

Automobile Dealership

RESEARCH REPORT

Greystone Valuation Services

Appraisal & Counseling

Year-End 2014

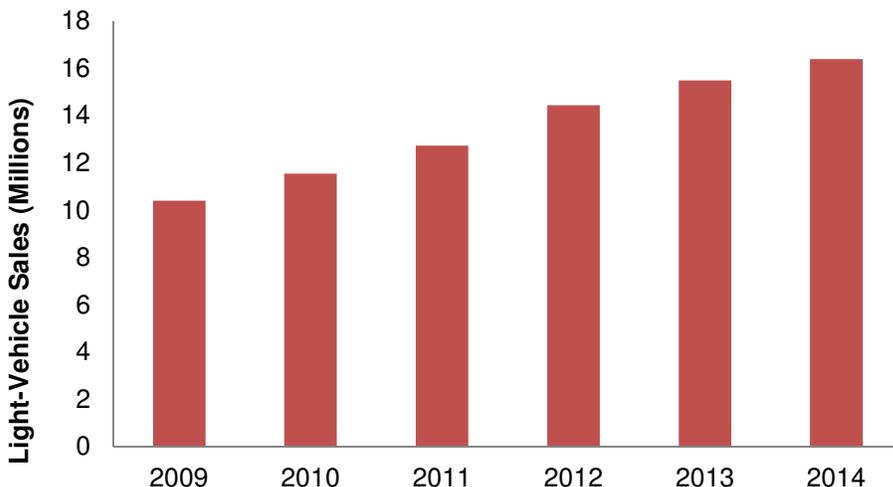


Auto Sales and Profits

Demand for auto dealerships is ultimately a function of vehicle sales revenue, and the ability of buyers to purchase dealership properties is ultimately a function of profits.

- **Vehicle Sales Trends:** Sales have increased in each year since the recession, and are now rivaling the 2006 record when 16.5 million units were sold.
 - 2014 light-vehicle sales totaled **16.4 million units, up 5.8% from 2013's** total of 15.5 million units.
 - Sales per vehicle increased in 2014 by \$700.
- **Post-Recession Sales:** From the 2009 trough through 2014, unit sales volume increased by more than 58%, despite the decrease in the number of dealerships during that time; as a result, **sales per dealership spiked from 2009-2014 by 63%.**

Total U.S. Light-Duty Vehicle Sales
2009-2014



Source: WardsAuto, WWW.NADA.ORG

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Greystone Valuation Services, Inc., an Atlanta-based real estate appraisal and counseling firm, has provided appraisal and/or counseling services related to approximately 300 automotive-related properties, including several of the largest and highest volume automobile dealerships in the southeast. Recent engagements include appraisals of single dealerships or dealership portfolios in the Southeast, Southwest and Midwest.

Upcoming and Recent Publications

The Appraiser's Companion to Auto Dealerships
A book on auto dealership valuation to be published by the Appraisal Institute in 2015

"The Rise of the Market for Auto Dealerships: Bad News for Landlords?" - *Real Estate Issues*, (Volume 39, Number 3, 2014)

"Auto Site Selection" - September/October 2014 issue of *Commercial Investment Real Estate* magazine

Mid-Year 2014 Greystone Valuation Services
Automobile Dealership Research Report

Auto Sales and Profits

Near-Term Outlook: Experts predict sales of 17+ million vehicles in 2015.

Long-Term Outlook: Some experts expect new vehicle sales to hit 20 million in 2018, but warn of a sharp downturn to follow.

Indications From OEM's: Honda and Acura are telling dealers to add service bays and/or hours to accommodate their forecast of increasing sales. Volkswagen of America plans to add 100+/- new dealerships in the U.S. retail network through 2018.

Other Revenue Sources: In 2013 all six publicly traded new-car dealership groups posted their highest average F&I (finance and insurance) revenue per vehicle since 2009; each built on that gain in 2014.

