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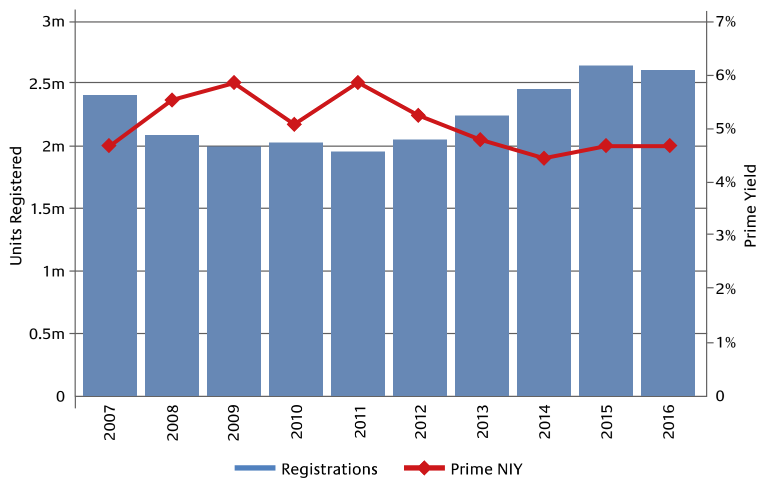
Vauxhall, Mazda & Kia Preston – Development

Motor Retail Market Review
Spring 2017

We are at the cusp of a new motoring age. Rapid changes in technology are reforming what a car is; we are almost at the point of the rebirth of the car as we know it, heralding an era of rethinking car usage, and ownership.

As a result, investors in the motor retail sector are attentive to the future of the car in the longer term and alert to the uncertainty about the direction of the UK economy over the next few years.

FIGURE 1: CAR REGISTRATIONS vs DEALERSHIP PRIME YIELDS



Economically, 2017 and 2018 are likely to be more challenging in several key respects: Prices, particularly oil prices, are likely to rise significantly, driven by the fall in the value of Sterling; Although wages are projected to rise, inflation will mean that real disposable incomes will fall; To counter the rise in inflation, interest rates are likely to increase, raising the cost of credit. This economic backdrop sits behind the SMMT's 5% forecast fall in new car registrations for 2017 with a further 1.3% fall in 2018.

This is unlikely to have much of an impact upon car dealerships or investment in them. Firstly, the forecast of 2.54 million units for 2017 is high historically. Secondly, dealerships make most of their income from maintaining and repairing cars rather than selling them. Thirdly, used cars are much more profitable than new cars and, because they are cheaper, used cars become more popular in a downturn.

Longer-term the automotive industry is facing challenges, some of which could be disruptive. The first of these is the growth of the sharing economy. It is estimated that cars are utilised around 5% of their life and are parked for 95%.

It is this imbalance in capacity that the sharing economy seeks to address. In the short term this manifests itself through collaborative consumerism –organisations that offer shared access to vehicles.

However, it is only economic to run this kind of service in dense urban areas, and the propensity for consumers to share is tempered by the personal statement that ownership of a particular car brand and model conveys to the world at large.

Within a generation, automobiles are expected to be endowed with full, self-driving artificial intelligence, known as Level 4 autonomy. Eventually, Level 4 is likely to usher in a whole new business model of pay per use. Instead of just selling new cars manufacturers will also be delivering specialist transportation services.

The benefits of this approach are potentially huge with higher vehicle utilisation and significantly reduced costs. Set against this is the vast cost of building new infrastructure – physical, social, legal and even moral – required to support this change.

TABLE 1: AVERAGES

	2011	2016
Average Rent £ psf	£12.17	£13.74
Average Rent Overall	£281,631	£311,143
Average Yield	7.17%	6.19%
Prime Yield	5.76%	4.58%
Average Lot Size	£3,762,235	£5,532,154
Average SQ FT	23,304	23,771
Average Site Density	26%	32%

Long term, car dealerships are likely to be resilient to change. Autonomous vehicles may change their business model, but they are likely to remain at the centre of any service offer.

Average rents in 2016 flattened off following a year of relative decline in 2015. Between 2011 and 2016 average rents moved from £12.17 to £13.74 – a 13% increase.

There were significant regional differences: Greater London saw a 40% growth over this period with 35% recorded in the East Midlands. By comparison the West Midlands saw an uplift of 8% and the South East just 8%.

The projected economic slowdown in 2017 and 2018 is likely to see rents flattening off nationally although local markets may differ.

Average yields have fallen over the same period from 7.2% in 2011 to 6.2% in 2016 reflecting an increase in values of around 14%.

Evidence from yields achieved show values for volume franchises out-performing prestige and mid-market investments in 2016.

