



Vehicle Dealership Property Market Update

2016

Barber Wadlow

Fuel and Automotive Property Advisers



Vehicle Dealership Property Market Update – 2016

2016 new car sales maintain record levels (2.6% ahead of 2015) and the used car sector also witnessed 8% growth, but a cooling of market conditions is anticipated. Notwithstanding this, the automotive property market remains strong, driven by occupier and investor demand.

Market Highlights

- New car sales maintain record levels post-Brexit with 2016 forecast at 2,641,000 units.
- Used car sales record 8% growth in first half of 2016 – 8,350,000 units annualised.
- M&A activity amongst dealers continues with a number of transactions completing post-Brexit.
- 35% increase in number of dealership property requirements.
- Prime investment property yields hold firm at 4.5% – 4.75% NIY.
- Dealership investment market totals £125m – 16.5% decline on previous 12 months due to lack of stock.

Market Overview

With new car sales hitting an all-time high of 2,633,000 units in 2015 and growth continuing in the first nine months of 2016 (2.6% year-on-year growth), the market has never been healthier.

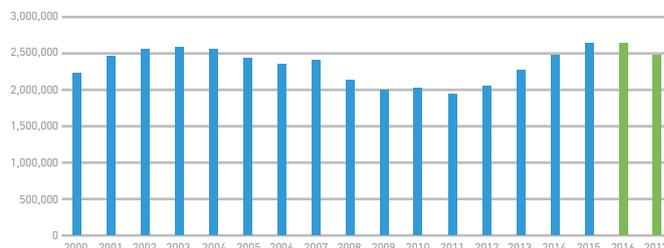
But the ‘elephant in the room’ is Brexit and the impact that it will have on the market going forward. A slowdown was, however, inevitable regardless of Brexit, given the 36% increase in market size since 2011. Whilst August and September saw vehicle registration growth of 3.3% and 1.6% respectively, the market is levelling off and the SMMT’s revised forecast for 2016 is 2,641,000 units, 0.3% up on 2015.

2017 is expected to contract by 6.1% (2,481,000 units), but this would still be comfortably above the mean annual average since the Millennium of circa 2,300,000 units.

Brexit has also forced the Government’s hand to reduce interest rates. Given that three out of four cars sold in 2015 were financed (either hire purchase or lease), a low interest rate environment will help support the UK car market.

Vehicle retailers are also financially well placed to weather a slowdown, with the aggregate profit of the top 20 dealers currently at circa £0.6bn.¹

UK New Car Sales - 2016 on track to maintain record level



Barber Wadlow Market Activity



Honda, Land Rover & Mazda Dealerships, Birmingham
Barber Wadlow advised Collier Motors on the sale of the multi-franchise business to Jardine Motors Group.

¹ Before tax

Major Players in the Market

Superb profits generated from the leading groups who continue to grow on the back of healthy market conditions and M&A activity.

Pendragon remains top of the pile in terms of turnover, with an 11% increase. Pre-tax profits also increased by a massive 31%, but the company sits only third in the 'profit' pecking order behind Sytner and Arnold Clark, the latter surpassing the £100m profit before tax milestone.

Strong performance has driven M&A activity, with the largest deal being Marshall's acquisition of Ridgeway at £106.9m, doubling their turnover and catapulting the group from tenth to seventh.

Other groups that have been acquisitive include Lookers, Vertu and Jardines, which is reflected in their financial performance.

We are also seeing a number of smaller dealer groups (outside the Top 20) successfully acquiring businesses; such as Motorline, Cambria and Swansway. These groups have turnovers ranging from £330m - £450m and are therefore somewhat smaller than the major groups, but they are still very profitable businesses which has been recognised by institutional property investors. For example, Barber Wadlow recently advised AXA on the purchase of two Motorline dealerships that were sold subject to a leaseback (see Vehicle Dealership Investment Market at page 6).

