

Survey of Pub Prices

2019



Simon Hall Director - Agency

The licensed property market is as diverse as it is dynamic, resilient as it is creative and it is always capable of springing a surprise or two. Just as the world was groaning under the uncertainty of the economic future, merger and acquisition activity leapt into overdrive.

Despite the concerns over the Pub Code, fears of a staffing shortage, minimum wage rises and increasing purchase and operational costs; a staggering £8.15bn is estimated to have been invested in 18 key pub transactions in 2019. If you

include leisure property investments and brewery transactions the total would be over £10bn.

The pub market is not struggling. The significant benefits of asset backed cash flow have attracted new overseas investors, established investment funds and existing trade buyers. They have all drawn the conclusion that the pub market offers sound investment fundamentals. We may face a few head winds, but the pub market, in all its exciting forms, has a great future; £8bn says it has!

Market Overview

- ▶ Average freehold sale price £589,262
- ▶ Freehouse volume increases +11% as prices rise +19%
- ▶ Bottom End sales volume decrease -17%, with prices +24%
- ▶ 65% of freehold pubs sold stay as pubs
- ▶ Significant increase in M&A activity.

*FMT - Fair Maintainable Trade

Pub Market Commentary

Merger & Acquisition activity

2019 pub transaction volumes were dominated by a handful of significant merger and acquisition deals, with 6 deals accounting for c.7,400 sales. The next 12 largest deals involved a relatively modest 100 pubs. Most of the activity took place in the second half of the year. By comparison under 600 pubs sold in 14 deals across the entirety of 2018.

Brexit has been one of the reasons for the increased activity. The largest deal of the year (£4.6bn enterprise value of Greene King) involved overseas investment attracted by the significant movement in exchange rates following a period of political uncertainty, but driven by the opportunity to acquire a large asset backed, cash generating, UK centric business as a hedge against the economic uncertainty.

Ei Group led the way with the sale of their commercial property estate to Tavern Propco. A very significant deal at the time but it was dwarfed by subsequent deals.

Stonegate has been the most active purchaser, with three separate deals in the first half of the year including: Fever Bars (32), six large units from Novus and the surprise deal of the year, the purchase of the Ei Group for £2.97bn, including their c.4000 pub estate.

In Q4 Admiral Taverns demonstrated their commitment to the tenanted pub model by securing both of the tenanted packages offered by Marston's and Star Pubs & Bars, totalling 287 pubs.

The festive period did little to dampen activity as we saw New River Retail take a significant step into the managed/franchised sector with the purchase of Bravo Inns and its 44 operations. Potting Shed was purchased by a group led by John Leslie and Robinsons Brewery raised their managed house profile with the acquisition of Individual Inns.

Outlook

There are no signs that M&A activity will stop in 2020. We expect further rationalisation and consolidation of the managed pub market. Package disposals from the national branded operators will provide the next round of opportunities.

Packages of tenanted pubs are expected from Stonegate and Greene King in the second half of the year as both complete estate reviews and implement business plans.

Overseas investment into well-operated and established companies still looks attractive and takeover deals for listed companies should not be discounted. Operators will focus on structured growth as the sub markets consolidate.



