

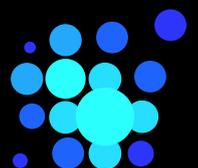


Vehicle Dealership Property Market Update

2015

Barber Wadlow

Fuel and Automotive Property Advisers



Vehicle Dealership Property Market Update – 2015

Nearly 2,500,000 new cars were sold in the UK in 2014 – the highest figure since 2004 – but 2015 is expected to exceed this level following a record half year, with August 2015 being the 42nd consecutive month of growth. The automotive property market remains active as retailers strive to comply with manufacturer demands buoyed by trading conditions.

Automotive Property Highlights

- Growth in automotive development land values and rents, particularly in South East.
- Prime investment yields compress to 4.5% NIY.
- 21% reduction in number of dealership property requirements over last 12 months, on back of exceptional growth in 2013/14.

Car Sales

2014 sales totalled 2,476,435 vehicles, up from 2,264,737 in 2013 – the fourth largest annual sales of all time (only 2002-2004 exceeded 2,500,000 sales). The market's sustained expansion is the longest ever seen, beating the previous record of 26 months set in the late 1980s.¹

2015 is forecast to hit 2,565,000 units (3.6% increase on 2014), but is already ahead of target with 1,634,369 cars registered so far in 2015 (6.7% increase on 2014).¹

The strength of the market has been attributed to stronger than expected economic confidence. Despite the SMMT expecting a more stable market in 2015 with demand levelling off, there was a particularly strong company car market (18.1% rise in fleet registrations) as businesses take advantage of attractive finance offers.

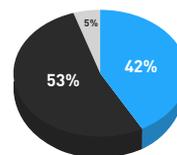
The question is therefore – can current sales be sustained longer term?

Industry commentators believe so because of the change in the way motorists buy cars – 78.1% of all vehicles sold in H1 2015 were financed (either hire purchase or lease) by comparison to only 47.9% pre-2008.²

The analogy, 'if it appreciates buy it, if it depreciates rent it', is now being employed by customers. Indeed, Ford has recently announced that as much as 94.5% of their vehicles are bought on finance deals. New car retailing is now very similar to the mobile phone sector with customers entering into 2/3-year deals and then returning the vehicle to the dealer for an upgrade, supporting the market going forward.

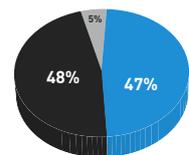
The concern of interest rate rises affecting the affordability of finance is also considered limited. Trevor Finn (CEO of No.1 dealer group, Pendragon) is of the opinion that manufacturers can absorb 0.5% to 1% interest rate rises in the pricing of cars. This position, coupled with a strengthening economy, provide for a healthy environment for the UK car market.

2015 New Car Sales Market Split



Business
Fleet
Private

2013 New Car Sales Market Split

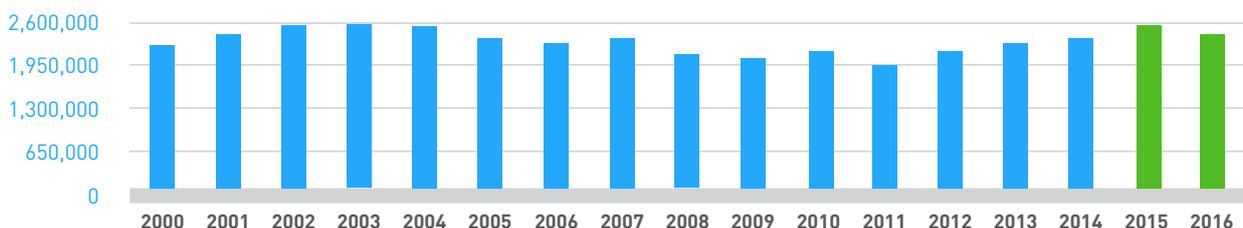


Business
Fleet
Private

¹ Society of Motor Manufacturers & Traders ² Finance and Leasing Association

Source: SMMT 2015

UK New Car Sales - 9.4% increase in 2014 and 2015 ahead of forecast



Source: SMMT 2015

Major Players in the Market

Strong dealer financial performance on back of healthy market conditions.

