Business Outlook 2009
Market Intelligence 2008

Christie + Co
BUSINESS INTELLIGENCE

CHRISTIE + CO PRICE INDICES

Index based on average sale prices (from a base of 100 in 1975)

	1975	2003	2004	2005	2006	2007	2008
Hotels	100	695	771	854	966	1025	837
Public Houses	100	753	822	865	939	1000	884
Restaurants	100	837	865	906	950	1026	873
Care	100	579	677	775	910	1021	849
Retail	100	828	865	933	988	1043	975

Christie + Co

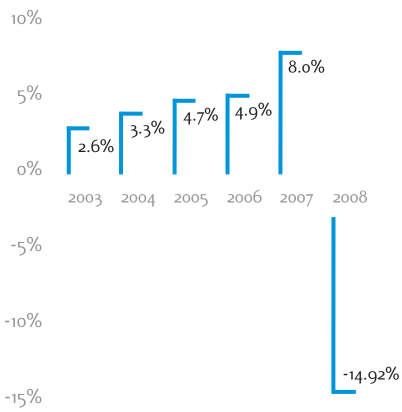
Average Index	100	792	863	937	1021	1099	981
Retail Price Index	100	469	484	497	516	538	554
House Price Index	100	1227	1411	1458	1598	1708	1471

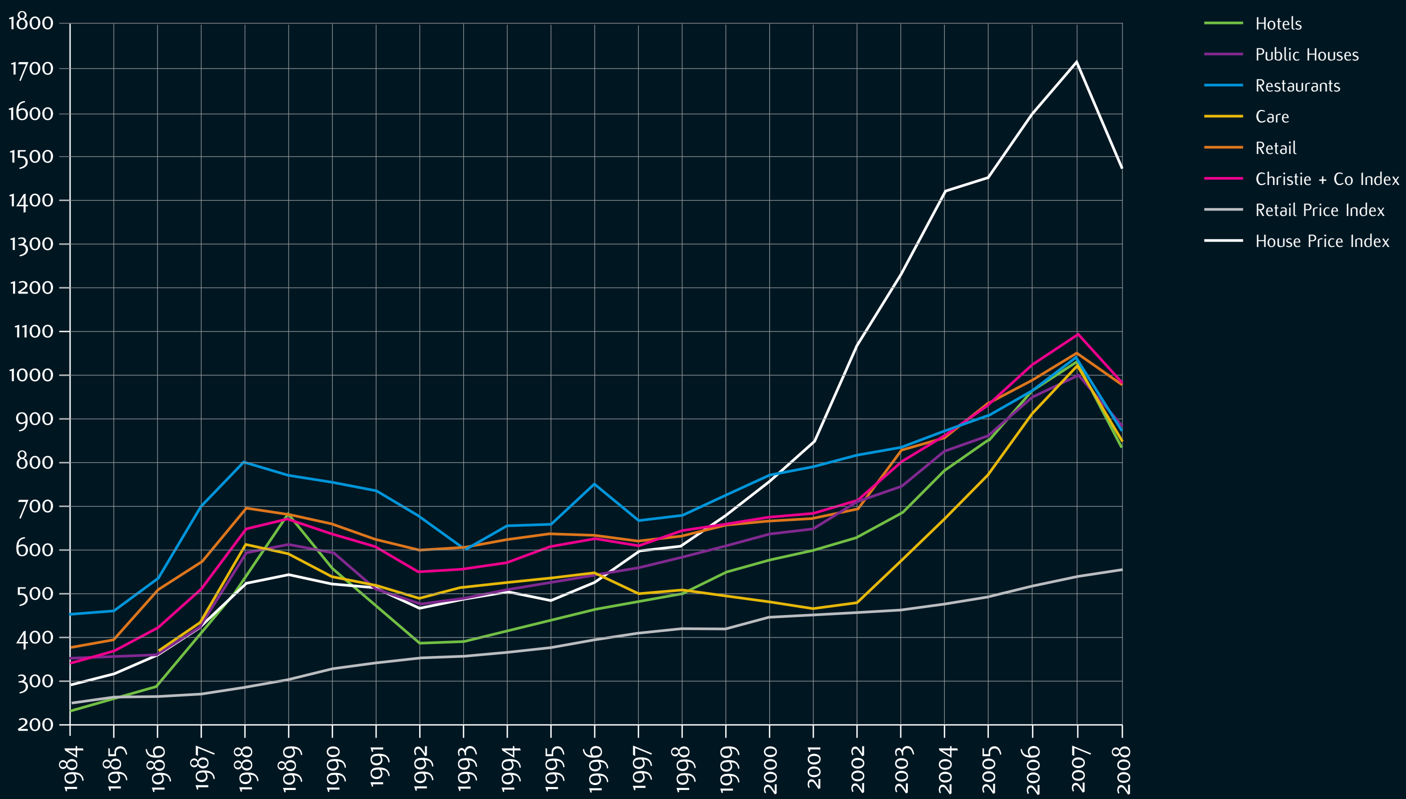
PERCENTAGE MOVEMENT IN AVERAGE PRICES

Hotels
-18.36% movement in average prices

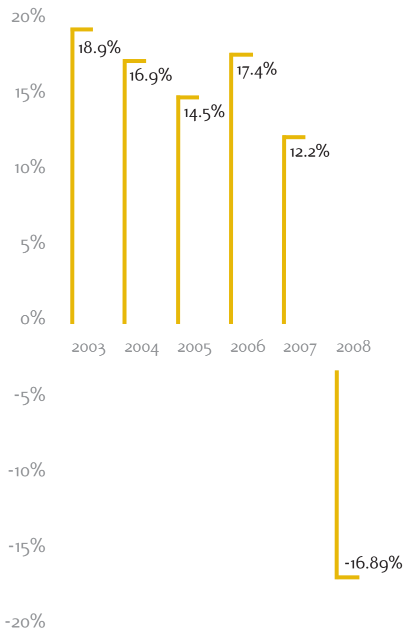
Public Houses
-11.63% movement in average prices

Restaurants
-14.92% movement in average prices

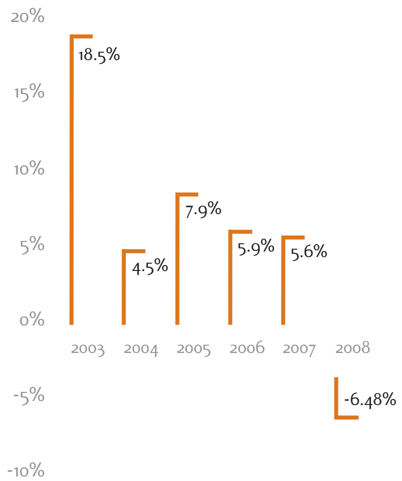




Care
-16.89% movement in average prices



Retail
-6.48% movement in average prices



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Chairman's overview

Over the last decade, we reported strong and positive growth in average property values, across almost all our specialist sectors — a period in which debt was freely available and property-based businesses were in high demand. Having enjoyed a long bull run, we entered 2008 with the knowledge that the environment would be much more challenging. The initial effects of the credit crunch were felt in the latter part of 2007, but the impact on business property values became truly evident during 2008, as a combined lack of cash and confidence slowed transactional activity.

An active start

In last year's Business Outlook document, I predicted a return to sound financial principles, where buyers of businesses would be expected to put in a real cash investment, rather than securing funds against the uplift in value of existing assets held.

During the first few months of the year, these predictions were realised as the market returned to financial normality and showed every indication of continuing in that vein. The transactional markets in all our sectors were busy, as business owners rushed to take advantage of the 10% CGT rate, either by selling, or at least crystallising gains.

Deepening of the crisis

At the beginning of April, the International Monetary Fund warned that the effects of the credit crunch were broadening into the residential and commercial mortgage markets and also into the corporate credit markets.

In May, the markets paused. The collapse of the housing market depleted the market of first time buyers, with the knock-on effect transferring to the small business ladder.

Syndication slowed to a trickle and with it the corporate portfolio sales market — stalling a number of deals that were forecast to take place within our sectors. The government's £37 billion rescue plan, in October, was "designed to put the British banking system on a sounder footing". However, the part nationalisation of the participating banks brought mixed messages, which ranged from "banks should continue to lend at 2007 volumes" to "banks will consider risks and make their own lending decisions".

Difficult predictions

The Bank of England's Monetary Policy Committee made a series of cuts, which brought the Bank Rate down from 5.5%, at the beginning of 2008, to an historic low of 2.0% as the year closed. These rate cuts would traditionally be reflected in the lending markets, but the future cost of money is unfortunately more difficult to predict, given the unprecedented decoupling of the Base Rate and Libor.

Business values eventually adjust to the medium-term cost of money; however, it is the availability of money that determines transaction volumes. We are optimistic that finance for the purchase of small to medium-sized businesses will be readily available in 2009, providing operators have a sound business track record and are able to inject at least 30% equity. Sound commercial businesses will be the most readily fundable.

Movement in average values

Christie + Co's average price indices, which are based on analysis of our own transactions for the year as a whole, show a reduction in average business property values across all our sectors. Values within the hotel sector reduced by 18.36%, whilst in the pub and restaurant sectors, they reduced by 11.63% and 14.92% respectively. The care sector reported a negative value movement of 16.89%, whilst the retail sector fared a little better, recording a reduction of just 6.48% in average values.

Encouraging signs

Interestingly, we are still seeing a consistent volume of buyers registering on our website and viewing businesses. The number of businesses for sale seems stable and constant. It is the lack of cash, and with it a lack of certainty, that has slowed the market confidence of both buyer and seller.

A seller may be looking to retire and is unsure of where it's safe to reinvest, or a younger vendor may be planning to return to paid employment — difficult at a time of large scale redundancies.

Whilst transactional activity has slowed, Christie + Co's advisory activity is in demand, in line with the industry's need for valuations and specialist professional advice. The dedicated Bank Support & Business Recovery Unit we set up in the early 1990s was quickly re-established in the second half of 2008 and we are assisting with an increasing number of distressed business and insolvency situations to achieve the most positive outcome possible in each circumstance.

Looking to the future

Although transactional activity in our markets has slowed, it certainly hasn't reached a standstill. Vendors continue to be motivated to sell for a variety of reasons — retirement, death, changes in personal circumstances, or financial need — and buyer enthusiasm, both yield driven and opportunistic, still exists. Although many first time buyers have been deterred by the economic uncertainty, our transactional activity confirms that there are still some new entrants to our markets, seeking to control their own investments and careers, as well as the experienced operators who possess sufficient confidence and knowledge to expand.

The challenge for Christie + Co in 2009 will be matching vendor expectations with those of funded buyers, and concluding deals. We saw signs, late in 2008, that vendors had become more realistic in their price expectations, thus providing real value opportunities for cash rich buyers in 2009.

We predict an increase in overseas investors taking advantage of sterling assets and record low exchange rates. Hospitality businesses in particular should benefit from a rise in tourist numbers.

Today, you can buy a leasehold business for between once and twice its net profit, or a freehold business yielding twice the related interest cost. These are exceptionally attractive yields. For those with access to capital, why wait?

David Rugg,
Chairman

Putting our Intelligence to the test

Christie + Co is undoubtedly best known as a specialist business brokerage, but the challenging market conditions of 2008 presented us with an opportunity to prove our capabilities as professional property consultants, who can provide valuable advice at a time when it is most needed.

Rising to the challenges

Although we have enjoyed operating in thriving business property markets for the past 10 years, we are equally accustomed to much more challenging conditions. Christie + Co was established in 1935 and we have experienced a number of difficult economic periods in the past, where property values have fallen and businesses have benefited from our specialist advice.

Our market knowledge and strong relationships enabled us to continue identifying opportunities and brokering transactions during 2008, but we have also been called upon to provide numerous market appraisals, portfolio reviews, valuations, and restructuring advice.

Understanding values

Christie + Co is regulated by RICS and we employ 45 Chartered Surveyors, who work across our network of offices. These Chartered Surveyors work independently on individual projects and also under the guidance of our team of senior corporate valuers, who deal with portfolio and corporate valuations, landlord and tenant work and complex specialist valuations. With four Chartered Surveyors on the RICS Panel of Arbitrators and Experts, our experience is unrivalled.

The importance of understanding the underlying fundamentals of value has never been greater. In today's less transparent market, we are unable to rely solely on transactional evidence. Fortunately our specialist sector knowledge and business intelligence enables us to recognise the many factors that contribute to business value and take a realistic view.

Providing timely advice

In a challenging marketplace, timely advice is vital. With a network of 28 offices across Europe, we're able to respond rapidly to requests for discreet business inspections, portfolio reviews and formal valuations.

Christie + Co's dedicated Bank Support & Business Recovery Unit focuses on working with clients to reduce liability and enhance asset value. We provide support and decision making assistance — whatever stage of concern or distress a business has reached. We are able to provide advice relating to a broad range of issues, including business performance; property marketing and disposal; interim asset management; portfolio valuation; estate rationalisation; higher alternative use value options, and the transfer or sale of debt.