Key Package Transactions October 2018 to December 2019

Date	Description
December 2019	ROBINSONS BREWERY acquires INDIVIDUAL INNS for undisclosed sum comprising 6 freehold country pubs with rooms in Cumbria and Yorkshire
December 2019	POTTING SHED sold to a John Leslie led group - 7 FH and 1 LH high street bars in Yorkshire
December 2019	NEW RIVER RETAIL buys 44 wet led community pubs from BRAVO INNS for £17.9 million, representing an Ebitda multiple of 6.8.
November 2019	ADMIRAL TAVERNS completed the acquisition of 137 tenanted and retail-agreement pubs from MARSTONS for £44.9m reflecting a multiplier of 9.35 times EBITDA.
November 2019	CAMERONS BREWERY acquired 5 strong cocktail and pan-Asian street food concept BAR SOBA for an undisclosed sum.
October 2019	Hong Kong-based CKA GROUP completed the acquisition of GREENE KING valuing the pub group at £4.6bn reflecting a multiple of 9.54 times Greene King's Ebitda of £482m.
October 2019	FULLERS acquires COTSWOLD INNS & HOTELS for £40m including 7 freehold country inns/hotels, 8 cottages in the Cotswolds and two leasehold bars in Birmingham city centre. Revenue was £17.5m and Ebitda of £3.4m indicating a multiple of 11.8.
October 2019	ADMIRAL TAVERNS completes acquisition of 150 pubs from STAR Pubs & Bars for a figure reported to be £50m
August 2019	RED OAK TAVERNS completed the acquisition of 18 leased and tenanted pubs from WADSWORTH BREWERY for an undisclosed sum.
July 2019	STONEGATE PUB COMPANY agreed terms to purchase EI GROUP (subject to CMA approval) in a deal worth £2.97bn for the c.4000 strong group reflecting a multiple of about 11.4 times the underlying Ebitda of £261m. The deal is expected to complete in the first quarter of 2020.
July 2019	NOVUS sells three BALLS BROTHERS sites to MOSAIC PUB & DINING
June 2019	TOKYO INDUSTRIES acquired RED'S TRUE BARBECUE from administration involving eight sites across the UK.
June 2019	SHOREDITCH BAR GROUP buys 5 NOVUS late-night OPERATIONS
April 2019	OAKMAN INNS completes acquisition of 7 freehold pubs they operated for Downing, with combined Ebitda of £2.8m
March 2019	EI GROUP completed the sale of the 370 commercial properties for £348 million to TAVERN PROPCO. The sale represents 13 times earnings and is in line with the net book value of the assets.
January 2019	STONEGATE buys six bars from NOVUS LEISURE for an undisclosed sum.
January 2019	STONEGATE BUYS 32-strong FEVER BARS, for an undisclosed sum.
January 2019	YOUNGS buys REDCOMB PUBS for £34m, representing a multiple of 8.5 x Ebitda for the 15-strong managed portfolio.
December 2018	BURNING NIGHT GROUP bought out of administration by Leeds-based turnaround specialists ACCESS COMMERCIAL FINANCE
December 2018	YORK BREWERY sold to BLACK SHEEP BREWERY including 4 leasehold bars and the brewery in York for a reported 2 x Ebitda
December 2018	OSSETT BREWERY sells 50% stake to private investor including 2 breweries and 26 mostly freehold sites in Yorkshire
December 2018	NEW RIVER RETAIL buys 76 tenanted pubs from HEINEKEN in a deal worth an estimated to be £12m
November 2018	NOVUS sells 3 Tiger Tiger sites to DELTIC
October 2018	MARSTONS has acquired 15 former Mitchells & Butlers' pubs from APRIROSE

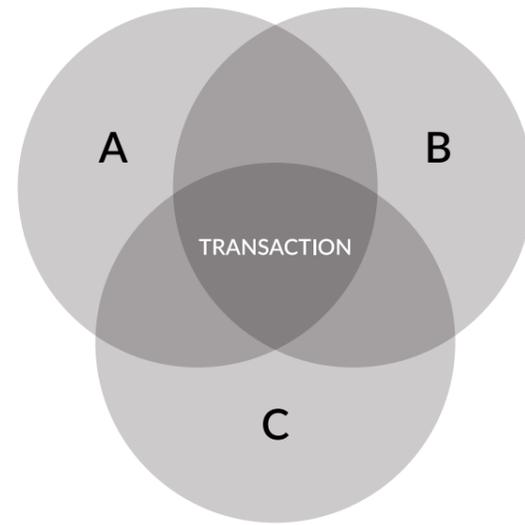
Single Asset Transactions

Activity in the private market has been dictated by the ABC of potential buyers.

- A = Ability** Ability, appetite and desire to operate a public house.
- B = Banks** Willingness, amount and terms for bank lending.
- C = Confidence** Confidence in the market and the economy to make a significant investment.

There are many buyers with two out of these three qualities. You can have the ability and the money but without the confidence you won't commit. You can have the confidence and the ability but without the money you can't transact. There are lots of people with the money and the confidence but who don't have the ability and/or desire to buy and operate a pub.

↓ The Old Oak, East Sussex



As Meatloaf once said "Two out of three ain't bad", but they don't make for an active market. As a result the private market in 2019 remained subdued in terms of transaction volumes. This is particularly the case in the mid market, which is dominated by individual buyers immobilised by economic uncertainty and restricted by the availability of finance.

Towards either end of the scale, the market for smaller bottom end properties and for larger prime sites, has been strong.

Prime sites in major cities attract buyers with the ability, confidence and funding to transact. Demand from well-funded investors, developers and operators for the best sites (both leasehold and freehold) has been strong and prices/rents have risen for prime sites.

Slightly secondary pitches and secondary towns have not witnessed the same degree of purchaser demand and transactional activity, therefore prices have not materially changed.

