

Christie + Co Market Analysis:

Pub sector continues to adapt to combat challenging conditions

There are many in the UK's pub industry who will be quite happy to see the back of 2009, as the economic downturn has squeezed margins further causing more closures and business failures. Unfortunately 2010 could prove equally hazardous for some.

The year has not seen the expected tidal wave of receiverships and administrations, and whilst there have been a number of operators such as Premium Bars & Restaurants who have gone under, it is clear that the banks are still nursing serious debt issues with a number of companies and, once the market starts to recover, these may find themselves up for sale.

For buyers however the last 12 months have been a real opportunity to acquire pubs. Regional brewers and multiple-site operators have continued to take the opportunities afforded by the lowest price levels seen for some time and lack of competition, to increase estates and market share, with freehold pubs continuing to attract strong demand. Indeed some entrants are paying as little as £100 per sq ft for a freehold unit. Banks have also started to show signs of being more receptive towards lending in the sector than they have been for the last 12 to 18 months.

Small, good quality operators like Fullers, Geronimo Inns and Peach Pub Co have seized the opportunity to make selective acquisitions and will come out of the recession well placed to continue their growth.

The UK's two largest pub companies, Punch Taverns and Enterprise Inns have continued to explore ways to pay down their debt. Punch has sold a raft of small pub packages to regional brewers and made available the freehold interest of a significant number of sites to its tenants, using the proceeds to buy back millions in bonds.

Enterprise, which has a £1bn bank syndicated facility to refinance within the next 12 months, recently sold a small package of sale and leasebacks at auction, a move that successfully raised over £13 million. The company has said that it may consider selling another 100 sites in this way.

Recent trading updates have shown that those operators, who quickly adapted to the changing environment, are being rewarded with sustainable like-for-like sales, especially over the last few months. Unsurprisingly the better managed operators such as Mitchells & Butlers and JD Wetherspoon have led the way in terms of like-for-like sale growth and should start next year on the front foot acquisitions wise.

Further positive signs include the small but steady rise in house prices and confidence in the housing market (although this is due in a large extent by under supply), which is helping to generate increased activity in the commercial property sector. The growing popularity of cask ale and the rise in brewery numbers is another encouraging trend.

The number of interested buyers has also been on a steady upturn over the last few months, with new and familiar investors coming out of the woodwork to cast their eye over the packages and single assets which have been offered for sale.

However, further challenges to sales margins are waiting round the corner in the New Year, with the likely increase in VAT, interest rates, mortgage repayments and unemployment set to further test licensees. The lead up to a General Election and political posturing over further regulation of the licensed trade is also set to throw up uncertainty for the sector.

Silver linings include a Football World Cup with favourable kick-off times, the continued resilience of the eating out market and the fact that many operators have already taken steps, some already proving successful, to make sure that their business model remains robust. Exactly how robust they are will be tested as we go into the New Year complete with its existing and new challenges, but, as it has done for generations, the pub industry seems ready to adapt and reshape itself with many operators ready to face the challenges head on.

+ The above article first appeared in The Times newspaper on 19th September 2009.

To discuss any of the issues raised in the above article or any of the wider issues affecting the pub sector, please call Neil Morgan, Head of Pubs at Christie + Co on 0207 227 0700, or email him at: neil.morgan@christie.com.