Average F&I Revenue/Vehicle				
Groups	2009	2013	Change	Q2 2014
Asbury	\$896	\$1,308	46%	\$1,308
Group 1	\$996	\$1,345	35%	\$1,442
AutoNation	\$1,104	\$1,361	23%	\$1,398
Sonic	\$929	\$1,138	23%	\$1,211
Lithia	\$960	\$1,122	17%	\$1,206
Penske	\$913	\$1,040	14%	\$1,107
Average - all six groups	\$966	\$1,219	26%	\$1,279

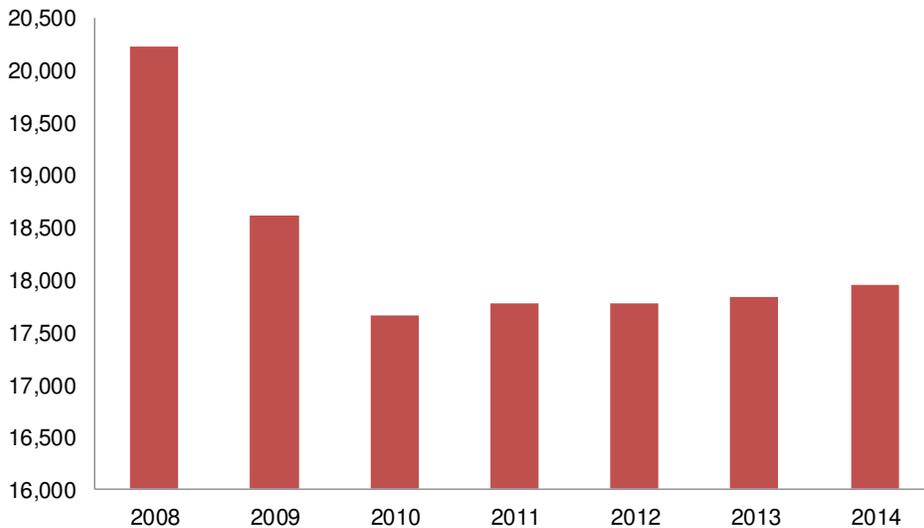
Source: *Automotive News* (citing company reports)

- Increasing sales of new vehicles has driven growth in dealership revenue; however, dealers see **the greatest opportunity for growth in 2015 in the sales of pre-owned vehicles.**
- Most dealers expect profits to rise even further in 2015.

Urban Science reports that units sold per dealership hit an **all-time high** in 2014 – for the 3rd year in a row.

Auto Dealership Real Estate Trends

Number of Dealerships in U.S.



Source: Urban Science

National Inventory of Auto Dealerships

The number of automobile dealerships dropped by 8% from 2008-2009, and has been basically stagnant for the past few years.

Most of the small increase in dealerships from 2013-2014 occurred in just a few states; **Georgia ranked 4th in growth** with 12 new dealerships.

Real Estate Trends: The Evolution of Dealership Design

One industry expert told us that “**manufacturers want all their dealerships to have a similar look, just like McDonalds.**” Other trends, as reported in *Automotive News*, include:

- Buyers want immediate delivery, so dealers need large inventories; therefore, **the trend towards larger (even multi-story) dealerships will continue.**
- Service departments are expected to take up more of the building area going forward.
- Some dealerships will see a more modern aesthetic, such as more glass-enclosed offices for sales people and lounge-style seating areas with power outlets for customers to plug in smartphones and other mobile devices.
- Cadillac plans to ask about 700 of its dealerships to invest in small "boutique" stores that would offer "high technology showrooms" and a higher level of service than they offer today.
- Tesla continues to roll out its direct-sales model in Georgia. The Georgia Automobile Dealers Association has filed a petition with state regulators to shut down Tesla Motors' factory-owned stores.

