LICENSED PREMISES MARKET

REVIEW 2019
OUTLOOK 2020

Morrissey's

Lisney

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PREMISES SOLD IN 2019

DATA FOR Q3 2019 SHOWS THAT THE IRISH EMPLOYMENT MARKET REMAINS STRONG

02 CONTINUED GROWTH

INTRODUCTION & ECONOMIC OVERVIEW

Irish economic activity continues to grow at a solid pace.

Q3 national account figures show that GDP grew 5.0% annually, despite Brexit uncertainty causing a slowdown in business investment. However, it should be noted that both GDP and GNP measures may be affected by volatility caused by multinational activity. Strong domestic demand and the strength of the labour market are superior measures of the strength of the Irish economy. Consumer spending grew at a steady speed of 3.3% annually in Q3. Spending on goods was strong, relative to services. GNP declined 0.2% annually. Financial & Insurance Activities (Value Added) grew 5.7% in volume in the quarter. Professional, Administrative & Support Services recorded a 5.1% increase, and Public Administration, Education and Health increase 1.5% in the same period. Agricultural declined 0.8% in volume in Q3 2019, while Distribution, Transport, Hotels & Restaurants declined 1.0% in the same period.

Data for Q3 2019 shows that the Irish employment market remains strong. In the year to Q3 total employment rose by 2.4% to over 2.3m. Unemployment fell by 11.0% or 15,800 persons in the year to Q3, making it the 29th consecutive quarter of annual unemployment decline. The unemployment rate at the end of Q3 2019 was 5.2%.

ECONOMIC OVERVIEW

ECONOMIC ACTIVITY AND OUTLOOK

Consumer sentiment remains mixed. In November, the KBC Consumer Sentiment Index recorded its first significant gain since May, increasing to 77.1 from 69.5 in October. October's index was the lowest sentiment seen since August 2013. Brexit remains the primary concern and the prospect of a no-deal outcome weighs heavily. As such, there has been a shift in consumer behaviour towards cautious spending. However, ahead of the Christmas period, buying plans improved modestly, suggesting improvements in consumer spending are expected.

Data from the CSO reveals the volume of core retail sales increased by 3.2% in the year to October 2019 (motor trades excluded), while the value increased by 0.5% over the same period. The bar sector i.e. serving of beverages, recorded reductions in the period with the value of sales decreasing by 1.5%, while the volume of sales for bars declined by 4.3%.

Tourism remained a strong contributor to the market with more than 10 million visitors making trips to Ireland; as recorded by the CSO for the first eleven months of 2019. Of the total visitors, Britain accounted for 35% of the trips made showing a marginal increase of 0.2% on the 2018 statistics; which is positive amid the uncertainty surrounding Brexit.

Looking to the year ahead, while forecasts for headline GDP remain healthy and top EU figures, indicators of underlying growth are positive but more cautious as the outlook for true growth moderated throughout 2019. Secondly, international risks and the global economic outlook bear strong influence on the trajectory of the Irish economy in the short and medium term.

+3.3%
Consumer spending

+5.7%
Financial & Insurance Activities

+5.1%
Professional, Administration & Support Services

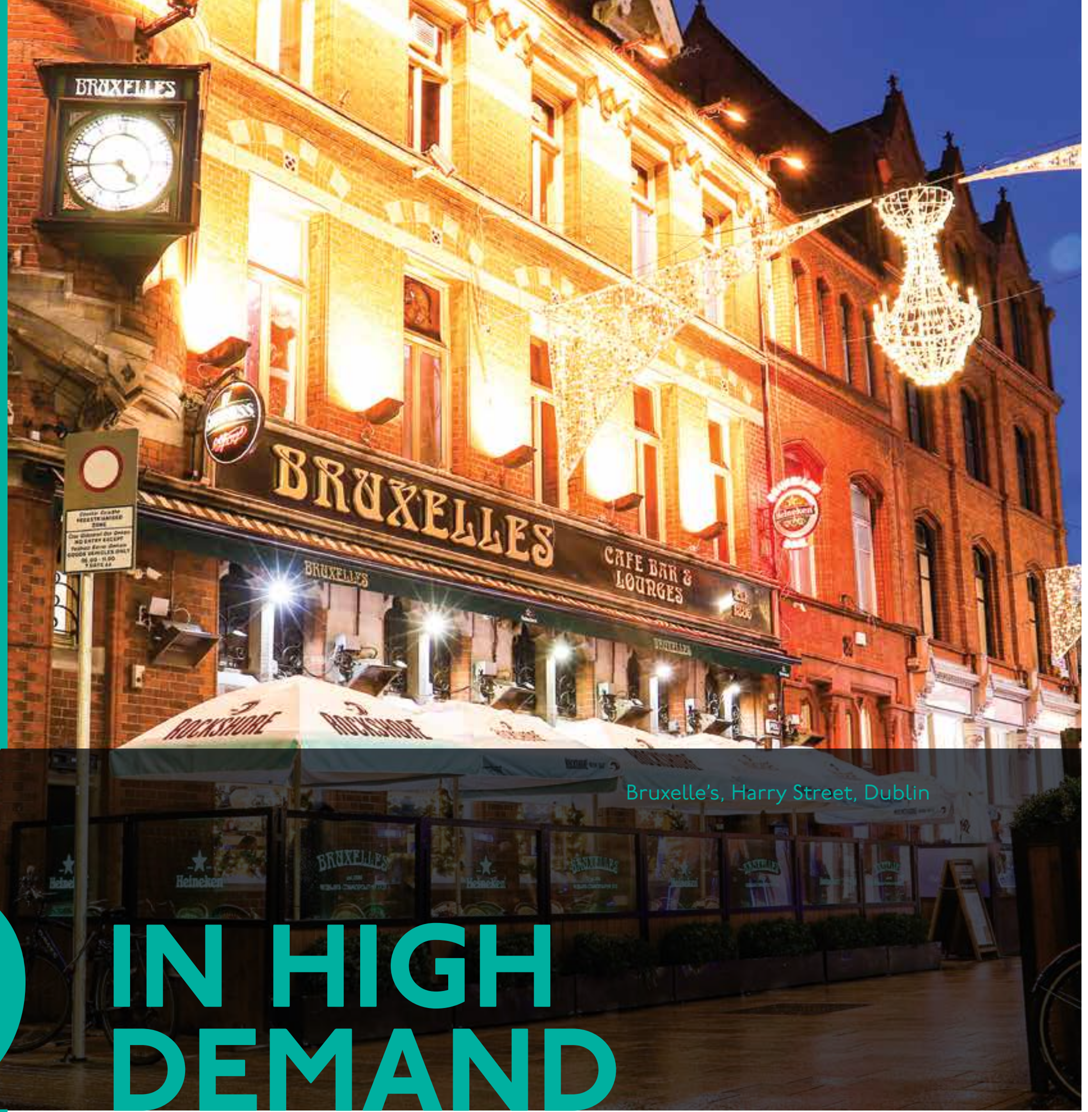
+1.5%
Public Education & Health

-0.8%
Agriculture

-1.0%
Distribution, Transport, Hotels & Restaurants

2019 Q3 National Account Figures

THE DEFINING CHARACTERISTIC OF THE 2019 LICENSED PREMISES MARKET WAS THE DRAMATIC INCREASE IN THE VOLUME OF HIGHER VALUE, WELL-LOCATED PRIME DUBLIN PUBS BEING SOLD



Bruxelle's, Harry Street, Dublin

03 IN HIGH DEMAND

OVERVIEW OF THE LICENSED PREMISES PROPERTY MARKET 2019

The 2019 licensed premises property market again witnessed strong demand with inadequate supply and witnessed a reduction in the total number of sales concluded for the fifth consecutive year.

The defining characteristic of the 2019 Licensed Premises market was the dramatic increase in the volume of higher value, well-located prime Dublin pubs being sold. 37.5% of 2019 transactions accounted for sales exceeding €4m as opposed to 5.88% of the market in 2018.

The combined value of the 16 licensed premises sold in 2019 exceeded €57m. This represents a notable increase when compared to the rates of €23.26m in 2018 and €36.57m in 2017, albeit lower than that of €62.17m realised in 2016 which enjoyed a significantly higher volume of assets transacting with 35 sales recorded in that year.

Activity within the €0 to €4m range accounted for almost two thirds of the market share with 5 transactions completed in both the €0 to €2m & €2m to €4m categories.

Off-market sales were also a strong feature of the 2019 market accounting for almost 20% of total activity and also just over 35% of the total value realised.

ACTIVITY

Notable off-market transactions were Bruxelle's on Harry Street, which sold in March to the Louis Fitzgerald Group for a reported €9.2m and The Jar on Wexford Street which was acquired by the Linnane's in July for a price in the order of €5.5m.