Top 20 Motor Dealer Groups

	Retailer	Turnover (£,000)*	Variance on previous Year	Pre-Tax Profit (£,000)*	Approx. no. of outlet
▶	1 Pendragon	£4,453,900	11%	£79,000	220
▶	2 Sytner Group	£3,665,451	17%	£81,393	133
▶	3 Lookers	£3,649,100	20%	£62,800	153
▶	4 Arnold Clark	£3,265,000	12%	£107,282	200
▶	5 Inchcape	£2,725,200	10%	£63,400	110
▶	6 Vertu	£2,423,000	23%	£25,962	127
▲	7 Marshall**	£1,955,361	80%	£26,863	106
▶	8 Mercedes Benz	£1,734,104	18%	£17,413	19
▼	9 Jardine	£1,669,397	9%	£29,892	73
▼	10 Ford Retail	£1,628,682	13%	£12,454	65
▶	11 JCT 600	£1,144,890	12%	£18,616	50
▶	12 Listers	£1,086,399	13%	£21,496	50
▲	13 Peugeot Citroen***	£795,358	n/a	-£9,286	42
▶	14 Greenhous	£727,091	6%	£5,546	16
▶	15 Group 1	£609,849	10%	£8,441	35
▲	16 John Clark	£604,114	28%	£10,533	36
▲	17 Harwoods	£553,247	17%	£14,166	18
▼	18 Perrys	£550,722	4%	£6,905	40
▲	19 Eastern Holdings	£516,866	9%	£6,339	30
▲	20 Helston	£498,708	n/a	£15,332****	37

[source: Companies House and retailer websites]

*Figures for FY 2015 and 2016 for all companies except; Sytner, Arnold Clark, Mercedes Benz Retail, Peugeot Citroen Retail, Group 1 Automotive and John Clark.

**Marshall Motor Holdings Plc figures incorporate Ridgeway (FYE December 2015) for the same period.

***Robins & Day and Citroen Retail now merged.

****Operating Profit as opposed to pre-tax profit.

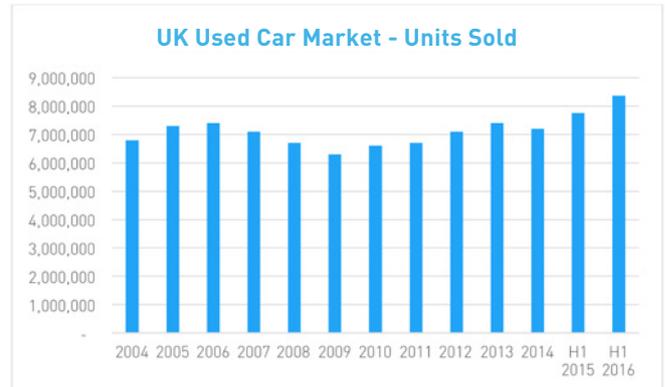
Used Car Market

Used car sales in the first half of 2016 exceed 4,000,000 – the highest level on record.

Used car sales dropped to 6,300,000 units in 2009, but have now recovered to record levels, achieving an 8% year-on-year growth in the first half of 2016, which equates to an annualised figure of circa 8,350,000 units – 33% growth over the last 7 years. This has been driven by improved finance packages, as well as an increase in supply of one to three-year old cars.

Car supermarkets have sought to capitalise on this segment of the car market, but it is still highly fragmented with the top five retailers only accounting for 151,089 units (1.9% market share). Retailers such as Motorpoint and Available Car are expanding their networks to provide national coverage. Motorpoint undertook an IPO in May 2016, raising proceeds of circa £100m to aid its growth strategy, adding three sites (Castleford, Oldbury and Birtley) in the last 12 months, and is now the largest UK independent retailer.

London retailer, Car Giant, has been demoted to No. 2, albeit is generating nearly £500m turnover from a single site. Available Car also added the former Carcraft site in Leeds during the period for £8m, The Car People are developing a new £6m facility in Warrington and Car Shop were reported in October 2016 to be hiring advisors to sell a stake in the business that would value it at between £70m - £100m.



*H1 2015 and H1 2016 - annualised sales based upon 6 months trading. [source: SMMT, BCA]

Top 5 Car Supermarkets

Rank	Name	Turnover	Variance on Previous Year	Pre-tax Profit (£,000)*	No. of Outlets	Car Sales 2015
1	Motorpoint	£729,200	29%	£16,900	11	41,376
2	Car Giant	£465,875	18%	£36,804	1	55,100
3	Available Car	£231,364	11%	£7,056	4	15,017
4	Car Shop	£208,600	7%	£5,003	5	23,000
5	The Car People	£169,358	10%	£5,447	3	16,596

*Figures for financial years 2015 and 2016 for all companies, except Car Giant [source: Companies House and retailer websites]

Barber Wadlow Market Activity



Car Supermarket,
Wednesbury (West Midlands)
110,914ft² on 12.8 acres
(UNDER OFFER)



Car Supermarket,
Sheffield
115,696ft² on 9.8 acres
(UNDER OFFER)

Car Supermarkets – Property Criteria

Car supermarkets come in all shapes and sizes – anything from 20,000ft² to 120,000ft² – on sites of 3 to 12 acres. The larger units will generally be confined to the major conurbations, albeit in London/ South East the high land values and dearth of space means that retailers must compromise.