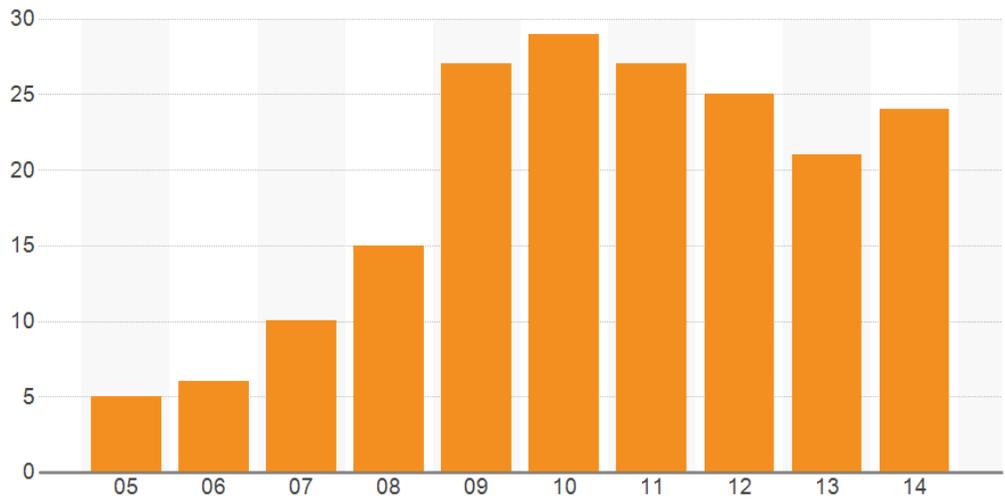
Auto Dealership Real Estate Trends

Atlanta's Auto Dealership Market

Inventory of Dealerships Listed for Sale

The number of dealerships that closed and/or reverted to the lender spiked when the recession hit, as did the inventory of such properties listed for sale. The 24 Atlanta MSA dealership properties on the market as of year-end 2014 is much higher than the supply of dealerships listed for sale in the years preceding the recession; however, these properties consist mostly of closed dealerships and/or those with significant obsolescence.

Atlanta MSA Auto Dealerships for Sale (10,000 SF+)



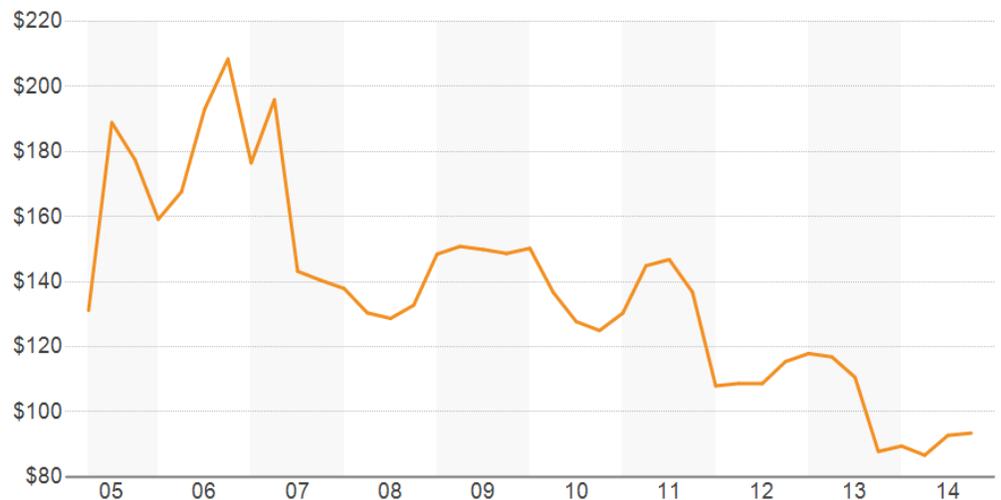
Source: CoStar Group

Pricing of Available Dealerships

Brokers specializing in the sale of dealership businesses are reporting record-high pricing. Pricing for the real estate component of automobile dealerships has also been favorable to sellers, but is constrained by the modest recovery for land in many markets.

As of year-end 2014, the average asking price in metro Atlanta was less than \$100.00/SF. However, the properties listed for sale are mostly of closed dealerships and/or those with significant obsolescence; pricing for modern, operating dealerships are faring much better.

Atlanta MSA Auto Dealerships Asking Price Trends



Source: CoStar Group

Auto Dealership Industry and Market Experts

We regularly interview automobile dealership brokers, operators and lenders. The following is a representative sample of views expressed during the past several months.

