

June 2021

# Future Market Overview - Used Heavy Commercial

This is the cap guide to future residual values for used heavy commercial vehicles. Individual forecasts are provided in pounds for periods of twelve months to seven years.

## ALL RESIDUAL VALUES EXCLUDE VAT

### Vehicle Condition Parameters

All prices in Used HGV Future Residual Values relate to disposal values for models in cap Average Condition - complying with most of the following requirements:

- In a well maintained condition given its age and mileage.
- Requires only routine cleaning, servicing and minimal repairs to bring it up to retail standard.
- Mechanically sound.
- Tyres to have minimum 50% tread depth and to be without damage.
- Current DTp certificate or needing only routine wear and tear item replacements in order to obtain one.
- Acceptable colour with only partial repainting or removal of sign writing required.
- Cab interior largely undamaged but in need of cleaning.
- Cargo area in used condition but generally sound and waterproof.
- Including all relevant documentation, especially V5.

HGV Monitor reflects values for vehicles in configurations accepted as standard by the industry, detailed as follows.

- **Colour** should be plain, standard and without excessive amounts of lettering.
- **Body Lengths** need to be a minimum of 18 foot for 7.5 tonners and 24 foot for larger vehicles up to 18 tonnes. Much shorter or excessively longer will depress values. Interior height should be a minimum 6 foot 6 inches for 7.5 tonne vehicles and 7 foot 6 inches for others in order to maintain values.
- **Tipper** on lower GVW models to be of dropside construction in steel or alloy, with timber bodies worth less. Large tippers, 18 tonnes and above, to be of alloy construction with steel worth significantly less. Insulated bodies and those with blowing equipment will be worth more than standard versions.
- **Fridge Boxes** should have good quality GRP 1st life bodies, with an independent diesel powered fridge unit and stand by connection from Thermo-King, Carrier or similar. An initial ATP certificate, though not a legal requirement for UK operation, is valid for six years. Many in the trade consider this to be the limit of a value premium over a standard box. Therefore, seven year values in Monitor must assume that the fridge has been fully maintained and is still in good working order, and that an ATP certificate is still current.
- **Skip loaders** and **Hook Loaders** should have good quality equipment by Telehoist, Edbro, Multilift or similar. 7.5 tonne skip and hook loaders are generally worth little more than a tipper of the same model.
- **Sleeper cabs**, standard factory production, are worth more.
- **Sleeper Roof Pods** or poor quality sleeper conversions are worth less.

- **Hydraulic cranes** will add to values according to the age, quality and lift capacity. Current test certificates are a legal requirement.
- **Tail-lifts** will add slightly to values if in good working order and fully certificated.
- **Mileage** or total annual distance covered, shown in kilometres, represents the current researched view of the accepted norm for that type of vehicle. Although heavy goods vehicles are not as sensitive to additional mileage as their lighter counterparts, very high total mileage for the year will devalue the vehicle. Conversely very low mileage will only add to value where it is supported by condition and documentation such as maintenance records.

## Changes to Forecasting

Prior to any individual model or range reforecasts future residual values in this edition of Cap Forecasting are on average 1.5% lower compared to the May edition reflecting the predicted seasonal trend. Dependent on the extent of any reforecasts and / or changes in our economic mask, the overall final average month on month movement may sometimes be significantly different to the change caused by this seasonal adjustment.

## Additions and amendments:

There are no new models that have been added.

## The UK Used Heavy Commercial Vehicle Market

Many types of young used heavy commercial vehicles in clean condition are not in over-abundant supply as substantially discounted prices and manufacturer incentives produce high first year depreciation. This in turn means that fleet operators would not consider disposing of relatively new vehicles except under exceptional circumstances and consequently any that do come on the used market usually find a buyer. The exception to this trend is the tractor unit market, where an increasing proportion of new vehicles are supplied on short-term contracts involving residual risk. The traditional market for these derivatives as used vehicles is shrinking, causing a massive oversupply situation, with the obvious effect on residual values.

A commercial vehicle is a working tool with a residual value (second hand price) derived from the interaction of supply and demand. Due to often substantial depreciation on commercial vehicles from their new price, the tendency over recent years has been for users to "have the best" out of their fleets before disposal. As a result, demand for certain types of heavy commercial vehicle in good, clean condition frequently exceeds supply.