Suburban premises continued to experience demand, specifically those occupying large sites and key positions within established residential quarters that could afford alternate use and redevelopment potential. Principle examples of these sales are Rosie O'Grady's in Harolds Cross which was acquired off-market by a developer for a sum in excess of €5.5m, Kiely's in Donnybrook which was acquired by Westridge Real Estate for a sum in the order of €5.0m and Uncle Tom's Cabin in Dundrum, acquired by UTC Developments for a sum in the order of €2.6m.

There were a significant number of sales agreed that had not completed by the close of the year. Examples of these include The Magic Carpet in Corneslcourt, The Kestrel in Walkinstown, The Bowery in Rathmines, The Copper Bar in Sandyford, The Punch Bowl in Booterstown, The Concorde in Edenmore, The Cabra House in Cabra and Murray's in Kilmainham. Should these sales together with the others agreed conclude in the coming months it will bode well for the start of the 2020 market activity and the large proportion of sales that had been agreed nearing the end of 2019 further illustrates the renewed demand for licensed premises within the general Dublin market.

ACTIVITY

Activity in the Dublin market contracted slightly in 2019 with 16 transactions recorded compared to 17 in 2018, 31 in 2017 and 35 in 2016.

Whilst the volume of sales completed in 2019 had reduced for the fifth consecutive year and also remained below the ten-year average of 23 units, the notable difference was the increase in capital value realised. 37.5% of sales completed exceeding €4m per asset. By comparison, activity from 2010 to 2018 was primarily rooted in the €0 to €2m bracket accounting for an average of 87.2% of sales over the preceding 9-year period.

This continued reduction in the volume of sales remains a factor of market realignment. Licensed premises operators that have been active in the repositioning of their businesses and who have subsequently experienced growth and return to profit have generally shown a reluctance to offer their premises for sale.

Furthermore, the improvement in domestic consumer sentiment and discretionary spend has also led to operators nominating to retain their assets. This in turn has led to frustration amongst those that are seeking to expand with limited availability in the marketplace leading to an increase in off-market approaches being made.

Activity in the adjoining counties to Dublin was predominantly characterised by low value units in small towns or peripheral rural locations. Exceptions to this were the sales of Thomas Fletcher's in Naas Co. Kildare and Chrissy D's in Bray Co. Wicklow, both of which were substantial properties with established businesses, and which both secured prices in excess of €1.0m each.

35 TRANSACTIONS IN 2016

31 TRANSACTIONS IN 2017

17 TRANSACTIONS IN 2018

16 TRANSACTIONS IN 2019

Number of recorded transactions in the Dublin market 2016-2019

Davy Byrne's, Duke Street, Dublin

SUPPLY

The 2019 market continued to suffer from short supply with operators broadly electing to continue to trade and develop their businesses as opposed to trading up, down or retiring.

General trading levels have stabilised across the capital with only moderate growth forecast. Many operators who under different market conditions may have retired in recent years have instead nominated to hold their assets due to the high year on year growth witnessed over the past 2-3-year period. We anticipate that these forecasts of more temperate growth could assist in improving supply as many of these operators may now give more serious consideration to retirement as the previous growth levels slacken.

We therefore expect the principle driver behind supply will be retirement in the coming years. This will be positive news for those considering expansion who will welcome the anticipated improvement in supply to the market. Examples of retirement led sales in 2019 were The Old Stand on Exchequer Street and Davy Byrne's on Duke Street. The successful completion of these sales, both realising strong prices, we hope will assist in providing encouragement to publicans who are considering retirement to enter the market and offer their businesses for sale.

In suburban locations, we anticipate that further supply could come from licensed premises that occupy large sites and offer potential for redevelopment or alternative use. Some of these opportunities may incorporate a licensed premises use in the future planned redevelopment of a mixed-use scheme, whilst others will not. The sale of Kiely's in Donnybrook provides an example of appetite from a developer to incorporate a licensed premises into a modern residential development whilst the offering of a site with planning permission for a new 500 sq.m. pub on part of the former Belgard Inn site in Tallaght by Lidl illustrates the release of accommodation that is surplus to requirements.

DEMAND

Group operators and promotors, such as PressUp, the Linnane's, Bodytonic, Loyola and other such groups will likely continue to be active in 2020. We also expect the traditional group operators such as The Chawke Group, The Fitzgerald Group and The Mangan Group to remain active in consideration of opportunities that would fit within their existing portfolios.

PressUp added to its portfolio in 2019, acquiring a new restaurant lease, Mackenzie's, in the Opus Building at Hanover Quay and the leasehold interest in the Clarence Hotel in Temple Bar. It has further plans for 2020 including a new fully licensed restaurant in the former New Ireland offices on Dawson Street and the new Mayson Hotel on North Wall Quay.

The Linnane's acquired The Jar on Wexford Street adding to their portfolio of 6 premises whilst BoVision Capital acquired a new licensed premises opportunity at 37 Dame Street opposite Central Plaza increasing their Dublin operations to 6.

Bodytonic recently took a lease on The Whitmore (former Porterhouse North) in Phibsborough and a lease on Jam Park (the former Wright Venue) at Airside Swords. We understand Bodytonic has further plans to expand within the broader hospitality sector.

Non-domestic operators such as JD Wetherspoon continued to review opportunities and show appetite to acquire. The group continued its expansion in the Dublin market by securing the transfer of 7-Day Licenses to their premises on Camden Street and Abbey Street. The Abbey Street premises has commenced trading as The Silver Penny and the new Camden Street Hotel is due to commence trade as Keavan's Port Hotel in early 2020 with a public bar and 89-bed offering. Importantly the group also acquired the HQ & Nutbutter premises at Grand Canal Square in Q4 2019 re-emphasising their commitment to the Dublin market and we expect to see further activity in the year ahead from this operator.

Separately, the renowned Scottish independent craft brewer, BrewDog, opened their first Irish licensed premises in December. Trading as Dublin Outpost and located within the recently developed Capital Dock district, this new licensed premises occupies a purpose-built structure and comprises a bar and brewery offering.

KEY DRIVERS ON DEMAND

Demand continued to increase for the fourth year running and was driven principally as a result of the strengthening of two key factors;

PROFITABILITY

The stabilisation of the domestic economy has given rise to increased employment and in-turn an increase in disposable income / discretionary spending levels. The licensed trade has captured a percentage of this spend which has led to a significant recovery in the volume of trade enjoyed by well-located key assets, thus further increasing the appeal of licensed premises within prime trading areas.

FUNDING

With a return towards more normalised lending to the licensed and hospitality sector, the market has generally improved with pillar banks becoming increasingly supportive, however on the most part only for performing assets within established trading districts.

This welcome improvement in access to pillar lending has been further complemented by a wider range of "non-traditional" lenders that are active within the marketplace thereby affording greater access to loan finance.

Alternative lenders have become a larger part of the market, particularly targeting large towns and suburban areas, but also competing with the pillar banks for the key-trading areas.

We expect this increased lending to the sector by both pillar and non-traditional lenders to continue in 2020 which will further an increase to the overall number of funded operators actively seeking opportunities within the market.

The principle factor influencing value from a lending perspective will continue to be the repayment capacity of the asset which will ultimately influence the Loan to Value ratios extended by Lenders.

Uncle Tom's Cabin, Dundrum, Dublin

The Lucky Duck, Aungier Street, Dublin

SOURCES OF DEMAND

1	PUBLICANS	Demand is intrinsically linked to the trading performance and profitability of specific premises and therefore has principally been focused on the areas witnessing significant year on year improvement such as key city centre, tourism and affluent suburban locations. Much of the supply has comprised units outside of these areas which has led to an increasing number of off-market approaches being made. Approximately 20% of sales concluded in 2019 were "Off-Market" which returned a reduction on the 35% recorded in 2018 but remained ahead of the 13% of sales concluded in 2017. It is important to note that whilst these figures give an indication of the off-market activity conducted in a particular year, the statistics only relate to sales successfully concluded and the proportion of off-market approached being made is in fact considerably higher.
2	DEVELOPERS / ALTERNATE USE	Acquisition of licensed premises for alternate use was again a feature of the 2019 market accounting for 25% of total market activity. Of the 2019 transactions concluded Rosie O'Grady's in Harold's Cross, Quinn's in Drumcondra, Kiely's in Donnybrook and Uncle Tom's Cabin in Dundrum were all acquired for redevelopment with some of these planned redevelopments indicating intention to incorporate a licensed use, albeit on a smaller scale.
3	PRIVATE EQUITY	Heretofore the ownership structure and predominant demand for licensed premises has been almost exclusively derived from domestic independent and traditional group operators. However, over the past 12 months we have seen private equity take a considered interest in the Dublin licensed premises property market. This is due in part to the recent recovery of the sector witnessing an uplift in both trading and underlying property values, but also in part to increased competition within the investment sector of the market thereby encouraging private equity, and other investors, to seek opportunities outside of the traditional investment sectors. This new potential source of demand from outside of the local market will be an interesting development to watch and could become a new facet of the market moving forward.