Dealership Marketability Trends

With the glut of closed dealerships re-opened or re-purposed, the general sentiment is very positive.

- The current supply of “available (vacant) dealerships is virtually depleted”. “The market has reached an inflection point” and is “**turning upward.**”
- Industry consolidation continues, with large dealerships increasing their presence. Unless it’s a rural area, “The days of the Ma and Pa entering this business” are “effectively over.”
- The industry’s recent prosperity has drawn well-capitalized buyers with plenty of business experience but little to no automotive background.
 - Warren Buffett’s Berkshire Hathaway Inc. bought Van Tuyl Group, a large privately-owned auto dealership group that is known for its large, high-volume stores that operate in the southwest.
 - George Soros is reportedly prepared to invest as much as \$1 billion on large dealership groups through his Soros Fund Management investment company.
- The nationwide consolidation of dealerships has “**significantly reduced competition.**”
- Asbury Automotive Group Inc. and Lithia Motors Inc. have both announced aggressive expansion plans.
- New transaction activity could slow along with slowing vehicle sales growth rates; buyers flush with cheap capital will not be a problem, though.
- Approximately half of all dealers plan to expand or renovate, and more than half plan to expand their staff.
- Large dealerships that can support large inventories are expected to be in highest demand.
 - Their re-development potential is greatest, as they are generally 15 acres or more
 - They generally have a broader national base of buyers, including the public dealership market
 - The incremental cost per vehicle of real estate costs is lowest, and therefore most favorable to operational efficiency
- Dedicated drives to the service department and air-conditioned service areas are becoming as important as large, well-appointed showrooms.

Changing Shopping Habits

While tensions continue between manufacturers and dealers, **the balance of power is shifting to consumers** - thanks to the internet.

- The internet is expanding trade areas beyond traditional geographic boundaries, but without compromising the need for physical dealerships.
 - **Dealers reporting drawing shoppers from 25+ miles** is becoming “the new normal”; sales to customers traveling 100+ miles are no longer uncommon.
 - The average number of customer visits to dealers before buying a car has dropped significantly. While 5 visits had not been uncommon, the number for some brands in some geographies is frequently now just 1.
 - Some dealerships with locations that would be considered inadequate by most conventional real estate metrics have been able to achieve robust unit sales by using the internet to draw customers from a larger area (and past more competitors) than ever before.
 - Nearly 90% of customers use dealer or OEM web sites in the early steps of making a purchase decision.
 - More than a third of buyers are attracted by online advertisements from a nearby competitor, underscoring **the importance of remaining close to the competition.**
 - The Internet continues to grow in importance in the marketing process, but only to generate leads and begin the sales process; sales are still being closed and filled at dealerships.
- AutoNation has made a \$100 million+ investment in a digital storefront to transform the company’s websites from informational to transactional. *Automotive News* reports that AutoNation intends to eventually expand the digital storefront concept to handle trade-ins, give financing quotes, arrange service appointments, pay bills online and get online updates on vehicle repairs.
- The intermingling of technology in the auto-buying process will put **further pressure on mom-and-pop dealers** who can’t afford the investment needed to keep pace.

Auto Dealership Industry and Market Experts

Risk Factors

- “Facility improvements is the biggest risk out there” (See *Factory Image Programs*).
- Good times aside, it remains “a **cycle business**.”
- The real estate has a “single use”, is “very expensive”, and “**it’s hard to get your money out in the event of a meltdown.**”
- Franchises can fall out of favor, and dealers can lose their marketing agreement.
- Secondary Markets: Dealerships in major metro areas have greater opportunity for success, and if they do get into trouble there is a greater opportunity to sell – but “**secondary markets don’t scare us.**”

Management and Operations

- **The internet is changing the way many customers begin the shopping process**, and handling email inquiries properly has become critical in closing many sales face-to-face.
- Service, used vehicle sales, etc. can yield greater profits than new vehicle sales – but the relationship with the customer still starts with the sale of a new vehicle.
- You can sell a lot of high-end used vehicles to middle-income drivers.

