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Lots of Problems

By Steve McLinden

In the early 20th century, the first automobiles to bounce along the unpaved streets of Texas towns were little more than curiosities, sold in small lots next to the buggy shops, feed stores and hardware businesses that populated the byways of the largely rural state.

When the interstate highway system was taking root in the 1960s, the notion of the "mega" car dealership was not even a gleam in a developer's eye. Texans bought new Mustangs and Impalas at modest, single-brand lots on older major arterials like Highway 80, which linked Dallas with Fort Worth.

Flash forward two decades. A multitude of multibrand dealerships crop up like bluebonnets, especially along the edges of towns on the interstates. The "auto-mall" joins the shopping mall to meld into the suburban sprawl that creeps farther and farther out from the city center.

Head down the road another couple of decades to the present, and many of these "dealerships of the future" are perched precariously on the endangered-species list. General Motors plans to slash 2,400 of its 6,000 dealerships by fall of 2010, and Chrysler immediately cut 800 dealers from its 3,200-lot network following its 2009 bankruptcy filing.

One of the biggest challenges in real estate history has emerged: what to do with thousands of acres of vacant or soon-to-be-vacant car lots.

"All of a sudden, there's a glut of car dealership sites available at the same time — an unprecedented number of them," said Eddie Liebman, senior vice president of investment properties for The Weitzman Group, a Texas commercial real estate services firm with offices in Dallas, Houston, Austin and San Antonio. Liebman, whose firm lists numerous former new-car auto properties for sale, believes few of these sites will re-emerge as car dealerships and said most are generating only low-ball offers of between 30 to 50 cents on the dollar, in part because so many are available.

About 5,000 U.S. new-vehicle dealerships nationally must close to adjust to the realities of slower new-car sales, according to consulting firm Grant Thornton, resulting in a 20 percent to 25 percent reduction in the industry's real estate footprint.

That would put about 25,000 acres — more than one billion square feet — on the sale block throughout the country. This estimate is based on an average dealership size of five acres says Brady Schmidt, president of Irvine, Calif.-based National Business Brokers, who has sold about 500 dealership properties nationwide in the past 18 years.

Texas, home to 50 of the terminated Chrysler dealerships, second only to Pennsylvania's 53, stands to be hit hard by the constriction despite its relatively stable economy, said Fort Worth automotive historian and radio talk-show host Ed Wallace.

Wallace, also a columnist for Business Week Online and the *Fort Worth Star-Telegram*, offers a more dire prediction. He believes Texas and other states stand to lose as many as half of their new-car dealers within the next five years based on current car sales projections.

"Before the recession, we were selling 18 million cars a year in this country," he said. "Now we are selling half that."

Possibilities and Obstacles

Historically, wealth-generation opportunities spring from the bottom side of every real estate downturn. Not surprisingly, many of the auto dealers who enjoyed rapid growth in the 1990s bought their edge-city dealership parcels cheaply from the Resolution Trust Corp. and the Federal Deposit Insurance Corp. in the aftermath of the financial crisis of the late 1980s, Liebman noted. But the current crisis, he said, runs wider and deeper and promises to linger longer.

"We have to ask ourselves, what is going to be the next economic driver that is going to pull us out of this?" said Fred Forgey, a professor at the University of Texas at Arlington (UTA) who teaches a real estate repositioning and turnaround strategies program. Manufacturing is an unlikely candidate with ongoing sector shrinkage and increased outsourcing, while high-tech has only limited expansion possibilities, said Forgey.

The large parking lots of most of these properties will be considered assets to churches, public-event centers and the like, but their buildings are all but functionally obsolete for anything but automotive uses, Forgey said.

When grocer Food Lion retreated en masse from Texas markets, The Weitzman Group sold eight of the 33 locations to churches, several more to school districts and one to the City of Garland for a new library. However, former dealership properties have unique challenges, according to Forgey. Most operated body and mechanic shops on site, many before tougher environmental laws were established.

"So you never know what you're going to find there," he said. "Many of these dealerships have never been through any kind of environmental clean-up."

Moreover, drainage and sloping issues may present additional obstacles once concrete and asphalt are removed from some of the low-lying areas where dealerships were often constructed, he added. Additionally, most of the dealerships had to gain special-use permits from city councils to open, so rezoning will be necessary for each new use.

Redevelopment may also trigger adherence to new landscaping and lighting regulations that were not around when the car development was permitted, Forgey said. "Each of these sites can be dramatically different and pose different challenges. There is no uniformity, so it's harder to find a common use for a multiple of them."

