

# Automobile Dealership

RESEARCH REPORT  
Year-End 2018

**Greystone Valuation Services**

Appraisal & Counseling

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## Appraising Automobile Dealerships

Appraisal Institute online seminar\*



**Register Now**

\*7 hours continuing education (CE) credit  
(check your state)

## Recent Speaking Engagements

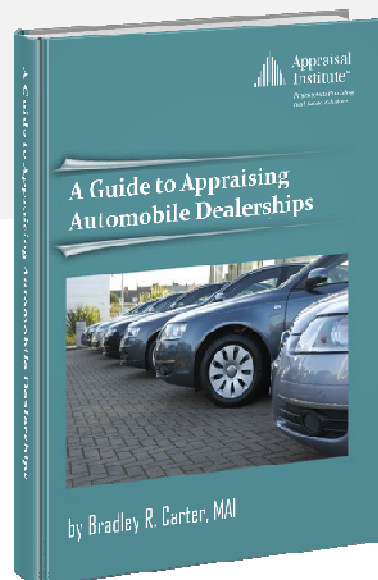
“A Look Through the Windshield at Auto Dealership Valuation,” a featured presentation at the 2018 National Appraisal Institute Conference in Nashville, TN

“Dealerships: Real Estate’s Most Under-Assessed Property Type?” a featured presentation at the 2018 International Conference on Assessment Administration in Minneapolis, MN

## **A Guide to Appraising Automobile Dealerships** by Bradley R. Carter, MAI, CRE, CCIM, CDEI

(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](#))



**Winner of the George L. Schmutz Award**

*Greystone Valuation Services, Inc., an Atlanta-based real estate appraisal and counseling firm, provides appraisal and counseling services related to 100+ automotive-related properties per year, including several of the largest and highest volume automobile dealerships in the nation.*

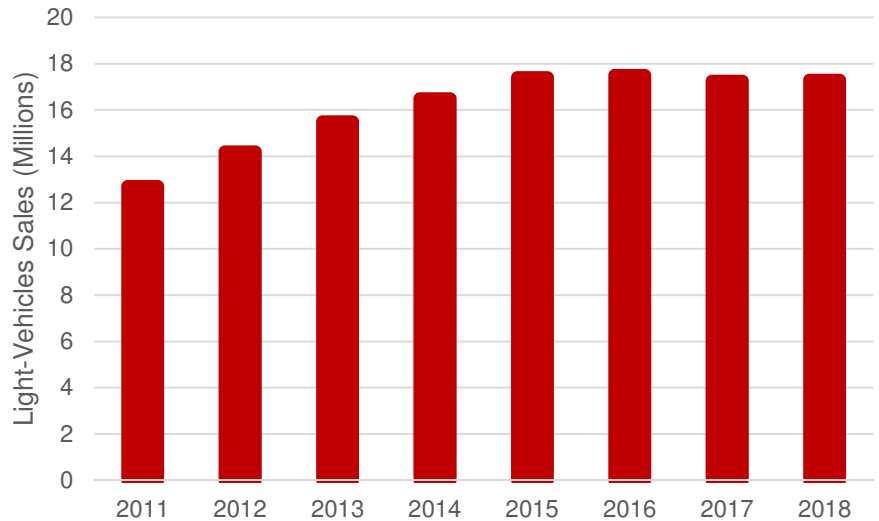
## Auto Sales and Profits

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.

### Vehicle Sales Trends

- 2018 light-vehicle sales of about **17.3 million units** was nominally higher than in 2017, and very similar to what we saw in the three preceding years.
- Urban Science reports that new units sold in 2018 represented 948 units per “rooftop” - up one unit from 2017 (+0.1%), and down 18 units (-1.9%) from the record set in 2015.
- NADA forecasts a modest decline to **16.8 million units in 2019**, with a further easing to 16.6 million in 2020 - and then leveling off at 16.4 million units in 2021 and 2022.
- Long-Term Outlook: While forecasts vary, we see **long-term threats to a retail model that depends on large, expensive dealership properties.**

Total U.S. Light-Duty Vehicle Sales  
2011-2018



Source: WardsAuto, WWW.NADA.ORG

### Auto Dealership Profitability

- *Automotive News*' "Dealers Prepare For a Year Of Narrowing Margins and Declining Sales"<sup>1</sup> details how dealers seek to cut costs to “prepare for leaner times.”
- During the first 11 months of 2018, expenses for the average dealership reportedly grew 5.2%, while total **operating profit declined 74%**.<sup>2</sup>
  - While floorplan interest was not the largest expense on a dollar basis, it did increase 430%.