Factory Image Programs

As dealers continue to profit, automobile manufacturers continue to require remodeling projects so that franchisees conform with specific real estate design and finish requirements.

- Facility improvements that the manufacture may require is “**the biggest risk out there**” – so the appearance of a dealership “may tell you what’s coming down the road.”
- The franchisee’s up-front costs to fund these renovations often exceed the contribution to value of the real estate - however, that doesn’t mean the investment in their business won’t eventually be recovered through incentives by the OEM.
- “If it’s been seven years” since re-imaging work last done, “**it’s time to get nervous!**”
- Manufacturers can refuse approval of a sale, so if you are a dealer who wants to sell your dealership while resisting a factory image program, “**you’re toast.**”

Assessing Appraisals of Auto Dealerships

- “The biggest issue is comp selection”, including using unfavorable comparables (from other markets) and “dark facilities.”
- Appraisers sometimes overstep their bounds by “opining on viability of the franchises” (as opposed to focusing on the real estate).
- How to view mezzanine space is an area of some controversy.
- “When we are waiting for the appraisal to come back”, we just “**hold our breath.**”

Outlook

- **The market as a whole is on firm footing** as a result of:
 - Increasing auto sales
 - Fewer dealerships
 - The depletion of inventory of vacant and/or lender-owned dealership properties that had flooded the market
- 2015 is expected to be the 4th straight year of record sales per dealership.
- **The internet gives shoppers enough information to squeeze margins on new vehicle sales**; dealers will continue to adapt and look to service, used vehicle sales, finance, etc. to move from secondary income streams to their main sources of profit.
- Large dealership groups with the capital and expertise to make the most of technology and evolving shopping habits are poised to increase market share.
- Many small dealerships will be re-developed/re-purposed as used car sales, motorcycles/alternative vehicle sales and high-end boutique car sales (in high-income areas).
 - Small dealerships in small and/or rural markets should continue to appeal to mom-and-pop operators; while their numbers are dwindling, **mom-and-pop operators are not going away.**
- 46 million new vehicles were sold from 2012-2014; **the peak of the cycle is approaching**, if it is not already here.
- Like all real estate, the outlook for auto dealerships will continue to be property-specific, with their marketability and valuations influenced by:
 - National job growth
 - The microeconomic conditions of their respective location
 - Continuously evolving design standards
 - Factory Image Program risk

Recent Transactions

CoStar Group reported sales of approximately 15 auto dealership transactions in the Atlanta MSA in 2014, 10 of which were for \$2 million or more. Below is a representative sampling of information from transactions tracked by Greystone Valuation Services.

