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Hospitality**Market**Monitor

Review of GB pub, bar and restaurant supply

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Costs crisis drives 2022 hospitality closures above COVID-hit 2021

Introduction by Karl Chessell, CGA by NielsenIQ director – hospitality operators and food, EMEA

Given the pressures that hospitality businesses are currently under, a drop of more than 1,600 hospitality venues in this edition of the Hospitality Market Monitor is quite shocking. Nevertheless, each of the closures represents a loss of jobs, personal money, and is sad for both the business and its local community.

Frustratingly, the fourth-quarter closures are not the result of a lack of demand. The Coffer CGA Business Tracker revealed solid if unspectacular year-on-year sales growth throughout 2022, and consumers remain eager to eat and drink out.

Instead, the closures are a result of very high inflation, which has hit profit margins and made real-terms growth difficult. Energy and food costs rose relentlessly in 2022, and an extension of this—plus more severe headwinds, including fragile consumer confidence, rail strikes and labour shortages—puts thousands more venues at risk of closure in 2023, with independents in particular peril. Hospitality has been hammered by nearly three years of COVID and inflation. Further government support will likely be required in order to get through the arduous months ahead.

102,071

Total licensed premises in Britain at December 2022

-1,611

Net change in total outlets between September and December 2022

1. Market overview

After an exceptionally challenging fourth quarter of 2022, Britain's hospitality sector suffered a net decline of 1,611 licensed premises, the Hospitality Market Monitor reveals.

This represents a **1.6%** contraction between September and December and is equivalent to nearly **18 closures every day**. It means the sector saw a net decline of more than 4,800 premises, or **4.5%** of its total, across the whole of 2022. More than three quarters of these closures—3,841 premises—occurred in the second half of the year as business pressures intensified.

This is an even worse performance than in 2021, when the COVID-19 pandemic was wrecking trade (see page 2). As well as showing the impact of inflation on profits and, it also reflects the success of the government support measures during the pandemic. With just one new opening for every three closures in the last three months, many operators are clearly cancelling or postponing expansion plans.

As the numbers here show, the costs crisis has hit some sectors harder than others. The casual dining and restaurant sectors recorded net declines of **2%** and **2.4%** of sites in the fourth quarter of last year, but nightclubs had an even sharper drop of **6%**. This segment is now nearly a third smaller than it was before the pandemic reflecting changing consumer behaviour.

The picture is brighter in some other channels. Community, food and high street pubs all had a net decline of less than **1%**, and losses were modest in the bar and large venue segments too, perhaps because these venues are taking up some of the capacity left by nightclubs.

Nevertheless, the fourth-quarter losses demonstrate the seriousness of the current situation. If the current rate of closures continued, we would see Britain's number of licensed premises fall below 100,000 sometime this year.

Total sites by segment, December 2022 v September 2022 and December 2021

	Sites at December 2021	Sites at September 2022	Sites at December 2022	% change in sites, December 2022 v September 2022	% change in sites, December 2022 v December 2021
Bar	4,507	4,487	4,455	-0.7%	-1.2%
Bar restaurant	3,372	3,331	3,283	-1.4%	-2.6%
Casual dining restaurant	5,477	5,292	5,185	-2.0%	-5.3%
Community pub	19,126	18,538	18,382	-0.8%	-3.9%
Food pub	12,115	11,877	11,813	-0.5%	-2.5%
High street pub	6,265	6,122	6,072	-0.8%	-3.1%
Hotel	7,525	7,379	7,328	-0.7%	-2.6%
Large venue	4,559	4,548	4,525	-0.5%	-0.7%
Nightclub	1,035	938	882	-6.0%	-14.8%
Restaurant	16,878	16,016	15,630	-2.4%	-7.4%
Sports / social club	21,343	20,552	20,377	-0.9%	-4.5%
Total	**106,880**	**103,682**	**102,071**	**-1.6%**	**-4.5%**

