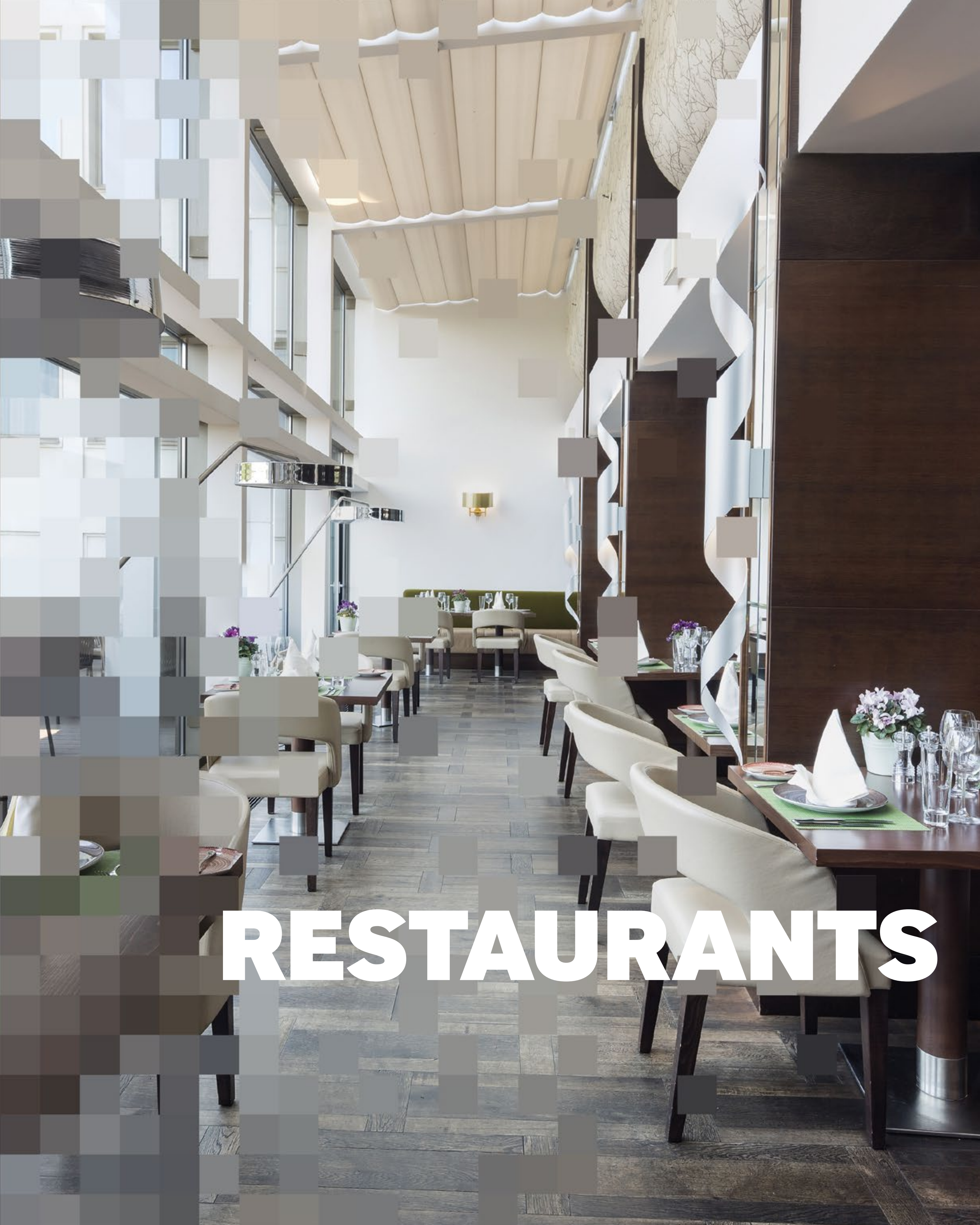


RESTAURANTS

While the restaurant sector featured heavily in the news during 2018, independent and smaller operators can be cautiously optimistic as we enter 2019 and innovation, new concepts and technology come to the fore, strengthening the sector as a whole.

