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Motor Retail Market Review Spring 2016

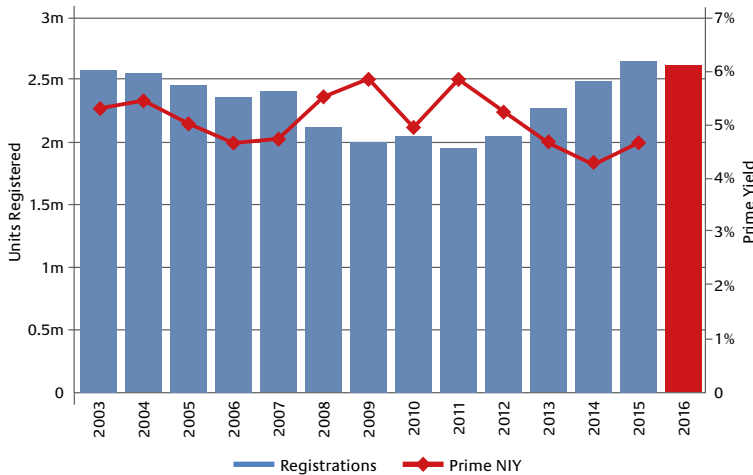
SPRING 2016

2015 was a record year for the registration of new cars with over 2.6 million recorded following four years of consecutive growth. December 2015 saw 180,077 new cars registered – the highest figure ever recorded for the month.

Overall, the market rose 6.3% in 2015 exceeding forecast. Growth was reported across all fuel types, with petrol and diesel registrations up 8.4% and 3% respectively. Plug-in hybrids experienced significant growth, with volumes more than doubling, while pure electric vehicles saw an uplift of around 50%. Alternatively Fuelled Vehicles secured their biggest ever market share of 2.8% for the year, similar to Fiats market share.

Figure 1 shows the pattern of registrations over time set against prime yields for automotive dealerships. The Society of Motor Manufacturers and Traders (SMMT) forecast 2016 volumes to be similar to 2015 at around 2.6 million units. Yields are expected to remain stable.

FIGURE 1: CAR REGISTRATIONS vs DEALERSHIP PRIME YIELDS



The growth forecast for the new car market is a welcome sign of the perceived resilience of the UK economy – resilience that is matched by the performance of automotive property.

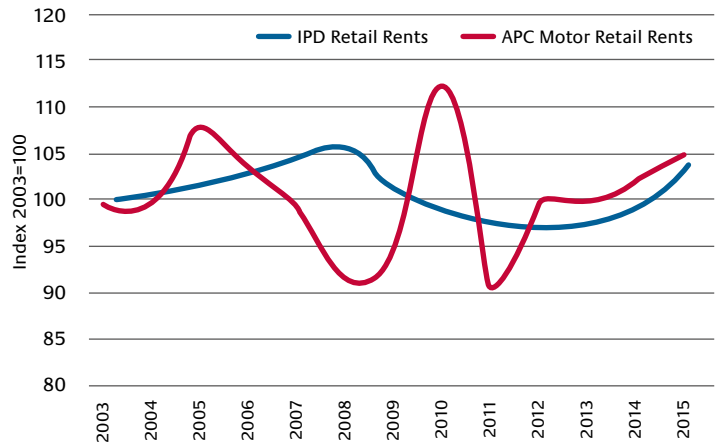
RENTS

Despite strong demand for new cars, rental growth in car dealerships has been relatively subdued.

Rents for competing uses – industrial for example – have seen significant increases particularly in the last three years. This means that any premium offered by dealership uses has been eroded significantly.

We anticipate that dealership rents will rise significantly over the next year as this differential is re-established, raising the average back to figures last seen a decade ago.

