

Automotive News

\$75 million for 1 store? Maybe it's a trend

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Automotive News July 31, 2006

Dave Wilson had the Lexus franchise. Then he got primo land in tony Newport Beach, Calif., just six miles from one of his existing Lexus stores. Price: \$30 million.

Then he started building. A palm tree. A \$500,000 fountain. 300,000 square feet.

Final tally: \$75 million.

This stunning cost of building a new dealership is probably a record. But wait, there's more. Dealership experts say it's the wave of the future. Other dealers will be putting up Taj Mahals in upscale neighborhoods to serve those wealthier baby boomers who can't seem to get enough Lexuses, Mercedes-Benzes and BMWs.

The West Coast megadealer expects someday to sell an eye-popping 400 new and used vehicles a month at the new Lexus emporium, about what he sells now at his two other Lexus stores combined.

"Nothing could eclipse that \$75 million," says Phil Vogel, owner of a San Francisco company that handles dealership acquisitions. "Not even in Manhattan."

Wilson, who owns 15 other dealerships in California and Arizona, opened Newport Lexus on June 29. He says the Lexus brand and the dealership's location justify the outlay. Newport Beach is one of the nation's richest communities. The store sits on what Wilson calls "the most important corner in Orange County."

"The Lexus market is so big we would not have anything else" on the site, Wilson told *Automotive News*. "We should sell 300 to 400 new and used Lexus vehicles a month," once the dealership is fully ramped up. "It's a monument to Lexus."

The average U.S. Lexus dealership sold 130 new vehicles last month.



Boomers could fuel a trend in Taj Mahal stores like Newport Lexus.

No blue sky

Todd Berko, a partner with the automotive investment firm Bel Air Partners in Skillman, N.J., says \$75 million is the highest price he has heard of for a newly built dealership. But he says the price is understandable, given the high cost of land in California, the extraordinary affluence of the market and the expense of luxury amenities.

In addition to the exterior fountain, Newport Lexus boasts a 150-year-old palm tree that Wilson paid \$185,000 to move about 70 miles from Temecula, Calif. The dealership's service department has three parking levels. The store's six waiting rooms have flat-screen TVs. There's a grand piano in the showroom.

A few other Lexus dealerships have changed hands for more than \$75 million, brokers say. But those deals also involved blue sky, which is the value of intangible assets, including the franchise.

Wilson says Lexus authorized him in April to open the Newport Beach dealership as a companion store to Tustin Lexus six miles away, which he has owned since 1989. If Wilson had bought a Lexus store from another dealer, Berko says, he likely would have had to pay \$20 million or more in blue sky.

Jim Mullin is national director of the Staubach Auto Group, which builds auto malls. He says regional trends in areas such as Southern California and metropolitan Miami and Las Vegas support demand for ultraluxury dealerships.

"There are some trade areas where the top three volume brands are luxury makes," Mullin says. "I think Wilson will be successful, and I think you will see more of these dealerships."

Luxury brands with high unit sales per dealership -- notably Lexus, BMW and Mercedes-Benz -- provide the volume to support stores such as Wilson's, Mullin says.

The huge baby boom generation -- people between the ages of 46 and 64 -- could help fuel a trend in Taj Mahal dealerships. "They have disposable income like we have never seen," Mullin says.

Wilson spent \$30 million for the eight-acre property in Newport Beach. He spent another \$45 million to tear down an office building on the site and build the Lexus dealership.

The store is across the street from Fletcher Jones Motorcars, which calls itself the nation's highest-volume Mercedes-Benz dealership. Mercedes would not confirm that claim.

Not far away, Crevier BMW, in Santa Ana, Calif., is spending \$35 million to expand one of the nation's largest BMW dealerships. That cost does not include land.

Rival would hurt

Wilson calls his investment in Newport Lexus a defensive move. He says he was concerned that Lexus might allow a competitor to open a store on the Newport Beach site.

"That would hurt me," says Wilson, who owns another Lexus store in Cathedral City, Calif.

Other new Lexus dealerships are nearly as opulent. Dealer Michael O'Brien is spending \$41 million, including real estate costs, on his new Lexus store in the Seattle suburb of Bellevue, Wash. The four-story dealership has more than 70,000 square feet and 75 service bays.

"The cost adds up pretty fast," O'Brien says. His six dealerships have annual revenues of \$450 million.

The eight-acre Bellevue site is near the headquarters of Microsoft Corp., Starbucks Corp. and Costco Wholesale Corp.

"We've got four or five billionaires in Seattle," O'Brien says. "Those people create opportunities for the community and bring a big work force that makes money and spends money."

David Wilson Automotive Group ranks No. 13 on the *Automotive News* list of the top 100 dealership groups in the United States, with retail sales of 38,630 new vehicles last year and group revenue of \$1.50 billion.

Broker Vogel says Wilson has a successful track record. "Lexus is the number one franchise, and Newport Beach is a very affluent market," Vogel says. "He's rolling the dice, but it's a calculated risk."



Wilson: His store is "a monument."