



# Forecourt Property Market Update

2017

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Merger and acquisition activity amongst the top 30 independent retailers dominates the fuel retailing sector.

## 2016 Market Highlights Include:

- Rontec acquires **40 sites** from Co-Op Group.
- MFG acquires Synergie Retail (**19 sites**) and Roadside Group (**10 sites**).
- MRH acquires Spring Petroleum (**26 sites**).
- Values have now **increased by 62% since 2011** and now **exceed the previous 2007 peak**.
- Barber Wadlow Research estimates that **circa 200 operational sites** were transacted in the last 12 months, **an 86% decrease** against 2015.
- Prime property investment yields remain stable at **5% (NIY)**. Lack of supply exasperates demand, with the market totalling only **£54m in 2016** (2015: £105m), a 49% decrease.

## Merger & Acquisition ('M&A') Activity

"M&A" activity is a new terminology to the independent fuel retailing sector, but in the last 12 months it has become a common theme, with two of the largest operators acquiring three of the top 30 independent retailers.

These transactions have been driven by two defining factors. Firstly, major independent retailers are now owned by powerful private equity firms demanding growth. Secondly, the oil company divestment programmes have largely been completed, ending nearly two decades of supply. As a consequence, buyers are having to find other sources of sites.

With only three oil companies (BP, Shell and Esso) owning and operating sites in the UK, the major independents are filling the void in order to retail the oil companies' branded fuels. The major independent retailers are therefore acting as the new 'oil companies', but with only a downstream retail function, they are best placed to optimise trading potential, which their predecessors often struggled to achieve.

In addition to network growth, the major independents are looking to organically enhance profitability, principally through development of larger shops. Euro Garages has led the way over the last 10 years and has recently launched a tie-up with Sainsbury's. Rontec has also teamed up with Morrisons, whilst MFG is working with wholesaler, Booker (Budgens / Londis), and it will be interesting to see what impact the Tesco takeover could have on the wholesaler.

Applegreen's focus has been more on food to go, utilising brands including Greggs, Subway, Chopstix and Costa – in respect of the latter, the company is to open its first Costa drive-thru' within a petrol station this summer.

Retail standards are certainly becoming considerably more sophisticated. With only circa 25% of the UK petrol filling station network benefiting from a branded c-store, there is still substantial untapped potential within the existing network.

## Leading Transactions in 2016

| Retailer         | Purchaser  | Number of Sites |
|------------------|--|-----------------|
| Co-Op Portfolio  |  Rontec | 40 (National)   |
| Spring Petroleum |  MRH    | 26 (North)      |
| Synergie Retail  |  MFG    | 19 (North West) |
| Roadside Group   |  MFG    | 10 (North East) |