CREATION OF NEW LICENSED PREMISES

The creation of a new licensed premises can be costly and requires the following essential components;

1. A suitable premises (secured either by purchasing or leasing)
2. Planning Permission (for a licensed premises use)
3. A Publican's Licence (7-Day Ordinary)

Once these component parts have been established, the promotor can then complete the instillation of their fit-out to the property prior to commencement of trade.

Throughout the past decade the principle demand for Licences has been from the off-licence sector of the market including supermarkets, convenience retailing and forecourt retailing. However, renewed demand for licences has been witnessed throughout the past three years as operators come to view this route as becoming a more viable option due to lack of availability of suitable premises for sale.

When compared to other commercial uses, the creation of a new licensed premises is higher risk and more expensive as coupled with the planning costs there are also additional legal and professional costs in obtaining and transferring a publican's licence. Furthermore, fit out costs are generally considerably higher than that of other commercial uses. For these reasons there have not been a significant number of new licensed units created in recent years, however, the lack of available product in the market has led operators to reconsider this route in certain instances where they have been unable to acquire a licensed premises within their identified preferred locations.

Examples of recently created new licensed premises include The Lucky Duck on Aungier Street and The Devlin Hotel in Ranelagh, both through the Press Up Entertainment Group. JD Wetherspoon recently completed the transfer of licenses to their new licensed premises, The Silver Penny on Abbey Street and their new Hotel on Camden Street, due to trade as Keavan's Port and to commence trade Q1 2020. Another non-domestic operator, Scottish Brewery BrewDog, launched their first foray into the Irish market with the opening in December 2019 of Dublin Outpost at Capital Dock. Interestingly, BrewDog have been considering entering the Dublin licensed premises market for a number of years and despite reviewing opportunities have nominated instead to take a lease of a new purpose-built premises within an area undergoing urban regeneration.

CONSUMER EXPERIENCE REMAINS A PARAMOUNT FOCUS

04

EMBRACING THE TRENDS

CONSUMER & OPERATIONAL TRENDS

The Licensed Premises market continues to adapt and evolve through embracing social and cultural changes which enables the sector to better respond to the omnipresent progress of consumer demands and cater to their requirements.

Quality traditional style licensed premises that are well located within well populated urban districts continue to enjoy consumer support with volumes of business enjoyed reported to be on the increase throughout the past three years.

New-breed innovative operators continue to drive the market through the enhancement of their offerings and by strengthening revenue streams through the blending of food, drink and entertainment.

Consumer experience remains a paramount focus with operators recognising the importance of providing a wide range of quality produce delivered through well-skilled and informed staff. Staff training is therefore a key element required in the successful delivery of positive customer experience with these operators acknowledging consumer demands through the delivery of their offerings through experienced and responsive staff.

FOOD

Food has continued to be an important driving factor within the on-trade with many operators having embraced this important facet of the business to positive effect. It has become widely acknowledged that a quality food offering is now an expected service by the consumer within the trade and many operators have embraced this sector of the business to widen their consumer base and appeal to markets outside of the evening and weekend bar trade. The provision of food has also enabled operators to appeal to a wider market in attracting corporate business that was previously resolved to hotel, restaurant and function orientated operators.

However, the blow to this sector of the industry was the 50% increase in vat imposed on food sales through Budget 2019 from 9% to 13.5% which was widely regarded by the industry as punitive. Whilst it is broadly anticipated that well positioned prime businesses that enjoy a healthy blend of indigenous and tourism related trade will be less impacted, the provincial and rural operators will fare far worse with potential for closures and resultant unemployment.

LOW ABV / ALCOHOL FREE PRODUCE

Low abv and alcohol-free produce have become one of the swiftest developing sectors within the drinks market in recent years with the trend being largely driven by the younger consumers. Sales of low abv and non-alcoholic beer increased in Ireland by 60% in 2018 and whilst the 2019 statistics have yet to be released it is widely expected that growth will be stronger again.

Initially viewed with scepticism, the development of this sector has been led domestically by a combination of governmental change through the introduction of new drink driving legislation coupled with a transformation in consumer habit and a general global trend towards alcohol moderation.

Heretofore the limited range of low abv / alcohol-free produce was unappealing and had proven to be a dissuading factor to those that do not consume alcohol in socialising in the traditional sense. The range of non-alcohol produce was limited with non-drinkers restricted to soft-drinks and minerals. However, there has been a very decisive step taken by the on-trade in recent years in accommodating this sector of the market with many licensed premises and hotels providing creative and appealing alcohol-free alternatives. Demand has also been acknowledged and embraced by many of the international drinks companies who now provide low abv / alcohol-free alternatives to their staple products.

Ireland's first alcohol-free bar, The Virgin Mary on Capel Street, opened in May 2019 to much fanfare and has been well received both domestically and by tourists alike.

Globally the sale of low alcohol and alcohol-free produce has risen by more than 20% in the past two years with low-alcohol beer and cider sales increasing by over 30%. AB InBev, the world's largest brewer, has reported 8% of their global sales to be generated from low and no alcohol beers and have set a target that low-alcohol and alcohol-free beers will exceed 20% of their combined worldwide volume by 2025. Similarly, Diageo, Heineken and Carlsberg are forecasting dramatic growth within this sector with Carlsberg reporting three-fold growth in its non-alcoholic range to date.

Distilleries have also capitalised on the success witnessed by their counterparts within the low/non-alcohol brewing industry. Distill Ventures assisted in the development and launch of the now internationally regarded Seed lip brand being the world's first distilled non-alcohol spirit. Gordon's (owned by Diageo who also hold a share in Seedlip) launched a low alcohol gin option, the Danish distillery Herbie launched its Virgin Gin and Pernod Ricard developed their zero-alcohol produce with the launch of Ceder's non-alcoholic Gin.

HARD SELTZER

Hard Seltzer is a new alcohol product that is similar to flavoured sparkling water and has experienced a dramatic rise in popularity since its introduction in the United States in recent years. The product is targeted principally at the health-conscious millennial sector of the market and offers a low alcohol & low-calorie alternative to other traditional pre-mix drinks. Hard Seltzer currently enjoys approximately 2.5% of the US alcohol market following a reported growth of 300% and 200% in 2017 and 2018 respectively. Currently the main brand in the US is White Claw which is reported to have enjoyed an 85% market share with sales of $1.5 billion in 2019.

The recent introduction of this new product to the Irish market has been through the off-trade with Dunnes Stores, Lidl and Aldi all stocking multiple versions. Strong growth in its popularity is anticipated in 2020 and beyond which should be welcome news to the on-trade as it provides an additional offering to a more diverse and widening market.

COST PRESSURES

Recently witnessed increases in volumes of trade have not been reflected in a like for like rise in profits due to a rise in operational overheads that are directly associated with the operation of licensed premises businesses.

EXCISE DUTY

Excise on alcohol products increased significantly in the 2013 & 2014 budgets and has remained unchanged since.

However, the current rate of duty is still above the European average and regarded by the industry as an excessive cost associated with the operation of their businesses.

COST PRESSURES

The Drinks Industry Group of Ireland (DIGI) has made a collective representation to the Government on behalf of the Licensed Vintners Association, the Irish Hotels Federation, the Restaurants Association of Ireland and the National Off-Licence Association for a reduction in excise of 7.5% in 2020 followed by a further 7.5% reduction in 2021. These recommendations however were not implemented by Government for the forthcoming budget and the industry must therefore continue to operate in absence of a reduction for the meantime.

THE RATE OF MINIMUM WAGE HAS INCREASED STEADILY YEAR ON YEAR

2017	2018	2019	2020
€9.25	€9.55	€9.80	€10.10

MINIMUM WAGE & STAFFING

Budget 2020 increased the minimum wage to €10.10 per hour which comes into effect as of 1st February 2020.

The rate of minimum wage has increased steadily year on year from €9.15 to €9.25 in 2017, €9.25 to €9.55 in 2018, and €9.55 to €9.80 in 2019.

In addition to the minimum wage, staff wages have been on the rise in recent years as publicans recognise the importance of hiring and retaining well skilled staff to ensure the continued success of their operation.

Evolving and evermore demanding consumer expectations of the overall experience has also given rise to the requirement for employment of knowledgeable, well trained and informative staff that are adept at delivering a consistently quality product and service. These evolving services have attracted additional trading costs which cannot in all circumstances be passed on to the end consumer. Furthermore, the increase generally in the cost of living, coupled with rent inflation, have increased the costs associated with employing and retaining staff.

