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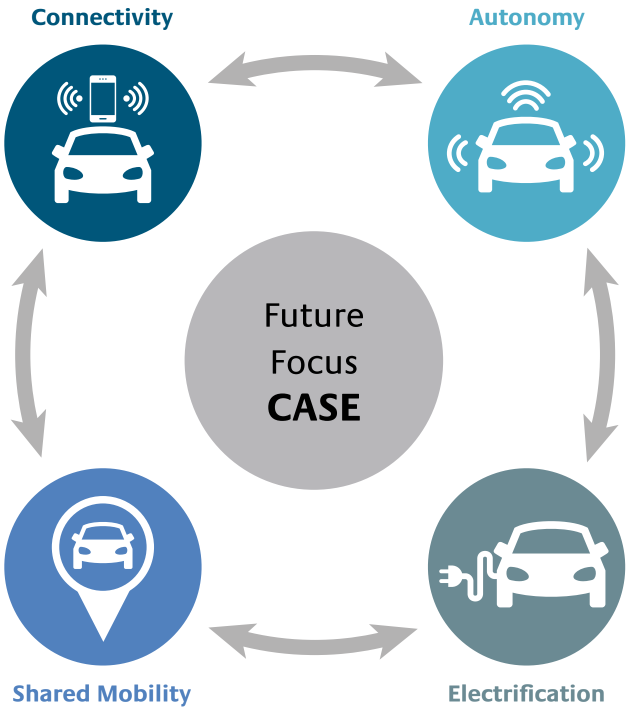
York Jaguar Land Rover – Leasehold acquisition

# Car Dealership Market Review Spring 2020

At the start of 2020 there is a real sense that some clarity has broken through the thick fog of economic and political uncertainty, this is in no small part a result of the decisive General Election result lifting the overall economic mood. Whilst both consumers and the business community still wait for a completely clear picture to present itself there increasingly is a consensus that sensible solutions will be delivered and adequate forward guidance provided. For car manufacturers, motor retailers and property investors in the sector this is undoubtedly positive news.

Any movement away from the relative inertia that has understandably been displayed by both businesses and consumers will serve to push manufacturers, retailers and consumers towards the expected mobility revolution at a greater pace. This renewed sense of business confidence combined with the structural overhaul of mobility, driven by the four motors of Connectivity, Autonomous Vehicles, Shared Mobility Solutions and Electric Vehicles (CASE) will benefit all stakeholders, but do so in different ways.




Source:
Statista, Company reports, ICDP, APC, Zeus Capital Analysis

With relative certainty now available manufacturers will easier be able to justify the level of capital expenditure required to successfully innovate and 're-tool' the production process for the delivery of Electric (EVs) and Alternatively Fuelled (AFVs) vehicles. As manufacturers are the first mover in the chain of industry development this is a crucially important step. The widespread understanding that the industry will transform is predicated on a belief that innovative technological advancements will be introduced.

Dealers, who will ultimately be delivering this increased range of products will develop the confidence to better utilise the multi-channel and digital platforms that are available to them. Rather than retrenching towards their 'core' business dealers will be empowered to explore alternative income streams. This will only serve to further diversify the businesses of dealers who already generate profit across three principle areas. New car sales, used car sales and after-sales (servicing and parts sales). Typically, dealers will generate c.40%-50% of their profit from after-sales despite it representing only c.15% of their turnover. In this sense then a proliferation of products and an increase in the complexity of the car-parc (vehicles on the road – currently 37m) is good news as it provides additional opportunities to offer after-sales products/services.

**TABLE 1: AVERAGES**

| | 2014 | 2019 |
|---|---|---|
| Average Rent £ psf | £12.96 | £14.48 |
| Average Rent Overall | £252,016 | £288,795 |
| Average Yield | 7.08% | 6.31% |
| Prime Yield (Highest) | 4.58% | 4.17% |
| Average Unexpired Lease Term | 13.9 | 11.1 |
| Average Lot Size | £3,689,731 | £4,509,385 |
| Average Building Size SQ FT | 22,074 | 21,950 |
| Average Site Density | 31% | 26% |

For property investors in the sector the aforementioned diversification of manufacturer product offering and dealer profit centres should provide confidence and further risk divergence. The motor retail sector already provides geographical diversity by virtue of its necessarily nationwide structure and a greater variety of products will insulate investors further from the impact of poor performance in any one sub-sector or from any one product type. The extended range of dealer profit streams supported by a manufacturer introducing varied and desirable products offers sustainable long-term income security, all underpinned by alternative use values.

