

Automotive News

Buyer's market for dealerships

Jack Herman | June 18, 2007

If you're looking to sell a dealership, you might not want to hold out too much longer.

After 10 years of sellers' good luck, it will soon be a buyers' market, according to one industry executive.

"As time goes on, prices have to go down," said Sheldon Sandler, a managing partner of Bel Air Partners LLC of Skillman, N.J., a consulting firm that primarily represents sellers of dealerships.

A demographic of aging dealers looking toward retirement - and circumstances enticing them to sell soon - will fuel supply, Sandler said.

Booming real estate values can make the land increasingly valuable compared to the franchise. And investing in capital expenditures required by manufacturers doesn't make sense for dealers who don't plan to own for the long term, Sandler said.

Politics might play a part, too. Some are worried that if Democrats gain control of the executive and legislative branches of the federal government in 2008, they will increase the capital gains tax, an incentive for dealers to cash out now, Sandler said.

"As more and more of these dealers get older, it's going to be a switch to become a buyers' market," he said.



Sheldon Sandler specializes in the sale of dealerships. He sees a buyers' market looming.

According to Sheldon Sandler, managing director of Bel Air Partners LLC, the following franchises are:

- **Most desirable:** Honda, Toyota, Mercedes, Lexus, BMW
- **Next best thing:** Audi, Infiniti, Acura, Nissan
- **A market in the right situation:** Cadillac, Chevrolet, Hyundai, Jeep, Ford, Volvo
- **For the individual entrepreneur willing to take a risk:** Volkswagen, Mazda, GMC, Mitsubishi, Kia

Still, not all dealers need to worry, Sandler said. Buyers are interested in shops that sell Toyota, Lexus and BMW, for example - if their owners are willing to part with them. Among domestic brands, the right situation could make a Cadillac or Chevy dealership an easier sell, he said.

On the other hand, dealers of brands such as Lincoln, Mercury and Pontiac might struggle to find a willing buyer, much less a good price, Sandler said.

"Right now, it's a fairly good market if you have the right brand," he said. "If you have Lincoln-Mercury, you do not have a buyer."

Megadealers also will face difficulties with few buyers willing to invest the capital necessary to acquire them. They may have to unbundle their stores to shed them, likely at a lower value than if they could sell them together, Sandler said.

"We tell dealers, 'The bigger you get, the less likely it's going to be for us to find a home for you,'" he said. "There's a limit to how much anyone's going to be willing to spend for a dealership group."

In the future, one option could be private equity groups, Sandler said. They have no interest in managing dealerships but realize top brands can provide cash flows that would be worth a major investment.

Plus they have the money and desire to make a big deal if they can find one.

"They will buy top-five brands," Sandler said, "and there aren't very many dealership groups that are focused on those five brands."