LICENSED PREMISES MARKET REVIEW 2018 & OUTLOOK 2019

Morrissey's

Lisney

Morrissey's Lisney

Contents

MORRISSEY'S | LISNEY REVIEW 2018 & OUTLOOK 2019

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INTRO

From strength to strength

From left to right: Shane Markey, Tony Morrissey, Rory Browne and Duncan Lyster

"An improved and expert focus on our clients"

This year, Morrissey's joined forces with the Lisney team and together have formed the market-leading Licensed & Leisure arm of the Lisney business. Together, they carry on their joint traditions of reliable and expertly informed advice.

LISNEY

Lisney was founded in 1934 and is one of the best-known estate agents in the market. In fact, Lisney are the largest Irish-owned full service property advisory company who provide both commercial and residential property services to a wide range of clients.

The company was initially established as Harry Lisney & Son in having traded as Franks & Franks for the ten years from 1924.

Lisney is a private limited company, owned by the directors, each of whom work full time in the business. The company and its personnel pride themselves in the depth and quality of our research which helps our clients to make more informed and reasoned real estate decisions.

Lisney is a nationwide company with offices in Dublin, Cork and Belfast.

When established, over 80 years ago, Lisney's aim was to provide an unrivalled service. Getting ahead of one's rivals means doing what they do, only better. Staying ahead means creating a difference all of your own, a quality that can't be imitated. The Lisney difference means attentive, reassuring advice and realistic timeframes. It means achievable valuations and satisfying results.

These core beliefs and focus remain today and Lisney continues to pride itself upon providing expert knowledge and advisory services through knowledgeable and well-informed personnel each of whom strive to stay ahead of their competition.

DUNCAN LYSTER
Managing Director

January 2019

MORRISSEY'S

Morrissey's was established in 1935 in Nenagh, Co. Tipperary and are the leading firm of Auctioneers & Valuers specialising in the sale, acquisition and valuation of licensed premises and hospitality property in Ireland.

The company was initially established by Daniel Morrissey, a senior politician and former Minister for Industry & Commerce, and moved to Dublin in 1946 spurred by strong encouragement from several prominent members of the Dublin Licensed Trade.

Dan was succeeded by his son, Tony, in 1956 who further expanded the firm which was subsequently taken over in 1993 by his two sons, Tony & Bill.

Remaining as a private practice and operating through three generations the company has retained a continued focus on delivering expert knowledge and unrivalled service to their clients.

Morrissey's has remained the dominant force within the licensed and hospitality field and are regarded as the industry experts, operating nationwide and providing a complete comprehensive going concern consultancy service utilised by private, group, institutional and financial clients alike.

Continuing on in the company's core founding traditions, Morrissey's pride themselves in providing expert advice in respect of all aspects of licensed & hospitality related property.

TONY MORRISSEY
Director

January 2019

THE MERGER OF TWO COMPANIES

In May 2018, Morrissey's was acquired by Lisney and now form the Licensed & Leisure arm of Lisney. Headed up by Tony Morrissey he, along with Rory Browne and Shane Markey, will continue the tradition of both companies in providing reliable expert informed advice and services to their combined client base.

Morrissey's and Lisney believe that together our position as market leaders within the Irish property field is stronger, allowing us to focus on the requirements of our valued clients across the wide range of property services offered.

5. The Purty Kitchen

01 DUBLIN LICENSED PREMISES SOLD IN 2018

3. The Eagle House & Rasam Restaurant


2. The Kylemore House

6. The Metro


1. 43 Aungier Street

4. The Richmond

MORRISSEY'S | LISNEY SALES IN DUBLIN 2018

1. **43 Aungier Street**
   1 Diggs Street, Dublin 2

   Now **The Lucky Duck**
2. **The Kylemore House**
   Kylemore Road, Old Naas Road
   Bluebell, Dublin 12
3. **The Eagle House & Rasam Restaurant**
   18/20 Glasthule Road
   Glasthule, Co. Dublin

   Investment Interest
4. **The Richmond Bar**
   119 Church Street Upper
   Dublin 7
5. **The Purty Kitchen**
   3/5 Old Dunleary Road
   Dun Laoghaire, Co. Dublin

   Part Leasehold
6. **The Metro**
   155 Parnell Street, Dublin 1

THE DUBLIN LICENSED PREMISES SOLD IN 2018

- **Liam Walsh's**
  36 Parkgate Street
  Dublin 8
- **The Black Raven**
  3 Church Street
  Skerries
  Co. Dublin
- **The Cock & Bull**
  Coolock Village
  Coolock
  Dublin 5
- **The Stillorgan Orchard**
  1 The Hill
  Stillorgan
  Co. Dublin
- **The Big Tree**
  41/41A Lower Dorset Street
  493 North Circular Road
  Dublin 1
- **Bakers Corner**
  Kill O'The Grange
  Deansgrange
  Co. Dublin
- **The Lighthouse**
  8 Upper Georges Street
  Dun Laoghaire
  Co. Dublin
- **Residence**
  41 St. Stephens Green
  Dublin 2

  Leasehold Interest
- **The Brewery Bar**
  5/9 Newport Street
  Dublin 8
- **The Thomas House**
  86/87 Thomas Street
  Dublin 8
- **Kenny's**
  173/174 James Street
  Dublin 8

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INTRODUCTION & ECONOMIC OVERVIEW

Market on the rise

INSIGHTS

10.6M

VISITORS RECORDED PER CSO IN 2018.

FIGURES FROM THE CSO FOR Q3 2018 SHOW THAT THE IRISH ECONOMY CONTINUES TO SHOOT AHEAD.

GDP grew by 4.9% in the year to Q3 while GNP was up 3.1% in the year. Consumer spending increased by 2.9% in the period. The strength of the construction sector continued to make a large contribution to growth in core investment. Core investment grew by 19% in the year to Q3. Government expenditure exhibited an increase of 6% over the same period. Compared with Q3 2017, exports grew 9.4%, while imports increased by 16.4%. This economic growth, which is supported by greater strength in consumer spending and investment, is likely to lead to further growth forecast upgrades.

Q3 2018 labour market figures show that Irish labour market conditions have improved substantially, with unemployment levels continuing to fall. In the year to Q3 2018, Irish employment increased by 3.0% (+66,700), which brings total employment to 2.27m people according to the CSO Labour Force Survey. Unemployment decreased by 19,700 (-12.1%) in the year to Q3 2018 bringing the total number of persons unemployed to 143,800. Meanwhile, the seasonally-adjusted unemployment rate was 5.7% at the end of September.

The KBC Bank/ ESRI Consumer Sentiment Index remained level between November and December. While an improvement in economic conditions took place, this was offset by a fall in confidence with regards to future expectations. The increased uncertainty surrounding Brexit conditions is likely to be the source of this fall in confidence among consumers. While the current level of the sentiment index at 96.5 is consistent with the cautious Irish consumer, there is still a broadly positive sentiment among this group. Notably, Irish consumer confidence averaged 88.1 points from 1996-2018.

Data from the CSO reveals the volume of core retail sales rose by 1.9% in the year to November 2018 (motor trades excluded), while the value increased by 2.7% over the same period. The bar sector i.e. serving of beverages, saw marginal improvements in the period with the value of sales increasing by just 0.1%, while the volume of sales for bars grew by 1.9%. However, when compared with figures from November 2016, there has been a 7.3% increase in the volume of sale and a 3.6% increase in the value.

