 7%.

With the e-commerce sales channel, the contact between the customer and the leasing company is established via the leasing company's internet portal. Dealers and freelance sales consultants are not involved in any stage of the transaction, right up to the conclusion of the agreement. E-commerce provides an efficient platform for the marketing of small-ticket items, but since online transactions only accounted for a very small proportion of all new leasing business acquired in 2019 (less than 1%), they not represented in the graphic.

The figures show that leasing has remained a people's business. Maintaining a personal relationship with customers makes it much easier to deliver high-quality advice and support. Digital services and online offers may be useful extras; as a rule, however, customers are unwilling to forego the advantage of having person-to-person contact with a real live advisor.

Types of leasing agreement available in 2019. The member companies of the BDL offer their customers finance lease agreements as well as lease agreements with open residual values, and hire-purchase agreements. Finance lease agreements (full- and partial-amortisation agreements) are designed to comply with German leasing legislation (specifically, the so-called Leasing-Erlasse), and this form of leasing attracted 47% of all new business acquired in 2019.

Medium- and long-term agreements whose basic leasing periods are shorter than the ordinary useful life of the items being leased are subsumed in this form of leasing. These agreements are drawn up in such a way that the leased item is generally amortised in full by the lessee. New business acquired through finance lease agreements was up by 20% on the figure for the preceding year.

Operating leasing agreements (agreements with open residual values) accounted for 38% of the value of new business acquired in 2019. With this type of agreement, the financial/investment risk is borne by the lessor, for the leasing company can only recover the residual value of the asset it has leased out 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 (mileage/kilometre-based contracts), particularly when service components form a part of the package on offer. In 2019, new business acquired through operating leasing contracts grew by 7%.

Hire-purchase contracts accounted for 15% of new business acquired; compared with 2018, new hire-purchase business increased by 5%.

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