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Issue 23

MarketRecoveryMonitor

Review of GB pub, bar and restaurant supply

OCTOBER 2020

Introduction by Peter Martin

After a busy August, when hospitality operators were incentivised to reopen sites by the Eat Out to Help Out scheme, VAT cut, staycations and rising consumer spending, this latest Market Recovery Monitor shows that momentum has stalled.

Licensed premises continue to reopen for business, and we are also seeing start-ups and ambitious small groups taking advantage of lower barriers to entry in some places. But September's net increase in sites is a fraction of what it was in August, and a new landscape of much reduced capacity is emerging.

The slowdown in reopenings follows tight new restrictions on trading in the licensed sector, which has hit both consumer demand and opportunities to trade. Without new, sustained and targeted support for the sector from Government, there are widespread fears in the industry that the autumn will bring a wave of closures and job losses.

1. Overview

Four in five British pubs, restaurants, bars and other licensed premises are back trading after lockdown, but the pace of reopening dropped substantially in September.

This latest edition of the Market Recovery Monitor shows that just over 90,000 premises were open by the end of September, **80.4%** of the total known market.

This is up from the **76.3%** of sites open at the end of August and represents a net increase of nearly 4,000 sites over September, or around 130 openings a day. This is in contrast to the 15,500 sites that reopened during August.

Many of September's openings were relaunches of sites that had shuttered since March, often pending negotiations with landlords. Others were new openings that had been planned for the spring or summer but delayed by the pandemic.

80.4%

Of total licensed premises trading at end-September 2020

Despite the gains made since the end of lockdown, Britain still has nearly 25,000 fewer sites open than it did in March, and the big question now is how much of that shortfall will ever be made up – or is this the new trading reality reflecting the suppressed demand as many consumers remain cautious about going out to eat and drink?

As this graph shows, pubs continue to outpace restaurants for reopenings, with more than nine in ten community, food and high street pubs now trading. As a result, month-on-month growth rates are slower here than in segments like casual dining restaurants, where numbers nudged up from **83.8%** to **87.3%** in September. Nevertheless there are now 1,200 fewer casual dining restaurants trading than there were in March, and with CVAs and closure programmes from many big brands, many of those may never return.

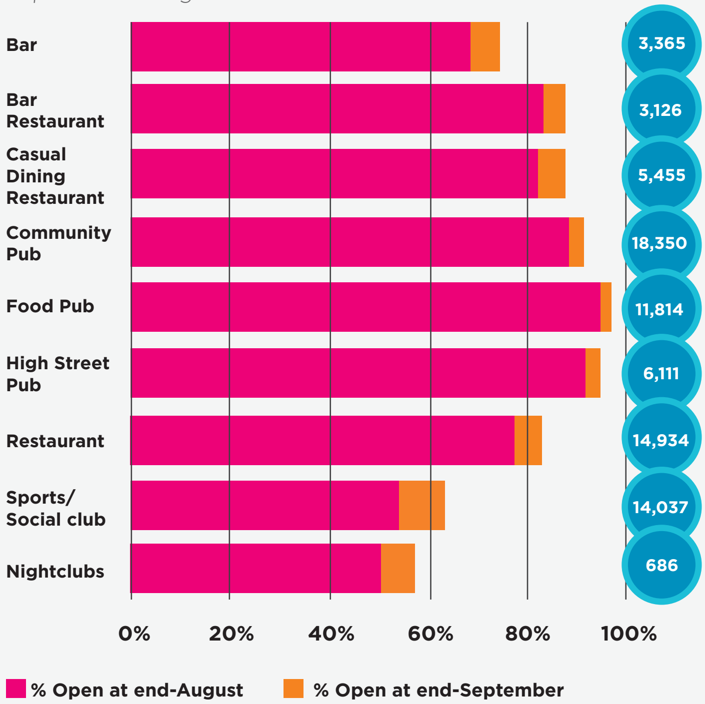
Openings remain stubbornly slow in other parts of the market like bars, where more than a quarter **(26.8%)** of sites remain closed.

