Vehicle Dealership Property Market Update

2014

Barber Wadlow

Fuel and Automotive Property Advisers

Vehicle Dealership Property Market Update – 2014

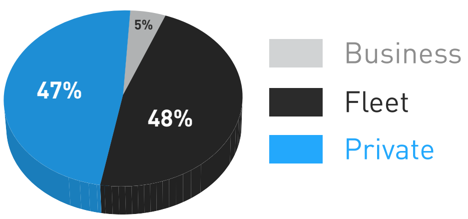
2013 new car sales recorded a 10.8% increase on 2012 - the highest annual total since 2007. As at May 2014, there have been 25 consecutive months of growth, which has led to increased property market activity, as manufacturers and dealers look to invest in their networks to capitalise upon trading conditions.

Sustained Market Performance

2013 sales totalled 2,264,737 vehicles, up from 2,044,609 in 2012, but still 6% down on the 2007 peak. SMMT[1] expected the market to stabilise in 2014, with growth around 1% over the year. Q1 2014 has, however, exceeded this projection, with a like-for-like increase of 13.7%, and the 14-plate change has pushed March 2014 figures to its second highest ever level (since the move to twice-yearly plate change in 1999).

This growth is driven by rising GDP and increasing consumer and business confidence. In 2003, the private car market saw a 15.6% increase in sales, but fleet sales also saw a 5.7% jump (2012 growth was only 0.6%) and business sales grew by a massive 18%, albeit only accounting for 4.7% of the market.

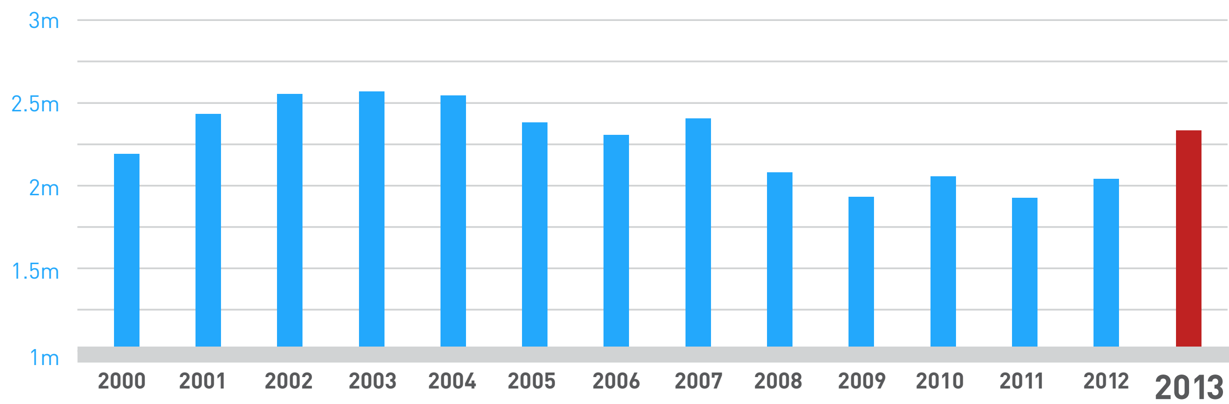
2013 New Car Sales Market Split



Automotive Property Highlights

- Increase in number of dealership property requirements - **36% rise** in 2013/14 by comparison to the previous 12 months.
- Manufacturers and dealers fund dealership developments through sale and leaseback transactions. Examples include **Kia** Brentford, **BMW/MINI** Reading and **VW/Audi** Llandudno.
- Prime investment yields compress to **5% NIY.**
- Major institutional investors active in the sector include **Aberdeen Asset Management, Aviva, CBRE Global Investors and L&G**, amongst others.
- Continued **M&A activity** amongst dealers as sector continues to consolidate.

UK New Car Sales - 10.8% increase in 2013



Source: SMMT

[1] Society of Motor Manufacturers & Traders

Major Players in the Market

Buoyant market conditions have resulted in improved financial performance of the leading retailers.

