



This article brought to you by **Commercial Investment Real Estate**, the magazine of the **CCIM Institute**.

To read the entire issue or find out more about the Institute, go to **www.ccim.com**.



Auto Site Selection

New-car dealerships have specific location requirements.

by Bradley R. Carter, CCIM, CRE, MAI

When seven-story new-car dealerships are being built, it is a sign that fortunes are changing in the recently battered automobile industry. While the next development cycle for auto dealerships is just beginning, it is certainly underway. And, while the 142,000-square-foot Audi dealership that opened in Houston in 2014 is not the smallest example of recent dealership construction, it is not the largest either: In 2013 a 170,000-sf Lexus dealership was built in Plano, Texas. Several other auto dealership construction projects are underway or in planning in other areas of the country as well, including a 26,250-sf dealership under construction in Kennesaw, Ga., that will house one of just two Georgia-based Mini Cooper franchises.

Balance sheets for dealers that survived the recession have never been stronger. The average U.S. new-car dealership produced a return on equity of 29 percent in 2013, according to the National Automobile Dealers Association. That figure has risen in four of the past five years, and dealerships also are now enjoying record profits.

The demand for new-car dealerships is ultimately a function of vehicle sales. Increasing sales and profits, along with pent-up demand from a lack of new construction since before the recession, are fueling the new development cycle. While many operators are seeking to acquire existing dealerships, the high business value associated with them makes new construction a surprisingly affordable alternative.

Auto dealers invest an average of \$11.3 million in each new-car dealership, with land and facilities costs averaging just under \$3.1 million per dealership, according to NADA. Given those substantial upfront expenses, location is critical and there are site selection requirements unique to this specialized property type.

The Right Site

Primary research performed from 2009 through mid-2014 reveals some common characteristics that determine if a site is suitable to support a successful new-car dealership in almost any market.

Intuitive as it may seem, exposure to traffic is the most important characteristic of a good site. An auto dealership site should be easily visible from a surface street with a traffic count from 10,000 to 50,000 vehicles per day. Suitable sites are almost always near a significant demand generator, such as a regional mall, and are convenient to commercial consumer amenities such as restaurants.

Proximity to other dealerships is also vital. Auto dealers prefer to be clustered, as they feed off each other's traffic — and franchise agreements protect them from the same brands being offered by competing dealers.



While the next development cycle for auto dealerships is just beginning, it is certainly underway.

Even today, when car buyers increasingly research makes and models online, potential buyers who use smartphones while visiting a dealership are almost three times as likely to visit other dealerships, according to a Placed Inc. study. More than a third are attracted by online advertisements from a nearby competitor, underscoring the importance of remaining close to the competition.

The appropriate site size varies by market and anticipated sales and service volumes, but is typically at least eight times larger than the planned building area, with lower ratios in urban markets. Adequate frontage is critical to display new and used vehicles.

Overall, sites appealing to automobile dealership operators and developers are typically prime commercial sites but not top-tier sites. Auto dealership sites tend to be priced higher than sites marketed for traditional destination retail or mini-storage projects and lower than sites appropriate for power centers.

The cost of selecting the wrong site can

be enormous. Historically, most real estate professionals regarded auto dealerships as prime candidates for alternative uses because they generally are large sites with good commercial locations. However, the large supply of dealerships that became vacant in the years following the Great Recession gave lenders and property owners a firsthand lesson on how few re-adaptive uses actually make financial sense for most failed dealerships.

Site Marketing

The new-car dealership market is a franchise system: Auto dealers are granted exclusive territories by car manufacturers. Therefore, researching the availability of franchises should be one of the first steps in a defining a trade area for marketing a potential site.

A thorough market investigation also includes any competitive dealerships under construction or issued building permits and

the inventory of zoned development sites. Studying market demand includes finding out how the volume of vehicle sales at local properties compares with industry norms. An analysis of demographic data is another vital step. Along with determining the incomes of local residents, it may also be necessary to explore if the distribution of incomes is consistent with the costs associated with the manufacturer's requirements.

In addition, education levels should also match the demographic of the typical buyer for the type of vehicles to be marketed. STDB demographic reports and mapping features will help begin the process, which is typically best followed by firsthand research, including interviewing local CCIMs familiar with the market.

Bradley R. Carter, CCIM, CRE, MAI, is principal and appraiser of Greystone Valuation Services in Atlanta. Contact him at bcarter@greystonevs.com.