**TABLE 2: 2019 INVESTMENT SALES**

| | Average Yields | Average Rents £psf |
|---|---|---|
| East Midlands | 6.10% | £14.66 |
| Greater London | 4.67% | £15.29 |
| North East | 6.91% | £14.09 |
| North West | 6.45% | £14.22 |
| Scotland | 6.74% | £12.00 |
| South East | 6.24% | £15.46 |
| South West | 6.17% | £16.79 |
| Wales | 7.24% | £11.43 |
| West Midlands | 5.55% | £10.69 |
| Yorkshire & Humberside | 6.29% | £14.05 |

**CHART 1: AVERAGE YIELD**

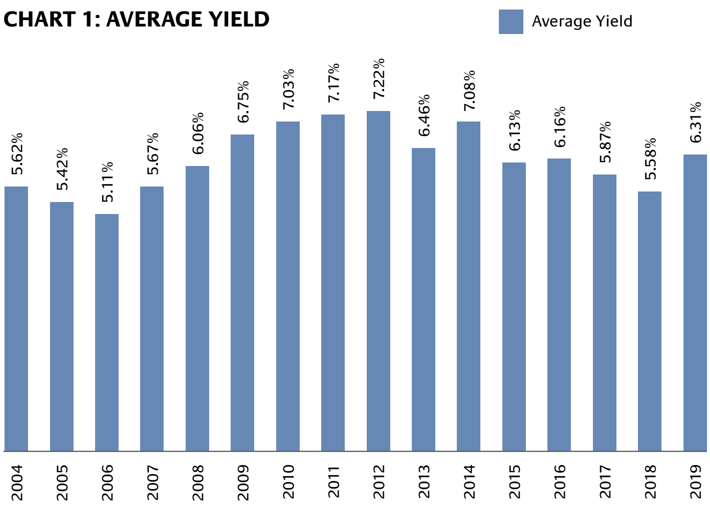
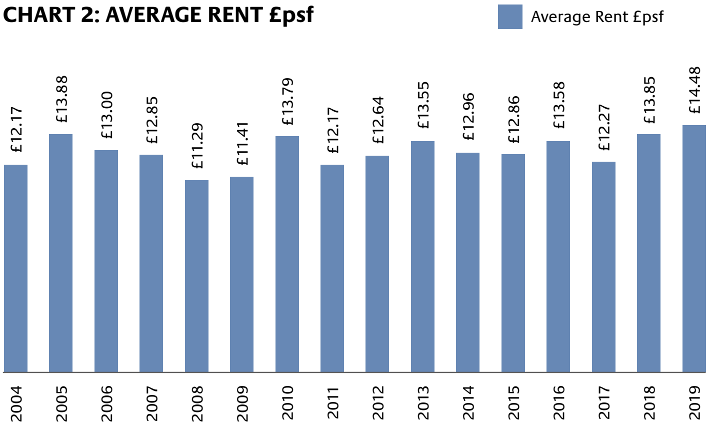


**CHART 2: AVERAGE RENT £psf**




This all being said it is important to rationalise our understanding of CASE and the anticipated industry changes. The four constituent parts are, whilst all interconnected, not equally important or equally close to mainstream use. Connectivity is already present to a greater or lesser extent and it seems uncontroversial to assert that personal motor vehicles will become ever more digitally sophisticated and connected. Strategic partnerships between manufacturers and technology companies are already prevalent and the expectation is that these will become more numerous and more extensive in nature.

Moreover, given the noise surrounding EVs and the prominent position that they occupy within the wider consumer consciousness it seems reasonable to suggest that their impact will be felt more acutely sooner. At the time of publication there are 21 battery electric car models available on the market but most manufacturers are expecting 25% of their new car sales to be electric between 2021 and 2023.

As for shared mobility, there needs to be a palpable shift in public perception before any serious traction is gained. Ride-hailing applications and car-club style products have entered the market and offer a form of the shared mobility experience but take-up remains relatively low. For the most part the desire to 'own' a private vehicle is still prevalent. The extent of car sales (both new and used) do not yet denote a major shift towards shared mobility. It is likely that any shift to a shared mobility future will only occur gradually and alongside traditional car ownership.

Whilst ultimately, autonomous vehicles could prove to be the most disruptive of the new technologies the likelihood is that their impact will not be clearly felt in the short to medium term. Regulatory barriers, public opinion and the difficulty in accurately mapping extensive road networks means that autonomous vehicles in a truly transformational sense are some distance away.

Noting the above, to articulate that we are on the brink of a mobility revolution is perhaps a well-intended overstatement. It is probably more accurate to describe what we are experiencing as mobility evolution. The changes are coming, but it will be a stepped process.

However, through this change there will be some constants. Personal mobility will remain of upmost importance to people. Motor retail is a resilient market, people still require cars and people still have a desire to own private cars. As such, the current motor retail model is well placed to prosper for the foreseeable future. The franchised car dealership network forms an established route to market for manufacturers and from a consumer perspective will remain the provider and maintainer of this evolving product package.

