

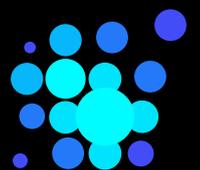


Forecourt Property Market Update

January 2013

Barber Wadlow

Fuel and Automotive Property Advisers



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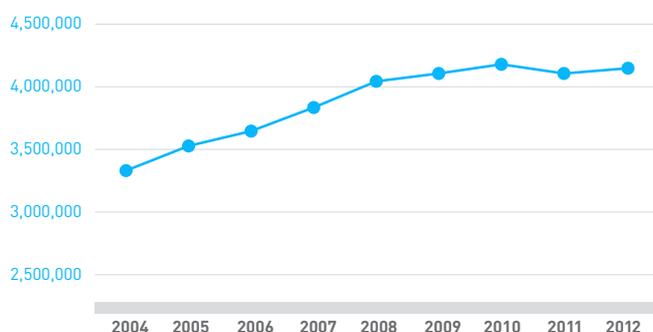
The last 12 months has been one of the busiest periods in recent history in the forecourt property sector. Barber Wadlow estimates that there have been over 1,100 petrol stations sold or let since the end of 2011, which represents an incredible 13% of the total number of forecourts (8,587 sites).

Market highlights include:

- Rontec (private equity consortium led by Gerald Ronson) take possession of the **Total** retail network (circa 500 sites), completing the oil company's exit from the UK, and immediately flipping 254 to **Shell**.
- **Barber Wadlow** advised Patron Capital on its acquisition of the 4th largest independent retailer, **Motor Fuel Group** (48 sites).
- **Barber Wadlow** advised Harry Tuffins on the disposal of its 11-site business to **The Mid-Counties Co-Operative**.
- **Sainsbury's** acquire 18 sites from Rontec, marking their return to the fuel/c-store market.
- **Asda** and **Morrisons** acquire various sites across the UK as an ancillary fuel offer to superstores.
- **Barber Wadlow** let two sites in Cambridgeshire to **BP**, the first evidence of their acquisitive strategy to take on better quality sites.
- EuroGarages agree terms to acquire 43 sites in the North West and Northern England from **Esso**.
- No. 1 Irish independent retailer, **Petrogas** (trading as Applegreen) continue to acquire sites, bringing their combined Irish/UK network to 95.

Despite such an abundance of market activity, the general public's perception of the sector is similar to that of pubs – i.e., all appear to be closing! The UK fuel retail network is now less than 9,000 sites (more than one in three closures since the Millennium), but it is the survival of the 'fittest' and most profitable which is helping to sustain property values, as demonstrated in the latest Barber Wadlow Petrol Station Property Value (PSPV) Indices – see page 3. Since 2004, average fuel sales per site have increased by 26%.