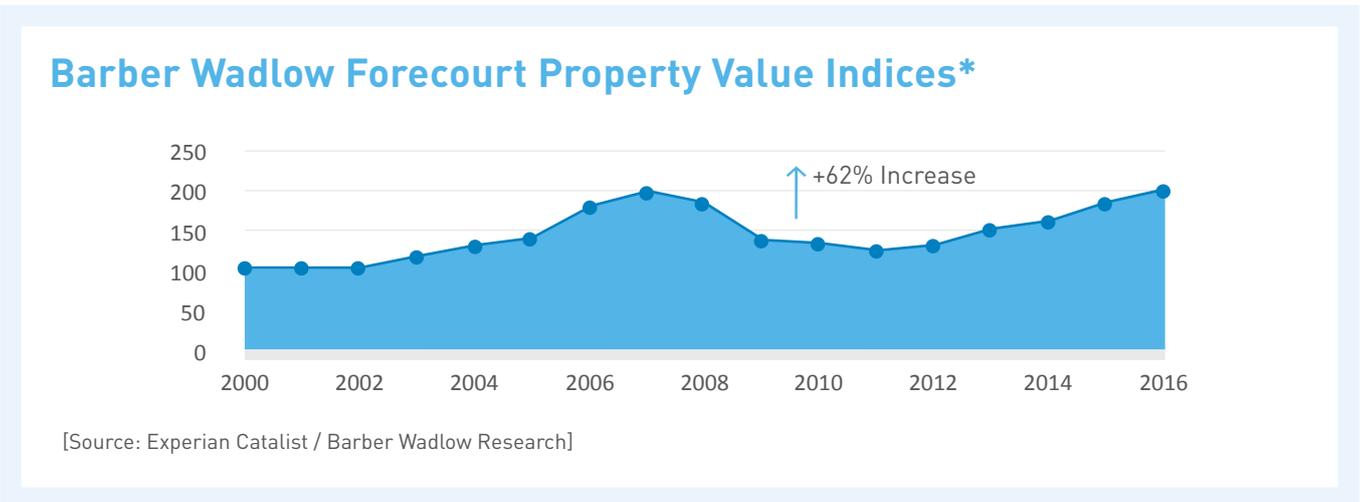


### Roadside Group:

Barber Wadlow advised Roadside Group on the sale of its business, which comprised 10 freehold sites located in the North East, including the service station at the entrance to Newcastle Airport (pictured).

# Forecourt Property Value Indices

Lack of supply is exasperating demand, with the Barber Wadlow Forecourt Property Value Indices (in association with Experian Catalist) reaching a record high.



The indices has recorded a **9% value increase in 2016**, the fifth consecutive year of growth. A site worth £750,000 in 2011 is now potentially worth £1,200,000.

Values have **increased by 62% since the bottom of the market in 2011**, and the indices is now at a record high, exceeding the 2007 peak.

The increase in values has been achieved despite a sharp slowdown in the number of sites bought and sold. Barber Wadlow Research estimates a reduction of 86%, with **only circa 200 sites transacted, by comparison to 1,375 in 2015**.

Lack of supply, rather than lack of demand, is the reason for this reduced market size, now that oil companies have completed their divestment programmes and the only

sizeable acquisition opportunities are independent dealer groups.

The purchasers have once again been the major independent retailers, with the smaller retailers struggling to secure sites. This is pushing smaller retailers to pursue new-to-industry sites in order to grow their networks. A good example is The Kay Group's new developments in Crewe (Cheshire), Nelson (Lancashire) and Irlam (Salford).

Demand for freehold sites remains stronger than for leasehold, however, certain operators are prepared to enter into long leases in order to secure sites. This can be an attractive option for vendors as they retain a rental income stream, whilst for operators it is a less capital-intensive route to building a network.

## Examples of Barber Wadlow Transactions in 2016



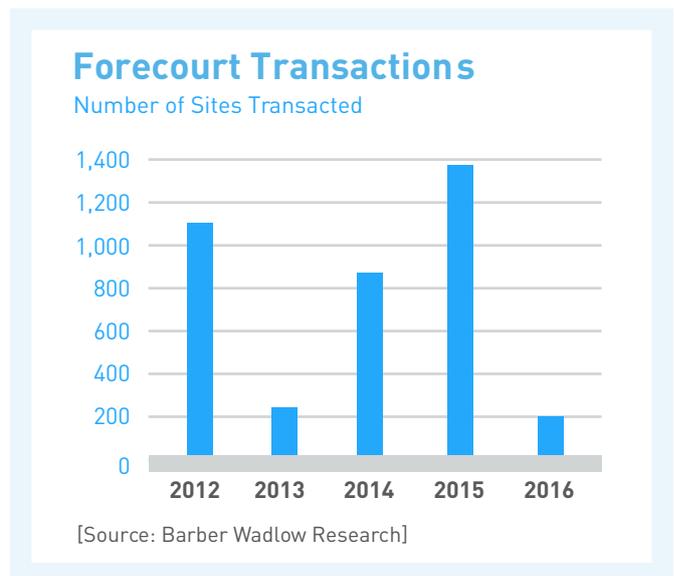
**Lydford On Fosse:** Advised independent retailer on disposal of freehold Budgens/Shell site to Chartman Retail.