Inflation, measured by the Consumer Price Index (CPI), increased by 0.7% in the year to December. The most notable changes in the year were increases in Housing, Water, Electricity, Gas & Other Fuels (+4.6%), Alcoholic Beverages & Tobacco (+2.8%) and Restaurants & Hotels (+2.1%).

Tourism remained a strong contributor to the market with more than 10.6 million visitors recorded per the CSO, the highest ever recorded and an increase of 6.9% on the 2017 tourism statistics. Of the total visitors, Britain accounted for 35.4% of the 2018 trips made showing a marginal increase of 0.8% on the 2017 statistics which is a positive note amongst the uncertainty surrounding Brexit.

The outlook for 2019 is largely positive with consumer sentiment remaining upbeat off the back of strong economic growth and a significant recovery witnessed in trading performance. Brexit and its true impact however remains an unknown and a viable threat to business and consumer spend. We anticipate that the recent demand witnessed in the market to continue throughout 2019 however, and similar to the last two years, characterised by a lack of supply which will remain a source of frustration for parties seeking to acquire and expand ■

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OVERVIEW OF THE DUBLIN LICENSED PREMISES MARKET 2018

In high demand

THE DUBLIN MARKET WAS CHARACTERISED BY HIGH DEMAND AND LACK OF SUPPLY.

The 2018 licensed premises property market witnessed strong demand, however was again characterised by limited supply with a reduction in the total number of sales concluded for the fourth consecutive year.

Appetite was focused on the trading districts witnessing significant year to year improvement such as prime city, tourism hubs and affluent suburban areas. Licensed units in traditional working class districts and provincial towns where little improvement was observed generated little demand. The improved trading performance also caused much frustration amongst purchasers as while driving demand it also stunted supply as it resulted in a reluctance amongst vendors to offer their property for sale instead choosing to continue trading and benefit from the uplift.

Secondary demand was visible for suburban properties that enjoy viable business models also occupying sites that enjoy favourable zoning objectives thereby allowing for potential to redevelop and accommodate residential or mixed use schemes.

There was a visible increase in funded purchasers' pursuing opportunities as the pillar banks returned to more normalised lending and additional opportunities were afforded through loan support from non-traditional lenders.

The reduction in sales activity for the fourth year running has brought an increase to the number of off-market approaches and in-turn transactions being completed.

ACTIVITY

35%

INCREASE IN THE VOLUME OF OFF-MARKET TRANSACTIONS

The volume of trade enjoyed again increased throughout 2018 however was limited on the most part to the prime trading districts of the Country. Economic uplift and a growth in available disposable income has contributed significantly to the recovery of the sector through improvement in both trading performance and profitability ■

ACTIVITY

Activity in the Dublin market decreased again for the fourth consecutive year with 17 transactions recorded in 2018 compared to 31 in 2017 and 35 in 2016. The decrease in transactions is indicative of a market that continues to realign with a dramatic reduction in sales, fuelled by legacy debt which were an unfortunate characteristic of the property market over the past decade since its collapse in 2008.

There was a notable increase in the volume of off-market transactions completed in 2018 which accounted for just over 35% of total sales.

A number of properties were sold for alternate use / redevelopment.

There was an absence of prime Dublin City sales in 2018 with operators nominating instead to retain their assets off the back of improved trading performance and profitability.

Highlights of the Dublin suburban market were Bakers Corner in Deansgrange, The Stillorgan Orchard in Stillorgan, The Cock & Bull in Coolock and The Eagle House in Glasthule, all achieving values in the €2.0m to €5.0m bracket.

Elsewhere in the greater Dublin Area the highlight was the sale of Pluck's in Kilmacanogue, a well-appointed and substantial licensed premises with private residence on a site of approx. 0.39 hectares that enjoyed "Town Core" zoning affording mixed use development.

Of the 17 transactions completed, one was a Leasehold Interest and one was an Investment Interest.

Outside of the Dublin market, sales activity was predominantly characterised by low value units in small towns or peripheral rural locations.

The established Group Operators remained largely inactive again throughout 2018 continuing to focus on developing the trade in their existing portfolios, the single exception being the Press Up Entertainment Group who

> As the market has continued to improve, a reluctance to sell has also been demonstrated by operators

acquired two of the Dublin City assets sold in 2018, which now trade as The Lucky Duck on Aungier Street and The Grayson on St. Stephens Green. They also further developed the expansion of their restaurant and hotel side of operations.

Non-domestic operators again remained inactive throughout 2018 ■

SUPPLY

In stark contrast to preceding years, distressed loans and insolvencies accounted for only one Dublin licensed premises transaction in 2018. The trend in insolvency led instructions initially started to yield in 2015 for the first time since the collapse of the market where 64% of sales completed were insolvency related. This figure then reduced to 54% in 2016 and fell again to 42% in 2017, with a singular insolvency related transaction being concluded in 2018 being clearly illustrative of the return to a more normal functioning market.

Whilst these statistics are indeed a positive indicator, the immediate result has of course been a reduction in the number of licensed premises being offered for sale.

As the market has continued to improve, a reluctance to sell has also been demonstrated by operators who have instead nominated to retain and trade their assets with some embarking on refurbishment and remodelling projects. Vendor apprehension in entering the market to offer for sale is now the principle reason behind the lack of supply. As turnover and corresponding values have increased together with the underlying property value, reluctance to sell is understandable, especially in circumstances where operators are only witnessing a recent return to profitability.

The above combined, together with the renewed confidence within the market is manifested by the increasing number of funded purchasers pursuing a limited supply of stock which naturally enables higher prices to be achieved for units that are in demand. The ensuing lack of supply of well-located and profitable units for sale is indeed frustrating for those wishing to expand or enter the market. It is, however, reflective of the strong economic factors that have afforded recovery and encouraged operators to retain assets ■

DEMAND

Demand continued to increase for the third year running, principally as a result of two factors;

Profitability

The growth in the 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 assets, thus further increasing the appeal of licensed premises within key trading areas.

Funding

With a return towards more normalised lending, the pillar banks have become active in supporting the licensed premises market. There are also now a wider range of "non-traditional" lenders active within the marketplace, thereby, affording greater access to loan finance.

Improved access to both traditional and non-traditional funding has afforded an increase to the overall number of funded operators actively seeking opportunities ■

CREATION OF NEW LICENSED PREMISES

Traditionally, the creation of a new licensed premises entailed securing a suitable premises (either by purchasing or leasing), securing planning permission for a licensed premises user, sourcing and acquiring a suitable licence and successfully transferring same to the new premises, completing the fit-out to the property and commencing 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, the past 24 months have born witness to renewed demand from the Licensed Premises and Hotel sectors.

When compared to other commercial uses, creating a new licensed premises is higher risk and more expensive as along with the planning costs there are also additional legal and professional costs in obtaining and transferring a publicans licence and fit out costs are generally considerably higher than other commercial uses. For these reasons, there has not been a significant number of new licensed units created in recent years.

For a funded purchaser to acquire a licensed premises within a key trading area their options are;

a) to wait until a suitable premises is offered to market,

b) to make an off-market approach for a preferred premises, or

c) to create a new licensed premises.

