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Issue 17 of our quarterly series

Market**Growth**Monitor

Quarterly review of GB pub, bar and restaurant supply

AUGUST 2019

At a glance: five headline Market Growth Monitor messages

1 Licensed premises down 2.4% in 12 months

	Sites at June 2019	Change v June 2018	Change v June 2014	% Change v June 2018	% Change v June 2014
GB	116,880	-2,920	-6,479	-2.4%	-5.3%

Britain's supply of licensed premises is continuing a steady decline. At June 2019 the country had **116,880** pubs, bars, restaurants and other licensed venues—**2.4%** or **2,920** fewer than 12 months earlier, and equivalent to exactly eight net closures a day. It is the eighth quarter of year-on-year decline in a row, and the pace of closures is virtually the same as in the last edition of the Market Growth Monitor.

2 Restaurant closures go on, but groups more resilient

	Restaurants at June 2019	Change v June 2018	Change v June 2014	% Change v June 2018	% Change v June 2014
GB	26,265	-924	+642	-3.4%	+2.5%

The correction of restaurant numbers from a saturated market goes on. Britain had **924** fewer restaurants in June 2019 than 12 months earlier—an average of around **18** net closures a week and the sixth successive quarter of decline. The brunt of the closures is being borne by the independent sector, but group restaurants—operators with more than one site—have fared better. Their site numbers dropped **1.2%** in the year to June: an abrupt turnaround from the boom years of new openings, but a more modest performance than recent media coverage about restaurant closures might suggest.

3 Net pub and bar closures slower than restaurants

	Pubs and bars at June 2019	Change v June 2018	Change v June 2014	% Change v June 2018	% Change v June 2014
High street	17,661	-86	+6	-0.5%	0.0%
Suburban	31,300	-935	-5,926	-2.9%	-15.9%
Rural	48,961	-1,021	-5,920	-2.0%	-10.8%

CGA's Coffer Peach Business Tracker has shown that managed pubs and bars have performed better than their restaurant counterparts over much of the last couple of years, and that is reflected in Market Growth Monitor data. While restaurant numbers fell by **3.4%** in the year to June, the pace of pub and bar closures was markedly slower at **2.0%**. But closures have picked up a little lately—from **15** a week in the year to March to nearly **20** a week now, with community and drink-led locals suffering most.

4 Net closures even across the country

CLOSED

	Sites at June 2019	Change v June 2018	Change v June 2014	% Change v June 2018	% Change v June 2014
North England	30,932	-767	-1,805	-2.4%	-5.5%
South England	31,003	-820	-2,094	-2.6%	-6.3%
Central England / Wales	21,921	-561	-1,323	-2.5%	-5.7%
Scotland	10,754	-225	-418	-2.0%	-3.7%

As this table shows, the pace of closures in the licensed sector is very even from region to region. Sites are down **2.4%** in the north of England, **2.6%** in the south, **2.5%** in central England and Wales, and **2.0%** in Scotland. There is a divide in the food-led sector though: sites dropped **1.0%** in the north of England but **2.4%** in the south, where the saturation of restaurants has become more apparent.

5 Leased drink-led pubs down a quarter in five years

	Sites at June 2019	Change v June 2018	Change v June 2014	% Change v June 2018	% Change v June 2014
Leased	12,883	-728	-4,295	-5.7%	-25.0%
Independent	8,190	-113	-683	-1.4%	-7.7%
Managed	2,438	+5	+372	+0.2%	+18.0%

On the drink-led side of the pub sector, there has been a concerted shift away from the leased model in recent years. Across British cities, large towns and small towns, the number of leased drink-led pubs has tumbled by exactly a quarter **(25.0%)** since June 2014, and by **5.7%** in the last 12 months alone. Some of this follows moves by several major pub companies' switch to directly managed sites, numbers of which have increased by **18.0%** in five years—but most leased pubs that have closed have not reopened. *(Note: these figures excludes food-led pubs)*

INSIDE: Cuisine types + University cities and towns

Focus: Cuisine types

The broad narrative of Britain's group restaurant sector is pretty simple: spectacular growth over the last five years and modest reduction in the last 12 months. But beneath that lies a highly complex story about different types of cuisine—some firmly on trend and others falling out of favour.