<sup>1</sup> February 4, 2019

<sup>2</sup> Source: *Automotive News*, citing NADA

## Auto Dealership Pricing

Plateauing new-car sales and rising interest rates are constraining transaction activity. After record auto dealership property transaction activity in 2016, as measured by total dollar volume, activity moderated to still-healthy levels in 2017 and 2018.

### 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:

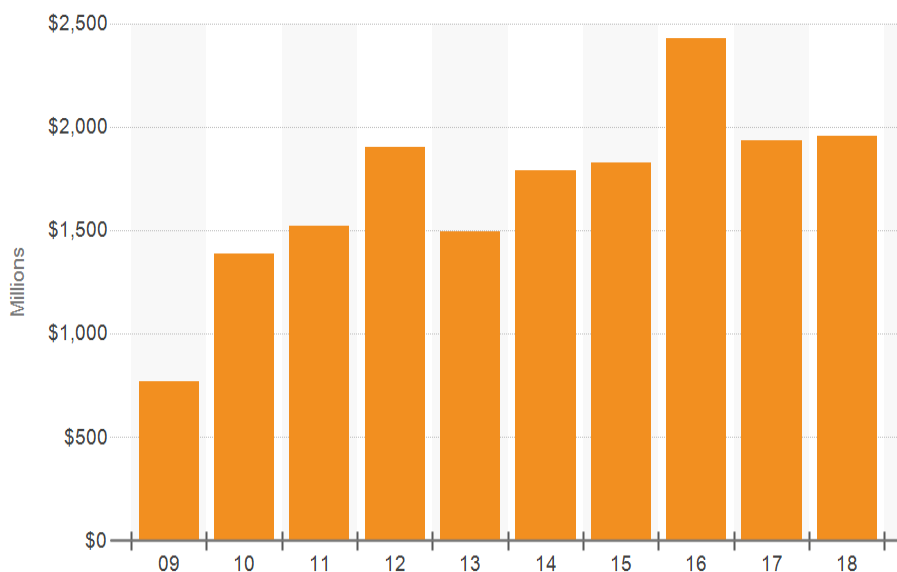
- Book value
- Tax value
- Broker’s opinion
- Advice of the OEM
- “Whatever number keeps the OEM from getting involved”
- “Arbitrary”

### 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 Sale Volume



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

### 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*.”<sup>3</sup>**

- **Online Sales** - continue to reduce the importance of the real estate component of a dealership enterprise as both dealers and customers strive to find ways to originate and complete sales **outside of the physical dealership** property.
- **Autonomous Vehicles** - could decrease 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, although larger dealership groups have increased their resistance.
- **Interest Rates** - increases are affecting 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 Industry Trends

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.

### The Popularity of Internet Shopping Continues to Grow

➤ 90% of customers now start their shopping online.<sup>4</sup>

➤ By 2025, online sales could represent up to 40% of vehicle sales.<sup>5</sup>

➤ Carvana's ad campaign emphasizes the appeal of **not having to visit a dealership** just to buy a car.

➤ Ally Financial reached an agreement to provide up to \$2.3 billion in financing for Carvana's retail contracts and inventory needs over the next year.

➤ The Carvana partnership is just one of several ventures into used-vehicle e-commerce Ally has established over the past few years.<sup>6</sup>

➤ Hyundai has launched a digital showroom on the Amazon Vehicles research hub. Customers will even be able to book 45- to 60-minute test drives through Amazon's Prime Now service; vehicles could be delivered to their house, workplace, etc.<sup>7</sup>

➤ Some advisors report that more money is actually made when the F&I process is automated (on both a gross and net basis)!

