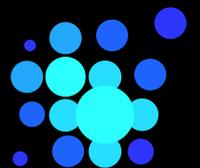




Forecourt Property Market Update

2015

Barber Wadlow
Fuel and Automotive Property Advisers



Forecourt Property Market Update - 2015

Barber Wadlow research (in association with Experian Catalist) recorded a 6% increase in petrol station property values in 2014, despite a 265% increase in supply of sites sold / marketed.

2014 Market Highlights Include:

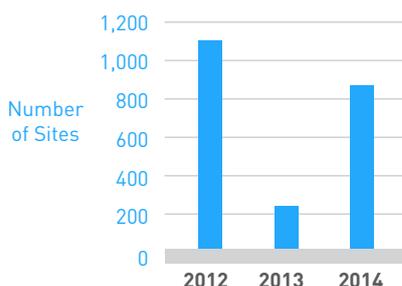
- Barber Wadlow Forecourt Property Value Indices recorded a **6% value increase in 2014***.
- **265% growth in sites sold / marketed in 2014** by comparison with the previous 12 months.
- **Top Five independent retailers now account for 13% of the UK forecourt network** – an increase from 9.5% outlet share in 2013.
- UK forecourt sector recorded a **net increase of 26 sites in 2014, the first annual increase since 1966** [source: Experian Catalist].
- Oil companies continue to rationalise their UK networks, with **Esso, Shell, Murco and BP** all divesting sites in 2014.
- **Supermarkets to small independent retailers have been acquisitive**, supported by healthy trading conditions and improved availability of finance.

Market Evolution

Evolution, as opposed to rationalisation, best describes the UK forecourt network in 2014. The last 12 months saw ongoing ownership consolidation and development of new and upgrade of existing sites, as opposed to mass closures that have epitomised the sector over the last 15 years.

There were 875 sites sold/marketed in 2014, by comparison with 240 sites in 2013, a 265% increase. Despite this increase, it does not eclipse the transaction volume recorded in 2012, albeit this was inflated by the Total/Rontec/Shell transaction which equated to 70% of the market.

Sites Sold/Marketed in 2014

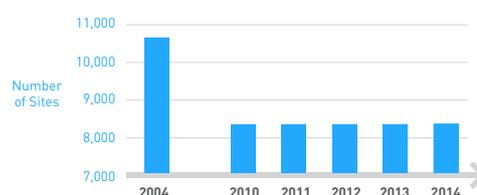


[Source: Barber Wadlow Research]

The 2014 market was made up of various portfolios, including Esso and Shell, but the leading transaction in terms of portfolio size was MFG's acquisition of the entire Murco network (228 sites) making MFG the second largest independent retailer in the UK.

Over the last 48 years, the sector has seen year-on-year declines in site numbers, from a high point of circa 40,000 sites in the 1960s. According to Experian Catalist, 2014 was the first year since 1966 where the number of sites actually increased, with a net rise of 26, up to 8,616. Retailers are developing new-to-industry sites to satisfy modern retail standards, as well as re-opening previously closed sites incorporating a modern retail format.

Network Size



[Source: Experian Catalist]

There were, however, still 112 closures (1.3% of network), which will all generally be poor sites, demonstrating the ongoing evolution of the forecourt retail offer. We also expect to see further closures going forward (albeit at a slower rate) with the driver increasingly being the alternative use development potential, such as residential and retail, as property values continue to improve. Development of new-to-industry sites will, however, support site numbers at around the current level.



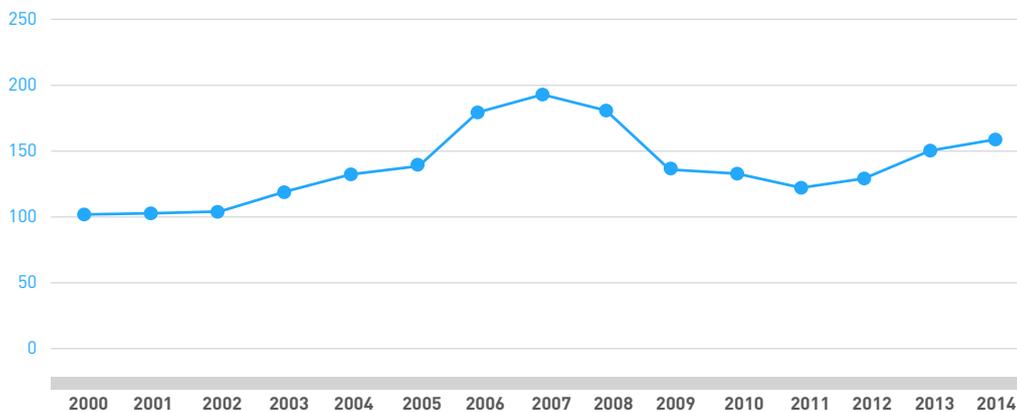
Largest transaction of 2014:

