

Automobile Dealership

RESEARCH REPORT

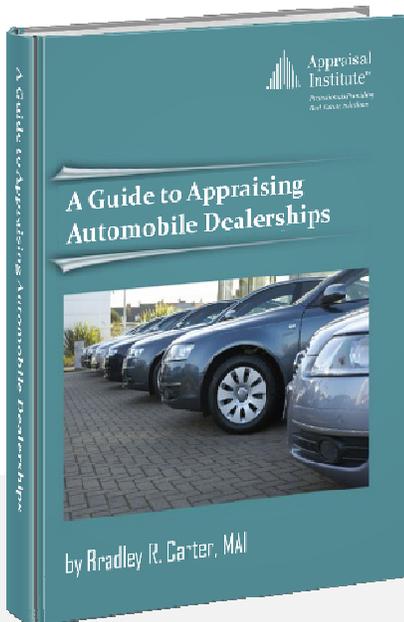
Greystone Valuation Services

Appraisal & Counseling

Year-End 2017



Winner of the George L. Schmutz Award



A Guide to Appraising Automobile Dealerships

by Bradley R. Carter

(ISBN: 978-1-935328-64-3)

The appraisal profession's first major work on the valuation of auto dealerships, this book offers defining direction on significant and controversial issues. ([Order here](#))

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Upcoming Events/Recent Publications

"A Look Through the Windshield at Auto Dealership Valuation", a featured presentation at the 2018 National Appraisal Institute Conference in Nashville, TN

The Valuation of Automobile Dealerships; Appraisal Institute Online Class ([Register here](#))

Valuation Magazine (3rd Quarter 2015) – "Face Value" column (Interviews with the appraisal profession's thought leaders)

"A Guide to Appraising Automobile Dealerships" – Featured topic in *The Appraisal Journal*, (Summer, 2015)

How online sales are changing dealership real estate value, image programs, and more" – *Automotive Buy Sell Report* (July, 2015 Interview)

"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

Auto Sales and Profits

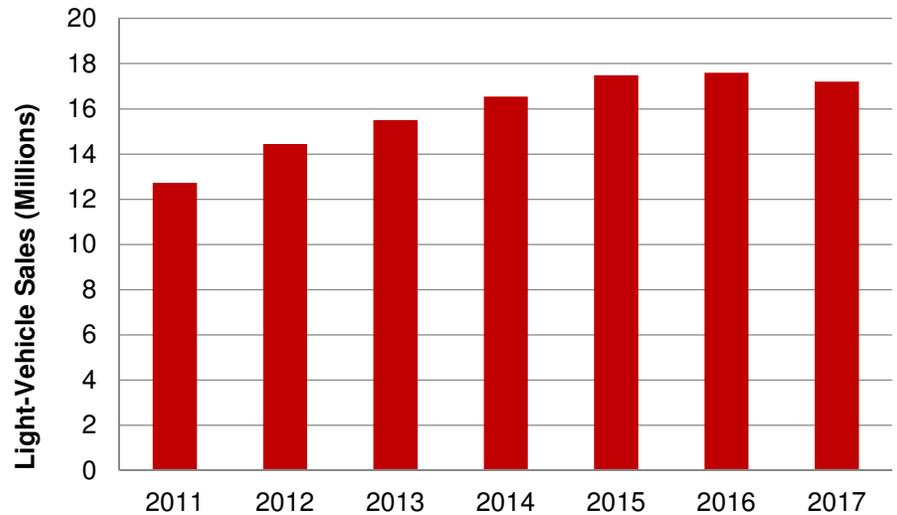
Demand for auto dealerships is ultimately a function of new unit sales, and the ability of buyers to purchase dealership properties is ultimately a function of profits.

The Auto Industry Adjusts to Life on the Downside of the Cycle:

- **Vehicle Sales Trends:** 2017 light-vehicle sales of about **17.2 million units** was 2% lower than the record 2016 pace.
 - 2017 saw the industry's first annual decline since 2009, **ending its longest growth streak in a century.**
- **Post-Recession Sales:** From the 2010 through 2017, unit sales increased by about 50%, despite the decrease in the number of dealerships during that time. In 2016-2017, though, the market plateaued; **new units sold in 2017 were 947 per “rooftop”**, down about 2% from 2016 (965) and the record set in 2015 (966).
 - Near-Term Outlook: NADA projects 2018 sales of 16.7 million units; the first time in four years that U.S. new-vehicle sales would fall short of 17 million, but still healthy by historical standards.