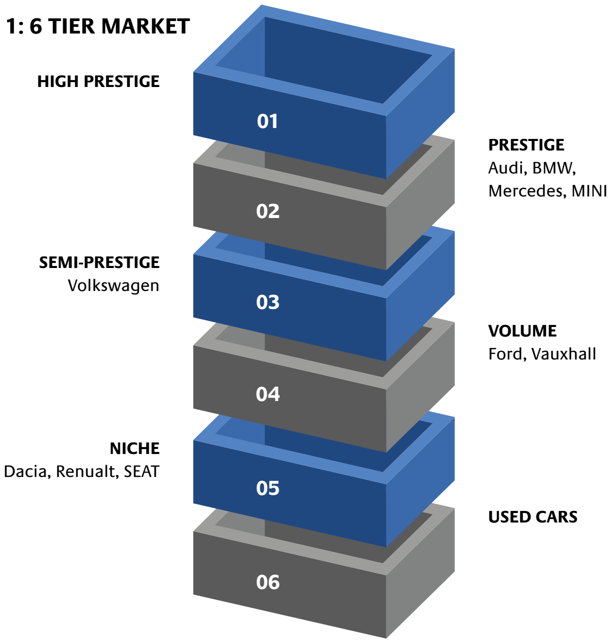
Though not all motor retail entities will be equally successful. The long-term trend of reducing car dealership numbers is likely to continue, albeit slowly. In 2002 there were 5,734 franchised outlets in the UK, this is compared to 5,052 in 2019, a nearly 12% reduction in numbers. Some additional modest shrinkage can be expected as a result of natural attrition, competitive forces and the appeal of alternative uses. This shrinkage will occur alongside a disaggregation of services that will see dealers adjust towards a 'hub and spoke' model where traditional consumer facing showroom facilities act as hubs with aftersales services operating from more industrial supplementary facilities.


**The all-electric Jaguar I-PACE. 2019 World Car of The Year.**

The trend of dealer group consolidation is also likely to continue. Recent years have seen the larger groups expand and subsume smaller dealer groups to the point where the top 10 dealer groups now account for circa 45% of the total dealer market revenue (source; Grant Thornton/Motor Trader Top 200).

Overall fewer dealer groups will be controlling the motor retail market from fewer sites. The key for the shrewd investor is to identify the right site and the right dealer tenant, this will allow them to benefit from the expected increase in profitability per site.

**FIGURE 1: 6 TIER MARKET**




Beyond this, it is important that both dealers and investors choose to back the right manufacturer. The motor retail market has become increasingly segmented with both the so-called 'prestige' brands e.g. Mercedes-Benz, BMW, Audi, and Jaguar Land Rover, and used car superstores e.g. motorpoint, both gaining traction and market share. The result of this is the creation of a squeezed middle tier of brands. These brands that cater to the middle of the market are seeing their market presence diluted at both ends. Some with established reputations, extensive networks and the ability to innovate will survive and ultimately thrive but it is unlikely that all of them will survive in their current guise.

To conclude, the motor retail industry is in a state of flux. The combination of improving economic conditions, the continued evolution of personal mobility and manufacturer / dealer group consolidation create an interesting dynamic. Change brings opportunity and those sophisticated investors that identify the right brand, the right site and the right dealer tenant stand to benefit from the evolution of the sector. Assuming that the economic mood continues to brighten APC would expect that sellers will see increased demand not just from private buyers but from institutional investors as well.

**CHART 3: CAR REGISTRATIONS vs DEALERSHIP PRIME YIELDS**

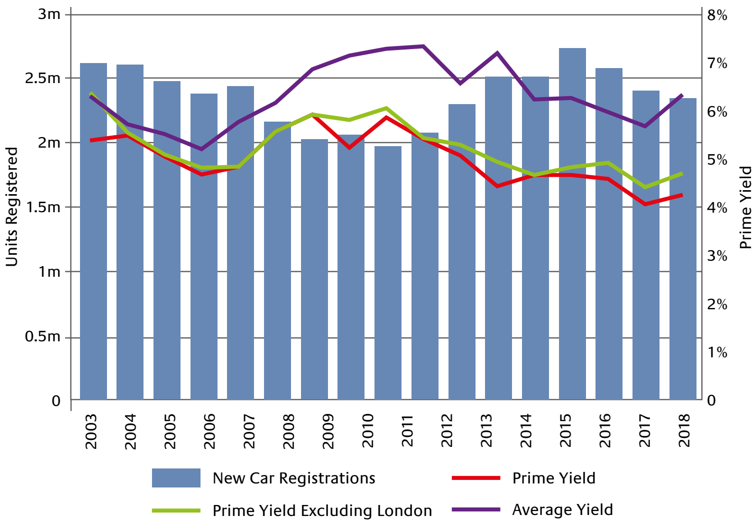
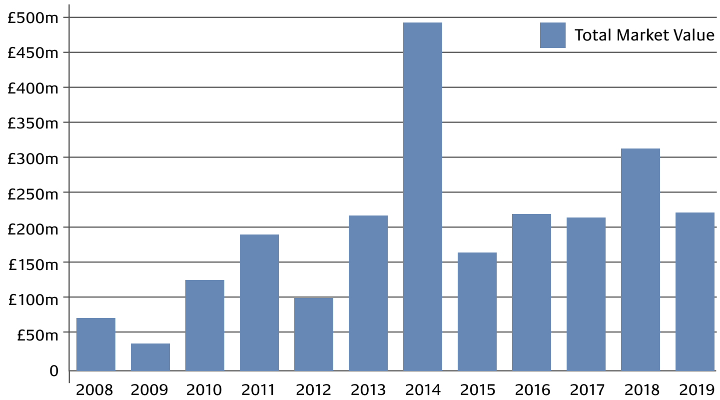



**CHART 4: TOTAL MARKET VALUE OF SOLD PROPERTIES**

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