SIMON CHAPLIN
Senior Director, Corporate Pubs & Restaurants

Funding for restaurants is still forthcoming despite the headlines.

THE HIGH STREET

During 2018 more high profile operators used CVAs (Company Voluntary Arrangements) to restructure a business, primarily to manage underperforming sites and reduce rent costs for a period of time. While a viable solution in many cases, CVAs can also be a precursor to administration.

Prime candidates likely to turn towards CVAs are multi-site operators who expanded quickly over the last three years in the race for growth. In 2015, the growth in casual dining looked unstoppable and private equity pushed for expansion, which sometimes extended into areas where the brand style didn't fit or where competition saw rents escalate. Considering these factors, further casualties on the high street are inevitable.

In the first half of 2019, we expect at least three larger corporate operators will resort to CVAs, the only viable defence for many operators in the current market, and this number could double during the rest of 2019 if consumer confidence does not improve.

BRAND

Out of the top 10 brands, Nando's remains the only one still actively seeking new sites. Having carefully expanded over 25 years throughout the UK, Nando's has become the restaurant consumers most want to see on their street. The brand is more up-market than a fast food chain and has clever promotions, including discounts to the likes of NHS workers and the infamous 'Black Card,' which attracts music and sports stars while still promoting the brand.

Wagamama has also been performing well, remaining top of their class with measured and organic growth to reach its current portfolio of 130 plus UK sites. Its Asian style menu is seen as healthy and affordable, maintaining a wide appeal with consumers. While future growth opportunities in the UK are limited, they are actively expanding internationally. We wait to see if their acquisition by The Restaurant Group, the owner of Frankie & Benny's and others, will see this growth accelerate.

Nando's and Wagamama are two prime examples of operators who continue to succeed despite high street casualties, having established a unique signature offering that has withstood the test of time with its target audience. Operators seeking to introduce new concepts and customer experiences must also caution against straying too far from their principle offering. Menu expansion opposed to a complete change in menu will prove to be far more effective. For example, Nando's has introduced a breakfast offering, which does not put the principle offering at risk.

FUNDING

Funding for restaurants is still forthcoming despite the headlines, but the sources are wide ranging. Traditional high street banks have never been suitable from a start-up point of view, as in most cases there is only the leasehold property as security. Crowdfunding and emerging challenger banks, keen to back the next trend, have also become popular avenues for an ambitious existing operator and are seen as a catalyst to achieving success.

Private equity comes in all shapes and sizes, with some of the best focused on small emerging chains, who then cleverly sell out when the group has grown to around 30

Consumer preferences continue to shift towards more imaginative dining experiences.

strong. For example, private equity firm, Piper sold Be At One, whose portfolio had grown from 11 to 33, and continues to support a number of burgeoning hospitality businesses.

The premier players in private equity are more aggressive, pushing for growth, which can result in mistakes, but if an operator finds the right strategy, the rewards can be great, as with Bridgepoint's sale of Pret a Manger to JAB Holding for £1.5 billion last spring.

DEVELOPMENT AND EXPANSION

As national brand operators begin to retreat from secondary markets, independent and smaller operators are able to benefit from the emergence of better deals. Smaller operators seek to acquire one to two new sites a year, expanding from cashflow, however a small team will be self-limiting in an attempt to grow. Unconstrained by brand image, most small and independent operators are able to adapt their offering to the local consumer and can be more nimble with workforce and suppliers. The likes of pubs and small family businesses are increasingly recognised for the excellence of their food, as opposed to the formality of service. Conversely, multi-site operators can look to create individual menus for each site to include locally sourced products and tailor their local offering.

Independent and smaller operators can look forward to great opportunities to capture customer interest, as consumer preferences continue to shift towards more imaginative dining experiences. Unconstrained by brand image, most small and independent operators are able to adapt their offering to the local consumer.