26% increase in average UK fuel sales/site since 2004

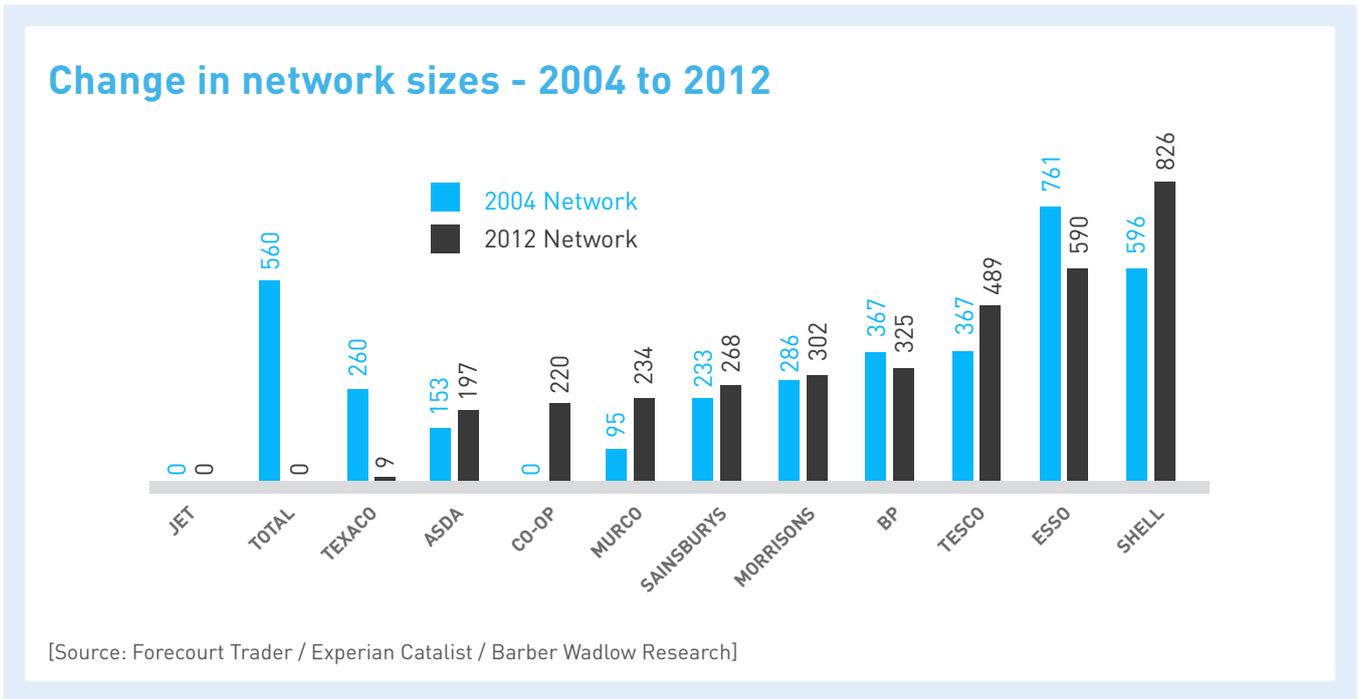


[Source: Experian Catalist]

The increase in average site volume is driven by the circa 1,250 superstore forecourts achieving average volumes of 11 million litres per annum. Therefore, a better indicator to the health of the market is the 46% increase in shop sales since 2000. With shop gross profit margins in the region of 20% - 30% by comparison to fuel margins of 3% - 5%, the shop is now the principal profit centre on the majority of forecourts, hence the acquisitive nature of the major supermarkets.

Major players in the market in 2012

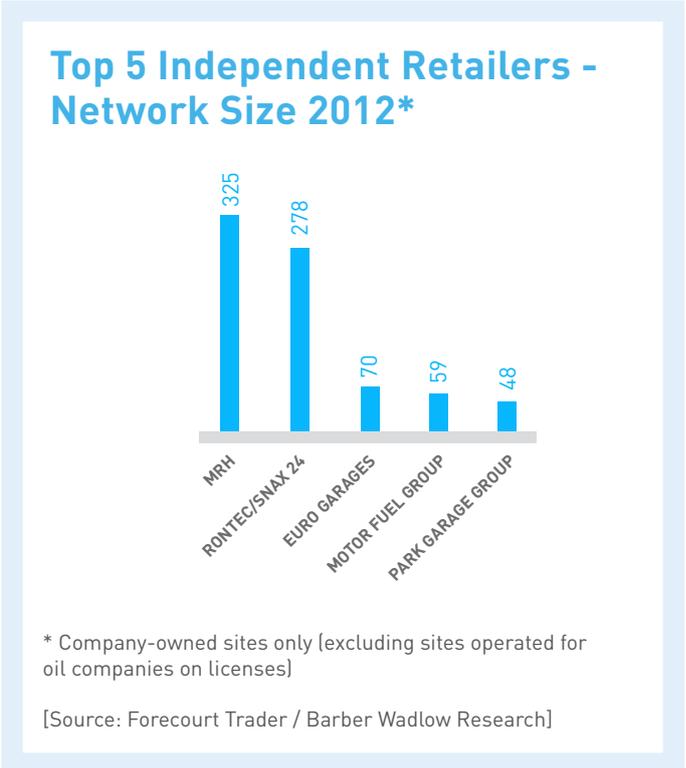
Over 30% of the UK's forecourt network is now owned by major oil companies and supermarket operators.



Over the last 15 years, the oil companies have been rationalising their retail networks in order to concentrate on exploration activity, either exiting the industry entirely or shedding all but the better quality assets. Since 2004, the Esso company-owned network has shrunk by 23% (with further reductions expected in 2013 - 43 sites to be sold to EuroGarages) and BP by 12%, whilst Total and Texaco have all but sold up completely. By contrast, Shell in 2012 has bucked the trend, increasing its network by 40% as a result of its recent acquisition of 254 Total sites. Shell do now control a substantial portfolio and it will be interesting to see how their asset management strategy unfolds during 2013.

The supermarket operators have continued to acquire forecourts, with Asda and Tesco networks growing by circa 30% over the last 8 years. The Tesco forecourt network is nearly double the size of its nearest competitor, which helps explain why the likes of Morrisons and Asda have been acquisitive during 2012.

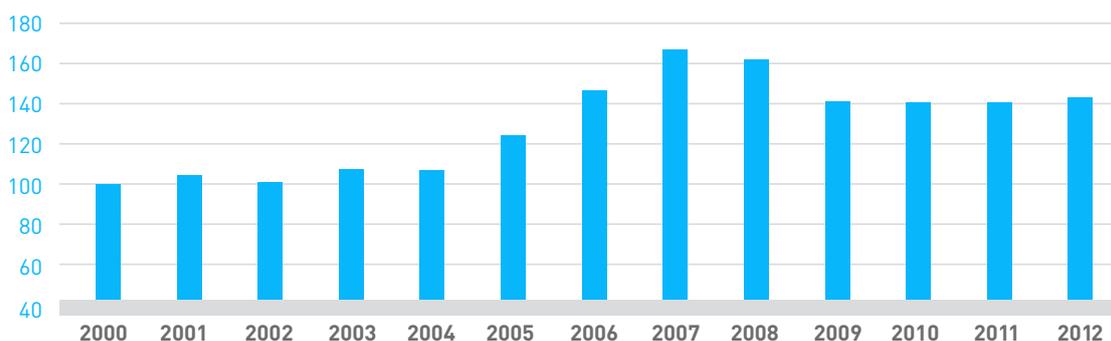
Private equity in the fuel retailing market is also making a statement, now owning large stakes in 3 of the top 5 independent retailers in the UK - Malthurst (MRH), Rontec/Snax 24 and MFG (Motor Fuel Group). Further private equity-backed investment is forecast as a result of further oil company and, to a lesser extent, independent dealer disposals. Only MRH and Rontec/Snax 24 have an outlet share in excess of 3%, demonstrating the fragmented ownership of the sector and the likelihood of ongoing consolidation in order to improve their buying power.



