Fleurets

Leisure Property Specialists

# SURVEY OF PUB PRICES 2020

# Introduction

As we entered the fourth quarter of 2019 and looked forward to the start of 2020, the economic focus on whether the UK would agree a Brexit deal was driving yet more uncertainty. The Supreme Court had just declared it unlawful for Boris Johnson to advise the Queen to prorogue Parliament and there were strong calls for the Prime Minister to consider his position. We were, of course, right to be concerned about our future relationship with Europe and it was understandable to feel "Brexit-weary" after several years of posturing and debating, but we had no idea of the devastating events that were to follow.

This survey considers data and analysis from public house transactions by Fleurets for the period from 1 October 2019 to 30 Sept 2020 and provides commentary on the rapidly changing landscape up to the start of December 2020, when the new, stronger 3 tier system was introduced.

We have considered the very different market conditions across two periods: pre and post Covid-2019, each of roughly six months duration.

**Overview Pre-Covid 19 – 6 months to March 2020**

| | |
|---|---|
| Avg Freehold – Trading | Price +8.3% at £868,683 |
| Avg Freehold – Non Trading | Price -10.8% at £306,299 |
| Avg Leasehold | Price +10.2% at £56,797 |

Despite uncertainty over Brexit negotiations and the prospect of a vote of no confidence in the Prime Minister, transaction volumes remained strong. Q4 2019 witnessed the completion of several significant M&A transactions including the acquisition of Greene King plc and Bravo Inns, as well as portfolio disposals by Star Pubs & Bars and Marstons, amongst others. Over 3,000 assets attracting combined values approaching £5bn transacted in Q4 2019 alone.

Investor appetite demonstrated by this volume of activity is evidence of the confidence in the resilience and sustainability of the asset backed trading prospects in the pub sector to provide a hedge against Brexit uncertainty.

Strong activity in individual asset transactions also continued across the sector. Freehold – Non Trading sales volumes increased in Q4 2019 and Q1 2020, although average prices dipped as activity transitioned from the higher value southern regions to the north. Conversely, Freehold – Trading transaction volumes declined, although as activity was focussed in the south the average price increased.

The leasehold market strengthened, with average prices increasing +10.2% despite a slight decline in Fair Maintainable Trade (FMT) -1.7%, with transaction volumes being maintained.

Overall confidence in the sector remained strong, activity held up and values were maintained in the face of economic and political uncertainty.

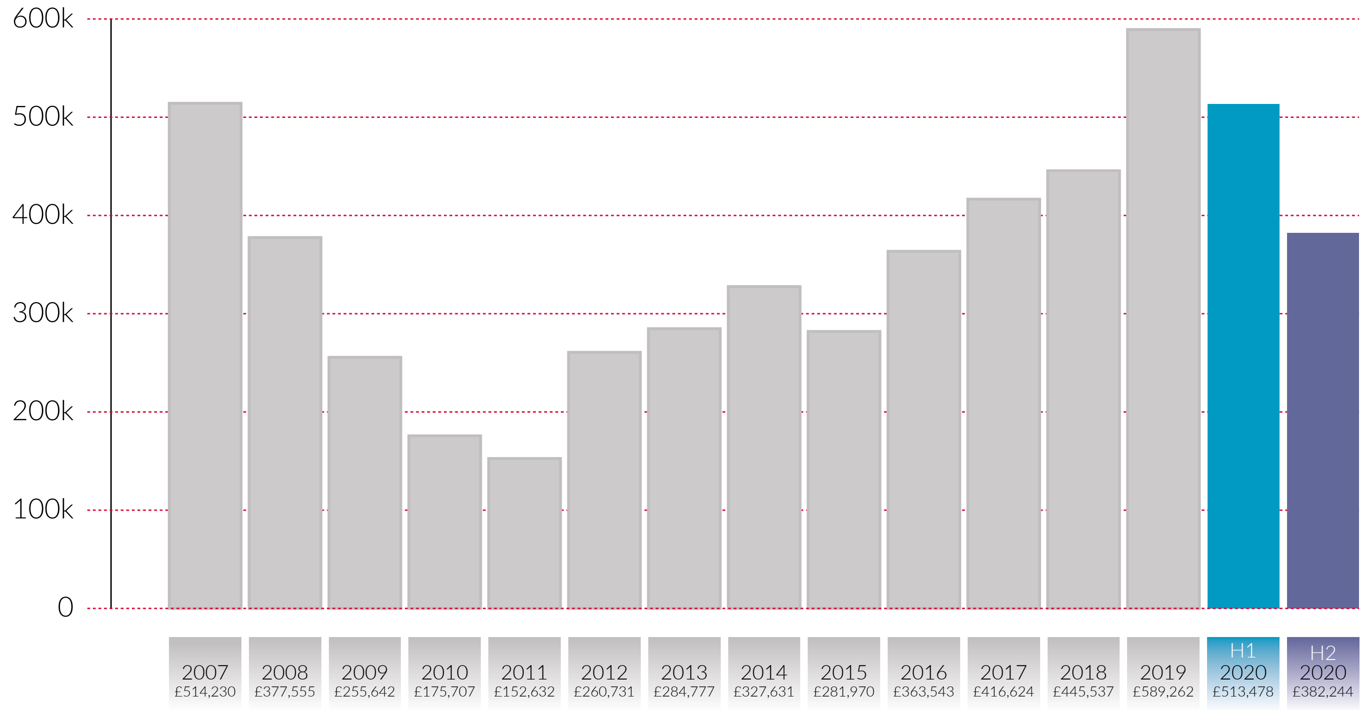
**Overview Post-Covid 19 - Q2 and Q3 2020**