In the country's most popular group restaurant sector, Italian, site numbers have risen **8.4%** in the last five years, but fallen back **3.2%** in the last 12 months. It equates to one net closure every six days in the last year, and reflects CVAs and site closures from many leading Italian brands. The recent collapse of one of the biggest names of all, Jamie's Italian, suggests there may be more closures to come.

Britain's second biggest group restaurant cuisine, American (which includes burger chains), has had spectacular site growth of 58.5% since mid-2014, driven largely by 'better burger' concepts like Honest Burger and Patty & Bunn. However, numbers have fallen back a little in the last year here too, by **5.0%**. Mexican restaurants have followed a similar pattern: up **36.4%** since 2014, but down **6.4%** since 2018. This partly reflects a shift towards healthier eating habits, with CGA's *Food Insights*[19] report indicating that more than three quarters **(78%)** of consumers consider it important to have healthy options on a menu—and these can sometimes be in shorter supply in American-style restaurants.

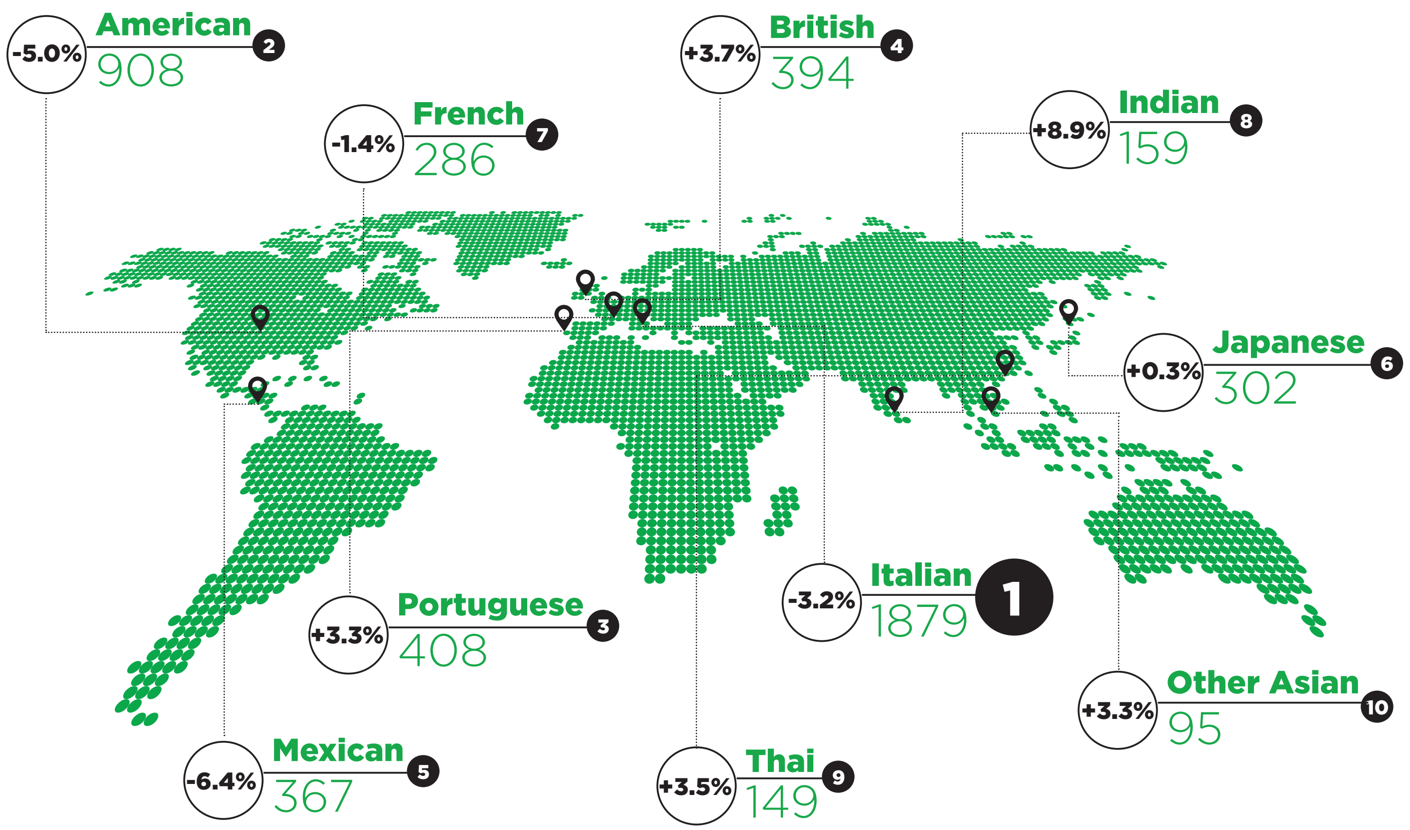
But some restaurant groups have been riding the wave of interest in other cuisine types. For example, there are **88.6%** more Thai group restaurants than five years ago, driven by the rapid rollout of Giggling Squid brand. Group-owned Indian restaurant numbers have risen by **12.0%**, following the success of brands like Dishoom and Mowgli. Japanese (up **32.5%**), British (up **62.1%**) and Portuguese (up **33.3%**)—the latter driven largely by Nando's—have all surged too, though growth has been much more modest in the last year.

