SPOTLIGHT
Savills Research

Automotive Annual Market Commentary

UK Commercial – February 2025

Renault London West – Leasehold acquisition

The automotive sector has consistently showcased its ability to adapt amidst significant changes. Despite the fiscal and market-specific challenges, continued innovation and the rise of new players are expected to unlock significant opportunities, particularly in the automotive property market. While government support remains restricted, the ongoing transition from internal combustion engines (ICEs) to battery electric vehicles (BEVs) will be critical to progression in the sector.

From ICE to BEV: Market Dynamics

Challenges in the transition

Whilst general new car registrations were up 2.6% for 2024, according to the SMMT (Society of Motor Manufacturers and Traders), the transition to BEVs remains a primary focus for the automotive industry. However, the pace of change is slower than anticipated, with adoption levels at 19.6% of new car sales in 2024 (SMMT) and falling short of the zero emission vehicle (ZEV) mandate of 22%. Fleet sales continue to dominate, while retail adoption lags behind with a lack of private demand. Several factors contributed to this slowdown:

Cost: Whilst there are more affordable models beginning to enter the market, BEVs in general remain more expensive than their ICE counterparts, deterring budget-conscious buyers.

Range anxiety: Concerns over the distance BEVs can travel on a single charge persist.

Residual values: Rapid depreciation of BEVs is a significant deterrent.

Technological concerns: Consumers remain cautious about the longevity and reliability of battery technology.

Charging infrastructure: Limited availability of charging points, particularly in rural areas, heightens consumer anxiety.

Regulatory pressure: Zero emission vehicle (ZEV) mandate

Changes are underway to address these factors, but progress is slow and impacted by the wider economic squeeze. Despite lobbying, Government has not offered any support to assist the speed of transition, and the performance outlined above is set against the ZEV mandate. The mandate outlines highly ambitious targets for ZEV sales:

- 2025: 28% of all sales must be ZEVs.
- 2030: 80% of all sales must be ZEVs.
- 2035: 100% of all sales must be ZEVs*.

While these regulations aim to accelerate the shift to sustainable mobility, they present significant challenges in their current form and level of support. Original equipment manufacturers (OEMs), in an effort to meet targets, are limiting ICE vehicle supply, which has impacted car sales and dealer profitability. In response, both OEMs and dealers are implementing cost-cutting measures, including factory closures, dealer network consolidations, and workforce reductions.

*100% by 2030 target may be reinstated by new Government

Shifting Dynamics between OEMs and Dealers

The balance of power between OEMs and dealers is a constantly shifting dynamic, but the market inertia is obliging OEMs to return enhanced respect to dealers as they need them and their properties to sell the vehicles. Recent market challenges are prompting a recalibration, particularly as dealers navigate a challenging sales environment. Key trends include:

- **Territorial redefinition:** OEMs are redrawing market areas, expanding territories to maintain profitability. This has led to some territories with drive times exceeding 45 minutes, impacting site demand.
- **Shift to agency:** A mechanism whereby cars are sold online directly by the OEMs to customers, with the dealer acting as a conduit of delivery as well as managing the aftersales relationship and servicing. Mercedes lost market share in its first year of implementing an agency model, clearly highlighting some teething issues. The brand has now reported a 17% increase in market share in 2024 (SMMT) with a 29% rise in the private retail channel, according to Automotive Management (AM). Other OEMs will inevitably take note of this growth, having overcome the challenges of initiating the new system.
- **Cost-conscious occupiers:** Dealers are prioritising existing properties over new developments to manage costs in a strained economic environment.

Consolidation Trends

The consolidation of dealers and OEMs continues to be a dominant trend as a result of the aforementioned shifting dynamics. OEMs and their dealer counterparts are increasingly rationalising their property portfolios to improve efficiency and profitability. This has created opportunities for:

- **Multi-franchise sites:** Dealerships are consolidating operations to house multiple brands under one roof, maximising space utilisation and reducing overheads.
- **Repurposing properties:** Surplus properties are being repurposed to accommodate new entrants, particularly Chinese EV brands. This is frequently seen in showrooms where the OEM requires fewer new car displays, particularly if they have implemented the agency model. For example, Mercedes has often reduced its new car display from 20 models to 7.

Adapting to BEV and Technological Advancements

The shift to EVs is driving significant changes in dealership design and functionality. Dealers are investing in:

- **Charging infrastructure:** Adding on-site charging points to support the growing EV customer base.
- **Technology integration:** Upgrading facilities to accommodate advanced diagnostic and servicing equipment for BEVs.
- **Sustainability initiatives:** Incorporating eco-friendly practices and materials to align with consumer and regulatory expectations.