| | |
|---|---|
| Avg Freehold – Trading | Price -34.7% at £567,500 |
| Avg Freehold – Non Trading | Price -1.4% at £301,967 |
| Avg Leasehold | Price -46% at £30,769 |

The significant change in average sale price of -34.7% is misleading if taken at face value, as it is distorted by a significant reduction in the like for like quality of assets sold compared with the prior year alongside a higher proportion of transactions being in the north. At a more granular level, reflecting the shift in geography and asset quality, the level of change would be much reduced.



## Average price of all freehold pub sales




Note: All statistics have been taken from detailed analysis of transactions completed by Fleurets, where first hand information is available. They do not purport to reflect all market transactions.

The closure of pubs, cafes and restaurants announced on the 20th March and the national lockdown imposed on 26th March took many by surprise. In hindsight, the rapid spread of the pandemic was evident, but there was little warning of the imminent total closure of the sector or the impact on the hospitality industry which followed.

Despite the potentially devastating impact of forced closure on trading operations' profitability and potential value, the majority of transactions with terms agreed prior to 20th March proceeded to completion. In many cases agreed prices were unchanged, however, terms were adjusted in some transactions, particularly where existing trading performance was the foundation to value. In these cases, arbitrary adjustments were made reflective of the individual circumstances, with both parties seeking agreement.

In the early stages of lockdown, deals continued, although activity was not uniform across the sector. Transactions were dominated by sales for alternative uses, where the trading income was not a key determinant to value. The continued strength of the residential market and the weakness of almost every other sector drove demand for assets suitable for residential development and conversion, with competitive bidding and contract races in some situations pushing up pricing.

Equally, demand for prime assets continued with prices seemingly unaffected as well funded purchasers focussed on the long term benefits of securing high quality opportunities, although volumes were subdued as vendors were concerned about the potential for selling at undervalue.

The mid-market was the most affected by the pandemic. It comprises of successful freehold and leasehold assets, albeit not considered sufficiently profitable to attract larger managed operations. Prices in this market, where purchasers are typically reliant on third party funding support, are very closely aligned to actual trading performance. As a result, the closure of businesses and the impact on trading levels resulted in deal volumes falling dramatically. Purchaser concerns about short term trading prospects and reduced profitability for an unknown period, were reflected with lower bids. As vendors were supported by government grants, the Job Retention Scheme (JRS), business rate relief, deferral of VAT payments and access to CBIL loans, they were under no imminent pressure to accept the reduced prices being offered. Understandably transactions in this section of the market were, therefore, limited.