The advantage that car supermarkets have over franchised dealers is that they do not need to comply with stringent manufacturer property standards. Retailers can therefore consider a wider variety of building types and retail a range of brands in a single showroom.

Vehicle Dealership Property Market Activity

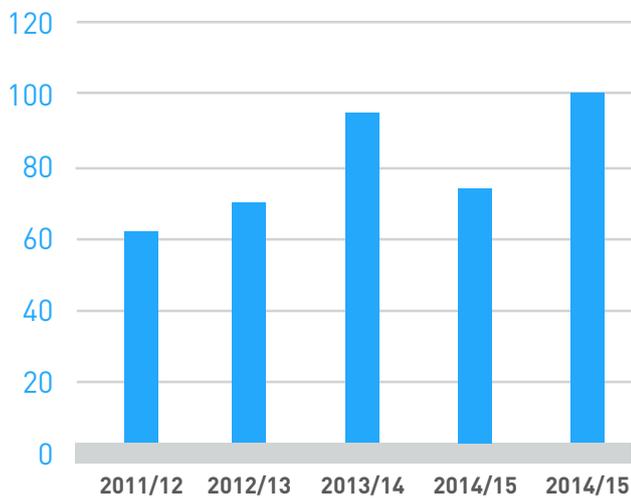
Market demand for vehicle dealerships intensifies – 35% increase in number of advertised requirements.

Advertised dealership property requirements totalled 100 in the last 12 months, up from 71 in 2014/15.

Manufacturers are continuing to put pressure on their dealers to relocate businesses to modern 'corporate-compliant' facilities. This is an expensive exercise (up to £10m for certain brands in high-value locations) and one that dealers will often look to resist. Many smaller dealers have opted to avoid the investment altogether by selling their businesses, which has driven M&A activity. The purchasing retailer is, however, left with finding an alternative facility which will generally be a condition of the transaction.

The South East continues to account for the lion's share of requirements at 42, up from 36 in 2014/15. The lack of development land and high alternative use values means that South East requirements (particularly inside the M25) often remain unsatisfied for an extended period of time, and many manufacturers / dealers have simply given up. There has also been a substantial increase in the North West, with 18 requirements (up from 8 in 2014/15).

No. of Requirements



Source: Barber Wadlow Research

Number of Dealership Requirements - Regional Split



Source: Barber Wadlow Research

Barber Wadlow Market Activity



Jaguar Land Rover, Futura Park, Ipswich
Acquisition of development site for Marshall Motor Group



Audi, Matford Business Park, Exeter
Acquisition of development site for Marshall Motor Group

Vehicle Dealership Investment Market

Prime yields hold firm pre and post-Brexit

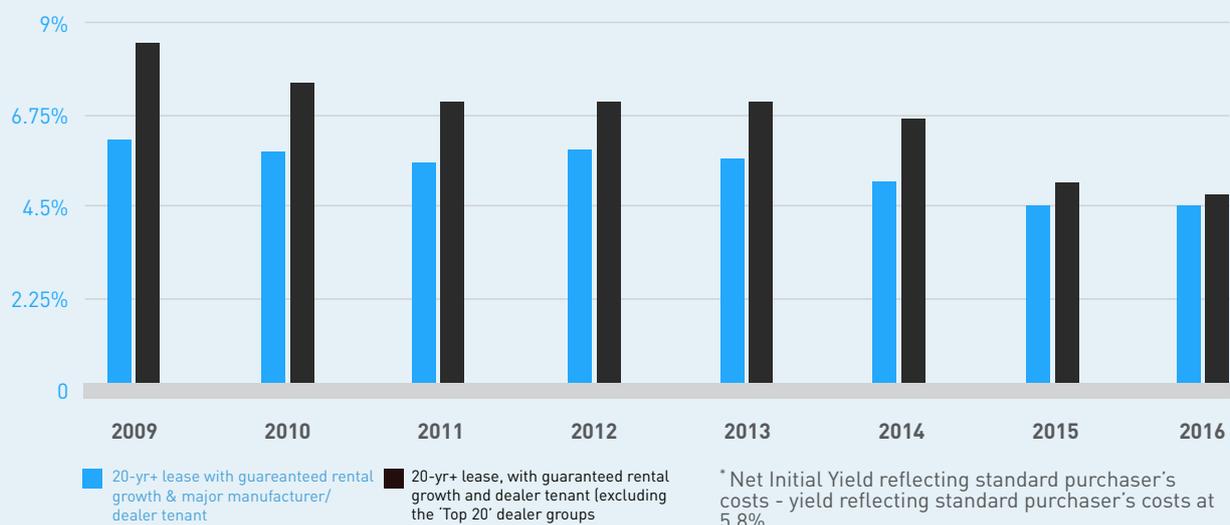
Demand for prime dealership investments let to good quality tenants on 20+ year leases has been sustained over the last 12 months due to the severe lack of long-income investments throughout the wider property market.