June Williamson, co-author of the book, *Retrofitting Suburbia: Urban Design Solutions for Redesigning Suburbs*, said cities have a unique opportunity to reclaim or rezone such properties for community or sustainable uses. Williamson, an architecture professor teaching in the City College of New York system, believes such uses as community-service centers, visitor centers, public-event venues, city halls, county offices, mass-transit stations and park-and-ride locations are all feasible reuses of the dealership properties. But given the realities of most suburban real estate markets, smaller inner-city lots may be better positioned for redevelopment than suburban locales, she said.

Because retail is overbuilt, the most viable economic solution may be to convert some dealerships and some of their older strip-mall neighbors to public uses to help reduce the inventory, Williamson said. "Governing bodies and property owners can make good use of these properties, especially those that prove the hardest to convert to other uses, by using them for gathering places that will bring the community together or that benefit artisans and local businesses," she said. "From a sustainable perspective, it's always better to recycle land that's been degraded rather than develop pristine property."

***THIS FORMER DEALERSHIP** in Hempstead exemplifies the scope of difficulties in finding new uses for vacant car lots. While huge parking lots are ideal for churches and event centers, on-site garages and body shops are small and seldom support other uses. In many cases, environmental cleanups must be conducted before new construction starts.*

The most lucrative redevelopment option, said Williamson, is probably mixed-use development. She points to Downtown Dadeland, a 7.5-acre former Cadillac dealership tract in Kendall, Fla., as an example. The site is now home to a housing complex with 415 apartments and 125,000 square feet of retail and service businesses. It features amenities such as public arcades and pedestrian-friendly walkways, connected to other communities via an elevated metro line.

However, such deals tend to move at a snail's pace, she acknowledged. The Dadeland project took more than ten years of planning and involved dozens of different public and private players and partner agreements before it finally opened in 2007.

Green-energy uses, which might include solar-power stations or even wind farms in the more remote exurb locations are possible redevelopment opportunities for former dealerships as well, albeit a little less likely. "Hey, I can always dream," Williamson joked.

Taxing Challenge

The dozens of Texas counties and cities facing budget shortfalls from reduced sales tax and property tax income stand to be more receptive than ever to any adaptive reuse that might help plug revenue holes, said William Dahlstrom, co-chair of law firm Jackson Walker's Texas land-use group.

"Most cities are pledging to be cooperative for groups who want to redevelop those sites and barring any noxious uses that arise, will be willing to work out issues," he said. "These cities know they will have to become an active part of the solution."

"The good news is that the majority of these dealerships are on the freeway, but the bad news is that you may not have great access to the site," Liebman said. "It is always easier to get off the highway for an Applebee's or a Denny's." But while motorists may not mind exiting onto an access road and circling back under an overpass to reach a car dealership, they might not want to bother with that to get to a restaurant, he said.

While the well-received Cash for Clunkers program gave auto sales a needed boost in July and August of 2009, dealers were forced to dig into their dwindling reserves as they waited for weeks and even months for the government to pay them the $3,500 to $4,500 per-unit subsidy, said Wallace. "That was not the help they needed to boost the bottom line at these flagging dealerships."

Albert Gallegos, spokesman for the National Auto Dealers Association, said well-located dealers who exited the business even a few years ago were able to do so gracefully because the redevelopment potential "was great, particularly in markets where real estate prices were high." But since the decline in commercial real estate values, dealerships have very limited reuse potential, he said.

For commercial developers and investors, that means there's no better time than the present to put a reuse project on the drawing board, he said. "Both cities and developers need to be ready to move when we finally do climb out of this economic downturn."

Not all closed GM and Chrysler lots will go dark. Many dealers will be able to remain by selling other brands and used cars or merging with other operations. The 47-year-old family-owned La Roche Buick Pontiac GMC in Brenham, between Houston and Austin, is losing Pontiac, GMC and Buick sales but will retain Chevrolet products and remain open, owners said.

Stan Graff, who owns the closing El Dorado Chrysler-Jeep in McKinney, has expanded the body shop serving his other brands to help fill the old Chrysler-Jeep space and is attempting to lease the balance of the four-acre site.

Some prime "ground-zero" retail sites are attracting attention from national retailers. One prominent Dallas–Fort Worth area dealer is talking with a major national retailer about his vacant site, asking $12.7 million for a prime freeway-side location that he originally bought for $5.5 million, automotive historian Wallace said. However, even some of the best automotive real estate is dogged by access issues.

UTA's Forgey fears there will be few takers for the majority of the former dealership properties in the short term.

"This is a very scary issue for local governments who are seeing these properties become unproductive on the city tax rolls in this property decline," he said. "You can rezone all you want but if the market demand is not there, it won't matter."

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THE TAKEAWAY

Finding new uses for dozens of closed new-car dealerships is proving difficult. The large parking lots may be an asset to churches, school districts and public event centers, but the properties may require environmental cleanup to be usable. Counties and cities are facing budget shortfalls caused by loss of sales and property taxes collected from the dealerships.

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