Aggregate 2014 turnover from the Motor Trader Top 200 was £52bn (up 12% on 2013). For the first time ever, the Top 10 groups all had a turnover in excess of £1bn. [source: Motor Trader].

Pendragon remained the No.1 retailer, extending its lead over **Sytner** and achieving turnover above £4billion for the first time since 2008. Sytner can be expected to erode this gap when it announces its latest results shortly.

Lookers recorded a substantial increase in turnover (+46%) on the back of recent M&A activity, pushing ahead of both Arnold Clark & Inchcape, albeit both these groups still saw 18% growth.

Exceptional turnover growth has also been seen at **Vertu** (+65%), **Ridgeway** (+46%) and Scottish retailer, **John Clark** (+33%), due to business acquisitions on top of a healthy trading period.

There are now x5 dealer groups achieving £50m + pre-tax profits and with **Arnold Clark** at £85.2m, it would appear to be only a matter of time before we see a retailer hit £100m. Keep an eye out for Arnold Clark and Sytner's next set of results.

Profitability amongst all top 20 retailers is generally strong, which explains why we are seeing institutional investors approving the financial status of such companies when buying into the sector.

Indeed, many investors are backing a range of retailers in the top 200 (Motor Trader Top 200 dealers – ranked on turnover) rather than simply focusing on the Top 20, demonstrating investors' understanding of the sector with the focus being on property fundamentals.

Top 20 Motor Dealer Groups

	Retailer	Turnover (£,000)*	Variance on previous Year	Pre-Tax Profit (£,000)*	Approx. no. of outlet
▶	1 Pendragon	£4,000,400	10%	£60,200	213
▶	2 Sytner	£3,220,886	7%	£64,700	100
▲	3 Lookers	£3,000,000	46%	£59,000	120
▼	4 Arnold Clark	£2,918,887	18%	£85,200	200
▼	5 Inchcape	£2,470,000	18%	£65,200	110
▲	6 Vertu	£2,074,912	65%	£21,000	116
▲	7 Jardine	£1,523,358	15%	£25,600	70
▼	8 MB Retail**	£1,463,655	13%	£19,800	26
▶	9 Ford Retail	£1,286,244	28%	£2,400	67
▲	10 Marshall	£1,086,000	17%	£12,800	74
▼	11 JCT 600	£1,025,000	13%	£18,600	50
▶	12 Listers	£958,360	17%	£14,100	50
▲	13 Benfield	£699,749	29%	£7,000	30
▶	14 Greenhous	£685,026	5%	£3,800	19
▼	15 Group 1	£681,144	16%	n/a	23
▲	16 Ridgeway	£647,661	46%	£10,300	33
▲	17 Perrys	£530,909	21%	£10,100	27
▲	18 Harwoods	£474,625	16%	£11,500	18
▲	19 John Clark	£470,186	33%	£7,400	30
▼	20 Robins & Day	£477,339	-2%	n/a	33

[source: Motor Trader November 2014/Barber Wadlow Research]

* Figures for FY 2014 and 2015 for all companies, except Sytner, Arnold Clark, MB Retail, Ford Retail & John Clark, which are for FY 2013 as the companies have not yet released 2014 accounts.

** Mercedes Benz Retail

Turnover / Profit – average per outlet

New for 2015, Barber Wadlow Research have reviewed average turnover and profitability per outlet.*

MB Retail sits top of the table on both accounts due to the unique position of the retailer being the wholly owned retail arm of the manufacturer, and therefore the network comprising of only Mercedes Benz franchises, a premium brand that is able to command higher margins.

The benefit of premium brands is what is also helping drive profitability at Sytner, Inchcape, Harwoods and Lookers.

