

# Survey of Pub Prices

## July 2001

**F**  
**Fleurets**

Established circa 1820

Chartered Surveyors  
Hotel and Licensed Property Valuers

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## Prices Achieved in 6 Months to 31st March 2001

Twice a year **FLEURETS** produce their analysis of prices achieved for pubs sold around the country. The December issue is the BIG one, giving results for the full year. This is an **interim report** covering figures for just six months to March 2001. A smaller sample has scope for more anomalies and in some cases we have pointed out where we believe certain figures may indicate a "blip" rather than a "trend" but we compare our figures with 8 full years going from the depression of 1992/93 to the much stronger years of the late 1990s and into the Millennium.

It must be stressed that the result is not a measured change in value of particular units so it is

not a true indication of valuation trends. It is however a true measure of the sort of public houses that have been on the market and **prices actually achieved** – not someone's opinion of what they ought to be worth.

We divide the market into 3 sections.

**(1) Private Freehold Sales** (which also include long leases). These are the pubs sold with the benefit of proven accounts and can sometimes include the disposal of brewers managed houses (e.g. in 1998 we sold 40 Beefeaters for Whitbreads with the benefit of accounts. The 1999 figures include

several disposals for Bass in the Midlands and the current figures include the sale of Watling Street Inns, mainly in the North).

**(2) Freehold pubs** (including long leases at nominal rents) that are sold without the benefit of proven accounts. For ease of description we call these "Brewery Disposals" although they may include disposals by PubCos and Receivers.

**(3) Finally we deal with Leases** which, in the main are leases of under 20 years at rack rents, both tied and free. This section also includes a few longer

leases where the rent is more than a ground rent.

Secondly, we divide the market into 6 regions being London, Midlands, North, South, East and West.

Finally, we provide two figures for each type of disposal and region. The first is a simple average price achieved (blue graphs). The second is more subjective in that the price is analysed as a multiple of Fair Maintainable Trade (green graphs). In this case the negotiator handling the sale, estimates the Fair Maintainable Trade of each property sold using his judgement as well as proven accounts (where available).

## The National Picture

### Private Freehold Sales

Almost daily we are beset by pundits saying that commercial and residential property values have risen to unsupportable levels. Yet despite strong price growth in the licensed sector, when analysed as a multiple of price to turnover we are still in a market where common sense prevails.

The average price of a Freehold Freehouse sold by **FLEURETS** over the six

months of this survey was a little under £400,000. This compares with £363,000 in the previous full 12 months and an average of £376,000 over the previous 3 years (up less than 10%). In fact, current figures are only 24% above the average for the previous 8 years which includes the depression of the early nineties. **There is absolutely no evidence of an unsustainable boom in these figures.**

In terms of multiple of price to turnover, it is up to 1.49

compared to 1.42 last year and an average of 1.36 for the past 8 years. Price as a multiple of turnover **should** be high when the cost of borrowing is so low. Many Freehold Freehouses sold for over twice turnover in the boom years of the late eighties. The average value in the seventies and eighties was 1.5 to 1.75 times turnover. Profit margins are higher now than then so as a multiple of profit pubs are selling for lower prices than for most years in the past quarter century.

### Brewery Disposals

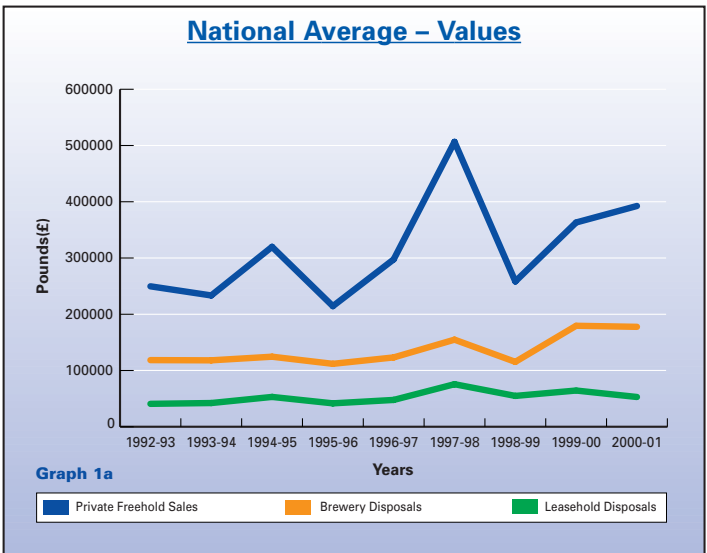
There are much fewer disposals by the breweries and PubCos than there were in the first half of the 1990s. Those that are sold are now generally of a higher quality. Consequently the value of such disposals has continued to rise strongly and now averages £178,000 (almost identical to the previous 12 months).

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However, this is a considerable increase on previous years. We comment in more detail

leasehold assignments has fallen from an average of about £65,000 over the past 3 years to closer to £53,000 in the past 6 months.



about the properties that make up this sector in our regional roundup.