For a) it may take some time until a suitable premises becomes available and due to the level of competition, the price required may not make commercial sense.

With b) generally the price required to persuade a reluctant vendor to sell would not justify the purchase as the trading level could not support a bank loan.

Therefore increasingly c) is becoming a viable option.

The Press Up Entertainment Group who arguably have had the most success recently in acquiring licensed properties have licensed two new projects within their holding, The Lucky Duck on Aungier Street and The Devlin Hotel in Ranelagh. Further plans in the immediate pipeline include their intended licensing of new projects at the former New Ireland offices on Dawson Street which is to comprise a fully licensed restaurant extending to approximately. 850 sq.m., and the new Mayson Hotel on North Wall Quay which recently secured planning for an increase in bedroom accommodation, now to comprise 100 rooms.

Other promoters that have recently secured licenses include the new Churchtown Stores premises in Churchtown Dublin 14 which formerly operated as a hardware store, and the two JD Weatherspoon projects on Camden Street and Abbey Street. Separately, the St. Andrew's Church project at the junction of Suffolk Street and St. Andrews Street and the Clontarf Baths project have both secured Declaratory Orders and will be granted publicans licences once the developments have been completed in accordance with planning and statutory compliance.

The Hotel sector has also continued to show renewed demand and appetite for licenses with most new hotel developments typically including a public bar and restaurant offering thereby requiring the transfer of a 7-Day Licence to the property. Examples of such developments coming on-stream include the Hodson Bay Hotel in the Coombe, the Oakmont Group's 58 bed hotel at 81-82 North Wall Quay, and Targeted Investment Opportunities 241 bed hotel at 91-94 North Wall Quay ■

SOURCES OF DEMAND

1. Publicans

Demand has been intrinsically linked to trading performance and has been focused on areas that are 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 have led to an increasing number of off-market approaches being made. Approximately 13% of sales concluded in 2017 were "Off-Market" and this trend increased throughout 2018 accounting for just over 35% of the market share.

2. Developers / Alternate Use

2018 bore witness to the return of licensed premises property attracting interest from developers for alternate use / redevelopment. Of the 2018 transactions concluded, the Kylemore House in Bluebell, Dublin 12 was acquired for alternate use and has been repurposed now comprising a Costa Coffee outlet. Bakers Corner in Deansgrange, although continuing in the immediate term as a licensed premises use with adjoining investments, was ultimately acquired for mixed-use redevelopment.

Licensed premises offered to the market for sale in 2018 but not yet sold that afford development potential include Brady's in Castleknock which was offered for sale with a price guide of €2.85m enjoying planning for 36 Apartments. Kiely's in Donnybrook was offered for sale as a development opportunity quoting a price guide of Excess €5.0m. The former Foxhunter in Lucan was offered for sale affording alternate use quoting a price guide of €3.0m. The former Matt's of Cabra on Fassaugh Avenue was offered for sale with a price guide of €6.0m comprising a site of 0.49 hectares and enjoying planning permission for the construction of Student Accommodation with 194 bed spaces.

Further illustrations of licensed premises properties attracting interest for alternate use purposes has been shown through recent planning engagement with the local authorities. Recent examples of such include The Big Tree on Dorset Street where planning was granted in August 2018 for the construction of a mixed use hotel and retail development extending to three and four stories comprising 163 hotel bedrooms with public house use being retained at ground and basement level. The Edenmore House, Edenmore Shopping Centre, Dublin 5 applied for planning permission to demolish the existing single storey structure and develop a 4 storey building comprising retail to ground floor level together with 7 apartments above ■

> ...the Pillar Banks have become more active in supporting the licensed premises market

04

OPERATIONAL TRENDS

Embracing the trends

THE LICENSED PREMISES MARKET HAS CONTINUED TO ADAPT AND EMBRACE CHANGE.

The Licensed Premises market has continued to adapt and embrace change enabling the sector to respond to evolving consumer demands and cater to their requirements.

Quality traditional style licensed premises located within well populated districts continue to enjoy consumer support with volumes of business enjoyed on the increase throughout the past 36 months.

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 with consumer experience.

Consumer experience is a paramount link between premises and offering with operators recognising the importance of providing a wide range of quality produce delivered through well-skilled and informed staff thereby ensuring engagement with the customer through enhancement of experience and responsiveness towards their demands.

Examples of recent refurbishments completed to premises that have embraced the increased sophistication in consumer demand comprise Café En Seine on Dawson Street, Lemon & Duke at Royal Hibernian Way, Peruke & Periwig on Dawson Street and The Grayson on St. Stephens Green ■

FOOD

Food has continued to be an important driving factor within the on-trade. Many operators have now embraced this additional facet of the business to positive effect with many utilising it to widen their consumer base and appeal to markets outside of the evening and weekend bar trade whilst still enabling them to retain a distinction between what is commonly perceived as bar versus restaurant.

Food has also enabled operators to appeal to a wider market in attracting corporate business that was previously resolved to hotel and function orientated operators.

However, the blow to this sector of the industry is the increase in vat from 9% to 13.5% on food sales effective as of January 2019. The industry has viewed this measure as punitive and it is broadly anticipated that whilst 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 ■

CRAFT BEER

Craft beer has seen a fivefold increase in volume over the past six years however it is currently only 2.7% of the beer consumption in Ireland. By contrast it is 6.5% in the UK and 12.7% in the US presenting a significant opportunity for growth. Beer sales on the whole have been declining slightly for a number of years and craft beer can present an opportunity for publicans to add value as it is a premium offering and can therefore achieve a higher price point and gross margin mitigating against any losses resulting from the decline in general beer sales ■

ALCOHOL FREE

There is a consumer trend towards alcohol moderation with the 2017 GlobalData report confirming 84% of global consumers to be actively reducing or moderating their alcohol intake. This is evidently a growing trend in Ireland which is being driven principally by younger consumers. The demand has been acknowledged and embraced by many international drinks companies through their development of low ABV and alcohol free produce ■

LOW ABV (ALCOHOL BY VOLUME) / ALCOHOL FREE BEER AND CIDER

Low ABV / alcohol free is quickly becoming one of the quickest developing sectors within the drinks market. Per the research conducted by Kantar Worldpanel the sale of low alcohol and alcohol free produce have risen globally by more than 20% in the most recent twelve calendar months with low-alcohol beer and cider sales soaring by almost 30%. AB InBev, the world's largest brewer, has forecast low alcohol and alcohol free beers to make up 20% of its total worldwide volume by 2025. Similarly, Carlsberg are forecasting dramatic growth within this sector reporting that its share of non-alcoholic beer grew three times faster than the overall beer market in 2016.

Domestically it would appear that consumers are embracing the low alcohol / alcohol free sector of the market with Heineken reporting stronger than expectant sales of its recently launched 0.0 product both in the on and off-trade and Diageo's Guinness Pure Brew Lager receiving similar consumer support. Local craft breweries such as YellowBelly in Wexford have also developed alcohol free variants such as their limited release Designated Diver craft soda which have been equally well received.

The litmus test in respect of true support of alcohol free produce through traditional on-sales retailing will be illustrated through a soon to open alcohol free bar called The Virgin Mary on Capel Street in Dublin. These new alcohol free premises are scheduled to commence trade in February this year and will supply a wide range of alcohol free beers, wines, cocktails and mixed drinks.

