

2026 Used Car Market Will Challenge Franchise Dealers

2025

Everything dealers need to know about inventory constraints, competitive pressures, and maintaining sales and margin.

Landscape Overview

On the surface, affordability challenges driving more consumer demand for used cars should signal boom times for the segment. Most consumers say they'd like to spend about \$35,000 on their next vehicle, far below the current average transaction price (ATP) for new vehicles. Those looking to spend below \$15,000 have no other option but a used car. More buyers **are** turning to used vehicles as an alternative to high-priced new cars but finding them at their local new-car dealership may be increasingly difficult. Inventory challenges and other issues will make selling used vehicles in 2026 a real grind for franchise new-car dealers.

Supply Issues Will Build Throughout 2026

With demand surging and a series of intensifying supply-related issues outlined below, a unique storm is on the horizon for the used car segment.

Post-COVID Production Declines

The global supply chain issues that led to reduced new-vehicle production from 2021 to 2023 put pressure on the used supply. Before the pandemic, US consumers were purchasing 17-18 million new vehicles annually. That number bottomed out in 2022 at just below 14 million, and in 2025, will still only reach about 16 million. Historically, 3-4 years after purchase, many of those vehicles became used-car supply. Simple math tells us this alone has created a challenge.

Reduced Lease Returns

The overall percentage of consumers leasing vehicles has been declining since 2019, when 32% of all new vehicles purchased were leased (5,440,000 vehicles). The average lease term was about 36 months, creating a significant and reliable pipeline for used inventory. This year, only 23% of all purchases were via lease (3,680,000 vehicles), primarily due to reduced incentives on less profitable leasing programs. As more vehicles were purchased, affordability challenges that began in 2022 amid record inflation began to snowball, exacerbating supply issues.

Extended Vehicle Retention (Consumer and Fleet)

Fewer new vehicles were purchased, and millions fewer were leased, and then the US consumer (and businesses) were hit with the 1-2 punch of inflation and rapidly increasing interest rates. One result has been extended vehicle retention by both consumers and companies with large fleets (such as rental car companies). This is especially true for brands like [Lexus](#) and [Toyota](#), well-known for their quality and longevity, which dominate [iSeeCars.com's 2025 analysis](#) of automobiles on the road with over 250k miles. Consumers are holding their vehicles nearly a year longer on average since 2019 – a trend that continues to compound each year.

Increased Competition (to acquire inventory)

While supply has declined, more businesses offering used vehicle sales have emerged, and the online channel has matured. Local independent dealers, national used dealers like [CarMax](#), franchise new-car dealers, online-first platforms like [Carvana](#), and others are all competing at the same time; there is less inventory to go around.

Affordability Shaping Consumer Behavior

Due to affordability challenges, we're seeing a variety of consumer trends that indicate a prolonged period of inventory challenges. Among these are new vehicle sales leveling off below pre-pandemic levels, extended lease and loan terms to lower monthly payments, and increased vehicle retention.

While the entire retail automotive industry contends with supply issues, franchise new-car dealers face additional challenges that affect their used-car business.

Increased Competition/Fewer Competitive Advantages

With more businesses looking to capitalize on used-vehicle sales, franchise new car dealers are fighting to maintain market share. Competitive advantages have diminished, for example:

- New car dealers had a more consistent inventory pipeline, which has since diminished.
- Trade-ins are more challenging given the increasing negative equity on US vehicles.
- Franchise dealers have higher standards for their CPO and other used vehicles, which increase reconditioning and inventory- acquisition costs.
- Consumers have more options and are less loyal in more challenging economic times.
- Given affordability challenges, consumers will trade quality and CPO status for price.

Conclusion

Used-vehicle sales remain a critical part of franchise new-car dealers' business model, and while challenges exist, proactive dealers can compete. Although inventory has decreased, margins remain strong due to high market demand. With more consumers shifting their focus to used vehicles, the retail public has increased their efforts to source used inventory, resulting in all but one selling more used units than new. Successful dealers must be hyper-focused on used sales and invest in staff to manage inventory acquisition and their overall used-vehicle business.

About Dave Cantin Group:

The Dave Cantin Group (DCG) is a leading retail automotive M&A advisory company specializing in acquisitions, divestitures, intelligence, and other advisory services related to the industry. The company is the M&A services provider of choice for North America's top automotive dealership groups, advising on approximately 40 transactions annually. We are differentiated by our advisory approach, long-term lens on client relationships and commitment to market intelligence tools that inform DCG and client strategies. In 2023 DCG became the only retail automotive M&A company with a significant strategic investor, welcoming Kaltroco to the DCG family. DCG's core services include:

Sell Side Representation: Our client-centric approach customizes each sell side process based on the uniqueness of the opportunity. Our investment banking team of analysts, data specialists and executives work with our managing directors to confidentially maximize value and manage every aspect of the acquisition until its successful close.

Buy Side Representation, Strategic Targeting: DCG works alongside some of the largest dealership groups in the country, developing growth strategies and key acquisition criteria to proactively target perfectly complementary stores or groups. Only our clients have access to Jump IQ our proprietary artificial intelligence software that provides visibility to all 18,000+ dealerships in the US.

Platform Management, Succession Planning: As the industry's leading M&A advisor, DCG is committed to working with our clients for the long-term, collaborating with principals and executives to develop objectives and strategies for how M&A can support short and long-term business goals for growth, management, or eventual succession planning.