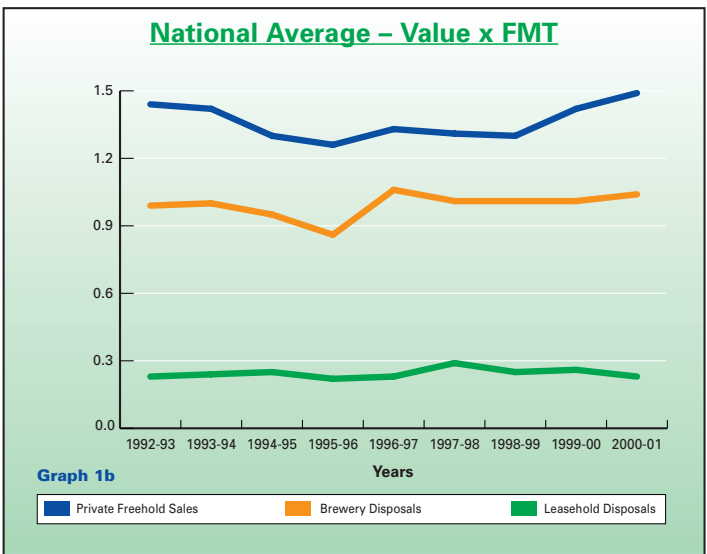
Again, the multiple of price to turnover has risen slightly in the past 6 months (to 1.04) compared to a fairly steady average of around once times turnover which has not varied greatly since 1992. We suspect some high value properties sold for alternative use have influenced both figures in this sector.

### Leasehold Disposals

The average value of

There are regional variations about which we comment later but the most important is that there have been very many "new issue" leases, especially in the North and Midlands for which no premium is payable. This over-supply has tended to reduce the demand and/or price paid for assignable leases.

As a multiple of turnover, prices have also fallen slightly to 23% (compared to an average of 27% for the past 3 years and 24% over the full 8 years of this survey).



## Around the Regions

### East

Cambridgeshire, Essex, Norfolk, South Lincolnshire, Suffolk

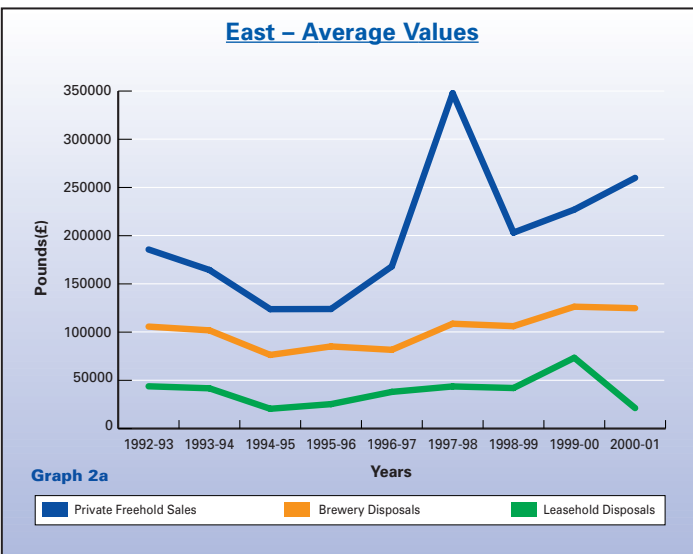
#### Private Freehold Sales

East Anglia has shown strong and consistent growth over the past 2½ years with the average disposal price up to almost £260,000 (from £227,000 in 2000 and £203,000 the year before). In fact, apart from a blip in 1998 caused by the sale of some big managed houses, the growth shows a continuously rising trend since 1995.

The multiple of price to turnover at 1.29 shows a similarly rising curve although it is still well

disposals. Prices over the past 18 months have been fairly consistent at around £125,000 but this is well up on the mid 1990s when it hovered around the £80,000 mark. FLEURETS have still sold a small number of freehold pubs for under £100,000 although the medium range has been £115,000 to £140,000. A purchaser could expect to get an existing turnover of around £2,000/£2,500 per week for his money although many can expect to do better if improved.

The average multiple to turnover is 1.1, slightly above the national average and up 10/20% on the average for the past few years.



below the national average. Excluding the cheapest and most expensive properties the price range is generally £150/325,000 with a turnover expectation of around £140/280,000.