Already established and proving to be a popular alternative to the late bar / nightclub sector of the market is Funky Seomra in Temple Bar which is Ireland's first alcohol free Nightclub ■

> "Low ABV / alcohol free is quickly becoming one of the quickest developing sectors"

NON-ALCOHOLIC SPIRITS

Distilleries are now seeking to capitalise on the success witnessed by their counterparts within the brewing industry. Diageo has invested in Distill Ventures since 2013 which provides investment and marketing to new companies within the drinks market. In 2016 Diageo acquired a stake in Seedlip, the world's first distilled non-alcohol spirit and Diageo's first ever investment in a non-alcoholic drinks company. Diageo's commitment to the non-alcohol market is supported by their global innovation directors comment that the group recognises the "opportunity of non-alcoholic drinks and will continue to explore and invest in this area".

Pernod Ricard have also developed zero-alcohol produce with their launch of Ceder's non-alcoholic Gin. Laurent Pillet, managing director at Pernod Ricard UK commented "This is a growing and exciting area for Pernod Ricard UK" and "It's our ambition to continue to give consumers more choice and to satisfy the growing demand for no alcohol options" ■

STAFFING

Many publicans reported an increase in issues with staff in 2018. As we approach full employment, publicans are finding it difficult recruiting. This issue was 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 convenient to the city centre is proving prohibitive in recruiting and retaining casual labour.

Within the cities the trend towards more experience led concepts has had the effect of larger capital investment being required for unique fit outs and these investments could be de-railed through poor service as a result of inadequate staff, particularly with the increasing importance of online reviews. The impact of this is that an increased focus has been placed on staff for these venues and competent staff members from other units are being recruited with the attraction of higher wages. Indicatively and from discussions with our clients, we understand that some below management / supervisor level staff are being paid upwards of €20 per hour. This issue is amplified at higher level with skilled roles presenting a frustration amongst publicans in the recruitment of chefs. While although this level of staff cost generally applies to the premium venues in the city, it is having a trickle-down effect on all sectors of the industry ■

> "Rising insurance costs have remained a cause of concern"

NIGHTCLUBS

The decline of nightclubs has been widely reported for some time but the trend gathered pace in Ireland in 2018. There has been a perfect storm of challenges facing the industry which has led to its decline. Changing consumer habits which are not unique to Ireland such as the use of dating apps and increasing focus on health and wellbeing amongst the industries target market have led to a decline in the industry globally.

While the above issues are seeing many nightclubs in Ireland experience a reduction in turnover, they are being compounded by domestic issues increasing cost pressures and accelerating the rate of decline.

The main cost pressure for clubs has been insurance which some operators have seen increase threefold in as many years and it can now cost upwards of €100,000 to insure a nightclub, if a policy can be obtained. In addition, securing insurance is a significant barrier for entrants to the industry as generally insurers will require the applicant to have other nightclub units in their operation.

BUDGET 2019

9%

FOOD TAX INCREASED TO

13.5%

Widely believed within the industry to hold negative influence, especially to businesses where the volume of food sales were at best "break-even" and in certain instances "loss-leaders".

Late night exemptions have also become more costly. The current duty for a singular Special Exemption Order is €610 per night which means that after factoring in professional fees, the cost of trading late for one additional night prior to any uplift in trade being enjoyed can amount to a sum in the order of €1,000.

Nightclubs therefore have an additional set of overheads such as security, higher insurance premiums and entertainment costs that are not incurred by more traditional licensed premises operations. Therefore nightclub operations require a higher volume of trade to break even. To illustrate, a traditional licensed premises could make a reasonable profit from a turnover above €10,000 p.w. where by comparison, a nightclub is likely to require a level of approximately €30,000 per week in order to break even. This is likely to result in the consolidation of the industry with only the top tier likely to remain.

In recent years we've seen closures of the POD, The Palace Camden Street, SIN Nightclub, Club 92, The Pavilion Cork and The Savoy Cork with Lillie's Bordello and the Wright Venue both closing in 2019. This trend in most circumstances is a repositioning of the business as a food, beverage and entertainment venues with late night trade being ancillary as opposed to the prime focus.

Late night venues that have enjoyed success are performance led venues such as District 8 in the Tivoli Theatre and Hangar in Andrews Lane. However as both are centrally located and comprise a large floor area the pressure of rising property value has resulted in the closure of both for redevelopment ■

COST PRESSURES

Increases in volumes of trade enjoyed in recent years has not been reflected in a like for like rise in profits due to a number of increases to operational overheads within the industry.

Excise on alcohol products increased significantly in the 2013 & 2014 budgets with the excise on beer increasing by 44%, spirits increasing by 27% and wine increasing by 62%. As a result, the Irish consumer paid on average the second highest amount of alcohol tax within the EU. Over the past four years the news has been more positive with alcohol excise remaining static.

Budget 2018 increased the minimum wage from €9.25 to €9.55 with Budget 2019 providing a further increase to €9.80. In addition to the minimum wage, staff wages are rising as publicans recognise the importance of hiring and retaining the correct staff so as to ensure the success of their product. Changing consumer expectations have given rise to the requirement for knowledgeable, well trained staff that are capable of successfully delivering a consistently quality product and operators have therefore gained additional to the costs associated with securing and retaining the right staff.

Rising insurance costs have remained a cause of concern with the majority of operators witnessing an increase in premiums again throughout 2018 and into 2019. Independent research conducted through the L.V.A. on Dublin Licensed Premises confirmed an average increase in insurance premiums of 47% between 2015 & 2016.

As previously mentioned 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 as the perceived additional income in most cases will not necessarily cover the cost of the exemption.

Finally, and as stated above, Budget 2019's increase in vat on food sales from 9% to 13.5% is widely believed within the industry to hold negative influence, especially to businesses where the volume of food sales were at best "break-even" and in certain instances "loss-leaders" that were extended in an effort to generate an uplift in 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 ■

Activity in brief

17 LICENSED PREMISES CHANGED HANDS IN THE DUBLIN MARKET IN 2018 REFLECTING 2.33% OF THE TOTAL POPULATION OF DUBLIN LICENSED PREMISES.

This compares with 4.25% in 2017, 4.79% in 2016 and 5.34% in 2015. The continued reduction in the overall volume of sales for the fourth consecutive year points towards a stabilisation within the market and is reflective of the fall-off in insolvency led transactions which took prominence from 2008 to 2014.

Interestingly, insolvency related sales accounted for only 5.8% of the transactions concluded in 2018 which has seen a dramatic reduction over the past three years in particular.

The capital value of the 2018 market reduced to €23.26m from €36.57m in 2017, however the average price realised increased from €1.18m to €1.37m, reflecting a larger number of higher value transactions being completed.

Whilst the increase in average value witnessed is positive, many operators remain 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.

Properties affording alternative / redevelopment featured again throughout 2018 with the sales of The Kylemore House in Bluebell and Bakers Corner in Deansgrange being the principle examples ■

ANALYSIS OF METHOD OF SALE

Private Treaty was the sole vehicle for the sale of licensed premises in 2018.

Traditionally, Auction has been the preferred mode of disposal within the licensed trade due to its transparency. However, over the past decade Auction has become somewhat tarnished and perceived to be the best suited mode of disposal for non-premium distressed assets.