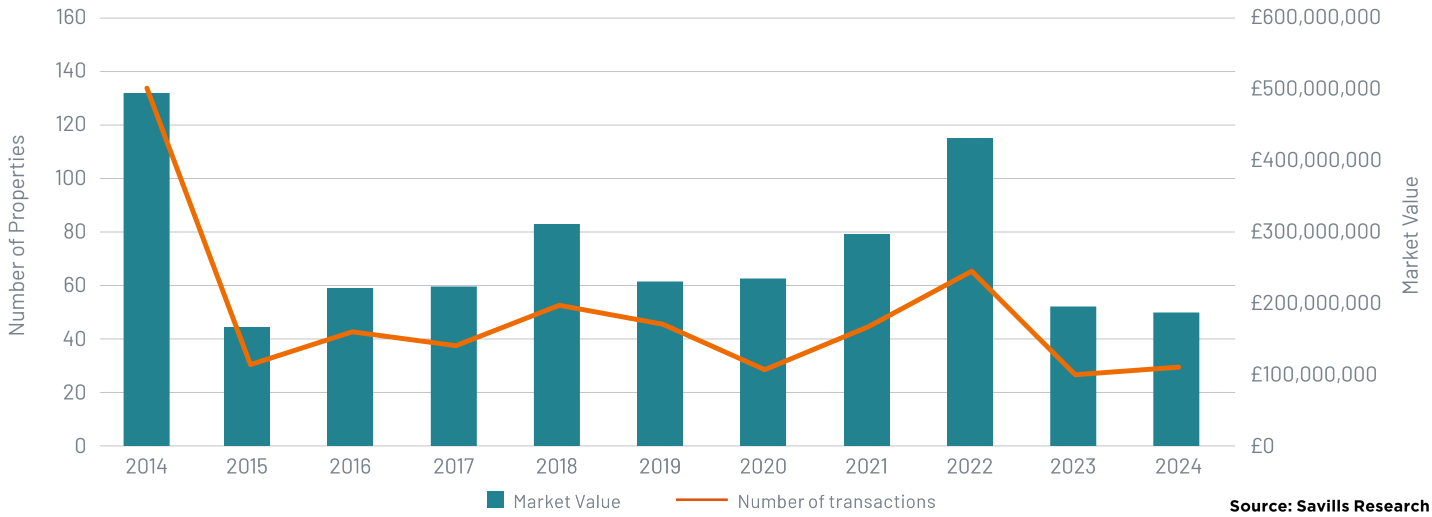
New Entrant Opportunities

The influx of new players, particularly Chinese EV manufacturers, is reshaping the automotive landscape. Companies like BYD (Build Your Dreams) are rapidly expanding their footprint, with plans to reach 100 open points by the end of 2025, having opened 45 in 2024. Other emerging brands, such as OMODA and JAECOO, are also gaining traction, leveraging competitive pricing to challenge established players. These new entrants are filling dealership spaces vacated by legacy brands reducing new display vehicles, creating a new sense of opportunity for dealers, property investors and asset managers. Some of the more established brands have enjoyed success amidst the transformation in 2024, with Renault's decision to embrace the BEV switch, rewarding them with a 36.25% year-on-year sales growth (SMMT) and clearly leading the pack out of the legacy brands.

Improving Investment Property Trends

The car dealership investment market experienced a pivotal year in 2024. Transactions increased by 10% compared to 2023, signalling renewed investor confidence. However, the total value of stock fell by 4.9%, reflecting a trend of smaller lot sizes. The average lot size declined from £7.23 million in 2023 to £6.23 million in 2024.

