Catering for changes in the Restaurant Sector

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Casual dining remains a favoured pursuit for consumers, who despite keeping a check on outgoings, spent a greater proportion of their incomes on dining out.

The restaurant sector has delivered significant growth in recent years, with turnover growing by almost 40% since 2010, and profit margins in excess of 10% (Source: PMA). This fuelled a c.20% increase in new restaurant openings across the UK over the last five years, with many restaurant chains branching out and exploring opportunities in the regions.

Disposable income growth, residential and office occupancy trends and a recovery in tourism have underpinned the buoyancy of the restaurant sector, with vibrant city locations benefitting the most.

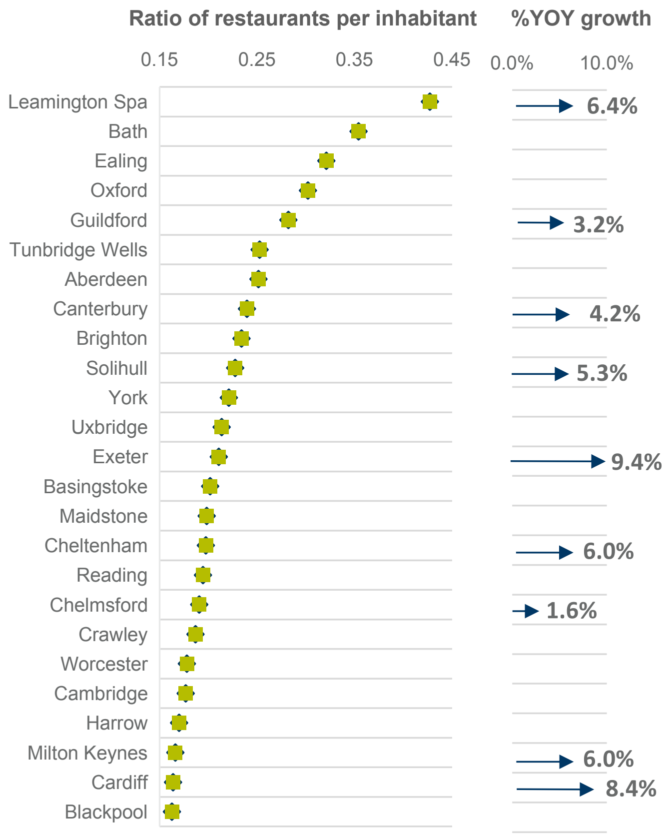
Our analysis of the top 200 retail locations revealed that 24 towns (Figure 1) had an above average ratio of restaurants per inhabitant with the highest ratios found in locations that typically have high numbers of tourist attractions, such as Bath, Oxford and Brighton. Some of these locations have seen stronger than average levels of expansion in restaurant openings over the last 12 months as indicated by the arrows.

We have concerns that the current levels of operator expansions could lead to an oversaturated market. Venture capital backed investors have been looking to grow their portfolios significantly (predominantly in the casual dining sector), to satisfy investors' demand for growth. Rising levels of expansion may render it more difficult for new restaurants to breakeven, and for existing ones to sustain the same levels of turnover and profit. Greater competition, rising market rents and increased staffing costs due to National Living Wage could have adverse effects on sales and margins in the sector.

We analysed which UK markets should be more resilient to oversupply, and the results reveal some interesting findings. Destinations such as Brighton scored well given the vibrancy of the market. However there are some centres that could be vulnerable to more chain expansion.

FIGURE 1

Ratio of restaurants per inhabitant and the growth for restaurant openings Year-On-Year



Source: DTZ Investors, PMA

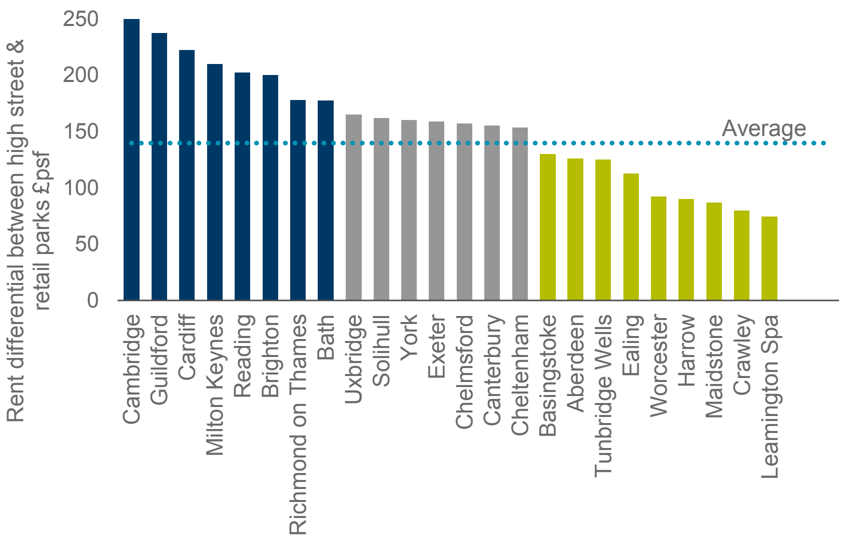
A familiar trend is unfolding with retail parks now becoming a destination for casual dining operators as they seek to benefit from less competition and lower occupational costs in out-of-town locations, just as they did 25 years ago for retailers.

There could be some benefits for those restaurants under increased pressure to move into retail park locations, particularly given the difference in rental levels between high streets and out-of-town retail parks (Figure 2).

However, this will be dependent on the type and availability of retail parks.

We are likely to see increasing numbers of venture capital backed casual dining chains, alongside smaller and mid-market operators move to locations which offer better value rents and the potential for above average profit margins. This trend of increasing restaurant expansion could have an adverse impact across the retail sector. Stronger restaurant chains are likely to move into newer schemes, which could result in increased vacancies on more outdated secondary retail pitches and a greater divergence between the winning and losing locations.

FIGURE 2
Rent differential between high street and retail parks, £psf



Source: DTZ Investors, PMA

"The restaurant sector should continue to grow at its current pace in 2016, although there may be a slowdown ahead if the market grows beyond sustainable levels."

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