INNOVATION

The popularity of new concepts has seen many establish numerous pitches at street food markets, pop ups and box parks. New concepts could also create larger, multi-use spaces by taking advantage of the prevalence of space on the high street, where landlords are also beginning to offer new benefits and incentives, such as deals on rents, nil ingoing premium cost, planning permission and reduced ingoing costs. This trend is certain to grow over the next two years. Operators such as Flight Club and the indoor golf operator, Swingers, have successfully combined the bar and dining with an activity.

The growth of casual dining started in mid-market all-encompassing chains, which had the benefit of appealing to a wide audience. The casual dining offering has now become increasingly diverse, ranging from street food to steak houses.

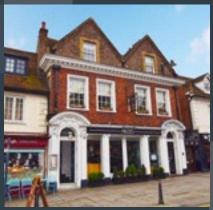
TECHNOLOGY

The consumer has become lazy whilst also becoming more demanding. In the instantaneous world we live in, it is not surprising that 'Grab & Go' is one of the fastest growing sectors. Additionally, the rapid expansion of delivery services, not just from your local curry house but also from most high street brands via Deliveroo and Uber Eats, is causing concern amongst operators trying to improve margins. While street food is a great source of food innovation, changes on the high street are mainly driven by technology and customer experience, as operators try to extract more money from every visit.

Most restaurant operators have now embraced the web, but more could also utilise social media to drive customers through the door and promote the business to a wider audience. Many operators turn to technology to make ordering and paying even simpler, such as going cashless, using apps or table top technology, while some utilise technology to train staff via video games, which replicate scenarios with customers. The ability to monitor customer behaviour to the finest of detail has allowed operators to maximise factors, such as table layout and menu placement, and understand customer peaks and flows, which can be used to improve staff rotas, subsequently mitigating wage costs.

OPERATOR COSTS

Whilst the voucher culture has somewhat disappeared, discounting culture has not, which independent operators are unable to compete with. Sensitivity around pricing is unlikely to change in 2019. While operators



CASE STUDY
Former Prezzo, Surrey

Acting on behalf of the owner of the freehold investment, Christie & Co was contracted to find a new tenant for a building in Reigate town centre, formerly occupied by Prezzo prior to their CVA in early 2018. Eager to maintain covenant strength, the leasehold was quickly brought to the market and let to Nando's, who sought to increase their presence in the busy Surrey town, on a new lease.

will attempt to absorb costs, many will need to pass on costs to the consumer in 2019. Many operators will still need to invest heavily in the fit out of their space and if customer experience is enhanced or improved, then cost should not become as problematic in the mid-market.

Tipping remains contentious, as the market becomes increasingly cashless and contactless, and is not seen as an effective route to reward staff. Minimum wage has helped, and we will see HMRC become involved to ensure the Tronc system can operate more smoothly. Customers can expect to see service charges on the bill more often, but in combination with rising menu prices, the cost of a night out will increase and effectively decrease the number of restaurant visits as a result.

RATES AND RENTS

Unlike retail shops, pub and restaurant operators need to invest heavily in the fit out of their space. Short leases, specifically those with sub five years remaining, restrict the time available to generate return, although many will seek a tenant break clause at five or 10 years in case situations grow worse. Longer leases also have value when goodwill can be attached for any exit in the future.

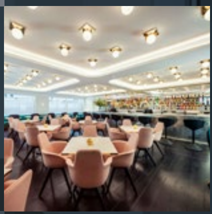
The 2018 Autumn Budget announced some rate relief for small businesses, and rents are set to stabilise at worst and will reduce significantly in many areas. With retail high streets failing, pubs and restaurants are not in a position to rescue them unless rent costs stabilise with the support of local authorities and landlords.

