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MarketRecoveryMonitor

Review of GB pub, bar and restaurant supply

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Hospitality's recovery tested by pricing pressures

Introduction by Karl Chessell, CGA director – hospitality operators and food, EMEA

While this edition of the Market Recovery Monitor shows a small decline in licensed premises in the first quarter of 2022, the sector is emerging from a tumultuous two years in better shape than some predicted. A net decline of **0.9%** of sites since December shows the 'Christmas hangover' has created more casualties, with some businesses opting to close after a final flurry of trading in December. But it also suggests that the underlying confidence of businesses and investors, and consumer demand, remain good.

Conditions in hospitality remain tough. Inflation continues to climb, and there is now enormous pressure on the costs of energy, food, drink and many more inputs. CGA and Fourth's latest Business Confidence Survey also highlights ongoing supply issues and shortages of workers, which is pushing up labour costs. Soaring prices for consumers are meanwhile squeezing the spare cash they can spend on meals and drinks out.

The end to VAT relief, and a lack of support measures in the Chancellor's Spring Statement, are making life even harder for businesses that have been weakened by the COVID crisis. The sector's long-term future remains good, but many licensed premises are now extremely vulnerable, and we can expect more closures in the coming months. There will be plenty of openings too, but it is clear that hospitality's road to recovery still has plenty of bumps to come.

-9,200

Net change in outlets between March 2020 and March 2022

-972

Net change in outlets between December 2021 and March 2022

1. Overview

After a turbulent start to 2022, the hospitality sector has recorded only a small net decline in its number of licensed premises, this edition of the Market Recovery Monitor shows. As of late March, Britain had a total of 105,908 licensed premises—**0.9%** short of the figure of December 2021, and **0.7%** ahead of the total back in September.

However, below this near-flat performance lies a lot of churn (see page 2). High numbers of businesses have closed their doors over the last six months, but in many cases expanding operators and new start-ups have rapidly opened them again. Turnover of sites is always brisk, but it has accelerated during the pandemic.

This table shows how some market segments have fared better than others in the last 12 months. For example, nightclubs have suffered significant net decline, and drink-led pubs have seen numbers trimmed too—but channels including bars and casual dining restaurants have grown, albeit modestly. As we see in this latest report, there is even greater variation in the fortunes of different tenures and locations (see page 2).

COVID's heavy toll on the sector can't be ignored. Since March 2020 there has been a net decline in numbers of 9,200 venues, or nearly 90 sites a week. The Market Recovery Monitor has clear and welcome signs of stability in recent months, but it remains an extremely fragile market, and one that in many ways looks very different to pre-COVID times.

Total sites by segment, March 2022 v March 2021 and December 2021

	Sites at March 2021	Sites at Dec 2021	Sites at March 2022	% change in sites, March 2022 v Dec 2021	% change in sites, March 2022 v March 2021
Bar	4,397	4,507	4,497	-0.2%	+2.3%
Bar restaurant	3,328	3,372	3,332	-1.2%	+0.1%
Casual dining restaurant	5,351	5,477	5,387	-1.6%	+0.7%
Community pub	19,154	19,126	18,843	-1.5%	-1.6%
Food pub	12,047	12,115	12,017	-0.8%	-0.2%
High street pub	6,259	6,265	6,195	-1.1%	-1.0%
Hotel	7,513	7,525	7,440	-1.1%	-1.0%
Large venue	4,484	4,559	4,551	-0.2%	+1.5%
Nightclub	1,127	1,035	1,017	-1.7%	-9.8%
Restaurant	16,847	16,878	16,657	-1.3%	-1.1%
Sports / social club	21,455	21,343	21,345	0.0%	-0.5%
Total	**106,586**	**106,880**	**105,908**	**-0.9%**	**-0.6%**

105,908

Total licensed premises in Britain at March 2022

Contact: CGA Senior Insight Consultant Ted Mulcauley, ted.mulcauley@cgastrategy.com

2. Trends by tenure

The last two years in hospitality have shown a sharp divide in trends between independent and managed operators. There is evidence that this divergence is now narrowing, but conditions remain harder for smaller businesses without the financial reserves of some bigger pub, bar, restaurant and hotel groups.

