

CONSUMER CONSIDERATIONS AND HOW THEY COULD IMPACT THE USED ELECTRIC VEHICLE MARKET



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For the longest time, a specific demographic has dominated the electric vehicle market in a highly concentrated, regional fashion.

Based on a 2021 Experian analysis, those registering new EVs are predominantly white and male, work in the business, management, and finance fields, and own a home with an average value of \$450,000 to \$749,999.¹ There are several potential motivators that incentivize this demographic to purchase new EVs. One, of course, is the luxury aspect. Just over 80% of electric vehicle registrations are luxury branded, indicating they have a high-ticket price and limit affordability.² Another motivator is location, as new data suggests that EV registrations are highly regional, with most concentrated in California, Florida, and now Texas.³ All three states are highly populated and more likely to have EV resources, such as charging stations and replacement parts than less populated areas. Driving is also likely more concentrated, meaning EV charging is not as prohibitive to mobility. Their warm, southern climates also minimize the potential for cold weather-related vehicle issues. However, now that more and more EVs are trickling into the used vehicle market, this EV demographic could shift based on consumer accessibility and attitudes.



The decision to purchase a new vehicle is a significant one for many consumers, and the same criteria used to choose gas-powered vehicles are applicable to electric vehicles, with some slight

Variations. Distance until empty, number of fueling stations nearby, repair, maintenance, and insurance costs are all relevant, but since electric vehicles are still new to market, the landscape of ownership has barriers that could deter consumers. Going electric may save consumers money by eliminating the need to purchase fuel, especially with the recent nationwide surge in gas prices. However, EV owners typically pay an initial fixed cost of about \$1,200 to install a home charger, and more if the home does not have a strong enough circuit available or its electrical panel capacity needs to be increased. The installation cost may also need to be re-incurred each time the consumer moves or changes parking locations.⁴

Roughly 44.1 million Americans rent their housing, with 37% living in apartments, so they may not have the ability to install their own

Charger.⁵ Renters move about 20% more often than homeowners, so having to install a new charger with every move is more of an obstacle for renting Americans.⁶ This step could be bypassed if there were EV chargers located in grocery store or shopping center parking lots, thus enabling renters to charge their EVs while running errands. Though this option would lose its convenience if owners have to monitor the vehicle through the charge or stay at the charging location for longer than intended. The U.S. infrastructure currently has between 110,000 - 150,000 fuel stations (each with multiple individual pumps) and around 110,000 EV charging outlets, which could make finding a nearby charging station more difficult. This would be even more of an issue for consumers living in less populated areas or outside of California, Florida, and Texas, where electric vehicles are less prominent.⁷

As for the annual cost to run and insure an electric vehicle versus a gas-powered vehicle, there is a definite tradeoff. According to research by

Self Financial, as of 2022 the average annual cost to run an EV in the U.S. is about \$3,679, and about \$4,367 for a gas-powered vehicle. On a cost per mile basis, an electric vehicle is half as expensive as a gas-powered vehicle, at \$0.03 and \$0.06 per mile, respectively.⁸ However, the tables turn a bit when it comes to insurance, as insuring an EV is still largely more expensive for consumers than insuring a gas-powered

vehicle.⁹ EV insurance premiums vary based on typical factors like age of driver, driving record, annual mileage, and other optional coverages. But EV insurance cost also depends on whether the driver parks on the street or in a garage, which could further deter consumers without access to a garage.¹⁰ On average, it costs roughly \$1,218 to insure a gas-powered vehicle and \$1,636 to insure an electric vehicle per year, making electric vehicles about \$418 more expensive or roughly 35% higher.¹¹ Tesla has launched its own "Tesla Insurance" that offers Tesla owners rates up to 20-30% lower than competitor insurance companies. This could be a game changer that gets consumers to switch to EVs for these lower rates.¹² However, as of 2022 Tesla Insurance is only available in eight U.S. states and these better rates are not guaranteed, so incentives would still vary by driver.



The secondary and tertiary markets for EVs, whether used vehicle, auction, or salvage markets, are still relatively young and ripe for analysis.

To be sure, EVs do not appear to be going away any time soon. And if the trendlines continue, there will be more EVs hitting these markets. This presents opportunities and challenges for firms operating in these industries. From an insurance perspective, with individual car companies offering insurance, such as Tesla, it creates a new level of unique competition for the industry. It also adds challenges associated with pricing EV insurance given the relative newness of EVs in the marketplace. For used vehicle and auction markets, many questions remain about the demand side of this market. Who

are the buyers of used EVs? Do these vehicles maintain their luxury status on the used side, or does this market give way to affordability as EVs grow? Additionally, what role does geography play in the used vehicle markets and auction sites? Does it make sense to focus on EV infrastructure across all of these facilities, or take a more selective approach for short run investment in a limited number of geographies? Furthermore, given the difference between conventional vehicles and EVs, there are already industry changes underway about the second and third life of recycling EV batteries in the salvage landscape.¹² While many of these questions will remain until more EVs move through the pipeline, IAA's continued focus is to remain on top of trends within our industry to help provide our customers with the highest possible returns.



Sources:

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