### Car Sharing

The prospect of reduced individual car ownership could materially reduce the demand for new vehicles

**"BMW's own estimates show that in a decade, one car-sharing vehicle will replace at least three privately-owned ones."**<sup>8</sup>

➤ BMW estimates that in a decade, mobility services, including autonomous cars, will account for a third of all trips.<sup>9</sup>

➤ Volvo Cars plans for driverless vehicles to make up one-third of its deliveries by the middle of the next decade.

➤ Volvo's sales growth will be propelled in part by demand from robo-taxi operators.<sup>10</sup>

### Demographics

The ratio of young adults (age 18-28) who have a driver's license has dropped significantly in the last 10 years.<sup>11</sup>

### Affordability Concerns

As consumer preferences continue to shift towards SUV's and car loan interest rates climb, dealers are increasingly worried that their customers cannot easily afford new vehicles.



<sup>4</sup> "CarMax boosts online buying," *Automotive News*, July 2, 2018

<sup>5</sup> According to Mark O'Neil, COO of Cox Automotive "CarMax boosts online buying," as reported in *Automotive News*, July 2, 2018

<sup>6</sup> This marks the third year of Ally's financing agreements with Carvana. The lender will provide up to \$1.25 billion for bulk purchases and a \$350 million warehouse credit facility. A \$650 million floorplan credit line includes a two-year commitment and represents an increase of \$300 million over the existing credit line. In the first two years of the financing agreement, Ally committed to provide up to \$2 billion in financing for retail contracts from Carvana. The most recent agreement also includes continued vehicle sourcing through Ally's SmartAuction platform. Source: "Preparing for a used-vehicle future," *Automotive News*, November 19, 2018

<sup>7</sup> "Hyundai launches digital showroom on Amazon," *Automotive News*, July 18, 2018

<sup>8</sup> "Why the industry must prepare for the 'peak car' era," *Automotive News*, August 17, 2018

<sup>9</sup> "Why the industry must prepare for the 'peak car' era," *Automotive News*, August 17, 2018

<sup>10</sup> "Volvo sets new goal for autonomous cars in big industry bet," *Automotive News*, June 7, 2018

<sup>11</sup> "Overcoming New-Car Headwinds in 2019," *Automotive News*, January 17, 2019

## Auto Industry Trends

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### **Continued Consolidation**

Mom-and-pop operators find it increasingly difficult to compete with larger, well-capitalized competitors who are able to leverage their investments in technology.

| Dealership Ownership Trends                     |        |       |                |
|---|--------|-------|----------------|
| Number of Dealerships Owned by Individual Owner | 2008   | 2018  | 10-Year Change |
| One Dealership                                  | 7,514  | 4,904 | -2,610<br>-35% |
| Two to Five Dealerships                         | 2,661  | 2,200 | -461<br>-17%   |
| Six to Nine Dealerships                         | 234    | 283   | 49<br>21%      |
| Ten or More Dealerships                         | 109    | 177   | 68<br>62%      |
| Total Individual Owners                         | 10,518 | 7,564 | -2,954<br>-28% |

Source: NADA

## Real Estate Trends

**Are the real estate requirements the same for a property where the buyer picks the car (yesterday) as they are for a property where the buyer picks up the car (tomorrow)?**