Yields as low as 4.5% - 4.75% have been recorded in a variety of locations throughout the UK (not just the South East) and we have also seen transactions post-Brexit confirming that this pricing level is being maintained for prime opportunities.

The dearth of supply is evident in the limited market size at circa £125m – 16.5% down on the previous 12 months. Moreover, only a third of these transactions benefited from 20+ year leases, which is underpinning pricing for long-income investments.

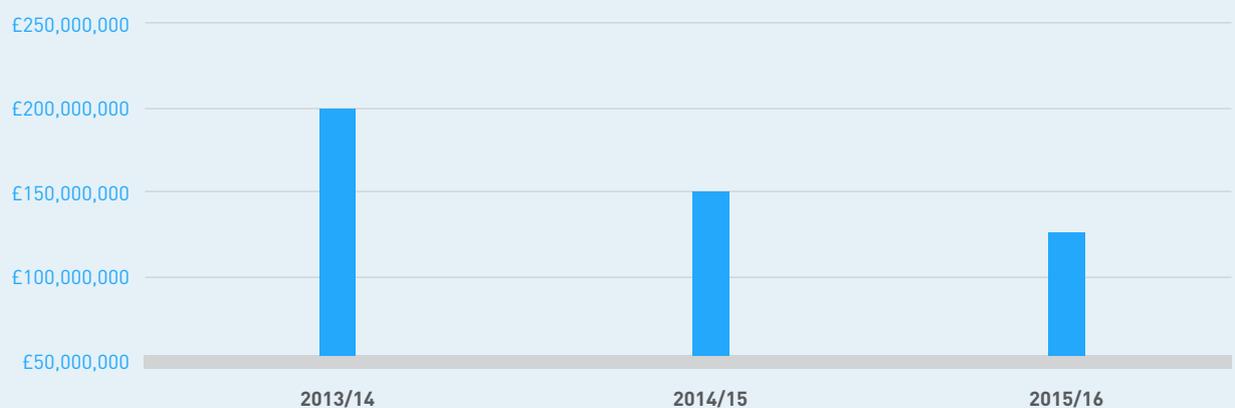
A high proportion of the market (c. 75%) is for properties let to dealers as opposed to manufacturers, demonstrating investors' comfort towards dealer group tenant covenants, but the property fundamentals do need to be strong. A property let to a manufacturer is increasingly becoming a rare commodity.

Vehicle Dealership Investment Yields - Prime Yields



Source: Barber Wadlow Research

Dealership Property Investments - Market Size



Source: Barber Wadlow Research

Vehicle Dealership Investment Market (continued)

Maximise asset values through creation of property investments

The strength of the investment market gives retailers that are looking to sell their business the opportunity to secure a premium value from their freehold property assets. By leasing the dealership to the purchasing retailer (rather than selling the freehold), the property can be sold onto a property investor who will pay more than book value for the right assets, potentially up to a 25% premium.

Dealer Exit Strategy – split business and property to maximise overall business value:



The above transaction structure is most compelling for modern dealership facilities where the purchaser is a major retailer, and hence the resultant investment will be of greater appeal to property investors.



Barber Wadlow Market Activity

Motorline – Tunbridge Wells & Maidstone

Barber Wadlow advised AXA on the acquisition of Nissan Tunbridge Wells and Hyundai/Renault/ Maserati, Maidstone, both subject to a 25-year lease back to Motorline

For further market intelligence and advice, please contact us.

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