Looking forward to 2009

Most businesses enter 2009 with concerns about future trading and the impact current economic difficulties will have on their performance. At whatever level a business is trading — whether it is budget or discounter, private provision or luxury — we believe that service delivery and customer care will ensure that the business stands the best chance of success. Unfortunately there will be "distressed" opportunities, as the market readjusts to a more normalised financing climate and values reflect the more cautious approach of lower leveraged investors.

Chris Day
International Managing Director

HOTELS
PUBLIC HOUSES
RESTAURANTS
LEISURE
CARE
RETAIL
SECTOR INTELLIGENCE

Sector knowledge and specialist advice

Christie + Co has been selling business property and advising business owners for more than 70 years. We have assembled a vastly experienced team of advisors and brokers who specialise in the sectors we know best — hotels, public houses, restaurants, leisure, care and retail.

Agency

Christie + Co's reputation was built on brokering transactions. We have amassed considerable agency experience and developed an enviable list of contacts across all our sectors. Even in today's challenging marketplace, we are confident in our ability to match buyer expectations with those of vendors and facilitate deals.

Valuation Services

Our experienced team of Chartered Surveyors and valuers undertakes a variety of projects — from discreet individual property reviews, to complex formal corporate valuations. Recognising that a formal valuation is not always what the client requires, we tailor the service to match the need. Time is always of the essence and the size and geographical spread of our team enables us to manage major portfolio valuation projects as effectively as individual asset valuations — within demanding timescales.

Investment

Christie + Co's specialist investment team focuses on identifying and developing investment opportunities across all our business sectors. Our experts provide advice on investment sales and acquisitions, sale and leaseback/manage-back opportunities, forward funding and forward commitment requirements. The team also works with developer clients on site sales and acquisitions, operator search and selection processes, and branding, management contract and lease negotiations.

Consultancy

Combining an analytical and results driven approach, our consultancy team provides a broad range of services across all market segments and is able to advise clients throughout the project lifecycle. The team's access to unparalleled operational and performance data allows for timely and actionable advice. From market assessments, feasibility studies and projection evaluations, to bespoke strategic, operational and recovery projects — our advice is focused on maximising the value of opportunities.

Bank Support & Business Recovery

Christie + Co established a dedicated Bank Support Unit in the early 1990s, in response to the significant number of projects we were called upon to handle on behalf of leading banks and receivers during the last recession. We quickly re-established a co-ordinated Bank Support & Business Recovery service in the second half of 2008, which focuses on working with clients to reduce risk and enhance value.

Simon Hughes
UK Managing Director

Geographical coverage

We have developed an extensive network of offices, which enables us to respond effectively to client projects across the UK and Europe. Christie + Co currently operates 28 offices in 27 locations.

UK Locations

Birmingham
Bristol
Edinburgh
Enfield
Epsom
Exeter
Glasgow
Ipswich
Leeds
London
Maidstone
Manchester
Milton Keynes
Newcastle
Nottingham
Winchester

International Office Locations

Barcelona
Berlin
Dusseldorf
Frankfurt
Hamburg
Helsinki
London
Madrid
Marseilles
Munich
Paris
Rennes

AGENCY | VALUATION SERVICES | INVESTMENT | CONSULTANCY

Hotels

The effects of the global economic crisis were clearly reflected in the hotel property market in 2008. A general lack of confidence in the banking sector hampered the funding of deals and the more challenging market conditions also brought a more realistic approach to asset prices.

A reduction in transaction volumes

Lack of consumer confidence, rising costs and the general slowdown in the economy considerably reduced transaction levels during 2008, compared to 2006/2007, whilst those deals that completed did so over longer time frames.

New supply is currently benign with a "wait and see" attitude discouraging owners from presenting their assets to the market, while the inability to secure funding is hampering new developments.

A number of the major deals forecast from the middle of 2007 onwards fell by the wayside, or were set in a holding pattern, as investors and buyers struggled to raise debt. This led to the separation of a number of portfolios, as investors looked to take advantage of what was still a relatively healthy market for single assets. These single asset transactions and smaller portfolio deals were still deliverable, albeit at higher finance costs, and a number successfully completed in 2008.

Investors seize opportunities

There were opportunities, for those with funding, who were able to act quickly and invest their cash. In June, Travelodge announced the acquisition of two properties from Swallow Hotels, and confirmed that it had acquired a further five hotels, for a combined investment total of £69.9 million, adding 669 rooms to its portfolio.

Travelodge's limited service sector rival, Premier Inn, was also quick to tap into its reserves of funds, acquiring three hotels in London. The Quality Hotel in Westminster; Comfort Inn Kensington; and Purple Hotel in the City were bought from the Real Hotel Company for £18.58 million.

The appetite for "trophy" assets also remained healthy, as highlighted by the sale of the 203-room Crowne Plaza, Blackfriars, for £85 million in July, and by the Musallam family's acquisition of the Hotel Prince de Galles, in Paris for €141 million in October.

Despite uncertainty in the financial markets, news of a few major group transactions continued to surface. In September, Host Hotels & Resorts, the US hotel real estate investment trust, announced that it had signed an agreement to acquire six hotels from Gengate Europe for €565 million (£451.4 million), through its joint venture in the Netherlands.

Portfolio of hotels in Germany

Acting on behalf of Queens Hotels Deutschland, Christie + Co sold a group of four hotels in Germany to Mark Hotels, the Israeli hotel group, for an undisclosed sum. The group of hotels comprised the 142-room Best Western Hotel in Kassel; the 82-room Four Points by Sheraton Hotel in Dusseldorf; the 85-room Eurogarden Hotel; and the 116-room Four Points by Sheraton Hotel, both of which are in Cologne.

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(from a base of 100 in 1975)

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Hotels	100	695	771	854	966	1025	837

BUSINESS OUTLOOK
2009

- We can expect further distressed asset sales.
- Hotel operators will explore opportunities in close proximity to sites that are scheduled to host events during the 2012 Olympics.
- Increasing numbers of hotel packages will be broken up and brought to the market in smaller groups, or as single assets.
- Brand proliferation will continue.

"Christie + Co combines a wealth of experience and good business sense with a comprehensive network of in-country professionals, to provide excellent advice and support."

Martin Quinn
Senior Vice President, Asset Management & Acquisition (Europe)
Westmont Hospitality

+ Consumers, especially business travellers, will choose to downgrade to lower cost hotels.
+ New hotel developments and subsequently room supply will be impacted by the lack of finance.
+ Terms of management contracts will increasingly reflect the changing trading environment.
+ Trading in both the leisure and corporate segments will come under pressure as discretionary and business spending tightens.

CASE STUDIES

Acting on behalf of Apollo Real Estate Advisors, Christie + Co sold the **Dylan Hotel in Amsterdam** for an undisclosed sum.

Acting on behalf of LRG Acquisition Ltd, Christie + Co sold the long leasehold Express by Holiday Inn Strathclyde Park, near Glasgow. The hotel, which was Europe's first Express by Holiday Inn, was sold to Geminex Hotels & Leisure for an undisclosed sum. Acting on behalf of private clients, Christie + Co also sold the 129-bedroom, purpose-built **Express by Holiday Inn Stevenage**, to leading budget sector operators, Morethanhotels.

Christie + Co successfully signed an agreement with Travelodge to take the lease on **"The Exchange"** in the centre of Chester after carrying out an operator search on behalf of Opus Land Ltd.

Christie + Co has worked on research studies relating to the rolling out of new brands by leading International hotel companies, including Hampton by Hilton and Hilton Garden Inn.

Christie + Co was originally instructed, by the tenant, to provide a valuation of the leasehold interest of the 52-bedroom, 4*, AA Rated **Felix Hotel** on the outskirts of Cambridge City Centre. We were subsequently instructed, by the same tenant, to undertake a second valuation in order to assist with the purchase of the landlord's interest in the property. This valuation was therefore of the freehold interest, assuming vacant possession.

Hotels
-18.36% movement in average prices

Here come the brands

2008 saw several of the major operators launch new brands into the UK. Hilton opened its first full service, upscale Doubletree Hotel outside the Americas in Cambridge in April, while its Hilton Garden Inn brand debuted in Luton during the summer. The company's first UK Hampton by Hilton property is also set to launch in Corby in the first half of this year.

Not to be outdone, Hilton's main rival InterContinental Hotels Group (IHG) also introduced two new brands to the UK. In April, the company opened its first extended stay concept property, Staybridge Suites, in Liverpool. A month later IHG's first Hotel Indigo outside the Americas opened in London Paddington.

Accor, which plans to introduce its budget All Seasons brand into the UK over the next few years, also continued to expand its Mercure, Ibis and Etap brands. Rezidor's rollout of the Park Inn brand continued, with the opening of its 20th UK Park Inn at Peterborough at the end of the year.

These aforementioned brands and other emerging concepts, such as Purple Hotels, EasyHotel and Nitenite, are all set to grow in number over the next 12 months, as developers and owners seek suitable brands, on which to anchor their new projects.

Fundamentals suffer

Although trading fundamentals held up in London and across the regions during the first half of the year, RevPAR and occupancy levels later fell away, as the effects of the economic downturn and its negative impact on consumer confidence caught up with the sector. According to industry figures, occupancy in London fell by 6.0 percentage points in November, compared to the same period in 2007, with the regions experiencing a 5.6 percentage point decline. Average occupancy rates were predicted to fall by 2.3 percentage points for the whole year.

While consumers may be unwilling to sacrifice their holidays, they will be more price-conscious and we may see a rise in domestic trips. Business travellers are also under pressure to reduce overseas trips and trade down when it comes to choice of hotel.

Budget bullishness

Limited service hotel operators, with value for money offers, will undoubtedly benefit from customers' smarter buying behaviour in the coming 12 months. Premier Inn and Travelodge, the sector's two main rivals, have already been quick to add to their portfolios and market their discounts. Travelodge announced a £5 million package of price cuts in November, designed to "steal customers from mid-market rivals".

Conversely, upscale hotel operators are likely to suffer, due to their reliance on corporate demand, with the mid-scale segment benefiting as customers downgrade.

Folio folds

The end of the year brought the first signs that the economic slowdown and the subsequent drop in trading would leave some companies struggling to stay afloat. Folio Hotels, which operated 36 properties across the UK, fell into administration at the start of December. More businesses are unfortunately set to follow, as banks look to offload underperforming assets, in order to balance their pressurised books.

Movement in values

Having reported positive increases in average property values since 1992, Christie + Co's hotel price index records an 18.36% reduction during 2008. This average price information was derived from hotel transactions brokered by Christie + Co during 2008.

2009 will be another challenging year for the hotel sector and some operators will undoubtedly fare better than others. Those companies with low gearing, a strong brand and a sustainable operating model, will be able to trade through the challenging times, and will also be in the best position to increase market share by taking advantage of quality opportunities at reduced prices.

Jeremy Hill
Head of Hotels

EUROPEAN PORTFOLIO TRANSACTIONS 2008

Date	Portfolio	Locations	No. of Properties	Total Bedrooms	Sale Price (€m)	Purchaser	Vendor
January	Portfolio of Algarve hotels	Portugal	2	450	183	JJW Hotels & Resorts	Starman Hotels
	Portfolio of German hotels	Germany	7	Unknown	70.2	European Hospitality Properties (EHP)	Undisclosed
	Portfolio of Finnish and Swedish hotels	Finland, Sweden	39	6,477	805	CapMan Hotels RE Ky	Northern European Properties Ltd (NEPR)
	Portfolio of Starwood hotels	Italy	3	419	156	Estcapital SGR SpA	Starwood Hotels & Resorts
February	Portfolio of Bridgehouse hotels	UK	3	189	Undisclosed	Hand Picked Hotels	Bridgehouse Hotels Group
April	Portfolio of Menzies hotels	UK	6	719	106.4	Travelodge	R20
	Portfolio of independent UK hotels	UK	4	335	36.9	Hallmark Hotel Group (Zeus)	Unnamed private vendors
	Portfolio of UK development sites	UK	9	568	41.8	Travelodge	Various
	Portfolio of Real Hotel Company hotels	UK	3	400	27.4	Premier Inn (Whitbread)	The Real Hotel Company
May	Portfolio of Paten hotels	UK	4	400	66.4	BDL Select Hotels	Paten & Co
June	Portfolio of Motel One hotels	Germany	2	Unknown	36	Lloyd Fonds	GBI
	Portfolio of Swallow hotels	UK	7	669	103.1	Travelodge	Swallow
July	Portfolio of UK hotels	UK	3	182	Undisclosed	Moorfield Real Estate Funds	REIT Asset Management
August	Portfolio of UK hotels	UK	5	circa 500	20.6	Travelodge	Various
	Portfolio of UK development sites	UK	21	circa 200	Undisclosed	Premier Inn (Whitbread)	Mitchells & Butlers
September	Portfolio of Courtyard, Marriott and Renaissance hotels	France, Germany	6	1,954	565	Host Hotels & Resorts	Gengate Europe