**Leicester (A6):** Advised landlord on rent review against tenant, Shell UK Limited.



**Marylebone Road, London:** Advised landlord on letting of Central London petrol station to MRH.



**Barber Wadlow will be marketing operational forecourt businesses in 2017. Please contact us for details.**

# Major players in the market in 2016

The low volume of site transactions has resulted in limited movement in the top 15 rankings.

**Shell** is still the largest network in the UK, despite a reduction of 33 sites, which was the tail end of its 2015 divestment programme.

The only two other oil companies with company-owned networks in the UK are **BP** (no. 7) and **Esso** (no. 11) who have both remained relatively static in 2016, albeit the former has been 'swapping' a number of sites with independent retailers in order to secure more suitable sites for its M&S offering.

The biggest winner has been **Rontec** who acquired a portfolio of 40 sites from Co-Op, which generally comprised sites with smaller shops that are unsuitable for the Co-Op c-store format. Rontec subsequently sold five sites from this portfolio to HKS/Platinum Retail.

Irish retailer, **Applegreen**, also grew its network by 16% (10 sites), whilst **MFG** and **MRH** enjoyed a 9% and 6% respective network growth following their recent M&A activity.

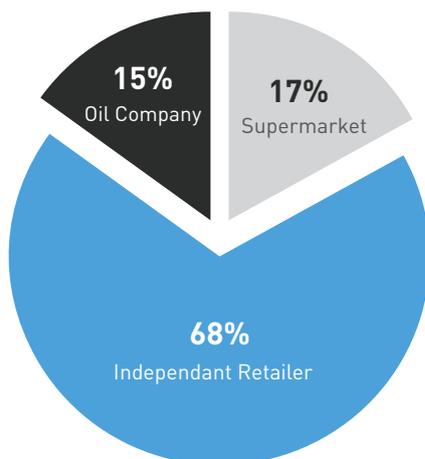
The big four supermarkets are all included in the top 15, with an aggregate total of 1,442 sites, but they have only added 21 sites (+1.5%) which underlines the ongoing self-administered moratorium on "big box" store developments. **Asda** has been responsible for over 80% of this growth, developing petrol filling stations within existing supermarket car parks. These have, however, largely been unmanned developments which generally trade at 60% - 70% of a manned site, reducing the impact on trading areas.

That said, supermarkets are still responsible for nearly 44% of all fuel sold, which is generated from only 17% of the UK forecourt network.

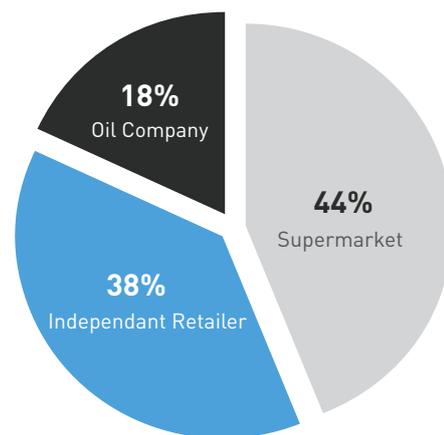
## Top 15 UK forecourt retailers

| Rank | Retailer          | 2016 Network No. of Sites | Variance on 2015 |
|------|-------------------|---------------------------|------------------|
| 1    | Shell             | 571                       | -5%              |
| 2    | Tesco             | 504                       | 0%               |
| 3    | MRH               | 474                       | +6%              |
| 4    | Motor Fuel Group  | 405                       | +9%              |
| 5    | Euro Garages      | 341                       | 0%               |
| 6    | Morrisons         | 336                       | 0%               |
| 7    | BP                | 310                       | +1%              |
| 8    | Sainsburys        | 306                       | +1%              |
| 9    | Asda              | 296                       | +6%              |
| 10   | Rontec            | 246                       | +16%             |
| 11   | ESSO              | 198                       | -5%              |
| 12   | Co-Op             | 151                       | -21%             |
| 13   | Petrogas          | 74                        | +16%             |
| 14   | HKS               | 62                        | +9%              |
| 15   | Park Garage Group | 48                        | 0%               |