“If this is a plateau, as some have called it, it’s got a helluva view!”¹
 - Long-Term Outlook: While forecasts vary, there are long-term threats to the current retail model that depends on large, expensive dealership properties.
- **Auto Dealership Profitability:** Gains have been substantial since the recession, but with little recent growth.
 - Post-Recession Bounce - Average earnings per dealership achieved a compounded annual gain of 23% from 2008 through 2015.
 - Recent Profitability – Average earnings per dealership in 2016 dipped 2.4% from the record set in 2015. While complete information for 2017 is not yet available, a larger decline seems likely.
 - Profit margins on new-vehicle sales remain slim, causing dealer emphasis to shift to other departments.

**Total U.S. Light-Duty Vehicle Sales
2011-2017**

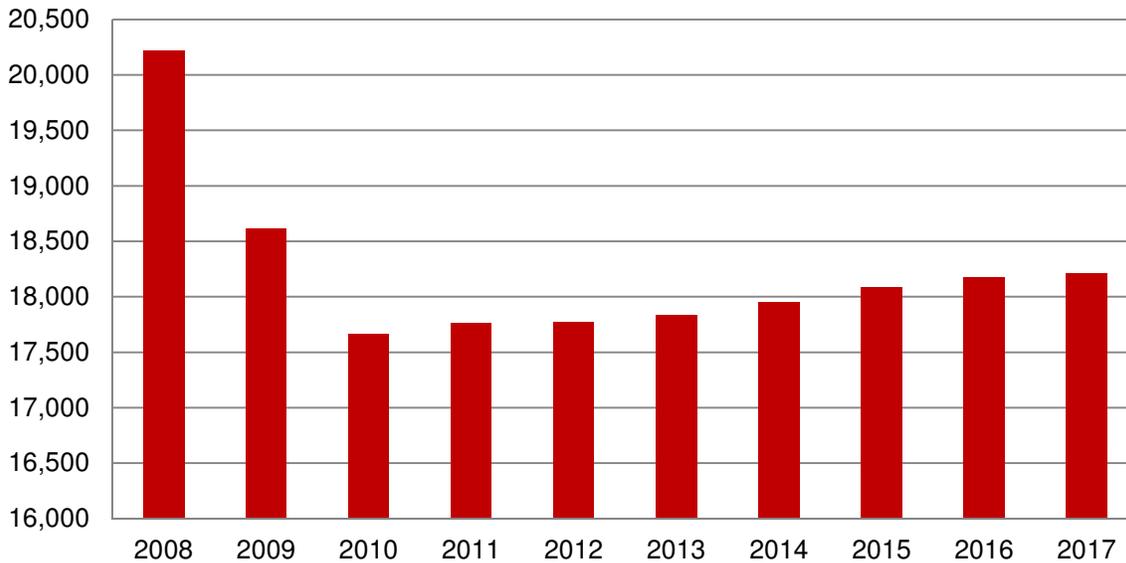


Source: WardsAuto, WWW.NADA.ORG

¹ John Mendel, Executive Vice President, American Honda Motor Company, January 2017, as quoted in The Blue Sky Report

Auto Dealership Real Estate Trends

Number of Dealerships
in U.S.



Source: Urban Science

National Inventory of Auto Dealerships

The last major change in the inventory of automobile dealerships is when it dropped by 8% from 2008-2009; since then the number of automobile dealerships has remained basically stagnant.

Real Estate Trends

Factory Image Programs

Factory image programs continue to dominate the real estate component of automobile dealerships, particularly when a property is sold.

- Manufacturers want all their dealerships to have a similar look,

“Just like McDonalds.”

- Kerrigan Advisors’ The Blue Sky Report echoes a sentiment we hear regularly:

“Most buyers are not looking for real estate development projects.”

- If dealerships are no longer where the car-shopping process begins, **are expensive facility upgrades still needed every few years?**

Auto Dealership Real Estate Trends

Auto Dealership Pricing

Healthy pricing and increasing transaction activity resulted in record volume for sales of auto dealership properties in 2016; in 2017, though, volume returned to previous levels as buyers and sellers re-assessed the current landscape and future direction of the industry.