### **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.”**

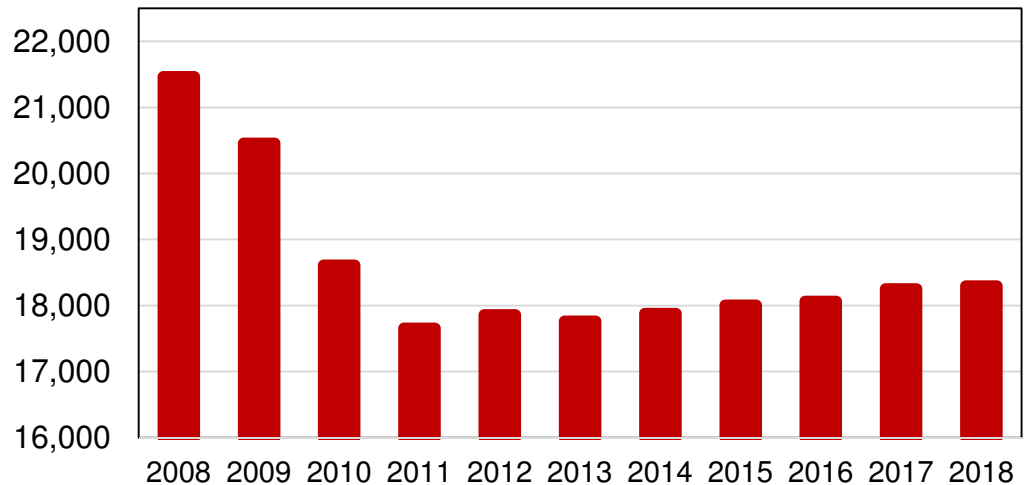
- If dealerships are no longer where the car-shopping process begins, **are expensive facility upgrades still needed every few years?**
- One dealer advisor reported that facility upgrade requirements are part of the negotiations for up to 40% of the acquisitions he works on, and at least **70% of his clients are having conversations with automakers about store renovations.**
- One dealership property we valued, which was in excellent condition, had a re-imaging requirement imposed by the OEM that **exceeded the depreciated cost of the building.**
- Re-imaging requirements are increasingly motivating sellers to sell and depressing how much buyers will pay.

## Auto Dealership Trends

### ***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.

### **Number of Dealerships in U.S.**



Source: Statista



### *The Future is Here?*

Toyota is working on "SkyDrive," **a car that can fly** as well as drive, and hopes it will be ready to light the Olympic torch with SkyDrive at the 2020 Olympic Games in Tokyo.

- "A New Patent Emerges for Toyota's flying car," Business Insider, September 28, 2018

*"Even as showrooms continue to get wider, their place in the sales process is diminishing as autos are increasingly being researched, shopped, and even selected online."*

*"What will we eventually say in hindsight about car dealers continuing to build \$10 million facilities for a product that is largely being shopped online?"*

- Bradley R Carter, MAI, CRE, CCIM, CDEI,  
Author of *A Guide to Appraising Automobile Dealerships*

## Recent Auto Dealership Property Transactions

Below is a representative sampling of information from transactions tracked by *Greystone Valuation Services* that closed since 2018.