The supply of Bottom End properties reduced further (-17%) while demand has remained strong. The confidence in the underlying real estate is high, the ability/desire is clear and at the lower entry level cash funding is sufficiently available. Sale prices have increased 24% and roughly 1 in 3 are converted to non-pub uses.

Outlook

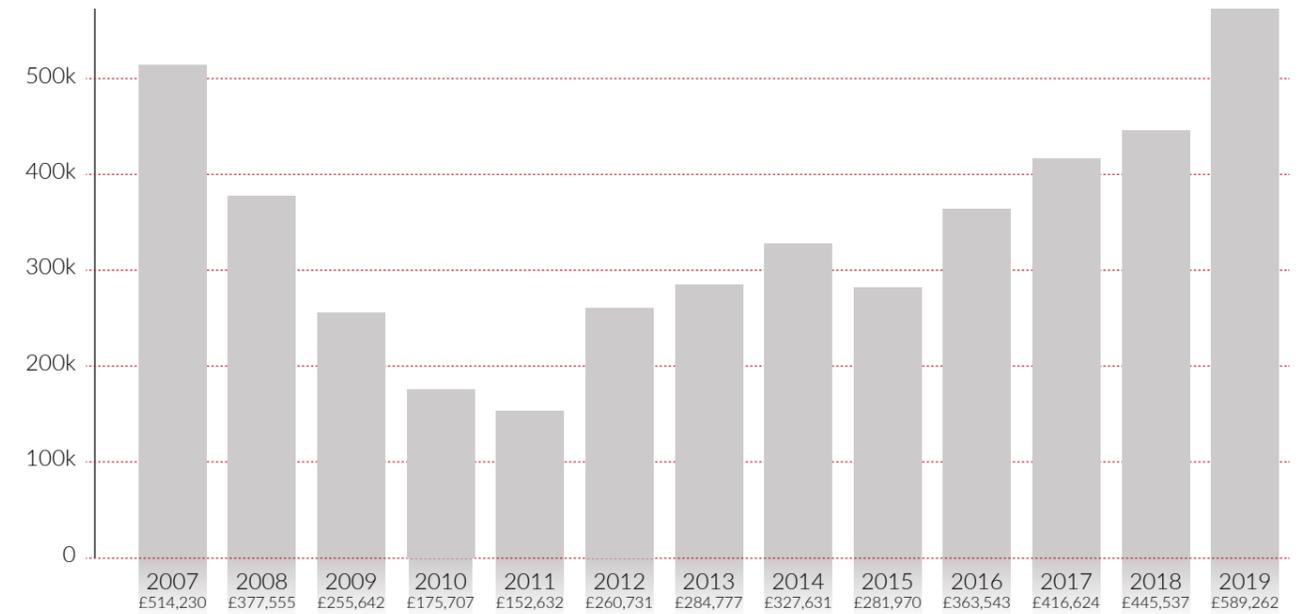
Marginal food operations will seek to simplify their food offer, de-skill the service and reduce wage costs in order to improve viability.

Increased high street competition will lead to more restructuring programmes, creating increased opportunity for selective expansion by regional operators.

The expansion of several significant value based brands will squeeze trading levels across the market.

Pub numbers will continue to reduce as the supply of large new operations increases and smaller outdated units become unviable.

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 Black Duck, East Sussex



Investment

Ed Sandall Director - Investment

The public house investment market has had another bumper year, as this once 'alternative' sector, continues to move into the mainstream with an overlay of demand from private equity, institutions, property companies and operators buying-in their own real estate.

The principal drivers for investor demand remain constant; long unexpired lease terms, index linked rental growth, the ability to cross check rental by reference to affordability, scarcity of good quality sites, which supports strong underlying vacant possession values, and a tangible operating model that is aligned to the property. The main qualitative measure is that public house properties are not retail.

The table opposite illustrates the portfolio activity over the last 12 months.

Whilst the weight of transactions and diversity of purchasers is encouraging, it is worth reflecting on the underlying analysis of these transactions, with the yield being the inverse of a multiple.