EUROPEAN SINGLE ASSET TRANSACTIONS 2008

Date	Property	Country	City	Bedrooms	Sale Price (€m)	Purchaser	Vendor
January	Nhow Hotel, Milan	Italy	Milan	245	90.0	AXA REIM	NH Hotels
	Hilton Rhodes	Greece	Rhodes	401	35.5	Lampsa Hotel Company /Plaka Hotels	Ionian Hotels
February	Park Hyatt Casares, Marbella	Spain	Marbella	170	70.0	Qatar National Hotels Company	Grupo Evemarina
March	Newpark Hotel, Kilkenny	Ireland	Kilkenny	129	25.0	John and Allen Flynn	Private family
	Andel's Hotel, Krakow	Poland	Krakow	159	33.0	Warimpex	UBM
	Bauza Hotel & Restaurant, Madrid	Spain	Madrid	188	60.0	Rosales 2007	Habitat Hotels
April	Hotel General Alava Vitoria	Spain	Vitoria	114	14.0	AC Hotels	Private family
	Hotel Continental, Belgrade	Serbia	Belgrade	145	148.8	Delta Real Estate	International CG
	Holiday Inn Zurich-Messe	Switzerland	Zurich	160	35.7	KanAm Grund	Undisclosed
May	Crowne Plaza Amsterdam	Netherlands	Amsterdam	270	72.0	HHR Euro CV	IHG/Institutional Investor
	Sofitel Grand, Amsterdam	Netherlands	Amsterdam	182	60.0	Undisclosed	Accor
June	Courtyard Bremen	Germany	Bremen	155	24.0	Deka Immobilien	Marriott
	Hotel Ambassadeur, Juan les Pins	France	Juan les Pins	225	25.0	Jesta Group	Undisclosed
	Hotel Sky, Barcelona	Spain	Barcelona	259	103.0	Sol Melia	Altavista Hotelera
July	ZAO Nordrus Hotel, Ekaterinburg	Russia	Ekaterinburg	160	22.5	Wenaas	SRV Russia
	Sokos Hotel Helsinki	Finland	Helsinki	202	42.0	Exilion Capital	Sponda
September	Sanvy Hotel Madrid	Spain	Madrid	149	61.0	Testa	Caja Madrid and Mapfre
October	Citadines Paris Louvre	France	Paris	51	21.5	Ascott Group	Predica
	Mövenpick Frankfurt	Germany	Frankfurt	288	63.0	Union Investment	CA Inmo Group
	Hotel Prince de Galles, Paris	France	Paris	138	141.0	The Musallam family	Undisclosed
November	Hotel Ambassadeur	France	Paris	294	152.0	Westmont Hospitality	Starwood

LONDON SINGLE ASSET TRANSACTIONS 2008

Date	Property	Total Bedrooms	Total Sale Price (£m)	Purchaser	Vendor
January	Hilton Waldorf, WC2	299	175	Ms Gulshan Bhatia	RBS
February	Silken Hotel, WC2	137	115.8	Losan Hotels World	Undisclosed
	Montcalm Hotel Nikko, W1	120	32	Unnamed family-run hotel company	Japan Airlines
April	Sunterra Carlton Court, W9	22	Confidential	Confidential	Confidential
May	Citadines Holborn, WC1	192	43.5	Ascott Group	Land Securities
July	Crowne Plaza Blackfriars, EC4	203	85	Marg Galadari/ARG Hotels Limited	Grupo Statuto
	Pelham Hotel, SW7	52	20	Proprietors of the Gore Hotel	Firmdale Hotels

UK REGIONAL TRANSACTIONS 2008

Date	Property	Total Bedrooms	Total Sale Price (£m)	Purchaser	Vendor
January	Marriott Victoria & Albert Hotel, Manchester	148	Undisclosed	Yiannis Group	RBS
	Park Inn Heathrow	881	Undisclosed	Yiannis Group	RBS
	Cotswold House Hotel, Chipping Campden	29	12	Diamond Lodge Properties	Mr Ian & Mrs Christa Taylor
February	Marcliffe Hotel, Aberdeen	42	17.5	European Development Company	Undisclosed
	Frederick's Hotel & Spa, Maidenhead	37	Confidential	Unnamed private investor	Frederick Losel
	Express by Holiday Inn, Stevenage	129	Undisclosed	JER Partners	LRG Acquisition Limited
	Express by Holiday Inn, Strathclyde	120	Undisclosed	Geminex Hotels & Leisure	LRG Acquisition Limited
March	Seaham Hall & Serenity Spa	19	Confidential	Von Essen Hotels	Tom's Companies
	Bredbury Hall, Stockport	140	17	Unnamed private investor	First House Leisure
	Four Seasons Hampshire, Hook	133	60	The Al Khalifa family	Barclays
	Point Hotel, Edinburgh	139	20	EBH	WG Mitchell Group
April	Wessex Hotel, Bournemouth	109	7.2	LaSalle Investment	Forestdale Hotels
	Ramada Jarvis Leeds North	105	7.3	Blair Estates	Morley Property Fund
	Cwrt Bleddyn Country House Hotel, Usk	44	Confidential	Lester Hotels	Roadbeach Limited
	Brooklands Hotel, Barnsley	77	Confidential	New Barnsley Hotels	Brooklands Restaurants
June	Patio Hotel, Aberdeen	168	34.9	Invesco Real Estate	Unnamed private vendor
July	Auchen Castle, near Gretna Green	25	Confidential	PAG Hotels	Ms Ann Skinner and Ms Corry Ter Smitte
	Premier Inn Stoke (Trentham Gardens)	119	10	KS Habro Stoke	St Modwen
October	Norfolk Hotel, Birmingham	169	6	Mr Chima	SS Hotels
	Callow Hall Hotel, Derbyshire	16	Confidential	Von Essen Hotels	Undisclosed
	Westin Turnberry Resort, Ayrshire	221	55	Leisurecorp	Starwood

BUSINESS OUTLOOK

Public Houses + Restaurants

2008 was one of the most challenging years ever experienced by the UK's pub and restaurant sectors. Operators who had started to come to terms with the effects of the smoking ban and the bad weather experienced in 2007, found themselves hit with rising utility costs, food inflation, an increase in alcohol duty, and a squeeze on consumer spending.

Transactional activity slows

The instability in the global economy created a hiatus in corporate M&A activity and a slowdown in individual transactions across the pub sector.

The value of major transactions in the sector during the first half of 2008 totalled less than £130 million, compared to £1.3 billion for the same period in 2007. Of this, almost 50% was accounted for by LGV Capital's acquisition of the Sandpiper estate of 65 properties in the Channel Islands in May.

Scottish & Newcastle Pub Enterprises (S&NPE) was the most acquisitive group in 2008. Multiple acquisitions included the purchase, through Christie + Co, of 30 sites from Tadcaster Pub Company in April.

Movement in values

Christie + Co's pub price index shows that average values fell by 11.63% during 2008, compared to the 6.5% increase witnessed in 2007. This average figure is based on the many freehold and leasehold transactions we completed during 2008. According to our own transactional evidence, freehold prices fared better than leaseholds, with leasehold premiums proving more difficult to achieve.

Although there has been a reduction in values, compared to the heady freehold prices achieved over the past few years, we believe that they have generally held up remarkably well.

Good quality freehold assets continue to generate interest, while enthusiasm for properties that are being converted from managed to leased remains strong. Moves by the major pub companies to curtail their acquisition plans have allowed independent buyers to come back into the market. Regional brewers are also expected to take advantage of the lack of competition from major chains, to increase their freehold estates.

Pub groups come under pressure

The first few months of the year were dominated by speculation surrounding the future of Mitchells & Butlers (M&B), following the losses associated with its failed attempts to create a PropCo/OpCo structure in 2007, and the increasing role played by majority shareholder Robert Tchenguiz. Punch Taverns, Blackstone and Cinven were all put forward as potential buyers, while M&B countered by declaring an interest in acquiring Punch's managed estate, Spirit Group. However, no deal was forthcoming and this, coupled with Mr Tchenguiz's sale of his stake in the group, has allowed it to refocus attention on consolidating its position as the UK's leading managed house operator.

Acting on behalf of Adnams, the Suffolk-based brewer and pub operator, Christie + Co sold a package of four freehold pubs to Scottish & Newcastle Pub Enterprises (S&NPE) for a sum in the region of £1.2 million.

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(from a base of 100 in 1975)

	1975	2003	2004	2005	2006	2007	2008
Public Houses	100	753	822	865	939	1000	884
Restaurants	100	837	865	906	950	1026	873

BUSINESS OUTLOOK
2009

+ Appetite for medium-sized packages remains but, until debt and credit markets reopen, there is little likelihood of a return to the frenetic M&A activity which has characterised the sector over the last decade.
+ We hope the government will recognise the need to impose minimum price levels on the sale of alcohol in the off-trade, which could bring social and industry benefits, by reducing "pre-loading".

"Scottish & Newcastle Pub Enterprises worked with Christie + Co on a number of acquisition and valuation projects during 2008. We appreciate their local knowledge, corporate awareness and ability to react quickly in response to our needs."

John Draper
Property Director, Scottish & Newcastle Pub Enterprises
(Subsequently Property Director of Daniel Thwaites)

- We remain confident that good quality, well run pubs have a long-term future both as trading entities and as investments.
- Independent and regional restaurant operators will come under increasing pressure.
- The corporate casual-dining segment will remain robust.
- For those companies that survive the challenging trading conditions, with a strong balance sheet, the upside from a recovery could be substantial.
- Restaurant operators will continue to ease back on their expansion aims, in order to concentrate on improving under-performing units.
- Regional brewers and independent buyers will increase their activity in the freehold market.

CASE STUDIES

Acting on behalf of Tadcaster Pub Company and Tadcaster Hotels & Resorts, Christie + Co sold 30 tenanted and leased pubs to Scottish & Newcastle Pub Enterprises (S&NPE) for an undisclosed sum. The sale of the package left Tadcaster with a 36-strong estate consisting of a mixture of pubs and hotels.

Christie + Co acquired three freehold pubs in Essex for a figure in excess of £3.5 million on behalf of Close Imperial Pub Company, the Enterprise Investment Scheme (EIS) headed by Tony Carson. The three new additions to the group's estate were **The Swan at Chappel**, near Halstead, The Alma in Chelmsford, and The Angel at Stoke by Nayland — all high quality well known freehouses.

The Red Lion Inn in Cricklade, Wiltshire was sold through Christie + Co to The Real Food Pub Company, a group funded though an Enterprise Investment Scheme (EIS) and launched by Carluccio's chairman Stephen Gee, for an undisclosed sum, off an asking price of £1.3 million.

Acting on behalf of administrators BDO Stoy Hayward, Christie + Co sold the **Smollensky's** restaurants in **Canary Wharf** and on the Strand to Kornicis for an undisclosed sum

Acting on behalf of administrators Grant Thornton, Christie + Co valued Massive Pub Company's estate.

Public Houses

-11.63% movement in average prices

Administrations

The sector witnessed a number of well known companies entering administration, including the Food & Drink Group, Laurel Pub Company, Massive Pub Company, Herald Inns and Bars and Cains Beer Company. Alongside the impact of the credit crunch, some of the companies that fell into administration were victims of stifling rents and the move by consumers away from the high street drinking circuit, on which they focused their offer. Several of the companies mentioned took the "pre-pack" administration route in order to survive, re-entering the market with new names and seemingly with new purpose, shorn of their underperforming sites.

Market sentiment

Stock market sentiment also turned against the sector, with the majority of publicly quoted companies experiencing substantial falls in their share prices. Enterprise Inns' announcement that it had received clearance from HM Revenue & Customs to convert to a REIT was well received during the summer, but the government's announcement in its Pre-Budget Report that it would restrict the ability of property-rich businesses to gain REIT status, may see a number of pub groups look elsewhere to unlock value from their estates.

Despite a challenging 12 months, the end of the year brought some positive news, with Marston's announcing that it had extended its bank facility with a consortium of banks, including most high street lenders, until 2013. The move provides the company with an appropriate level of funding for the longer term. It also signalled the fact that the banking sector continues to have confidence in the company.

Regulatory changes

The impact of the smoking ban is still being felt, with beer volumes continuing to decline and operators placing increased emphasis on food and the diversity of their offers, including the addition of accommodation. The government's refusal to fully explore the issues surrounding below-cost selling has also led to more consumers enjoying the cheaper option of staying at home, rather than visiting their local.

A parliamentary Business & Enterprise Committee review of the pub industry has also commenced, which is looking at whether the pub company's codes of practice are working, and considering whether the industry should be subject to further regulation.