### Sampling of Notable Auto Dealership Transactions

| Brand(s) Marketed/Metro Area  | Price/<br>Date                | Building Area (SF)/<br>Year Built | Land Area (AC) | Price/SF |
|---|-------------------------------|-----------------------------------|----------------|----------|
| Confidential (Mid-price, Domestic)<br>Chicago Metro Area  | \$14,585,000<br>February 2018 | 64,400<br>1991-2008               | 8.25           | \$226.48 |
| <p><b>Property Notes:</b> Traffic count of 26,700 VPD (vehicles per day). No other new car dealerships in the immediate area, but in a good retail area near a regional mall. Corner location at a traffic light with good outdoor vehicle display area. Demographics (5-mile radius): median income, \$61,332; population, 808,953. Land in the area typically sells for about \$18.00/SF - \$20.00/SF. Moderately attractive concrete block and brick exterior with storefront glass and ribbed metal panel accents; good ornamentation and fenestration; attractive finishes. Approximately 49% 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. Somewhat modern design and appearance, although no significant capital improvements since; OEM compliance is a concern.</p> <p><b>Transaction Notes:</b> 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>  |                               |                                   |                |          |
| Kelly Chrysler Dodge Jeep Ram<br>75 Pelham Street<br>Methuen, Essex County, Massachusetts   | \$4,180,000<br>April 2018     | 25,200<br>1980                    | 6.42           | \$165.87 |
| <p><b>Property Notes:</b> Traffic count of 12,000 VPD. One mile from "dealership row," with no other new car dealerships in the immediate area. Demographics (5-mile radius): median income, \$61,834. Mature area.</p> <p>Average-quality construction with relatively modest finishes. Approximately 25% of the building represents finished area. Service areas are not air conditioned. Fully sprinklered. Approximately 2 acres of the site is wooded and undeveloped.</p> <p><b>Transaction Notes:</b> 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).</p>   |                               |                                   |                |          |
| Confidential (Mid-price, Domestic)<br>Secondary Indiana Market  | \$3,400,000<br>May 2018       | 30,884<br>1996                    | 3.87           | \$110.09 |
| <p><b>Property Notes:</b> Traffic count of 19,150 VPD. Located along the primary commercial corridor in small market; only one competitive new car dealerships in the immediate area. Adequate access, but no traffic light. Good outdoor vehicle display area. Demographics (5-mile radius): population, low (just 33,364); median income, \$46,007. Land in the area typically sells for less than \$2.00/SF. The exterior is concrete block and pre-engineered metal panels with EIFS; somewhat dated finishes. Approximately 30% of the building represents finished area. Service areas are not air conditioned. Fully sprinklered. In addition to the net rentable building area is a 4,740 SF parts department mezzanine of low-cost construction with a dysfunctionally low ceiling height. No significant capital improvements since it was constructed in 1996, and not OEM compliant. The buyer indicated that they anticipate a re-imaging project being required that it could cost them "approximately \$2 million."</p> <p><b>Transaction Notes:</b> 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 for the real property was based mostly on an appraisal, although there were additional negotiations.</p> |                               |                                   |                |          |
| Rairdon's Honda of Marysville<br>15714 Smokey Point Boulevard<br>Marysville, Snohomish County, Washington   | \$14,293,561<br>May 2018      | 42,440<br>2013                    | 5.00           | \$336.79 |
| <p><b>Property Notes:</b> Traffic count of 13,100 VPD from a local road and 74,000 VPD from I-5 (excellent visibility). Good suburban location within a small cluster of competitive dealerships. Demographics (5-mile radius): median income, \$71,467; population, 67,595. Typical land price in the area is about \$20.00/SF. Two buildings: a sales/service building (40,734 SF) and a car wash (1,706 SF). Good quality concrete construction with good ornamentation and fenestration. Approximately 54% of the total building represents finished space. Modern design and appearance; believed to be OEM compliant.</p> <p><b>Transaction Notes:</b> 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 for the real property was developed using appraisals performed for both buyer and seller.</p>   |                               |                                   |                |          |

## Recent Auto Dealership Property Transactions

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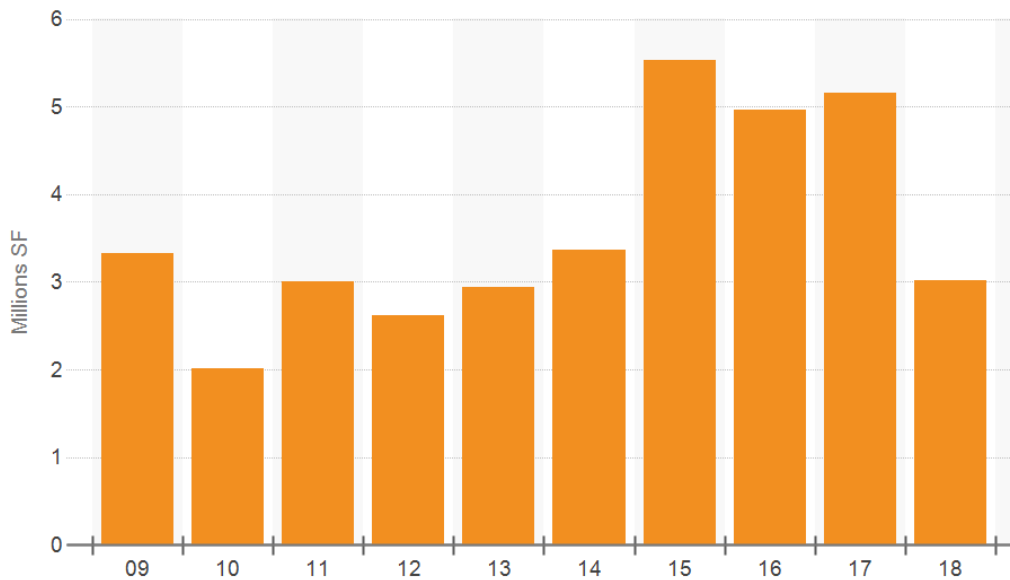
### Sampling of Notable Auto Dealership Transactions