Sampling of Significant Auto Dealership Transactions

Name/Location	Price/ Date	Building Area (SF)/ Year Built	Land Area (AC)	Price/SF
Hendrick Toyota 6475 Roswell Road Sandy Springs, GA	\$20,000,000 October 2014	75,681/ 1974	9.510	\$264.27
Property Notes: Traffic count along Roswell Road is 34,520 vehicles per day (VPD). Good commercial location within a cluster of auto dealerships. Concrete block construction. Improvements are in 5 buildings, 40%+ of the space is finished office/showroom area. All service areas are air-conditioned.				
Transaction Notes: Purchased by HAG RE CDT, LLC. The sale included FF&E, and the transfer of the business.				
Wynn Buick GMC 125 South Dixie Avenue Cartersville, GA	\$2,400,000 October 2014	42,875/ 1966-2000, Renovated 2014	5.374	\$55.98
Property Notes: Traffic count along South Dixie Avenue is 19,170 VPD. Near a modest cluster of dealerships in an area with a generally retail orientation. Mixed construction, including brick, stucco, metal and wood. The improvements are in 5 buildings. Functional challenges include that the site consists of two non-contiguous parcels (including an overflow lot) and the showroom can accommodate only one vehicle. The ratio of finished area is 22%; only a small portion of the service area is air conditioned. Capital improvements totaling \$180,000 (\$4.20/SF) were completed within the year prior to the sale, with additional capital improvements still planned.				
Transaction Notes: Purchased by Fantaci, LLC; the property had not been marketed for sale.				
Chrysler Dodge Jeep Ram 1860 Eatonton Road Madison, GA	\$1,750,000/ May 2014	13,860/ 1996, Renovated After Sale	4.00	\$126.26
Property Notes: Traffic count along Eatonton Road is 17,470 VPD. In a commercial area, but not near other dealerships. The stucco and metal building has a two-story design, and approximately 28% is finished office/showroom. The service area is not air-conditioned. The property was vacant when it sold, and was purchased to re-open to market new vehicles (Chrysler, Dodge, Jeep and Ram).				
Transaction Notes: The property had been on the market for 3 years at an asking price of \$2,000,000; the buyer was Malcolm Cunningham Properties; the property sold "as is", and the buyer invested an additional \$425,000 in capital improvements to meet manufactures standards.				
Malcolm Cunningham Ford and Lincoln 5675 Peachtree Industrial Boulevard Chamblee, GA	\$9,904,000/ April 2014	61,344/ 1977-2000	10.833	\$161.45
Property Notes: Fronts the east side of Peachtree Industrial Boulevard (traffic count of 39,210 VPD) and the west side of North Peachtree Road (traffic count of 3,870 VPD). Peachtree Industrial Boulevard is a densely-developed commercial corridor and the property is within a popular cluster of dealerships where nearly every franchise is represented. The improvements are in 6 buildings, with a ratio of finished office and showroom space of approximately 26%. More than half of the building improvements are metal, with the remaining being a combination of concrete, split-face concrete block, stucco, and glass. The service area is not air-conditioned. Minor renovation in 2010, with some deferred maintenance remaining at the time of sale.				
Transaction Notes: Purchased by Tuxedo Real Estate Partners LLC. The buyer approached the seller directly, and the property was never marketed for sale; the business and other non-realty assets were transferred in a separate transaction.				
Former Heritage Volkswagen of South Atlanta 6745 Oakley Industrial Boulevard Union City, GA	\$2,000,000 / March 2014	21,790/ 2001	5.99	\$91.79
Property Notes: Traffic count along Oakley Industrial Boulevard is only 5,340 VPD, with heavier traveled roads nearby. At the edge of a cluster of auto dealerships. Metal, EIFS, and block construction. Ratio of finished space is 51%. The service center is air conditioned. A large part of the site is wooded and unused.				
Transaction Notes: Had been listed for sale since August 2012 for \$2,900,000, and then sold at a discount of 31% from the asking price. The property was vacant when purchased by Prime Group, LLC for used auto sales.				

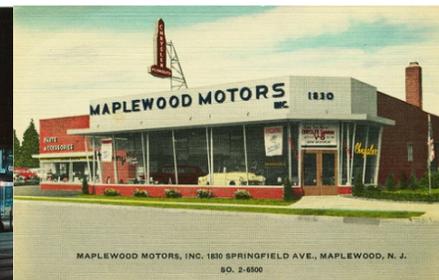
Sources: This information has been obtained from sources believed reliable, including parties in the transactions, CoStar Group, LoopNet, tax records, property deeds, and/or personal observation. We present this data for informational purposes only, and make no guarantee, warranty or representation about it. You and your advisors should conduct a careful, independent investigation of the market and any transactions you regard as relevant prior to making any lending or investment decisions.

Auto Dealership Construction Cost Trends

After virtually no new product added since prior to the recession, Georgia is now seeing limited new construction with 12 dealerships added in 2014. Construction pricing in the Atlanta MSA is generally increasing at an annual rate of about 4% to 5%; however, as manufacturers require more costly features, total project costs are rising at a faster rate. Below are some examples of costs for specific projects either underway or recently completed.

Georgia Auto Dealership Cost Comparables			
Vehicle Price Point	Manufacturer	Size	Cost/SF*
High End	Foreign	24,426 SF	\$176.18
Mid-Priced	Domestic	32,436 SF	\$140.20
Economy	Foreign	35,000 SF	\$131.43

*Includes both building and site improvements, but not land



Photos in this report courtesy of Alden Jewell, from his collection at www.flickr.com/autohistorian