Many publicans reported an increase in issues with employing and retaining staff throughout 2018 & 2019. As the country approached effective full employment publicans are finding it more difficult to recruit. This issue is more acutely felt in the city than the suburbs which generally encompass a larger proportion of the casual labour force that are required for the hospitality industry. In contrast, the cost of living coupled with rent inflation within areas convenient to the city centre is proving prohibitive in recruiting and retaining casual labour.

As a comparative to the newly introduced rate of minimum wage and in illustration of the increasing labour casts within the industry we understand from discussions with our clients that competent staff members from other licensed premises are being recruited with the attraction of higher wages and further that some below management / supervisor level staff are being paid upwards of €20 per hour.

The Jar, Wexford St, Dublin

INSURANCE

Continually rising insurance costs have remained a cause of concern with the majority of operators witnessing an increase in premiums again throughout 2018 and 2019. Independent research conducted through the L.V.A. confirmed that pubs in the capital faced an average insurance cost increase of 50% over the last three years and further comments that the average insurance premium for Dublin pubs is now in the order of €25,000 per annum with more than half of the pubs across Dublin also suspecting to have been victims of fraudulent claims within the last 5 years.

As spiralling insurance costs continue to damage the viability of pubs and the entire hospitality and tourism sectors in general, the LVA and VFI are active members of the Alliance for Insurance Reform, which is campaigning to leverage reforms that will quickly reduce liability and insurance premiums to affordable levels and keep them that way.

THE FOUR KEY REFORMS PUBLICANS ARE SEEKING ARE:

1. A reduction in unfair general damages to reflect international norms and the principles already established by the higher courts - including that ‘minor injuries attract modest damages’
2. A re-balancing of the “common duty of care” to require occupiers to take a duty of care that is reasonable, practical and proportionate
3. The establishment of a fully-resourced Garda Insurance Fraud Unit
4. Firm, detailed commitments from insurers to a schedule of forecast reductions for planned reforms

“ SPIRALLING INSURANCE COSTS CONTINUE TO DAMAGE THE VIABILITY OF PUBS AND THE ENTIRE HOSPITALITY AND TOURISM SECTORS. ”

The Old Stand, Exchequer St, Dublin

COST PRESSURES

LICENSING EXEMPTIONS

The cost for operators seeking to trade late has risen and many operators outside of the prime city and tourism hotspots have made the conscious decision to either reduce the number of nights they nominate to trade late, or to revert to regular hours of trade altogether due to mounting costs that are becoming more difficult to justify.

Exemption costs now amount to a rate of €410 per application exclusive of legal costs. Therefore, and in the vast majority of cases, the perceived additional income to be generated will not cover the cost of the exemption together with associated legal, staffing, entertainment and security costs.

VAT

Budget 2020 left vat unchanged, however the previous increase imposed on food sales in Budget 2019 from 9% to 13.5% remains widely criticised by the industry. The impact of the increase has been more acutely felt by businesses outside of the cities and large towns, in particular those where the volume of food sales was break-even or loss making but retained in an effort to bolster drink sales. Essentially these types of businesses will now become non-viable and the concern is that closures and unemployment will ensue in certain localities.

INTOXICATING LIQUOR ACT
2008

SPECIAL EXEMPTION ORDER COST INCREASED

FROM €270

TO €410

NIGHTCLUBS: IN FOCUS

Irish nightclubs have undergone dramatic change, particularly throughout the past decade, and the romanticised version of what they represent to most of the population is currently under threat.

These venues in their traditional sense have evolved through the decades, in particular from the dancehalls of the 1950's to the nightclubs of the 2000's with changes being influenced by music & fashion, however always remaining as an essential public space in which communities meet and socialise.

The threat faced is best described as a perfect storm consisting of a combination of issues such as technological changes; changes to consumer habits and behaviour; onerous legislation and increased cost pressures all of which are threatening the viability of a large proportion of the units within the sector.

The licensed industry has been affected to some degree by these factors, but the impact has been felt more acutely amongst nightclubs.

The reason being is that while city centre, suburban or regional pubs often appeal to multi-generations, the nightclub is heavily focused on the younger demographic and this demographic's relationship with alcohol is very different from previous generations. Younger people are more health-conscious and increasingly focused on healthy eating and regular exercise, all of which is not consistent with regular visits to nightclubs.

Furthermore, previous generations had a heavy reliance on nightclubs as a place to meet people and be introduced to new music, however technological innovations such as dating, and music apps have significantly reduced this reliance.

The impact of these cultural and technological factors has led to a reduction in consumer demand and a corresponding reduction in revenue. While it is undoubtedly a cause of concern for the industry, the level of frustration is minimal as it is a result of the unavoidable pace of change. In contrast, the other factors that have impacted profitability have been a cause of major concern and frustration within the industry.

The legislative landscape for nightclubs has long been a source of intense frustration within the sector, as it is generally perceived as being 'archaic'. Nightclubs are not defined in legislation and are licensed as dancehalls under the 1935 Dance Halls Act. In practical terms, the modern nightclub operates with either a Publican's Licence or a Theatre Licence, together with a Dance Licence attached. To trade late, a premises must apply to the court for a Special Exemption Order for each night it intends to trade outside of regular licensing hours.

The industry has been calling for legislative reform for some time, however the most recent significant legislation involving the industry was generally not welcomed by the sector. The Intoxicating Liquor Act 2008 increased the Special Exemption Order cost from €270 up to €410 per application and with legal fees this cost has now risen to between €500-700 per application. Many clubs and venues operate under a theatre licence rather than a publican's licence and before 2008, were able to trade until 3.30 am without exemptions. The 2008 act brought in the requirement for these units to also apply for exemptions and incur the associated costs, while also reducing their trading hours to 2.30 am.

"YOUNGER PEOPLE ARE MORE HEALTH-CONSCIOUS AND INCREASINGLY FOCUSED ON HEALTHY EATING AND REGULAR EXERCISE, ALL OF WHICH IS NOT CONSISTENT WITH REGULAR VISITS TO NIGHTCLUBS."

PREMIUMS FOR LARGE TRADITIONAL NIGHTCLUBS ARE REGULARLY OVER **€100,000**

The Camden, Camden Street Lower, Dublin

This had the combined effect of reducing the achievable revenue of clubs as it reduced their trading hours and significantly increased their costs. To put this increased cost in context, the average Dublin nightclub could have to pay over €100,000 (before legal fees) annually in exemption costs.* The like for like cost comparison for UK & NI nightclubs is approximately €2,500.

The impact of legislation has been significantly compounded by other cost pressures and insurance, in particular, has been a huge source of frustration. Insurance premiums for nightclubs have spiked over the past 10 years and now in many cases, there is only one UK company that will consider cover. Premiums are regularly over €100,000 for large traditional nightclubs.

The result of these issues is that, with the possible exception of outlets such as Coppers and some of the other units on Dublin's Harcourt and Camden Streets it is no longer viable to solely target the late-night trade; units are having to evolve to draw business during usual licensing hours. In city centre environments where it is viable to do so, nightclubs are being refurbished and rebranded as either traditional food and beverage outlets or late bars.

In Dublin, a prime example of the innovation required in the re-branding and repositioning of a large club was the opening, in 2019 of The Camden. This was previously operated as a nightclub but is now a multi-functional space which appeals to the daytime trade with a sports offering (boasting the largest screen in the country), a substantial food offering, a working brewery at mezzanine level with the entire also functioning as a late bar capitalising on the renowned late night trade Camden St offers.

Other examples of clubs re-branding in recent years include Twisted Pepper on Abbey St, Lillie's off Grafton St, Dandelion in St. Stephens Green, Sin in Temple Bar and AKA on Mary St., all in Dublin city. In Cork city, Clancy's is a good example of a unit that was previously heavily focused on late night trade now being substantially refurbished to also draw business during regular licensing hours. Elsewhere in Cork, the once famous Savoy Nightclub remains a memorial to the cities once thriving nightlife scene having been closed and vacant for nearly 5 years. In Galway, the sale of Carbon Nightclub to Wetherspoons is indicative of the higher value use of the club as a traditional food and beverage offering.

* Source: Irish Nightclub Industry Association; Economic and Social Impact Assessment of the proposed regulation of the Nightclub Industry in Ireland.

" IT IS NO LONGER VIABLE TO SOLELY TARGET THE LATE-NIGHT TRADE; UNITS ARE HAVING TO EVOLVE TO DRAW BUSINESS DURING USUAL LICENSING HOURS. "

The suburban nightclub seems close to being consigned to history with the renowned Club 92 and the Wright Venue being the most recent high-profile closures. Other well-known operations such as Tramco in Rathmines, Bondi Beach in Stillorgan, Club Sarah in Rathfarnham, Entourage in Tallaght and Barcode in Clontarf have all closed in recent times. Importantly all units, save the Wright Venue, are no longer utilised for licensed use which is possibly indicative of the higher alternate use or development values for the sizable sites required for clubs. An honourable mention should go to Tamangos in Portmarnock which is still flying the flag for the suburban club.