The summer of 2020 witnessed a spike in asset level trading performance bolstered by the Eat Out to Help Out (EOTHO) scheme. Operators capitalised on the windfall trade as consumers took advantage. Some positivity started to return to the market, however transactional activity remained subdued. The supply of Pubco disposals slowed as rental support was extended to their tenants, which alongside government support meant failure rates were significantly reduced. The mid-market remained subdued as purchasers sought greater certainty over the trading outlook beyond one EOTHO subsidised windfall month. Debate about the pace of recovery and the prospect of "the new normal" grew as the potential for permanent changes to consumer habits became more visible.

Increased positivity was short-lived and ended with the announcement of a three tier system on 12th October, swiftly followed on 31st October by the announcement of lockdown 2.0 and on 23rd November with the announcement of the new tougher three tier system. The mood was not lifted until 2nd December with the approval of the Pfizer vaccine.




## Portfolio Transactions – Timeline
## Table of deals split pre and post Covid

| | Date | Description |
|---|---|---|
| Post-Covid | December 2020 | LADHAR GROUP buys SIR JOHN FITZGERALD ESTATE. The long established north east based managed house company with 15 freehold and 1 leasehold operation has reportedly been sold for a price in the region of £20m. |
| | November 2020 | WADWORTH sold 21 freehold Managed Houses to LIBERATION GROUP. The deal includes 140 letting bedrooms, adding to Butcombe Breweries existing 39-pub portfolio |
| | October 2020 | EAST COAST CONCEPTS acquired out of administration by THE CAIRN GROUP. The 5-strong Manchester based business operates the High Street; Victors and Neighbourhood concepts and was sold for £520,000. The business turned over £13.7m in 2019. |
| | June 2020 | THE TIMPSON family bought 16 HOSPITALITY out of administration. The 4 pubs were in Cheshire and Angelsey and included 2 freeholds and 2 leasehold units. |
| | June 2020 | MARKET TAVERNS acquired 4 sites from FOOD & FUEL out of administration. The London-based pub company with 7 sites, acquired 4 sites from the former Food & Fuel estate. |
| Pre-Covid | January 2020 | HEARTSTONE INNS sold 7 pubs to PUNCH TAVERNS. The 7 sites are located in the south west of England and were sold for an undisclosed sum. |
| | January 2020 | HAWTHORN LEISURE acquired 29 pubs from MARSTONS. The deal involved mainly tenanted freehold pubs for an undisclosed sum. |
| | December 2019 | ROBINSONS acquire INDIVIDUAL INNS. The deal included 7 freehold sites providing 58 letting bedrooms in Yorkshire Dales and Lake District locations. |
| | December 2019 | HAWTHORN LEISURE buys BRAVO INNS. Bravo Inns has been sold to Hawthorn Leisure for £17.9 million, representing a 6.8x multiple of Ebitda. The estate comprised 44 freehold pubs trading under the operator managed model. |
| | November 2019 | ADMIRAL TAVERNS acquired 137 pubs from MARSTONS. The nationwide portfolio included a majority of freehold pubs operated on the tenanted, leased and retail-agreement models. The price paid is reported to have been £44.9m. The sites generated an Ebitda of £4.8m in 2019 and had a Book Value of £62.6m. |
| | November 2019 | CAMERONS BREWERY acquires BAR SOBA. Camerons bought the cocktail and pan-Asian street food concept which included 4 sites in Scotland and 1 in Leeds, all leasehold for an undisclosed sum. |
| | October 2019 | CK BIDCO completed the acquisition of GREENE KING. The Hong Kong-based company has paid £2.7bn for the Company whch owns 2730 mainly freehopld pubs.<br>The business is split 81% Pub Company, 9% Pub Partners and 10% Brewing (by T/o).<br>The transaction included the £1.9b debt. |
| | October 2019 | FULLER'S purchase COTSWOLD INNS & HOTELS. Fuller's paid £40m to buy 7 freehold country inns and hotels, 8 freehold staff cottages in the Cotswolds and 2 leasehold bars in Birmingham city centre. |
| | October 2019 | ADMIRAL TAVERNS purchased 150 pubs from STAR PUBS & BARS. The portfolio includes 150 freehold community pubs located across the UK operated under the tenanted model. Sale price not disclosed. |

Q4 2019 witnessed the completion of several significant M&A transactions involving over 3,000 properties attracting combined values approaching £5bn, as the asset backed positive cash-flow of the pub sector was considered to be a good hedge against Brexit uncertainty.

