

Property Week.

23 January 2015

Driving dealership opportunities to new heights



Fit for purpose: Lifestyle Fitness signed a 25-year lease for a former car dealership

As the car dealership market heats up, Mark Wilding looks at how property investors are being tempted to take the plunge

The last quarter of 2014 saw a new benchmark set for pricing in the car dealership market, with values approaching the levels seen at the top of the market and yields for prime purpose-built assets with good covenants dropping below 5%. Prices have been buoyed by the ongoing strength of new car sales in the UK, which hit a 10-year high in 2014 and recorded a 34th month of consecutive growth in December.

This performance has not escaped the attention of UK institutions, which have plenty of cash ready for the right investments - and with the market continuing to heat up, car dealerships are increasingly becoming a tempting investment option for those looking for property to convert to other uses, particularly discount retailers.

Two deals completed by F&C for its UK Property Fund in November set a new bar for pricing in the

market. The fund acquired a Honda dealership in Manchester, let directly to the vehicle manufacturer, for £5.44m, representing a yield of 4.95%. This was followed by the £11.15m purchase of an Audi franchise in Milton Keynes in a sale and leaseback deal with Lancaster, which represented a yield of 4.83%. The asset was one of three newly built properties sold by the Audi dealership group, all of which are expected to change hands for yields below 5%.

"The investment market is very bullish," says Paul Taylor, senior director in the automotive and roadside team at GVA, who is advising Lancaster on the deals. "[These deals] raise the bar in terms of pricing. We're not far off the level VW was achieving at the top of the market."

While the deals in question represent the

investment market at its peak, Taylor says non-prime yields have also dropped right across the board. "Even for regional dealers, if it's a good-quality facility and ticks all the other boxes you're going to be down towards 6%." In the South East, prices for small dealer covenants are even keener.

UK funds are the source of much of this investment appetite. Agents report lots of interest among funds such as F&C, Aberdeen and Cordea Savills, which are attracted by long lease lengths, well-maintained assets, fixed rental uplifts and the strong covenants provided by the likes of Audi, VW and BMW - or dealers backed by these manufacturers.

"Given the success of the motor sector in the past two or three years, the dealer covenants have become much stronger," says Richard Harding, director at HSM. "The big dealers are quite profitable and investors

Given the success of the motor sector in recent years, dealer covenants have become much stronger

Porterfield