

## Christie + Co Market Analysis

### Demand for quality pubs remains strong despite testing conditions

With the first half of 2010 under our belts it is encouraging to point towards an increasing flow of completed deals, with a growing number also expected to complete over the coming months. Clients who have been viewing businesses are now actually buying them.

The level of interested parties returning to the market after the lows of early 2009 has also been encouraging. Cases of contract races have risen and we seem to be going to best and final bids on many properties, which are good signs that the market is picking up and that we maybe at the bottom of the value curve.

With business property values seemingly having stabilised, it looks like prospective buyers are a bit more confident that they are likely to get value for their money. With the interest rates low and for the time being stable, affordability is also starting to drive demand for quality businesses.

National pub companies such as Punch Taverns, Enterprise Inns and Admiral Taverns continue to seek ways to pay down debt, which has led to a large number of freehold opportunities coming onto the market. These disposals have led to many would-be buyers returning to the market looking to acquire realistically priced freehold businesses, which would not have been available two years previously. Our marketing intelligence told us that the number of potential buyers almost doubled when corporate disposal programmes, such as for Punch Taverns and Admiral Taverns, were launched, with large peaks in website registrations and viewing activity.

Over the last eighteen months, transactional activity in the managed pub sector has been driven, in the majority, by regional brewers, multi-site and local established operators, as the larger pubcos tackled their debt levels and declining sales. However, with the market showing tentative signs of recovery, the erosion of property prices stabilising and new management teams taking shape, a number of the leading managed pub groups, JD Wetherspoon, Mitchells & Butlers and Orchid Pub Company, are returning to the acquisition trail in earnest.

These companies will continue to take advantage of the opportunities thrown up by the misfortune of others and the approximately 4,000 further pub disposals expected to come from the country's three largest pub groups – Punch, Enterprise and Admiral – over the coming 18 months.

Activity in the alternative-use market has also remained stable at the start of the year and we have witnessed a number of pubs being acquired for alternative retail use. Supermarket and convenience store operators have especially come to the fore, filling a gap left by the lack of activity from residential developers.

Although banks are becoming more receptive to lending in the sector, funding remains a key issue and first time buyers are still finding the market difficult to enter unless they have large deposits. We will continue to see further businesses fall into trouble, with London Town being the most high profile so far this year, however banks now seem keener to hold on to assets hoping for a turnaround in performance as the recovery takes hold. Rather than a flood of distressed assets, we expect a steady stream of properties to be brought to the market by the banks over the next six-12 months.

New multi-million pound debt facilities recently secured by Enterprise, JDW and Fuller, Smith and Turner also highlight the confidence the banking system continues to have in the sector and its future viability.

The new coalition government's indication that it intends to ban below-cost selling of alcohol, one of the major issues to have impacted the industry, is a step in the right direction, and one we hope is fully instigated. Its delay in raising VAT for six months and the decision to freeze duty on beer for the time being in recent budget will hopefully allow the industry to build on the tentative signs of recovery it is experiencing

Other positive signs include the growing popularity of cask ale, the rise in brewery numbers, the promise of a long, hot summer, and the continued resilience of the eating out market.

As it has done for generations, the pub industry has adapted and reshaped itself to the challenges it has faced over the last two years. Those operators with a robust business model are in the best position to reap the benefits of a tentative recovery in both trading and deal activity.

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