GRAY SKY, NOT BLUE; STORE VALUES WILT

Detroit 3 franchises often worth only real estate, parts

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Six months ago, dealer Mike Kahn put Superior Chrysler-Jeep-Dodge in suburban Los Angeles up for sale. He's still waiting for the phone to ring.

"It's probably one of the nicest dealerships on the busiest freeway," Kahn told *Automotive News.* "And we have not had one offer at any price, even for zero blue sky."

The dismal U.S. economy, rapidly rising gasoline prices, plunging vehicle sales and bad press have conspired to slash the values of Detroit 3 dealerships to a fraction of what they were just last year, say dealers, brokers and industry executives.
Dealer and property developer Bruce Toll owns and operates two auto malls in suburban Philadelphia. He says a domestic brand dealership, including its real estate, that might have sold in his market for $4 million a few years ago would be lucky to fetch $500,000 today.

Toll says all of his 13 franchises, Detroit 3 and import brand, are profitable. But he has seen at least 10 domestic brand competitors go out of business in the past year.

When Detroit 3 dealerships sell at all these days, many bring only the value of their real estate and parts inventories. "Blue sky" — the intangible value of a franchise — is often virtually nil for a Detroit 3 store.

"I would not go out and pay someone $2 million to $3 million for a franchise unless it came with a great piece of real estate," Toll says. "I don't believe the blue sky is worth that much today, and neither does anybody else."

Sheldon Sandler, an investment banker in Skillman, N.J., specializes in working with big auto retailers to buy dealerships.
He says his company, Bel Air Partners, "won't bother" with Detroit 3 dealerships. "They are just worth parts," Sandler says.
Dealership brokers say typical valuations of domestic franchises have reverted to what they were a dozen years ago, before newly formed public dealership groups began bidding up prices.

Mark Johnson, a broker in Seattle, says some buyers of domestic brand stores are leasing rather than buying dealership property. They fear they may be stuck with real estate they can't sell if a Detroit 3 automaker decides to kill a brand, Johnson says.

Such dealers "would rather lose $15,000 a month for the next year or two vs. buying a single-use property for $6 million," Johnson says.

Domestic disturbance

Industry analysts say several factors are depressing the prices of Detroit 3 dealerships.

- Falling profits and revenue, which are used to compute dealership values
- Fewer large buyers, as public groups focus on stock buybacks and purchases of import brand and luxury dealerships
- Speculation that Detroit 3 companies may kill brands or even declare bankruptcy

Slim pickings

Bert Hanwell, a dealer consultant in Orlando, Fla., says most dealers and dealership groups are more intent on "trying to keep the ones they have got and trying to get them healthy again" than on buying dealerships, especially Detroit 3 stores.

Carl Woodward, a dealer accountant in Bloomington, Ill., cites a client who owned a domestic brand dealership that earned more than $1 million a year when it sold within the past year. He declined to identify the brand or the dealership's location.

"Trying to sell it was not easy," Woodward says. "People who can write checks are just not interested."

The dealership ultimately was sold to a large private dealership group, he says.

Detroit 3 dealers who have poured millions of dollars into upgrading their stores — often to satisfy factory "image" demands — find it tough to recover those investments when they try to sell their dealerships, brokers say.

John Pico, a dealer attorney in Dallas, describes the experience of Dodge dealer Carlos Hidalgo and Chrysler-Jeep dealer Gary Hamner, both of suburban Sacramento, Calif. Each spent $10 million on his dealership to meet Chrysler's image requirements, Pico says.

Now, he says, Chrysler LLC wants one of the dealers to sell to the other under the company's Project Genesis plan, which aims to consolidate Chrysler, Dodge and Jeep franchises under the same roof.

"What is an ex-dealer supposed to do with an empty $10 million facility?" Pico asks. "The answer: Lose his tail."

Public groups MIA

In the late 1990s, public retailers awash in cash from stock offerings fueled a seller's market for dealerships, both domestic and import. Today, public groups largely are shunning Detroit 3 dealerships in favor of import and luxury brands.

As vehicle sales plummet, stock prices for public retailers have suffered. Many of the companies are buying back their stock at bargain prices to increase the value of remaining shares.

"Why should we buy deals when we can buy our own stock?" says Scott Smith, president of Sonic Automotive Inc., the No. 3 U.S. dealership group. Sonic's stock price has ranged from $7.82 to $30.03 a share in the past year. Last week, it traded at about $9.

The No. 4 public retailer, Group 1 Automotive Inc., seeks to sell many of its domestic brand dealerships. Detroit 3 domestic brands represent 43 percent of Group 1's 145 franchises at its 105 U.S. dealerships. But those brands account for just 22 percent of the company's new-vehicle sales, Group 1 says.

Ownership worries

Randy Callison, Group 1's senior vice president, says prospective buyers of Chrysler LLC dealerships worry that the automaker's owner, Cerberus Capital Management LP, could sell the company.

Reports that Chrysler is trimming its product lineup also raise buyer concerns, he says.

"Many potential buyers ask me, 'What do you think the future of Chrysler is?' " Callison says. "Some ask about Ford and GM, but all ask about Chrysler."

The days are over when buyers would snap up underperforming Detroit 3 dealerships and expect to turn them around, says Jim Mullin, national director of Staubach AutoGroup. The Phoenix real estate company, owned by Hall of Fame quarterback Roger Staubach, develops auto malls.

"Last year, if a franchise was not performing well, the bigger-fool theory allowed a buyer to pay top dollar on the dealership's potential," Mullin says. "Today, a bad year will be seen as a trend."