How Prices are Established

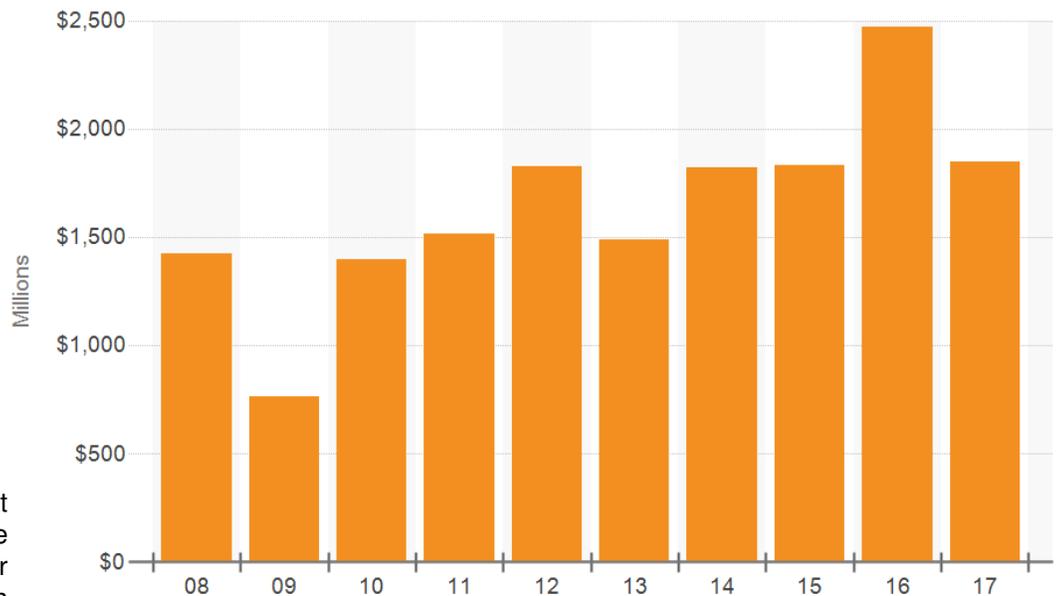
When operating dealerships are sold, it is usually a sale of the entire enterprise and what is reported as the “price” for the real estate is actually an allocation of the total price to the real property component. Greystone Valuation Services conducts an ongoing survey of auto dealership buyers and sellers regarding how these “allocations” (or the prices for the real estate that supports dealerships) are established. The most common responses are:

- Appraisal (by far)
- Depreciated cost
- “Whatever number minimizes the tax liability”
- “Whatever number maximizes the leverage of financing”

Other most common responses include:

- Book value
- Tax value
- Broker’s opinion
- Advice of the OEM
- “Whatever number keeps the OEM from getting involved”
- “Arbitrary”

Auto Dealership Sale Volume



Source: CoStar Group
Criteria: Auto dealership properties 10,000 SF+

Price Appreciation

Most markets saw increasing prices in the several years that followed the recession, although in most areas this has subsided.

**“Some of the ‘froth’ we saw” in late 2015 and early 2016
“has probably been blown away.”**

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, as well as our regular review of various industry publications.

Car-Buying Trends

Whenever we ask a car salesperson about the industry, without solicitation they begin their answer by discussing the Internet, and customers we see walking the showrooms are as focused on their smartphones as they are the vehicles.

- The average car buyer visited 2.8 dealerships before buying a car in 2016, down 20% from the 2012 average.
- Customers are “showrooming” dealers, meaning going to a dealership to see a car and then looking online for the best deal - often before they have even left the dealership!

“It is hard to imagine that these trends will not change the real property needs of auto dealers”

- Cox Automotive reports that 71% of consumers want to get detailed information on the deal online, and 85% of shoppers are more likely to buy from a particular dealership that allows them to start or complete nearly all of the vehicle purchase online.

“Will these change to the current dealership model still require an “A” location and granite floors in the showroom?”

- Not everyone agrees that a virtual reality will continue to compromise the importance of physical dealerships. Some dealers say completing a car transaction online is “years away” because valuing a trade-in, arranging financing and complying with regulations make it too complex.