#### Brewery Disposals

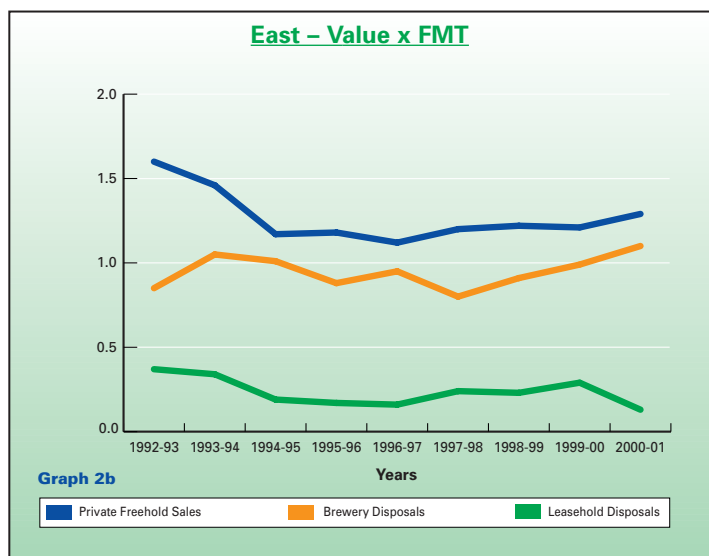
East Anglia remains very much a rural area and consequently there is a steady flow of brewery

#### Leasehold Disposals

The value of leases sold in East Anglia over the past 6 months has been very low at only £21,000. If it was averaged with the previous 12 months figure at £73,000 it would probably make more sense compared to an average of £38,000 over 8½ years. FLEURETS have sold less leases in the past 6 months than they usually

do in this region and none were sold for more than £35,000; whereas the mid price range was £35/95,000 in the previous 12 months.

Leaseholds are very individual assets and need careful valuation. **FLEURETS** are always pleased to visit to give a personal assessment.



## Business Assets - time to sell?

Many owners of small businesses are turning their thoughts to a sale, following the Government's changes to capital gains tax and the introduction of Taper Relief. Selling after next April will derive the greatest tax benefit, but will the market then provide the best price?

There are a number of factors to be considered.

To benefit from the CGT changes you must be selling business assets. Selling a single pub business may not be much more complicated than selling a single asset, but selling a company with 10, 20 or 100 outlets might take several weeks or perhaps months to prepare to achieve the best price. It is no good expecting your agent to work miracles come next April, if no preparatory work has been undertaken. Not least, getting good tax advice, early, is essential.

You must also carefully consider timing. There are

more purchasers than vendors for sound businesses in today's market. Competition is ensuring that prices are good and deals can be expedited if under-bidders wait in the wings. The tax saving to be enjoyed by waiting until next summer may be less than the benefit of a sale at today's prices. One way of overcoming this conundrum is to consider a deferred transaction or possibly loan notes. Once again, getting your preferred agent and tax advisor together, early, may result in considerable benefits.

At **FLEURETS**, we have considerable experience of working with tax advisors to sell companies, as opposed to just the property assets. We have acted as agent in a number of transactions, involving headline prices of anything from £2 million to £30 million. The key to achieving the best result is, without doubt, prior preparation.

## London

**Bedfordshire, Berkshire, Buckinghamshire, Hertfordshire, Middlesex, North Kent, North Surrey, Northamptonshire, Urban Essex & the Whole of London.**

### Private Freehold Sales

The story in London is of a dearth of available Freehold Freehouses. **FLEURETS** sold very few in the past 6 months but those that were sold fetched very high prices. We have not quite yet exceeded an average of half a million pounds but our figure for the past 6 months at £470,000 is up again on the previous 12 months of £430,000. This shows a steady, almost unflinching climb from a low point of little more than £250,000 in 1997. The multiple of turnover has been steady at around 1.6

for the past 18 months which is as you would expect the highest in the country. It is also up on recent years (it had averaged 1.5 for the 3 years prior to that).

Over the past 18 months most freehold freehouses in the London region have sold for £350,000 to £600,000.

### Brewery Disposals

London and the Home Counties is not an area where the brewers and PubCos are generally inclined to sell. Very few are in fact sold and when they do, they fetch good prices. The last 18 months clearly shows that the sale of poorer inner city units was finished by 1998/1999.

### Leasehold Disposals

For the third year running it would appear that the

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## Free of Tie Leases

During the past 8-10 years, the leased markets have been dominated by the post MMC leases, originating from Inntrepreneur, Bass, Vanguard and Whitbread Pub Partnerships.

However, the free of tie lease is back in favour as prices have demonstrated in recent months. We have sold or valued a considerable number of 15 – 25 year, free of tie leases at over £200,000, some as high as £1 million.

Why has this situation occurred?