Activity understandably stopped during lockdown starting again with limited Administration deals in the autumn and with two significant market deals as we approached the year end.

# Prospects for 2021

As 2020 draws to a close, market sentiment is rapidly changing and unpredictable. Government announcements during Q4 have been almost weekly, swinging the pendulum one way or the other. There is no doubt operators face a very difficult winter period and there are more questions than answers: - What will happen with the Tier system? How long will social distancing measures be in place? How long will it take to roll out the vaccine? Will the vaccine prevent the spread of the virus? What level of vaccination of the population will enable government to remove restrictions for the hospitality sector? Will a new strain of virus emerge? We don't know when restrictions on trade will be lifted and this will continue to impact sales activity and sale prices until the outlook is more visible. As one operator put it, "I can see light at the end of the tunnel, I just can't quite tell how far away it is."

Government support is critical in determining what happens to our sector in 2021. Without financial support, many operators will be unable to meet their overheads while social distancing measures are in place. In Tier 1 continued government support may enable many businesses to begin to repair the damage of the last 9 months (and counting) however, without substantive support until all social distancing is removed there will be the inevitable consequence of previously unseen levels of distress and business failures. At present, many operators are hanging on, using their last reserves, relying on government support, deferring payments and building up a mountain of debt in the hope that they can survive long enough to experience a return to trade once again.

The challenges will not disappear with the end of UK social distancing. Businesses dependant on international tourism will continue to be affected as many countries are likely to take longer to widely administer the vaccine to allow free international movement. Higher infection rates elsewhere will mean continued bans on travel and quarantine requirements.

Once restrictions are lifted, we will start to experience any longer term impact of the pandemic on the sector. Trading performance will reflect new and changing customer behaviours, the most obvious being the expected permanent increase in home working. Pubs and bars in the biggest cities with the longest commute and higher reliance on public transport are likely to witness the greatest evolution. Whether fewer people in the office will translate into reduced customer visits at lunch or after work and the effect this might have on average spend per head, remains to be seen.

It is anticipated that consumers will visit local and out of town operations more, benefiting community pubs and destination venues. High street bars catering for shoppers and office workers that might face greater pressure on disposable income are likely to be most affected, with many needing collaborative support from funders and landlords, at least in the near term. With the prospect of reduced competition some will prosper, particularly those catering for the younger market that is less at risk to the virus and with lower exposure to financial commitments.

An increase in the volume of disposal opportunities entering the market is seemingly inevitable, as measures to protect employment and prevent business failure cannot extend to all indefinitely. This will create acquisition opportunities for well-funded expanding operators. We are already witnessing a shift in landlord attitude, their focus swinging from big brand and covenant strength to concept innovation, entrepreneurism and greater commitment of independent and smaller multiple operators. As a result, we expect to see a rise in the number of new small multi-site operators. Lease terms will become more flexible reflecting a closer relationship between landlord and tenant, most likely with both parties sharing in operational risk through turnover or profit linked rents.

Staycations have been the headline of this year's summer, with businesses in coastal and countryside tourist locations, particularly those with letting rooms, having been able to capitalise on the influx of domestic visitors. With ongoing restrictions on overseas travel, pressure on disposable income and the prospect of much higher international holiday prices, this is likely to continue for the year ahead.

2021 will be a difficult year and trading conditions will be tough, particularly in Q1 leading into Q2, however we are hopeful that the vaccination programme, a reduction or removal of trading restrictions alongside appropriate extended government support will lead to the gradual recovery of the sector, which has proven over the decades to be innovative, adaptable and resilient. There will be casualties but with adversity comes opportunity.

## The Three Pub Categories

- **Freehold – Non Trading** - These are properties generally sold without accounts, sometimes closed or vandalised or, if operational, under temporary tenancy/ management arrangement. These are primarily pub company sales but also include administration sales and occasional private sales. Invariably they reflect some form of forced sale situation.

