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## Why You're Paying More to Rent a Car

### As Detroit quits building fleet vehicles, the cost of more expensive cars is being passed on to customers

Detroit has long pumped out cars that no one wants to buy, only to fob them off on rental fleets for next to nothing. But as Ford Motor (F) and General Motors (GM) downsize, they are closing plants that for years have churned out mostly plain-vanilla rental cars, like the football-shaped Ford Taurus or the innocuous Chevrolet Malibu Classic. With fewer of those tired old models left to buy, rental companies will have to start ponying up for better, more desirable cars. That means higher rates for the weary traveller.

A lot higher, it turns out. As Ford and GM race to match factory production to retail sales, they are raising the prices and fees they charge the likes of Hertz and Avis Rent a Car System (CAR). So far this year, the rental agencies have jacked up the average price at the counter for a midsize car such as the Taurus by more than \$7, to \$59 a day, says Neil Abrams, president of Abrams Consulting Group in Purchase, N.Y., which closely follows the rental car business. That follows a jump of just \$2 a day during all of last year.

"PASS IT ON." Rental agencies can't ease the cost pressure by acquiring more Asian models. Japanese carmakers limit their rental sales; the Koreans sell more to fleets, but not enough to offset the rise in prices. Now, with airport fees, taxes, and insurance, the daily rate for tooling around in a Taurus can reach \$90. "Costs to the rental car companies

have gone up dramatically in the past 24 months and are up 20% just this year," says Abrams. "You bet they are going to pass it on."

For years, consumers and rental firms alike have benefited from the fact that Detroit has been outproducing demand. To keep plants humming, and to keep busy the union workers they were contractually forbidden from firing, Detroit's Big Three offered huge rebates and 0% financing or sold discounted, bare-bones models to rental fleets.

In some cases the carmakers practically gave the cars away. For example, the manufacturer would actually give a rental company \$1,000 in rebates to buy a car for its rental fleet. Then the automaker would agree to buy the car back after four months at the sale price, minus \$250 a month for depreciation. Do the math: The rental agency basically got the car for free, says Abrams.

**NO RELIEF IN SIGHT.** These days, the prices are rising and the rebates are falling, says Maryann Keller, an auto industry analyst who sits on the board of Dollar Thrifty Automotive Group ([DTG](#)). Detroit also is buying back fewer of the used rental cars, leaving the rental firms to shoulder the risk of making money on the resale of a used car. Since stripped-down models are tough to sell, the rental companies are paying for options like leather seats, sun roofs, and better stereos. GM, for example, has cut sales to rental fleets by 7% this year. But more than 80,000 of the 700,000 rental cars GM will sell this year are equipped with sun roofs; none had them three years ago. "All of us were the beneficiaries of excess production," says Keller.

The rental companies think their prices on cars will only get worse for the foreseeable future. By the end of this month, Ford will close its Atlanta plant, which made about 150,000 Tauruses this year, or about 8% of U.S. rental buys. Next year GM will close a plant in Ontario that makes the oft-rented Pontiac Grand Prix sedan. Last year GM closed a Lansing (Mich.) plant that built the old Pontiac Grand Am and Chevy Malibu Classic.

Higher pricing is a small boon to Detroit's carmakers, who struggle to make a buck selling anything. "Rental business doesn't have to be bad business," says Paul Ballew, GM's executive director of global market analysis. But there may be a silver lining for consumers, too. Instead of fussing with hand-crank windows, renters may be plugging iPods ([AAPL](#)) into a new Fusion or Chevy Impala. It might cost more, but at least it'll be a nicer ride than that old no-frills Taurus.

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**Welch is *BusinessWeek's* Detroit bureau chief**

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