Worst hit of all are nightclubs, barely half **(56.2%)** of which are open. While curfews on trading remain in force, there is little prospect of these numbers increasing.

Sales data, both published by individual companies and sector-wide figures produced by CGA, suggest that suburban restaurant and pub operators, especially in commuter towns around London, have traded ahead of the market as a result of many people continuing to work-from-home. However, this is not reflected directly in increased reopenings or new openings, suggesting other financial factors might be at work. To date, **79.4%** of suburban sites have reopened, compared to **81.7%** of high street venues.

Month-on-month reopenings: Selected market segments

% of sites trading by segment and increase in sites in September vs August



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2. Reopenings by tenure

By comparison with the managed and leased sectors, independent businesses have struggled to bounce back from lockdown. Despite a temporary boost from August's Eat Out to Help Out promotion, that trend continued into September.

Fewer than three quarters **(73.3%)** of independent operators have returned—well down on nine in ten **(91.7%)** of managed sites, and even further below the leased segment **(94.8%)**. The gap closed a little in September with a net increase of around 3,200 independent sites, but that is a fraction of the figure of 11,500 that came back in August.

Without the corporate backing of their managed counterparts, many independents—and family-run restaurants and sports or social clubs in particular—have struggled to get back on their feet. There are 21,300 fewer independents trading now than before the pandemic hit in March, and without financial support over the autumn it is likely that a significant proportion will be lost for good.

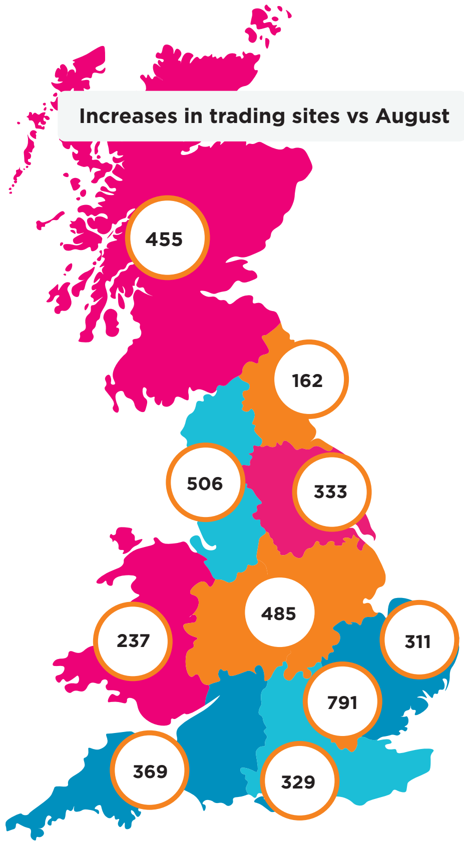
Openings at end-September: Tenure

	Managed	Independent	Leased
% Open at end-August	89%	68%	93%
% Open at end-September	92%	73%	95%
Sites open at end-September	19,337	52,993	17,861

3. Reopenings by location

The pattern of reopenings since lockdown has been similar across England, with the North East **(83.8%)** nearest to pre-pandemic capacity and Lancashire **(79.2%)** the furthest. All regions saw an increase of between three and five percentage points over August. Numbers of sites trading in Scotland **(76.0%)** and Wales **(76.7%)** continue to lag behind England due to their later release from lockdown, though they recorded the biggest month-on-month increases in September.

	September: Sites trading by location
East	6,868 (81.9%)
Central	12,059 (81.3%)
Lancashire	11,231 (79.2%)
Wales	4,637 (76.7%)
Greater London	17,572 (81.0%)
South & South East	8,583 (80.9%)
Scotland	7,850 (76.0%)
North East	4,302 (83.8%)
Yorkshire	8,603 (80.2%)
South West	8,468 (83.0%)



4. City centres

Curfews, working from home, limits on group sizes and consumers' anxiety about crowds have all worked against city centre operators since lockdown, but some have recovered faster than others. More than **85%** of licensed premises are now trading in Liverpool, Leeds, Newcastle and Nottingham—in sharp contrast to London, where only three quarters **(75.6%)** are back trading. Office closures have had a particularly damaging effect here, and some operators have concluded that potential sales do not justify opening while overheads like rents remain high.