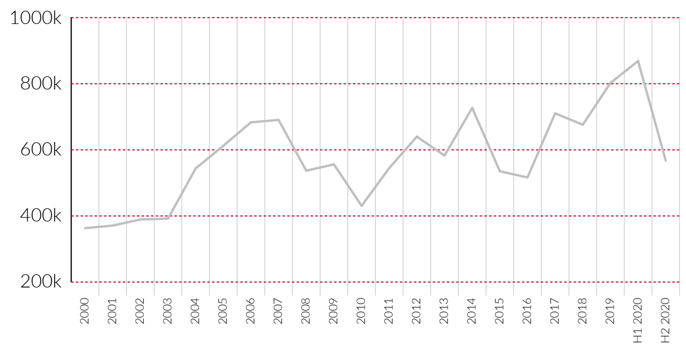
- **Freehold – Trading** - These are generally better quality pubs sold with the benefit of accounts with an unrestricted marketing period. They are operational and typically viable businesses, usually sold by private individuals, but also by managed house operators and not in a distressed situation.

- **Leaseholds** - This group covers a wide spectrum of properties including high street bars, community locals and destination food houses. The transactions include free of tie and tied deals, on assignment, letting and underletting. Some deals reflect a negative value due to reverse premiums being paid or sub lettings at a lower rent than the passing rent.

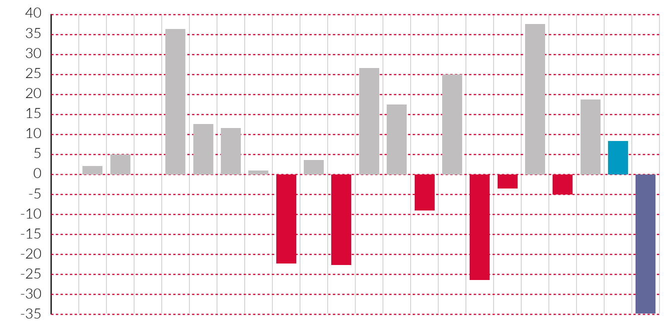
## Freehold – Trading Sales

| Pre-Covid | Post Covid |
|---|---|
| Avg sale price £868,683 up +8.3% | Avg sale price £567,500 down -35% |
| Avg FMT up 5% to £543,000 | Avg FMT down -25% to £408,000 |
| FMT Multiple up 3% to 1.6 | FMT Multiple 1.39 down -13% |

Average Sale Price - Freehold – Trading




% Movement in Sales Prices




**Pre-Covid**
Market conditions remained strong leading to a positive +8.3% shift in average price, reflecting the improved quality of assets transacted, represented by a 5% increase in the Avg FMT, and the greater bias of activity in the south 64% (43%). In the north FMT was up +8% and in the south -11%.

The FMT Multiple (an indicative measure of value) was up at 1.6 (1.55) suggesting that the same quality of asset sold for 3% more than in the previous year. North 1.28 (1.27) and south 1.78 (1.82).

Caution in relation to Brexit led to a slowing of transaction volumes, which reduced by 33%, with volumes in the north down 58% whereas volumes in the south remained steady.

**Post-Covid**
The most significant change was transaction volumes, which were down -54% on the previous 6 months. Whilst numbers were already reduced prior to the pandemic by -33% due largely to uncertainty over Brexit, activity further reduced as uncertainty led to stagnation in the aftermath of the C-19 lockdown.

At face value the -34.7% change in average sale price is misleading, as it is distorted by a reduction in the like for like quality of assets sold (demonstrated by the -25% reduction in average FMT) compared with the prior year, and a higher proportion of transactions being in the north. On a like for like comparison the change in value would be lower.

The geographical spread and reduced asset quality was compounded by a -13% reduction in the FMT multiple.


↑ Revolution, Lincoln



↓ Barley Mow, Leeds

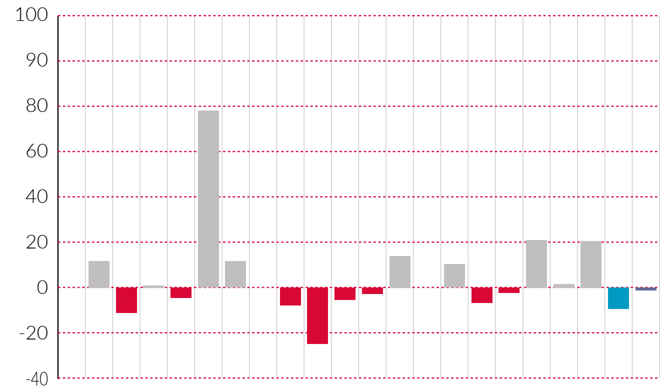
↓ Old Spotted Cow, Wiltshire

## Freehold – Non Trading Sales

| Pre-Covid | Post Covid |
|---|---|
| Avg sale price £306,299 down -10.8% | Avg sale price £301,967 down -1.4% |
| Avg FMT -8.7% at £256,000 | Avg FMT -2.3% at £251,000 |
| FMT Multiple stable at 1.20 (1.22) | FMT Multiple 1.20 (1.20) |