As the data here shows, there are interesting contrasts in cuisine types between group and independent restaurants. Italian numbers have fallen in the last year in the independent sector too, alongside those of Indian and Thai restaurants—partly because of the new competition from group operators in these cuisines, and partly because generations of restaurant founders are now retiring. But there have been positive trends too, with independent British restaurants and bistros both substantially up.

8.4% INCREASE

in number of group Italian restaurants since June 2014

Top 10 cuisine types: Group restaurants



Site numbers, June 2019

% change since June 2018

Cuisine spotting: What consumers want

CGA's exclusive new *Food Insights*[19] report helps operators, investors and suppliers identify which cuisines are likely to become more popular in 2020 and beyond—and which ones might be on the wane.

Here are five food types that the report shows to be on the ascendancy. *(Site numbers refer to group and independent restaurants combined)*

1. Middle East

Restaurants at June 2019: 270
Five-year growth: 60.7%

Independent Middle-Eastern restaurants outnumber group ones by more than five to one, but growth has been equally rapid on both sides in the last few years. Interest has been driven by Lebanese brand Comptoir Libanais, now with more than 20 sites, not to mention a host of popular Middle Eastern cookbooks. *Food Insights*[19] shows that Lebanese is one of the top 10 emerging cuisines among consumers.

2. Caribbean

Restaurants at June 2019: 117
Five-year growth: 143.8%

Turtle Bay, which now has more than 40 restaurants in the UK, has led the recent charge into the Caribbean sector, and independent-owned restaurants have tripled in the last five years too. *Food Insights*[19] research suggests there is still a sizeable gap in this sector: **38%** would like to eat Caribbean food, but **39%** think it is difficult to find.

143.8% INCREASE

in number of Caribbean restaurants since June 2014

3. Vegetarian

Restaurants at June 2019: 88
Five-year growth: 69.2%

CGA's Business Leaders' Survey has tipped vegetarianism as a trend to follow for several years now. Soaring consumer interest is now translating into site numbers, with 24 dedicated vegetarian restaurants opening in the last 12 months alone.

4. Japanese

Restaurants at June 2019: 626
Five-year growth: 27.0%

Wagamama, Yo! and other smaller sushi-based groups have helped to drive Japanese food into the mainstream in the last five years, and interest in it stretches across segments—from on-the -go to Michelin-starred restaurants. But as with Caribbean food, there is still headroom for growth if access to it can be improved, as a third **(33%)** of consumers think it is difficult to find.

5. Turkish

Restaurants at June 2019: 398
Five-year growth: 62.5%

The Turkish restaurant sector is very much the preserve of family-owned operators, but multi-site groups like Tas are emerging.

Understanding Market Growth Monitor: Definitions

"Independent" or **"free"** means that the venue is owned and operated independently – the individual owner has full decision-making responsibility for the venue's operation and profitability.

"Group" restaurants are managed sites of operators with more than one location, typically a collection of venues or portfolio of brands. They typically employ a manager to carry out the day-to-day running of the venue, according to the company's specifications and objectives.

"Managed" pubs are sites of operators with more than one location (both freehold and leasehold), typically a collection of venues or portfolio of brands. They typically employ a manager to carry out the day-to-day running of the venue, according to the company's specifications and objectives.

"Tenanted" or **"Leased"** outlets are run by individual tenants who pay a tenancy fee (or rent) to a corporate landlord, typically a pub company.

"Educational" includes sites like student unions and bars in student halls and universities.