The Rise of Mobility Services

Mobility services include ride hailing services such as Uber and Lyft, which are increasingly expected to be based on fleets of autonomous vehicles. Automotive News reports that GM plans to launch public ride-hailing services with self-driving vehicles that don't have manual controls such as steering wheels and pedals, starting in 2019. Vehicle sharing could represent a significant opportunity for savings for

consumers, as most vehicles are in operation less than 5% of the time.

As a result, some analysts believe that personal car ownership has peaked in the U.S., and fleet customers do not need highly visible well-appointed retail stores.

“I worry a lot about the dealers.”

Risk Factors

“I see these car dealers as Blockbuster dealers...They are very aware that sometime in the near future there will be something like Netflix, but at the same time they are doing nothing about it. It is completely irrational.”²

- **Online Sales** - will reduce the importance of the real estate component of a dealership enterprise since many customers may never even visit the physical dealership property.
- **Autonomous Vehicles** - could decrease in road accidents by up to 80%, which could severely impact the significant revenue generated to dealers from parts and repairs.
- **Facility Improvements** - remain a point of contention between dealer's and OEM's.
- **Interest Rates** - increases affect not only what consumers can pay for a car, but also the debt service for auto dealers with a mortgage on their dealership property, as well as the cost dealers pay to carry inventory.
- **Auto Loans** - terms have extended to almost six years. This means that car-buyers typically don't have equity in their vehicle until the fourth year of ownership. Consequently, they are purchasing new vehicles less frequently.

² Automotive Buy Sell Report

Recent Engagements

We see many interesting situations in our national dealership appraisal practice. Here are some of the more unusual examples of what can happen in buying and financing dealership properties:

- A luxury-brand dealership property was constructed in the South-Central region at a cost of \$12 million. Although fully OEM-compliant at that time it was finished, the dealer had to undertake an extremely expensive remodeling project because the manufacturer changed their required color scheme from blue to black. This happened just 3 months after they opened.
- A dealership property was proposed on the West Coast in a market where land prices exceeded \$400/SF. The dealer informed us that they were concerned about the long-term outlook for the way vehicles were marketed, so they designed the property with the specific intent that it could be converted to an alternative use if needed. Upon closer examination, though, the property had even less potential for conversion than most dealerships not designed with that intent.
- A dealership in the Midwest added an automated car wash designed to have significant appeal to the public for retail washes. However, vehicular access was through a parcel that was under the same ownership, but not part of the same loan. When the dealer went to refinance, he found that his loan would be underwritten based on the premise that cars could not legally drive to or from the car wash.
- Two dealerships operate a small border town in Southern California. The local community depended on Mexican tourists taking daytrips to the area to do their shopping. However, due to the recent tightening of border enforcement, the time it took Mexican shoppers to go through security went from 20 minutes to 2 hours. Tourists stopped coming, and many local businesses closed. Unemployment in that county hit 27%.
- A luxury-brand dealership property was purchased in Florida. The price was based on an appraisal, as had been agreed to by buyer and seller. The appraisal was later found to have math errors, incorrect building measurements, and an assumption that one of the buildings could be re-purposed in a way that would violate zoning. The appraised value, which the parties relied on, was nearly \$25 million.

Recent engagements include appraisals of single dealerships or dealership portfolios in Alabama, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Hampshire, New Jersey, New York, Nevada, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Washington, Wisconsin and Utah.

2017 Auto Dealership Property Transactions

Below is a representative sampling of information from 2017 transactions tracked by *Greystone Valuation Services*.

