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No last shout for Australian pubs

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Pub assets with good fundamentals will continue to attract strong buyer interest this year but will trade at weaker yields according to a new Pubs MarketView report from leading hotel brokerage firm CB Richard Ellis.

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

CBRE Hotels Director Ben Parkinson said the overall outlook for the 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.

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.

Sales activity last year in the Australian pubs sector reached \$1.49 billion compared \$1.79 billion in 2006.

Activity is expected to remain strong in 2008, with the CBRE MarketView report tipping that there will be a significant number of hotels on offer in the first half of 2008 as owners look to capitalise on significant gains made in the past five years.

Mr Parkinson said it was expected that pub assets with sound fundamentals would be in strong demand, albeit at marginally softer yields, following on from a series of national portfolio sales which had pushed yields to levels are not sustainable in the long term.

The perception of the industry had also been impacted by several receivership sales in 2007 – an event that was particularly noteworthy given the lack of such action in the sector over the past five years.

“This coupled with banks seeking advice from industry professionals on pub books and reviewing the loan to value ratio’s for the sector is modifying the perception of the industry somewhat,” Mr Parkinson said.

Nevertheless, buyers were continuing to seek out opportunities in what remained a sought after investment sector,

“The exceptional capital growth that the pubs sector has experienced over the last five years has diminished the availability of freehold assets available for potential first time pub owners,” Mr Parkinson said.

“As a direct result there has been continued interest in the leasehold sector, particularly given the trend toward combined lease terms of greater than 20 years which created a pseudo freehold asset.” Buyers had also turned their attention to the booming WA market.

“A lack of opportunities on the East Coast has seen a focus on the Western Australian market, with notable purchases by ING, ALH and Coles throughout 2007, and the Compass Hotel float in late December,” Mr Parkinson said.

“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.”

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