

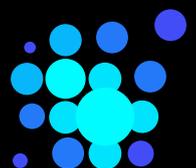


Vehicle Dealership Property Market Update

April 2013

Barber Wadlow

Fuel and Automotive Property Advisers



Vehicle Dealership Property Market Update – April 2013

Stability has returned to the new car retail sector, with 2012 recording a 5.3% rise in sales - the largest year-on-year increase since 2001. This strong performance has spurred considerable merger and acquisition activity amongst franchised retailer businesses, which has helped underpin dealership property values.

New Car Sales

2012 sales totalled 2,044,609 units, driven by strong private demand (12.9% increase), but fleet sales growth was much lower at 0.6%, with business confidence remaining fragile.

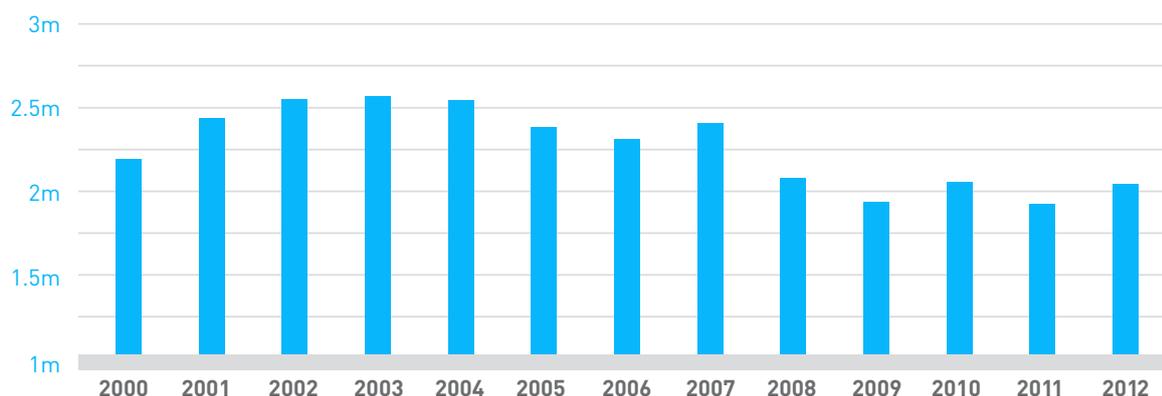
SMMT forecast that, overall, there is sufficient market confidence to ensure that sales will hold firm in 2013 at 2,057,000 units (0.6% increase) and 2,110,000 units in 2014 (2.6% increase). Q1 2013 supported this forecast with a 7.4% increase and March was the 13th consecutive month of growth, with volumes the highest since 2010 when the Government scrappage incentive scheme propped up the market.

Whilst this performance is encouraging and it is helping to support property market activity in the sector, one should acknowledge that 2012 sales were 14.9% below that of 2007, highlighting the difference in market conditions pre recession.

Property Market Highlights

- Increase in requirements for new dealership facilities.
- Property transaction activity returns, with sites being acquired for dealership development.
- Institutional funds invest in sector as developers/retailers look to finance new dealership schemes.

UK New Car Sales



Source: SMMT

Merger & Acquisition (M&A) Activity

Improved market conditions has resulted in considerable M&A activity as sector consolidation continues.

The top four dealer groups only account for 24% of aggregate turnover for the top 200 UK dealers, which is low by comparison to other more mature retail sectors. For example, food retail's 'big four' operators account for 76% of market turnover.

There will be a limit to vehicle retailer consolidation because of the quirks of the manufacturer/dealer relationship and the regulations (officially known as "Block Exemption Regulations") that govern the sector, which affords power to the manufacturer on how and who sells their cars. No manufacturer wants to be beholden to a dealer group that controls a significant proportion of their retail network.

Indeed, manufacturers have sought to take control of their own dealer networks by retailing direct and 4 of the top 20 groups (comprising Mercedes Benz Retail Group, Ford Retail Limited, Robins & Day (Peugeot) and Renault Retail Group) are wholly owned subsidiaries of their respective manufacturers. Certain other manufacturers (e.g., VW and Honda) have taken control of key properties through sale and leasebacks or taking head leases.