Adapting to the changing landscape is a realistic option in city centre locations; however due to the large floor plates and the resultant high refurbishment and fit-out costs involved, it is often not viable to regenerate these units in regional locations.

Consumer demand remains reasonably strong for the 'country nightclub' as it still provides an important function particularly amongst the younger generation returning home for the weekend. However, due to the other issues impacting the industry, it is very much a case of survival of the fittest and in many towns that previously had two or three nightclubs typically there may be a sole remaining unit.

However, it is not all doom and gloom and lobbying groups like "Give Us The Night" who have been advocating for a reform in our licensing laws and the introduction of a 'Night Mayor' seem to be gathering momentum. The principal arguments they are putting forward is that our current laws are putting us at a competitive disadvantage to other European cities for tourism and also are putting too much pressure on our system through both public order offences and the pressure on transport caused by the patrons of all clubs being disgorged at the same time.

Historically, the late-night industry has had very little sway with the government as there was a perceived disconnect between the government and the people who operate and populate the clubs due to the very different age profile of each. We now have a relatively young Taoiseach and cabinet and the current soundings from government are positive with Leo Varadkar recently announcing that both reforms in our licensing laws and the introduction of a 'Night Czar' similar to London are now being considered.

16 LICENSED PREMISES CHANGED HANDS IN THE DUBLIN MARKET IN 2019 REPRESENTING 2.19% OF THE TOTAL POPULATION OF DUBLIN LICENSED PREMISES

HQ, Grand Canal Dock, Dublin

05

ACTIVITY IN BRIEF

ANALYSIS OF THE DUBLIN MARKET IN 2019

SUMMARY OF ACTIVITY

16 licensed premises changed hands in the Dublin market in 2019 representing 2.19% of the total population of Dublin licensed premises. This compares with 2.33% in 2018, 4.25% in 2017 and 4.79% in 2016. Typically, between 3% to 4% (22-30 units) of the market is expected to transact annually. The reduction in the overall volume of sales continued for the fifth consecutive year and points towards a stabilisation within the market coupled with a resultant reluctance of operators to offer performing assets for sale. This activity, or lack thereof, is in stark contrast to a market that was predominantly fuelled by insolvency related transactions which took prominence from 2008 to 2015 within a market then characterised by a high volume of low value assets transacting. Importantly, distressed loans and insolvency related sales accounted for only one transaction in 2018 with 0 insolvency sales completed in 2019. The most recent two years therefore show a break-away from the market that was characterised by legacy debt issues when distressed and insolvency related cases accounted for approximately 65% of sales at their peak in 2015.

The capital value of the 2019 market increased by 145% to €57.08m from €23.26m in 2018 and was a direct result of a larger number of higher value transactions being completed.

Whilst the increase in average value witnessed is positive, many operators have remained hesitant in offering their assets for sale due to their business returning to profit through an improvement in trade off the back of more stable market conditions coupled with an uplift in discretionary spend. These positive trends have assisted in realigning both trade and capital values to more normalised levels, however, has not been experienced across all sectors and asset classes.

VALUATION

ANALYSIS OF METHOD OF SALE

Private Treaty was the again the sole mode of disposal for Dublin licensed premises for the second year running.

Traditionally, Auction has been the preferred mode of disposal for licensed premises due to its transparency. However, over the past decade Auction has become somewhat tarnished due to the high volume of low value distressed asset sales completed through vehicles such as Allsop and BidXI, thereby securing perception of it being best suited to non-premium distressed assets.

As market sentiment and in turn confidence amongst both vendors and purchasers improves, we anticipate Auction returning as a preferred mode of disposal for premium assets. We see the opportunity for vendors to drive value through this mode of disposal as a result of increased appetite and competition within the market for well-located premium assets continues. However, for this change to take hold, the market will first need to witness a number of prime assets being successfully sold at Auction. Prime assets offered to the market where it is known that there would be genuine interest and competition from well-funded purchasers should entice operators seeking retirement to consider this mode of disposal. Initially we anticipate that Auction will be considered more favourably as a suitable mode of sale by vendors for assets within a certain price range, typically €2.0 to €5.0m.

VALUATION

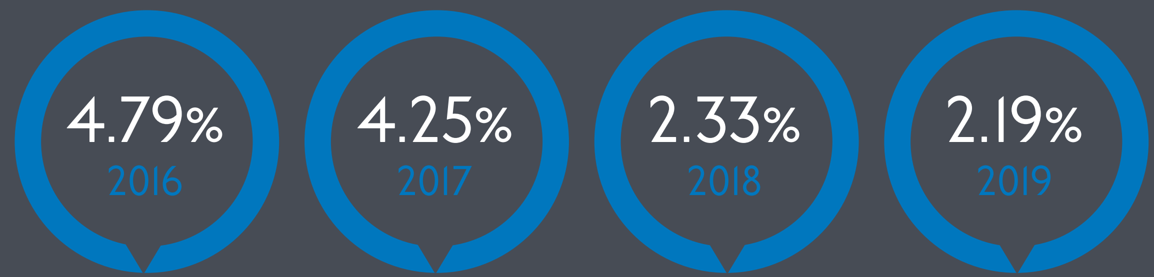
Capitalising ratios (multiple of net turnover) and P/E ratios (applicable to sustainable EBITDA) continued to consolidate and increased throughout the core sectors of the market in 2019.

NET TURNOVER

The primary evidence-based method of valuation is the application of adjusted capitalising ratios to net turnover. These capitalising ratios are derived from the analysis of sales by reviewing the turnover enjoyed against the sale price achieved. The correct analysis of the sale is therefore of paramount importance in the establishment of these ratios.

It is important to note that many licensed businesses now enjoy multiple sectors of turnover (food, drink, off-sales, function income etc), all with varying levels of overheads and all yielding varying levels of profit. In establishing an accurate analysis of sales comparisons, due consideration is therefore required of the nature and make-up of trade, volumes of business enjoyed, gross profit margins to the relevant turnover sectors and the potential for growth, decline or sustain of the business moving forward.

In illustration of the above, two notional businesses in the same location may enjoy the same level a turnover, however one may enjoy say 15% net profit whilst the other enjoys 25% due to the nature and make up of business such as level of gross profit and proportion of food sales. If the licensed premises at 25% profit is sold for say 2 times turnover the valuer would be considerably over valuing the other licensed premises if they were to apply the same ratio.



Percentage of the total population of Dublin licensed premises to change hands 2016-2019

We therefore advise caution when applying general multiples to turnover without first having an in depth look at the profitability of the asset and how it compares to licensed businesses generally. When valuing a licensed asset, it is rare that a like for like transaction will be available and adjustments are therefore generally required to factor in the trading differences from the comparison used before the differences in demand for the asset are considered.

As a result, capitalising rations are generally wide-ranging take account of this variety. Overall Capitalising Ratios at the end of 2019 ranged between 0.5 and 2.65 times combined net turnover.

EBITDA

The secondary method of valuation utilised is the profits method which is based upon the application of P/E ratios to maintainable EBITDA (Earnings Before Interest Tax Depreciation and Amortisation).

This method, whilst more accurate in achieving the end goal, requires in depth knowledge of the type of business being assessed in order to analyse the level of adjustments and add-backs that may be required to convert the Net Profit or Net Loss to stabilised EBITDA.

Furthermore, due to the format in which trading information is made available to the market when a licensed premises is offered for sale, typically a trading cert providing only highline trading detail, the calculation of EBITDA can be extremely difficult to gauge. This presents a difficulty from a valuation perspective as EBITDA evidence is very difficult to come by outside of the valuation process.

Based on our knowledge of the business enjoyed by the assets sold in 2019, we estimate that the P/E ratios ranged from 5 to 9 times EBITDA.

CAP & P/E RATIO INFLUENCES

The ratios achieved are influenced by many varying factors such as but not limited to; location, make-up of trade, volume of business, margins & profitability, competition and demand for the particular asset.

Cap ratios and P/E ratios achieved at the upper end or in excess of the average scale achieved are for licensed premises that afford considerable future business growth or alternatively for businesses that enjoy a considerable volume of trade with ultimate economies of scale and a substantial bottom line profit i.e. the top tier premium sector of the licensed premises property market.

Cap ratios and P/E ratios realised at the lower end of the scale generally reflect licensed premises that enjoy poor economies of scale relative to the volume of trade enjoyed and in turn profit (if any) generated and premises that would have poor short to medium term prospects where viability is uncertain.