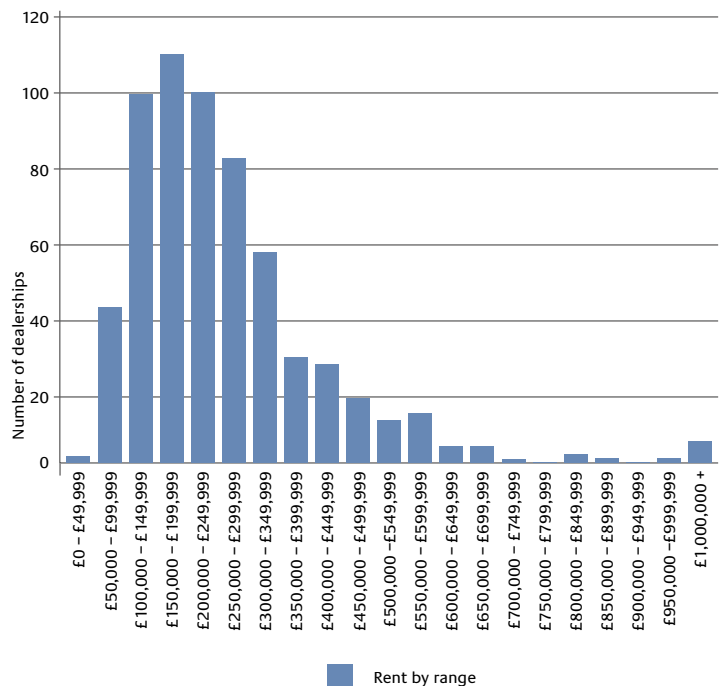
FIGURE 2: DEALERSHIP RENTS VS IPD



Average rents at the end of 2015 ranged between £8.46 psf in the East of England to almost £17 psf in Greater London.

Region	Average psf
Greater London	£16.77
South West	£16.04
Yorkshire & Humberside	£14.88
South East	£12.45
East Midlands	£12.06
North East	£11.01
West Midlands	£10.68
North West	£10.46
East of England	£8.46

FIGURE 3: TYPICAL RENT RANGES FOR CAR DEALERSHIPS



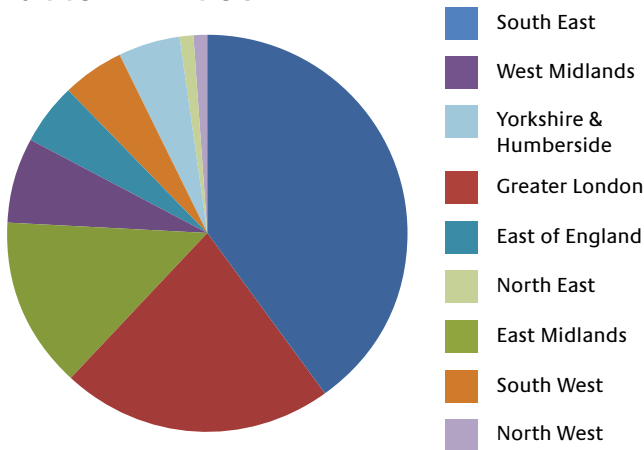
YIELDS

Prime yields for car dealerships have fallen by around 75 basis points over the last three years to stand at 4.6% at the end of 2015. Average yields have fallen even more – a full 100 basis points – over the same five year period.

2015 Averages	
Prime Yield	4.6%
Average Yield	6.1%
Average Rent psf	£12.37
Average Lot Size	£4.6m
Average Unexpired Lease Term	13.8 years
Average Floor Area	24,731 sq ft

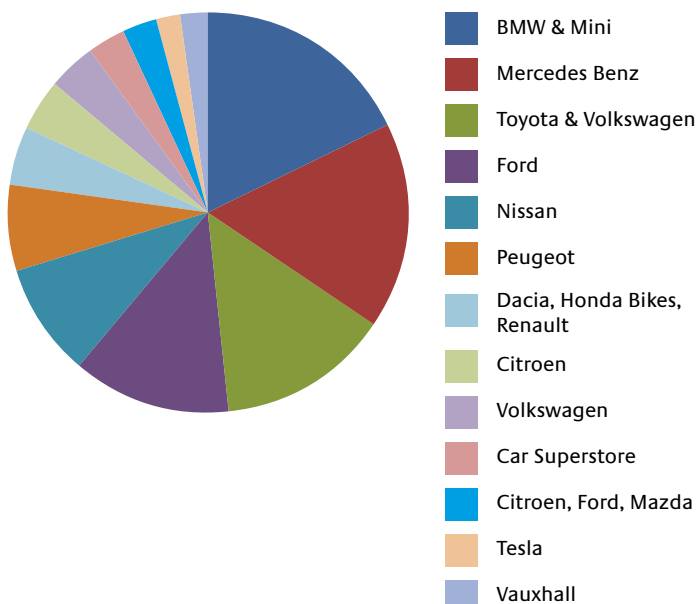
INVESTMENT MARKET – REGIONAL DISTRIBUTION