| Brand(s) Marketed/Metro Area   | Price/<br>Date              | Building Area (SF)/<br>Year Built | Land Area (AC) | Price/SF |
|--|-----------------------------|-----------------------------------|----------------|----------|
| Confidential (Mid-priced, Domestic)<br>Rural Market in Ohio  | \$3,200,000<br>May 2018     | 22,269<br>1978                    | 2.66           | \$143.70 |
| <p><b>Property Notes:</b> Traffic count of 19,180 VPD. Located at the edge of commercial development in a small community 75 miles from a major MSA in an area with relatively high unemployment; no competitive dealerships in the area. Frontage along three roadways, with access from each; at a traffic light. Demographics (5-mile radius): median income, \$37,908; population, 22,040 (and declining). Land in the area typically sells for about \$5.00/SF - \$5.50/SF. Two buildings: a dealership (sales) building (13,891 SF) and a collision center (8,378 SF). The dealership building includes a 945 SF mezzanine and 546 SF of partially finished 2<sup>nd</sup> floor office space. Pre-engineered metal and ACM panels; somewhat dated finishes (typical of a tertiary market). Approximately 22% of the total building represents finished space. Service areas are not air conditioned; buildings are not sprinklered. Capital improvements of \$600,000 to \$700,000 made from 2014-2015 to address OEM requirements; currently OEM compliant.</p> <p><b>Transaction Notes:</b> 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 for the real property was developed using an appraisal</p>   |                             |                                   |                |          |
| Confidential (Mid-priced, Foreign)<br>Atlanta Metro Area   | \$9,100,000<br>May 2018     | 50,458<br>1992                    | 8.76           | \$180.35 |
| <p><b>Property Notes:</b> Traffic count of 26,710 VPD. "Dealership row" location with a high density of dealerships in the area, including one that was recently built. Good site utility with extensive outdoor vehicle display area; no traffic light. Demographics (5-mile radius): median income, \$46,815; population, 102,358. Land in the area typically sells for about \$5.00/SF - \$7.00/SF. Two buildings: a dealership (sales) building (48,185 SF) and a detail building (2,273 SF). Exterior walls of the dealership building are metal, ACM panels, and stucco; average to above-average quality interior finishes. Approximately 32% of the building represents finished area. Service areas are not air conditioned. The dealership building is sprinklered. Included in the net rentable building area is a 3,170 SF parts department mezzanine. Relatively modern design and appearance; the buyer described the building as "fairly (OEM) compliant."</p> <p><b>Transaction Notes:</b> 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>   |                             |                                   |                |          |
| Mercedes-Benz of Escondido<br>1101 W. 9th Avenue<br>Escondido, San Diego County, California  | \$22,500,000<br>June 2018   | 70,696<br>1987                    | 6.17           | \$318.26 |
| <p><b>Property Notes:</b> Traffic count of 20,200 VPD from a local road and 221,000 VPD from I-5 (very good visibility). Good location approximately ½ mile off of dealership row. Demographics (5-mile radius): median income, \$61,958. Attractive EIFS and ACM panel exterior with Spanish-style roof shingles; good ornamentation and fenestration; luxury finishes. Approximately 34% of the total building represents finished space. Fully sprinklered. Additional features: automated car wash, 29,000 SF parking deck, 29,000 SF rooftop parking area. Renovated in 2012; modern design and appearance; appears to be OEM compliant.</p> <p><b>Transaction Notes:</b> 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).</p>  |                             |                                   |                |          |
| Confidential (Mid-priced, Domestic)<br>Rural Market in North Carolina  | \$1,200,000<br>January 2019 | 17,545<br>1956                    | 5.56           | \$68.40  |
| <p><b>Property Notes:</b> Traffic count of 16,000 VPD. Located at a busy intersection in a rural area 35 miles from the nearest interstate highway and 101 miles from a major MSA; relatively high local unemployment; only two competitive dealerships in the area. Good vehicle display area, with frontage along three roadways, with access from each; no traffic light. Demographics (5-mile radius): median income, \$34,012; population, 13,893 (and declining). Land in the area typically sells for about \$2.00/SF - \$2.50/SF. Used vehicle volume exceeds new unit volume. Two buildings: a dealership (sales) building (12,545 SF) and a service building (5,000 SF). The dealership building includes an 875 SF mezzanine. Mostly brick and block exteriors with some metal siding; modest finishes; construction quality is below current industry standards (although not atypical for a tertiary market). Approximately 35% of the total building represents finished space. Service areas are not air conditioned; buildings are not sprinklered. No recent capital improvements; not OEM compliant. Only about half of the site is paved.</p> <p><b>Transaction Notes:</b> 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 for the real property was negotiated, with an appraisal done 2 to 3 years prior to the sale being the starting point.</p> |                             |                                   |                |          |



