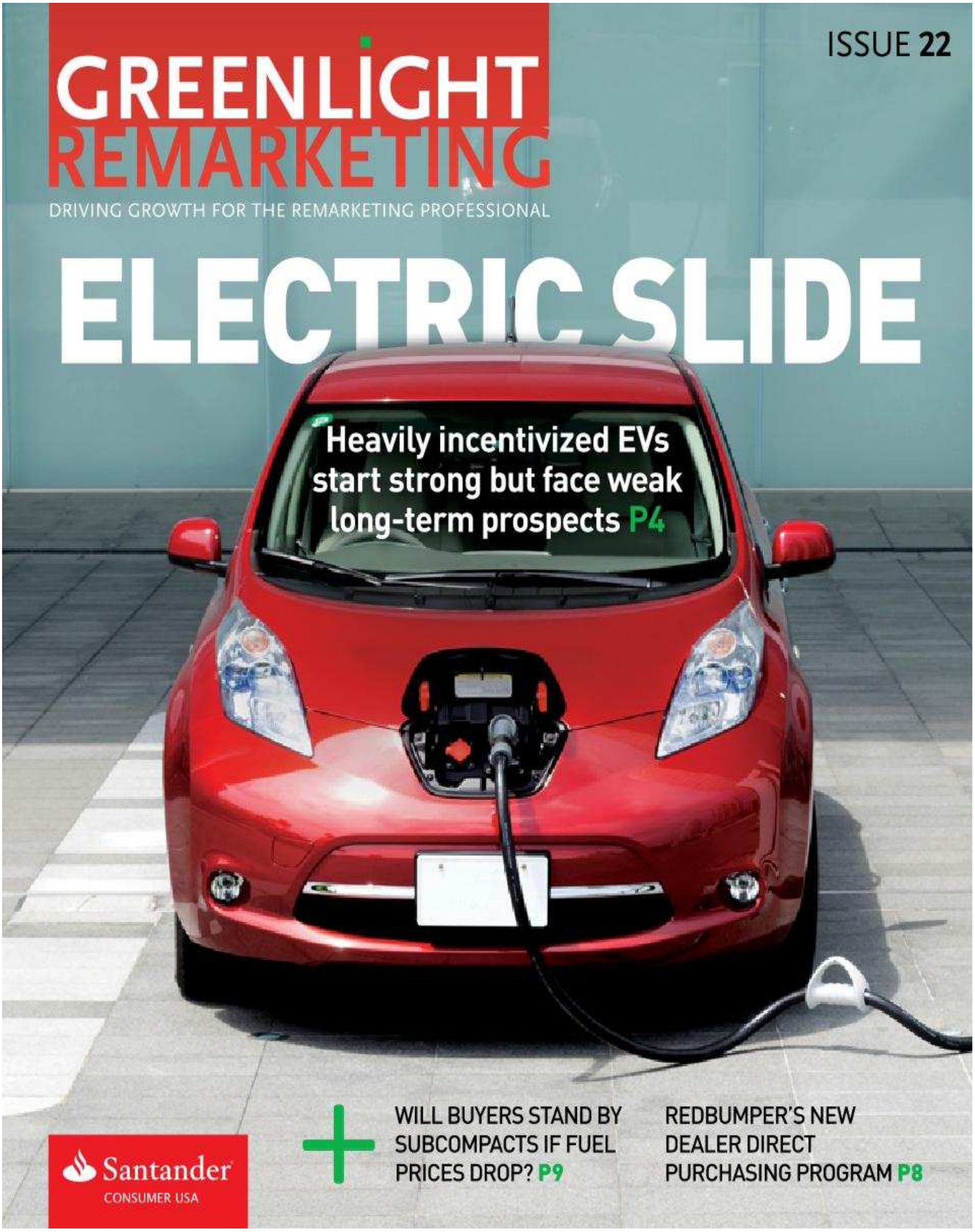
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ELECTRIC SLIDE

Electric cars cost more upfront but deliver less equity on the backend

BY KAREN JONES

ELECTRIC CARS MAY BE THE HOT NEW thing — but they aren't actually new at all. Nearly one-third of the vehicles on the road at the turn of the 20th century were electric-powered. It wasn't until Henry Ford's gasoline-powered Model T became mass-produced, which allowed gas-powered cars to win on price, power and performance, that electrics drove off into the sunset. Today a diverse set of 21st century electric cars are back in dealer showrooms, but consumer adoption has been slow and resale values remain less than stellar.

Even with the success of Tesla, the electric poster child for luxury buyers, marketshare for purely electric vehicles (PEVs) this year through April 2014 is only 0.03 percent, according to Larry Dixon, senior manager of market intelligence at the National Automobile Dealers Association. Traditional hybrids, including the Toyota Prius, which has stayed the course for 10 years, command just 3 percent of the market to date this year.

Dixon adds that he expects purchases of new electric vehicles and hybrids to remain "niche players through 2020" and does not anticipate any significant growth "over the next five to seven years."

ICE VS PEV: ANXIETY AND REALITY

The internal combustion engine (ICE) is a formidable technology to compete against. Not only is it fully entrenched in automotive mythology, but few drivers worry about how far their ICE vehicle will take them. Not so with PEVs. Anxiety over how many miles one can expect per battery charge, aptly termed "range anxiety," is a major deterrent. Drivers a century ago were nervous as well, but most drove shorter distances, and the system of streamlined highways which created the classic American road trip was far in the future.