As market sentiment and in turn confidence amongst vendors improves, we see Auction returning as a preferred mode of disposal. We see opportunity for vendors to drive value through this mode of disposal as a result of increased appetite and activity within the market for well-located assets. However, for this change to take hold the market will first need to witness a number of prime assets to be brought to market, which in all eventuality will be private retirement led instructions.

Private Treaty was the dominant force in 2018 and remained as the preferred mode of disposal for in excess of the past twelve years. We expect this mode of disposal to remain a solid first preference in the short-term. However, yielding towards Auction as owners of prime located assets seek to retire thereby delivering assets to the market that will generate competition thereby re-instilling confidence in this mode of disposal.

Initially we anticipate that Auction will be considered by vendors more frequently for assets within a certain price range, typically €2.0 to €5.0m ■

VALUATION

Net Turnover

Capitalising ratios (multiple of net turnover) and P/E ratios (applicable to sustainable EBITDA) continued to consolidate and increased in certain sectors of the market throughout 2017.

Adjusted average capitalising ratios in respect of net wet on-sales at the close of the year were ranging between 0.5 and 2.5 times net turnover whilst P/E ratios applicable to sustainable EBITDA were ranging between 5 & 9 times.

These ratios were 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.

> Trophy units comprise the top tier of the Dublin licensed premises population

The above ratios are applicable to licensed houses where the business is already exploited; the property is in good repair and condition and takes into consideration the size, throughput and type of business enjoyed, profitability, consistency of trade, target market etc.

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

Cap ratios and P/E ratios below the above reflect licensed premises that enjoy poor economies of scale relative to the volume of trade enjoyed and in turn profit (if any) generated.

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 thereby affording 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 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.

In illustration of the above there are 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.

Alternative use / redevelopment opportunities are typically found in suburbia due to these types of premises usually being located on reasonable sized sites, often 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 ■

Eagle House, Glasthule

06

PROVINCIAL MARKET

Provincial Market

The Watermill, Slievenamon Road, Thurles, Co. Tipperary
SOLD BY MORRISSEY'S | LISNEY

PRINCIPLE TOWNS & CITIES WITNESSED LIMITED SUPPLY.

Prevailing market forces witnessed within the Dublin licensed premises property market were generally mirrored throughout the provincial cities and established tourism districts. The changing source of supply from receivers and banks to private vendors causing an overall reduction in activity through a reduction in available premises coupled with divergence between vendors and purchasers expectations for licensed units that are in demand.

CORK

The highlights of the Cork market was the sale of Clancy's for approx. €2.5m representing the highest price paid for a licensed premises in Cork for some years. Other notable sales include the Rendevous Bar & Grill on Model Farm Road for approx. €1.5m and Cavanaghs on Liberty Street for approx. €650k.

Two pubs re-openings that really highlights the changing consumer sentiment within the industry as a whole are Impala (formerly Cavanghs) and Crawford and Co. (formerly the Market Tavern) with both providing an extensive craft beer offering while also creating a space for non-alcoholic meet ups through a contemporary décor and extensive range of coffees and teas. Crawford and Co. goes one step further with the inclusion of a grocery store of artisan goods ■

GALWAY

Galway also witnessed little activity with no prime licensed premises transacting in 2018. The Galway market remains buoyant with healthy tourism inflow and consistently strong levels of trade being recorded. Demand for Galway City licensed premises has increased however with little supply of quality assets to match appetite. The main openings of 2018 were Taylors Bar on Dominick St Upper which was re-opened by well-known Galway publican, Johnny Duggan, after the premises hadn't traded as a bar for 14 years and The Hyde Bar which is a Gin themed public bar that forms part of the Forster Court Hotel ■

LIMERICK

Following strong activity in 2017 which saw a number of pubs change hands and several re-openings and extensions, the Limerick City market was relatively quiet in 2018.

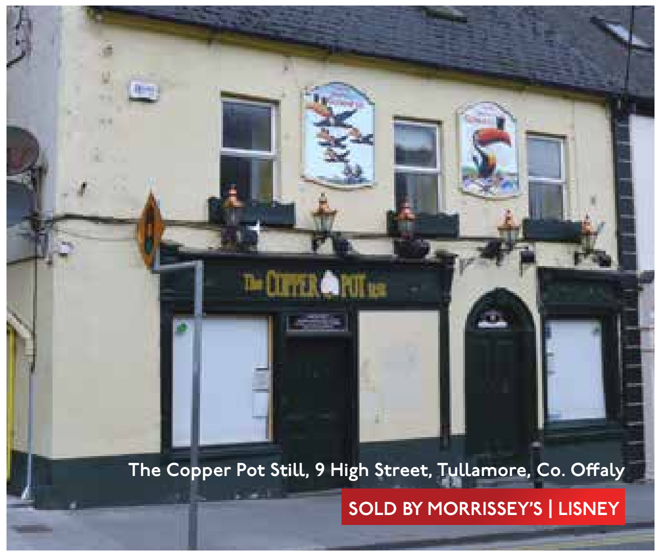
The highlight of the year possibly being Sextons which was sold for around the guide of €375,000 and was re-opened following refurbishment by Limerick publican Barry Healy ■

KILKENNY

The Kilkenny market continued to perform well with a year on year improvement in trade being reported throughout the urban district. However there was little activity in terms of sale, re-openings or extensions during 2018 with the exception of An Poc Fada which was offered for sale towards the end of the year at a guide of €900,000 having previous sold for €370,000 in 2012 ■

Pluck's, Kilmacanogue, Co. Wicklow
SOLD BY MORRISSEY'S | LISNEY

The Celbridge House, Maynooth Road, Celbridge, Co. Kildare
SOLD BY MORRISSEY'S | LISNEY



The Copper Pot Still, 9 High Street, Tullamore, Co. Offaly
SOLD BY MORRISSEY'S | LISNEY

The Square Bar, 7 Market Square, Portlaoise, Co. Laois
SOLD BY MORRISSEY'S | LISNEY

07

LICENCE MARKET FOR EXTINGUISHMENT & TRANSFER PURPOSES

7-Day Licence Market

The Lucky Duck, 43 Aungier Street, Dublin

DEMAND THROUGHOUT 2018 WAS AGAIN PRINCIPALLY DRIVEN BY THE OFF-LICENCE SECTOR OF THE MARKET.

This has continued to remain the dominant stimulus for activity over the last decade with little demand from Categories I & 2 above. The capital value of licences remained flat throughout 2018 with values remaining in-line with the values achieved at the close of 2017 in the order of €50,000.

However we have in the past 24 months witnessed a recent increase in appetite from existing Restaurant operations seeking to fully licence their premises, thereby creating an additional income stream from the market not directly linked to food sales. Comments from clients represented by our company confirm that this move from the restaurant trade is in response to loss of custom to the on-trade through continued development of quality food offerings and Gastro Pub environments.

Also and as noted earlier in our report, the market has witnessed renewed demand from Categories I & 2 above for the creation of new licensed premises and public bars, specifically through the recent uplift in hotel construction which has been a natural cause for the increase in take-up. Also, in certain instances demand has been illustrated for the creation of new licensed premises in certain populated districts with The Lucky Duck on Aungier Street and Churchtown Stores in Churchtown being illustrative cases. Whilst we do anticipate renewed demand from Category I & 2 above we do not anticipate it to be sufficient to result in a market uplift in the value of ordinary 7-day licenses which will remain for the foreseeable future in the order of €50,000 to €55,000 ■

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

Category I	Extinguishment and transfer for the creation of **a new licensed premises**.
Category 2	Extinguishment and transfer for the creation of **a new hotel premises**.
Category 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).