MFG/Patron Capital acquisition of Murco retail network (228 sites). Purchaser advised by Barber Wadlow.

Forecourt Property Value Indices

Barber Wadlow's Forecourt Property Value Indices (in association with Experian Catalyst) recorded a 6% increase in 2014.

Barber Wadlow Forecourt Property Value Indices*



[Source: Experian Catalyst / Barber Wadlow Research]

We have continued to see an upward pressure on values, despite a substantial increase in supply of available sites. There has certainly been no "flooding effect", with demand continuing to outstrip supply and average values have now inflated by 30% since the bottom of the market in 2011.

The growth of sites sold / marketed has been due to oil company strategies of disposing of sites in large tranches. The opportunity to acquire single sites or small portfolios remains scarce, which has resulted in price inflation.

Price inflation has also crept into the larger portfolio transactions, with the major independent retailers, supported by private equity funding, actively seeking to secure the last of the available oil company-owned sites. Once Shell and Esso have completed their divestment programmes, there will only be circa 1,250 oil company-owned sites, 13% of the national forecourt network (down from 25% in 2013). Oil company disposals, which have been the life blood of independent retailer growth over the last 25 years, will not continue forever.

Price inflation has been particularly evident for 'prime' sites (i.e., sites able to accommodate a modern forecourt with c-store, trading annually at 5,000,000+ litres and shop sales of £2,000,000+). There is a dearth of such opportunities and major retailers, including BP/M&S and Sainsbury's, have had to pay handsomely to encourage retailers to sell. We expect to see some of the other major supermarket retailers make their presence felt in 2015 in order to grow their c-store networks.

Barber Wadlow will be marketing operational forecourt businesses in 2015. Please contact us for details.

Examples of Barber Wadlow Transactions in 2014



Hinckley: Letting to Petrogas Group UK Limited



South Wales: Disposal of x4 petrol stations in South Wales on behalf of AF Blakemore & Son



Worcestershire: Acquisition of forecourt / c-store development site for independent retailer



Bradford: Acted for landlord to secure lease re-gear with Rontec

Major players in the market in 2014

Top five independent retailers are the principal recipients of the oil company divestment programmes, which equated to 85% of all sites sold / marketed in 2014.

Shell remains the largest retailer (in terms of number of outlets), however, its lead will be substantially reduced following its planned disposal of circa 250 sites in 2015.

Esso, currently the third largest retailer following the disposal of 84 sites in the Midlands and South West to Euro Garages and Rontec, is also set to downsize further with the planned disposal of circa 200 sites in the South East. By the end of 2015, the Esso network is expected to total around 200 sites, which will primarily comprise sites with Tesco Express c-stores.

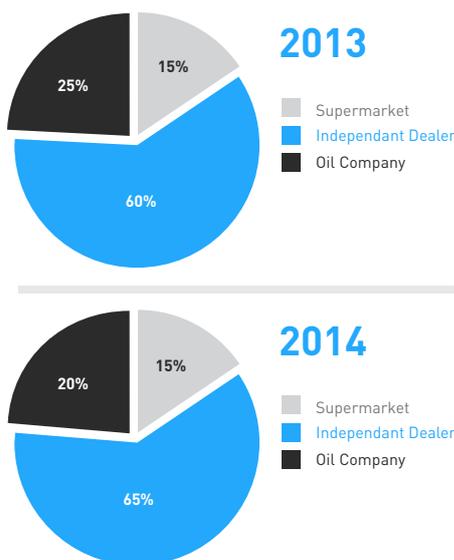
Murphy Oil completed its exit of the UK in 2014 with the disposal of the Murco retail network to MFG who improves its ranking from 13th to 8th, making it the second largest UK independent retailer behind MRH. This was the largest individual transaction in 2014.