Sampling of Notable Auto Dealership Transactions

Brand(s) Marketed/Metro Area	Price/ Date	Building Area (SF)/ Year Built	Land Area (AC)	Price/SF
Confidential (Luxury, Foreign) Cincinnati Metro Area	\$16,750,000 December 2017	51,852 2013	6.55	\$323.03
<p>Property Notes: Traffic count of 13,368 VPD (vehicles per day) from a local road and 147,603 VPD from an interstate. No other new car dealerships in the immediate area. Corner location with good outdoor vehicle display area. Demographics (5-mile radius): median income, \$45,757; population, 218,049. Land in the area typically sells for about \$12.00/SF - \$14.00/SF. Very attractive EIFS exterior with extensive ACM panels and good fenestration and ornamentation; 13,117 SF of unenclosed canopy areas; excellent-quality finishes. Approximately 42% of the building represents finished area. Service areas are not air conditioned. Fully sprinklered. Included in the net rentable building area is a 2,236 SF parts department mezzanine with a parts elevator. Modern design and appearance; OEM compliant.</p>				
<p>Transaction Notes: Typical sale conditions for a new vehicle dealership (i.e., the property was not exposed to the market and the sale of the real property was in conjunction with the sale of a dealership enterprise). The price was based on an appraisal.</p>				
Maserati of Bergen County 145 State Route17 Upper Saddle River, Bergen County, NJ	\$9,850,000 January 2017	25,700 1970	1.67	\$383.27
<p>Property Notes: Traffic count of 73,163 VPD. "Dealership row" location with a high density of dealerships in the area. Demographics (5-mile radius): median income, \$117,311; population, 185,571. Mature area with well-maintained properties and high land prices. Attractive, high-quality construction with good fenestration and ornamentation and excellent-quality finishes. Approximately 50% of the building represents finished area. Service areas are air conditioned. Fully sprinklered. Extensively renovated in 2014; modern design and appearance; OEM compliant.</p>				
<p>Transaction Notes: Typical sale conditions for a new vehicle dealership (i.e., the property was not exposed to the market and the sale of the real property was in conjunction with the sale of a dealership enterprise). The price was based on an appraisal.</p>				
Confidential (Mid-priced, Foreign) Indianapolis Metro Area	\$7,900,000 November 2017	36,990 2016	4.10	\$213.57
<p>Property Notes: Traffic count of 35,250 VPD. "Dealership row" location with a high density of dealerships in the area. Good site utility with extensive outdoor vehicle display area. New construction activity in the area includes additional dealerships. Demographics (5-mile radius): median income, \$86,397; population, 143,272. Land in the area typically sells for about \$9.00/SF - \$10.00/SF. Attractive tilt-up concrete construction with EIFS and ACM panels with good-quality finishes. Approximately 38% of the building represents finished area. Service areas are not air conditioned (but parts department and parts mezzanine are). Fully sprinklered. Included in the net rentable building area is a 2,548 SF parts department mezzanine with a parts elevator. Modern design and appearance; OEM compliant.</p>				
<p>Transaction Notes: Typical sale conditions for a new vehicle dealership (i.e., the property was not exposed to the market and the sale of the real property was in conjunction with the sale of a dealership enterprise). The price was based on the average of two appraisals.</p>				
Cloninger Ford 1001 Jamestown Road Morganton, Burke County, North Carolina	\$2,650,000 May 2017	23,550 1985	13.45	\$112.53
<p>Property Notes: Traffic count of 11,000 VPD. Rural market area with few new car dealerships in the immediate area. Good outdoor vehicle display area. Demographics (5-mile radius): population, low (just 32,790); median income, \$39,341. Masonry construction with metal panels and modest finishes. Approximately 23% of the building represents finished area. Service areas are not air conditioned. Not sprinklered. The buyer spent approximately \$250,000 in "cosmetic upgrades" (lights, flooring, etc.) after acquiring the property. This was not required by the OEM, as Ford is reportedly not as strict for "properties in rural areas".</p>				
<p>Transaction Notes: Typical for a sale of a new vehicle dealership property, the property was not exposed to the market and the sale of the real property is in conjunction with a dealership enterprise. The price for the real property was based mostly on an appraisal, although the appraised value was reportedly "a little higher" than the \$2.65 million purchase price. Not related to the price was that the deal was in escrow for several months due to an environmental issue; however, the seller remediated this issue at their own expense.</p>				

