Is car ownership on its way out?

Is car ownership going to die? The definite answer in the short term is no. The longer answer is that we are going to see a big shift in car ownership in the next 12 years. Interestingly, it's an equation with several variables. It's all in the economics, and the pieces are already on the table.

New technologies, new financing models

Technological development is driving both the move from diesel and gasoline-fuelled to electric cars, and the move from human drivers to self-driving (or autonomous) vehicles. This results in auto companies moving away from making internal combustion engines (ICEs) and into manufacturing all-electric engines.

Last year offered several examples of this trend. In May, Volvo announced it would completely stop making diesel engines by 2019. Mercedes-Benz announced electrification of all commercial vans. GM said it would ditch all internal combustion engines and move to become fully electric. Volkswagen announced it will offer an electric version of all its models by 2030. Jaguar Land Rover announced that by 2020 it would build only hybrid and electric vehicles. Maserati and Rolls-Royce will skip hybrid and go fully electric. Ferrari introduced its first EV in the last few days of December, and the list goes on.

Some of these companies have also started testing and introducing new financing models that disrupt current models of ownership and leasing. Two of those companies are Volvo and Ford. Volvo is looking to diversify its pricing model with a subscription option. You will not own a Volvo, you will "subscribe" to it, like you subscribe to the gym or to Netflix, no commitment. It will include the car you want, maintenance and insurance. Ford is basically doing the same through its subsidiary, Canvas.

The role of government

Governments are increasingly more interested in allocating investment dollars towards shared mobility and green space. Governments and cities are actively pushing to reduce the use of private vehicles in cities and highways, with adoption of different shared mobility solutions. In conjunction, they are encouraging the use of electric vehicles through rebates and tax credits. Various cities in the Los Angeles Metropolitan area are actively looking to implement different ways to reduce traffic congestion such as van pooling which encourages individuals to stop using their cars for commuting. Culver City, for example, is considering a van pooling service to shuttle workers to and from bus and train stations.

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Sacramento, California has been chosen as the "first green city" in the U.S. by Volkswagen's subsidiary Electrify America, a title which comes with $44 million in investments. Electrify America aims to invest a total of $800 million in California and another $1.2 billion in the rest of the U.S. to build zero-emissions transportation solutions and infrastructure nationwide.

My employer, Envoy Technologies, a Los Angeles-based company founded by Israelis Ori Sagie and Aric Ohana, provides the real estate industry with exclusive electric vehicles for their communities and has won a $1.5 million grant from the California Energy Commission to deploy 60 electric shared vehicles at 30 locations in Sacramento and the San Francisco Bay Area. The vehicles will be used exclusively by low-income communities, enabling them to both make money as part of the "gig economy" (Uber, Lyft PostMates, etc), and to possibly get rid of their old vehicles, which often incur high associated costs, while still having cars available to them at their own parking garage.

Studies show a trend

Baby boomers who want or need to work after retirement find themselves driving for gig economy companies like Uber and Lyft. A 2015 study by Uber found that nearly a quarter of its drivers were older than 50. Millennials have also helped the reduction in car ownership. Putting aside economic factors like low wages in the labour market, high rent, and the recession, millennials grew up in the years when car sharing and ride hailing have become common, so they feel more comfortable not owning a car.

A 2017 study by RethinkX, a technology think tank, claims there will be a mass shift in vehicle ownership approximately a decade after self-driving cars are legalised for public use. At that point, annual use of ride-hailing services will cost approximately $3,400 a year, while car ownership will cost $9,000 a year. The $5,600 gap might be the tipping point for changing the paradigm of car ownership for many millennials who have used the Uber Pool service since they were young. The study also shows that Transportation as a Service (TaaS) will provide 95 per cent of the passenger miles traveled within 10 years of the widespread regulatory approval of self-driving cars. By 2030, self-owned internal combustion engine cars will represent 40 per cent of the cars in the U.S. vehicle fleet, but they will provide just 5 per cent of passenger miles.

Transportation as a Service

The day when we will not own a car is near. We are already starting to see pockets of "ownership-free" communities like this community near Boston that is about to be the first community to get access to the Optimus Ride fleet of self-driving cars, providing them with on-site transportation and connecting them to mass transit. Optimus Ride recently raised an $18 million Series A round from Greycroft Partners, Emerson Collective, Fraser McCombs Capital and the current director of MIT Media Lab, Joi Ito.

It's like air travel. Do we care whether we fly with a Boeing or an AirBus? We are approaching a time when we won't care what car brand drives us, because eventually most of it will be autonomous. Car manufacturers realized this too, they understand self consolidation is coming and we will all be moving with the help of car fleets owned by several companies. One of the companies who understood it first is Uber, which bought 24,000 Volvos that will become the Uber autonomous fleet.

Venture money pouring

The Wall Street Journal reported in 2016 that Uber has raised $3.5 billion from a Saudi fund. In May 2016, Volkswagen invested $300 million in the Israeli GETT, which develops a ride hailing app. A year later, GETT is reportedly looking to raise an extra $700 million to expand. Meanwhile, Grab, another ride hail company that operates in Southeast Asia, has secured $2 billion from Didi Chuxing and Softbank.

No matter whether it'll be parked in our garage or endlessly driving the streets looking for the next pick up, it seems that vehicle usership will be the new ownership.

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Notes:

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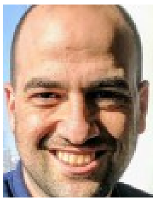

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