PEVs like Nissan's Leaf advertise up to 100 miles per charge, and though hybrids like the Chevy Volt have "fail-safe" gasoline engines to help lessen range anxiety, the majority of consumers remain unconvinced. Battery-operated options like the heater will decrease range, which may not matter in Arizona, but will in Maine. Other contributing factors dampening enthusiasm include an innate fear of new technology, higher sticker prices then ICEs, competition from increasingly efficient

ICEs, and perhaps the biggest arbiter of consumer car purchasing: gas prices.

PANIC AT THE PUMP

Eric Lyman, vice president of industry insights at ALG and TrueCar Inc., says that during the 2008 gas crisis everyone panicked — both consumers and automakers. Suddenly, he says, "electrics and hybrids looked great," and a 100-mile battery range seemed sufficient for many consumers. The Prius immediately became the "it" car as people scrambled to unload what the media routinely referred to as "gas-guzzling SUVs."

Though gas prices are higher today than in 2008, they have been relatively stable over the last few years and the new-car market has readjusted, or fallen back into old patterns. "If there is one thing we have learned," Lyman says, "it's that consumer impact to gas prices is emotional, not practical — and it is short-lived."

Until the next price crisis at the pumps incites a panic, ICEs will remain the buyers' choice, especially since ICE fuel efficiency is catching up with hybrids and EVs, adds Lyman. "We see 40 miles to the gallon now, and that also slows the will to change to something new."

THE TESLA FACTOR

For the small percentage of consumers to whom image matters and money does not, most electric vehicles lacked the necessary pizzazz until Tesla roared into the market. With its 200-mile range and attention to style, Tesla has solved the green car image problem for the luxury set. "It is a great-looking car which has achieved a cult following," says Lyman, who likens its appeal to celebrity fashion designers that demand a premium price because wearing their clothes denotes a certain status.

"I have a friend in L.A. who works in commercial real estate where it is all about image," says Lyman. "His first car was a Range Rover. Three years later he bought a Prius. When I asked why, he replied, 'Billionaires drive a Prius.' Now the Tesla is suddenly an option for that consumer demographic." The distinctive Prius design has always said that the person behind the wheel takes environment issues seriously. Tesla says the same, but with Beverly Hills bling.

For the less well-heeled, Tesla has confirmed it plans to offer a Gen3 $35,000 model by 2017.

STICKER SHOCK

Sticker price is still critical to the majority of car buyers, new and used. The combination of the current government tax incentive of up to $7,500 toward buying a new EV, as well as aggressive marketing, are helping models like the Leaf pull ahead of the pack, says Eric Ibara, director of residual value consulting at Kelley Blue Book.

He adds that over the first four months of 2014, Nissan has spent approximately $10,700 per Leaf in leasing incentives "so they can offer buyers a monthly payment of $199." Chevy has spent $6,200 per year on the Volt. Ibara believes that the need for large incentives is further proof that consumers just are not ready for electrics yet.

RESIDUAL VALUE

Incentives meant to help EVs on the front end hurt on the back. "The residual value of these cars starts low because they all come with a federal tax credit for buying them new," says Ibara. (For a list of qualifying models and applicable tax credits visit www.fueleconomy.gov.)

Because the credit is one-time only and does not apply to resale, Ibara says, "What buyer is going to spend more on a used car than a new one? The people who buy these cars tend to be very early adapters and they want new cars. That means there is a very small market for used cars in this space to begin with."

Lyman concurs. "There is always a premium for buying something new — to be the first one to take it out of the shrink wrap or drive it off the lot." Conversely, there is always a discount for buying something used, "otherwise we would all buy new." That equation does not apply to green cars, where the combination of tax credits and incentives drops the price of new cars down near a one-year used-car sticker price.

In order for remarketers to make money, Lyman says, they do not necessarily have to reinvent the wheel, but rather understand that a different approach is needed. Although it's a new technology and people looking for used green vehicles are a different kind of buyer, dealers should realize "it is still a car." Lyman suggests that dealers looking to sell to green buyers should "definitely install a charging station," keep the sales staff fully up to date with the technology, and be conversant with the advantages of green, in order to speak the language of environmentally conscious buyers.

"Probably the best way to shore up used-car prices on EVs," Blue Book's Ibara suggests, "is for the finance company who owns the assets to offer subsidized interest rates on the used EV, so they can compete with new-car monthly payments."

The good news, says Dixon, is that even though EVs will remain a niche for a number of years, he feels depreciation will gradually improve. "We saw this with the hybrids in the past where it wasn't uncommon to see them lose 20 to 25 percent of their value in the first year, and we've seen similar [numbers] with the Leaf and the Volt. But with each passing year, that rate of depreciation has improved, and I think that will continue moving forward."

MARKETSHARE YTD THROUGH APRIL 2014

3.0% HEV: Traditional hybrids

0.3% PHEV: Plug-in electric vehicles with a small gasoline engine — Chevy Volt/Ford Fusion Energi

0.3% PEV: Plug-in electric vehicles only- Nissan Leaf, Tesla Model S, Ford Focus Electric

AVERAGE TRADE IN VALUES FOR HEVS, PEV, PHEV, ICE

- Gasoline ICE: average trade-in values for 2011-12 model years declined by 14-15 percent
- HEVs: average trade-in values for 2011-12 model years declined by 14-16 percent
- PEV and PHEV: average trade-in values for 2011-12 models declined by 18-22 percent.

THE COMPETITION

The Chevrolet Volt and Nissan Leaf get the lion's share of the public's attention, but Ford also offers the Focus Electric (a full EV), the Fusion Energi and C-Max Energi (both plug-in hybrids), while Mitsubishi offers the fully electric iMiEV, the cheapest electric on the market from a major manufacturer.

Prices shown are before any credits, options or destination charges.