Petrol Station Property Value (PSPV) Indices

Despite the large number of forecourts transacted in 2012, there hasn't been a 'flooding' effect and an adverse impact on values. The Barber Wadlow PSPV Indices (in association with Experian Catalist) shows that in 2012 values have remained relatively stable, increasing by 1% for the average site.¹

Barber Wadlow - PSPV Indices 2012



[Source: Experian Catalist / Barber Wadlow Research]

Every petrol station is unique and it is therefore difficult to compare one transaction directly with another, but these Indices (representative of the "average trading site") help demonstrate the sustainability of the market.

Forecourt values have been recorded at anywhere from £150,000 to in excess of £3,500,000 and there has been a noticeable appreciation in value for the prime sites, with demand intensifying from supermarket operators and oil companies. It should, however, be acknowledged that, at the other end of the scale, demand is much thinner and notably the sale period is often protracted. The market can therefore be described as 'multi-tiered'.

Financing remains a challenge as retailers wrestle with a new era of bank funding - and a new set of "rules" - borrowers are being put under increasing pressure in all areas - be it demonstrating serviceability of debt, LTV (loan to value) ratios, amortisation... the list goes on. Changes in the world of bank funding have undoubtedly had an influence and will no doubt continue to curb market activity.

One of the knock-on effects of poor funding liquidity has been an increase in leasehold transactions - with a positive influence on rental values. Barber Wadlow has secured rental increases of up to 50% at rent review on certain sites in the last 12 months.

Examples of Barber Wadlow transactions in 2012



Harry Tuffins Portfolio of 11 sites - Sold to The Midcounties Co-Operative



Whelley Road Service Station, Wigan - Sold to Spring Petroleum



Coventry Road Service Station, Market Harborough - Let to Midland Co-Operative Society Limited



Petrol Filling Stations in Ely and Littleport - Let to BP Oil UK Limited

Forecourt Investment Market

The market for freehold petrol filling stations let to major operators on long leases continues to grow. Petrol stations let to BP, Shell, Co-Op and Texaco (amongst others) have sold in the last 12 months at net initial yields as low as 5.5%.

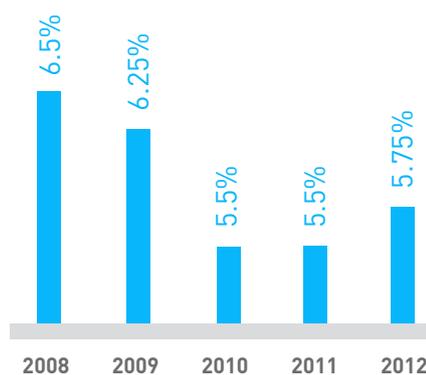
Notwithstanding this, prime investment yields have moved out marginally during the course of the year to in the region of 5.75% (2011 – 5.5%), again showing the resilience of the forecourt sector by comparison to the wider property market. Strong tenant covenants, long term leases and rental growth have helped protect value.

Example of Barber Wadlow investment transactions in 2012



Kirk Hallam Garage, Ilkeston- Let to The Co-Operative Group with an unexpired term of 8.5 years, achieving 6.7% NIY.

Prime Forecourt Investment Yields (Net Initial Yield)



[Source: Barber Wadlow Research]

For further market intelligence and advice, please contact us.

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Barber Wadlow is a niche property adviser to the fuel and automotive retailing sectors, offering high-quality advice that is tailored specifically for the individual client. Barber Wadlow provides both agency and professional services ranging from investment portfolio management, through to acquisition / disposal, rent review and valuation advice. Barber Wadlow coverage includes the UK, as well as Europe.



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¹ Value of the average 'top quarter' of independent dealer sites (in terms of trading performance), which is the most representative trading profile of the market. No two forecourts' trading performance is the same, making it virtually impossible to compare one transaction with another. Barber Wadlow, working with Experian Catalist, has devised an Indices based upon opinions of value for the average 'top quarter' dealer sites since 2000. To overcome a number of sector valuation issues, Barber Wadlow has based value on a freehold site that is unencumbered, free from contamination and fully operational, with no investment required. This research should be considered as a guide only to market conditions.