Despite manufacturers seeking control of their retail networks, the advantages of economies of scale is driving the well-funded groups to become more acquisitive. At the same time, many smaller dealers are finding themselves in an impossible position to fund and comply with manufacturers' standards, particularly in relation to property criteria. The major dealer groups are absorbing these smaller businesses, the knock-on effect being that the Top 20 dealer groups have seen aggregate turnover increase by 8.6% over the last 5 years. [source: Motor Trader Top 200]

Top 20 Motor Dealer Groups*

	Company/Group	Turnover (£000)
1	Pendragon plc	3,465,800
2	Sytner Group	2,542,000
3	Arnold Clark Auto.	2,253,071
4	Inchcape Retail	2,023,000
5	Lookers plc	1,898,500
6	Jardine Motors Group	1,224,974
7	Mercedes-Benz Retail Group	1,180,281
8	Vertu Motors plc	1,088,262
9	Ford Retail Group	1,035,455
10	Greenhous Group	781,422
11	Marshall Motor Group	750,000
12	Listers Group	746,768
13	JCT 600	634,298
14	Camden Ventures	560,000
15	Robins & Day	438,453
16	Perrys Group	429,062
17	Group 1 Automotive UK	420,000
18	Benfield Motor Group (Addison)	415,494
19	Renault Retail Group	409,676
20	RRG Group	378,249

Source: Motor Trader November 2012

Leading M&A Transactions:



March 2013

JCT 600 (No.13)* acquires Gilder Group (No. 24)*

September 2012

Arnold Clark (No. 3)* acquires John Weir (No. 111)*

September 2012

Vertu (No. 8)* acquires x3 Dealerships from Co-Op Motors

January 2012

Sytner (No. 2)* acquires Isaac Agnew Group (No. 22)*

* Source: Motor Trader Top 200 ranking November 2012

¹ Society of Motor Manufacturers & Traders

Vehicle Dealership Property Market Activity

M&A activity has led to a re-emergence of demand for dealership property

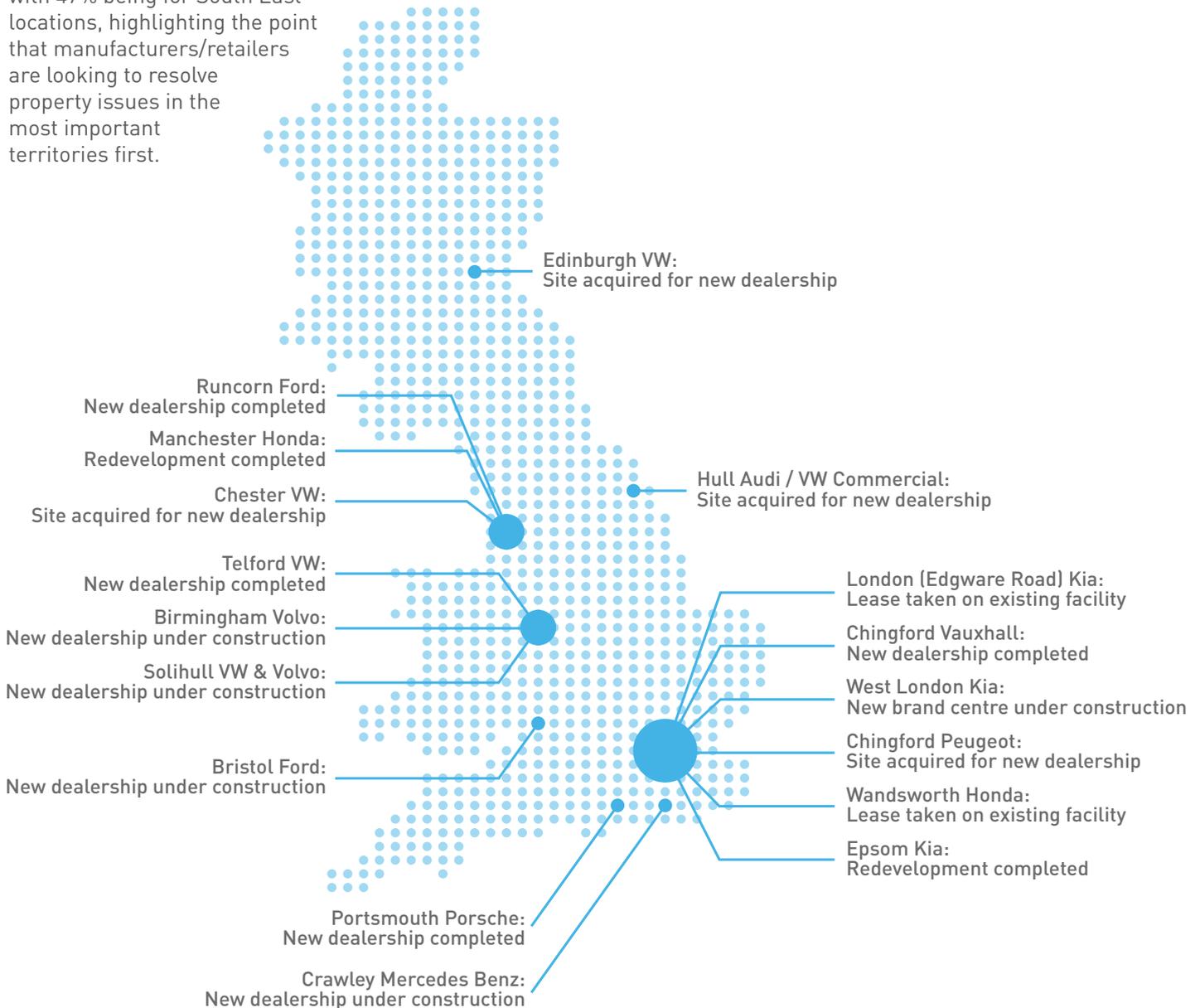
Retailers are being pushed by their manufacturers to upgrade or relocate outlets to comply with stringent corporate identity standards.