Average turnover per outlet

	Retailer	Turnover per outlet (£,000)
1	MB Retail	£56,000
2	Sytner	£32,000
3	Greenhous	£31,000
4	Group 1	£30,000
5	Harwoods	£26,000

Average pre-tax profit per outlet

	Retailer	Pre-tax profit per outlet (£,000)
1	MB Retail	£760
2	Sytner	£650
3	Harwoods	£640
4	Inchcape	£590
5	Lookers	£490

[Source: Barber Wadlow Research / Motor Trader November 2014]

* This analysis presents a guide only.

Brand Performance

Ford remains the largest brand, with registrations at 326,643 units in 2014, equating to a market share of 13%, which it has sustained in H1 2015.

Vauxhall and Ford combined account for 23% of all cars sold in the UK, but at the turn of the Millennium, their combined market share was circa 30%, which has been eroded by competition from German and Japanese manufacturers.

Indeed, Audi and VW continue to improve their market share – combined sales in 2014 were circa 375,000 units,

by comparison to 227,000 units in 2001 [source: SMMT]. This demonstrates why certain brands' outlets are getting bigger, coupled with the fact that the UK franchise dealership network shrank by circa 17% between 2002 and 2011 following a period of rationalisation [Source: AM Online 2012].

Mercedes Benz, Nissan, Citroen and BMW have also performed well of late, but Peugeot and Toyota have lost market share.

2015 Car Sales By Brand

	Unit Sales H1 2015	H1 2015 variance on H1 2014	H1 2015 Market Share
Ford	177,150	2.1%	13%
Vauxhall	142,434	0.6%	10%
Volkswagen	120,064	8.5%	9%
Audi	86,009	2.7%	6%
BMW	80,363	7.0%	6%
Nissan	83,423	17.6%	6%
Mercedes-Benz	74,803	17.1%	5%
Peugeot	57,337	-0.2%	4%
Toyota	53,945	5.6%	4%
Citroen	45,483	9.4%	3%

[Source: SMMT 2015]

Vehicle Dealership Property Market Activity

Dealership property requirements decline by 24% in 2014/15.

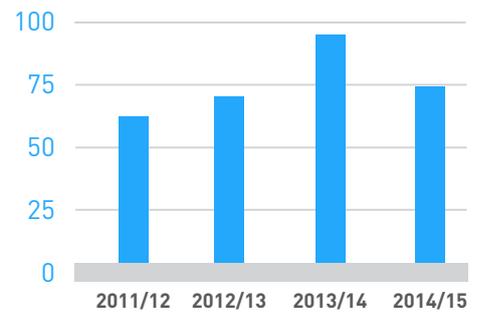
Advertised vehicle dealership property requirements in the UK fell in the last 12 months to 71, from a high of 94 in 2013/14. This statistic does not however point towards a slowdown in demand for dealership accommodation. Indeed 2013/14 was an exceptionally high year, when manufacturers started to apply pressure on dealers to upgrade facilities following the financial crisis. Many of these requirements will also not have been satisfied yet.

The current number of advertised requirements is a return to more normal levels and we are starting to see requirements being satisfied, which demonstrates confidence in the market given that a new development will generally cost between £4million and £8million. Barber Wadlow has acquired sites located across the UK over the last 12 months on behalf of dealers.

Moreover, improved market conditions in the commercial property market has seen a number of major mixed use development schemes finally come to fruition having been shelved since 2008. This has provided a supply of dealership development sites, albeit not at a fast enough pace to satisfy impatient manufacturers.

There still remains a particular dearth of sites in the South East, which accounted for 51% of all requirements in 2014/15 (40% in 2013/14). But there are also a number of pinch point locations elsewhere in the UK – in one particular town we are aware of x6 'live' franchise dealership requirements and no immediate/suitable solutions.