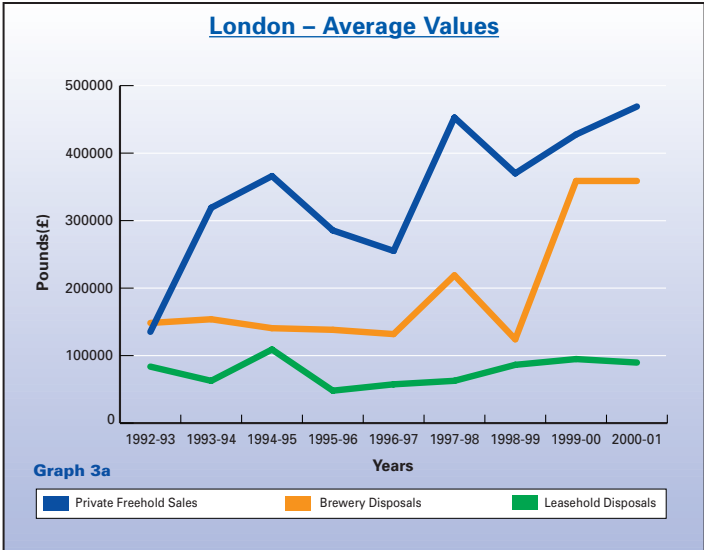
Mainly due to the dearth of freeholds that have been available.

With so many corporate "portfolio" deals, and so many companies looking to expand, innovation has

been the order of the day. In recent weeks we have agreed two major letting deals to regional brewers. Such companies used only trade from freeholds – part of the family silver! However, with an already secure asset base and the ability to sell their own beers, the free of tie leasehold option has allowed companies to continue to grow, especially where new concepts are being tried or geographical expansion is desired.

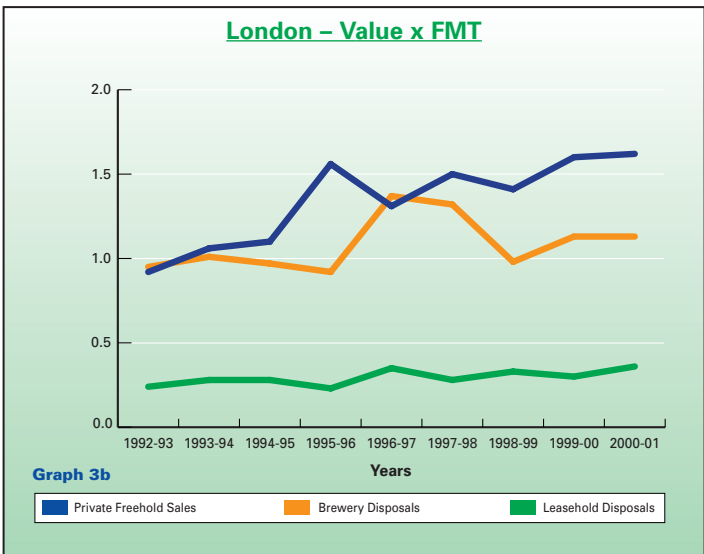
But beware. Over rented businesses will be difficult to sell. Over renting benefits neither the landlord nor the tenant. As with tied leases, good proven trading results and sensible lease terms are paramount, if the best price is to be achieved.

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average value of leasehold sales in London and the Home Counties will be close to £90,000. There are lots of good leases that are sold by **FLEURETS** in London and the median price achieved has been £40,000 to £90,000 with a few higher priced units pushing up the average. You can expect to

get a turnover approaching £6,000 per week for the average leasehold pub in London and the Home Counties so prices paid have averaged 36% of turnover. This is the highest of any area in the country and is 20% up on the 30% average for the previous 8 years.



## Midlands

Derbyshire, Herefordshire, Leicestershire, Mid Wales, Nottinghamshire, Shropshire, Staffordshire, Warwickshire, West Midlands, Worcestershire

### Private Freehold Sales

**FLEURETS** dominance of the Midlands market continued with

sales of good steady freehold freehouses. The average sales price of over £370,000 was little different to the average for the previous 4 years but is down a little on the previous 12 months which had included several very high value properties. It would appear that prices are definitely not rising in

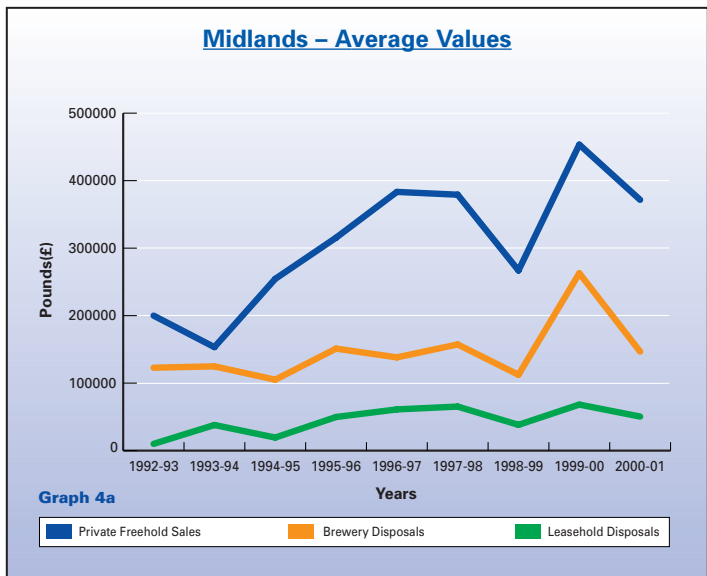
the Midlands although the multiple to turnover at 1.44 is close to the national average and a little above the average for the Midlands over the past 8 years.

