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SA pub sales soar but uncertainty looms

Adelaide, SA (25 February 2008)

South Australian pub sales soared to the second highest level in a decade last year, despite investor uncertainty over new smoking bans, according to a new report from leading hotel brokerage firm CB Richard Ellis.

Freehold pub land sales totaled \$109.2 million in 2007 – the highest level since 2003 and significantly above the eight year annual average of \$60.8 million.

However, CBRE's MarketView report on the Australasian pubs sector warns that the SA market could still be impacted by the new smoking bans and regulations governing the operating hours of poker machines.

CBRE Adelaide Managing Director Phil Rundle said that while sales volumes had remained high, if several portfolio sales were excluded the downward trend in yields within the SA hotel market appeared to have stalled in the past 12 months due to investor uncertainty over the impact of the new legislation.

"There is a risk that these restrictions will detrimentally impact hotel turnover and in turn could impact on market values hotels and pubs," Mr Rundle said.

However, the MarketView reports forecast that the likely impact will be very venue specific.

"Many hotel operators have been proactive in renovating their pubs to include areas that provide appropriate smoking areas so as to minimise any impact of the ban," Mr Rundle said.

The report shows that 29 South Australian pubs changed hands during 2007. The most significant sales involved two portfolio deals – the Macquarie sale to Coles and Hedley and the Saturno leasehold sale to Woolworths.

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Yields continue to vary significantly depending on location, but for venues in metropolitan areas tend to range from 10.0% to 14.0% for going concerns with gaming machines and from 15.0% to 20.0% for venues without gaming.

Freehold interests in pubs with gaming are achieving yields from 7.5% up to 10.0% and for those without gaming yields range from 9.0% to 11.5%.

In regional centres, freehold pubs with gaming command yields of between 9.0% and 12.0%, while going concerns trade on yields of 14.0% to 18.0%.

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, is also impacting on the pubs sector.

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.

About CB Richard Ellis

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