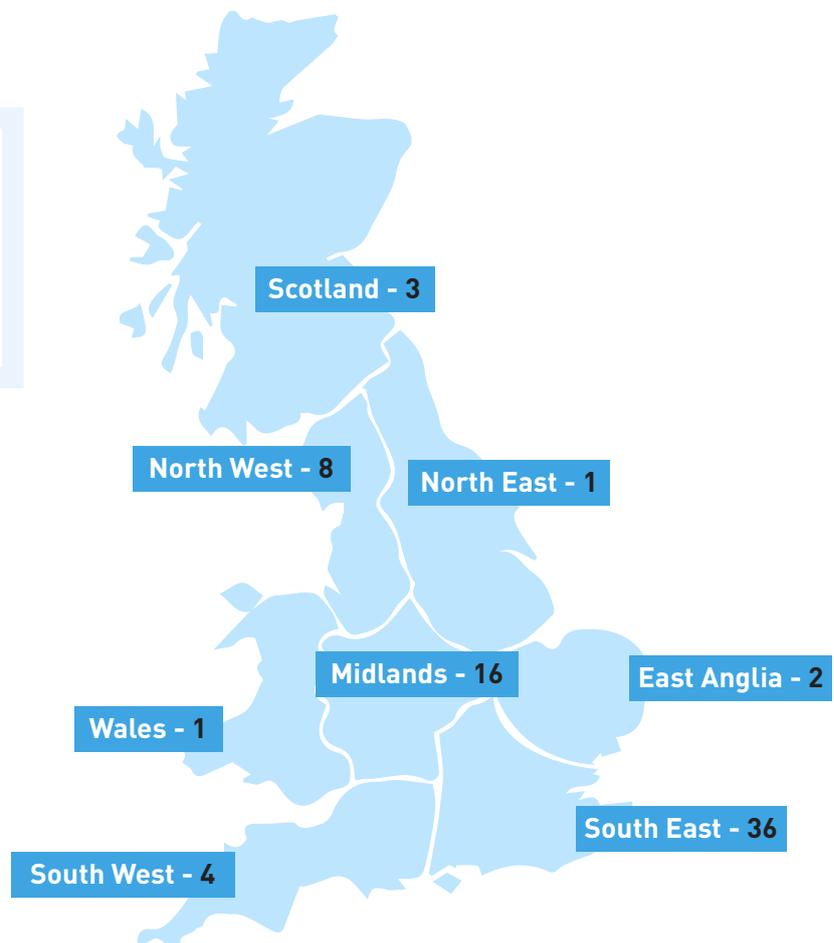
No. of Advertised Dealership Property Requirements



Source: Barber Wadlow Research

Number of Dealership Requirements - Regional Split

Source: Barber Wadlow Research



Vehicle Dealership Property Values

Market competition drives price inflation

There has been an increase in land values throughout the UK, which is particularly evident in the South East as a result of competition from dealer groups, as well as higher value alternative uses. Rental growth is also now being recorded outside of the South East in certain locations.

Prime Land Values (per acre)

Location	2007	2011	2013	2014	2015	
Inside M25 (exc. Central London)	£2,500,000	£2,000,000	£2,000,000	£2,250,000	£2,500,000	▲
Midlands Region	£1,750,000	£1,300,000	£1,300,000	£1,300,000	£1,500,000	▲
North West Region	£1,250,000	£1,000,000	£900,000	£900,000	£1,000,000	▲
Scotland	£750,000	£600,000	£650,000	£650,000	£650,000	▶

Prime Rents (per ft²)

Location	2007	2011	2013	2014	2015	
Inside M25 (exc. Central London)	£20.00	£17.50	£18.50	£19.50	£21.00	▲
Midlands Region	£16.00	£15.00	£15.00	£15.00	£16.00	▲
North West Region	£16.00	£15.00	£14.50	£14.50	£14.50	▶
Scotland	£13.50	£12.00	£12.00	£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.

Notwithstanding this, we are seeing rental levels for sale and leaseback ('S&LB') transactions being set at "below market" values.

This does not, however, mean that rental values are falling. It is a product of dealers employing "cost recovery" strategies (i.e., capital receipt generated from S&LB only required to cover development cost, rather than turn a profit) and the very strong investment market, which means that a rent can be set at below market levels.

With an increase in land values as shown above, and development costs rising by up to 7% over the last 12 months (Source: BCIS), where retailers are required to work with a developer, then rental values are being pushed upwards. Manufacturer pressure on timescales is also resulting in further increases on development costs.