TABLE 2: REGIONAL COMPARISONS – 2016 INVESTMENT SALES

	Keenest Yields	Average rents psf
Greater London	4.57%	£14.73
South East	4.95%	£13.26
North West	5.28%	£11.53
Wales		£10.91
East of England	4.57%	£9.69
Yorkshire & Humberside	6.50%	£11.20
South West	4.83%	£13.06
West Midlands	4.74%	£11.97
East Midlands	5.24%	£11.62
North East	6.04%	£11.68
Scotland		£10.26

In value terms the 2016 market size was £200 million excluding used car sales - around 16% above the ten year average. Prestige franchises accounted for some 44% of the total market with volume franchises taking 25%.

FIGURE 2: AVERAGE RENTS

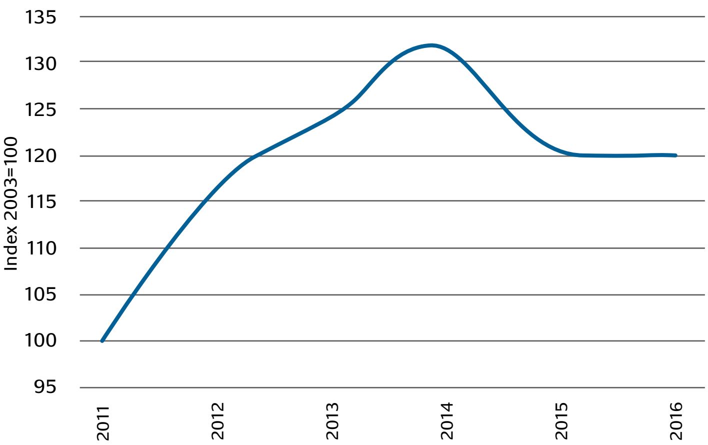
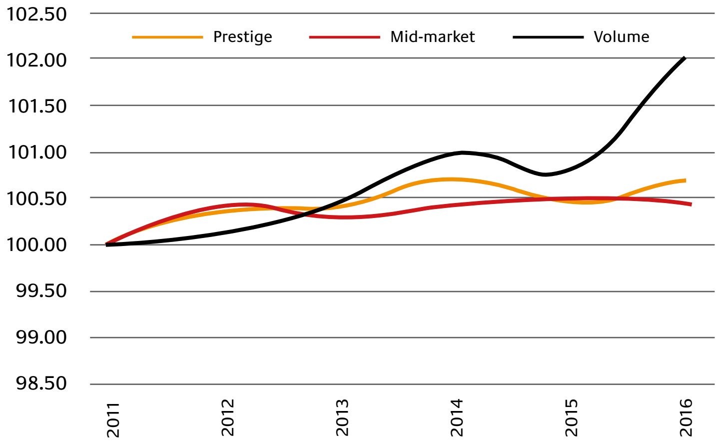


FIGURE 3: VALUES

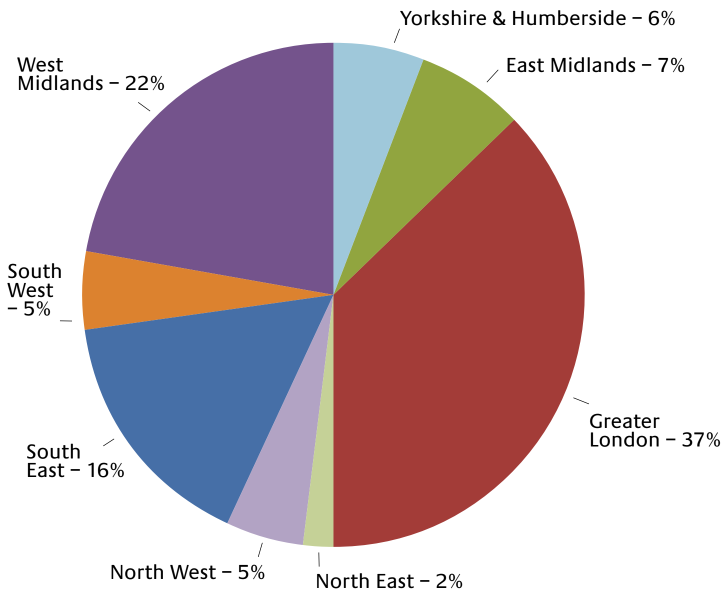


Capital value per square foot stood at an average of £161.44 in 2011. In 2016 the figure had risen to £232.73 – a rise of 44% in five years.

Table 2 shows the wide range of prime yields and average rents seen at regional level during 2016. The keenest yield (4.57%) was seen at the Dagenham Ford Commercial Vehicles in April 2016.

As would be expected, London has the highest rents and accounted for 37% of the market by value.

FIGURE 4: 2016 SOLD BY REGION



Franchised car dealerships provide the crucial servicing, stocking, and comprehensive car retailing experience to the motor retail market– with continuing market consolidation amongst dealer groups driving up the cost of market entry for competitors, and now being supplemented by slicker specialist used car retailers, squeezing out many middle tier players.

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