

M&Creport

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Signs of pain as pressure builds on leased pub model

by Mark Stretton

There is evidence of increased pain in the leased pub market and a growing body of opinion that the glory days of the tied model are over. A number of factors, not least a tougher trading climate, greater cost pressures, the smoking ban and depressed UK beer volumes, are combining to put pressure on both tenants and pub companies.

Some industry observers suggest that the traditional leased structure – a foundation for the creation of some of the sector's biggest companies over the last decade – is now in decline.

One senior industry source told *M&C*: "Some businesses will continue to perform well under the current model, but many are under a lot of pressure.

"All these issues are hitting the industry at the same time, making it very difficult for lessees and their landlords. Certainly there is a lot of pain at the bottom end of the leased market."

Latest figures from the British Beer & Pub Association suggest the number of pub closures has accelerated to 27 a week – or four a day – a result of the smoking ban and spiralling costs.

Analysts at Goldman Sachs estimate the ban has reduced the profit of the average tenanted licensee by 10%. It said that rents were likely to fall in the medium term as a result. Analyst Oliver Neal said: "Any correction is likely to be lagged, as rents are reviewed every three to five years depending on the agreement."

Goldman lowered its earnings estimates for Enterprise Inns, Greene King and Marston's, driven by reduced forecasts for both beer sales and rent. Neal said: "We now assume rents rise by 1% in the current year, decline by 2% next year and are flat the year after."

Goldman predicted that pub freehold values were likely to fall over the next 12 months, threatening the model – and the "virtuous circle of higher asset values, a greater ability to take on debt,

and a rapid rate of earnings-enhancing acquisitions".

It has also been suggested that the ability of the big groups to keep churning their estates in order to drive growth was diminishing; while the churn process is far from over, the competition for, and scarcity of, quality assets, has made it far more difficult.

Anecdotally, a larger number of licensees appear to be walking away from their pubs, with many pubcos experiencing vacancy levels above the typical 10% threshold.

It has been suggested that the accelerated decline of beer volumes in the UK on-trade – volume declines are currently almost into double-digits – may lead some pubcos to fundamentally reappraise their agreements, moving away from the beer tie towards a "dry rent" model, which could impact the amount of profits pubcos can leverage from each pub.

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Turner prize: Tragus CEO named sector's best

Graham Turner has been singled out as the eating and drinking-out market's top operator.

The chief executive of Tragus Holdings, which operates the Café Rouge concept, was named best individual at the Retailers' Retailer of the Year – the awards organised by *M&C Report* and voted for by senior executives from the industry.

Presenting the award, Mark Stretton, editor of *M&C Report*, said: "Graham Turner is very much the modern busi-

ness leader – an inspirational manager and a great deal-maker. He could apply his skills to many different businesses – so the industry is fortunate to have him. He is one of the sector's true value creators."

Turner emerged as the winner of the Best Individual prize from an illustrious group, comprising Rooney Anand of Greene King, John Hutson of JD Wetherspoon, Simon Kossoff of Carluccio's, Julian Metcalf of Pret A Manger, and Ian Neill of Wagamama.

The prize was one of two presented to Turner at a prestigious ceremony at the Dorchester Hotel on London's Park Lane – Tragus, which is backed by Blackstone, also collected the best deal award for its £140m acquisition of Strada. The vendor in that particular transaction, entrepreneur Richard Carling, was named investor of the year.

Wagamama, the international noodle-bar chain, was named best

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