Volvo, Edgware Road London



Rent review on behalf of landlord. Settled at £425,000 pa

Client: CBGA Robson on behalf of Solano Investments

Toyota, Edgware Road London



Rent review on behalf of landlord. Settled at £575,000 pa (6.5% increase).

Client: Aberdeen Asset Management

Mazda, Croydon



Rent review on behalf of landlord. Settled at £182,500 pa (10% increase)

Client: CBRE Global Investors

Former Carcraft, Birtley (Tyne & Wear)



Letting to Motorpoint Car Supermarket

Client: Kames Capital

Vehicle Dealership Investment Market

Prime yields hit all-time record at 4.5% NIY*

Yields have again compressed throughout 2014 and into 2015, driven by the high demand from institutional investors for long-term leases with guaranteed rental growth. Sector appeal is further enhanced by the exceptional sector performance which is enhancing the financial status of tenant covenants.

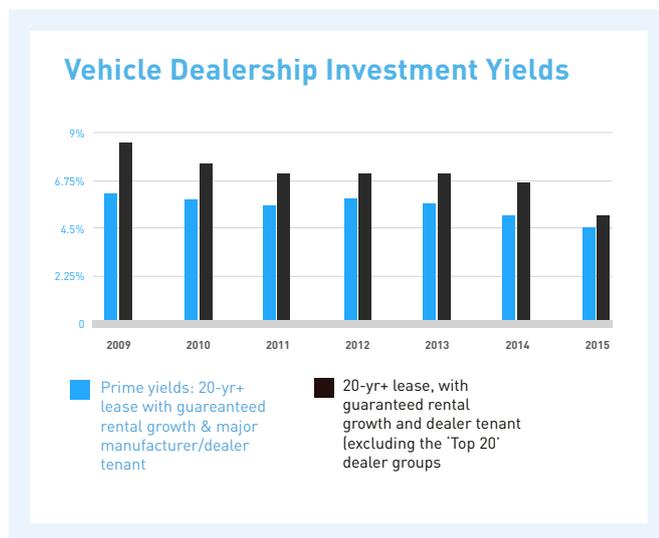
Lack of supply of investment product is also having a massive impact. We estimate that the market size over the last 12 months was circa £150m**, down from £220m. The current market size therefore equates to only third of the market at its peak in 2007/08.

An ongoing trend is the high proportion of the market that is made up of investments let to dealer tenants (as opposed to manufacturers). In 2014/15, 53% of dealership

investments were let to dealers, up from 44% in 2013/14. This demonstrates investors' better understanding of the property sector, which is shown by the prices that are being paid. Dealer group-let investments are now achieving sub-5% NIY.

Indeed, the most substantial yield compression has been for smaller dealer covenants, once considered secondary stock and trading at a 100 – 150 bp's discount to prime values. On the basis that property/investment fundamentals are strong (i.e., modern facility, major franchise and long-term lease with guaranteed rental growth), then the differential can be little more than 25 – 50 bases points, and in certain cases, at parity.

Furthermore, we have seen yield compression for properties let on 10/15-year leases, demonstrating that investors are now taking a longer term view looking at asset management opportunities such as lease re-gears to add value.



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

**Excludes abnormal portfolios, namely the Pendragon Portfolio that sold in Q1 2015 for circa £250m

Barber Wadlow Investment Market Activity

Barber Wadlow advised on the following acquisitions:

<p>BMW, Tring</p>  <p>Client: CBRE Global Investors</p>	<p>Invictus, Portfolio</p>  <p>Client: Cordea Savills</p>	<p>Honda, Orpington</p>  <p>Client: CBRE Global Investors</p>
<p>Ford, Middlesbrough</p>  <p>Client: Kames Capital</p>	<p>Ford, Staines</p>  <p>Client: CBRE Global Investors</p>	<p>Volvo, Chiswick</p>  <p>Client: CBRE Global Investors</p>

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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