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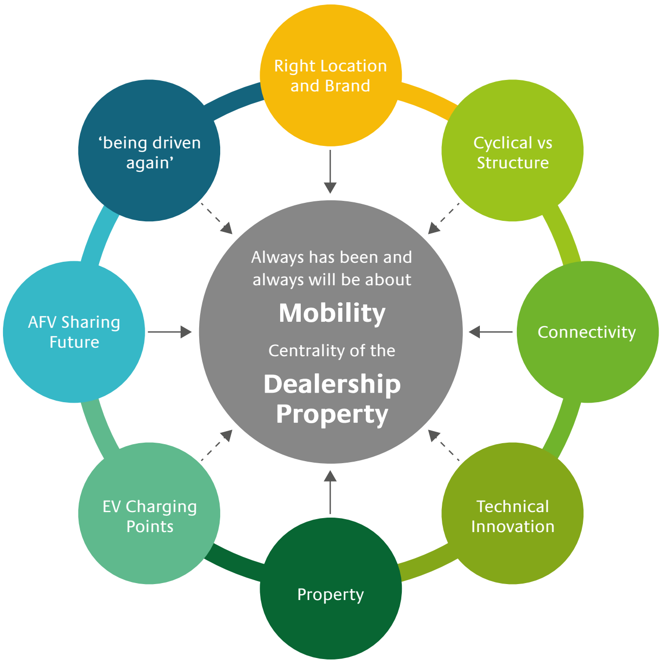
Car Dealership Market Review
Spring 2019

With Brexit in "suspended animation" a sense of uncertainty pervades throughout the economic and political landscape. The motor industry much like the wider business community continues to wait for a concrete solution to be identified and implemented. Such a solution will allow the industry to introduce the plethora of innovative technological advancements it has been developing, both voluntarily, and in response to tightening legislation regarding vehicle emissions. The electric, shared and autonomous motor industry of the future will begin to be delivered. Most manufacturers are expecting 25% of their new car sales to be electric between 2021-2023. In addition, more sophisticated autonomous features will infiltrate the marketplace as connectivity and subscription services become more prevalent. To summarise, once the current inertia is overcome mobility will evolve and travel flexibility will increase, particularly in urban areas.

The car sits at the centre of this Mobility revolution, and the car dealership is the agent of change adapting to the multi-channel and digital sales and services functions interacting with a likely disaggregation of some functions, largely dictated by real estate availability and price. Insurance products are already being written for autonomous delivery services and as these automated services extend there is likely to be widespread impact on real estate markets.



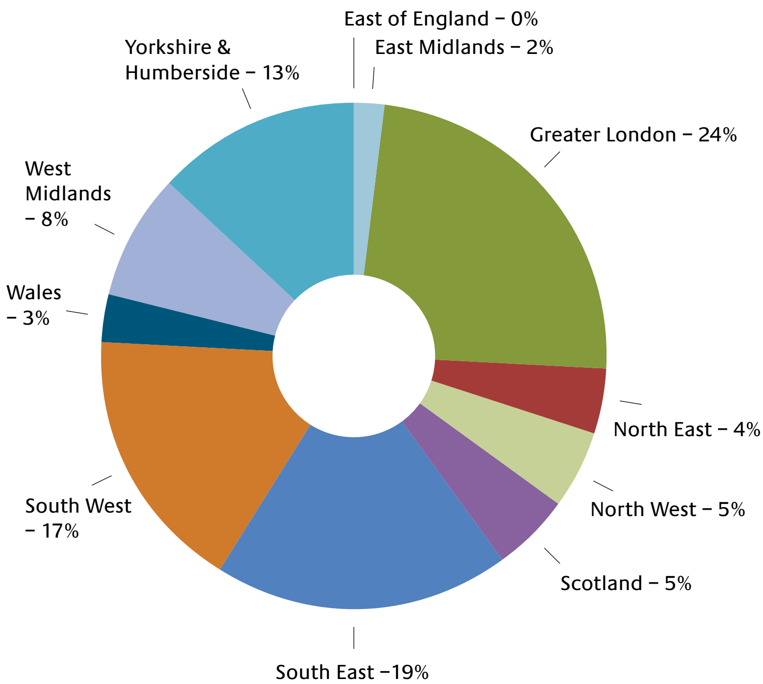
The surge of regulatory and technical innovation is starting to shape the evolving new form of the car and mobility business. Car manufacturers are retooling to build in short order the new cars that government and consumers desire. In the meantime, dealers are mining other income streams; used car and servicing in particular, pending the arrival shortly of a flurry of new technically enhanced "connected" vehicles aligned with consumer taste and regulatory requirements.