"Entertainment" includes sites like cinema, theatre, concert hall, cabaret, festival hall and arts centres.

"Nightclubs" are late night venues that typically have DJs/live PAs, music and related entertainment.

Focus: Universities

As the 2019 intake of students prepares to head off to university, many will be scoping out the best pubs, bars, restaurants and clubs to visit—and they won't be short of choice. CGA's Outlet Index (the database that drives Market Growth Monitor) shows that there are no fewer than 993 licensed premises within a half-mile radius of the London School of Economics, for instance; 299 are the same distance from the University of Edinburgh, and 283 from Liverpool John Moores University.

In general, these student-heavy areas are performing ahead of the general market in terms of site numbers. While Britain has **5.3%** fewer licensed premises than five years ago, key university areas (Top 20 British Universities with the highest number of licensed outlets within half a mile) have **5.0%** more. Five-year growth in Britain's food-led premises is 1.5%—but in university areas it is **11.4%.**

Of course, this trend is about much more than universities. It also reflects the growing reputation of many big cities for eating out, and moves by big pub and bar brands to target city centres rather than suburbs and towns. But it does suggest that university vicinities are vibrant areas, and that students remain a vital target market for operators, despite reports that they are spending and drinking less than previous generations. They are changing the way they spend their leisure time though. Analysis here of three key drink-led segments—educational sites like student unions, entertainment venues and nightclubs—reveals contrasting fortunes. Britain's number of nightclubs has dropped by **12.2%** in the last 12 months, but the educational and entertainment segments have seen modest net new openings. With interest in experience and entertainment-led nights out rising, competition in the traditional 'big night out' space has clearly diversified and intensified.

11.4% GROWTH

in food-led premises over **5 years** in university areas

Table 1—Site numbers: University areas v Britain

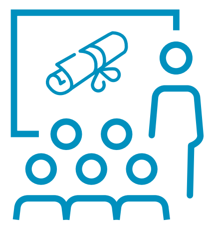
University numbers refer to the total sites within a half-mile radius of the 20 British universities with the most licensed premises

	Sites at June 2019	% Change v June 2018	% Change v June 2014
GB total	123,359	-2.4%	-5.3%
Uni total	3,845	-0.6%	+5.0%
GB food-led	43,278	-2.2%	+1.5%
Uni food-led	2,018	-1.2%	+11.4%
GB drink-led	68,826	-2.5%	-9.6%
Uni drink-led	1,614	-0.4%	-4.6%

Table 2—Trends in educational, entertainment and nightclub venues

	Sites at June 2019	Change v June 2018	Change v June 2014	% Change v June 2018	% Change v June 2014
Educational	774	+8	-117	+1.0%	-13.1%
Entertainment	4,175	+63	+757	+1.5%	+22.1%
Nightclub	1,651	-230	-523	-12.2%	-24.1%