## Auto Dealership Construction Cost Trends

Recent Auto Dealership New Construction Deliveries



New construction deliveries moderated slightly after a 2015 peak, with a sharp decline in 2018.

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                         | 18,817 SF     | \$212.29          | \$248.87                   |
| High-End/Luxury                         | 30,108 SF     | \$195.50          | \$257.74                   |
| Mid-Priced                              | 33,902 SF     | \$184.88          | \$253.49                   |
| High-End/Luxury                         | 31,649 SF     | \$181.11          | \$214.57                   |
| Mid-Priced                              | 47,060 SF     | \$172.78          | \$224.48                   |
| Mid-Priced                              | 30,421 SF     | \$161.88          | \$207.71                   |

Low unemployment has made it **difficult to retain experienced tradesman.**

\*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 shared that many industry leaders predict that **2019 will be a stable year for the construction industry**. The economists at Dodge Data & Analytics predict total U.S. construction starts for 2019 will be \$808 billion, staying essentially even with the \$807 billion estimated for 2018.

**TallyCM** expects to see the following automotive facility construction space trends for 2019 to include:

- Unemployment rates within the construction sector will hover between 3.5% - 4.0%, causing labor shortages and pressures to retain experienced tradesman
- **Higher land costs** in urban and metro markets lead operators to build multi-storied facilities
- **Real estate will more predominantly factor into valuations**
- Ground up facility cost per square foot to increase of 4.4% - 5.7% vs. prior year
- Designing and building higher end service shops will retain customers and, most importantly, the dealership's skilled service techs
- Auto groups will design to allocate more space for EV marketing, sales, and service transactions
- OEM's will hold auto groups and dealer principals more accountable for facility enhancements and image compliance
- Higher material prices and general construction costs will place a greater emphasis on the importance of value engineering and the "Pre-Construction" stage of a facility project

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, Lithia Motors, Penske Motor Group, Earnhardt Auto Centers, John Elway Dealerships, Mike Shaw Automotive, Keyes Automotive, Baxter Auto and many more automotive groups.

For more information about TallyCM visit [www.TallyCM.com](http://www.TallyCM.com).

