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Motor trade, petroleum and roadside sector review

NIGEL LAWRENCE PARTNERSHIP

Motor Trade

2007 was a challenging year for a number of motor groups – the collapse of Dixon and Caledonia, the profits warning from Pendragon, and the credit squeeze in the latter part of the year were the main dampening factors. On a positive note, vehicle registrations increased by 2.5% to 2.4 million, manufacturers recognised the need to improve retailers' profitability (which should filter through during 2008), and a number of retailers and manufacturers achieved their objectives of further growth and market share respectively.

The larger retailers continued to grow in 2007, with deals including the acquisition of Dutton Forshaw by Lookers, Pendragon acquiring 27 former Dixon dealerships, Sandown Motors acquiring Jacksons Bournemouth Ltd, Cambria acquiring the Summit Group, the Eden Group (owned by Graeme Potts, former MD of Inchcape UK & Europe) purchasing five Vauxhall sites from Inchcape, and fast-emerging Vertu Motors purchasing Bristol Street Motors. A number of other retailers – primarily smaller groups, specialist and regional operators – focused on ring fencing their business rationalisation and diversification.

Property yields in the last quarter of 2007 moved out 0.5% on prime dealerships and 1% on secondary dealerships, with many tertiary dealerships becoming undesirable as investments without alternative uses. This was a necessary adjustment because the yield gap had become excessive and was reliant upon rent increases outperforming other sectors. Historically, the level of occupier demand was such that premium values were being paid, underpinned, in some cases, by the more profitable brands' business plans rather than property values. In the last quarter of 2007, the following factors resulted in rents remaining static throughout most of the UK:

(a) limited activity by those manufacturers who had resolved many of their historic strategic partnership issues;
(b) the completion of rebranding and retail concepts as a result of block exemption;
(c) the increased supply of secondhand accommodation; and
(d) a reduced demand from occupiers.

The demand for freehold properties remains high due to the total cost of dealership developments exceeding red book valuations. Traditional dealership properties have become more acceptable to minority brands who are prepared to compromise bespoke accommodation to maintain market share.

The year ahead will present many strategic, but less opportunistic, acquisitions, with the main focus being on 'housekeeping'. Retailers will be keen to generate additional profit streams by diversifying into areas such as dedicated used-car sales, multi-franchised sites, and trade parts distribution etc. Green issues will become a more significant factor, with the larger 'fuel guzzlers' and 4x4 vehicles becoming less attractive. We would, however, question whether the UK is ready for the inevitable arrival of the Hybrid car. BMW dealer agreements signed in 2003 are to be reviewed and opportunities may arise as a consequence. As far as property values are concerned, we anticipate yield fluctuations will be in line with the base rate, and rents will track inflation.

Certain manufacturers including Honda, Vauxhall, Skoda and Fiat will achieve a greater share of the 'carpark', with Audi, BMW and Lexus within the prestige market continuing to perform well, having a strong brand and product. But retailers will need to remain flexible to change to deal with the rumblings from what the EU Block Exemption Review in 2010 may bring, the manufacturer discounts on bulk purchases, the falling residual vehicle values, and a predicted economic decline of 1.8% which means car sales will fall by 4% to 2.3 million. And for as long as the ownership of Jaguar, Land Rover and Chrysler Jeep remains uncertain, their ability to progress will be limited which, in the long term, will affect their market and, potentially, the overall market place.

Petroleum

The petrol station market was one of the most active sectors in 2007. New price benchmarks continue to be set, with fuel retailers and convenience food operators competing for sites. Interest from fuel retailers has been led by Euro Garages and Park Garages, together with Motor Fuels Group, who remain hungry for further sites, whilst Tesco, Somerfield, United Co-op and Spar are amongst the most active convenience food operators.

This activity will continue in 2008 with the rationalisation of low volume sites on transient routes and the emergence of new-build sites in close proximity to residential and service areas.

Build costs for new petrol stations are now approximately £900,000 (which includes a +2,000 sq ft store), meaning retailers must achieve an annual turnover of four million litres through the forecourt and more than £1 million through the shop.

Retailers need to be mindful of any changes the Government makes to alcohol sales at petrol stations which will affect profitability. Furthermore, many of the sites sold five years ago as part of the BP portfolio disposals have soon-to-be-expiring oil ties, meaning oil companies are circling with improved supply offers.

Roadside

This sector has emerged over the past three years and because of a high demand from tenants, the variety of potential users and further clarity in planning law, this is now an established market place.

Self storage and day nurseries have emerged as those capable of paying the highest values, together with the traditional 'drive thru' and roadside restaurants. For all of these, land values are now achieving £1.5 million an acre in the provincial cities.

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