EXCEPTIONS

Exceptions to the normal range of multiples apply in particular to Licensed Premises that are regarded as "Trophy" units or alternatively to properties that occupy large holdings within well-established suburban areas that would afford alternate use / redevelopment potential.

"Trophy" units comprise the top tier of the Dublin licensed premises population. They are all pivotally positioned city centre properties that enjoy high volumes of sustainable trade, typically enjoying well a maintained traditional fit-out and generally they symbolise a clear representation of what is regarded both nationally and internationally as that of an Irish Pub.

As trophy licensed premises rarely come to the market, they attract strong interest and in-turn competition from established and well-funded operators resulting in premium prices being achieved when they do transact. In turn, when sold the prices achieved can be difficult to rationalise with regard to the general tone of pricing in the market.

Temple Bar, Dublin

VALUATION

In illustration of the above, there are in our opinion approximately only 10 licensed premises in Dublin that could be categorised as "trophy" that have changed hands within the past 30 years and all achieved prices well in excess of the general ratios being achieved at the dates of sale. The most recent example of this type of transaction is the acquisition in 2019 by the Fitzgerald Group of Bruxelle's on Harry Street for a reported €9.2m.

Alternative use / redevelopment opportunities are typically are found in suburbia due to these types of premises usually being located on reasonable sized sites, usually with on-site car parking facilities. Typically, these premises are adjoining other complementary neighbourhood services such as local retail, pharmacy, banking and community occupiers. Zoning objectives pertaining to these opportunities generally fall within the residential and/or mixed-use neighbourhood facility parameters, thereby affording redevelopment. The principle example of this type of transaction in 2019 is the sale of the former Rosie O'Grady's premises in Harolds Cross for a price in excess of €5.5m. The property was acquired by a developer for alternate use and stood on a site of approximately 0.75 acres enjoying mixed zoning providing for residential and neighbourhood uses.

OTHER FACTORS – BREXIT

Outside of the general economic influences Brexit remains the most topical of the external pressures, largely due to the uncertainty surrounding the actual impact of the UK's departure from the EU on the 31st January 2020. The as yet unknown effect of the planned departure is how in practice day to day business will be affected. The UK is an important contributor to Irish tourism delivering 42% of all overseas visitors and 24% of tourism revenue in 2018 per Tourism Ireland. It is therefore reasonable to expect that certain key tourist areas with a reliance on the UK market, such as Temple Bar, could be adversely affected with the impact on spending yet to be seen.

THE PROVINCIAL RURAL MARKET HAS CONTINUED TO STRUGGLE WITH LIMITED APPETITE EXPRESSED FROM OUTSIDE OF THE LOCAL COMMUNITY

The Wilton, Cork

06 PROVINCIAL MARKET

THE PROVINCIAL MARKET IN 2019

Provincial cities and established tourism districts remained the focal points of activity within the provincial market throughout 2019.

In contrast, the provincial rural market has continued to struggle with limited appetite expressed from outside of the local indigenous community characterised further by reports of closures of licensed premises that are unviable, the bulk of which were located in sparsely populated districts with an oversupply of competing licensed premises.

CORK

The highlight of the market was the sale of The Wilton for in excess of €3.3m which now represents the highest price paid for a Cork licensed premises. The sale of these renowned licensed premises is encouraging for the market in general as it illustrates the existence of keen demand from well-funded purchasers seeking well located opportunities that offer both scale and business development potential.

The other notable sale was Clancy's fronting Princes Street & Marlboro Street in the city centre which sold pre-Auction in Q1 2019 for €2.3m and has since reopened after significant capital investment in its refurbishment.

PROVINCIAL SALES

GALWAY

The Galway market remains buoyant with healthy tourism inflow and consistently strong levels of trade being recorded within the city. Demand for Galway City licensed premises has increased however and similarly to Dublin, there has been little supply of quality assets to match appetite. Galway witnessed little activity in 2019 with only one prime licensed premises transacting which was the sale of the renowned Carbon late bar & nightclub complex on Eglinton Street to JD Wetherspoon for a price ion the order of €2.3m. This important acquisition by the group sees them further expand their foothold in the Irish market through the acquisition of well-located City premises.

Whilst Limerick, Kilkenny and Waterford enjoyed reports of improving trade they witnessed little activity in 2019 in terms of sales, re-openings or extensions with the vast majority of transactions occurring outside of the urban landscapes and at low levels, predominantly sub €300,000.

A SELECTION OF PROVINCIAL SALES CONCLUDED BY MORRISSEY'S | LISNEY DURING 2019

1


2


3


1 **THE WILTON**
LESLIE'S CROSS
WILTON
CORK

2 **LENEHAN'S**
CASTLECOMER ROAD
BARRACK STREET
KILKENNY

3 **GALLAGHER'S MANOR**
CHURCH STREET
TULLAMORE
CO. OFFALY

DEMAND THROUGHOUT 2019 CONTINUED TO STEM PRINCIPALLY FROM THE OFF-LICENCE SECTOR OF THE MARKET

07 7 DAY LICENCE MARKET

> “ DEMAND LARGELY REMAINED FLAT WITHIN THE LICENSED PREMISES SECTOR DUE TO ONLY A HANDFUL OF NEW LICENSED PREMISES BEING CREATED. ”

LICENCE MARKET FOR EXTINGUISHMENT & TRANSFER PURPOSES

Demand throughout 2019 continued to stem from the off-licence sector of the market which has remained the dominant stimulus of activity throughout the last decade. Requirements for licences were on the most part derived from the creation of new retailing concerns such as supermarkets and convenience retail outlets that incorporated off-licence services.

Renewed demand was evident within the Hotel sector of the market through the completion of numerous new developments requiring transfer of licenses.

Demand largely remained flat within the Licensed Premises sector of the market due to only a handful of new licensed premises being created throughout the country.

The capital value of licences remained relatively unchanged throughout 2019 with values ranging in the order of €50,000 to €52,500 being in-line with those achieved throughout 2018.

We do not anticipate significant renewed demand, particularly from category 1 & 2 below, to merit any increase in the value of licenses and for the foreseeable future we anticipate that values for both 7-Day Ordinary and Spirit, Beer & Wine Retailer's Off-Licences will remain in the order of €50,000 to €55,000.

THERE ARE THREE NATURAL MARKETS FOR THE DISPOSAL/ EXTINGUISHMENT & TRANSFER OF LICENCES

1. Extinguishment and transfer for the creation of a new licensed premises.
2. Extinguishment and transfer for the creation of a new hotel premises.
3. Extinguishment and transfer for the creation of a new off-licence premises (be it stand-alone or housed within a new or existing retail outlet)

THE OUTLOOK FOR THE DUBLIN LICENSED PREMISES MARKET IN **2020 IS POSITIVE.** THIS FOLLOWS ON FROM STRONG DEMAND FOR PUBS IN 2019

08 LOOKING FORWARD

OUTLOOK FOR 2020

> “ WHILST WE DO ENVISAGE A HEALTHY AND ACTIVE MARKET FOR 2020 WITH A SIMILAR NUMBER OF TRANSACTIONS AS 2019, WE DO NOT EXPECT TO SEE AS MANY PRIME ASSETS CHANGE HANDS. ”

The outlook for the Dublin licensed premises market in 2020 is positive following continued strong demand throughout 2018 and 2019 which was characterised by a lack of supply.

We expect the improvement witnessed in access to loan finance and liquidity to continue throughout 2020 thereby further supporting purchaser's appetite to acquire.

Redevelopment and alternate use opportunities will also drive demand from non-licensed purchasers in certain suburban locations.

Operator demand may also start to shift to established and well populated suburban locations as purchasers become priced out of the City Centre. We therefore see opportunities to re-position large suburban units as more family friendly food and beverage business models where turnover and bottom line profit can be driven by engaged operators that are attuned to the requirements of their local demographic.

Notably the value of transactions in 2019 was significantly higher than the immediately preceding years with the uncharacteristic spike in value being derived from several prime assets transacting. Whilst we do envisage a healthy and active market for 2020 with a similar number of transactions we do not expect to see as many prime assets change hands. It should be noted that more normalised market activity levels are between 3% and 4% of stock transacting each year, however despite the evident strong demand, supply has been lagging and we anticipate the majority of properties will change hands in the €2m to €4m price bracket.

Notwithstanding the foregoing, the recent development of private equity firms giving consideration to the Dublin licensed premises market as potentially suitable investment territory, could bode well for the market moving forward. Whilst true demand from this sector has yet to materialise, it is anticipated that the requirement will typically be volume driven with a preference to acquire multiple units and a focus on targeting the upper tier of the market. Should this new demand source materialise, we anticipate a dramatic impact on the market whereby both the volume of sales and combined value of transactions could surpass the levels witnessed in 2019.