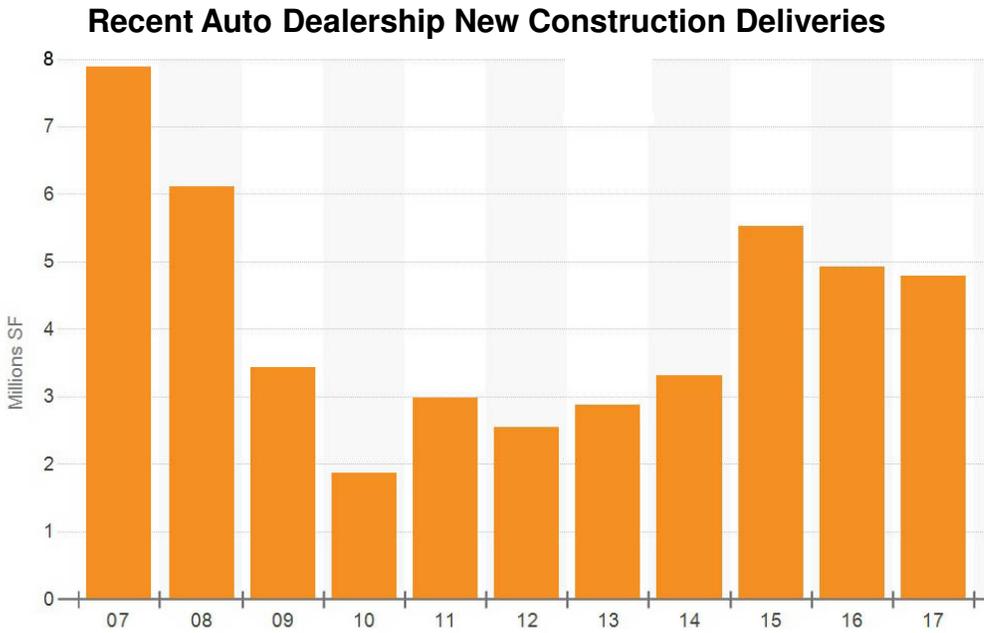
2017 Auto Dealership Property Transactions (continued)

Below is a representative sampling of information from transactions tracked by *Greystone Valuation Services*.

Sampling of Notable Auto Dealership Transactions

Brand(s) Marketed/Metro Area	Price/ Date	Building Area (SF)/ Year Built	Land Area (AC)	Price/SF
Confidential (Mid-priced, Domestic) Rural Market in Illinois	\$5,400,000 January 2017	51,505 1973-2002	12.00	\$104.84
<p>Property Notes: Traffic count of 8,600 VPD. Corner site; no traffic light. More than 30 miles from the nearest interstate highway in a somewhat rural community. Few competitive dealerships in the area, and those that exist have a dated appearance with no obvious indications of significant capital improvements or updating. Demographics (5-mile radius): median income, \$37,801; population, 28,750 (and declining). Land in the area typically sells for less than \$2.00/SF. Three separate buildings: New Dealership Building (33,211 SF); Used Dealership Building (10,230 SF); Collision Center (8,064 SF). Metal and stucco construction with average to good finishes for a tertiary market. The New Dealership Building has a parts mezzanine not included in the net rentable area (due to its functional limitations). Approximately 17% of the building represents finished area. Service areas are not air conditioned. The New and Used Dealership Buildings are sprinklered. Manufacturer-required renovation was completed in 2014; no significant capital improvements planned or needed. The recent improvements were a cosmetic re-imagining/remodeling project consisting of exterior reface and an interior remodel of New Vehicle Dealership Building showroom at an approximate cost of \$900,000 (including furniture). Blacktop was resurfaced and a new membrane roof installed over the service drive at a cost of \$27,000.</p> <p>Transaction Notes: Typical for a sale of a new vehicle dealership property, the property was not exposed to the market and the sale of the real property is in conjunction with a dealership enterprise. The price for the real property was developed using an appraisal, and was then negotiated further by the parties involved.</p>				
Infiniti of Little Rock 15 Colonel Glenn Plaza Drive Little Rock, Pulaski County, Arkansas	\$4,400,000 July 2017	15,721 2012	2.82	\$279.88
<p>Property Notes: Traffic count of 19,000 VPD from a local road and 80,000 VPD from an interstate (partial visibility). "Dealership row" location with a high density of dealerships in the area. Demographics (5-mile radius): median income, \$43,980. Typical land price in the area of \$9.50/SF. Attractive, good-quality construction in very good condition. Approximately 70% of the building represents finished area. Service areas are mostly air conditioned. Fully sprinklered. Ample parking. Modern design and appearance; OEM compliant.</p> <p>Transaction Notes: The buyer expressed the opinion that the price was "a little below market value." He cited that the property appraised at \$5 million, and he was able to negotiate the price to \$4.4 million.</p>				
Confidential (Mid-priced, Foreign) Akron, OH Metro Area	\$6,900,000 May 2017	45,475 2008	8.55	\$151.73
<p>Property Notes: Traffic count of 97,267 VPD. Not located within a cluster of dealerships. Narrow site, which compromises vehicle maneuverability. Traffic light location. Stagnant population growth, high local unemployment and little new construction activity in the area. Demographics (5-mile radius): median income, \$39,603; population, 231,058. Land in the area typically sells for about \$5.00/SF. Attractive textured concrete block construction with ACM panels with good-quality finishes. Approximately 40% of the building represents finished area. Service areas are mostly air conditioned. Fully sprinklered. Included in the net rentable building area is a 2,314 SF parts department mezzanine with a parts elevator. Relatively modern design and appearance; OEM compliance is of moderate concern.</p> <p>Transaction Notes: The buyer began operating the property in 2014 and purchased the franchise in April 2016. The property was not exposed to the market.</p>				

