

Christie + Co Market Commentary

A light at the end of the tunnel?

By Neil Morgan, Head of Pubs at Christie + Co

It has been pretty dark for the majority of the UK's pub sector over the last 18 months, with the light unfortunately going out completely for a proportion of operators. However, while trading is still challenging there are tentative signs that the sector is starting to show signs of recovery.

Firstly it is encouraging that a number of operators have reported flat or marginally improved like for like sales over the last few weeks, suggesting perhaps that the impact of the smoking ban has worked its way through the system and that, where operators have adjusted their model to suit the changing demands of customers, trade has found a level at which it can be sustained through the recession.

London in particular appears to be performing robustly and we are aware of many operators who, by adapting to changing economic conditions and offering sensibly priced food and drink, are trading well. With interest rates at an all time low and large scale unemployment not yet affecting many parts of the economy, there still appears to be a ready supply of disposable income available to customers.

Despite the uncertainty thrown up by the BEC Report, we have found that the appetite for owning and running a pub is still very healthy. We saw a 20% increase in pub deals during the month after the publication of the report, compared to the month prior to the report's findings. In spite of the report's criticism of the current lease model, over half of the pub deals agreed by Christie + Co during the month (13/5/2009 to 13/6/2009) were for tied-leases. This shows that there is still a demand for tied leases as a low cost point of entry to the sector.

Recently we have started to see a slow down in the reduction in values for freeholds, whilst also witnessing the return of competitive bidding on a number of units either at, around or, in or two cases, above the asking price sought. The bid/ask gap seems to be closing. We are now witnessing a number of cases where the expectations of the seller are being matched by the aspirations of the buyer, which has rarely been the case over the last 12 to 18 months.

The major pubco's have reversed their position from being the most active buyers of pubs to now being sellers, of both bottom-end and, in some cases, better quality assets. As a result of this change in strategy there are a number of buyers, current and former operators and investors, who are seeing opportunities now that pubs are at much reduced prices and, if they have access to cash or reliable funding sources, then they are able to pick up some desirable assets.

There is little doubt that the UK still has too many pubs and that there will be further closures. Whilst this is clearly unfortunate on an individual level we firmly believe that a reduction from the current 56,000 or so pubs is in the long term interests of the sector and that those businesses which survive the current economic difficulties will be more robust and better placed to have a long term future.

From now until the end of this year will be a crucial time for the pub sector but signs suggest it may be a more positive one.