Chapter 5: Asset Valuation For RV and Auto Dealerships (Real Estate)

Real estate may be the largest fixed asset on the balance sheet. The two most important items to consider are either the market value of the building if it is part of the transaction, or the lease if the building is not part of the transaction.

Introduction

Before we begin, it should be noted that the dealership reviewed in the prior chapters contained **two separate locations. For the purpose of simplicity, we will only be valuing one of those locations in this chapter**. The real estate component in previous chapters therefore includes the concluded appraised value at the end of this chapter, as well as the real estate value of one other location.

When valuing an auto dealership and reviewing the real estate component, you need to look at one of three things, depending upon whether the seller owns the facilities or leases:

(1) The value of the facility (if the seller owns the building/buildings).
(2) The value and duration of the lease (if the seller does not own the building).
(3) Some combination of the two (if the facility will be leased by the seller, then the fair rental rate should be determined).

The lease and real estate facilities of a dealership are the most important items to review before valuing or purchasing a dealership. It is critical to know how much land there is, how much building space there is, where it is, whether the property is owned or leased, and whether the valuation is for a market value or a liquidation value. The building and land characteristics of the property, as well as its market supply and demand, should be accurately determined.

Valuing An Auto Dealership's Real Estate Assets

Valuation Example

The best way to understand real estate valuation is through the use of an example. Throughout this chapter, we will present a quick valuation of an auto dealership lot and building. This analysis will assist the reader in understanding how this asset fits into the overall business valuation. Many steps have been skipped, but the issues and analysis will give a buyer/seller or analyst a good "back of the envelope" indication. The most important specifics of this building can be seen in Table 5-1.

Table 5-1: Land/Improvement Statistics of an Example Dealership

Item	Statistic
Location	2683 Wardlow Street
	Corona, CA
Interest Valued:	Fee simple interest (company owns building and does not lease)
Land Size and Shape:	2.51acres, 109,336 sq. ft.
Zoning	ACDD
Tax and Assessment Data	1.358300% of assessed value, plus $1059.64 in special assessments
Gross Building Area:	28,700 square feet
Year Built	1989
Construction Type:	Good, Class C Construction
	See Table 5-4 on page 108 for Codes
Parking	Unknown

Before reviewing the different techniques of valuing an auto dealership lot or a building, it is important to understand the various ownership interests in real estate, as well as the critical and unique building and land statistics.

Ownership Interests

There are four general interests in real estate:

(1) fee simple
(2) leased fee
(3) leasehold
(4) partial interest

Fee simple interests are the most common, meaning that the property is not encumbered by any other interest or lease. This interest is most used when valuing an owner user property where there are no tenants, and the owner (seller) also owns both the land and building.

A leased fee interest means an ownership interest held by a landlord, but leased to others; the rights of the lessor (landlord) or the leased fee owner and leased fee are specified by contract terms contained within the lease. This interest is involved mostly when valuing income producing property with leases such as industrial, office buildings or retail centers.

Table 5-2: Important Auto Dealership Land Characteristics

Item	Description/Comments
Location:	Get the address (look at title report/tax bill)
Assessor's Parcel Number:	Needed to establish basic tax identification and other statistics. Generally found on the tax bill.
Size and Shape:	There are 43,560 sq ft in one acre. This is a critical factor since you need to know if there is enough room for expansion, if your parking is less than the overall market, if the turning radius for freight delivery is inadequate, or if there is excess land which is an additional asset for the balance sheet.
Ingress/Egress and Exposure:	If you cannot access the property, or are subject to a short term easement, then the value is much lower.
Adjacent Properties:	Is the property next to a toxic dump or gas station?
Topography:	Are there problems here? A hard rain or earthquake may make a building slide down a hill. Some buildings gradually shift down a slope.
Drainage and Storm Water Control:	Will the building float away? You may need flood insurance.
Hazards:	What was the building previously used for? Is it on top of a fault line (earthquake)? Is it contaminated by toxins (lead, methane)?
Easements, Restrictions, and Encroachments:	Does the title report flag any issues? The seller may not even know about these, such as the right of a neighbor to drive across your property.
Utilities:	Will you have to dig a ditch for sewage, water, or electricity, and pay for two miles of digging and engineering to make the building operational?
Zoning Provisions:	This is a significant issue. It is absolutely critical to find the existing zoning code. If your building burns down can you re-build the same structure? In most cases you can't. If you currently run a manufacturing business and the zoning has been changed to retail, then this may be a problem. Check to see if you need a conditional use permit (CUP) for your business.
CC&Rs/Private Restrictions, Governing Use:	Nail these down. These usually appear in the title policy and show any restrictions on the use of the property.
Tax and Assessment Data:	Are you being over assessed or under assessed? Also, you want to find out when the next assessment is for the county. Your taxes may double.