### Brewery Disposals

The average value of brewery disposal properties in the Midlands is about £147,000. The median price was £75/195,000.

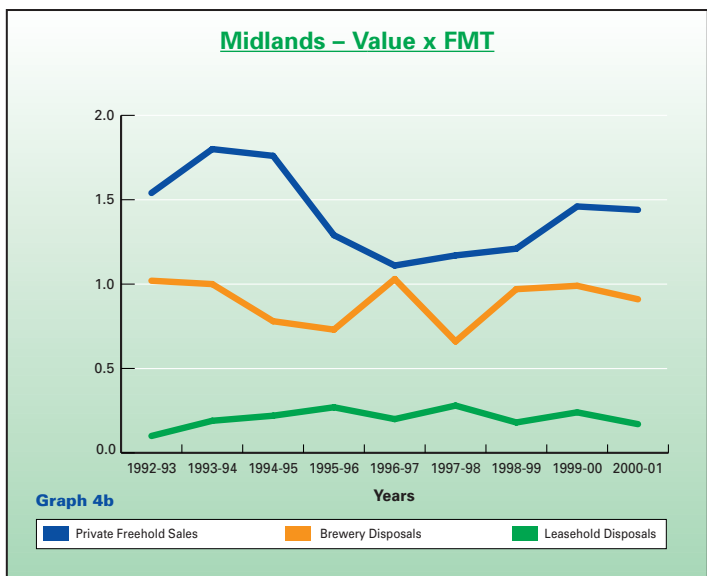
### Leasehold Disposals

The value of leasehold disposals at £50,000 is a little below the national average but very similar to the Midlands results for the past few years. At only 17% of turnover it is well below the national average and better only than East Anglia. It is also down on the Midlands average for the past years.



You will note that the average multiple of price to turnover remains low at under once times turnover, close to where it has been for the past few years.

The median price has been £30/60,000 but turnovers in this area are generally good and a purchaser can expect the average leasehold purchase to have a turnover in the region of £5,000 per week.



## North

Cheshire, Cleveland, Cumbria, Durham, Greater Manchester, Humberside, Lancashire, Merseyside, North Lincolnshire, North Wales, Northumberland, Teeside, Tyne & Wear, Yorkshire

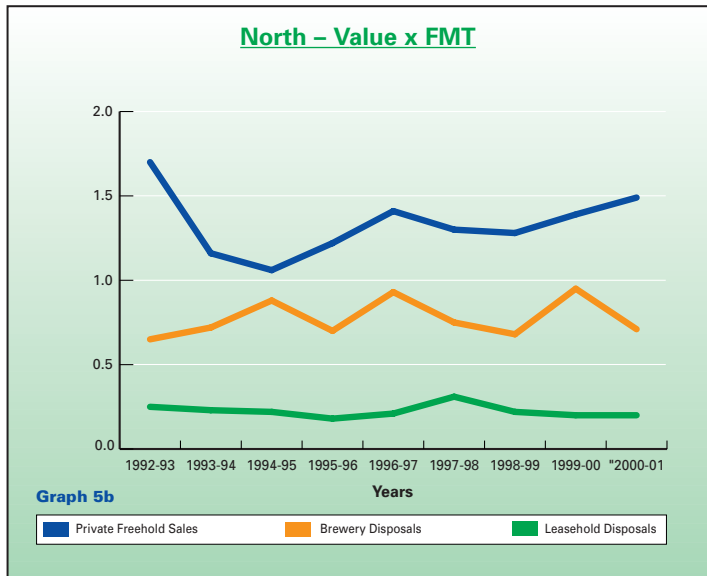
### Private Freehold Sales

This last 6 months in the North has seen **FLEURETS** sell the Watling Street Inns Group to Hardy's and Hansons. This has substantially increased the average value

Street disposals and can be expected to be lower when the full year's figures are published.