08

OUTLOOK FOR 2019

Looking forward

WE EXPECT THAT THE RESURGENCE IN MARKET DEMAND TOGETHER WITH CONTINUED IMPROVEMENT IN LIQUIDITY TO CONTINUE THROUGHOUT THE YEAR.

Demand may start to shift to good suburban locations as purchasers are priced out of the city centre and see opportunities to re-position large suburban units as more family friendly food and beverage business models driven by successful recent re-openings of the Sandyford House, Cock & Bull, Union Cafe and Celbridge House.

Redevelopment and alternate use opportunities will also drive demand in suburban locations.

Supply however will continue to be a cause of frustration for purchasers as many operators continue to defer offering their premises for sale due to the uplift in turnover, profit and capital value experienced. This positive trend has triggered reluctance for many operators to retire as they witness improved consumer discretionary spend off the back of an economy that continues to grow.

In terms of improving supply, retirement may start to assist in the release of certain assets in the short to medium-term. Towards the end of 2018 this was evident when the leasehold interest in The Old Stand on Exchequer Street went sale agreed for a reported €3.1m (off-market) and Davy Byrne's was offered for sale at a guide price of €6m. There have been very few prime pubs sold in recent years and the sale of Davy Byrne's will give a good indication of the market for prime assets. Should a strong price be achieved, it may instil confidence in operators who are considering retirement to offer their businesses for sale.

> Increases in operation overheads such as insurance and wage costs will continue to be a cause of concern

In suburban locations, further supply could come from licensed premises that are on large sites and offer redevelopment potential. Some of these will incorporate a licensed premises use in the future as part of a mixed use scheme, while others will not. In 2018, there were several examples of this including Baker's Corner in Deansgrange (reported sold for €5.1m) and Kiely's in Donnybrook (reportedly now sale-agreed), where strong prices were achieved.

In general, we believe that the current undersupply will remain a cause of purchaser frustration, particularly for those seeking core assets. The absence of transactional evidence, be it for prime, suburban or rural properties, makes it difficult for operators to accurately gauge what the market is prepared to pay and in turn, many operators are adopting a cautious approach and waiting for other operators to enter the market first. This is likely to result in an increase in off-market approaches being made. Such sales will only be concluded in exceptional circumstances where considerable premiums are offered.

Increases in operation overheads such as insurance and wage costs will continue to be a cause of concern with higher operational costs eroding some of the uplift in turnover and holding back bottom line profit.

Early warnings signs have emerged in the last two years as a result of the UK's vote to leave the EU with a concern that fewer UK tourists will visit Ireland. This fear has so far been somewhat allayed with the most recent tourism stats illustrating an albeit modest growth in UK custom. However, should UK economic activity reduce, and the value of sterling fall further throughout 2019, tourism numbers could witness a decline as a result, which will impact on the level of trade enjoyed throughout both cities and tourism hotspots. The hospitality sector on the whole continues to have a strong reliance on the UK through imports and is therefore exposed through amendments to both trade agreements and pricing levels.

Opportunities may be in the mix from the amendment to the Capital Gains Tax Shelter in 2018. Budget 2012 introduced a CGT exemption available to both companies and individuals acquiring property between December 2011 and December 2014. The exemption was afforded on the prerequisite that the property acquired would be held for a minimum of 7 years in order to avoid a CGT liability. Budget 2018 introduced a revision to the shelter timeline whereby the requirement to retain the property was reduced to 4 years. As a result, properties acquired within the December 2011-2014 shelter period can now be delivered to the market with the vendor/s enjoying early exemption from the standard rate of CGT at 33%. We hope therefore that this stimulus will entice certain licensed property owners to consider early release of their asset or assets which will assist in satisfying the increase in demand witnessed over the past 3 years.

While both turnover and profitability are generally improving the uplift is restricted to key trading districts. Where trading performance has not improved and operational overheads have continue to rise businesses will continue to struggle. Businesses in these locations will continue to attract limited appeal and closures of non-viable premises will continue.

Nightclubs we believe will become largely redundant due on the most part to their non-viable business models with far higher than average operational costs when compared to more traditional outlets. The exception to this will be the top tier of units such as Dublin's Harcourt Street and the premier venues in large provincial towns and cities.

With the closure of District 8 and Hangar, the availability of venues catering for crowds of 800+ is now extremely limited. The previous success of both operations may drive demand into peripheral areas of the city and depending on the planners view in those areas we may see large vacant buildings re-purposed for performance led destination late night venues.

The intensification of development in Dublin 8 and particularly around Newmarket and Diageo's St. James Quarter could see an opportunity for new licensed premises to be created to service the growing tourist, student and residential population.

Overall, we anticipate 2019 will not see much change from 2018, again characterised predominantly by a lack of availability with an increasing volume of funded purchasers actively seeking opportunities. This will in turn support the recent increase witnessed in off-market sales being completed and may assist in attracting operators considering retirement to enter the market. Constrained supply and increased demand point to price growth for the right opportunities ■

09

STATISTICS YEAR END REVIEW 2018

CHART A: LICENSED HOUSE SALES ANALYSIS 2009 - 2018 REPRESENTED AS THE ANNUAL PERCENTAGE OF THE TOTAL NUMBER OF TRANSACTIONS IN THE DUBLIN MARKET

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
€0 - €2m	0.00%	100.00%	100.00%	83.33%	95.00%	78.26%	87.18%	74.29%	90.32%	76.47%
€2M - €4m	40.00%	0.00%	0.00%	16.67%	5.00%	17.39%	10.26%	17.14%	9.68%	17.65%
€4M - €6m	40.00%	0.00%	0.00%	0.00%	0.00%	4.35%	0.00%	2.86%	0.00%	5.88%
€6M - €8m	20.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.56%	0.00%	0.00%	0.00%
€8M - €10m	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.86%	0.00%	0.00%
€10M - €12m	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.86%	0.00%	0.00%
€12M - €14m	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
€14m plus	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

CHART B: VOLUME OF LICENSED HOUSE TRANSACTIONS IN DUBLIN 2009 - 2018 REPRESENTED AS A PERCENTAGE OF THE TOTAL NUMBER OF PUBLIC HOUSES IN DUBLIN