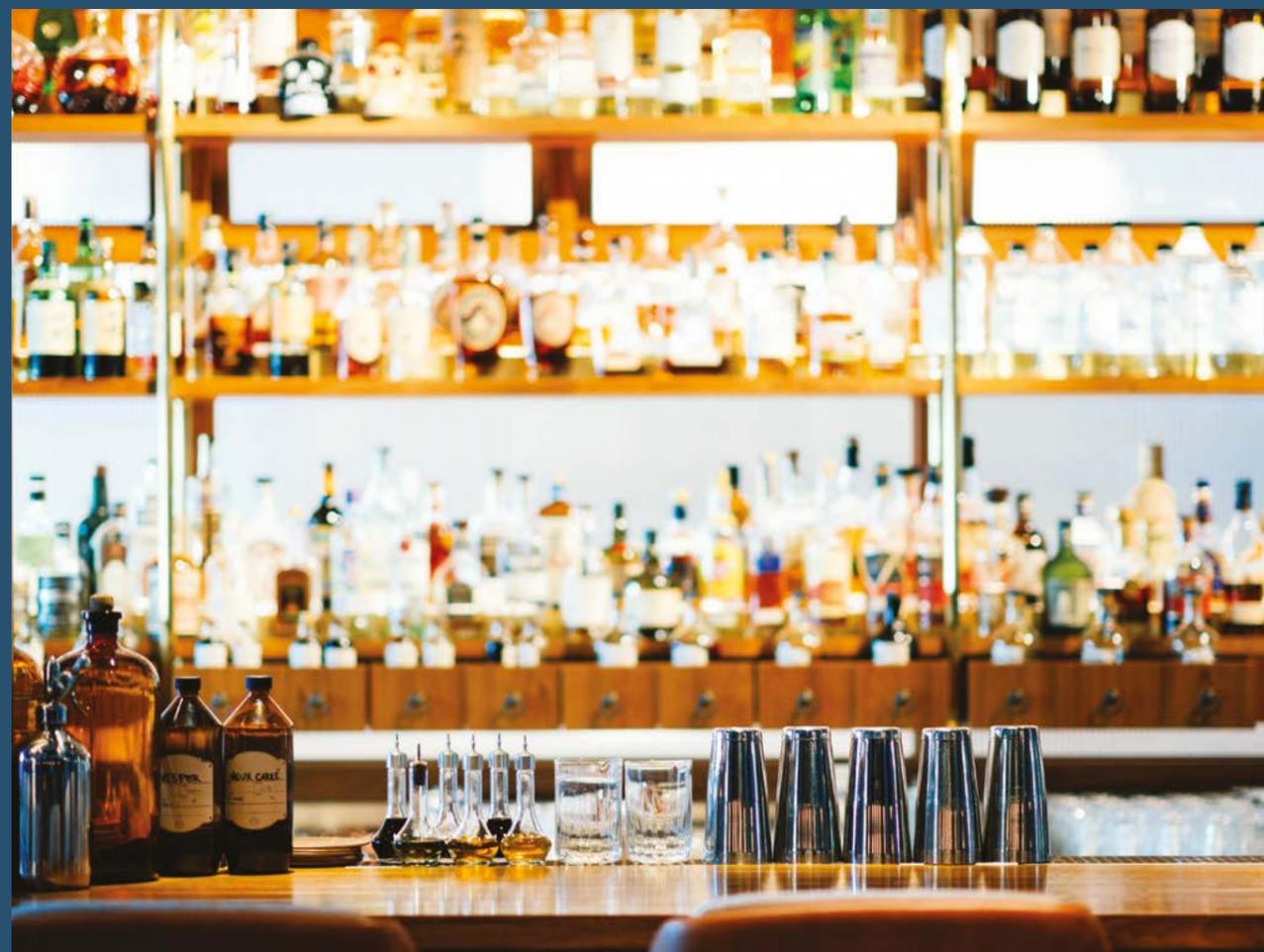
If we consider a "rack rented" property, i.e. where rent equates to circa 50% of EBITDAR in London, without material covenant strength the investment may transact for between 3.75% &

4.25% net initial yield. As you move outside of London and the south-east yields are harder to benchmark and are more contingent on the underlying covenant strength.

In order to mitigate covenant strength issues outside of London, annuity funds are seeking opportunities to work with operators to undertake ground lease transactions. A ground lease is typically a 125+ year lease with rent set at a lower level of EBITDAR (i.e. 10-15%) subject to annual rental indexation. Fleurets has advised a number of clients on this structure and have a number of transactions pending exchange at the date of publication, showing net initial yields between 2.5% & 3.0% (multiples of 33x & 40x) the rent. The market for the residual long leasehold interest and operating EBITDA (i.e. the 85%-90% of profit after subtracting the ground lease rental) remains infant with the absence of any transactions to date. If the pub sector follows the same path as the hotel sector, discounts to freehold valuation multiples of between 10-15% might be expected.