Pub closures

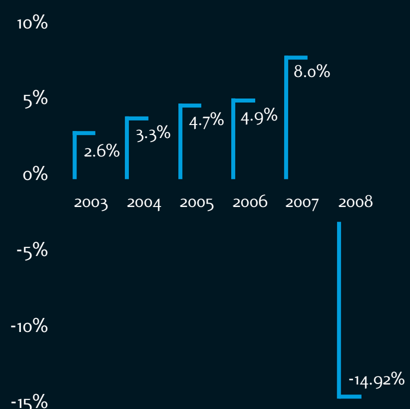
In September, new figures showed that pubs were closing at a rate of five a day, with the impact of the credit crunch and the government's increase in alcohol duty put forward as the main reasons behind the rise in closures compared to 2007 numbers. While the rate of pubs shutting may seem alarming, such closures have been taking place across the sector for many years and are usually due to the fact that a site is no longer viable, or that it has a higher alternative use value. In 1999, Christie + Co predicted that there were too many pubs operating in the UK, with 10,000 needing to close.

The major pub companies have all been quick to offer support to tenants who are experiencing difficulties. Measures have included short-term rent subsidies, enhanced discounts, or capital investment.

The end of the year saw resilient sales figures being reported by many of the major groups, despite the challenging trading conditions. Several also announced that they would forgo paying a dividend to concentrate on reducing debt and supporting their tenants during what they see as being another tough 12 months. However, whilst trade in many parts of the sector is currently holding up reasonably well, it will be affected if the UK economy goes into a severe or prolonged recession, with a consequential effect on revenues and values.

Restaurants

-14.92% movement in average prices



Restaurant values

According to Christie + Co's average price indices, the restaurant sector experienced a greater dip in values than the pub sector. Average values fell by 14.92%, compared to 2007's 8.0% growth in values.

Spending squeeze impacts eating out

Just 18 months ago the UK's restaurant sector was buoyant, with talks of takeovers and mergers and the first six months of 2008 proved no different, with a number of significant deals taking place.

In January, Richard Caring, the clothing entrepreneur and former backer of Strada, acquired a majority stake in Soho House for a sum in the region of £105 million. In the same month, high-profile chef Alan Yau sold two of his London-based Michelin-starred restaurants for £30.5 million. This was followed in February by Bridgepoint Private Equity's £345 million acquisition of a major share in Pret-a-Manger, and Quilvest Private Equity's purchase of YO! Sushi for circa £50 million. However, this was to be the last of the significant takeovers in the sector during the year, as the credit crunch hindered the raising of funds and also delayed indefinitely the mooted stock market flotations of Wagamama and the Tragus Group.

In July, we witnessed the sale of Bombay Bicycle Club, by Clapham House Group, to Tiffinbites for a sum in the region of £9 million, but the remainder of the year was characterised by companies struggling to cope with rising food and utility costs, coupled with a slowdown in consumer spending. This saw companies like the Food & Drink Group, Le Frog, Beanscene, and even operations run by high-profile chefs, such as Tom Aikens, fall into administration.

In the face of challenging conditions, some of the major chains have upped their marketing and promotional work, with a spate of 2-for-1 offers appearing on the high street, while at the same time scaling down their expansion plans for 2009.

Other operators, who are less exposed, have seen the misfortunes of some as opportunities for expansion and are willing to make acquisitions — albeit cautiously and only if they believe the units they target can withstand a prolonged recession.

End of year trading updates from Clapham House Group and Carluccio's highlighted that the gap between eating out and eating in was still small and that the casual-dining sector remained robust. However, we believe that the next 12 months will prove tough for the operators, with many independent businesses likely to be squeezed out of the market.

Neil Morgan
Head of Public Houses + Restaurants

PUBLIC HOUSE AND RESTAURANT TRANSACTIONS 2008

Date	Vendor	Purchaser	Deal
January	GRS Inns	London Town	Acquisition of 60 leasehold pubs for £4.31m, as part of a reverse takeover, which created a 282-strong estate.
	Soho House	Richard Caring	Acquisition of majority stake in the Soho House club for a sum in region of £105m.
	Alan Yau	Tasameem, the property arm of the Abu Dhabi Investment Authority	Acquisition of the chef's two Michelin-starred restaurants for £30.5m.
	Sports Cafe	Agilo	Acquisition of five sites, out of administration, by a specialist situations fund for undisclosed sum.
	Hamburger Union	Aberdeen Steak House	Acquisition of five Hamburger Union sites for an undisclosed sum.
	Capital Pub Company	Young's	Acquisition of three freehold pubs in Greater London for £8.5m.
	Elbow Rooms	Inc Group	Acquisition of six bars for an undisclosed sum.
February	Ladhar Group	Foundation Inns	Acquisition of five pubs (four freehold, one leasehold) for an undisclosed sum.
	Pret-a-Manger	Bridgepoint Private Equity	Bridgepoint acquired a major share in Pret-a-Manger for a sum circa £345m.
	Mitchells & Butlers	Young's	Acquisition of three freehold pubs for approximately £7.5m.
March	YO! Sushi	Quilvest Private Equity	Acquisition of circa 40 restaurants for circa £50m.
	Broken Foot Inns	Faucet Inn Pub Company	Acquisition of four leasehold pubs for £1.45m.
	Private clients	Close Imperial Pub Company	Acquisition of three freehold pubs in Essex for a sum in excess of £3.5m.
	Kroll	Robert Tchenguiz	Acquisition, out of administration, of the majority of Laurel Pub Company in a deal worth circa £350m.
	Ego	LDC, private equity arm of Lloyds Bank	Management buyout, led by ex-La Tasca CEO James Horler, of a five-strong chain.
	Soho Clubs & Bars	Novus Leisure	Acquisition, out of administration, of seven London-based clubs and bars for an undisclosed sum.
April	Progressive Pub Group	Scottish & Newcastle Pub Enterprises	Acquisition of four leasehold sites for an undisclosed sum.
	Stepchange Bars and Restaurants	Alphabet Bars	Alphabet acquired a major share in Stepchange, the operator of The Cuban bar brand.
	Tuns Taverns	Scottish & Newcastle Pub Enterprises	Acquisition of 10 freehold pubs for an undisclosed sum.
	Tadcaster Pub Company	Scottish & Newcastle Pub Enterprises	Acquisition of 30 leased and tenanted sites for an undisclosed sum in the region of £15m.
	Massive Pub Company	Bridgehouse Capital	Acquisition of 33 sites, out of administration, for a sum in the region of £8m.
May	CI Traders (Sandpiper CI)	LGV Capital	Acquisition of circa 65 pubs, the Jersey Brewery and two drinks distribution businesses, in a deal worth an estimated £65m.
	Sarti	Management buyout	Management buyout of the five-strong Italian restaurant chain for an undisclosed sum circa £5m.
July	Clapham House	Tiffinbites	Tiffinbites acquired the Bombay Bicycle Club brand for circa £9m.
	Baker Tilly	Interguide London	Acquisition, out of administration, of One Leicester Square nightclub, for a sum in the region of £1m.
August	The Food & Drink Group	Mainpaint, a company backed by NGI Private Equity	Acquisition, out of administration, of 17 bars for an undisclosed sum.
	Challenger Inns	Company founder backed by Allied Irish Bank	Acquisition of a clutch of Scotland based pubs in a deal worth £5m.
	Mitchells & Butlers	Whitbread	The purchase of 21 sites for an undisclosed sum.
	Whitbread	Mitchells & Butlers	Acquisition of 44 pub restaurants for an undisclosed sum.
September	Beanscene	Fifi & Ally	Acquisition, out of administration, of a 14-strong Scottish coffee shop chain.
	Mitchells & Butlers	Realpubs	Acquisition of three London-based freehold pubs for circa £7m.
	PricewaterhouseCoopers	Dusanj Brothers	Acquisition, out of administration, of Cains brewery and nine pubs.
	Deloitte	Yellowhammer Bars	Acquisition, out of administration, of five units previously owned by Future 3000.
October	Adnams	Scottish & Newcastle Pub Enterprises	Acquisition of four pubs worth circa £1.2m.
November	Grand Leisure	Private individual	Acquisition of four restaurants and four gastropubs for an undisclosed sum.
December	Begbies Traynor	Paul Lilley	Acquisition, out of administration, of the four-strong Le Frog restaurant chain for an undisclosed sum.
	Admiral Taverns	Iona Pub Partnership	Acquisition of 27 pubs in Scotland for an undisclosed sum.
	PricewaterhouseCoopers	Orchid Group	Acquisition, out of administration, of 240 pubs for an undisclosed sum.
	BDO Stoy Hayward	Kornicis Group	Acquisition, out of administration, of the Smollensky's restaurants in Canary Wharf and on the Strand.

Leisure

2008 transactional activity was dampened by the global economic crisis, as leisure operators turned their attention to improving quality of service and providing value for money, in order to strengthen their existing operations and maintain custom. The value of the PropCo/OpCo model was also under the spotlight in the health and fitness sector, as property yields softened and trading conditions remained challenging.

Fit and healthy?

The acquisition of Health Club Investment Group, the parent company of Cannons, from Royal Bank of Scotland (RBS) and PPM Capital for around £170 million by Nuffield Hospitals in January, was a false dawn for those expecting another year of consolidation in the health and fitness sector. The effects of the global economic crisis were unsurprisingly reflected in the leisure sector as 2008 unfolded, with the lack of available funding hampering the completion of deals.

The future of Esporta again dominated the headlines last year with the future of the troubled chain, which went into administration in August 2007, still in doubt. Reports in the middle of 2008 suggested the company could be broken up to facilitate a sale. By November, David Lloyd Leisure had announced it was interested in the chain's racquet element, while LA Fitness and the Bannatyne Group were tipped as buyers of its fitness clubs. However, December brought the news that a proposed sale had been put on hold, after administrators failed to reach an agreement with prospective buyers.

Although harbouring a strong interest in part of the Esporta business, David Lloyd Leisure concentrated on operational efficiencies in 2008, but said it would be looking to "hoover" up opportunities over the next 18 months, including investment in European "Gateway" locations.

Budget health club operator The Gym Group made its debut in the sector in July, with the launch of its first "no-frills", 24-hour access club in Hounslow. The company, which is headed by John Treharne, the former head of the Dragons Health Club chain, also operates a site in Guildford, with plans to open 10 more gyms in 2009/2010.

JJB Fitness, the fitness club division of JJB Sports, launched its new budget gym concept "MiFit" in September at its JJB retail store at Llanishen Retail Park, Cardiff, which was followed by the opening of a second site in Reading in November. Despite the launch of the new concept, 2008 was a tough year for JJB Sports, which reported a 7.5% drop in like-for-like sales for the 19 weeks to 7 December. The company's share price plummeted in September, after it admitted that HBoS had accused it of breaching its banking covenants. The company also appointed Lazards and Panmure Gordon to advise on the sale of its lifestyle business, which includes its 50 gyms. In December it reported the receipt of a number of enquiries from potential buyers for its fitness clubs business, including a £100 million proposal from Wigan Athletic owner and JJB founder Dave Whelan.

Sale of The Thames Club

Christie + Co acted for Sheffield United in the sale of the Thames Club in Staines, Middlesex. The club was purchased by a company funded by the Downing Protected Venture Capital Trusts. Continuing to trade as The Thames Club Limited, the premier health and fitness facility will benefit from the new owners' investment in 2009. "The investment will include state-of-the-art equipment and design, as well as the addition of new groundbreaking facilities, including the first Star Trac spinning theatre in the UK. We have also opted to install a highly sophisticated mechanical and electrical system, which will enable The Thames Club to lead our sector in the provision of energy-efficient operating systems", says club Managing Director Steve Lewis.

BUSINESS OUTLOOK

2009

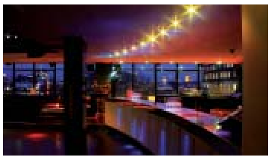
- Re-assessment of the PropCo/OpCo model in the health and fitness sector.
- High quality freehold/long leasehold health clubs with proven track records to remain in demand.
- Greater opportunities for experienced/entrepreneurial owner operators.
- Pressure on the nightclub sector to continue, with the reality of additional forced sales during 2009.

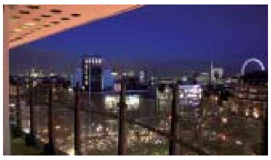
"We first worked with Christie + Co when we acquired The Thames Club in July 2008 and we have since recognised the potential for synergy between our organisations. The Downing Protected VCTs focus on investing in companies which own substantial assets, many of which operate in the sectors Christie + Co know best. We appreciate their openness and honesty and we are keen to tap into their sector knowledge and industry contacts to identify further opportunities."

Paul Beaumont,
Investment Director, Downing Corporate Finance

- Increased scope for tenant lease negotiations, including those as a precursor to "pre-pack" administration situations.
- Continued growth of niche and mid-scale live music venue development.
- Selective acquisition and development by corporate operators targeting prime locations and leisure schemes.
- Further enhanced developer incentives will become available to attract operators to leisure and mixed use schemes.

CASE STUDIES





Christie + Co sold the leasehold interest of **Number One Leicester Square,** the exclusive nightclub situated in the heart of London's West End, on behalf of administrators Baker Tilly, to Interguide London, a subsidiary of Interguide Investment Holdings, for an undisclosed sum.