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Hospitality since COVID

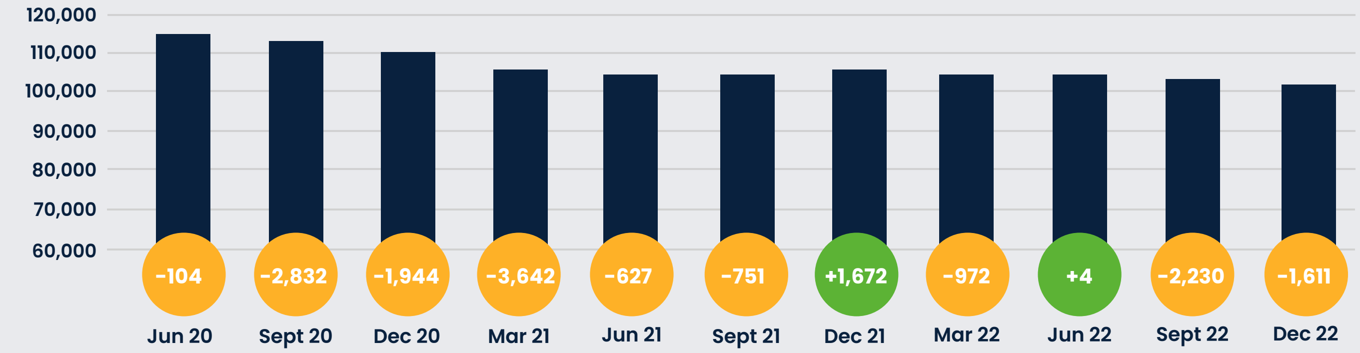
While recent closures have largely been the result of spiralling costs, the aftershocks of the COVID-19 pandemic are still being felt right across the industry.

Hospitality Market Monitor data shows how the sector shrunk in size from 115,108 to 102,071 licensed premises between March 2020 and December 2022. This is a net decline of 13,037 sites in fewer than three years—equivalent to 13 closures every day.

The initial COVID lockdown was largely responsible for a year-on-year drop of 4,880 sites in 2020. With government support and the roll-out of the COVID vaccine, business confidence rallied, and site losses were stemmed to 3,348 in 2021. But despite the easing of trading restrictions, the year-on-year decline rose again to 4,809 in 2022. In other words, hospitality has suffered more closures in the last 12 months than it did during COVID-ravaged 2021 and only marginally fewer than in 2020.

This partly reflects the lasting impacts of lockdowns on operators' resources, as thousands of weakened businesses—especially independents (see page 2)—were tipped over the edge last year. However, it also suggests that the inflationary crisis has become an even greater challenge than COVID now that much of the government support provided during the pandemic has been withdrawn.

Britain's total licensed premises, March 2020 to December 2022



Britain's total licensed premises, March 2020 to December 2022 (Incl. change in number of premises vs previous quarter)

Managed and independent sites

As was the case during COVID, independents have suffered from the inflation crisis significantly more than managed groups.

Of the net decline of 1,611 licensed premises in the fourth quarter of 2022, 1,410—or nearly nine in ten—came in the independent sector. By sharp contrast, the managed segment lost only 115 sites, while leased and tenanted venues dropped by 86.

The gulf in fortunes is even greater in the longer run. By the end of 2022, the independent sector was **13.3%** smaller than in March 2020, while the managed side had shrunk by only **3.6%**.

Most hospitality businesses were weakened by COVID, but managed groups had more resources to draw on than family-run businesses, many of which saw their buffer of savings depleted. Similarly, inflation in energy, food and labour has disproportionately hit smaller operators. Well-run managed groups, while not immune from all the challenges, should be much better placed than independent operators during what promises to be another difficult year, and the best businesses remain attractive to investors. But by reducing its size and diversity, the likely loss of thousands more independents in 2023 would be keenly felt by the hospitality industry as a whole.

Managed v independent sites, December 2022 v September 2022 and December 2021

	Sites at December 2021	Sites at September 2022	Sites at December 2022	% change in sites, December 2022 v September 2022	% change in sites, December 2022 v December 2021
Managed	20,708	20,812	20,697	-0.6%	-0.1%
Independent	68,470	65,802	64,392	-2.1%	-6.0%

London's rollercoaster ride

With nearly 3,000 licensed premises—more than the six next biggest cities put together—central London is hospitality's most concentrated and significant market by far. Since the start of COVID, it has also been one of the most turbulent.