A new entrant to the "Top 15", courtesy of Murco's exit, is Central England Co-Op with 27 sites. Central England Co-Op is not to be confused with the Co-Op Group (no. 11).

Top 15 UK forecourt retailers

Rank	Retailer	2014 Network No. of Sites	2013 Network No. of Sites
▶ 1	Shell	789	798
▶ 2	Tesco	498	496
▶ 3	ESSO	409	493
▶ 4	MRH	381	377
▶ 5	BP	350	330
▶ 6	Morrisons	330	314
▶ 7	Sainsbury's	292	282
▲ 8	MFG	288	61
▶ 9	Asda	234	216
▲ 10	Rontec	208	194
▼ 11	Co-Op Group	200	200
▶ 12	Euro Garages	179	120
▲ 13	Petrogas	54	41
▶ 14	Park Garage Group	48	48
▲ 15	Central England Co-Op	27	25

UK forecourt network - ownership split



[Source: Experian Catalist /Barber Wadlow Research]

By contrast to the other oil companies, BP has grown its network over the last 12 months in order to extend its role out of the M&S Simply Food offer throughout the UK. Historically, BP's company-owned network was focused on the Midlands / South East and Scotland's central belt. The oil company has been acquiring sites from independent retailers of all sizes, and Barber Wadlow has advised a number of these retailers on transactions that have involved freehold sales, lettings and site swaps.

The big supermarkets also added 36 sites in 2014, but this represented a 22% slowdown on 2013. It would appear that the well-reported stalling of the development of 'big box' supermarkets is having an impact on the rollout of supermarket forecourts. This may be seen as a positive development as a reduced threat of supermarket competition could help protect forecourt property values.

Notwithstanding this, supermarket operators are still seeing opportunities in the sector. Sainsbury's have taken a number of standalone forecourts (i.e., forecourts not ancillary to a supermarket) to grow its c-store network, and Asda remains acquisitive following its announcement in 2013 that it intended to open 100 forecourts with c-stores by 2018.



Newark:
Disposal of freehold petrol station to Asda

Forecourt Investment Market

Prime yields hit 5% NIY in 2014, with the forecourt investment market totalling c. £80m

Given the inflation in values in the mainstream commercial property investment market, forecourts are representing a compelling investment opportunity. There was approximately £80million of transactions in 2014, of which Barber Wadlow advised on c. 40% (£33million) acting for a variety of buyers and sellers.

Major institutions are now actively investing in the sector, attracted by the long term leases, guaranteed rental growth, blue chip tenant covenants and vacant possession values that underpin investment values.

Forecourt investments that have transacted include freehold sites benefiting from 15/20-year leases let to the likes of BP, Shell, Sainsbury's and Co-Op, amongst others. There has also been yield compression of forecourts let to more secondary tenant covenants – for example, Barber Wadlow sold two sites let on 20-year leases to Petrogas at 7% NIY.

Example of Barber Wadlow investment transactions in 2014

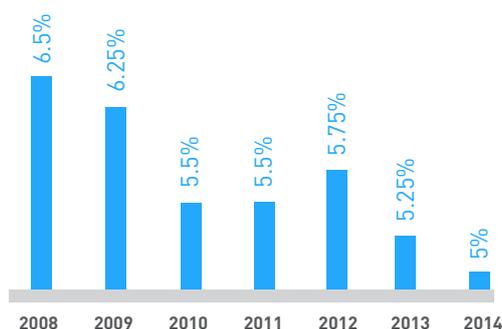


Birmingham: Acquired freehold investment let to Shell. Price equated to 4.4% NIY, rising to 6.45% in July 2015.



Salisbury: Sale of freehold investment let to Flying Visit Limited. Price equated to 7.5% NIY.

Prime Forecourt Investment Yields (Net Initial Yield)



[Source: Barber Wadlow Research]

Barber Wadlow will be marketing forecourt investments during 2015. Please contact us for details.

For further market intelligence and advice, please contact us.

Amanda Barber
Director
Tel: 07831 820613
Email: amanda.barber@barberwadlow.co.uk

Adam Wadlow
Director
Tel: 07814 692312
Email: adam.wadlow@barberwadlow.co.uk

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.



Join us on Twitter @barberwadlow



Property advisers to the PRA and its members

* Value of the average 'bottom quarter' of oil company sites (in terms of trading performance), which is now the most representative trading profile of the sites that are coming to 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 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.