Christie + Co was appointed to sell the long leasehold of **Ayr Raceourse,** Scotland's largest racecourse, and the freehold of its adjoining 4-Star hotel.

Acting on behalf of Richard Branson's Virgin Clubs, Christie + Co successfully concluded rent review negotiations in respect of the well-known **Kensington Roof Gardens and Restaurant.** The unique property has mature 100-year-old gardens at 6th floor level.

Christie + Co was instructed by Regent Inns to market six leasehold opportunities spread across the UK, including five Walkabout sites.

Christie + Co advised CanDu Entertainment on its options regarding the disposal of various parts of the group's business. The company was subsequently acquired by Agilo, the specialist situations fund.

Eyes down, head down

The smoking ban continued to have a damaging effect on the fortunes of bingo operators and the government continues to be reluctant to answer the industry's pleas for it to scrap double taxation (bingo revenue is subject to the payment of both 15% value added tax and 15% gross profits tax). With around 100 clubs closing in the last four years, the sector witnessed another challenging 12 months.

The year started with the Rank Group, operator of Mecca Bingo and the Grosvenor Casino chains, coming under the takeover spotlight, with the Guoco Group increasing its stake in the company to over 3% in January. During 2008 Guoco further increased its stake in Rank to just over 24%.

In May, Rank reported a 3% decline in full-year profits, which it firmly blamed on the smoking ban and increases in gaming duty. However, the month was to bring some good news, as reports suggested that the group was in line for a £36 million VAT rebate after winning a legal dispute with the tax authorities.

Unfortunately in the same week, the government turned down the wider bingo industry's call to scrap double taxation on the sector, claiming that the recent troubles experienced by gaming operators were not tax-related.

However, the government finally listened to protests by the industry a month later, by announcing an easing of restrictions on the number of slot machines allowed in bingo halls.

It was also a bad year for Rank's main rival Gala Coral, which has shut 13 bingo clubs and four casinos since the start of the smoking ban. Despite an additional £124 million cash injection from private equity backers Permira, Cinven and Candover, the company announced a pre-tax loss for the 12 months to September 27 of £397 million. Net debt also rose to £4.3 billion, whilst interest payable rose 12% to £491 million, and cashflow from operations fell 20% to £314 million. Around 200 head office jobs are under threat as a result.

Adding to Gala's headaches, since the year-end, it was also forced to take a £10.4 million loss relating to a defaulting interest rate swap taken out with the since collapsed investment bank Lehman Brothers.

Clubs floored by smoking ban

Alongside bingo, the nightclub sector has been the hardest hit by the introduction of the smoking ban in 2007. Sites where the implementation of a client-friendly smoking solution hasn't been possible have borne the brunt of the problem — their customers have simply gone elsewhere.

The sector has also been squeezed by the changes in licensing laws, which were implemented in November 2006, and low-cost selling in the off-trade. Late opening was one of the nightclub sector's unique selling points but, since the laws changed, many consumers have been persuaded away from nightclubs, towards the well-developed late-night bar market. The pricing differentials in the off-trade have also had an impact on both nightclubs and bars, as drinkers choose to "pre-load" at home.

These combined issues have led to a number of nightclub operators entering administration during the last 12 months, including CanDu Entertainment, Soho Clubs and Bars, and Summit Clubs.

Luminar, Britain's biggest nightclub group, responded to the current tough trading environment by streamlining its activities and curtailing its expansion plans. It also disposed of 26 non-core units to Cavendish Bars Ltd, and shed itself of the liabilities for leasehold sites sold to CanDu and 3D Entertainment — a move which will reduce its annual rent roll by £2.1 million, but at a cost in the region of £10 million.

While the majority of the nightclub sector found trading challenging, some groups, especially those in the chameleon bar sector such as Novus Leisure, which operates the Tiger Tiger brand, fared much better. Many local operators, who are potentially better placed to adapt to changing trends at the micro level, are also trading reasonably well, despite increasing costs. In December, Inventive Leisure, which operates the Revolution vodka bar chain, reported a 28% increase in sales for the 12 months to the end of June.

Other companies have looked to enhance their income stream beyond the pure club business with "intellectual property" an ever increasing buzz phrase. Both Gatecrasher and Ministry of Sound have sought to focus on building their brands and extending their product range beyond the limits of real estate.

A positive note

While most of the leisure sector has come under increasing strain, there has been one notable area of the industry which has enjoyed an upturn in fortunes.

Live music and the return to intimate gigs has been one of the good news stories of the year, as the YouTube society has brought an audience back to provincial venues. MAMA Group, the AIM-listed live music company, continued to enhance its portfolio with the acquisition of The Gig venue in Edinburgh from Luminar in March for £3.55 million. At the same time it acquired the lease of The Sanctuary in Birmingham on behalf of its Barfly group division.

Industry leader Academy Music Group also added three new venues during the year, with the acquisition of the Brighton Hippodrome, Leeds Town and Country Club and the Roxy in Sheffield (a former bingo hall and two nightclubs respectively), bringing its estate to 15 mid-size venues.

Pinning hopes on a sale

The future of Georgica, the operator of Tenpin bowling centres was thrown into doubt, with the company announcing in July that it was holding preliminary talks with a potential, unnamed buyer. Mitchells & Butlers, the restaurant & pub operator, which also owns the 24-strong Hollywood Bowl estate, was mooted as a possible buyer of the group. In October, Georgica announced another slide in its sales but no buyer, which was the still the case at the end of the year.

The start of the year saw Elbow Room, the chain of five pool bars founded by Justin Carter, acquired by the Inc Group for an undisclosed sum. The acquisition took the Inc Group's portfolio to 26 sites, which are predominantly located in and around Greenwich and London's O2.

Holidays at home

Although 2008 was a relatively quiet year for the holiday park sector, after GI Partners' £440 million acquisition of Park Resorts in 2007, the industry still managed to generate one of the leisure sector's biggest deals of the year. The transaction took place in April, when the private investment company, Ocean Parcs, acquired Pontin's from Trevor Hemmings in a £46 million deal.

With the cost of European and US holiday destinations likely to be significantly higher in 2009, as a result of the weaker pound, domestic holidays look set to rise and the sector should be in for a promising 12 months. Further consolidation may also take place within the sector, with Park Resorts having reportedly called in advisors to examine possible mergers with rival holiday groups.

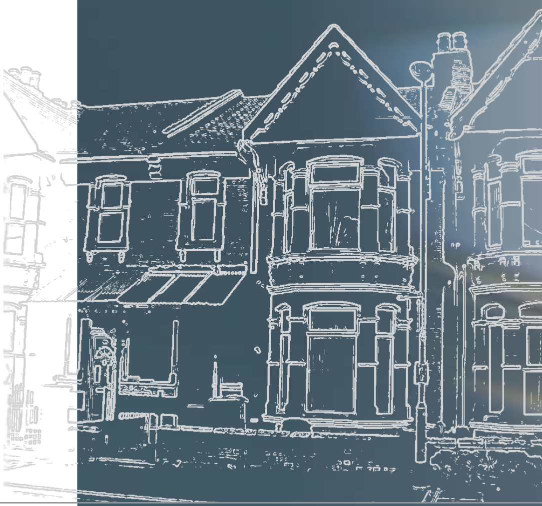
Jon Patrick
Head of Leisure

LEISURE TRANSACTIONS 2008

Date	Vendor	Purchaser	Deal
January	Soho House	Richard Caring	Purchase of majority stake in the Soho House club for a sum in the region of £105m.
	Sports Cafe	Agilo	Acquisition of five sites, out of administration, by specialist situations fund Agilo, for an undisclosed sum.
	Elbow Room	Inc Group	Acquisition of six bars for an undisclosed sum.
	Health Club Investment Group	Nuffield Hospitals	Acquisition of Cannons Health & Fitness, for a sum in the region of £100m.
February	Luminar Liquid	Mama Group	Acquisition of Edinburgh-based venue — The Gig — for £3.55m.
	HgCapital	PZ Cussons	Sanctuary day spa in Covent Garden and brand acquired for £75m.
	JJB Sports	Powerleague Group	The purchase of five soccer dome centres for £17m.
March	CanDu Entertainment	Agilo	Acquisition of 31 nightclubs for an undisclosed sum.
	Pontins	Ocean Parcs	Purchase of the holiday park operator for £46m.
	Soho Clubs & Bars	Novus Leisure	Acquisition, out of administration, of seven London-based clubs and bars for an undisclosed sum.
	Whitecliff Bay Holiday Park Ltd	Away Resorts Ltd	Acquisition of Whitecliff Bay Holiday Park Ltd for £5.98m.
April	Luminar	Cavendish Bars Ltd	Sale of 26 nightclubs for an undisclosed sum.
	Angel Music Group	Mama Group	Acquisition of Angel Music Group for £2.63m by listed operator of live music venues and festivals.
	Motorcise Healthy Living Centres	Energie Fitness	A group of 24 Motorcise clubs were bought out of administration for an undisclosed sum.
July	Baker Tilly	Interguide London	Acquisition, out of administration, of One Leicester Square nightclub.
	Sheffield United Football Club	Company founded by the Downing Protected Venture Capital Trust	Acquisition of the Thames Club in Middlesex, for an undisclosed sum.
September	Deloitte	Yellowhammer Bars	Acquisition, out of administration, of five units previously owned by Future 3000.
November	Ark Leisure Management	Bladerunner	Acquisition of 14 management contracts and 20 health clubs across the UK for an undisclosed sum.

Care

In many respects, the care sector is one step removed from the general consumer economy, although it is not completely immune to its effects. In this needs-driven industry, there is no obvious reduction in the number of people seeking long-term care, although pressure to maintain occupancy levels is increasing, as both publicly and privately-funded beds take longer to fill.



CGT changes drive transactions

Christie + Co's care team reported an increase in the number of completions that took place in the first quarter of 2008, when compared with the same period in 2007. This increase was primarily driven by the Capital Gains Tax changes, which prompted a flurry of instructions in the early part of the year, as vendors rushed to conclude deals before the April deadline. Transactional activity in the second half of the year slowed considerably, particularly at a corporate level.

Although funding issues have affected some of the larger property deals, the market for single asset and small portfolio transactions remains strong. Established local operators with proven track records are able to meet the banks' stricter lending criteria and secure the funding they need to continue growing their businesses. We hope that we will start to see some benefit from the cut in interest rates in 2009, because the lack of available debt is currently hampering many larger transactions.

We are unfortunately starting to see a number of administrations, particularly involving small to medium-sized businesses, some of which are over leveraged, while others have been affected by the impact of the star rating system. Regrettably, if the market for selling businesses improves, this could encourage banks to take more aggressive action against struggling operators, forcing them to sell.

Operational issues

While the care industry hasn't changed much at a macro-level, with demand for care facilities still high, it is facing a number of operational issues at a micro-level. We are already starting to witness some pressure on occupancy levels — and subsequently on fee levels — as both privately and publicly funded beds are taking longer to fill.

Feedback from operators suggests that the likely root cause of this occupancy pressure is the precarious state of the housing market. Where a private home would normally be put on the market to help cover the cost of care, families are avoiding this option altogether, in recognition of the fact that property values have fallen and sales are taking longer to complete. In these circumstances, domiciliary care packages become more attractive, at least in the short term, and this trend is likely to continue over the next 12 months.

Fee levels for publicly-funded places are also likely to come under pressure next year, as a result of the rapidly increasing levels of central government borrowing.

On a more positive note, the global economic crisis should bring a few benefits to offset the negatives. Staff availability is expected to increase and pressure on staff costs is likely to decrease, as are utility costs.

Pinnacle Care
Christie + Co recently sold Pinnacle Care to CareTech Holdings for an undisclosed sum. Pinnacle Care's portfolio comprised seven supported living homes in Portsmouth, which have a total registration of 25. The deal was completed following a confidential marketing campaign.

Index based on average sale prices (from a base of 100 in 1975)

	1975	2003	2004	2005	2006	2007	2008
Care	100	579	677	775	910	1021	849

BUSINESS OUTLOOK 2009

- Demand for care home services will remain strong.
- The next 12 months are set to prove that if you can't drive enterprise value through financial engineering, your only alternative is to do it by improving operational efficiencies or income.
- Local authorities will be under pressure to reduce costs in the face of rapidly increasing levels of central government borrowing.
- Increased pressure on occupancy levels.

"Christie + Co has invested considerable time in understanding our business. They know exactly what we are looking for and present possible opportunities in an open and honest way — 'warts and all' — enabling us to make informed decisions quickly."

Farouq Sheikh
Founder and Executive Chairman, CareTech Community Services

+ We hope that the transition from the Commission for Social Care Inspection (CSCI) to the Care Quality Commission in April will be seamless.
+ Staff availability will increase as other sectors shed employees and reduce recruitment.
+ Increased pressure on less compliant businesses.
+ Ongoing growth in demand for childcare as parents return to work to supplement household income.