Auto Dealership Construction Cost Trends



New construction deliveries moderated slightly from a 2015 peak, having generally followed the pattern of the market for auto dealership properties and the auto industry as a whole.

Source: CoStar

Criteria: Auto dealership properties 10,000 SF+

Below are some examples of costs for specific projects either underway or recently completed.

Recent Auto Dealership Cost Comparables			
Vehicle Price Point	Building Size	Cost/SF-Building*	Total Improvement Cost/SF*
High-End/Luxury	40,800 SF	\$189.23	\$262.02
Mid-Priced	33,902 SF	\$184.88	\$253.49
High-End/Luxury	69,830 SF	\$181.19	\$227.85
Economy	25,882 SF	\$167.90	\$229.82
Mid-Priced	39,629 SF	\$160.81	\$188.85
Mid-Priced	36,990 SF	\$158.35	\$186.42

General Contractors face pressure to retain experienced tradesman due to **skilled labor shortages**.

*Includes building cost only; excludes site improvements and land; adjusted to reflect local variations in cost

**Includes cost of building and site improvements; excludes land; adjusted to reflect local variations in cost

What's Ahead for Auto Dealership Construction Costs

For what's ahead, we looked to the auto dealership construction experts at TallyCM, who predict that 2018 will be a strong year for the industry.

TallyCM expects to see the following automotive facility construction space trends for 2018:

- Skilled labor shortages are present and General Contractors face pressure to retain experienced tradesman
- Higher land costs in urban and metro markets lead operators to build multi-storied facilities
- “Ground up” facility cost per square foot increase of 4% - 5.5% from the previous year
- OEM's will hold auto groups and dealer principals more accountable for facility enhancements and image compliance
- OEM's will hold auto groups and dealer principals more accountable for facility enhancements and image compliance

TallyCM provides owner's representation and general construction management services for the automotive industry. TallyCM's core services include:

- Placement of TCM certified construction managers to oversee program/projects.
- Complete owner's representation through the planning, design, construction and post construction phases of a new build and re-image projects.
- Long term facilities maintenance service contracts and warranty assurance products.
- Site assessments and property inspection reports for Buy/Sell scenarios.

TallyCM has experience with a wide variety of manufacturers and has built a proven track record with established groups like Larry H. Miller Auto Group, Penske Automotive Group, Earnhardt Auto Centers, Pierce/John Elway Automotive, Mike Shaw Automotive, Avondale Automotive Group, Hardin Automotive and many more dealership groups.

For more information about TallyCM visit www.TallyCM.com.

Auto Dealership Market Outlook

- **Dealership Supply** - The number of dealerships should remain fairly stable in the near-term, but shrink in the long-term.
- **Continuing Consolidation** - The competitive advantage that larger dealership groups have over small operators should grow.
- **Driverless Cars/Ride Sharing** - Not a factor at the moment...but could eventually jeopardize the whole auto dealership real estate model.
- **Fear** - Single-point dealers will continue to sell due to fear of changes to the industry.
- **Near-term Summary** - Buoyed by a strong economy, lower taxes, and the reality that risks to the retail car-buying model are still in the future, 2018 should see more prosperity for the industry.
- **Long-term Summary** - It is hard to imagine that the risks known right now will not eventually change the real property needs of auto dealers.

“It can be either a very scary or a very exciting time to be a car dealer.”



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