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Automobile dealership industry update for appraisers - by Nitz

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The performance of auto dealers can have a direct impact on the appraisal of its real estate, i.e. automobile dealerships. Currently the automobile dealership industry faces its challenges and the industry remains uncertain at the close of the second quarter of 2024. According to an article dated June 10, 2024 in Cox Automotive, the Cox Automotive Dealer Sentiment Index (CADSI) indicated a current market rating of 42, which is below the threshold of 50. As a result, U.S. auto dealers view the market as weak. The article mentions economic uncertainty, high interest rates, and the coming presidential elections as key factors, which are troublesome to auto dealers nationwide. The last time the CADSI rating exceeded 50, indicating positive sentiment in the auto industry was the second quarter of 2022.

Other factors impacting the automobile dealership industry include continuing rising costs, price pressure, and the recent cyber attack on CDK Global. Both independent and franchise dealerships indicate that rising costs have been an issue, which has persisted for the past two years. The consequence is rising price pressure for vehicles; however, price pressure indexes are down slightly from the first quarter 2024, suggesting that auto dealers are feeling pressure to lower prices. The recent cyber attack on CDK Global has impacted 15,000 dealerships nationwide. The software provider helps dealerships manage sales and service. According to General Manager Ryan Callahan of Tasca Mazda of Seekonk, MA, "the financial impact it will directly have on us will take months to correct, if not years," per CNN reports. Despite the negativity, new vehicle sales have improved over the past two quarters and inventory has increased as well. The lack of ample inventory was a problem during the COVID Pandemic in 2020-21.

The appraisal of automobile dealerships remains status quo with all three approaches considered in the valuation. The Sales Comparison Approach remains the preferred technique; however, in Connecticut, sales of automobile dealerships are down in 2024 with only five sales noted throughout the state, excluding rural Litchfield County. In 2023, there were 19 dealerships that traded in Connecticut; whereas, in 2022, there were 16 dealerships that transferred. As an appraiser, it is critical to recognize the motivations of buyers and sellers of automobile dealerships when analyzing market sales data. In lieu of the Sales Comparison Approach, the Cost Approach and the Income Capitalization Approach are alternatives in valuing automobile dealerships. The vast majority of dealerships include owner-users, although there are dealerships subject to leases, thus supporting the Income Capitalization Approach. The Cost Approach is particularly helpful in appraising new construction. Currently in Connecticut, a new BMW automobile dealership, containing 18,000 s/f is under construction for Mauro Motors along Washington Ave., a.k.a. Rte. 5, in North Haven, CT. The dealership lies conveniently between Exits 12 and 13 of I-91 and among other complementary dealerships.

Similar to national retailers and restaurants, the location of a dealership is a significant factor in its valuation. Oftentimes dealerships tend to congregate together along primary commercial corridors, such as Rte. 5 in North Haven and Wallingford; Rte. 1 in Milford; Straits Tpke., a.k.a. Rte. 63, in Watertown/Middlebury; and the North Meadows section of Hartford off Jennings Rd. of Interstate 91. In Connecticut, there are other popular commercial strips featuring multiple dealerships. Some

multi-franchise dealerships are the only game in town, such as Stephens AutoMall Centre along Rte. 6 in Bristol, CT or Papa's Chrysler Dodge Jeep RAM at 585 East Main St., New Britain, CT, which sold in December 2021 for \$8.5 million or \$115 per s/f.

The automobile dealership industry has had its challenges in recent years. The ebb and flow of the economy can have a direct impact on the automobile dealership industry. As appraisers, it is important for us to recognize these economic changes and apply the correct techniques in the valuation process.

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