In the three months to end-March, the independent sector has seen a net decline of **1.0%** of venues—fractionally ahead of the figure of **1.3%** in the managed world.

In the longer run, the managed side of the market has been a stronger performer. In the last 12 months, the independent sector has seen a net contraction of **1.0%**, but the managed side has been in modest growth of **1.7%**. On a two-year measure since the start of the pandemic in 2020, indies' total numbers are **8.7%** down—a much steeper drop than the **4.8%** in the managed sector.

The inflationary pressures that besiege hospitality at the moment could exacerbate this trend. Managed groups have the advantages of scale and buying power that smaller firms lack, and may be better insulated against the rising costs. Business of all sizes will need proper government support in the months ahead, and the withdrawal of relief on VAT was hardly an encouraging sign.

Total sites by tenure, March 2022 v March 2021 and December 2021

	Sites at March 2021	Sites at Dec 2021	Sites at March 2022	% change in sites,March 2022 v Dec 2021	% change in sites, March 2022 v March 2021
Managed	20,096	20,708	20,438	-1.3%	+1.7%
Independent	68,453	68,470	67,786	-1.0%	-1.0%
Leased	18,037	17,702	17,684	-0.1%	-2.0%

3. Trends by location

As has been the case since the start of the pandemic, there have been small but significant variations in openings and closures from region to region and city to city since the end of 2021.

Particularly notable are the differences between Britain's nations. Across all regions of England, there was a net decline in licensed premises of **0.9%** over the last quarter. In Scotland the comparable figure was **1.1%** and in Wales it was even higher at **1.5%**.

This is at least partly due to the tougher COVID restrictions in Scotland and Wales than in England. They had a heavy impact on hospitality in the run-up to Christmas, and may have led some venues in Scotland and Wales to shut their doors soon after the festive period.

There have also been striking fluctuations from city to city in the last three months. As this table shows, three regional powerhouses, Leeds, Nottingham and Liverpool, have recorded a net increase in city centre licensed premises since the end of 2021. Two more, Newcastle and Manchester, have been stable. This shows the confidence of operators and investors in these five cities, which have all grown more popular as both residential and leisure hubs in the last few years.

However, the difficulties of trading in Scotland have caused a net contraction of sites in both Edinburgh and Glasgow. Sandwiched between them in these rankings is London, which has seen a net drop of **1.5%** of its premises since the end of 2021, and of **2.4%** since last March. Sales have been slower to return in the capital than elsewhere, as many office workers have continued to work from home and tourists have remained cautious about travel. There are signs that London footfall is rising, and its long-term future as Britain's hospitality centre is not in question—but for now it remains challenging.

Total sites by city-centre, March 2022 v December 2021 and March 2021

Includes ten British city centres with the most licensed premises at March 2022. Ranked by % change since December 2021

	Sites at March 2022	% change, March 2022 v December 2021	% change, March 2022 v March 2021
Leeds	350	**+1.4%**	+7.0%
Nottingham	293	**+0.7%**	0.0%
Liverpool	453	**+0.2%**	+1.8%
Newcastle	352	**+0.0%**	+1.4%
Manchester	625	**-0.2%**	+2.1%
Brighton	331	**-0.6%**	+1.5%
Edinburgh	530	**-1.1%**	-1.1%
London	3,067	**-1.5%**	-2.4%
Glasgow	458	**-1.7%**	-2.3%
Birmingham	360	**-2.2%**	-3.0%

The churn effect

The level of churn in hospitality is at its highest point for some time. The rate of closures is high, but so too is the pace of new openings, with ambitious businesses snapping up vacated properties that come fully fitted and, in many cases, with attractive deals. As during all difficult periods, the stress on assets presents difficulties for some businesses, landlords and investors, but opportunities for others.