Turnover of the Top 200 dealer groups increased by 8% in 2013 [source: Motor Trader], but the top 20 groups performed ahead of the market at 10%, which will be in part a product of market conditions, in addition to market consolidation as larger dealers continue to buy up smaller groups.

The No. 1 group was **Pendragon Plc** who increased turnover by 5% and its underlying pre-tax profit was up 21% to £44.2m. The company also refinanced in 2013, reducing debt by £76.8m (12% decrease). Whilst the company's turnover is some way short of its 2007/08 peak of circa £5bn, it still accounts for 8% of turnover generated by the top 200 groups.

The most profitable dealer group was Sytner, with its latest pre-tax profit at £67m (financial year ending 2012), closely followed by **Arnold Clark**. A jump of 18% in turnover was also recorded by Sytner as a result of its acquisition of Irish-based retailer, Agnew Group, but the most substantial growth was recorded by **JCT 600**, with a 50% increase following its purchase of Gilder Group in March 2013. Also of note, **Vertu** announced in May 2014 that pre-tax profits quadrupled in the last 12 months to £15.6m.

Top 20 Motor Dealer Groups

	Company/Group	Turnover 2013 (£000)	Variance on 2012
1	Pendragon	£3,635,100	5%
2	Sytner	£3,001,000	18%
3	Arnold Clark	£2,484,080	10%
4	Inchcape	£2,096,400	4%
5	Lookers	£2,056,600	8%
6	MB Retail*	£1,494,891	27%
7	Jardine	£1,327,692	8%
8	Vertu	£1,259,335	16%
9	Ford	£1,007,862	-3%
10	JCT 600	£950,000	50%
11	Marshall	£925,000	23%
12	Listers	£820,168	10%
13	Group 1	£589,000	40%
14	Greenhous	£586,889	-25%
15	Benfield	£541,075	30%
16	Camden	£520,000	-7%
17	Robins & Day	£457,976	4%
18	Ridgeway	£443,885	33%
19	Perry	£439,638	2%
20	Harwoods	£400,000	26%

[Source: Motor Trader November 2013]

* Mercedes Benz Retail

Manufacturers active in vehicle retail property market

Whilst dealer groups will tend to take the lead on retail property transactions, certain manufacturers are having an increased involvement, either directly or through their wholly-owned dealer group subsidiaries. Examples of manufacturers falling into category in 2013 are listed below.

Manufacturers - financial strength

	Turnover (£'000)*
VW Group UK Limited	6,667,000
Honda Motor Europe	4,280,066
Volvo Car UK Limited	638,738
Kia Motors (UK) Limited	733,574
Ford Retail Limited	1,007,862
Peugeot Motor Company Plc	1,322,675

VW Group has been investing and developing in their retail network for well over 10 years and others are starting to follow this strategy, particularly when it comes to securing representation in high profile locations such as inside the M25. Examples in 2013 include Kia Brentford, Peugeot Walthamstow, Ford Bristol and Volvo Birmingham. Other manufacturers, such as BMW, Vauxhall and Land Rover have kept away from retail property matters, putting the responsibility on their dealers. As to which is the optimum strategy is unclear, although VW Group brands do have well developed networks.

*Turnover figures for financial year ending December 2012 (and financial year ending March 2013 for Honda Motor Europe Ltd)

Vehicle Dealership Property Market Activity

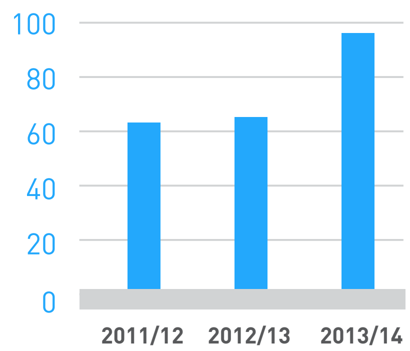
Dealership property requirements increase by 36%.

With market conditions continuing to improve, retailers are being subjected to increased pressure to comply with their manufacturers' corporate identity standards. If standards cannot be met within existing facilities, alternative properties need to be sourced. There have been 94 advertised requirements in the last 12 months, which is a 36% increase.

