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Bailed out: An appraiser's view of the auto industry

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The U.S. auto makers have seen their share of turmoil in the past, but not to the extreme experienced in the fall of 2008 as rising gas prices and the collapse of the financial markets put the Detroit Three on the brink of disaster. Ford was fortunate enough to have accumulated reserves prior to the recession and weathered the storm without any handouts. General Motors and Chrysler were not as fortunate and found themselves in bankruptcy despite the billions provided to bail them out.

The Detroit Three have emerged leaner and profitable quicker than anticipated. According to WardsAuto.com, U.S. vehicle sales peaked at 17.8 million vehicles in 2000. Between 2000 and 2007, sales fluctuated but generally ranged between 16.0 and 18.0 million vehicles per year. With the onset of the financial crisis and national recession in 2008, vehicle sales declined dramatically to 10.6 million in 2009, a decline of 36% from 2007, a level of sales not seen since the 1980-1982 recession. In 2010, sales rebounded 11.0% to 11.8 million vehicles, with continued growth of 11% in 2011 to 13 million vehicle sales.

A total of 1,400,100 light vehicles were sold in March 2012, an increase of 12.7% from March 2010. With signs of strengthening in the national economy, total year-to-date light vehicle sales increased 13.4% from the same period last year. The Detroit Three captured approximately 45% of industry volume in March 2012, with General Motors and Ford leading the way and Chrysler in a not-so-distant fourth place behind Toyota.

Increasing gasoline prices contributed to the decline in sales for U.S. auto makers in 2008 and remains a concern today. However, there does not appear to be any evidence that gasoline prices are impacting sales volume. Some analysts feel that higher prices may be contributing to an increase in sales as consumers seek more fuel efficient vehicles. Market conditions remain conducive for the purchase of new automobiles as the recession has led to a shortage of used cars. As a result, the increased value of a trade-in combined with low interest rates make buying a new car more affordable.

Throughout the decline and recovery of the automobile industry the local real estate market has remained relatively active to include several transfers of automobile dealership properties. Automobile dealership properties that have been acquired for continued use as automobile dealerships have been able to command higher prices per s/f. Most recently, 245 Webster Square in Berlin, Conn. sold for \$1.9 million in March 2012. The 10,156 s/f building was constructed in 1990 and the indicated price per s/f is \$187.08. The property houses Morande Acura and was acquired by a local automobile dealership owner that operates numerous facilities in central Connecticut.

The former Bob's Dodge dealership at 746 New Haven Rd. in Naugatuck, Conn. also transferred in March 2012. This facility was vacant for several years and acquired for use as a used car dealer. The 19,183 s/f building was constructed in 1980 and the indicated purchase price was \$1.75 million,

or \$91.23 per s/f.

In the North Meadows section of Hartford, three dealerships previously operated by Tony March were acquired by the Valenti Auto Group. 133 Leibert Rd. transferred in January 2009, just after the Mitsubishi dealership closed in December 2008. The building contains 14,490 s/f and sold for \$2.3 million, or \$158.73 per s/f. The building was constructed in 1999 and was acquired for use as a Jaguar dealership. 99 Leibert Rd. was used as a Saturn dealership and was acquired for use as a Cadillac dealership. The building was constructed in 1993 and contains 10,446 s/f. This property transferred in April 2009 for \$1.4 million, or \$134.02 per s/f. The property located at 77 Leibert Rd. represents the most recent transfer between these two entities and illustrates the lowest price per s/f. This property transferred in May 2011 for \$2.35 million, or \$92.94 per s/f. The building was built in 1993 and contains 25,285 s/f. The indicated price per s/f is in part impacted by the size of this facility relative to the two adjacent properties purchased earlier. However, the price also reflects the motivation of the seller as the property was vacant for an extended period of time (2008). This facility was previously used as a Buick-Pontiac-GMC dealership and was acquired without immediate plans for a new dealership. The purchaser will use the property for the expansion of the adjacent dealership and a service center.

Sales of distressed assets and properties acquired for alternative uses demonstrate a discount. These sales generally illustrate a price per s/f range between \$50 and \$75 for relatively modern facilities.

Although, the number of dealerships has declined in Connecticut, a review of sale activity indicates that much of the consolidation has occurred in older, less functional properties. Stronger franchises have been actively acquiring properties for relocation and expansion of existing facilities.

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