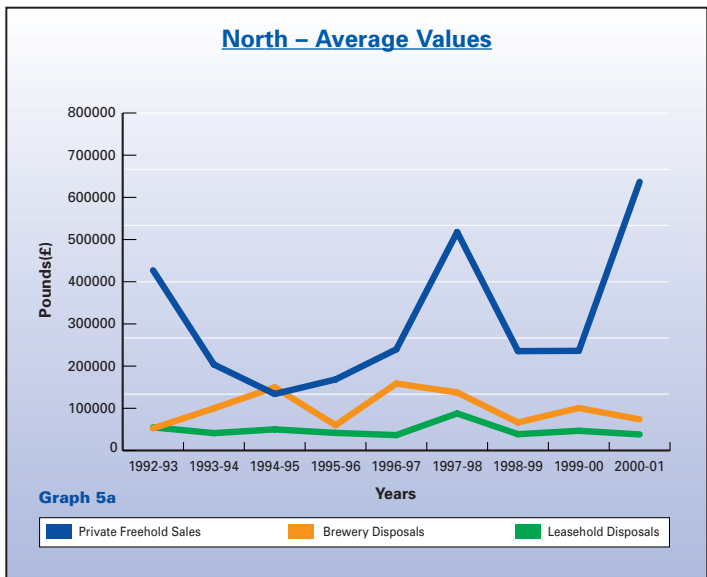
### Brewery Disposals

**FLEURETS** deal with a large number of fairly low value brewery and PubCo disposals, particularly in the North West and North Wales. The average sale price of £74,000 reflects this as does the multiple of price to turnover at only 0.71. (Many of the properties sold had been vandalised and needed



has a turnover of £4,000 per week giving an average leasehold price of under £40,000. Only in East Anglia did leaseholds sell for

lower prices. Only in 1996-1997 has the average leasehold price in the North of England been lower than at current levels.



of pubs sold to nearly £640,000. This is an undoubted "blip" and should not be relied upon. Without these properties the average sales price was £233,000 which is almost exactly the same as the average for the previous two years. Excluding the Watling Street properties the median price for a freehold freehouse in the North was £140,000/£330,000. The multiple of price to turnover at 1.49 times turnover was spot on the national average and up substantially on previous years in the North. However, again this figure was flattered by the Watling

money spent before they could re-open for trade.) Most of the brewery disposal properties sold by our Manchester office were back street locals (very much in the style of the Rovers Return, Coronation Street) and could be had for around £50,000/£60,000 each.

### Leasehold Disposals

As mentioned before the leasehold assignment market in the North has been particularly weak. The fairly limited number of leases sold have procured an average of only 20% of turnover. The average pub

## South

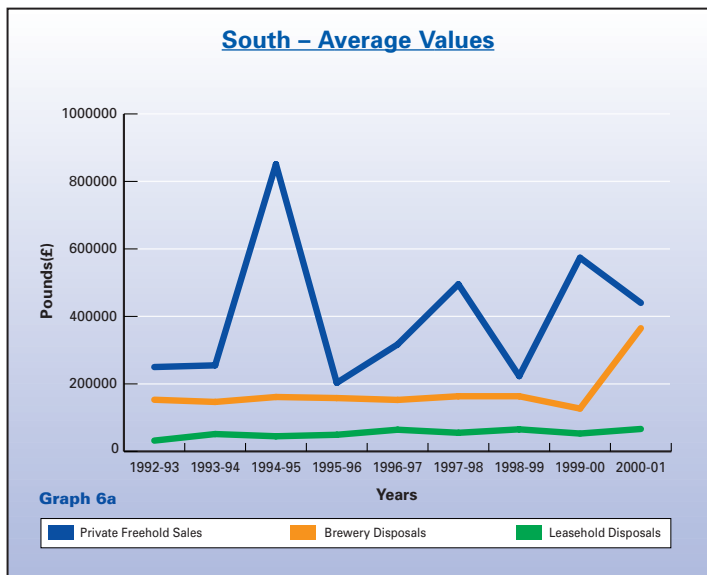
Hampshire, Isle of Wight, South Kent, South Surrey, Sussex

### Private Freehold Sales

Again there are exceptionally few Freehold Freehouses that get sold in this area. Those that do, fetch

months has been very close to this. Really however there are far too few transactions for these statistics to be reliable.

The multiple of price to turnover, was, as should be expected, above the national average, and in fact, is the highest of any region (except London) at 1.6. Over the past 8 years it had been



exceptional prices. The average sales price over the last 8 years has been £420,000 and the average for the past 6

consistently the highest in the country at 1.53.

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## Pubs – An Investment Market

**F**LEURETS' statistics now span over 25 years of transaction led data. Unlike some statistical data, which may be based upon subjective opinion, ours is a summary of what the markets have dictated during the previous 6 to 12 months.

Why is this information relevant?

The pub investment market has evolved in just a ten-year period. Prior to 1990, there were very few public houses owned as pure investments and those owners that had them, treated them with a great deal of caution. This was largely due to a misapprehension as to how a pub was valued. The assumption was that if the lessee was poor, the rent would be low. Fair Maintainable Trade – the backbone of a profits valuation, was generally unknown. But then came the Monopolies Commission, a fearful recession and the financial innovation of securitisation. How did these factors create the new market?

The MMC forced upon the brewers, full repairing leases. The creation of Inntrepreneur, the Bass Lease Company, Vanguard Pubs & Restaurants, and Whitbread Pub Partnerships, gave both operators and industry watchers greater insight into how pubs and leases could work in harmony. A number of the retail companies, then in their infancy, such as J D Wetherspoon, Regent Inns, etc, were already taking leases as a cost

effective way of entering the industry. With over 9,000 pubs, more than 15% of the national stock, let on lease, it was no longer a passing fad or temporary measure.