Once again, the South East accounted for the majority of these requirements, representing 40% of national requirements (down from 47% in 2012/13), demonstrating where retailers' principal focus is when it comes to resolving property issues. There has, however, been a noticeable increase in the Midlands and North West as retailers' confidence in the market continue to strengthen as they look to invest in more provincial territories.

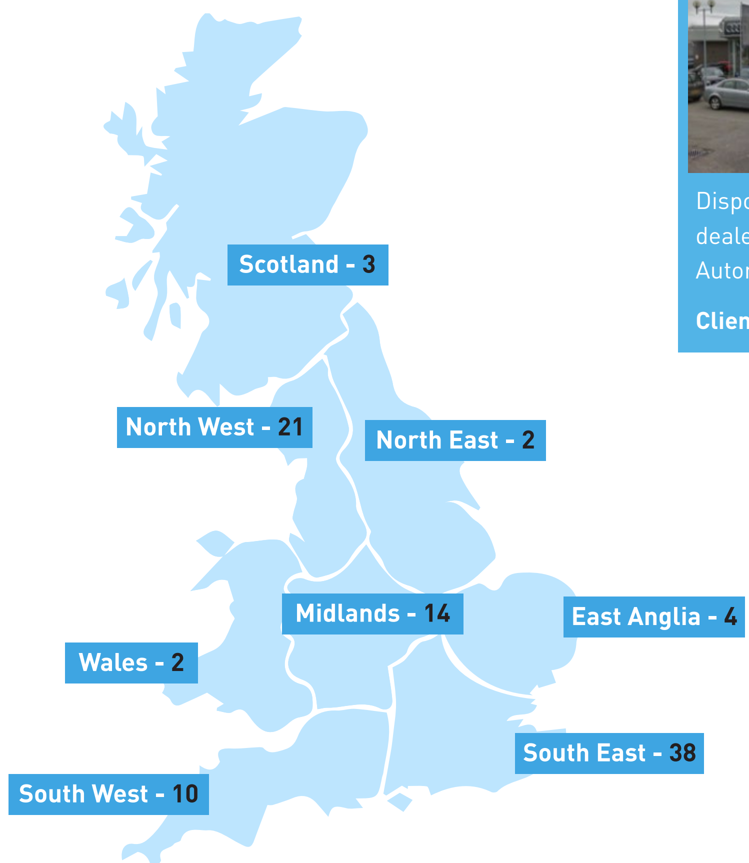
Notwithstanding this increase, we only expect a handful of these requirements to be satisfied in 2014. With land values ranging from £500,000 - £2,000,000+ per acre and build costs at £100/ft^2, in addition to fit-out costs, relocations are often cost-prohibitive, even if a suitable site can be identified. Retailers are therefore opting to redevelop existing facilities, which presents opportunities to landlords, such as lease re-gears.

No. of Advertised Dealership Property Requirements



Source: Barber Wadlow Research 2013

Number of Dealership Requirements - Regional Split



Audi, Chingford

Disposal of freehold dealership to Group One Automotive

Client: M&G Investments

Dealership Development Site, Solihull

Barber Wadlow instructed to market 2.5-acre site in prime Solihull.

Ford, Croydon

Disposal of freehold dealership to Cambria Automobiles

Client: M&G Investments

Vehicle Dealership Property Values

Rent and land value inflation recorded in premium locations.

Prime values remain resilient in 2013/14, with some growth in key locations inside the M25. We have seen rents of up to £30/ft^2 in the region, but this is not the norm, although it does demonstrate what retailers are prepared to pay to secure particularly high profile sites.

