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Audi Stirling – Investment Sale

Motor Retail Market Review
Spring 2018

2017 represented a year of evolution if not revolution for the Automotive industry, with new technologies coming to the fore and the continuing trend towards Alternatively Fuelled Vehicles (AFVs), up 37% in 2017. This paradigm shift brings with it an opportunity for Investors, as there is significant confusion surrounding the potential value of new income streams. This has resulted in mispricing, consequently it is a good time to invest in the sector.

Nonetheless, issues that affected the wider economy also had an impact on the Automotive Industry. The uncertainty around Brexit, the weakening pound and inflationary pressure, along with government policy surrounding diesel and air quality combined to curb consumer confidence. Thus, it is not surprising that according to the Society of Motor Manufacturers and Traders, new car registrations dipped -5.7% in 2017.

However, new car registrations have not fallen off a precipice – 2017 was still the third best year for new car registrations in the past decade. Meanwhile the UK market remains centrally important to manufacturers as the second biggest market in Europe, behind only Germany. Accordingly, the Motor Retail Investment sector remains buoyant.

TABLE 1: AVERAGES

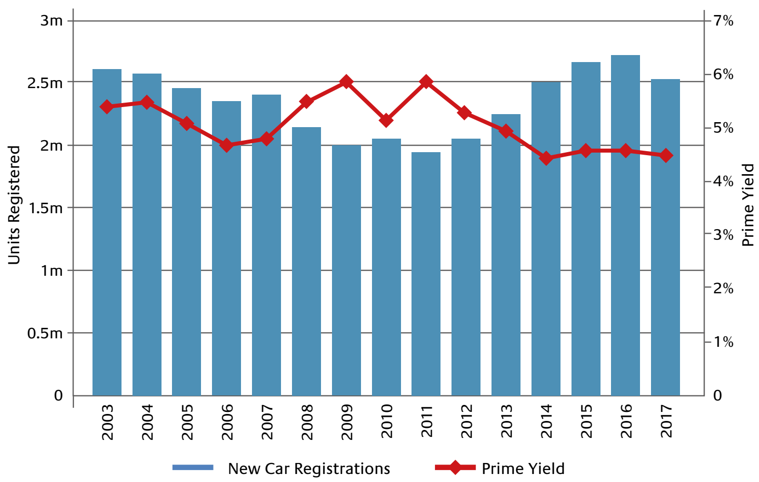
	2012	2017
Average Rent £ psf	£12.64	£12.57
Average Rent Overall	£288,342	£345,511
Average Yield	7.22%	5.96%
Prime Yield	5.32%	4.5%
Average Unexpired Lease Term	14.8	10.6
Average Lot Size	£3,900,216	£5,871,771
Average SQ FT	23,261	28,228
Average Site Density	27%	31%

Undeniably, manufacturers are feeling the pinch of easing new car sales but it does not necessarily follow that dealer profitability also contracts, something that investors are increasingly understanding. Prestige cars, Used cars, and an amalgamation of the two are seen by dealers as being the profit drivers for 2018.

Indeed, the market in 2017 was dominated by activity in the prestige sector. The sector commanded 66% of property sales and retailers have seen 16% profit growth on like for like operations, while the success of personal contract plans (PCP's) with new car sales has pioneered the scope for expanded used car leasing.

The UK used car market is robust. Dealer groups are seeing the results of investment in this area over the past few years and, following several years of back to back record car sales, the fleet of used cars will increase and used cars need more servicing. Used car contracts will come with a warranty, include maintenance, and cost up to a third less than new car leases, and are likely to be favoured particularly for prestige brands.

FIGURE 1: CAR REGISTRATIONS vs DEALERSHIP PRIME YIELDS



Manufacturers, Motor Retailers and Investors all have the opportunity to embrace and benefit from new technological and digital innovations. Whether it be new cars, used cars, electric cars, car sharing, subscription services, ride hailing, or indeed autonomous driving, someone has to own the vehicles, service them, insure them, and replace them.

Personal mobility is still of upmost importance to people and the car will remain the principle way in which people move. It is only the drivetrain of the car or the ownership structure that will change.

The established dealer network will continue to be the principle route to market and consequently will remain central to people's mobility. Just as the Motor Retail sector represents a chance for dynamic investors to diversify their income, the new technology and ownership structures offer a unique chance for dynamic dealers to innovate, diversify and incrementally increase revenue.

TABLE 2: REGIONAL COMPARISONS – 2017 INVESTMENT SALES

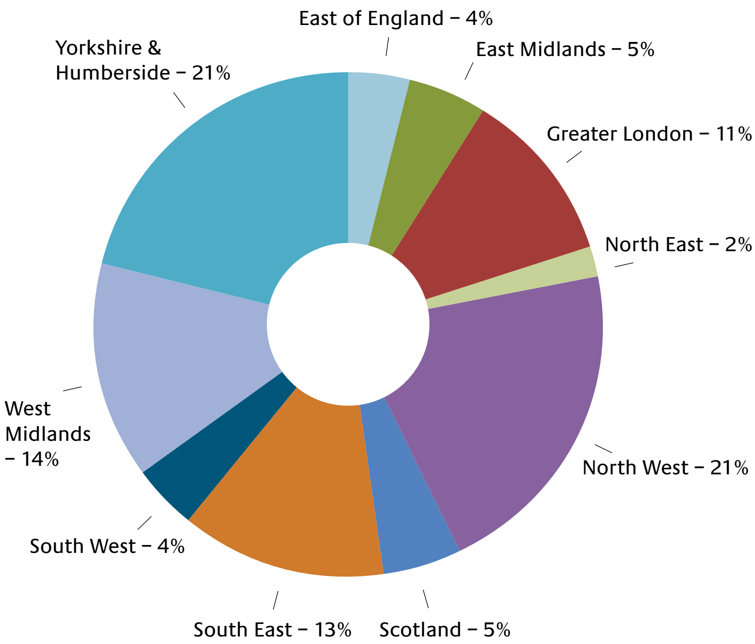
	Average Yields	Average Rents
East of England	7.00%	£296,604
East Midlands	6.48%	£274,700
Greater London	4.59%	£331,665
North East	7.55%	£195,250
North West	5.88%	£302,784
Scotland	5.00%	£211,156
South East	5.87%	£546,251
South West	5.65%	£530,000
West Midlands	5.76%	£410,444
Yorkshire & Humberside	6.53%	£367,885
National Average	5.58%	£346,674

Amidst all this change, yields have been holding firm, and average lot sizes have been increasing. Unsurprisingly, Investor interest remains strong for long term inflation linked income let to decent covenants. These may be manufacturer covenants or increasingly dealers covenants, as Investors realise the worth of a strong dealer covenant.

Yet, it is often elsewhere in the market where the astute Investor can find better value, where market imperfections have created unwarranted uncertainty. Prime yields have been relatively static since 2014 at below 5%. As would be expected, average yields are a little higher coming in at around 6% in 2017.

The traditional nationwide appeal of the Motor Retail Investment sector still rings true. London and the South East accounted for 24% of properties sold by value but only 17% by number.

FIGURE 2: SALES BY VALUE – REGIONAL MIX



The North West saw 21% of the sales alongside Yorkshire and the Humber while the West Midlands took 14% of sales by value.

At the start of 2018 the market is cautiously optimistic. Expectations of the first quarter are low but the hope is that the gradually unfolding economic environment will begin to bring much-needed clarity by the middle of the year.

Used cars are likely to grow in volume while diesels continue their fade from popularity. Electronic vehicles will arrive in ever greater numbers. All these factors have implications for automotive real estate and are likely to drive continued investment in the sector.

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