40 years ago there were 10,000 car dealerships in the UK; today nearer 4,600, and still set for some further modest shrinkage, particularly amongst brands easing market share and not forming part of the increasing market colonisation of the prestige brands (accounting for 30% of new car sales during 2018) prompted by affordable monthly financing terms. Some of this shrinkage is a result of natural attrition and the comparative attractions of alternative uses, often an underpinning real estate factor for this market.

TABLE 1: PROPERTY SALES BY FRANCHISE

Franchise	% of sales
BMW & Mini	22.3%
Jaguar & Land Rover	15.8%
Audi	10.9%
Mercedes	8.5%
Citroen & Peugeot	7.9%
Other	7.7%
Volkswagen	7.0%
Nissan	6.8%
Vauxhall	4.0%
Toyota	3.4%
Tesla	3.2%
Ford	2.5%

FIGURE 1: PROPERTY SALES BY VALUE – REGIONAL MIX

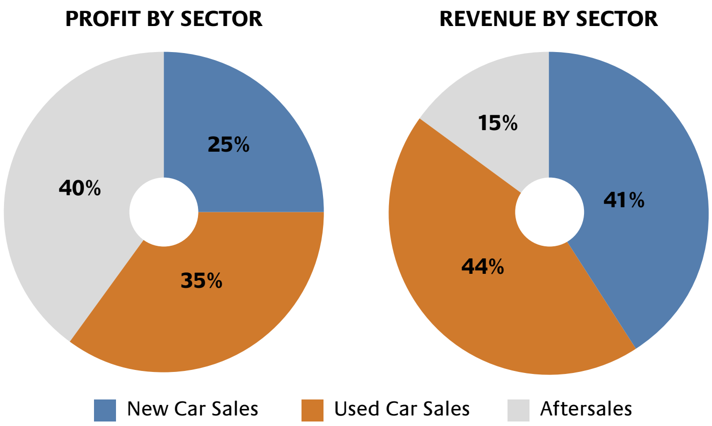


At Manufacturer level rationalisation and consolidation continues alongside increasingly building technology partnerships with software and app companies to enhance the Mobility service. Scale and innovation matters at a time of plateauing sales and rising costs. Ford have recently announced a cooperation agreement "alliance" with Volkswagen to initially develop new commercial vans and pick-ups, but this is expected to extend to electric cars and broader technology integration into cars. The leading Renault-Nissan-Mitsubishi "Alliance" remains supported by all members despite the incarceration of its former CEO, Carlos Ghosen, on charges of misusing company money.

The consolidation is mirrored at dealer level with the larger groups getting bigger and generating increasing economies of scale. The top 10 groups account for nearly 50% of the dealer market (source Grant Thornton). Fewer groups with fewer sites leads to greater profitability per site and so the key for real estate is the selection of "survivor sites". These groups are also embracing technology to generate sales and servicing leads. A leading used car superstore group report that 30% of their sales are achieved on-line with roughly half of these acquiring the car selected on-line, and the other half being upsold on arrival at the store.

Dealer groups generate profits across 3 principal areas; new car sales, used car sales and after-sales (servicing and parts sales). Other revenue sources include finance and insurance. Typically, dealers generate 40% – 50% of their profit from aftersales representing 15% of their turnover, and typically increasing by 5% per annum.

FIGURE 2: TYPICAL DEALER GROUP REVENUE & PROFIT PROFILE



Over time the ratios within this chart will fluctuate as electric cars with less moving parts filter into the market, but they will require tyres, oil, other fluids, parts, and software updates that can only be undertaken by authorised dealers. As mobility services improve these cars are likely to be worked harder and require more frequent servicing visits, for example many HGV's require servicing every 6 weeks. It is also worth remembering that even by the Government's target 2040 date to achieve 100% electric car sales 50% of vehicles on the road then will still be Conventionally Fuelled Vehicles (CFVs) requiring something similar to current day servicing requirements, see figure 3 below.