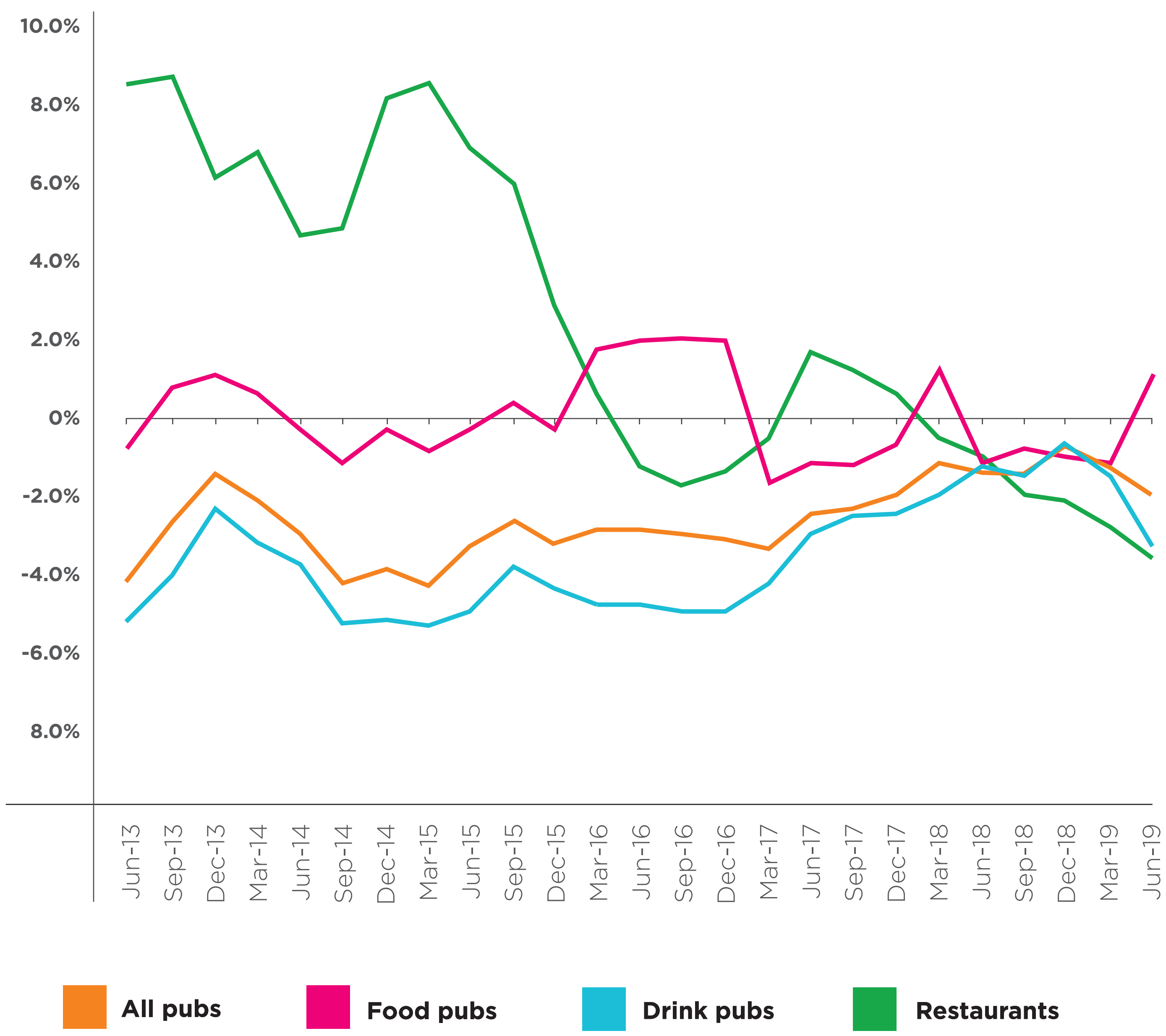
1.0% INCREASE



in **'educational'** licensed premises (such as student unions and bars) in the last year

The GB out-of-home market over the last five years

Growth/decline in site numbers vs a year ago - quarterly view



Comment from AlixPartners

The rapid growth of restaurants focused on certain cuisine types highlights how they can quickly find favour in response to the fast-changing tastes of British diners. The Asian-led part of the restaurant market is of particular interest to investors. It is popular with consumers and there is a comparative lack of chains with national scale, making it ripe for further M&A activity.

We would expect to see Private Equity be increasingly active in this segment of the market, in response to this onsumer-led demand. However, overall market pressures can still result in valuations and terms falling short of seller's expectations. This was shown by the owners of Thai restaurant brand Giggling Squid choosing not to sell at the current time after its recent marketing process.