Christie + Co advised Craegmoor Healthcare, which operates around 220 residential care homes in the UK, during its £290 million acquisition by Advent International.

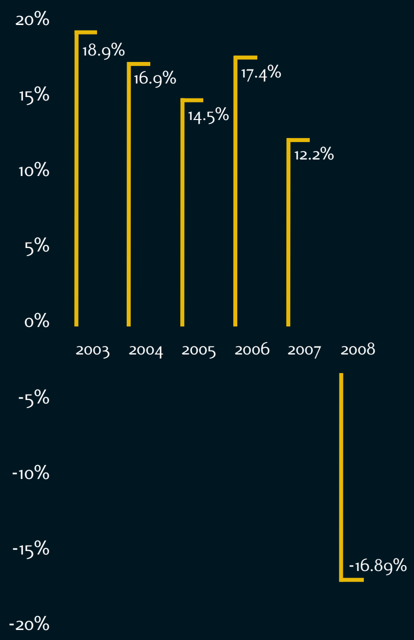
Acting on the instructions of leading healthcare specialists, W H Healthcare LLP, Christie + Co sold the company's investment interest in three care homes to the Danish investment fund, Estatum A/S, for a price in the region of £8 million.

Acting on behalf of CareTech, Christie + Co acquired Barleycare Ltd — the holding company for Normandy House in Milton Keynes — for an undisclosed sum.

Acting on behalf of the Bertram Nursery Group, Christie + Co acquired the Holyrood Nursery Group, which operated nine nurseries spread across Greater Manchester for an undisclosed sum.

Christie + Co advised the management of Kidsunlimited during their secondary buyout of the national operator of children's day care nurseries.

Care
-16.89% movement in average prices



Supported living facilities increase

Supported living facilities continue to grow both in number and in popularity. Publicly funded occupancy of these facilities is increasing as local authorities favour this low to medium dependency option because of the flexibility it gives them in allocating budgets. This is creating a problem for specialist care providers, as the number of referrals to registered homes decreases. The nature of care provided by these unregistered supported living facilities is more difficult to assess, as are the business values.

Development possibilities

Although development and expansion will not be a top priority for many care operators, land acquisition opportunities are increasing. The value of residential development sites has crashed during 2008 and house builders are more than willing to offload sites to care developers. Securing development sites has previously proved incredibly challenging for the care sector, so market forces have finally solved a very difficult issue. With build costs also expected to decrease in the coming months, overall development costs are likely to reduce quite substantially.

Unfortunately, purchaser funding will continue to be an issue and the commissioning and fill up risks of new developments will deter many. In the current climate, care groups are more likely to turn their attention to managing their current businesses effectively and improving operating efficiencies, rather than looking at acquisition and development opportunities.

Movement in values

Christie + Co's average price index shows a 16.89% reduction in care property values in 2008. This average price information was derived from care transactions brokered by Christie + Co during 2008 and compares to the 12.2% increase we witnessed in 2008.

Care business valuations have certainly become more challenging in recent months because the component parts of value — EBITDA levels, availability of debt and confidence — have been affected by the economic crisis.

Major players hit problems

The future of two of Britain's largest care home operators — Southern Cross and Four Seasons — was one of the main talking points during the year. Four Seasons, the £1.4 billion healthcare business owned by Qatar's sovereign wealth fund has announced plans to carry out a refinancing at the start of 2009. The outcome of this will give a good early indication of where the sector stands for the coming year.

During the summer of 2008, Southern Cross Healthcare issued a profits warning after experiencing problems repaying loans it took out to fund acquisitions. In November it announced the appointment of a new chief executive, Jamie Buchan, and reported a pre-tax loss of £22.9 million for the 12 months to the end of September, a year it described as "very difficult".

Childcare sector provides optimism

Childcare is one of the few sectors to benefit from the economic crisis, as occupancy levels have been driven by financial necessity. Throughout 2008, we have witnessed a rise in the number of people returning to work, in order to supplement household income. This has not only boosted demand for childcare, it has also increased the sector's attractiveness to investors.

During 2007 and early 2008, there was a tangible upturn in confidence in the nursery sector, which was evidenced by increased acquisition activity and also by a rise in the number of investors actively seeking opportunities in the market.

The renewed enthusiasm from operators and investors was not limited to the nursery sector. The appetite for various types of childcare — including specialist educational needs schools and foster care — was strong during 2008.

Encouraging transaction levels

During the first quarter of 2008, merger and acquisition activity was particularly frenetic, with a number of owners looking to sell their nursery portfolios before the Capital Gains Tax changes took effect.

Christie + Co facilitated a number of significant transactions in 2008, including Bertram Nursery Group's acquisition of the Greater Manchester-based Holyrood Nursery Group, and its portfolio of nine nurseries. The off-market deal, which completed in April 2008 following a highly confidential sale process, demonstrated a healthy appetite for quality portfolios.

The volume of larger multiple-site deals suffered during the last six months of 2008, due to the stricter lending criteria imposed by banks. Single asset and small portfolio transactions, with creative deal and debt structuring, continued to prove attractive.

Whilst in some sectors a "wait and see" attitude has reduced the number of businesses being offered for sale, renewed confidence in the performance of the childcare sector has kept activity levels buoyant.

Operators seek growth opportunities

The growth in demand for childcare, which has been augmented by the economic crisis, provides operators with an opportunity to increase occupancy and drive enhanced levels of revenue and contribution. It is hardly surprising that a number of experienced operators are actively seeking acquisition opportunities.

In April, Kidsunlimited, a national operator of children's day nurseries, announced it was to embark on a major rollout strategy, following its acquisition by the management team in a secondary buyout. The company plans to open a series of new sites over the next four years.

New entrants

Although experienced operators were responsible for the majority of single site acquisitions in 2008, the number of first time buyers successfully entering the market was also encouraging. A number of sites sold by Christie + Co in the latter half of the year were acquired by first time buyers.

The future

With the current economic climate set to remain challenging, operators need to take a cautious approach to expanding their businesses. However, those who are able to secure funding and the right professional advice can take advantage of the opportunities that will continue to be generated in the childcare and education sectors in 2009.

Richard Lunn
Head of Care

CARE TRANSACTIONS 2008

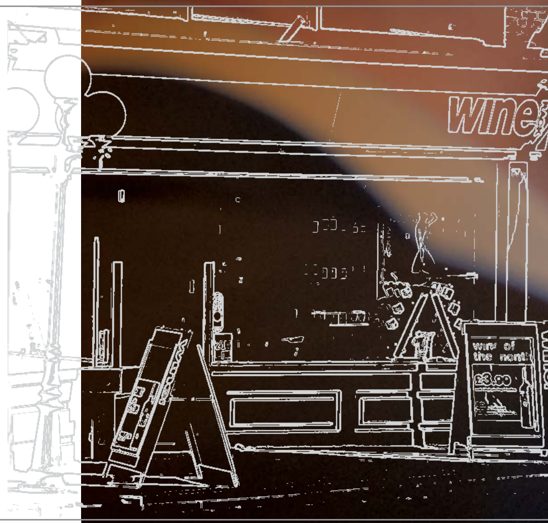
Date	Vendor	Purchaser	Deal
January	Hilltop Lodge Residential Care Home	Pressbeau Limited	Acquisition of the Hilltop Lodge business for an undisclosed sum circa £6m.
February	Covenant Healthcare Limited	Partnerships in Care Limited	Acquisition of Ayr Clinic and Covenant Healthcare Rehabilitation Services Limited, for a total consideration of £14m.
	Kentwood Residential Care	Lifeways Community Care Ltd	Acquisition of UK based provider of specialist domiciliary, residential and supported living care services, for an undisclosed sum.
	Private vendors	Healthcare Homes Group	Acquisition of the entire share capital of Manorcourt Care Limited for an undisclosed sum.
March	Portland Group	Southern Cross	Acquisition of seven care homes for circa £42m.
	Chacombe Park Limited	Barchester Healthcare Limited	Acquisition of UK-based healthcare provider for £15.5m.
	Barleycare Limited	CareTech Community Services Limited	Acquisition of UK-based provider of home health care services for an undisclosed sum.
April	Beacon Care Holdings Limited	CareTech Holdings	Acquisition of Beacon Care Holdings Limited and Beacon Care Investments Limited for £18.6m.
	Burnside 105 Ltd	Southern Cross Healthcare Holdings Ltd	Heather Park Homes Ltd, the provider of home healthcare services, was acquired for an undisclosed sum.
June	Valeo Limited	CareTech Holdings	Acquisition of UK-based provider of specialist services for adults with learning difficulties for £15.3m.
July	Partnership Health Group Limited	Care UK	Acquisition of the remaining 50% stake in a joint venture for £14.1m.
	W H Healthcare LLP	Estatum	Acquisition of the investment interest in three care homes for an undisclosed sum circa £8m.
	LGV	Advent International	Acquisition of Craegmoor Healthcare, the operator of around 220 residential care homes across the UK, for a sum in the region of £290m.
August	St Paul's Healthcare Group Limited	Care Aspirations Limited	Acquisition of the specialist healthcare services provider for an undisclosed sum.
September	Autumn Care	Doson Limited	Acquisition of three homes in the North East for £5m.
	Domiciliary Care Limited	Choices Holdings Limited	Acquisition of a UK-based domiciliary care provider for an undisclosed sum.
October	Pinnacle Care	CareTech Holdings	The purchase of a group of seven supported living homes, located in Portsmouth, for an undisclosed sum.

CHILDCARE TRANSACTIONS 2008

Date	Vendor	Purchaser	Deal
January	TLC Nursery Group	Busy Bees Childcare Limited	Acquisition of nine nurseries in the Midlands and South East for an undisclosed sum.
	Alphabet Nurseries	Private company	The purchase of two established nurseries in North Lincolnshire for an undisclosed sum.
February	Key Day Nurseries	Sunny Days Nursery Limited	Acquisition of two nursery school sites in Wiltshire for an undisclosed sum.
March	ABC Learning Centers Limited	Morgan Stanley Private Equity	Acquisition of a 60% stake in Learning Care Group, a US subsidiary of ABC Learning Centers Limited, in a deal valued at $700m.
April	ISIS	Existing management team and Lloyds Development Capital	Management buyout of Kidsunlimited, which operates a portfolio of circa 50 nurseries in the UK.
	Holyrood Nursery Group	Bertram Nursery Group	Acquisition of a nine-strong, Greater Manchester-based nursery chain for an undisclosed sum.
May	Bright Horizons Family Solutions	Bain Capital Partners	Acquisition of the provider of employer-sponsored child care and early education services for $1.3bn.
July	Kids & Carers Limited	Fostering Solutions Limited	Acquisition of Teesside-based private fostering business for an undisclosed sum.
September	Busy Bees Childcare Vouchers Limited	Computershare Limited	Acquisition of Busy Bees Childcare Vouchers Limited, the UK based manager and administrator of childcare voucher schemes for £90m.
November	Kindergarten Witney Limited	Private investors	Purchase of Oxfordshire-based business for an undisclosed sum.

Retail

The global credit crunch, and the ensuing slowdown in consumer spending, is forcing all retailers — whether they operate an off-licence, convenience store, CTN or forecourt — to push even harder to be successful. By offering value for money, a wide product range and high quality service, the good operators can continue to grow and take advantage of the opportunities created by the economic downturn.



Christie + Co has sold a number of stores for First Quench Retail and we continue to work with them on an ongoing basis, as they improve the quality of their estate.

2008 market resilience

Despite the perceived atmosphere of doom and gloom in the market, Christie + Co's retail business enjoyed an encouraging year in 2008, reporting a steady flow of transactions. From analysis of our agents' deals in 2007, 35% of the individual store sales completed were to first time buyers, or new to market operators. This trend has been maintained, demonstrating the sector's resilience and showing that there's a consistent level of confidence amongst first time buyers. Independent operators clearly continue to believe in their ability to build successful local retail businesses.

Movement in prices

The convenience store, CTN, off-licence and forecourt sectors in which we operate are certainly not immune to the global financial crisis, but they are apparently less susceptible than businesses in other areas of the retail market.

Christie + Co's average price index for the retail property sector shows that values fell by just 6.48% in 2008 — a much more modest reduction than those reported in our other business property sectors.

Opportunities to prosper

The economic slowdown has provided switched-on retailers, across all our sectors, with opportunities to develop their operations. Well-run businesses, which provide a valuable offer to their local communities — including good product availability and a speedy service with a personal touch — can still generate sales, especially as consumers cut down on luxury items and concentrate on necessities.

Opportunities to develop successful new businesses continue to make the retail sector a popular destination for first-time buyers and also fuel consolidation amongst the bigger operators. Although there were fewer portfolio transactions in 2008 than we witnessed in 2007, there were still a few noteworthy deals to report. The Co-operative Group's acquisition of rival Somerfield, in a £1.5 billion deal in July provides a perfect example. The deal created the UK's fifth largest supermarket business.

