

Why electric vehicles won't kill your local servo

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Australia remains a nation of car lovers. Some of us enjoy the engineering and craftsmanship, others have fond memories of lazy Sunday drives and long holiday road trips. In reality, many of us have little choice. Our low population density and poor public transport means most of us are car-dependent.

This is a fact not lost on investors in APN's Convenience Retail REIT. They have invested on the basis that service stations and convenience retail will remain an essential part of our daily lives.

For some, electric vehicles challenge this view. If you own an electric vehicle (EV) that can be recharged at home or work, what role is there for your local servo?

Let's answer that question. The Ford Model T first popularised the use of the internal combustion engine in 1908 and has dominated our urban landscapes ever since. The move to EVs is therefore symbolically powerful, a once-in-a-lifetime change with the potential to redefine our towns, our cities, maybe even our lives. No wonder the media loves writing about it.

The problem is this; many investors now saving for their retirement are unlikely to see any of the changes now being written about in their lifetime. There are three primary reasons why the impact of EVs is decades away.

The first is financial. The Australian Government raises about \$20 billion each year in fuel excise tax. EVs will reduce this figure, perhaps to zero. That lost revenue will need to be replaced, probably from some form of road user charge. As we know from existing road tolls, this is unlikely to be politically popular.

The reticence to adopt an EV policy is therefore understandable. If the financial incentives or tax subsidies that encourage EV use lead to lower revenues from fuel excise, why rush it?

This is a major factor in the switch to EV. The role of incentives was laid bare in Denmark where a phase out of EV incentives in 2015 provoked a dramatic decline in EV sales by 60%, prompting the Government to reinstate the incentive regime in 2017.

Governments have another argument against EV subsidies. According to US and EU data, they cost 20 times the economic benefit that EVs deliver through lower carbon emissions. Investments in improving the fuel efficiency of petrol-powered vehicles may offer better value for money than EV subsidies.

Then there are the practical considerations. EV charging takes time and charging infrastructure is sparse. Australia lacks a comprehensive recharging network and the experience of other countries shows that without appropriate infrastructure, including standardised

recharging plugs and a large network of superfast direct current recharging stations, motorists aren't inclined to make the switch.

Australia's small population and long distances aggravates the problem. Unlike a densely populated, small country like Korea or Holland, the higher cost of our network infrastructure needs to be supported by a small number of people. This makes the economics of EV infrastructure even more demanding in Australia than elsewhere.

Finally, there's cultural proclivities. The average Australian owns a car for about 11 years, one of the longest periods in the world. Many of us won't want to simply write off the value of a car that we could happily drive for another five years, which will likely slow the uptake of EVs.

None of this is to claim the switch to EVs won't happen. There are already pilot programmes throughout Australia and more EVs on the road today than a few years ago, although they still accounted for less than 0.1% of the 1.2 million new passenger vehicles sold last year.

The existing infrastructure built for the petrol-powered car will eventually be repurposed to cater for EVs. But even when this change occurs it may well strengthen rather than weaken the case for convenience retail.

People are time poor and becoming more so. Retail services that offer "extreme convenience" are more in demand than ever. And nothing better fits that bill than your local servo.

Most service stations are located close to homes, businesses and major roads, offering operators the perfect opportunity to connect with retail consumers. The current operators' strategy is to move away from fuel sales and impulsive purchases to convenience retail and services.

Along with Puma Energy and its 7th Street Café concept, Caltex is at the forefront of this change with its "convenience marketplace" concept, The Foodary. Caltex announced that initial results are encouraging. The Foodary's introduction led to a 35% increase in sales and 5% higher fuel volumes. And importantly, almost half of all in-store transactions didn't involve the purchase of fuel at all. That's not surprising given that partnerships with Sumo Salad, Guzman Y Gomez and Boost Juice, plus the recent purchase of boutique sandwich outlet Nashi, encourage food-only visits.

Touch screens at the pumps mean meals can be ordered while customers refuel. And some sites feature parcel collection and laundry services, where customers can have their clothes cleaned, dried and ironed for same-day pick-up. The Foodary concept will soon be rolled out to up to 60 more stores.

BP is following a similar strategy in its pursuit of the Woolworths fuel business. Drawing on BP's successful UK alliance with Marks & Spencer, the aim is to attract retail consumers with a local, convenient "one-stop-shop" offer of food and household items.

It may be decades away but eventually most passenger vehicles on our roads will be electrically powered. Service station operators are already preparing for it, successfully shifting their businesses away from fuel sales and towards convenience retail and services.

This makes sense. Whether cars are petrol or electrically powered has little bearing on our need for convenience. In 20 or 30 years' time we'll still be grabbing a coffee on the school run, picking up milk on our way home, and refuelling our bodies as well as our cars.

Roadside convenience will become an increasingly significant part of the retail landscape as a result. In the UK, petrol sites account for well over half of all convenience sales. Here, the comparable figure is 20%.

The road may be long but the route is clear, making the futurist headlines about EVs a bit of a sideshow. This switch is likely to take longer than people expect. And when it does eventually occur, convenience retail will inevitably be an even greater factor in our daily lives.

That's why we're excited about the future of service stations and convenience retail properties. Of course, any change of this magnitude entails a degree of risk. But there are good reasons to believe investors in APN's Convenience Retail REIT have little to fear from EVs and much to be excited about.

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