### Petrol Filling Station Ownership Split



### Fuel Sales Market Share Split



[Source: Experian Catalyst]



**Ludlow:** Advised landowner on letting of new development to Applegreen on new 20-year lease.



**x4 Site Portfolio:** Advised petrol retailer on letting of four sites to Applegreen on new 20-year leases.

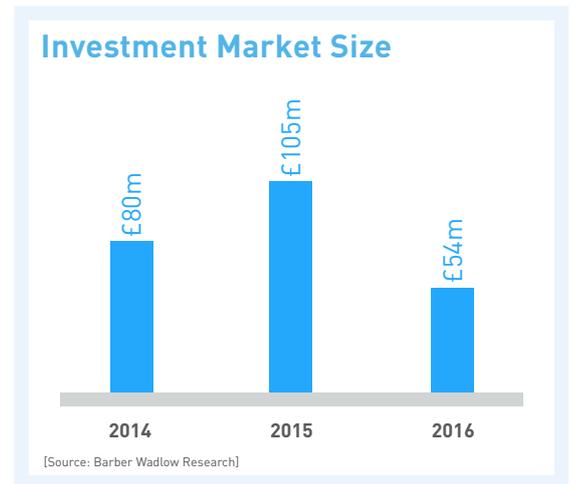
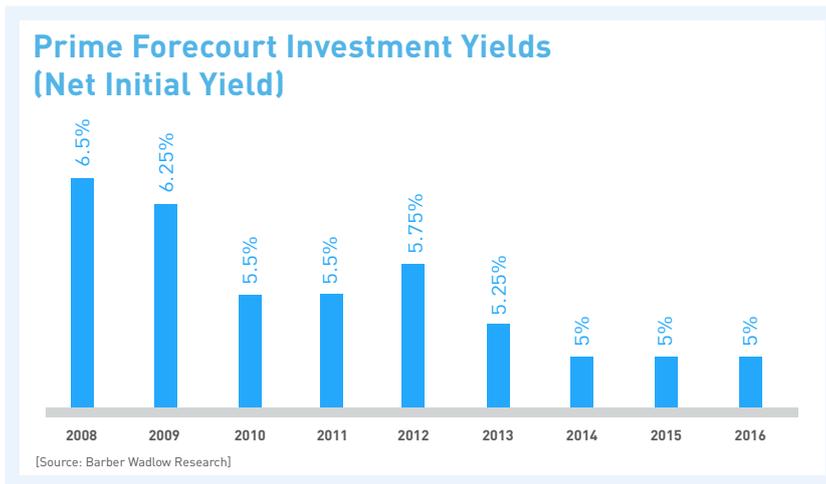
# Forecourt Property Investment Market

50% reduction in market size to £54m, which has intensified demand and prime yields have been sustained at 5% NIY.

The sector continues to appeal to a wide range of property investors due to the high quality assets now being developed, which benefit from long term leases that guarantee rental growth and tenants with a strong financial status.

There were approximately **£54m worth of transactions in 2016**, which represents a **49% decrease on 2015**. Barber Wadlow advised on circa £21m of transactions (39% of total market).

Prime yields remain stable at **5% Net Initial Yield (NIY)**, but we have witnessed yield compression of assets with shorter term leases (5-10 years). For example, a site in Cambridgeshire let to MRH with only nine years unexpired was sold at auction for 5.58% NIY.



## Example of Barber Wadlow investment transactions in 2016



### Co-Op Portfolio (London & Yeovil):

Acquisition of four forecourts on behalf of private investor that were all let to Co-Op with 18.5 years unexpired.



### Bebington (Wirral):

Acquisition on behalf of private investor of freehold investment let to Sainsbury's on 20-year lease.



### Manchester:

Sale of freehold investment let to Shell UK Limited with 20 years unexpired.

**Barber Wadlow will be marketing forecourt investments in 2017. Please contact us for details.**

**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.



Property advisers to the PRA and its members

<sup>1</sup> 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 Catalyst, 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.