Prime Land Values (per acre)

Location	2007	2011	2013	2014	
Inside M25 (exc. Central London)	£2,500,000	£2,000,000	£2,000,000	£2,250,000	▲
Midlands Region	£1,750,000	£1,300,000	£1,300,000	£1,300,000	▶
North West Region	£1,250,000	£1,000,000	£900,000	£900,000	▶
Scotland	£750,000	£600,000	£650,000	£650,000	▶

Prime Rents (per ft^2)

Location	2007	2011	2013	2014	
Inside M25 (exc. Central London)	£20.00	£17.50	£18.50	£19.50	▲
Midlands Region	£16.00	£15.00	£15.00	£15.00	▶
North West Region	£16.00	£15.00	£14.50	£14.50	▶
Scotland	£13.50	£12.00	£12.00	£12.00	▶

The above opinions are based upon prime values in respective regions, assuming a standard unit size of 15,000ft^2 – 20,000ft^2, fitted to an 'enhanced shell specification', providing a comprehensive range of facilities. Please note, overall rental rates will vary considerably dependent upon the breakdown of accommodation, particularly inside the M25, therefore the above is an approximate guide only. Secondary dealership property values could be at a considerable discount.

"Cost Recovery" Sale & Leasebacks - distorting rental evidence

A feature of 2013 has been the increasing number of "cost recovery" sale and leaseback transactions, which generate rental values below market norms. In this scenario, the yield that an investor is prepared to accept is the function that drives rental value. If an investor is prepared to buy a property investment off a lower yield, the rent is reduced so that the purchase price remains unchanged. The rationale being where a manufacturer/dealer has no desire to generate a developer's profit, the rent can be reduced.

Rental evidence originating from these transactions can therefore be misleading, particularly given the compressed investment yields over the last 12 months (see investment market summary overleaf). Indeed, it could lead one to conclude that rental values are falling, but this is certainly not the case, particularly in the prime locations.

Improved values for older style facilities

The recession had a particularly adverse impact on secondary dealership values, but the dearth of suitable/affordable development sites means that retailers are once again utilising older style facilities. Barber Wadlow's disposal of the Ford Croydon and Audi Chingford dealerships (see previous page) are examples of this trend.

Such activity will be focused on the South East, with freehold values being recorded at £150/ft^2 - £200/ft^2 plus, although such rates can be misleading given that many dealerships are far from comparable. Elsewhere in the UK, the range can be as much as £50/ft^2 - £150/ft^2.

Vehicle Dealership Investment Market

Prime yields compress to 5% NIY*

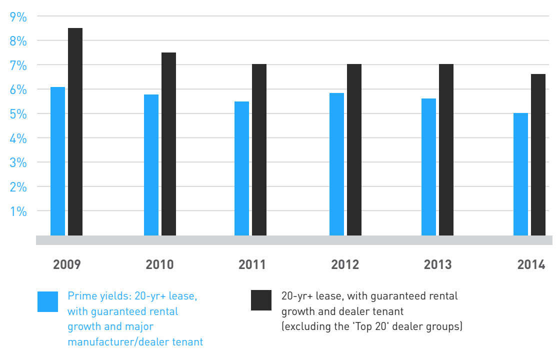
Yields have compressed substantially throughout 2013 and into 2014, which is driven by high quality assets, long term leases, strong tenant covenants and a well performing sector. The majority of institutional investors now have exposure to the sector, a large proportion of which are looking to invest further.

There is a continued lack of supply – we estimate that transactions in the sector totalled £220m in the last 12 months, which is some way short of the 2007/08 peaks of £450m.

44% of the market comprised investments let to dealer tenants, which underlines investors' better understanding of the sector – they no longer demand a manufacturer covenant. Dealer group-let investments are achieving close to 5% NIY, but dealer covenants can deliver better value at circa 6% - 7% NIY.

As highlighted above, investors are also giving consideration to older style facilities with small/medium volume brands. From an investor's perspective, these investments provide a more attractive yield profile, as well as offering alternative development potential given that most dealership sites are in excess of 1 acre and in prominent locations.

Vehicle Dealership Investment Yields



* Net Initial Yield - yield reflecting purchaser's costs at 5.8%

Barber Wadlow Investment Market Activity

Kia,
Brentford

Barber Wadlow advised on the acquisition of a new Kia dealership.

Client: Aberdeen Asset Management

Peugeot,
Walthamstow

Barber Wadlow advised on the acquisition of a new Peugeot dealership.

Client: CBRE Global Investors

For further market intelligence and advice, please contact us.

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