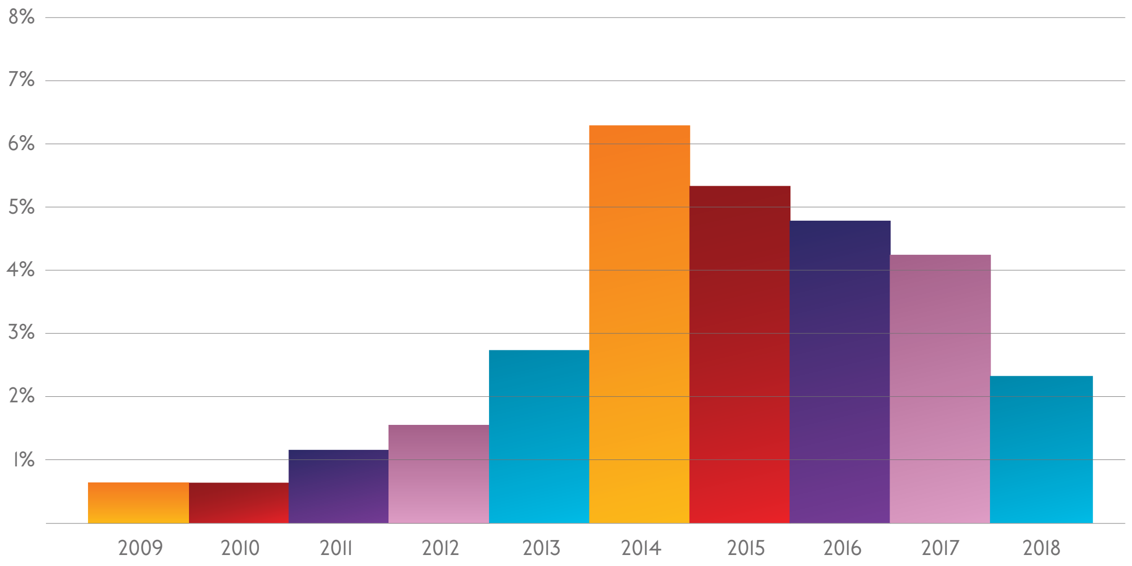


CHART C: THE CAPITAL VALUE OF THE LICENSED HOUSE TRANSACTIONS / SALES IN DUBLIN 2009 - 2018

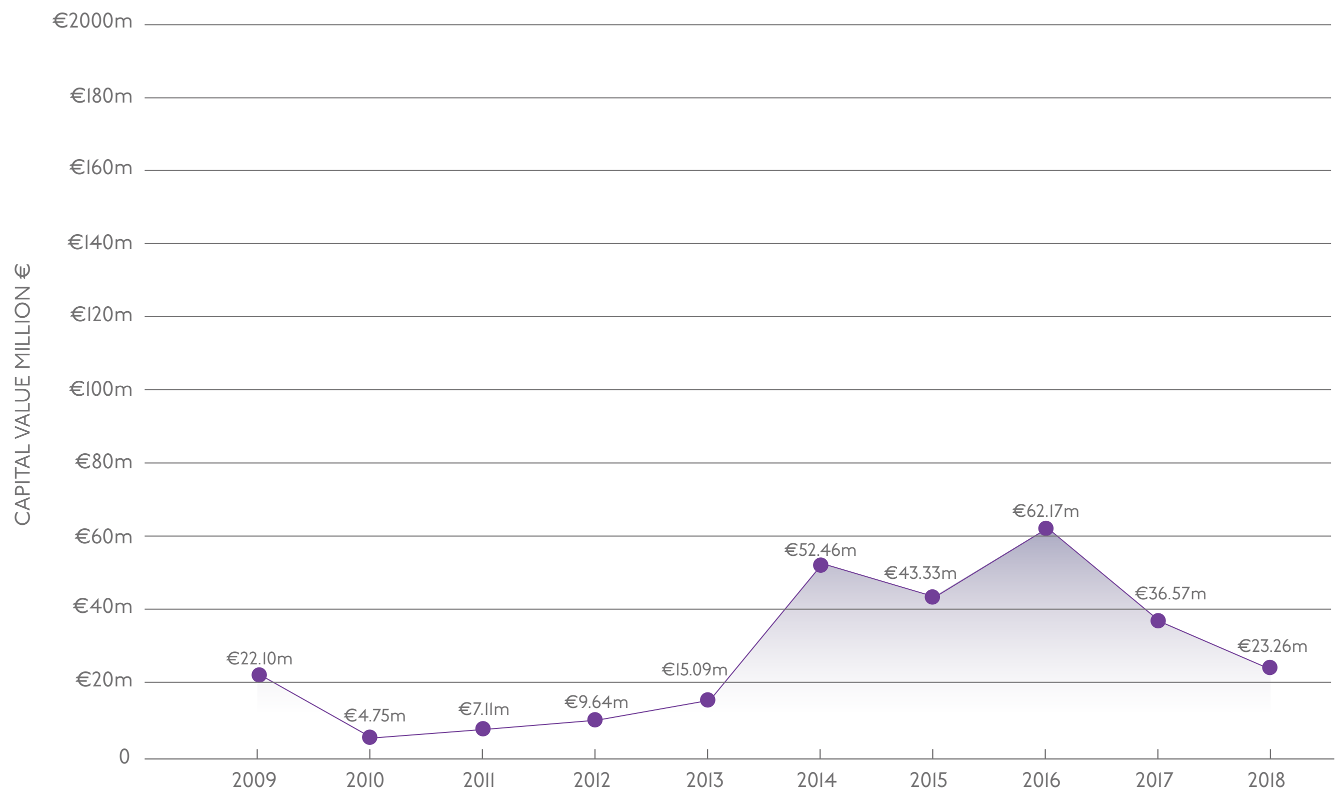


CHART D: AVERAGE ONE MONTH LENDING RATES 2009 - 2018

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

Category	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

CHART F: NATIONAL INFLATION RATES 2009 - 2018

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Inflation Rate	-4.5	-1.0	2.6	1.7	0.5	0.2	-0.33	0.00	0.40	0.49