Key city centres: % of sites trading at end-September

Includes the ten British city centres with most licensed premises. Figures indicate sites trading at end-September followed in brackets by end-August.

1. London **75.6% (71.2%)**
2. Manchester **83.6% (79.9%)**
3. Edinburgh **82.3% (78.8%)**
4. Liverpool **85.6% (81.5%)**
5. Glasgow **77.7% (74.3%)**
6. Birmingham **82.9% (79.6%)**
7. Leeds **85.7% (83.3%)**
8. Newcastle **85.1% (81.8%)**
9. Brighton and Hove **83.4% (81.2%)**
10. Nottingham **86.0% (84.2%)**

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Market summary: Numbers of total and trading sites across three key segments: food-led, drink-led and accommodation-led

		Total pre-lockdown sites (March)	Total known sites at end-September	Sites trading at end-September	% of sites trading at end-September	% change September v August	Share of market at end-September
All Venues	**Total**	115,108	112,172	90,191	80.4%	+4.6%	100.0%
	Managed	21,461	21,077	19,337	91.7%	+2.8%	21.4%
	Free	74,271	72,250	52,993	73.3%	+6.5%	58.8%
	Leased	19,376	18,845	17,861	94.8%	+1.2%	19.8%
Food-led venues	**Total**	43,126	41,805	36,406	87.1%	+2.5%	40.4%
	Managed	11,659	11,350	10,555	93.0%	+2.0%	29.0%
	Free	26,437	25,548	21,115	82.6%	+2.9%	58.0%
	Leased	5,030	4,907	4,736	96.5%	+1.1%	13.0%
Drink-led Venues	**Total**	61,229	60,205	46,080	76.5%	+6.5%	51.1%
	Managed	6,777	6,714	6,079	90.5%	+3.5%	13.2%
	Free	40,478	39,913	27,200	68.1%	+9.9%	59.0%
	Leased	13,974	13,578	12,801	94.3%	+1.3%	27.8%
Accomodation-led Venues	**Total**	10,753	10,162	7,705	75.8%	+4.0%	8.5%
	Managed	3,025	3,013	2,703	89.7%	+4.6%	35.1%
	Free	7,356	6,789	4,678	68.9%	+3.8%	60.7%
	Leased	372	360	324	90.0%	+0.6%	4.2%

Sources and definitions

Openings data in this report is sourced from CGA's Outlet Index, the leading database of licensed premises in Britain.

'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.

'Managed' outlets 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.

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

'Licensed' outlets are permitted to serve wine, beer and other alcoholic beverages.

Comment from AlixPartners

"With government support starting to taper off on a national basis and the impact of restrictions biting hard, further insolvency and CVA activity in the market is likely. What will life look like when the furlough scheme ends later this month? We have seen a number of sector companies announce plans to cut their workforce in recent weeks due to unsustainable trading levels. Management teams and investors are concerned on the impact on consumer confidence of government messaging and the spectre of new restrictions, such as those introduced in parts of Scotland and those expected to follow in the north of England. Cash remains king and operators will continue to seek ways to preserve as much as they can, but there is a significant risk that without increased government support in affected areas businesses will not be able to survive further lockdowns.

The sector is steeling itself for tough times ahead as we head into the autumn and winter months. Those that have taken on additional debt to survive this crisis will have a focus on how quickly profits can recover in order to pay this back and recover shareholder value. Of course, there is pain to come but the net result could be a set of leaner and more agile companies; those with sufficient capital that tackle the coming period with pragmatism and innovation will be in the best position to emerge on the other side and take advantage of the growth opportunities that arise."

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