

# A resurgent market

Car showrooms have ridden out the worst turndowns of the recession, and sales are increasing, says *Bill Bexson* of Automotive Property Consultancy

The Society of Motor Manufacturers and Traders (SMMT) reports that 2.3m new cars were registered in the UK in 2013 – very close to the 2.4m registered in 2007, before the recession. GfK's UK Consumer Confidence Index moved out of negative territory in May for the first time since 2005 and SMMT registration data for May 2014 shows the 27th consecutive month of growth. Combined, these data make it likely





Franchises such as Audi require bigger showrooms as their product ranges increase

that the UK is on course to reach 2.5m registrations this year.

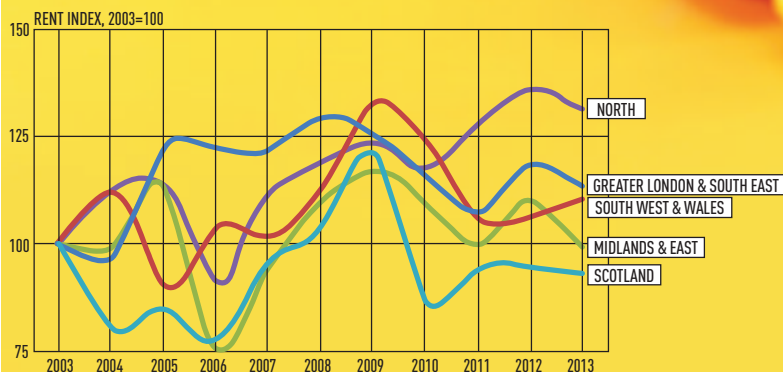
This resurgent market has implications for the dealerships that supply these cars. As manufacturers introduce new models, they are keen to ensure that dealership premises meet their standards. This leads to the reconfiguration or refurbishment of existing dealerships and the development of new sites. Several franchises, such as Audi and Land Rover, require larger showrooms and bigger sites as the range of product on display in showrooms increases. A constrained supply of sites leads to further demand for off-site parking and storage.

At end of the first quarter of 2014, the 4% rise in rents seen during 2013 has continued, with rents rising by 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.

Figure 2 shows APC's rental data from 2004 onwards set against an index of new car registrations drawn from the SMMT. The year 2004 saw the end of four years of record-breaking sales of new cars in the UK and the number of registrations fell fairly consistently until 2011, when it began to rise on the back of an improving economy and the necessary replacement cycle. The upward fluctuations seen in 2007 and 2010 are probably caused by fleet replacement strategies – roughly

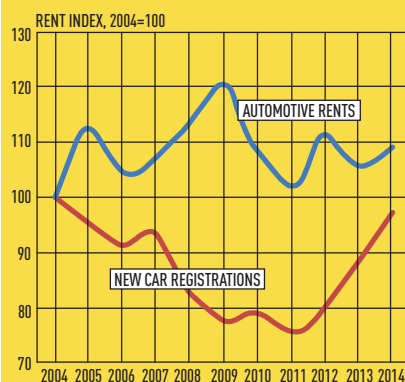


**FIG 1 BEST-PERFORMING REGION**



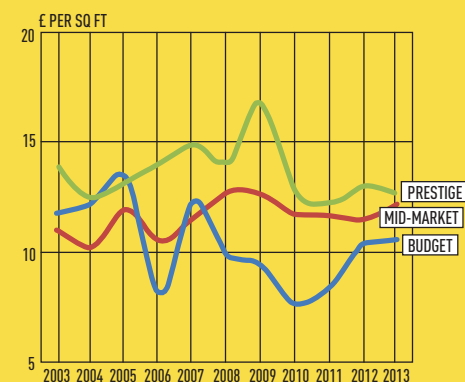
Source: APC

**FIG 2 APC'S RENTAL DATA**



Source: APC

**FIG 3 BUDGET, PRESTIGE & MID-MARKET**



Source: APC

half of all new car registrations are fleet sales.

Automotive property rents peaked in 2009 – later than for other types of property – and have proved more resilient to the downturn. Although they fell around 15% from 2009 to 2011, they have rebounded since.

While there is no clear correlation shown here between rents and new car registrations, common sense dictates that as sales rise, confidence increases and expansionist corporate strategies begin to drive demand.

Figure 3 shows actual rents by franchise class. Clearly, prestige

brands pay slightly higher rents than mid-market brands that, in turn, trump budget brands.

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

As would be expected, there are significant differences in the performance of automotive rents across the UK. Figure 1 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.