## Future Heavy Commercial Vehicle Pricing Model

The cap guide to future heavy commercial vehicle values is based upon a model of the used heavy commercial vehicle market and its reaction to changes in economic factors and industry trends. Relationships between factors affecting used heavy commercial vehicle prices and the sensitivity to the changing economy or model trends were derived and expressed in an econometric form.

One of the most important aspects is the information gathered with respect to the fundamentals that lie behind each purchase. No one buys a commercial vehicle as a cosmetic purchase. It is bought to bring an economic return from the purpose to which it is designed. This basic premise is the reason why one vehicle will sell for more, or less, than another, given the perception of the buyer as to the fitness of a vehicle to undertake a particular task.

In order to develop a responsive model the basic approach to the production of future residual values relies on econometric estimation. To facilitate this approach some assumptions obtained from research have been made on what is cause and what is effect. The accuracy of the data is also of primary importance although care must be taken as to their behaviour and underlying reasons for change. Generally, therefore, the

approach is empirical with many lessons learned from historical analysis. Overlaying the model are dynamic elements, which give rise to clear and explicit predictions.

Many models and theories that use econometric estimation can often be criticised for not incorporating the behaviour of used heavy commercial vehicle buyers. It is their attitudes, experience and prejudice that determine the values attained by a vehicle. In order to develop a working, effective model of the used heavy commercial vehicle market, the knowledge provided by used heavy commercial vehicle professionals on the trends in the market is essential.

The working model therefore is a logical development of the research carried out on the used heavy commercial vehicle market and factors affecting values. The economic factors that have been used to forecast forward have been detailed in the earlier sections. The future residual values in pounds are hence dependent upon the views expressed therein on the development of the UK economy and used heavy commercial vehicle marketplace.

## Sectoral Analysis

Over the last few years the used heavy commercial vehicle sector has undergone significant changes in residual values. This has often been related on a global scale to trends in the economy, both consumer and industrial. The industrial factors have long been understood to have a correlation with commercial vehicle volumes and prices but consumer variables should not be underestimated. After all, unless consumers are buying goods there is no reason for consumer freight to be transported.

### 7.5T Chassis Cab:

There are several types of basic body styles for chassis cab vehicles in this sector; these are dropside, alloy box, curtainside, tipper and fridge. All react differently to macroeconomic variables as well as specific industry trends and can be positively or adversely affected by alterations in licensing regulations. Residual values have loosely followed the economic cycle, rising during good times and falling during recessions, independent of any change to new pricing. As a result, percentages of list prices have been volatile even when analysing nearly new models and this is exacerbated by changes in new prices and discount structures.

### 18T Chassis Cab:

This sector can also be sub-divided into low (below 200 BHP) and high BHP (over 200 BHP). The high BHP models are expected to out-perform the low BHP models. The residual value pattern for high BHP models is similar to the 7.5T sector but low BHP models steadily fall further behind over the forecast period.

### 4x2 Tractor Units:

As with 18T Chassis Cabs, this sector is segmented into high and low BHP sub-sectors. The point at which tractor units are regarded as low BHP rather than high BHP is steadily rising, as demands on these vehicles increase. This breakpoint is now set at 420 BHP in Monitor, having risen from its previous levels of 340 BHP, 380 BHP and 400BHP. We anticipate that this level will be the accepted minimum desirable power requirement for some time to come. The only factor that will lead to a further step is an increase in gross train weights beyond 50 tonnes, which is highly unlikely even in the medium term due to political pressures. Used prices for high BHP models follow roughly the same overall trend as lower BHP models but steadily edge away as demand for low BHP models falls over the forecast period. Overall, the 41/44 tonne legislation has led to lower demand for 4x2 tractor units and increased demand for 6x2 units – with corresponding price movements.

### **6x2 Tractor Units:**

The trend in residual values is generally associated with the broad economic cycle. The spread of residual values between manufacturers has narrowed in the recent past with a broad band of values covering the majority of makes and models with only one or two expected to realise values significantly higher or lower than the majority. Again, high BHP units are expected to achieve a premium over low BHP models.

### **Multi-wheelers:**

Values for both 6x4 and 8x4 vehicles are particularly volatile when analysed over an extended period. As well as being associated with trends in the general economy, the growth rate of the construction sector also has an impact on demand and therefore residual values.