CHART G: ANALYSIS OF THE MODE OF DISPOSAL FOR LICENSED PREMISES SOLD IN DUBLIN 2009 - 2018

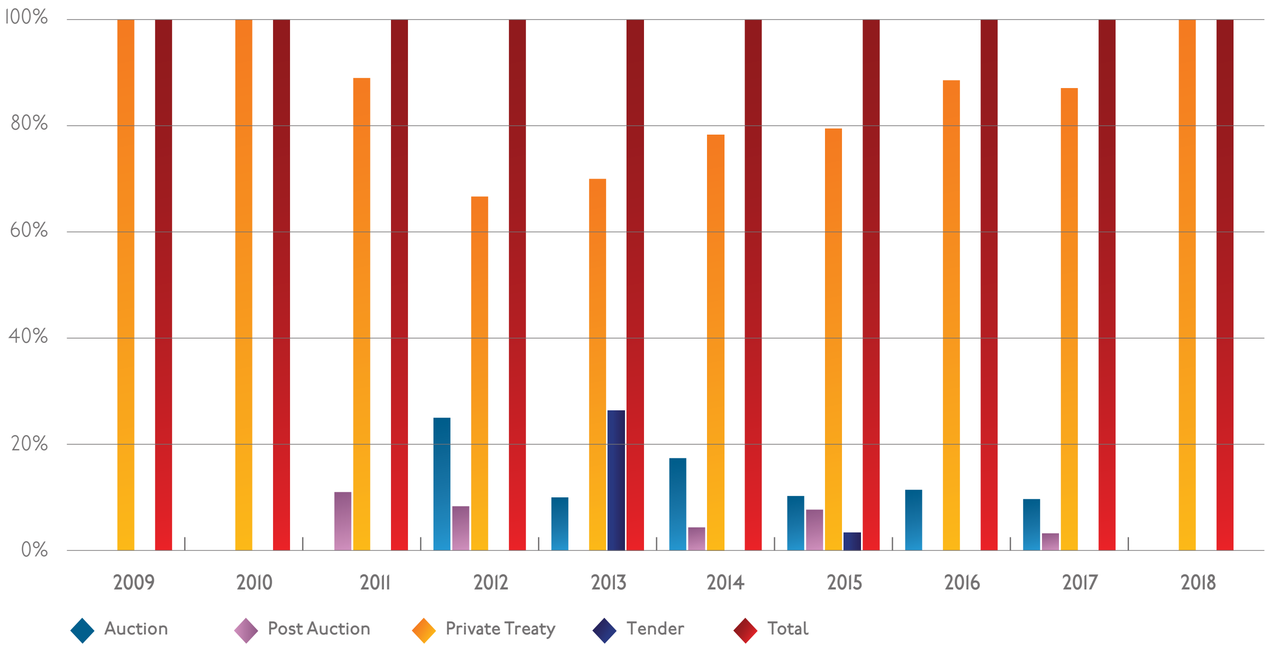


CHART H: THE AVERAGE SALE PRICE OF THE LICENSED HOUSE TRANSACTIONS / SALES IN DUBLIN 2009 - 2018

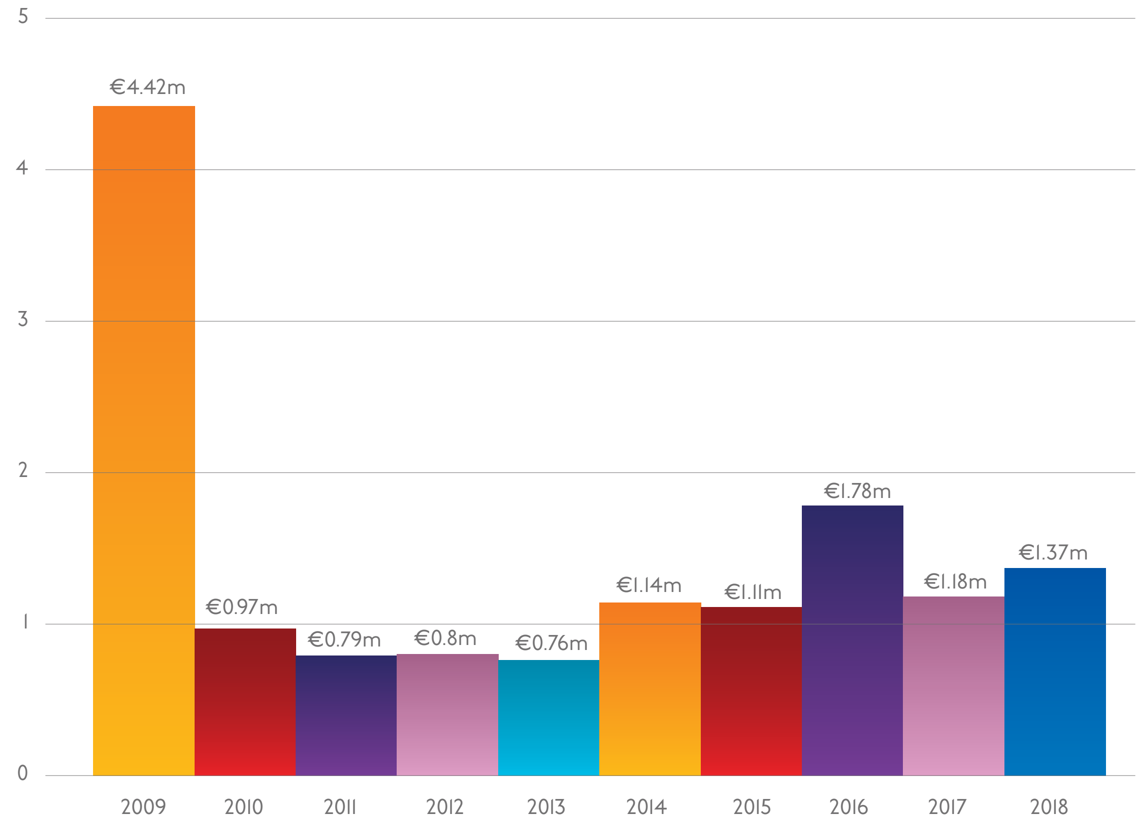
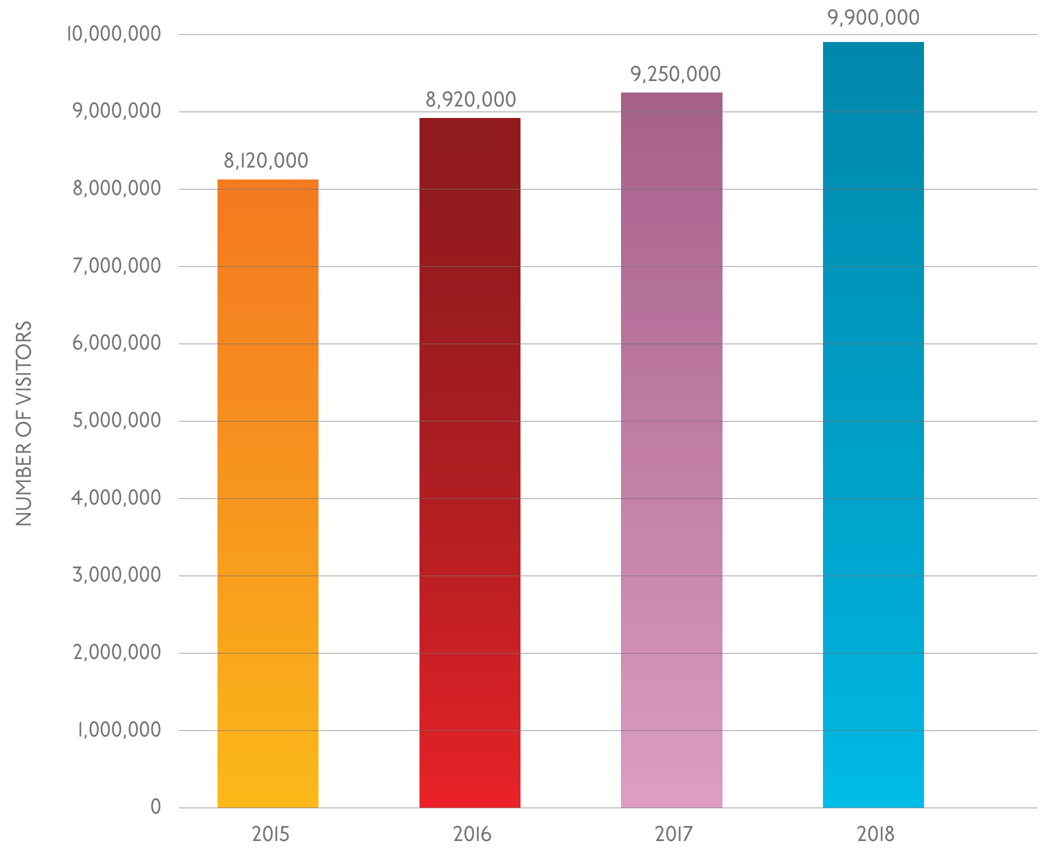


CHART I: OVERSEAS VISITORS TO IRELAND (JAN-NOV 2015 - 2018)



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