We do not see the weight of institutional money abating. We predict that 2020 will witness increased sale and leaseback and ground rents as investors continue to seek to deploy capital, such structures also providing public house owners with an alternative source of finance to more traditional bank debt.

Date	Project	Description
March 2019	Marston's Sale & Leaseback	KFIM purchased 7 new-build public house properties for £23.84m (£3.4m/site) reflecting a net initial yield of 4.4%.
March 2019	Project Royal	Aprirose purchased 45 sites let on 15.5 year leases to Greene King Plc for a reported £123m (£2.7m/site) reflecting a net initial yield of 6.39%. Fleurets provided underwriting for Aprirose.
March 2019	Project Tavern	Davidson Kempner purchased Ei Group Plc "commercial investment division" comprising 370 sites for a reported £348m (£940,000/site) reflecting a net initial yield of 7.25%. Fleurets acted on behalf of the newly created Tavern Prop Co Limited in facilitating 26 back-to-back sales between exchange and completion, including three portfolios at yields between 3.75% and 4.25%, generating total proceeds of c. £75m (£2.9m/site).
June 2019	Project Royal "on-sale"	Aprirose sold 14 sites to LXI REIT for a reported £39.3m (£2.8m/site) reflecting a net initial yield of c. 6.00%.
July 2019	Marston's Sale & Leaseback	Palmer Capital purchased 4 branded high street bars for £11.8m (£2.95m/site) reflecting a net initial yield of 4.50%.



The Three Pub Categories

- ▶ **Bottom End Freeholds** - 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 Freehouses** - 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.

Bottom End Freehold Pubs

- ▶ Average Bottom End freehold sale price £343,000, an increase of +24%
- ▶ North £264,000, an +18% increase: South £422,000, a +7% increase
- ▶ Volume of sales -17%, (North -40%, South +34%)
- ▶ Multiple of revenue 1.22x, up from 1.09x

The average sale price in this subsector has exceeded £300,000 for the first time since peak prices were witnessed in 2006-2007. Strong demand for lower value freehold assets across the country, coupled with a contraction of supply, has driven pressure on pricing, leading to a 24% increase in the average sale price. We have also seen a 10% increase in the trading potential of pubs being sold, indicating greater viability for continued pub use; contributing to an increase in the average sale price.

Stronger operational performance, underpinned by the underlying asset value for alternative use, means confidence has remained high and this has driven an increase in the average multiple of revenue to 1.22x (up from 1.09x). The South has witnessed the greatest increase up to 1.28x (1.09x), whereas the North increased to 1.15x (1.12x).

The supply of individual Bottom End pubs has reduced (-17%), which is partly due to more pubs being included in package deals, and partly because a large volume of the least viable pubs have already been sold. Demand has remained strong as buyers have the ability, funding and confidence at this level and are keen to secure sites while they are available.



Outlook

We anticipate that bottom end prices will continue to rise as asset quality improves and demand continues to exceed supply.

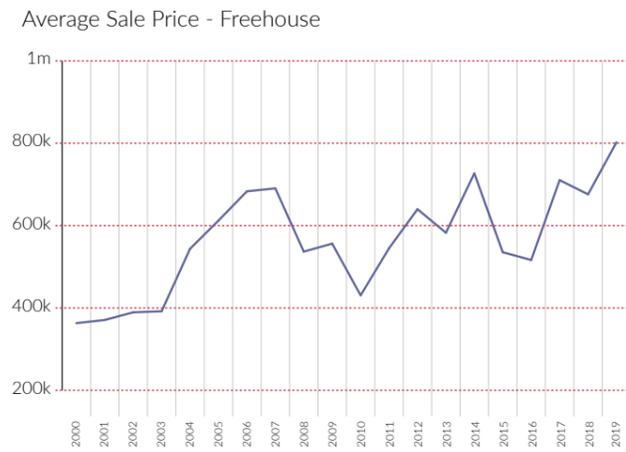
Transaction volumes are expected to be maintained, with increased disposal activity in the second half of the year as new owners complete estate reviews and identify opportunities to invest, or churn, their estates.



↑ The Quarrymans, Lancashire

Freehouse Sales

- ▶ Average freehouse sale price £802,000, +19%
- ▶ North -4%, falls behind South, +34%
- ▶ Transaction volume up 11% nationally
- ▶ Multiple of revenues steady at 1.55x



Nationally the average freehouse sale price increased by +19% to £802,000. This reflected a rise in the quality of properties being sold, with average turnover being 18% higher than in 2018. It also reflected a higher proportion of sales being conducted in the South 43% (36%).