## 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 or financing a dealership property:

- A successful, attractive, image-compliant dealership property in **Minnesota** was subject to a ground lease. The auto dealer, who was the tenant in the lease, sought to renew a loan he had on the property. The ground lease had less than 18 years left, including all renewal options, which was far less than the remaining economic life of the building. Worse, it was at a rental rate that was higher than justified by the value of the property, and with aggressive scheduled rent increases. The net present value of the remaining rent payments was so great that without the benefit of the right to sell the property at the end of the lease, the property literally had a negative value to the dealer attempting to renew his loan.
- Our firm was engaged to appraise an automobile dealership property in a premier neighborhood in Beverly Hills, **California**. While the showroom was appointed with high-end finishes suitable for the marketing of luxury sports cars, we found severe functional challenges related to the property, and determined that it would not be best marketed as a dealership. It's value under an alternative use, though, was still well in excess of \$1,000 per square foot.
- A lender asked us to appraise a luxury dealership in the **Midwest** that was inordinately large and in the process of being expanded further; upon completion it will be 140,000+ square feet, in addition to a 75,000 square foot basement level parking garage/service reception area. Also unusual is that although operated and appraised as a single property, the service center is on a separate parcel that is almost a mile from the sales buildings. While concerning, we found the location to be sufficient to justify this large size, as well as examples of other successful dealerships with similarly-distant off-site service components.
- A dealership in a small rural town in **Texas** was destroyed by a tornado while it was under construction. We were asked to appraise it virtually at opening day after it was re-built. The multi-million-dollar facility was supported by a community that lacks access to public water and sewer, and has only 196 people within a one-mile radius (and only 8,137 people within a five-mile radius).
- The manufacturer affiliated with an attractive, modern-looking dealership property in **Pennsylvania** changed their imaging program, and required the dealer to conform to the new standards. The cost of compliance was \$6.5 million, which was greater than the depreciated cost new of the improvements.

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

## Recent Engagements

(continued from previous page)

- A 34,438 square foot RV dealership in the **Rocky Mountain** region was partially re-developed and expanded to 112,031 square feet, making it by far the largest property of this type in its state. A nationwide search and market study revealed that there is, in fact, demand for RV dealerships of this size when they are in excellent, proven locations.
- A dealership in **Massachusetts** conformed to all zoning requirements, thanks to a special use permit issued by the village. However, it was found that the permit was specific to the property's ownership, and would not transfer with the property in the event of a sale or foreclosure. When the dealer went to refinance, he found that his loan would be underwritten without the assumption that a buyer could obtain a new permit – and the property was valued for lending purposes as if a buyer could not operate it as an auto dealership. It was further found that the building had no plausible alternative use (and was valued as land, less the cost to demolish the building).
- The owner of an older dealership in **Louisiana** purchased an adjacent site to build a new showroom; the existing dealership property was to remain for use as the service component. However, as a legally-divided tax parcel that was not to be included in the new loan, the functionality that would result from having this adjacent service area could not be considered in the appraisal. Viewed by itself, the proposed showroom could not support a dealership operation – and therefore had reached the end of its economic life for this use before it was even built.
- A large auto group purchased an 88,000 square foot industrial building in a **Minnesota** suburb to re-purpose as their vehicle reconditioning center. While the renovation greatly enhanced the property's physical condition, it was found to detract from its functionality and marketability to virtually any other user; only about half of the \$2.6+ million renovation cost was found to contribute to the property's value upon completion.
- A national lender engaged us to appraise a portfolio of **14 properties spanning several states**. The properties included new vehicle dealerships, a recently-closed used vehicle dealership, and body shops/collision centers.

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

## Auto Dealership Market Outlook

- **Dealership Supply** - The number of dealerships should remain fairly stable in the near-term, but shrink in the long run.
- **Continuing Consolidation** - The competitive advantage that larger dealership groups have over small operators shows no sign of letting up.
- **Driverless Cars/Ride Sharing** - Not a factor at the moment...but could eventually jeopardize the whole auto dealership real estate model. The unanswered question is, “when?”
- **Fear** - Single-point dealers will continue to sell due to fear of the continued evolution of retail and specific changes to the auto industry.
- **Near-term Summary** - Higher interest rates, softening sales and lingering tariff/trade war concerns should continue to pose headwinds to both profits and industry sentiment; however, a strong economy and the reality that risks to the retail car-buying model are still in the future should buoy the market for dealership properties for at least the next few years.
- **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](http://www.flickr.com/autohistorian)