2018 was a tough year for diesel and vehicle emissions but despite a near 30% decline in diesel sales the new car market was down only 6.8% to 2.367m units with petrol sales up 8.7% and Alternatively Fuelled Vehicles (AFVs) up 20.9%, representing 6% of the market. The introduction in September across Europe of "real world" emission tests (Worldwide Harmonised Light Vehicle Test Procedure - WLTP) requiring every model and derivative to be tested on the road restricted the supply of vehicles and this in turn depressed sales. These figures though are still better than the 10 year annual average of 2.345m new vehicle sales. This point is highlighted by the corresponding used car sale performance that was down only 2% and stood for over 3 times as many sales as new cars.

FIGURE 4: CAR REGISTRATIONS vs DEALERSHIP PRIME YIELDS

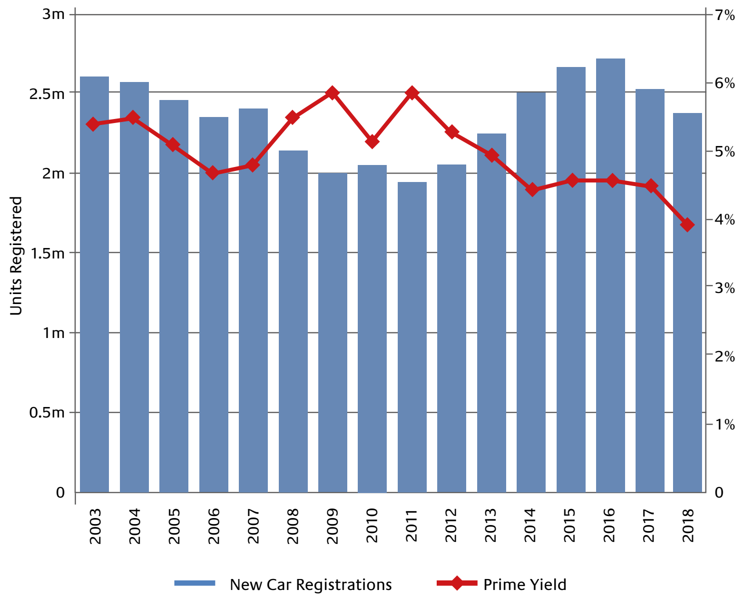
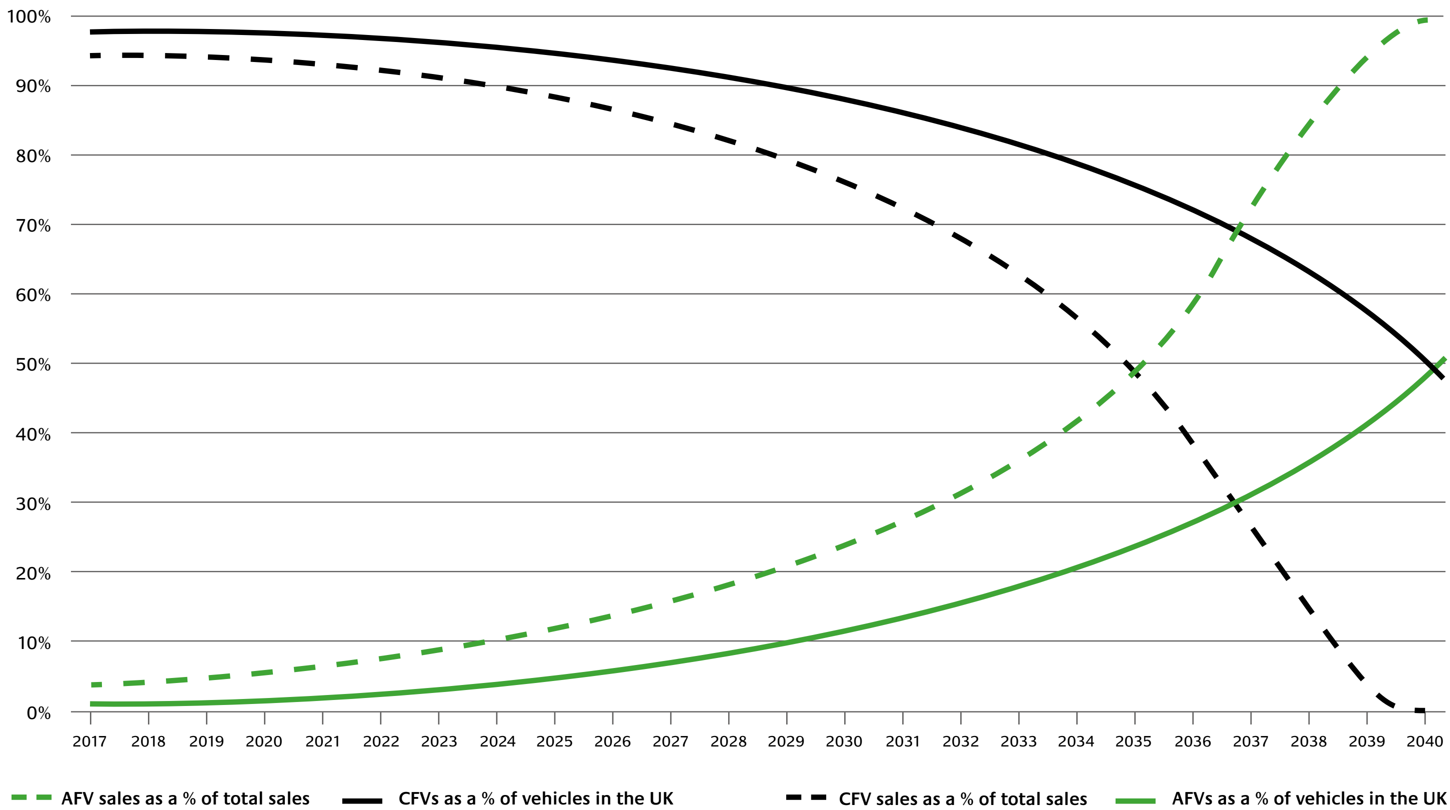