Average Sale Price - Freehold – Non Trading


% Movement in Sales Prices




**Pre-Covid**
The Freehold – Non Trading pub market in the 6 months to March 2020 continued as 2019 had finished and followed the general trend since the low point of the market in 2011. The average price declined -10.8%, largely as a result of a reduction in the quality of assets (FMT was -8.7%) and a higher proportion of sales in the north, as opposed to a reduction in value (the FMT Multiple was down only -1.5%).

The volume of sales increased 20.9% (+67.4% north and -25.6% south) which was a step against the trend of gradually reducing supply, especially considering the portfolio sales in the previous 6 months.

In the north the avg sale price was £255,775 (-3.2%) despite a small increase in the quality represented by the avg FMT increasing +1.4%. The volume of sales rose sharply by 58% and the FMT Multiple reduced -4.3% to 1.10.

In the south the avg price rose to £429,000, +1.6%, alongside which the supply of Freehold – Non Trading disposals reduced -26%. Asset quality also reduced as avg FMT fell -5.7%, albeit the avg FMT Multiple rose +7% to 1.37 indicating an increase in value.

Despite a reduction in the quality of assets sold, prices were maintained by increased demand for alternative uses, with 50% intended for non-pub use.

**Post-Covid**
Few transactions fell through as a result of lockdown, with prices reflecting property value for either pub use or an alternative use, rather than trading performance.

The average price fell only -1.4% despite a significant (-49%) reduction in the number of properties sold in the south and a reduction of -2.3% in average FMT. The overall FMT Multiple remained firm at 1.20. These elements suggest an underlying increase in the value of lower quality assets, often driven by alternative use potential.

In the north transaction volumes were maintained and there was no change in average sale price, at c. £256,000, although more were sold for alternative use 71% (56%). The FMT Multiple increased +1.8% to 1.12.

Transaction volumes in the south fell sharply by -49% and the average price declined -11%. This was largely a result of a reduction in the avg FMT -7.5% and, unlike the north, no significant increase in the proportion of sales for alternative use 45% (41%). The FMT Multiple fell -3.6% to 1.32.

## Leasehold Sales

| Pre-Covid | Post Covid |
|---|---|
| Avg sale price £56,797 up +10.2% | Avg sale price £30,769 -46% |
| Avg FMT -1.7% at £432,000 | Avg FMT -25% to £323,000 |
| FMT Multiple 0.13 (0.12) | FMT Multiple 0.10 (0.13) -23% |

Average Sale Price - Leasehold


**Pre-Covid**
The 6 months to March 2020 saw a continued strengthening of the market. The average price increased by +10.2% to £56,797. The average FMT was reasonably consistent with just a -1.7% decline and the market sentiment warmed slightly reflected by an increase in the FMT Multiple increasing to 0.13 (0.12).

In the north the average price increased 28% to £38,462, with FMT up +1.6%. The price movement was a combination of increased quality and a stronger FMT Multiple increasing to 0.10 (0.09)

In the south the average price increased 10% to £69,342 despite a slight dip in the FMT of -1.5%. The change was driven by an increase in the FMT Multiple which rose 13% to 0.15.

With FMT, transaction volume and regional activity stable, the increased average price reflects an increase in value and not an improvement in trade potential or quality of business being transacted.

**Post Covid**
Following the lockdown, the leasehold sales market was badly affected. Transaction volume declined -59% and the average sale price fell -46% to £30,769. Leasehold assignments were very limited and the sale price often represented little more than a payment for the fixtures & fittings.

The FMT declined -25% indicating a reduction in the quality of operation being transacted. The FMT Multiple reduced -23% to 0.10 reflecting a drop in value, with a larger reduction in the north than the south.