Between March 2020 and September 2022, London's centre saw a net decline of 511 licensed premises—**14.8%** of its pre-COVID total. This reflected the unique effects of lockdowns in the centre of the capital, where hospitality heavily depends on office workers and tourists for footfall.

But after two years of severe challenges, the downward trend is easing. London's licensed sector contracted by just **0.2%** in the fourth quarter of 2022, as the volume of commuters and visitors moved closer to pre-COVID norms. While the capital won't escape the effects of inflation in 2023, it may well be better placed than other parts of Britain to get through current crisis due to the benefit of on average a more affluent customer base.

-14.8%

Net change in central London's licensed premises between March 2020 and September 2022

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Comment from AlixPartners

While the fundamental, longer-term outlook for the sector remains strong, these latest figures graphically illustrate the immediate and considerable challenges that stand in the way of many businesses and their future. Operators across the industry are grappling with a cost base that has spiralled – for some, beyond all recognition – such that some businesses are not currently viable.

These latest figures are a stark snapshot of what the sector has faced over the course of the past three years. In that time 13,037 sites have been lost, equivalent to 13 closures every day. While in the final quarter of 2022 some segments remained resilient, with modest declines (such as community, food and high street pubs), others came under increased pressure – especially the casual dining sector – as costs and industrial strikes took their toll. Nightclubs again bore the brunt, with this segment now nearly a third smaller than it was before the pandemic.

What is clear is that, absent further government support, the energy crisis has the potential to take a bigger toll on hospitality than Covid. With independents suffering disproportionately. Not every business is in jeopardy, but it's clear that even the stronger operators with robust balance sheets are opting to conserve their cash and wait out this storm.

Graeme Smith is Managing Director and Head of Corporate Finance Advisory at AlixPartners

Market summary: Total sites across three key segments: food-led, drink-led and accommodation-led

		Sites at Dec 2021	Sites at Sep 2022	Sites at Dec 2022	Dec 2022 v Sep 2022	% change in sites, Dec 2022 v Sep 2022	% change in sites, Dec 2022 v Dec 2021
All Venues	**Total**	**106,880**	**103,682**	**102,071**	**-1,611**	**-1.6%**	**-4.5%**
	Managed	20,708	20,812	20,697	-115	-0.6%	-0.1%
	Independent	68,470	65,802	64,392	-1,410	-2.1%	-6.0%
	Leased	17,702	17,068	16,982	-86	-0.5%	-4.1%
Food-led Venues	**Total**	**39,220**	**37,931**	**37,294**	**-637**	**-1.7%**	**-4.9%**
	Managed	10,793	10,732	10,679	-53	-0.5%	-1.1%
	Independent	23,726	22,578	21,986	-592	-2.6%	-7.3%
	Leased	4,701	4,621	4,629	+8	+0.2%	-1.5%
Drink-led Venues	**Total**	**57,776**	**56,105**	**55,581**	**-524**	**-0.9%**	**-3.8%**
	Managed	6,885	7,022	6,970	-52	-0.7%	+1.2%
	Independent	38,222	36,944	36,564	-380	-1.0%	-4.3%
	Leased	12,669	12,139	12,047	-92	-0.8%	-4.9%
Accommodation-led Venues	**Total**	**9,884**	**9,646**	**9,196**	**-450**	**-4.7%**	**-7.0%**
	Managed	3,030	3,058	3,048	-10	-0.3%	+0.6%
	Independent	6,522	6,280	5,842	-438	-7.0%	-10.4%
	Leased	332	308	306	-2	-0.6%	-7.8%

Sources and definitions

Data in this report is sourced from CGA by NielsenIQ's Outlet Index, the leading database of licensed premises in Britain.

'Independent' means that the venue is owned and operated independently—the individual owner has full decision-making responsibility for the venue's operation and profitability.

'Managed' outlets are managed sites of operators with more than one location, typically a collection of venues or portfolio of brands. They typically employ a manager to carry out the day-to-day running of the venue, according to the company's specifications and objectives.

'Leased' outlets are run by individual tenants who pay a tenancy fee or rent to a corporate landlord, typically a pub company.

'Licensed' outlets are permitted to serve wine, beer and other alcoholic beverages.

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