



Christie + Co

BUSINESS INTELLIGENCE

Christie + Co: Market Insight

Room to grow

2009 could be the perfect time for pub operators to improve their market share of the lodging sector

As the credit crunch has taken hold of the UK's pub sector over the last 12 months, pub companies have been looking for ways of diversifying their offer to combat the affects of the economic downturn. While the majority have ramped up their food offers in the face of the smoking ban, others are committing expenditure on increasing their number of letting rooms.

With the UK set to see an increase in domestic holidaymakers and with business travellers set to trade down in the face of the economic slowdown, the next 12 months could provide the pub sector with the perfect opportunity to grow its market share of the lodging market and offset predicted further falls in drinks sales.

There are opportunities for enhanced earnings both from direct accommodation revenue and from the additional food & beverage sales which will be generated from guests.

Rather than accepting a traditional variance in quality, operators are now striving for a consistency in the quality of their accommodation, with many looking to provide an offer that is as close to "the next best thing to home" as possible.

The advent of the internet and mobile phone technology has also created new and diverse marketing opportunities and savvy pub owners are using these means to reach new and existing customers in order to promote all aspects of their businesses including letting rooms.



Whether it is driven by national operators, regional brewers, or entrepreneurial individuals, the sector is set to see an influx of room supply over the next few years, with consumers likely to benefit from an improvement in choice and quality.

Increasing room supply

Over the last 12 months a number of pub companies have announced that they are set to increase their capital expenditure on accommodation.

- + Punch Taverns, the UK's largest pub group, plans to expand its estate of Good Night Inns, its budget lodging business within its Spirit Group managed division. The company currently has 1,100 rooms, with c.125 Spirit pubs offering some form of accommodation. The group announced last year that it believed there was scope to add another 1,000 rooms to its estate.

- + Young's announced in April 2008 the launch of a £30 million hotel investment programme, which is planned to double the number of rooms it operates, with a further 470 rooms expected to be added over the next three to five years.

- + Fuller Smith & Turner announced last November that it planned to add an extra 140 rooms to its pub estate over the next three years. The company currently has around 500 rooms across its London and South East-based estate.

- + Daniel Thwaites opened its first budget hotel site through its hotels division Shire Hotels in March last year - the 36-room Lodge on the Park at the Aztec West Business Park just outside Bristol. The company, which also operates a range of traditional four-star full service hotels, plans to rollout the brand across the UK.

- + Merchant Inns currently operates seven pubs with rooms. At the end of 2007 the company, which is led by Robert Breare, announced it had joined forces with former British Land chief executive Sir John Riblat with the intention of investing £200 million in opening between 40 to 50 pubs with rooms in a category it describes as "luxury budget".

Checking inn

- + Bulldog Pub Company, the Lincolnshire-based pub operator, announced its first move into the hotels market in August with the acquisition of the 19-room White Hart Royal in the Cotswolds. The company, which also operates three coaching inns, plans to build an estate of up to 20 inns.



+ Urban Inns, a new company launch in June 2008 by entrepreneurs David Catling and Don MacIntyre, plans to “recreate the traditional inn experience with a modern twist”.

Although a small player in the accommodation market, JD Wetherspoon has admitted that the credit crunch has allowed it to acquire a number of hotels in market towns that have come under pressure due to the success of Travelodge and Premier Inn. The company currently has around 13 “Wetherlodges” in its estate.

Time to grow?

While many operators announced plans to increase accommodation at the end of 2007 beginning of 2008, the full impact of the credit crunch, which has since buffeted the sector, has forced some to reassess their capital expenditure plans.

Marston’s announced in May 2008 that it planned to spend more than £50 million on a major expansion of its accommodations. At the time the company was also investing £6 million on upgrading its existing 800 rooms.

It has since announced that it will curtail its expansion plans in order to concentrate on reducing its debt. However, the refurbishment of 80% of its room stock last year means the company is still in a good position to take advantage of any increase in demand for rooms over the next 12 months.

Room for everyone?

While pub groups highlight the fact that their accommodation offers character over the “soulless national chains”, the tightening of belts due to the squeeze on the economy and the price promotions announced by the major budget operators, will see competition for guests intensify across the premium budget and budget sectors.

The two main protagonists in the UK budget sector, Whitbread’s Premier Inn and Travelodge have both announced ambitious expansion plans. Premier Inn said it plans to grow the size of its budget hotel estate by 50% to 55,000 rooms over the next five years, while Travelodge plans to operate 70,000 rooms by 2020. Both companies are also set to be aggressive when it comes to price, with a number of promotions already announced.

Emerging brands in the sector, such as EasyHotel, Sleeperz, the Big Sleep, are also set to take up market share over the next few years.



Conclusion

Those operators that have taken the decision to invest in adding letting rooms or improving their existing offer should be in the best position to take advantage of the increase in domestic holidays, which is expected over the next 12 months.

The improvement in quality pub food, accelerated by the introduction of the smoking ban, is also having a positive impact on the desirability of opening letting rooms.

Operators offering high-quality food with competitively-priced accommodation can attract customers who are looking for something with character, rather than what may be perceived as soulless national-chain offerings.

The addition of letting rooms can also add extra depth to the business and generate significant profit for limited outlay, which is also likely to be reflected in the sale price achieved when the property changes hands.

Ends

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