Average prices in the south (-51%) fell more than the north (-38%) primarily as a result of a lager reduction in the FMT, -32% in the south and -12% in the north. The large drop in FMT indicates a combination of factors including:- more closed units, lower trading expectations and lower quality units.

With the proportion of new lettings over assignments increasing to 69% (59%), the importance of having the ability to agree new terms with incentives to offset the short term risk and uncertainty became apparent.

Compared to 2019 the volume of activity post-Covid was down -82% representing the stagnation of a large part of the leasehold market. A higher proportion of leasehold units are wet led and in town and city centres and these areas have been most adversely affected by the pandemic.


↑ Talbot Inn, Worcestershire



## Alternative Uses

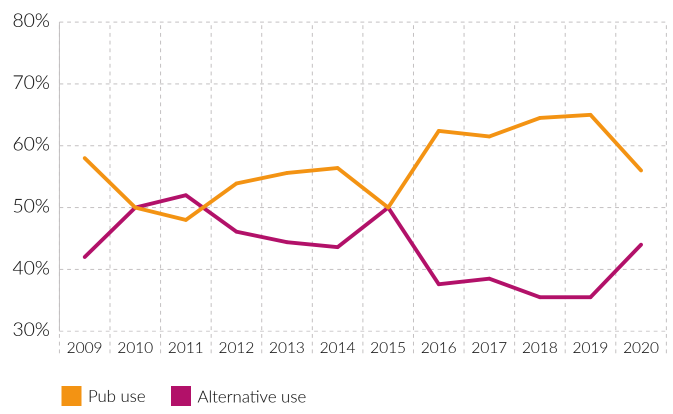
| Pre-Covid | Post-Covid |
|---|---|
| 60% of freehold pubs sold for pub use | 48% of freehold pubs sold for pub use |
| 57% north, 66% south | 40% north, 64% south |
| Freehold – Non Trading lower with pub use 49% | Freehold – Non Trading lower with pub use 38% |
| Avg Price 63% higher for pub use | Avg Price 94% higher for pub use |

The percentage of pubs sold for alternative use in the 6 months before and after lockdown increased from 40% to 52%, both represented an increase on the conversion rate of just 35% in the previous 12 months. The differential was most noticeable for Freehold – Non Trading sales in the north, which increased from 56% to 71%.

The average price of pubs selling for existing use continued to exceed the average price for alternative use by 63% pre-Covid and by 94% post-Covid, up from 60% last year. It is primarily unviable low value pubs that are selling for alternative use at generally much lower values.

Residential conversion continued to be the most common alternative use, accounting for 64% (73%) of sales for non-pub use. There was very little change in the end uses between H1 and H2 as demand for residential conversion/development sites remained high. Other end uses included: Restaurants 7%, Community facilities 5%, Offices 5%, Children's Nursery 5%, Convenience Store, Offices, Retail and coffee shop.

## Pub Use v Alternative Use





↑ Bulls Head, Ravensthorpe

## End Use of Pubs Sold for Non-Pub Use

| % | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Residential** | 50 | 47 | 54 | 59 | 60 | 56 | 50 | 64 | 66 | 73 | 64 |
| **Restaurant** | 13 | 10 | 14 | 5 | 4 | 7 | 18 | 6 | 2 | 10 | 7 |
| **Offices** | 10 | 7 | 4 | 5 | 3 | 7 | 4 | 1 | 3 | 0 | 5 |
| **Nursery** | 0 | 0 | 0 | 1 | 1 | 2 | 4 | 1 | 3 | 0 | 5 |
| **Community Use** | 0 | 1 | 0 | 2 | 0 | 0 | 1 | 1 | 2 | 2 | 5 |
| **Retail** | 14 | 26 | 14 | 18 | 14 | 12 | 5 | 8 | 10 | 7 | 4 |
| **CV Stores** | 2 | 7 | 4 | 4 | 11 | 3 | 3 | 6 | 5 | 5 | 4 |
| **Coffee shop** | 0 | 0 | 3 | 2 | 1 | 3 | 1 | 0 | 2 | 2 | 2 |
| **Hotel/B&B** | 2 | 1 | 1 | 2 | 3 | 0 | 0 | 4 | 2 | 0 | 2 |
| **Other** | 9 | 1 | 6 | 2 | 4 | 7 | 14 | 9 | 5 | 1 | 2 |

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