

Automotive News

Dealership market cools for most Brands

Donna Harris

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The market for new-vehicle dealerships has cooled off for all but a handful of franchises. But those hot franchises are doing better than ever.

Prices generally declined over the past year for domestic and low-volume import dealerships, industry analysts and dealers told *Automotive News*. At the same time, prices have jumped for import and luxury-brand stores that remain in high demand.

Buyers continue to pay top dollar for such sure bets as Toyota, Honda, Lexus, BMW and Mercedes-Benz dealerships. Many brokers also include Acura, Infiniti and Nissan among the top franchises. Hyundai still is considered a second-tier franchise but is gaining fast, some brokers say.

In recent years, the most desirable dealerships brought prices that were four to six times net annual pretax earnings. Now such stores can command a multiple of seven times earnings or more, brokers say.

By contrast, underperforming domestic-brand dealerships capture little or no "blue sky," says Sheldon Sandler, founder of Bel Air Partners. The Skillman, N.J., investment firm specializes in auto retailing.

Blue sky is the value of a dealership beyond its tangible assets.

"The seller's market is still there if you have the right car line," says Robert Baker, president of Bob Baker Auto Group, of San Diego. Baker's company operates 10 import and domestic new-vehicle franchises.

Rising costs

Many dealers who enjoyed several years of strong sales and low interest rates are struggling as their cost of capital rises, dealership brokers say. The financial woes of Ford Motor Co. and General Motors are taking a toll on the value of those companies' dealerships.

And the big, publicly held dealership groups that once paid large sums for dealerships are slowing the pace of acquisitions. The groups "are very selective," Sandler says.

Some brokers argue that changes in dealership values are cyclical, and lesser brands could bounce back. But others say the U.S. market has permanently shifted from domestic brands.

"Buyers are not willing to gamble that Ford or GM is going to get market share back," says Mark Johnson, president of a Seattle consulting firm that specializes in dealership mergers and acquisitions.

The Southwest and Southeast are the most attractive markets for dealership sales, says Brady Schmidt, president of National Business Brokers in Irvine, Calif. The company specializes in brokering dealership transactions.

Crazy for Lexus

Phil Vogel, owner of an Irvine, Calif., firm that handles dealership acquisitions, describes as "crazy" the recent prices paid for some Lexus stores. He says he heard that a Lexus dealership sold recently for more than \$100 million. "The tier-one deals are getting tighter because there are not as many available," Vogel says.

Sid DeBoer, chairman of Lithia Motors Inc. in Medford, Ore., adds: "The luxury brands are still overpriced." Lithia is the nation's eighth-largest public dealership group.

At the same time, Mitsubishi dealerships are especially hard to sell as the automaker struggles to turn itself around in the United States, brokers say. And domestic brand dealerships aren't faring much better.

"I don't get any calls asking for a stand-alone Dodge store," says Joseph Bellavia, a dealership broker in Islip, N.Y. "Almost anything import has more play than the domestics."

Sandler says domestic dealerships in the right markets can fetch sale prices of three times net earnings before taxes. Such dealerships are in regions with strong truck sales, are near military bases or are near Detroit, Sandler says.

Strong Cadillac dealerships can bring blue-sky multiples of four to five times net pretax earnings, brokers say.

First-time buyers constitute the primary market for underperforming dealerships, brokers say. For example, general managers of dealerships owned by large public groups often save up to buy stores of their own.

"A good operator can turn a store around," says broker Schmidt. "There is a lot of capable talent, and they can buy (underperforming) stores inexpensively."