FIGURE 4:
2015 SOLD BY REGION



INVESTMENT MARKET – FRANCHISE DISTRIBUTION

FIGURE 5: PROPORTION OF INVESTMENTS SOLD IN 2015 BY FRANCHISE



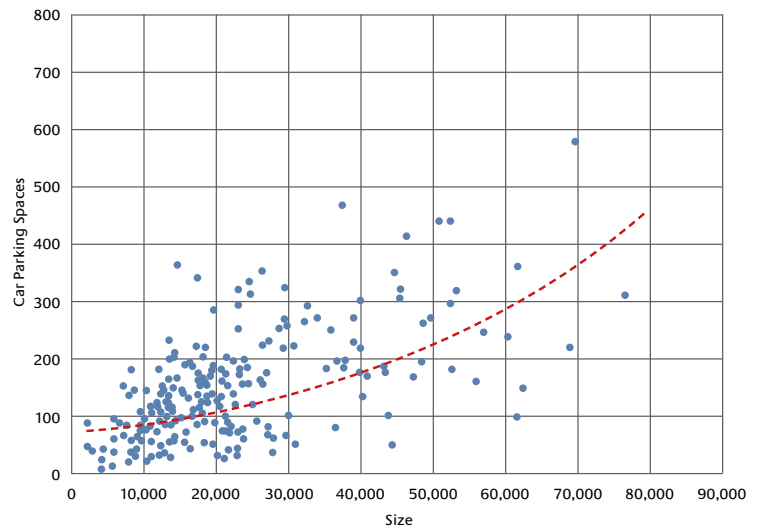
CAR PARKING

Space is a problem for car dealerships. Slow growing European markets and sanctions on exports to Russia mean that the UK is awash with new cars. Whereas in days gone by manufacturers would store these cars themselves, in the current market they are pushing these further down the supply chain onto the franchised dealers.

It has always been a truism that many dealerships are short of parking space particularly when related to servicing and repair. In this environment the situation becomes a real problem of logistics to which the only solution is to acquire more space. In some cases this means renting short-term open storage - in others root and branch change to bigger, less densely developed sites.

Figure 6 shows the relationship between car parking spaces and the size of the dealership in floor area taken from APC market data. As would be expected, as the size of premises increases, the more parking spaces are provided but this correlation is not as strong as it should be and there are some big dealerships here with very poor parking provision. Indeed, taking the whole dataset set against the best dealerships for car parking, 92% of the market is significantly below the top quartile.

FIGURE 6: CAR PARKING SPACES VS SIZE OF DEALERSHIP



It is perhaps easy to see why. Margins force dealers to maximise the use of space within their footprint and car parking spaces do not, of themselves, produce revenue but ease of parking is an important customer service metric and, although there is only anecdotal evidence of this, dealers with inadequate parking may well be losing business as a result. Dealers are certainly under pressure from franchise partners to have bigger premises - in part at least to solve this problem.

The search for larger premises is itself a problem. Burgeoning industrial land values are pushing prices for dealership sites upwards particularly in fringe urban areas.

FIGURE 7: SAMPLE CAR PARKING RATIOS

Franchise	Average Sq Ft	Average Parking Number	Ratio
Audi	24,896	224	111:1
Ford	23,901	216	111:1
Honda	14,320	219	65:1
Average	21,039	220	96:1



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