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Yields continue to drop in sought after WA pubs market

Perth, WA (25 February 2008)

Pubs in Western Australia are achieving previously unheard of sale yields as East Coast investors turn their attention to the booming WA market.

ING, ALH and Coles all ramped up their WA buying activities during 2007 according to a new Pubs MarketView report from CB Richard Ellis, which tips the sector will continue to benefit from East Coast buyer interest in 2008.

"There has been significant demand and it would appear the absence of gaming machines has been counteracted by the larger site areas and the 'booming' WA property market resulting in previously unheard of yields," CBRE Hotels Senior Director, David Kennedy, said.

Mr Kennedy said freehold investment yields had dropped by over 100 basis points in a year for some locations, although the average yield range remained largely unchanged at between 7.0% and 8.0% as at December 2007.

"The WA pub market is still very strong and we expect this to continue over the short to medium term as good hotel stock remains scarce," Mr Kennedy said.

A booming local economy and a drive by Coles and ALH into the WA market resulted in over \$113.7 million worth of pub sales in the state in 2006.

A more moderate level of sales - \$62.7 million in sales in the 11 months to the end of November - was recorded in 2007.

There were several significant deals, among them the \$190 million purchase by Compass Hotel Group of 12 freehold pubs and one leasehold asset – a transaction which Mr Kennedy forecast would have a dramatic impact on the WA market.

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Other high profile deals included the \$16 million sale of the Saint Hotel at Innaloo and the \$10.1 million of The Melbourne Hotel in Perth.

The strong outlook for the WA pubs market comes amid forecasts that sale yields in other states could come under some pressure this year.

The CBRE MarketView report tips highlights that several factors are impacting on the Australasian pubs sector, among them the current credit squeeze and the introduction of no-smoking regulations.

AUSTRALIAN OUTLOOK

Nationally, CBRE Hotels Director Ben Parkinson said the outlook for the pubs sector remained positive, particularly for well located properties with good growth potential. However, the increasing cost of debt was impacting the ability of pub investors to pay the same yields as they could, even six months ago.

"This has led to a softening of yields for some pubs and some locations," Mr Parkinson said.

"Yields are likely to ease further over the next 12 to 18 months as interest rates continue to rise and uncertainty from the slowing US market dampens investor demand."

CBRE Research Director Jennifer Beard said the total ban on smoking in enclosed areas, which is now in place nationally, was also impacting on the pubs sector, although Western Australia has seen the least impact of the Australian states.

Ms Beard said the legislation had been detrimental to hotel turnover, more particularly in the gaming states, with some NSW pubs experiencing a decline in revenue in excess of 10%.

However, Mr Parkinson said that astute owners were adapting to the changed market conditions.

Conversely, some older-style publicans were taking the opportunity to sell up in what remained a very competitive market.

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