FIGURE 3: AFV UPTAKE & CFV DECLINE



The consequences of this tighter market have trickled down into the property market. Rental pricing erosion though is arrested by the large "Industrial" accommodation content (e.g. vehicle workshops and Parts warehouses) of dealerships, typically representing 66% – 75% of gross internal area. This space is valued at a premium to Industrial rents reflecting the lower site densities for car dealerships of typically 25% – 30%, and with industrial rents generally rising around the country there is little prospect of rental declines similar to many Retail property markets.

TABLE 2: AVERAGES

	2013	2018
Average Rent £ psf	£13.55	£14.14
Average Rent Overall	£310,609	£335,415
Average Yield	6.46%	5.55%
Prime Yield	4.98%	3.98%
Average Unexpired Lease Term	17.1	12.5
Average Lot Size	£4,764,109	£6,221,200
Average SQ FT	23,279	24,297
Average Site Density	26%	34%
% of RPI Transactions	77%	62%
Average Site Size (sq ft)	23,279	24,397

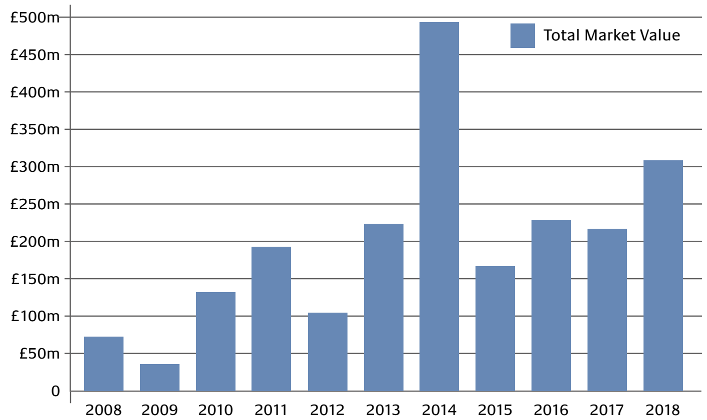
Overall the 2018 car dealership investment market witnessed the second largest transactions value level over the last 10 years (at £311 million) second only to 2014 which reached £494 million.

TABLE 3: REGIONAL COMPARISONS – 2018 INVESTMENT SALES

	Average Yields	Average Rents
East Midlands	6.25%	£176,104
Greater London	4.42%	£439,325
North East	5.69%	£244,415
North West	6.38%	£213,914
Scotland	4.60%	£370,000
South East	5.27%	£283,085
South West	5.13%	£549,113
Wales	6.05%	£519,890
West Midlands	6.00%	£372,321
Yorkshire & Humberside	6.45%	£288,843

The nationwide nature of car dealership investment offers risk divergence, and the benefit of enhanced dealer profitability resulting from fewer dealerships. The extended range of dealer income and profit streams (with 40-50% of profit generated by aftersales) supported by a top-rated brand introducing desirable products offers sustainable long term income security, often underpinned by alternative use values.

FIGURE 5: TOTAL MARKET VALUE OF SOLD PROPERTIES



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