BREXIT

With 3,000 restaurants having opened in three years, good staff were in high demand and equally hard to find. Whilst Brexit concerns have meant the influx of new EU staff has slowed, the number of restaurant closures has seen fewer people seeking new positions. Leading software platform, Fourth Analytics, reported that EU nationals composed 40% of the UK's hospitality workforce as of June 2018, pressuring operators to become less dependent on talented migrant chefs and simplify menus, as the influx of new EU staff slows. Should food import costs rise depending on the Brexit deal that is agreed, better menu creation and sourcing more ingredients from the UK or outside the EU will keep costs to a minimum. There has also been a drive to encourage UK residents into the industry, which could be achieved through increased minimum wage and clear career development.

As national brand operators begin to retreat from secondary markets, independent and smaller operators are able to benefit from the emergence of better deals.

While street food is a great source of food innovation, changes on the high street are mainly driven by technology and customer experience



CASE STUDY

Bronte Restaurant and Bar, London

Bronte Restaurant and Bar, a modern and elegant restaurant overlooking Trafalgar Square in London was sold to Saudi Delta Group, a Middle East based operator, through Christie & Co. The group sought to acquire a prime location site in the capital city for their first restaurant in the UK. The site was sold off an asking price of £850,000 for the leasehold interest and has now reopened as the Blue Garden.

CASE STUDY

Churche's Mansion, Cheshire

In September, Christie & Co sold Churche's Mansion, a former antique showroom in Nantwich, Cheshire, to an independent operator, with plans to convert the space and open a new, quality seafood restaurant. Occupying a Grade I listed landmark building, the site previously traded as a tea room and restaurant from 1930 to 1986, attracting numerous famous visitors and established a renowned reputation.

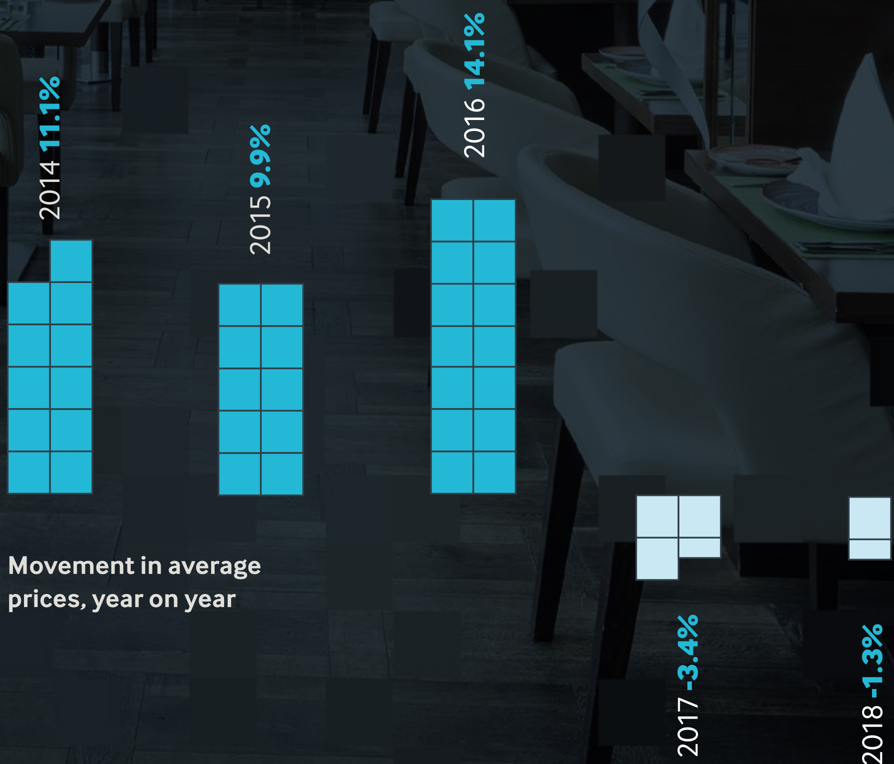
MARKET PREDICTIONS

Further causalities of high street restaurant brands are expected in the first half of 2019.

We will see growth in the number of independent, multi-site operators as landlords seek alternative tenants.

Competition in the delivery market will heat up with increasing benefits for restaurants.

EU nationals composed 40% of the UK's hospitality workforce as of June 2018



Movement in average prices, year on year