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Motor Retail Property Bulletin – Summer 2014

RENTAL GROWTH FLOURISHES AS CAR SALES CONTINUE TO RISE

At end of the first quarter of 2104 the 4% rise in rents recorded by Automotive Property Consultancy (APC) during 2013 has continued with rents rising 3% since the year end. This is consistent with the continuing rise in new car registrations and the general increase in economic activity during the first part of the year.

Business optimism reached its highest level in more than two decades in January, according to a report by the accountants and business advisers BDO, holding out the prospect for accelerated activity in the market.

Figure 1 shows automotive rents indexed against the IPD Quarterly index of retail and retail warehouse rents rebased to 2004. This shows all three lines rising during the early part of the last decade (notwithstanding an adjustment to automotive in 2006). Rental values for retail property generally peaked in 2008 and has been falling ever since reflecting a structural oversupply of retail premises relative to the expenditure on offer.

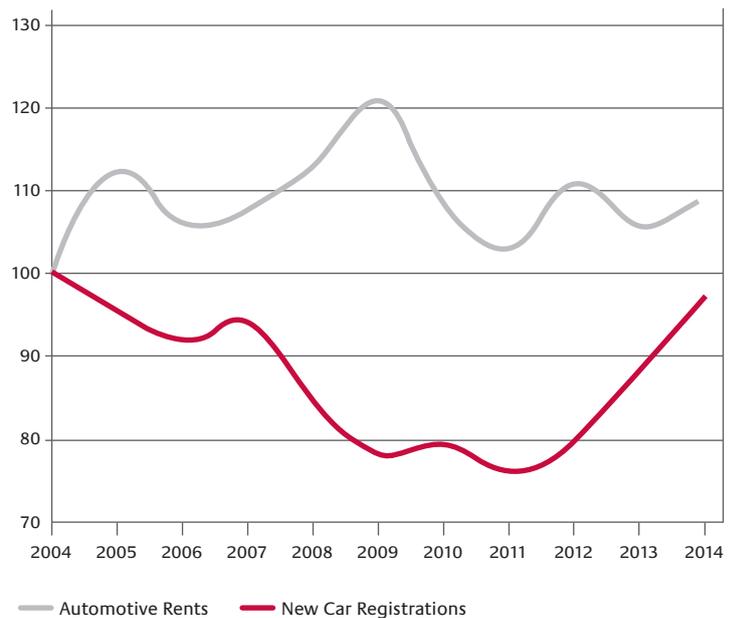
FIGURE 1: AUTOMOTIVE RENTS INDEXED AGAINST THE IPD QUARTERLY INDEX OF RETAIL AND RETAIL WAREHOUSE RENTS



Automotive property rents peaked later - in 2009 – and have proved more resilient to the downturn. Although they fell around 15% from 2009 to 2011 they have rebounded since.

Figure 2 shows the same indexed rents, but this time set against an index of new car registrations drawn from the SMMT. 2004 saw the end of four years of record-breaking sales of new cars in the UK and the number of registrations fell consistently until 2011 when it began to rise on the back of an improving economy and the necessary replacement cycle.

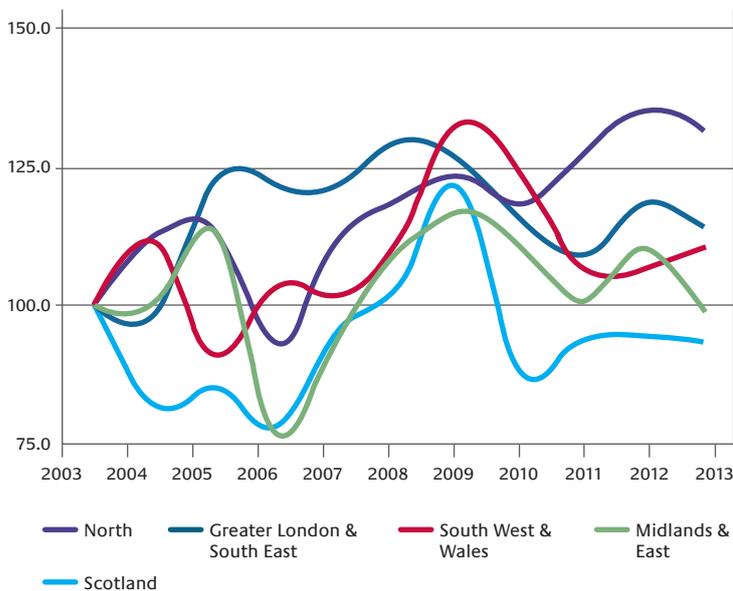
FIGURE 2: AUTOMOTIVE RENTS INDEXED AGAINST AN INDEX OF NEW CAR REGISTRATIONS



Although there is no clear correlation shown here between rents and new car registrations, common sense dictates that as sales rise, confidence increases along with ability to pay and expansionist corporate strategies begin to dictate demand.

There are significant differences in the performance of Automotive rents across the UK. Figure 3 shows that the best performance to the end of 2013 was the North (comprising North East, North West and Yorkshire and the Humber). This broad region has seen rents rise by around 30% since 2003.

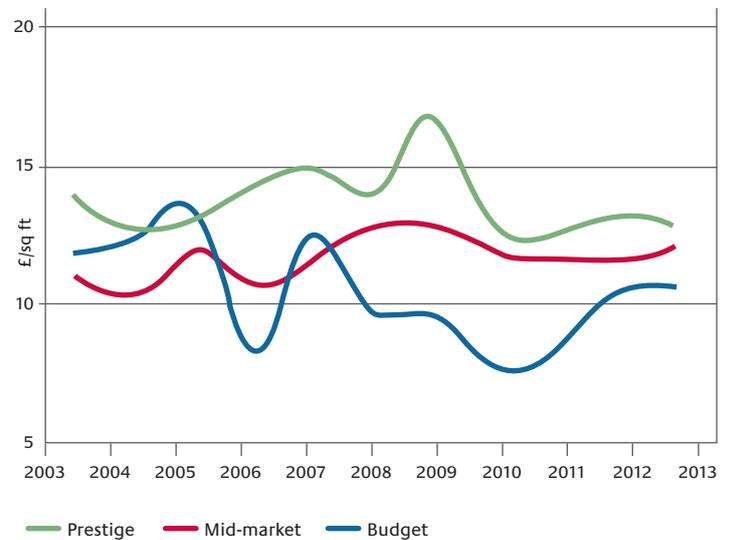
FIGURE 3: PERFORMANCE OF AUTOMOTIVE RENTS ACROSS THE UK



Greater London and the South East, by comparison, have seen a rise of under 20% over the same period – roughly the same as the South West and Wales. The Midlands (West Midlands, East Midlands and the East) see rents at the end of 2013 the same as they were in 2003, while in Scotland they are below that level by some 7.5%.

Figure 4 shows actual rents by franchise class. As would be expected, prestige brands pay slightly higher rents than mid-market brands that, in turn, trump budget brands.

FIGURE 4: ACTUAL RENTS BY FRANCHISE CLASS



Budget and Prestige rents are however, below levels seen in 2003 while mid-market brands have seen an increase of around 20%.

Rent is a crucial cost for automotive dealerships and it is clear that over the last decade real rents have been kept under control. However, from an investment perspective, in a rising market the opportunity for increasing income is available.



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