Research for the Market Recovery Monitor shows the overall rate of churn is currently 0.6. In other words, for every ten venues that have closed since the end of 2021, six have opened.

Churn is not a perfect measure of relative strength, but it is a decent indicator of the stream of new entrants in each segment. Some, like casual dining, restaurants, community pubs and high street pubs have hovered at a modest level of around 0.5—one new opening for every two closures. It's lower in channels like nightclubs and hotels, where empty properties have been harder to fill. But it's higher in others like the bar sector, where there have been nine openings for every ten closures, and the ratio is seven to ten in both bar restaurants and food pubs.

Contact: CGA Senior Insight Consultant Ted Mulcauley, ted.mulcauley@cgastrategy.com

Comment from AlixPartners

"This overall decline in sites underlines both the fragility of the sector and the importance of the festive period in feeding profit levels. With Christmas and New Year trading windows curtailed by further pandemic-induced restrictions, businesses saw vital sales slip through their fingers.

"While it is encouraging to see a smaller decline in sites than we have in past quarters – and robust performances from some within the industry – the sector is still 9,200 sites lighter than when we entered the pandemic two years ago. Now, rising inflation, continued supply chain issues, and labour shortages are likely to widen the gap further between the winners and losers in the industry. This could lead to even greater churn, impacting independents, sub-scale businesses, and those with less-than-compelling consumer propositions and weaker brands in particular.

"The moratorium on landlord action also ended at the end of March and, as this expires, it may lead to more closures as landlords seek foreclosure due to unpaid rent. During this extremely challenging time, many businesses will be revisiting liquidity forecasts that may have become out-of-date and reassessing the validity of any capex and new site roll-out plans. Maintaining stability of supply will also be critical, as will be the careful consideration, testing and implementation of strategic pricing options."

Graeme Smith, a Managing Director at AlixPartners, gsmith@alixpartners.com

Market summary: Total sites across three key segments: food-led, drink-led and accommodation-led

		Sites at March 2021	Sites at December 2021	Sites at March 2022	March 2022 v December 2021	% change in sites, March 2022 v December 2021	% change in sites, March 2022 v March 2021
All Venues	**Total**	**106,586**	**106,880**	**105,908**	**-972**	**-0.9%**	**-0.6%**
	Managed	20,096	20,708	20,438	-270	-1.3%	+1.7%
	Independent	68,453	68,470	67,786	-684	-1.0%	-1.0%
	Leased	18,037	17,702	17,684	-18	-0.1%	-2.0%
Food-led Venues	**Total**	**38,923**	**39,220**	**38,783**	**-437**	**-1.1%**	**-0.4%**
	Managed	10,558	10,793	10,670	-123	-1.1%	+1.1%
	Independent	23,633	23,726	23,373	-353	-1.5%	-1.1%
	Leased	4,732	4,701	4,740	+39	+0.8%	+0.2%
Drink-led Venues	**Total**	**57,809**	**57,776**	**57,383**	**-393**	**-0.7%**	**-0.7%**
	Managed	6,541	6,885	6,733	-152	-2.2%	+2.9%
	Independent	38,302	38,222	38,027	-195	-0.5%	-0.7%
	Leased	12,966	12,669	12,623	-46	-0.4%	-2.6%
Accommodation-led Venues	**Total**	**9,854**	**9,884**	**9,742**	**-142**	**-1.4%**	**-1.1%**
	Managed	2,997	3,030	3,035	+5	+0.2%	+1.3%
	Independent	6,518	6,522	6,386	-136	-2.1%	-2.0%
	Leased	339	332	321	-11	-3.3%	-5.3%

Sources and definitions

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

'Independent' 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.

'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.

Contact: CGA Senior Insight Consultant Ted Mulcauley, ted.mulcauley@cgastrategy.com