The deep economic recession caused havoc in the property markets. **FLEURETS'** rental statistics (2001 Survey available upon request) caused a stir with many in the property industry because unlike shops, offices and factories, where rents plummeted and lessees went out of business, pub rents continued to rise, albeit at a much lower rate. This was for two reasons. Firstly, the rent of a pub is a product of its profitability. Very simply, the landlord and tenant share the potential profit that can be derived. Whilst many pubs suffered from general economic pressures, no-one gave up drinking completely, so profitability remained positive but, perhaps at slightly lower levels. Secondly, our industry is quite used to the "holding tenant". Many management companies and holding tenants will continue to trade the business during difficult periods and pay rent. This is in contrast to shops, offices and factories, where voids are inevitable unless charity occupation can be arranged. Greater awareness of the profits method of valuation gave greater comfort to potential investors.

With these changes, a number of private investment companies actively pursued pub

investments. On the back of the recession, 15% or better, yields were being achieved, supported by an underlying freehold asset. As awareness developed and interest rates fell, competition grew and yields declined.

However, in the late 1990s securitisation hit the headlines. Splitting ownership and operation of the business, backed by resilient rental income, gave ideal conditions for bond-backed financing. Historically, debenture borrowings or corporate bonds were the only alternative to company loans, but these relied on the success of management and the particular company. A portfolio of pubs, let on FRI leases, carries far less risk, especially if the lessees are all individual businessmen. Whilst a few, at worst, might become bankrupt, the rest will survive if sensible terms apply. First, it was Nomura but then several other major institutions followed suit. Again, awareness developed and investors were comfortable in making investment decisions.

However, yields have continued to fall as competition has increased and the general level of interest rates has fallen.

By 1998, the A3 town centre market had peaked. Many units were conversions of former retail outlets or municipal or banking halls. Property investors, who relished the opportunity to secure substantial rents, as the retail operators competed for market presence,

invariably owned them.

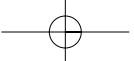
Whether or not all of these retailers will survive, given the rents offered in the scramble for representation, only time will tell. However, if they fail, it will be corporate failure, as opposed to outlet failure and chances are, most units would be snapped up by alternative operators, because they will be able to secure a fitted out unit at a fraction of the cost to the original bidder.

The main factors affecting investment decisions, and hence yields, are:-

- Level of rent
- Type/length of lease
- Status and experience of lessee/operator
- Cost of management

At **FLEURETS** we have been monitoring the pub investment market since the late 1980s. As we have not been directly involved in all of the transactions, we have to beware of false analysis. However, our valuers and sales teams are becoming more and more involved in sales to investors, private leasing, sale and lease-back transactions (both individual properties and portfolios) and securitisation valuations. We are therefore now developing our statistics, which we hope to publish in more detail in the near future.

**For more detailed information or advice, contact Martin Willis or Bill Graham on 020 7636 8992.**



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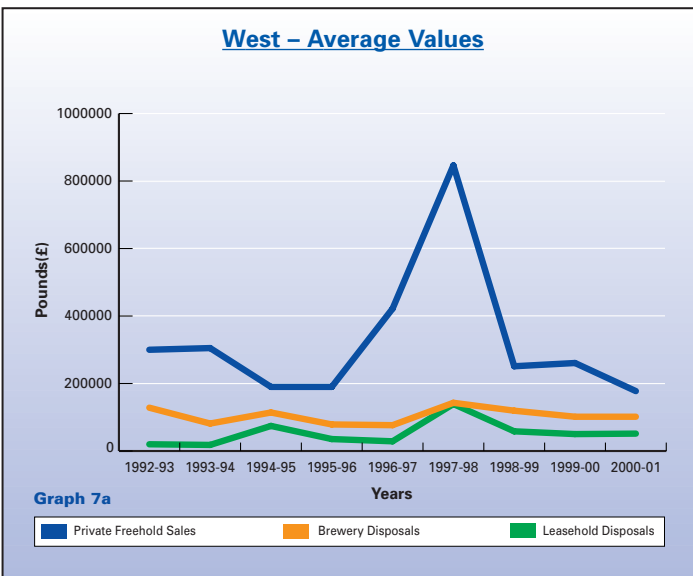
## Brewery Disposals

The few brewery disposals of Freeholds are influenced by the very high underlying property values. At £365,000 these figures may be regarded as exceptional but even so the averages for London and the South have been consistently far higher than any other areas since we began this survey in 1992/1993.

The multiple to turnover, again, is driven by property values and at 1.42 for the current period and 1.24 over the 8½ years of the survey, are around 25% higher than the national average.

## Leasehold Disposals

Leasehold assignments feature strongly in the day to day work of **FLEURETS** Brighton office. Average sale price at over £66,000 is second only to London prices. Prices have been consistently strong throughout the period of **FLEURETS** survey averaging over £56,000 and only in one year (1992/1993) averaging less than £44,000. By way of average 27% of turnover is paid (pubs generally turn over in the region of £4,500 per week). Only one property has sold for more than £100,000 in the past 6 months.