Regionally there was a marked difference with the North showing an average sale price down -4%, despite a small increase in average revenue +4%. This reflected similar quality opportunities coming to market, but a slight weakening of demand in the mid market.

In the South, the average sale price was up +34%, arising from a significant increase in the quality of pubs transacting, where average revenue was +74% higher than in 2018. The increase in sale price was also influenced by an increase in the number of sales in London compared with the rest of the South.

Transaction volume was up +11%, although this was from a relatively low base and was fuelled by an increase in demand from trade buyers for higher quality assets.

Outlook

There are encouraging signs that 2020 will see a return of acquisition focussed pub companies (managed and tenanted) seeking individual freehouse operations. This rise in demand is expected to drive activity in the freehouse mid market which has been subdued for several years.

Liquidity and pricing in the private market will continue to be aligned to the lenders' appetite for the sector and the availability of funding to support acquisitions. Any ongoing economic uncertainty will make any significant increase in transactions unlikely.



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Leasehold

- ▶ Average leasehold sale price £51,500, an increase of +35%
- ▶ North £31,000, decreasing -5%; South £63,000, a +27% increase
- ▶ Average 21% increase in revenue as quality rises
- ▶ Revenue as a multiple of sale price increases to 0.12x, (from 0.10x)

Average Sale Price - Leasehold



The leasehold market can be divided into 3 distinct categories

- 1 Prime High Street - Sales & lettings
- 2 Sub-lettings
- 3 Traditional pub - Sales & lettings

Prime High Street

Typically larger, city centre sites, let at premium rents with significant fit out costs; often supported by significant rent incentives. Not for the faint-hearted but operator demand remains strong in the major university cities.

Sub-Lettings

Former prime units, marginalised by circuit evolution and new competition. Fully fitted units available on attractive rent deals, sometimes with landlord support. Increased supply is creating opportunities for multiple operators to accelerate expansion by capitalising on units offering low cost entry.

Traditional pub lettings

We have seen a significant supply of new letting opportunities. Ei Group and Wellington pubco have offered free of tie deals at low entry cost. Other pubcos have carried out significant capital investment schemes, where the quality of opportunities available, at no premium, is remarkable. Private owners have opted to let their pub instead of selling, often offering them at no premium. Tied tenancy opportunities are available from the pubcos and regional brewers and there are a growing number



↑ The Dolphin, Kent

of franchise opportunities which are being seen by many as preferable to tenancy.

There is a lot of choice for potential tenants/operators without having to consider paying premiums for lease assignment. It is only the very best sites, often in city centres, where substantial lease premiums are being achieved.

Outlook

We anticipate an increase in the availability of franchise agreements, free of tie leases and an increase in the number of high street units available on subleases at subsidised rent levels. Tied tenancy deals will continue to be offered on better, more flexible terms.

Pub Sales - Alternative Uses

- ▶ 65% of freehold pubs sold for continued use
- ▶ 60% in the North, 70% in the South
- ▶ Bottom End pubs saw a higher conversion rate at 49%
- ▶ North 56% and South 42%
- ▶ Average Bottom End sale price 1% higher for pub use

The percentage of freehold pubs sold for non-pub use remained the same as in 2018 at 35%. This is a reduction from the levels witnessed in previous years.

Sale prices of Bottom End pubs did not reflect any significant difference between pub use and non pub use, with the average price being 1% higher for pub use. This varied regionally with sales for pub use being 9% higher in the North and -14% lower in the South. This reflects the higher residential values in the South, which is often the driving factor behind potential change if use.

Freehouse sales saw an 11% increase in volume, with a 14% increase in the average sale price for pub use, but a -17% decline in the average sale price for non-pub use.

Out of the pubs that were sold for non-pub use, the most common intended alternative use was for residential, accounting for 73% (66%). This was followed by restaurant use at 10% (2%), retail at 7% (10%) and convenience stores stable at 5%.

Uses which are absent from previous years included Children's Nurseries, Offices and Car Showrooms.

Pub Use v Alternative Use

Date	Pub Use %	Alt Use %
2019	65.0%	35.0%
2018	64.5%	35.5%
2017	61.5%	38.5%
2016	62.4%	37.6%
2015	50.0%	50.0%
2014	56.4%	43.6%
2013	55.6%	44.4%
2012	53.9%	46.1%
2011	48.0%	52.0%
2010	49.7%	52.3%
2009	58.0%	42.0%

End Use of Pubs Sold for Non-Pub Use

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

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