Index based on average sale prices (from a base of 100 in 1975)

	1975	2003	2004	2005	2006	2007	2008
Retail	100	828	865	933	988	1043	975

BUSINESS OUTLOOK 2009

+ Further consolidation of the Co-operative movement through mergers.
+ Discount retailers will continue to grow market share in line with the current economic downturn.
+ Consumers will look to trade down, substituting one major weekly shop for a number of visits to their local store.

"I believe Christie + Co have a unique position as a result of their geographical reach, via their 16 UK offices, coupled with tremendous experience and professionalism in what is a very tight market for business sales."

Steve Masters
Executive Director, First Quench Retailing
Wine Rack | Threshers | The Local | Haddows

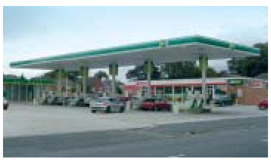
+ Increase in the number of distressed businesses and forced sales.
+ Further consolidation in the off-licence sector.
+ Renewed confidence in the Post Office market, following the network change programme and the Post Office Card Account (POCA) decision.

In November, Christie + Co advised GNE Group on the sale of its Petrol Express business, which is one of the largest independent petrol station operators in the UK, to Leopard No. 2 Investments Limited, an investment vehicle backed by the Royal Bank of Scotland, for £51.66 million.

Acting on behalf of Channel Island Newsagents Ltd (CI Newsagents) — a trading company within the Guiton Group — Christie + Co sold a 12-strong group of news and convenience-orientated stores in Jersey to the Channel Islands Wholesale Group (CIWG), part of the Royal Yacht Group, for an undisclosed sum.

Christie + Co sold the freehold interest of the award-winning **Chatham Road Service Station** near Maidstone, on behalf of Mr & Mrs Dearing, to Mr Babu and Mr Mohan Sivarajah, for an undisclosed sum, off an asking price of £3.25 million.

Acting on behalf of administrators KPMG, Christie + Co is currently marketing Nearby Stores Ltd, which operates 33 convenience stores in the South and South West of England.



Christie + Co was instructed to value the entire 73-strong estate of Euro Garages, one of the leading independent forecourt operators in the UK.

Retail
-6.48% movement in average prices

Thrifty shoppers

The credit crunch has also heightened the need for consumers to seek greater value for money when they shop for food, with discount retailers such as Lidl and Aldi reporting increases in sales of circa 30%. Consumer thrift has actually created opportunities across the whole retail sector. Firstly, consumers are eating and drinking out less, due a tightening of belts and are therefore spending more on food sector products for consumption at home. Secondly, lifestyle factors drive convenience shopping. Even if shoppers are no longer cash-rich they remain time-poor and are more inclined to do several small trips to their local store, rather than one big shop at the nearest supermarket.

Measuring up

Legislation and proposed new regulatory measures again played a major role across the retail sector in 2008.

In August, the forecourt market was offered some relief when the government announced that it had postponed its planned 2p-a-litre rise in fuel duty, which was due to come into force in October. This was coupled, at the time, with the first signs of stabilisation in global oil prices.

The threat of a display ban on tobacco products in shops is also currently hanging over the retail sector. The proposed legislation from the Department of Health could, according to the Tobacco Retailers Alliance, force 2,600 independent stores to close if it's implemented. The Prime Minister Gordon Brown has also hinted that stronger sanctions will be made against retailers who persistently sell cigarettes to children, when the government publishes its new national tobacco control strategy this year.

In October, the Office of Fair Trading (OFT) rejected calls from independent retailers to refer the news and magazine supply sector to the Competition Commission. However, it did allow for some optimism, when it suggested that the distribution of less time-sensitive magazines could work better without maintaining Absolute Territorial Protection (ATP) for wholesalers.

Times are certainly challenging for CTN operators when you consider the range of issues they are facing. Newspaper circulations are falling, commission on mobile top-ups is dropping, violent attacks are increasing, and the static confectionery market is under further pressure because of health and obesity concerns. It is hoped that common sense will prevail and that the sector will not be hampered by further red tape.

Regardless of the various challenges, the CTN market continues to attract national operators, first time buyers and local entrepreneurs, as illustrated by 2008 deal activity. In August, Christie + Co acted on behalf of Channel Islands Newsagents, selling its 12-strong chain of units to the Channel Islands Wholesale Group.

November brought good news for subpostmasters, when the government decided to cancel the tender process for the £1 billion Post Office Card Account (POCA). The contract will now remain with the Post Office until 2015, with a number of new additions, including a bank current account under consideration.

Conveniently placed

Despite the ever-present threat of supermarkets, the convenience store sector continues to be among the fastest-growing in food retail. In the year to April 2008, it grew 5.1%, to a value of £27.4 billion, which is a faster growth rate than the grocery market overall.

Since the Office of Fair Trading dictated that supermarkets and convenience stores are two separate markets, interest in larger convenience stores has grown. This market is very specific, with the multiples adopting very stringent site acquisition criteria.

Notable deals

Besides the Co-operative Group's previously mentioned acquisition of Somerfield in July, there were several other outstanding deals during 2008, which highlighted further consolidation in the sector. At the start of the year WH & HM Young, the Leeds-based wholesaler, was acquired by national operator Palmer & Harvey, which itself was the subject of a £330 million management buyout in April. In March, United News Shops, which operates 72 convenience stores and eight Caffe Nuovo coffee shops in hospitals across the UK, was acquired for £19 million by the travel division of WHSmith.

Bad press for off-licences

Over the last 12 months, the off-trade has been increasingly portrayed by politicians and the media as a market that targets children, alcoholics and binge-drinkers. Already under threat from ever-increasing government red tape, off-licences recently had to listen to news of a number of new measures that are proposed to curb alcohol abuse in the UK. If these new proposals are implemented, they will have a serious impact on the off-licence trade.

On a more positive note, trading in the off-licence sector continues to be healthy. Drinking at home is growing in popularity, due to the rise in alcohol duty and the introduction of the smoking ban.

In October, following a review of its business, Thresher Group announced that it was reverting to its former name First Quench Retailing (FQR). The decision to adopt a distinct group name reflects its plans to grow The Local and Wine Rack brands alongside the previously predominant Threshers brand. Meanwhile, one of its rivals, the 158-strong Oddbins chain, was acquired by Henry Young and Simon Baile of Ex Cellar.

We feel there is likely to be more consolidation across the off-licence sector during the coming year, while the reshaping of both Oddbins and the development of FQR's brands will also cause debate.

Fuelling sales

Despite facing the challenges of soaring fuel prices, threats over rises in fuel duty, and problems presented by fuel cards, the forecourt market continues to be robust. This success is driven by owners' good business practice, a key concentration on food retailing, and the increased opportunity for proactive estate management.

Deal activity in the sector has also continued to be strong, highlighted by GNE Group's disposal of its 62-strong Petrol Express business to Leopard No.2 Investments for £51.66m, a deal Christie + Co was proud to advise upon.

The appetite for high quality, well located single assets was also healthy. In June, Christie + Co advised on the sale of Chatham Service Station in Kent, which was acquired for a market-leading price in the region of £3.25 million.

Ongoing resilience

Companies are still looking for opportunities for diversification and expansion and first time buyers are continuing to seek opportunities to enter the market. Ongoing activity for Christie + Co includes instructions to sell quality single sites across the country, small group disposal projects and extensive valuation work.

While the economic slowdown has brought a more realistic approach to prices and extended deal time frames, transactions are still taking place and will continue to do so.

Unfortunately, there will be some victims of the economic downturn, as illustrated by Nearby Stores Ltd, which operated 36 convenience stores and 17 ex-Crown Post Offices and fell into administration before Christmas. Christie + Co's Bank Support & Business Recovery Unit is currently marketing these sites and we have received considerable interest, from which we are hopeful of a timely sale.

With many of the thriftier retailers waiting for potential bargains to come into play in the coming months, we believe that 2009 will continue to highlight the fact that people's appetite for this ever-changing market remains strong.

Tony Evans
Head of Retail

Tony Evans

RETAIL

RETAIL TRANSACTIONS 2008

Date	Vendor	Purchaser	Deal
January	Metro Group	Rewe Group	Acquisition of 245 Extra stores in Germany for an undisclosed sum.
	WH & HM Young	Palmer & Harvey (P&H)	Acquisition of Leeds-based wholesaler for undisclosed sum.
March	United News Shops	WHSmith	Acquisition of hospital-focused convenience chain for £19m.
	Somerfield	Tesco	Acquisition of seven stores for an undisclosed sum circa £100m.
April	Investcorp	Appia Investments	Acquisition of the 27-site strong Welcome Break business in a deal worth circa £500m.
	Palmer & Harvey (P&H)	Management buyout	Completion of a £330m management buyout.
June	Private owners	Private individuals	Acquisition of Chatham Service Station for a sum in the region of £3.25m.
July	Somerfield	Co-operative Group	Agreement to acquire 880-string store chain for £1.56bn.
August	Channel Islands Newsagents Ltd	Channel Islands Wholesale Group	Acquisition of 12-strong chain for an undisclosed sum.
	Groupe Castel	Henry Young and Simon Baile of Ex Cellar	Acquisition of 158-strong Oddbins chain for an undisclosed sum.
September	GT News	Management buyout	Management buyout funded by The Royal Bank of Scotland (RBS).
October	GNE Group	Leopard No.2 Investments Ltd	Acquisition of the 63-strong Petrol Express business for £51.66m.
December	Co-operative Group	Morrisons	Acquisition of 38 stores in a £223m deal.
	Tesco	Tesco PLC Pension Scheme joint venture	Three Tesco stores sold into a £199m joint venture with the independent Tesco PLC Pension Scheme.
	Tesco	PRUPIM annuity fund client	Acquisition of four stores in a £109m sale and leaseback deal.

Complementary professional services

Christie + Co is a member of Christie Group, which provides a comprehensive range of complementary professional services. The activities of the Christie Group companies include surveying, valuation, agency, consultancy, finance, insurance, stock control, software solutions, inventory services and health and safety audits.

Christie Finance

Christie Finance is a specialist commercial finance broker, which negotiates funding solutions for customers in the hospitality, leisure, care and retail sectors. Focusing on the same specialist sectors as Christie + Co, Christie Finance knows which lenders are more likely to fund particular business types and understands how well they are able to meet client needs.

Sucessfully securing funding

Despite the challenging market conditions, Christie Finance successfully secured the funding for numerous business acquisitions, expansions and refinancing exercises during 2008. The company has arranged an increasing number of deals supported by the Small Firms Loan Guarantee (SFLG) scheme, which provides lenders with a government guarantee against default in certain circumstances. Christie Finance expects the increased utilisation of the (SFLG) to continue in 2009, against the background of more conservative bank lending.

Increasing buyers' chances

Christie Finance is often able to increase clients' prospects of securing finance, by working with them to develop and present a well-researched and structured business case. Lenders know that an application from Christie Finance represents a compelling lending proposition and are often able to offer bespoke products to suit client needs. Although the market was challenging during 2008, Christie Finance was still able to negotiate between several lenders to achieve the best deal for clients.

Christie Finance works closely with Christie + Co to help clients to identify the perfect new business opportunity and secure the funding to make the acquisition possible. The slowdown in the transactional markets has presented many individuals with a chance to compete with corporate buyers when the very best opportunities come to the market. The knowledge that they are able to secure funding gives Christie Finance's clients a real edge in negotiations.

Christie Insurance

Christie Insurance is an independent insurance broker operating in the care, hotel, pub, restaurant, leisure and retail markets — offering intelligent insurance solutions to business owners. The company has developed a comprehensive knowledge of these business sectors and a thorough understanding of their insurance needs.

As an independent insurance broker, Christie Insurance is able to secure some of the best solutions available — which are always tailored to suit individual business needs.

Provision of specific solutions

Choosing to focus on specific sectors, Christie Insurance is able to understand how businesses operate and identify the risks arising therefrom. Businesses should never be underinsured, but there's no need for them to be overinsured either — particularly in the current economic climate, when it is important to manage costs. By understanding the insurance market and identifying the particular risks businesses face, Christie Insurance can provide specific, appropriate and cost-effective solutions.

Ensuring that cover is appropriate

One of Christie Insurance's most popular services is the free protection audit, which enables clients to check whether their current insurance policy is appropriate. There is often no need to change an existing policy, but Christie Insurance can quickly provide advice if protection needs to be extended, or if there is a more cost-effective solution available. In the current climate, many businesses are choosing to sell assets, or acquire new property and Christie Insurance works with existing clients on an ongoing basis to ensure that the level of cover is suitable and make any necessary adjustments.

Managing claims

In the event of a claim, Christie Insurance reacts quickly to client calls, working with them and with the insurer, to make certain that it is settled quickly.

www.christiegroup.com
www.christiefinance.com
www.christieinsurance.com
www.venners.com
www.orridge.co.uk

Venners

Founded in 1896, Venners is the UK's largest and longest established stock audit company servicing the hospitality and leisure sector. The company's services include liquor and food stocktaking; inventory listings and valuations; compliance audit; and a range of health and safety services including food safety and fire safety.