A leasehold interest is defined as the right to use and occupy real estate for a stated term and under certain conditions, conveyed by a lease. This interest is generally involved when valuing a land lease or the lease of a tenant.

Finally, a fractional interest is an interest in either of the three interests seen above but is less than 100%. An example of this would be a house in which three people have one third interests.

General Land and Building Analysis

Before valuing anything, one must know the dealership building and land parcel sizes. First, the site improvements need to be reviewed. Critical improvement characteristics are seen in Table 5-3 on page 104.

Not all characteristics that might be of concern to a potential buyer are listed in the table, so you should use common sense and assess every detail that might affect the utility of the building.

Table 5-3: Important Auto Dealership Building Characteristics

Item	Comments
Gross Building Area:	Get the correct square footage.
Exterior:	Concrete, wood, stucco?
Foundation:	Is it flat? Reinforced concrete?
Roof:	Do you need a new one? This can be expensive! How old is it?
Air-conditioning/Heating:	Same as the roof.
Plumbing:	Do you need new plumbing? Is there sufficient plumbing for restrooms?
Electrical:	Is the wiring sufficient to run the necessary amperage for all the dealership equipment? Do you need to replace or install additional circuit boxes? Do you need additional transformers?
Fire System:	Will the fire department allow you to operate in the existing facility as an auto dealership?
Parking:	Critical! Are there enough spaces for the use of the auto dealership?. Is the parking being shared with any other businesses?
Construction:	Are the interior walls strong?
Environmental:	Asbestos, etc.? Are you purchasing an off balance sheet liability?
Age:	Is the building about to fall over, or has it been maintained?
Functional Obsolescence:	Are there problems with the building which impact the operation of the business? For example, if you are to lease or buy a building and there is no air conditioning system, then this is a problem.
Deferred Maintenance:	This is critical. You want to know going into a deal whether you need to pull out your checkbook for a new roof, electrical wiring, earthquake retrofitting, asbestos abatement, plumbing etc. Get a good structural engineer and contractor when in doubt (even when not in doubt).
Signage:	Are there signage posts with good exposure to traffic? Can the building be clearly seen by the public?
Flooring:	Can the floors sustain the required design loads for several automobiles?
Capital Expenditure:	What is the most recent capital expenditure? Any future expenditures?

Different Types of Auto Dealerships

Auto dealerships facilities in the 1940's were small buildings located in rapid-growth suburban areas. In the 1950's, GM suddenly saw significant increases in demand for their vehicles and needed to construct larger facilities with bigger lots to accommodate the growing demand. They chose large suburban areas where land was plentiful and relatively cheap at the same time.

Soon GM occupied over half of the nation's best dealerships, leaving competitors like Ford and Chrysler in the dust. Both firms recognized the need to upgrade, expand and relocate their dealerships to remain competitive with the industry trends. In the 1960's Chrysler and Ford had hired departments staffed with experienced real estate professionals, architects and engineers.

The architects, however, had little knowledge or experience in the auto retail industry and created designs that were less efficient and far more costly. Because of this, Chrysler and Ford studied existing dealership models, surveyed dealers and created their own prototype designs that assisted the engineers in the development of new dealerships. Those prototype designs eventually became the industry standard, as most dealerships in the United States currently have facilities with only slight variations from these original standards.

Valuation Approaches

After gathering basic statistics on the building and land being appraised, the appraiser may then apply different approaches to valuing the property or properties. There are three basic valuation approaches: (1) the Cost Approach; (2) the Direct Comparison Approach; and, (3) the Income Approach. These approaches are more comprehensively described in Figure 5-1 on page 106.

The Cost Approach calculates either the reproduction cost estimate of the subject property improvements (maintaining comparable quality and utility) or the replacement cost. Losses in value are then subtracted from this value. Losses are from depreciation, age, wear and tear, functionally obsolete features, and economic factors affecting the dealership. The net value (cost less depreciation) is then added to the estimated land value to provide a total value estimate.