Figure 1: Investment transaction volume

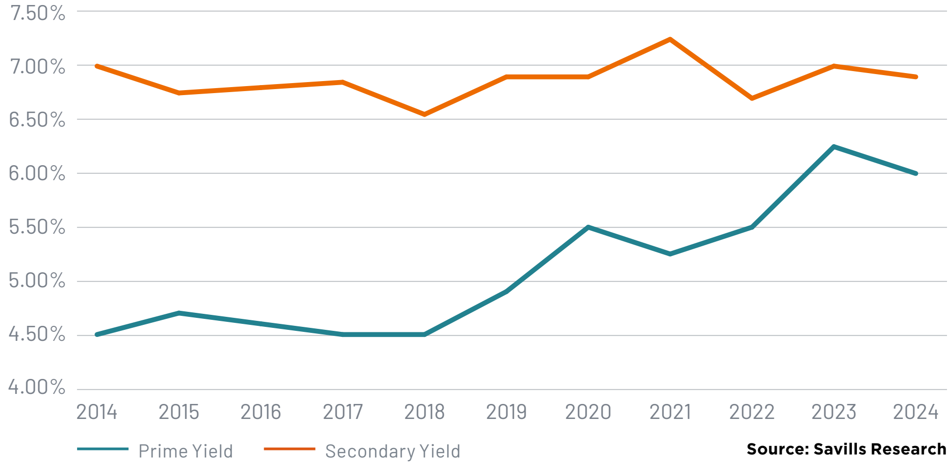


Source: Savills Research

Yield Movements

Yields showed signs of improvement in 2024, supported by declining interest rates, which fell from 5.25% to 4.75%. This trend is expected to continue in 2025, further enhancing yield profiles across the sector. Over the past decade, average yields in the car dealership market have remained stable at 6.25%, highlighting the sector's resilience and attractiveness to investors, particularly amidst the headwinds faced in the last five years.

Figure 2: Prime and secondary yields



Source: Savills Research

Lease Profiles and Buyer Demographics

- **Lease terms:** Average unexpired lease terms for sold stock remain steady at ten years, with 76% of leases featuring inflation-linked terms. This ensures attractive, inflation-protected returns for investors.
- **Buyer profiles:** Private buyers led the market in 2024, accounting for 48% of transactions, followed by car dealers (41%) and institutions (11%).
- **Stock turnover:** The average time from listing to completion remains efficient at approximately 85 days, according to Savills data.

Regional and Brand Distribution

- **Geographic spread:** Sales were broadly distributed across the UK, with the South East and London accounting for a majority 28% of transactions and Yorkshire and the Humber following just behind, representing 21%.
- **Brand performance:** Prestige brands (BMW, Audi, Mercedes) dominated investment sales, accounting for 47% of transactions. Mid-market brands like Volkswagen followed at 30%, and Ford representing 19%. Used car dealerships comprised 4% of sales.

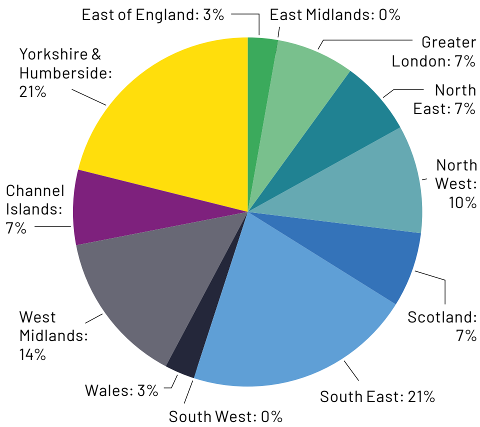
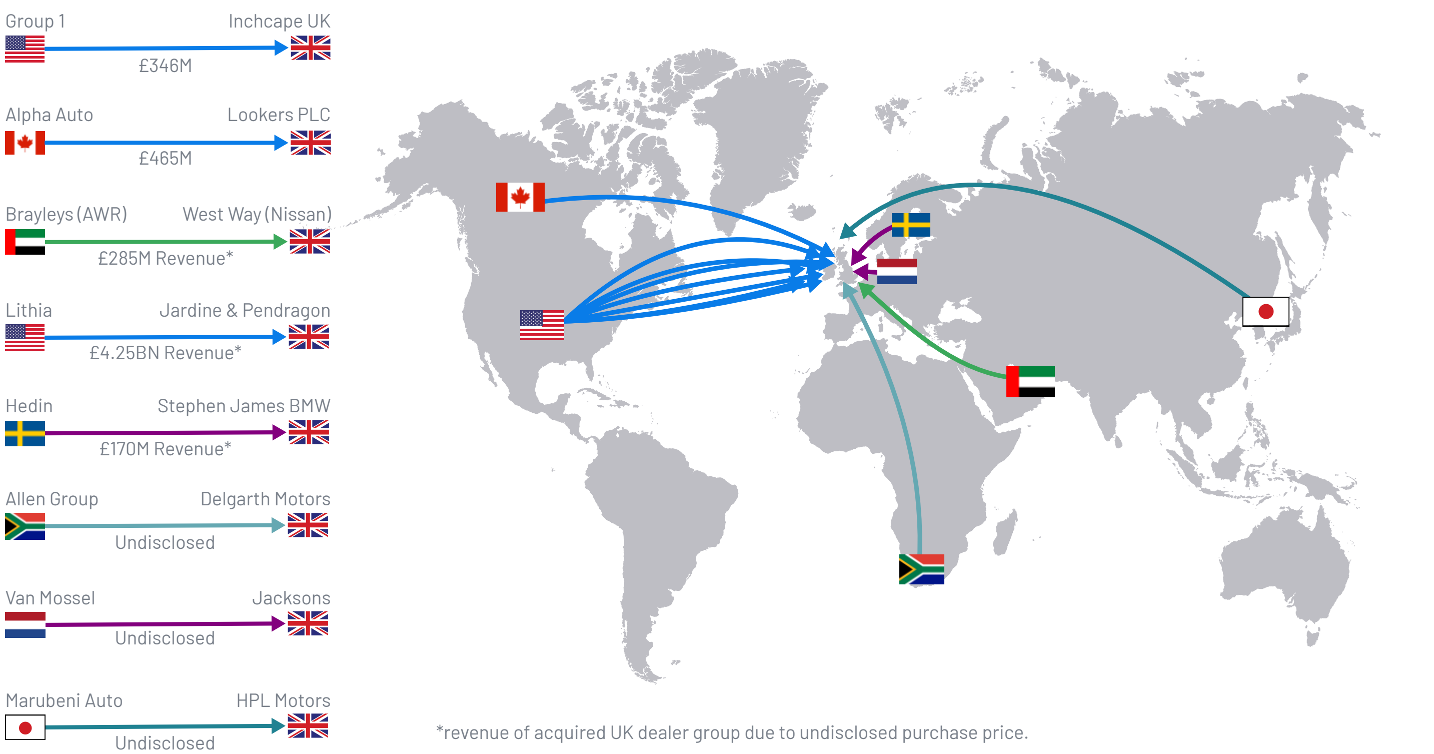