2019 closed out with a large number of premises being sale agreed, however with contracts yet to be exchanged and sales completed. The reengagement with these sales in the early new year should bode well for the start of 2020 and bring with it renewed confidence in the sector.

Whilst the outlook is mostly positive for Dublin and similar with the cities of Galway, and Cork together with Kilkenny, the return to profitability and general improvement in trade has been restricted in the main to the key trading districts of these localities. Provincial town and village setting have not witnessed the same level of recovery and where trading performance has not improved and operational overheads have continued to rise, these businesses will continue to struggle. Businesses in these lesser populated locations will continue to attract limited appeal and unfortunately further closures of non-viable premises will continue.

09

STATISTICS YEAR END REVIEW 2019

CHART A: LICENSED HOUSE SALES ANALYSIS 2010 - 2019 REPRESENTED AS THE ANNUAL PERCENTAGE OF THE TOTAL NUMBER OF TRANSACTIONS IN THE DUBLIN MARKET.

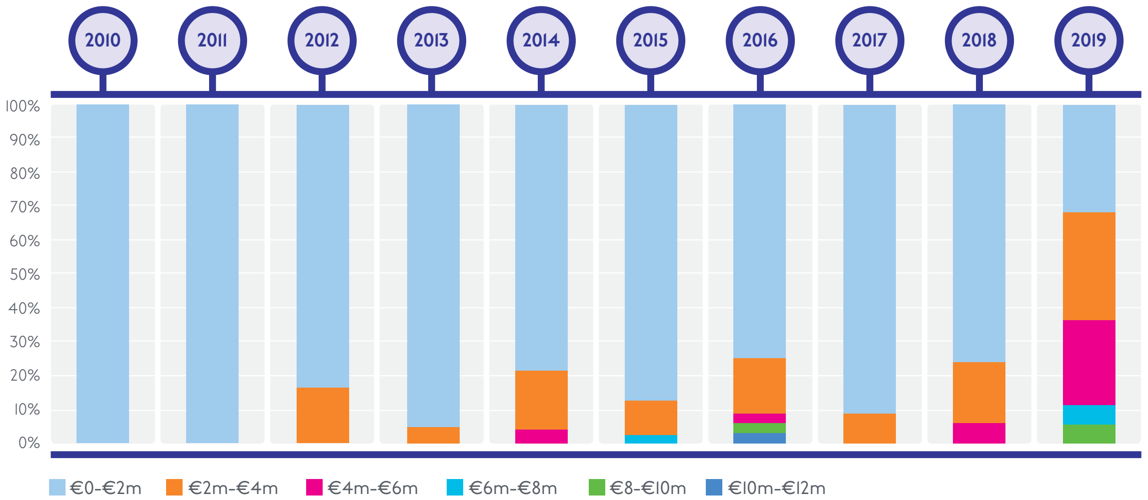


CHART B: VOLUME OF LICENSED HOUSE TRANSACTIONS IN DUBLIN 2010 - 2019 REPRESENTED AS A PERCENTAGE OF THE TOTAL NUMBER OF PUBLIC HOUSES IN DUBLIN.

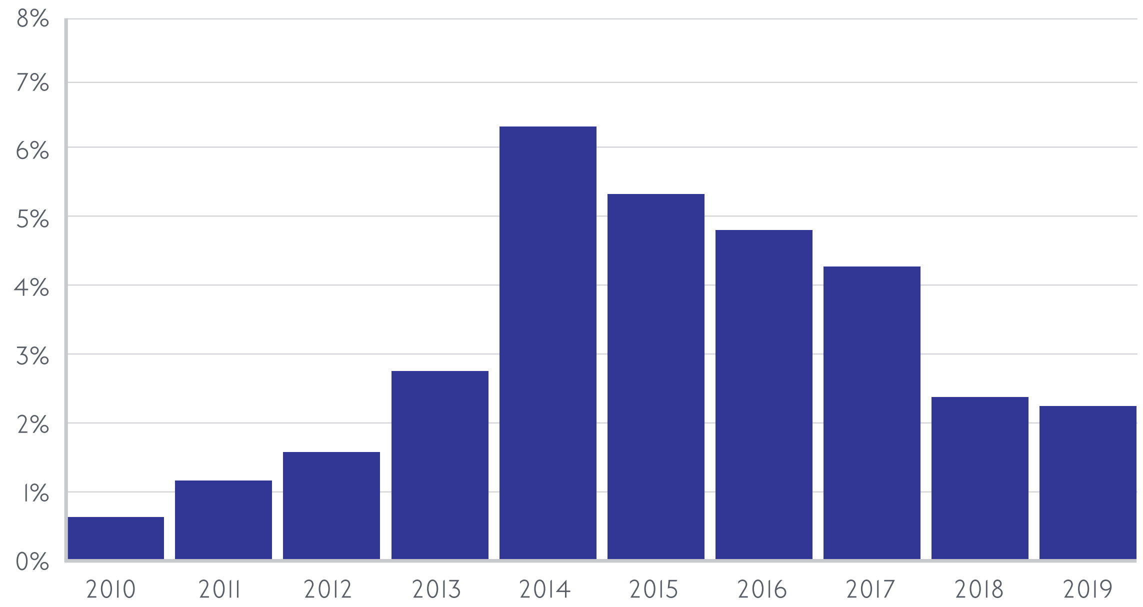
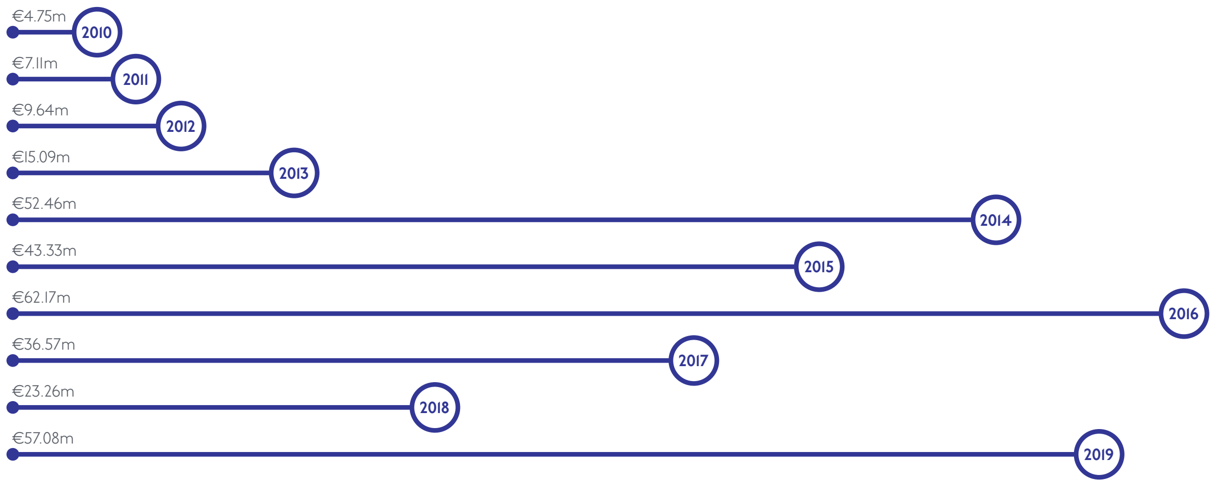


CHART C: THE CAPITAL VALUE OF THE LICENSED HOUSE TRANSACTIONS / SALES IN DUBLIN 2010-2019



STATISTICS

CHART D: AVERAGE ONE MONTH LENDING RATES RATES 2010 - 2019

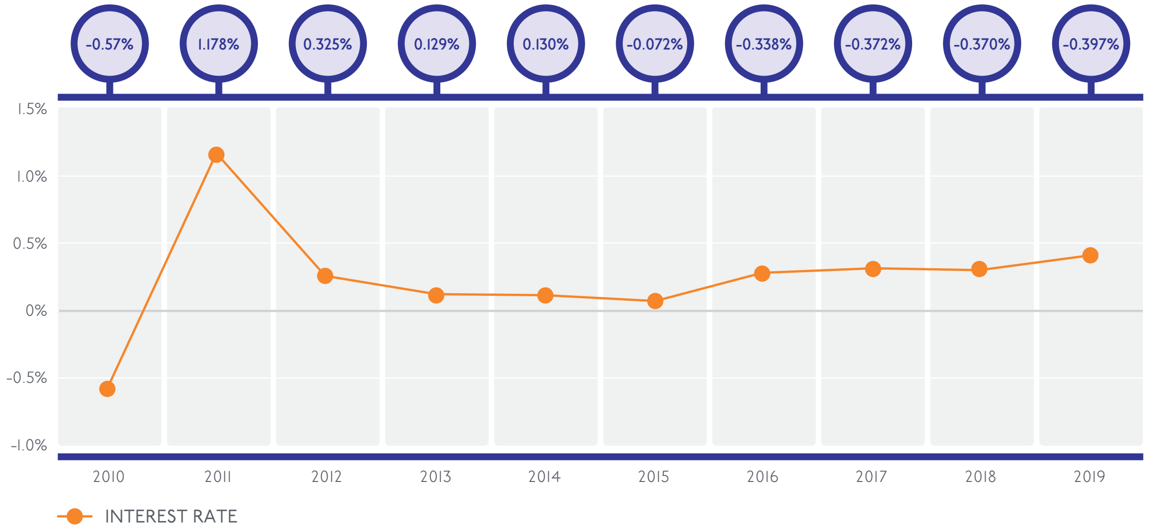


CHART E: EXCISE DUTY FEE FOR THE RENEWAL OF A 7-DAY PUBLICANS LICENSE UNDER THE 1992 FINANCE ACT.