Graeme Smith, managing director, AlixPartners, gsmith@alixpartners.com

Changing shape of the GB out-of-home market

Total site numbers by type of business, with one and five year changes

Sector	Segment	Tenure	June-14	June-18	June-19	19 vs. 14	19 vs. 18
GB		Total	123,359	119,800	116,880	-5.3%	-2.4%
		Managed	18,949	20,755	21,021	10.9%	1.3%
		Free	78,341	77,892	75,777	-3.3%	-2.7%
		Leased	26,069	21,153	20,082	-23.0%	-5.1%
Total Food-led Venues			43,278	44,936	43,926	1.5%	-2.2%
Total Drink-led Venues			68,826	63,840	62,213	-9.6%	-2.5%
Total Accommodation-led			11,255	11,024	10,741	-4.6%	-2.6%
Food-led	Branded Food Pub	**Managed**	**2,198**	**2,528**	**2,519**	14.6%	-0.4%
	Café/Wine Bar	**Total**	**6,296**	**6,593**	**6,398**	1.6%	-3.0%
		Free	4,695	4,948	4,743	1.0%	-4.1%
		Leased	438	328	292	-33.3%	-11.0%
		Managed	1,163	1,317	1,363	17.2%	3.5%
	Food Led	**Total**	**8,068**	**7,684**	**7,809**	-3.2%	1.6%
		Free	2,802	2,717	2,814	0.4%	3.6%
		Leased	4,004	3,692	3,603	-10.0%	-2.4%
		Managed	1,262	1,275	1,392	10.3%	9.2%
	Restaurant	**Total**	**25,623**	**27,189**	**26,265**	2.5%	-3.4%
		Free	20,676	21,126	20,312	-1.8%	-3.9%
		Leased	267	262	224	-16.1%	-14.5%
		Managed	4,680	5,801	5,729	22.4%	-1.2%
	Rural Character	Total	1,093	942	935	-14.5%	-0.7%
		Free	575	513	514	-10.6%	0.2%
		Leased	459	384	371	-19.2%	-3.4%
		Managed	59	45	50	-15.3%	11.1%
				Leased			
Other	Guest/Boarding House	**Total**	**3,656**	**3,680**	**3,336**	-8.8%	-9.3%
		Free	3,556	3,571	3,228	-9.2%	-9.6%
		Leased	11	9	10	-9.1%	11.1%
		Managed	89	100	98	10.1%	-2.0%
	Hotel	**Total**	**7,599**	**7,344**	**7,405**	-2.6%	0.8%
		Free	4,802	4,357	4,348	-9.5%	-0.2%
		Leased	330	281	269	-18.5%	-4.3%
		Managed	2,467	2,706	2,788	13.0%	3.0%
				1,320			
Drink-led	Circuit Bar	**Total**	**9,107**	**7,888**	**7,789**	-14.5%	-1.3%
		Free	2,900	2,931	2,920	0.7%	-0.4%
		Leased	3,242	2,490	2,349	-27.5%	-5.7%
		Managed	2,965	2,467	2,520	-15.0%	2.1%
	Community/ Drink Led/Local	**Total**	**28,119**	**24,347**	**23,511**	-16.4%	-3.4%
		Free	8,874	8,303	8,190	-7.7%	-1.4%
		Leased	17,179	13,611	12,883	-25.0%	-5.3%
		Managed	2,066	2,433	2,438	18.0%	0.2%
	Educational	**Free**	**891**	**766**	**774**	-13.1%	1.0%
	Entertainment	**Total**	**3,418**	**4,112**	**4,175**	22.1%	1.5%
		Free	2,934	3,512	3,513	19.7%	0.0%
		Leased	15	12	10	-33.3%	-16.7%
		Managed	469	588	652	39.0%	10.9%
	Night Club	**Total**	**2,174**	**1,881**	**1,651**	-24.1%	-12.2%
		Free	1,600	1,406	1,235	-22.8%	-12.2%
		Leased	76	48	40	-47.4%	-16.7%
		Managed	498	427	376	-24.5%	-11.9%
	Sports/Social	**Total**	**25,117**	**24,846**	**24,313**	-3.2%	-2.1%
		Free	24,036	23,742	23,186	-3.5%	-2.3%
		Leased	48	36	31	-35.4%	-13.9%
		Managed	1,033	1,068	1,096	6.1%	2.6%

The 10 numbers you need to know...

116,880
Total number of licensed premises in Britain at June 2019

2.4%
DECLINE in licensed premises in past year

5.3%
DECLINE in licensed premises in past five years

3.4% **DECLINE** IN GROUP RESTAURANTS IN THE LAST YEAR

2.0%
DECLINE IN PUBS AND BARS IN THE LAST YEAR

1,879
GROUP-OWNED ITALIAN RESTAURANTS AT JUNE 2019

58.5% INCREASE
IN GROUP-OWNED AMERICAN RESTAURANTS IN THE LAST FIVE YEARS

69.2%
Increase in **vegetarian** restaurants in the last **five years**

22.1% INCREASE
in 'entertainment' licensed premises in the last five years

11.4%
Growth in food-led premises over **5 years** in university areas

About the AlixPartners CGA Market Growth Monitor

This quarterly Monitor provides a snapshot of pub, bar and restaurant supply in Great Britain. All the data is drawn from CGA's Outlet Index, a comprehensive, continually updated database of all licensed premises. For more information about the Monitor, data or more granular analyses of locations or types of businesses, contact:

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