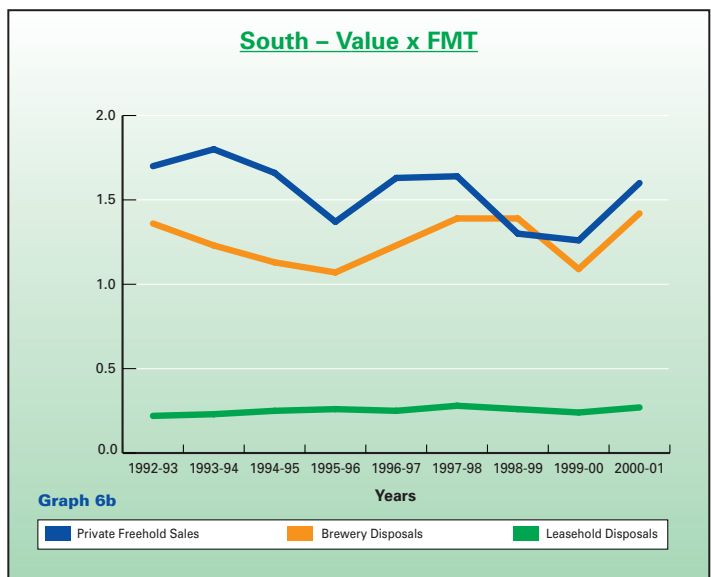


Graph 7a

provide reliable figures for the past 6 months. Over the period of the survey, the average price achieved of £102,000 has been dragged down by a high proportion of sales in South Wales and Cornwall. Similarly, multiples of turnover at under once times turnover are very close to the national average.

## Leasehold Disposals

The average leasehold price has been consistent at around £50,000 for the past 2½ years. It is close to the national average. At 25% of turnover it lies third in the league behind London and the South. Average turnover is approximately £4,000 per week.



Graph 6b

## West

Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset, South Wales, Wiltshire

### Private Freehold Sales

Our statistics for Freehold Freehouses in the West Country are at £177,500. We believe this is one of those "blips" reflecting sales of some smaller and lower value properties. These statistics are for public houses only and exclude

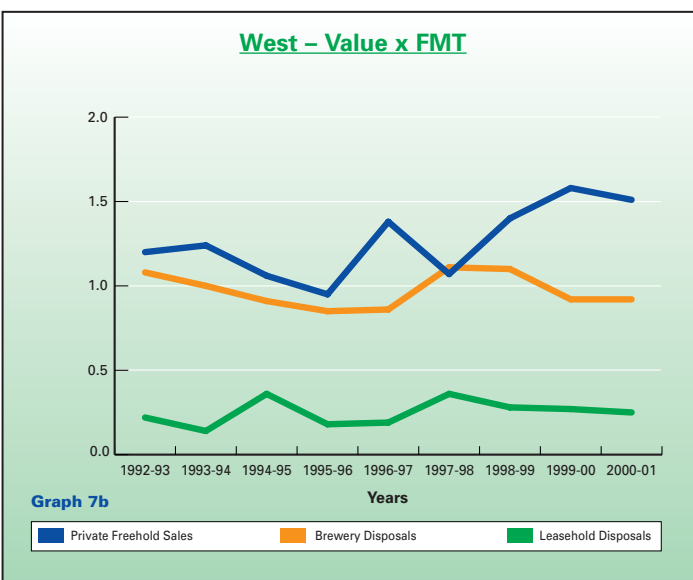
many of the higher value hotels sold from our Bristol office.

The long-term average shows West Country Freehouse prices at around £300,000 and this is a fairer reflection of the market place.

Similarly, the multiple of price to turnover at 1.27 times turnover is close to the national average.

### Brewery Disposals

We have insufficient data to



Graph 7b

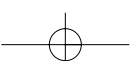


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## NOT ONLY SALES, BUT ALSO...





*The philosophy of FLEURETS is clear. The depth of our history and the strength of the current practice are beacons for our services into the future.*

*FLEURETS are committed to the belief that independent thought and a strong sense of purpose enable our professional expertise and credibility to function for the benefit of our clients.*

*Since 1820, FLEURETS have strived to achieve the pre-eminent position that we now enjoy and continually endeavour to maintain and develop as a firm of specialist hotel and licensed property valuers. Valuing a diverse range of properties, including:*

-  Hotels
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-  Clubs
-  Leisure – properties with a licence

*In attaining the position as one of the top 50 commercial surveyors\* in the United Kingdom, FLEURETS incorporates and recognises the value of:*

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*Satisfaction can also be gained in the knowledge that FLEURETS have committed staff with expertise in a multiple of disciplines:*

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\* (Source – Estates Gazette).



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### National Coverage

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