Inventory listing and valuations

When buying or selling a business, an up to date and independently produced inventory, listing all of the fixtures, fittings and effects, is an essential part of the transaction. Venners provides a timely and cost-effective service to vendors and purchasers alike, ensuring that an inventory is available for all parties at the key stages of the sale transaction. In addition, the company can value the inventory to help purchasers make certain that they adequately insure their assets in the future.

An inventory and valuation is also a key ingredient when a business is in distress. Chattels are often the only tangible assets that a business has, and getting these listed and valued quickly is of paramount importance. Venners is able to respond promptly to any such requests, on a nationwide basis.

Auditing and profit control

Venners team of auditors help clients to highlight, but more importantly eliminate stock losses. The efficient and unique structure of Venners operation enables the company to help customers at all levels, from field-based operators up to executive directors, to increase margins.

In addition Venners can provide a range of stock control systems which, when augmented by its traditional services, will help all businesses, big or small, to control and improve their profitability.

Health and safety

Venners Health & Safety Division works with clients to ensure compliance with all health and safety regulations and to improve and/or maintain standards. The company provides a range of services, including risk assessments, policy development and action plan formulation. Further specialisation within this division is available for food safety and fire safety.

Food safety

Food safety is an important issue for the hospitality sector and Venners food safety audits offer a comprehensive and in-depth look at clients' food operations. Venners works with corporate and individual clients, helping them to understand, monitor, achieve and maintain the required standards and provide peace of mind.

Compliance audit

Compliance audit is a specific and in-depth analysis of the operational efficiency of a business and includes a bespoke audit of employees' ability to adhere to agreed operating protocols.

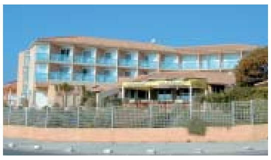
In a challenging economic climate, it is particularly important for hospitality businesses to control stock levels, understand and monitor operational efficiencies, and run clean, safe operations in order to attract and retain customers. Venners worked with an increasingly diverse variety of clients during 2008, helping them to eliminate stock losses, improve operating efficiencies and enhance standards.

Orridge

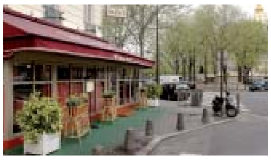
Orridge was founded in 1846 as a stocktaking provider to the pharmacy sector. The company now employs more than 1,000 employees and supports clients in a number of different sectors including pharmacy, retail, warehouse/distribution, supply chain and supermarkets. Orridge's services have expanded in line with the growth of the business and two of the company's latest offerings include on-shelf-availability and supply chain optimisation.

CASE STUDIES

Acting on behalf of private owners, Christie + Co sold the 30-bedroom **Domaine de Châteauneuf,** a luxurious country house in Nans Les Pins off an asking price of €4.2 million.



Christie + Co sold the freehold interest of the 42-bedroom **Paradou Hotel,** near Marseilles, on behalf of a private individual to a private investor for an undisclosed sum.



Acting on behalf of private owners, Christie + Co sold the 70-cover, fine dining restaurant, **D'Chez Eux** in Paris to a private individual for an undisclosed sum.

France

In the current global economic climate, the number of property transactions in France has fallen. The hotel real estate sector has suffered, as has the residential market, and banks are reluctant to provide the required funding for deals to take place.

Challenging conditions

Despite the difficult market conditions, Christie + Co is confident that transactional activity will continue — as it did in 2008. Last year's economic slowdown followed a period of frenetic activity, when banks were keen to lend and funding was readily available. Although the banks are exercising greater caution and are no longer willing to support first time buyers, they continue to fund more credible buyers, such as those with previous operating experience.

In addition to the lack of funding, which is hampering many deals, transaction volumes have also suffered as a result of purchaser caution. Buyers have adopted a "wait and see" attitude, delaying their investment in anticipation of a fall in prices. Despite this change in buyer expectations, vendors are reluctant to review their own aspirations and are keen to agree deals at the prices achieved in early 2008. Achieving high prices will become even more difficult in the coming months, as hotel business performance deteriorates because of the difficult trading conditions.

Realignment of prices

The need to agree deals is likely to force vendors to review their price expectations in 2009. As prices become more attractive and realistic to the watchful buyers, we can expect experienced hotel operators — for whom funding is more readily available — to seize acquisition opportunities. Although first time buyers continue to express interest in hotel opportunities, particularly as prices become more realistic, it is likely to be more difficult for them to secure the funding they need.

Looking forward to 2009

Although transactional activity slowed dramatically in 2008, deals continued to take place and we can expect ongoing activity in 2009. Investment opportunities that come to the market are more likely to appeal to those who are willing and able to take a long-term view of the market. For those who are looking at a 10 or 20 year investment, there will be plenty of attractive deals available.

The French government recently announced a scheme to help boost the hotel sector during this difficult economic period. It has made €1.5 billion available to hotel owners to fund renovations. This move is expected to improve the quality of hotel property and subsequently help the market to recover in 2009.

On behalf of a private investor, Christie + Co successfully sold the **Mercure Hotel in Remscheid, North-Rhine-Westphalia,** to a Danish investor. The hotel comprises 116 rooms and is run under the Mercure brand and a long-term lease contract with New Gen Hotels AG.

On behalf of the fund management department of Falk Fonds 66, the 150-room **Mercure Hotel in Berlin-Hennigsdorf** and the 220-room **Mercure Hotel in Hanover** were recently sold by Christie + Co to an Israeli hotel company. Both hotels will continue to be managed under franchise by Accor and are branded Mercure.

Christie + Co recently sold a portfolio of four hotels, totaling 480 rooms, to an Israeli hotel chain on behalf of **Queens Hotels Deutschland.** The four hotels, two of which are located in Cologne, one in Dusseldorf and one in Kassel (Hesse), are currently operated by the investor under a franchise contract and branded Four Points and Best Western.

Germany

The global financial crisis hit the German property market at full speed in 2008. Transaction volumes dropped dramatically last year, compared to 2006 and 2007. Despite this decline in activity, Christie + Co successfully brokered a number of notable deals.

Decline in transactional activity

The reasons for the decline in transactional activity in Germany were much the same as those in the rest of Europe — restrictive funding policies from banks; a gap between buyer and seller expectations; and a change in investor profile.

The highly-geared investors, who had driven the markets in 2006 and 2007, were forced out by the restrictive refinancing environment. However, transactional activity did not cease altogether and Christie + Co completed a number of notable transactions in 2008, which illustrated a change in investor profile. Traditional institutional investors and hotel chains from Israel responded to a number of investment opportunities last year. A portfolio of four hotels, which we sold on behalf of Queens Hotels Deutschland, was acquired by an Israeli hotel chain, as were two Mercure-branded hotels in Hanover and Berlin-Hennigsdorf. Meanwhile, the Mövenpick Hotel in Frankfurt was acquired by the German open-ended fund, Union Invest Real Estate.

Looking forward to 2009

Looking forward to 2009, we expect Germany to witness a more active transactional hotel property market compared to 2008. We are expecting to see a greater number of single asset transactions and small group deals, as owners seek to gain value from breaking up portfolios, which have previously been offered to the market.

With the stringent lending criteria set down by the banks, we are already witnessing, and will continue to witness, the moving out of yields. This will result in a realignment of price expectations from buyers and sellers.

The sector will witness the return of debt, albeit subject to much stricter credit controls, lower loan-to-value ratios and higher margins. As seen in 2008, traditional long-term cash rich investors will be in pole position to take advantage of the best investment opportunities in 2009.

CASE STUDIES

Sunborn Hotels commissioned Christie + Co to conduct a feasibility study and provide development advice for a proposed luxury hotel and spa in **Gilleleje** — in the northernmost district of Zealand, which is some 60km north of Copenhagen, Denmark. The feasibility study may also be used in future negotiations with investors.

L-House commissioned Christie + Co to conduct a feasibility study and provide development advice for a proposed upper quality hotel and spa in the scenic lake district of **Punkaharju, Finland.** The feasibility study may also be used during the operator search process.

Ecu Group commissioned Christie + Co to conduct a feasibility study for an upper quality resort at **Levi,** a major leisure destination for winter holidays in the heart of Lapland, Finland. Christie + Co has been commissioned to find an international hotel operator to operate the resort.

Scandinavia, Russia and the Baltic States

Christie + Co's international brokerage and advisory business expanded into Northern and Eastern Europe in 2008. In order to meet the needs of clients in Scandinavia, Russia and the Baltic States, we opened a new office in Helsinki in April.

The slowdown in the global economy has undoubtedly affected the economies of countries in the Nordic region. However, for most of 2008, the Scandinavian hotel markets still managed to improve on 2007 performance. The Baltic markets have started to feel the pinch and performance deteriorated, compared to 2007, due to the softening market and new supply.

The general economic outlook for the Scandinavian countries is reasonably stable, with good fundamentals for sound long-term development. We are unsurprisingly expecting more conservative growth in these markets in the near future. However, growth conditions will be fuelled further by low-cost carriers, a reasonably thriving conference market and an increasing ecotourism segment.

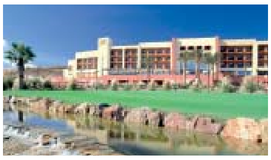
The Nordic region is also showing reasonably healthy visitor numbers, as many travellers are associating the region with fresh air, cleanliness and a safe and secure environment. Although the region, like most other regions in Europe, has suffered some dips, it was reasonably robust up to October and still has some capacity for growth. The capitals of the region are witnessing increasing internationalisation, in terms of visitors, operators and also real estate owners, while the regional markets remain mainly domestic.

Helsinki continues to draw new leisure trade from Eastern Europe, particularly from Russia, and has seen a new large spa hotel opening, while several international projects have also been identified. Stockholm remains the largest market in the region and continues to see some interesting projects, which will develop during 2009 — a trend that is set to continue over the next few years. Copenhagen also attracts a large proportion of the leisure and conference markets.

Although international hotel companies are starting to develop a presence in Moscow, the city's hotel market remains grossly under supplied, which has helped to maintain high levels of occupancy and average room rates.

Both the Scandinavian and Baltic markets have been historically strong in the mid-market sector, which has mainly been dominated by national chains. A further challenge to entering this market has been that most properties are operated under lease. However, although these Nordic markets are reasonably small in comparison to those in Western Europe, they still represent active travelling markets and ideal places for brand expansion. Russia in particular, despite having its own set of challenges, offers great opportunities for growth.

Acting on behalf of private owners, Christie + Co was instructed to market the **Rocamador,** an exclusive 32-bedroom boutique hotel, situated in the Extremadura region of Spain.



Acting on behalf of private owners, Christie + Co was instructed to market two exclusive hotel and golf resorts in Southern Spain — **the Islantilla Golf Resort in Huelva and the Valle del Este Golf Resort in Almeria,** which have a combined asking price of €50 million.

Acting on behalf of a private company, Christie + Co sold the leasehold interest of the 60-bedroom, 4-Star Hotel **Fontanals in La Cerdanya,** near the Pyrenees, to a private individual for an undisclosed sum.

Spain

The Spanish hotel market is facing similar challenges to many other markets in Europe. Deal activity has stalled, due to a lack of confidence and a lack of funding, and the challenging trading environment is creating an increasing number of distressed businesses.

Difficult trading conditions

The global economic crisis has unsurprisingly had an effect on the Spanish hotel trade. Coastal and tourist areas have been hit particularly hard, but city destinations, such as Barcelona and Madrid, have also been affected by the drop in consumer spending. Occupancy levels are falling across all the Spanish hotel markets, as a result of a decline in visitor numbers and because of a reduction in corporate stays. Conference and event revenue has also reduced, as businesses curtail their spending and cancel bookings.

Transactional activity stalls

Although there are plenty of hotel products on the market, particularly in Andalucía and the Balearics, investors have lost confidence in the sector and transactional activity has stalled. Despite the fact that there are numerous sites available, hotel development activity has also ceased because of the shortage of funding and lack of interest from investors and operators.

Leasehold opportunities

Despite the challenging market, Christie + Co continued to receive instructions throughout 2008 and was able to structure a number of successful leasehold transactions. Many operators are willing to take on a new lease, particularly if they are also offered the option to buy the freehold at a later date, for a price that is set from the outset.

Restaurant market

Christie + Co continues to operate in the restaurant sector, focusing on the Barcelona market in particular. Restaurant deals proved difficult to negotiate in 2008 because of the large gap between vendor and buyer expectations, so we can expect to see some realignment of prices in 2009.

Looking forward to 2009

The hotel and restaurant markets will undoubtedly continue to be challenging during 2009, although some deals will continue to take place, particularly following a sensible realignment of prices. We can expect to see an increasing number of leasehold transactions, which prove more attractive in the current climate.

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