2011 saw a considerable spike in advertised requirements, following a 3-year period when manufacturers had allowed their dealers some leeway due to challenging market conditions. It takes time to identify and procure development sites, but in 2012, we started to see some of these requirements being satisfied (see map below).

Q1 2013 also witnessed a flurry of advertised site requirements, with 47% being for South East locations, highlighting the point that manufacturers/retailers are looking to resolve property issues in the most important territories first.



Source: Barber Wadlow Research 2013



Vehicle Dealership Property Values

Prime values hold up well in 2013

As demonstrated, activity has tended to be focused on the major conurbations of London, Birmingham and Manchester, which has helped sustain values in these regions over the last two years.

Going forward, we expect prime values to remain resilient, with the prospect of some inflation in particularly high profile locations, which will be driven by the dearth of supply of suitable sites and properties - an encouraging position for investors.

Prime Land Values (per acre)

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

Prime Rents (per ft2)

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

The above opinions are based upon prime values in respective regions, assuming a standard unit size of 15,000ft² – 20,000ft², 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.

Examples of Barber Wadlow Transactions:

Volvo Dealership, Birmingham



New lease secured for Volvo Cars (UK) Limited and Paul Rigby Ltd

Former Palletline Site, Birmingham



Acquisition of 6-acre site for vehicle dealership park for Collier Motor Group

Honda, Wandsworth



Letting to Honda Motor Europe

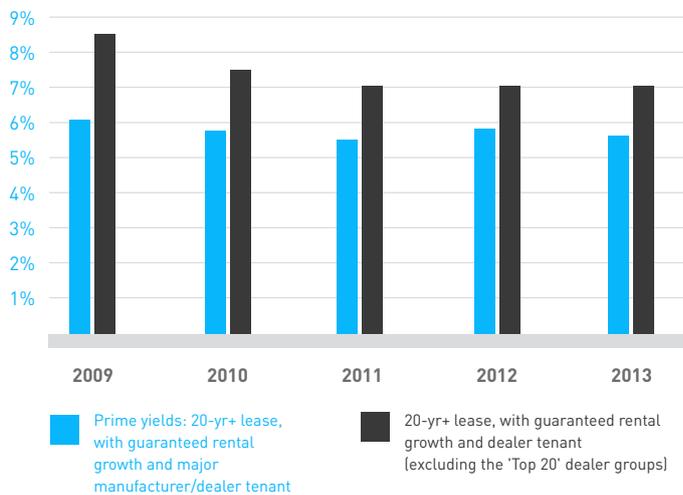
Vehicle Dealership Investment Market

The opportunity to secure investments with long term leases, guaranteed rental growth and strong (improving) covenants is attracting an array of investors to the sector, from the major institutions to private individuals.

Availability of stock is, however, a frustration, but we have started to see one or two opportunities come to the fore, driven by manufacturers' / dealers' appetite to take new sites. Prime yields are now in the region of 5.5% - 6%, with potential for further yield compression inside the M25.

Softer yields in the region of 7% can be secured by accepting lesser covenants. On the basis that the property fundamentals and lease terms are strong, and the tenant's business healthy, this is an interesting area to consider as these smaller groups may potentially be acquisition targets for one of the bigger groups, which could deliver a covenant windfall.

Vehicle Dealership Investment Yields*



*Net Initial Yields, reflecting purchasers' costs at 5.8%

Barber Wadlow Investment Market Activity

Peugeot / Citroen Portfolio



Barber Wadlow advised CBRE Global Investors on the acquisition of a Peugeot / Citroen Sale & Leaseback portfolio – c. £30m

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