

Leased pubs perform better during slump

Combined group is now biggest pub owner in Britain

By Christmas 1991, around 3,715 Intrepeneur leases had been put in place out of a total merged estate of 7,355 pubs.

The 20-year leasing programme began in 1988 on the Grand Metropolitan estate, way before the integration of the 3,500 Courage pubs.

Today, the new company's property assets are managed by Intrepeneur, the specialist property marketing division of Grand Metropolitan Estates.

And the combined group is the country's biggest pub owner.

The leasing programme is not likely to be completed "until some time in 1994," says Intrepeneur's new managing director Rodney Mann but he insists it's on schedule despite the recession.

Mike Dunthorne, Grand Metropolitan Estate's director of government relations and business development, maintains 20-year lease pubs have performed better than those on other agreements during the economic slump.

He attributes this to the fact that lessees are in the business for the longer term and have their lives invested in it.

Failures

He does not deny there have been failures but overall, he says: "The decline in beer volumes for pubs on leases is much less than the market average."

There has not been less take up of the 20-year lease but it has taken longer to arrive at decisions, the two maintain.

Mann says: "Setting up a 20-year lease is a serious thing and nobody would underestimate it and people are terribly cautious about doing it at the moment."

From the lessees point of view, however, he reckons it must be one of the best moments to negotiate a lease and it would be a much tougher negotiation process when the economy improved.

Virtually all tenants are currently being offered an alternative lease - provided they can find the necessary money, claims Mann.

Dunthorne says: "Our policy has been where a tenant is deemed to be satisfactory

then those tenants have been offered a lease."

Mann concedes there has always been "a number of people who have not performed in the way we would like... but they are usually 10 per cent of any estate, it's not something that just happens with leases. You've always got a turnover of people and a proportion who have financial problems who have not met our aspirations or their own."

For those prepared to make the effort, he said, it ought to be the sort of arrangement whereby licensees reap what they sow, whereas with a tenancy, you can work yourself into the ground, build up trade from rock bottom and when you move on, you get no rewards for your toil.

The lease should give operational freedom. Licensees can make their own improvements, and develop the business in their own way without headquarter bigwigs making life and death decisions on their behalf.

The lease can be assigned after two years so the licensee gets the full market value of the business plus the goodwill.

No premium is paid when a lease is first taken out, although lessees do have the opportunity to charge a premium if they choose to assign the business.

The development of the business through the enterprise of the lessee is attributed to the lessee and the value of the goodwill is excluded at the five-yearly rent reviews.

Also, the enhanced value of the property achieved by voluntary structural improvement is not included in rent reviews.

All gaming machine income goes to the lessees, who can choose their own suppliers.

Volume

The agreement does require lessees to buy a minimum volume of Courage ales and lagers but they can choose any guest ale supplier and can source spirits, wines, minerals and cider from whosoever they choose.

Mann says more than 50 per cent of any one pub's business is currently free of the tie when measured in product sold.

Nearly 2,500 of the pubs will be released

Intrepeneur Estates, formed last March from the merger of the Grand Metropolitan and Courage pubs, is more than halfway through converting its entire estate to 20-year leases.

ANDREW DON talks to Intrepeneur's new managing director Rodney Mann and Mike Dunthorne, Grand Metropolitan Estate's director of government relations and business development.



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from the beer tie in November this year and the rest by March 1998, to comply with the Tied Estate Orders, giving the operators even greater freedom.

"We are offering pubs that will become free in nine months time," says Mann.

Dunthorne says that for those who won't go free until 1998, that might seem a long time away but their leases would still have a minimum of 13 years left to run.

The decision on who goes free of the tie and when lies with Courage. It makes sense that Courage will want to keep the larger volume pubs for as long as possible.

In effect the better you perform, the longer it is likely to take to get total freedom.

So is it all as good as it sounds? The two directors do make it sound like a month of chocolate nut sundaes.

There's greater risk involved than traditional agreements. Cost-wise, the main differences are the prospective lessee has to find legal fees and survey fees that can cost around £5,000 in the case of the long lease.

If repairs are needed, these will be taken into account in the terms negotiated provided the prospective licensee is astute with his bargaining.

Mann claims in more than half of all cases, the company puts in repair money.

If the prospective licensee has not negotiated properly, he'll run into financial trouble, although it can't be in either party's

interest for this to happen.

Mann describes the risk as "a normal commercial risk" but one that is different from the old tenancy agreements where tenants were "very much hand held, very much looked after and they were run very much more paternalistically."

"A large number resented that but it kept many on the road that might not have survived."

Around 85 per cent of the licensees have previous experience in the licensed trade and the remainder have usually had some sort of retailing experience.

Scheme

Around 20 per cent of the estate has now been let to people with two or more pubs. The figure was eight per cent when the scheme began. The most common number of pubs for multiple operators to run is between 10 and 20.

But they might include a mixture of other company's houses and a mixture of leasehold and freehold as well.

Dunthorne says: "Over the next few years lessees will learn to exploit the operational freedom of the lease and they will identify the consumer needs and that is different to the old system where the brewer controlled how the pub was run. Now the lessee has the total right to say I want to do this and if he doesn't want to he doesn't."