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Auto motive

Car dealerships have become targets for cross-border investment

Big investors are snapping up small franchises. Why?

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DARREN GUIVER started out as a trainee at a Ford dealership in 1986. He moved quickly up through management, buying dealerships until he had created Spire Automotive group, a network of 12 across south-east England. Two years ago Group 1, America's third-largest dealership network, made him an offer he couldn't resist. So Mr Guiver joined thousands of small dealers selling out to global investors and dealership groups.

Since 2014 around 1,000 such dealerships have been bought or sold in America. According to Kerrigan Advisors, a firm that helps sellers, around 200 more will change hands this year. The largest deal to date came in 2015, when Warren Buffett bought Van Tuyl Group, a network of 78 dealerships with over $8bn in annual revenue. Holding companies such as South Africa's Imperial and Super Group have been buying showrooms across England. Penske, an American group, has become the largest dealer network in Europe by revenue.

Car showrooms might seem an unlikely asset class to go global. For decades manufacturers relied on individual franchise-holders to sell and repair vehicles in local markets. Carmakers liked this fragmented market, because dealers lacked the clout to demand large discounts. For franchise-holders, the advantage was having a local monopoly on the brands they sold.

But the car market is changing in ways that favour consolidation. The spread of ride-hailing means fewer young city-dwellers are buying cars. Larger networks will be better placed to

survive, says Andy Bruce, the boss of Lookers, since they have the scale to offer better deals on high-margin financing and insurance. Moreover, says Gianluca Camplone, a partner at McKinsey, a consulting firm, only the biggest dealerships will have the capital to invest in the equipment and training needed to service high-tech electric and, one day, autonomous vehicles.

For manufacturers, consolidation may mean a loss of pricing power. But there is a consolation, says David Kendrick, who specialises in dealership transactions at UHY Hacker Young, an accountancy firm. Interacting with a few dozen networks will be more straightforward than dealing with lots of individual ones—though carmakers still usually seek to ensure that no retailer has more than 10% of a national market.

The appeal of dealerships as an investment is boosted by their location, generally on major roads near retail centres. Such prime plots lend themselves to repurposing as industrial warehouses or e-commerce fulfilment centres, says Tim Savage of CBRE, a property company. Although interiors are tailored to the brands sold, the structure is frequently made of steel portal frames with internal partitioning that is easily redesigned. And it is often a condition of franchises that car showrooms are refurbished every three to five years, meaning they stay in excellent condition.

For small franchises, the main reason for selling may be that they would struggle to find enough capital on their own. Carmakers want their products sold in bigger, more luxurious outlets than they used to, says Mr Guiver. This year he became managing director of Group 1's British operations, overseeing 53 dealerships across the country. Though he no longer owns the business he built piece by piece, he will still see the investment pour in.

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