	TURNOVER NET OF VAT	FEE
1	Under €190,500	€250
2	€190,500 - €381,000	€505
3	€381,000 - €635,000	€1,140
4	€635,000 - €952,000	€1,775
5	€952,000 - €1,270,000	€2,535
6	€1,270,000+	€3,805

Source: Lisney

CHART F: NATIONAL INFLATION RATES 2010 - 2019

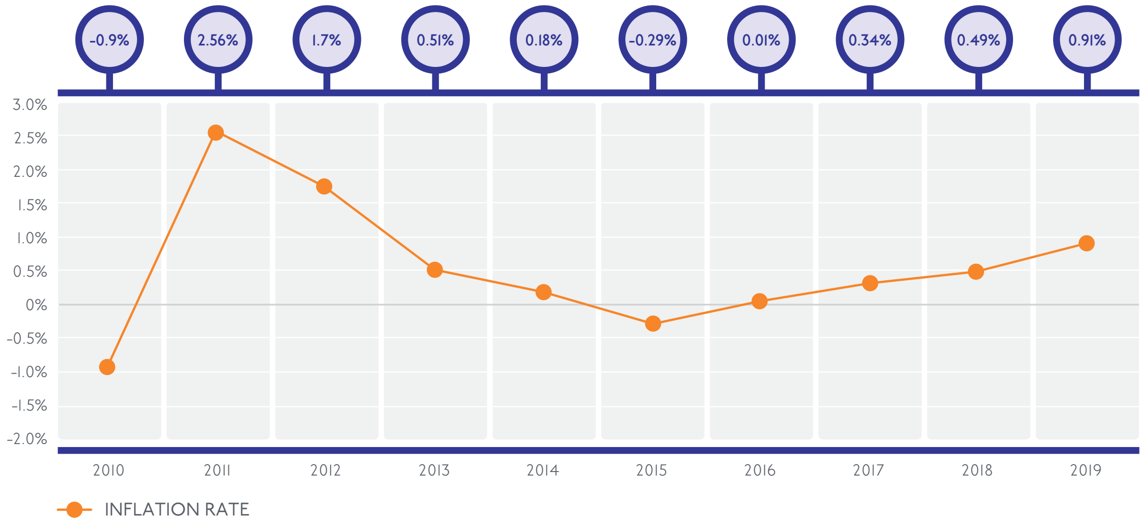


CHART G: ANALYSIS OF THE MODE OF DISPOSAL FOR LICENSED PREMISES SOLD IN DUBLIN 2010 - 2019

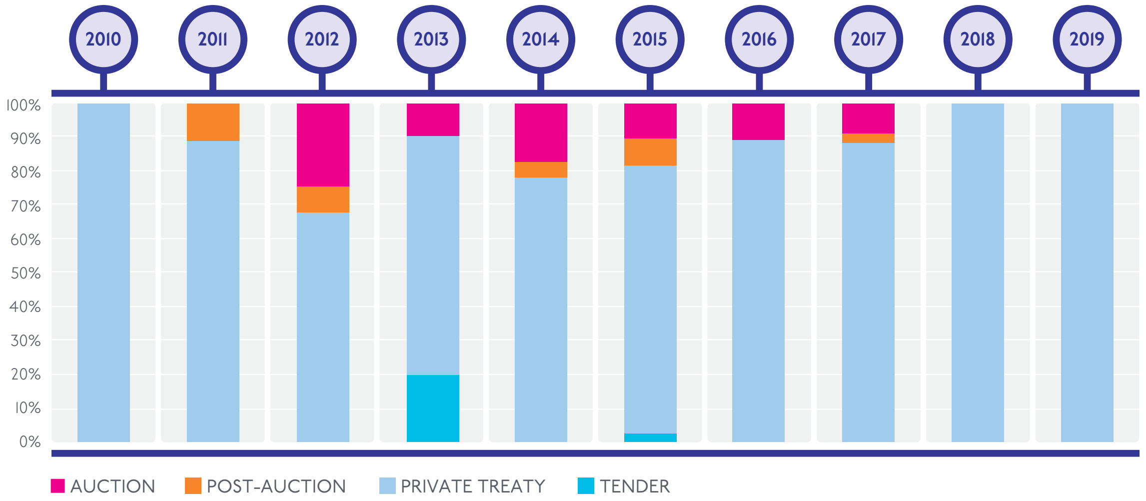


CHART H: THE AVERAGE SALE PRICE OF THE LICENSED HOUSE TRANSACTIONS / SALES IN DUBLIN 2010 - 2019

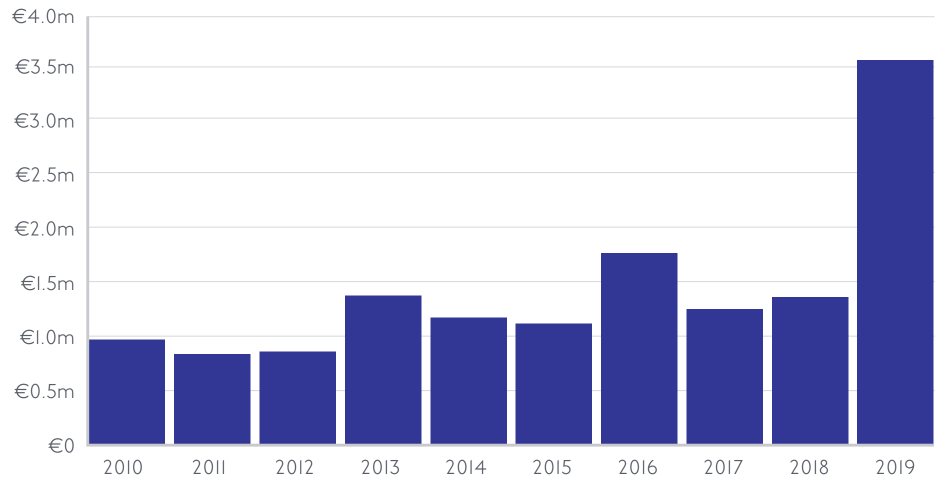
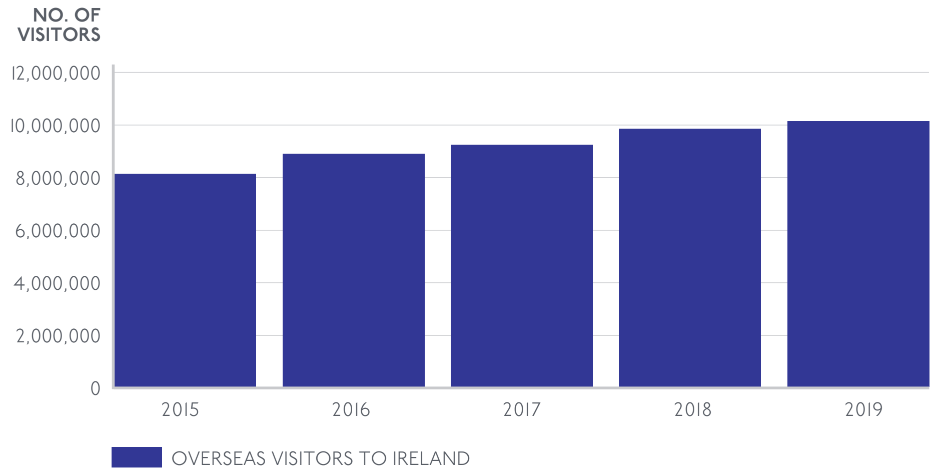


CHART I: OVERSEAS VISITORS TO IRELAND (JAN-NOV 2015-2018)



STATISTICS

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This publication is supplied by Morrissey's | Lisney from their records and current knowledge of the Dublin and Irish licenced property market together with information from external sources such as; Investec, Bord Bia, Drinks Industry Group Ireland (DIG), Hospitality Ireland & The Licensed Vintners Association (LVA).

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