Figure 3: Number of investment sale transactions by region (2024)

Overseas Investment

As the UK automotive sector resiliently navigated the challenges faced in recent years, there has been a clear doff of the cap and a backing from global investors. There has been notable Middle Eastern and Asian investment, but more prominent activity has come from North America in large-scale acquisitions of businesses with vast property holdings. The UK market is particularly attractive to overseas investors due to the number of freehold property assets held within the dealer group businesses. This is comparably much higher than the likes of the European market, where the number of freehold assets held by dealer groups is saturated by higher rates of sale and leaseback activity. Figure 4 highlights the overseas investment activity into the UK.

Figure 4: Overseas acquisitions of UK dealer groups since 2022



*revenue of acquired UK dealer group due to undisclosed purchase price.

Looking Ahead

The car dealership property sector remains a resilient and attractive investment class. Key drivers for 2025 include:

- **Inflation-linked leases:** With many leases tied to inflation, investors can expect steady, protected returns.
- **Yield stability:** The sector's ten-year yield stability underscores its reliability, even amidst market turbulence.
- **Emerging opportunities:** The entry of new BEV brands, combined with property consolidation, presents opportunities for investors to enhance asset values through strategic management as well as former dealership properties coming to market suitable for alternative uses, such as:
  - Care and retirement living
  - Small-scale residential development
  - Convenience and food store
  - Self-storage
  - Drive-thru with EV charging.

As the automotive industry navigates the complexities of electrification, technology adoption, and regulatory compliance, the property sector can capitalise on these changes. With a focus on innovation and adaptability, 2025 promises to be a year of significant transformation and opportunity for the automotive market.

KEY POINTS

BEV transition challenges:
Adoption of BEVs in 2024 was 19.6%, below the ZEV mandate of 22%. Key barriers include high costs, range anxiety, limited charging infrastructure, and concerns about residual values and technology reliability.

OEM-dealer dynamics shift:
OEMs are expanding dealer territories and implementing agency models to adapt to market pressures. Dealers are prioritising cost-effective operations, leading to a rise in property consolidation and multi-franchise sites.

New entrants and BEV market growth:
Chinese EV brands, like BYD and OMODA, are rapidly expanding, filling dealership spaces vacated by traditional brands. Legacy brands such as Renault also saw success with a 36.25% growth by embracing the BEV transition.

Investment market trends:
The dealership investment market showed increased transactions (up 10% from 2023), at an average lot size of £6.23 million. Yield improvement is expected with falling interest rates.

Growing opportunities:
The automotive property market remains attractive, with opportunities in emerging BEV brands, property repurposing (e.g. care homes, food stores), and continued demand for inflation-linked leases offering stable returns.

Automotive

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