GARDEN CENTRE
PROPERTY MATTERS

gilbert evans

As the leading garden centre property advisor, we continue to advise on the majority of major garden centre transactions.

2018 Market Overview

As the garden centre industry settles into 2019, we take a look at 2018 and some of its significant events. Dramatic changes in weather, the UK's largest garden centre group going on the market, the opening of two new leisure destinations by major garden centre operators and on-going concerns about the UK economy.

2018 – a year of significant events

Starting with the industry's traditional and most influential barometer, the weather. It was a roller-coaster year with weather conditions ranging from plummeting lows to extreme highs. February saw the Beast from the East sweeping in, bringing widespread unusually low temperatures and heavy snowfall through to March. This was the worst possible start to the new year for the industry with many operators fearful of the long-term impact on trading figures. Then the record-breaking long hot summer settled in, boosting sales and bringing much-needed relief for most centres.

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There has been a continued rise in the popularity of leasehold transactions and we have advised on most of the major deals. After much industry speculation, Terra Firma announced its decision to put all of Wyevale's 145 centres on the market. At the time of writing, 46 centres have been sold and it is now increasingly looking like a group break up.

Who Will Be The End Winners – Wyevale Or Its Centres' Purchasers?

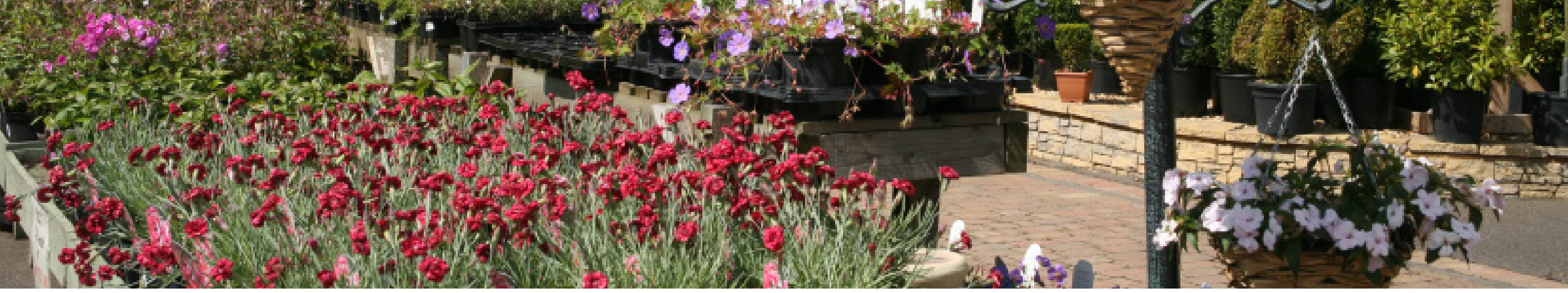
The Wyevale disposal programme is arguably the 'sale of the century'. Terra Firma and its advisors have been surprised by the number of bids received and the level of those bids: both well ahead of expectation. This has raised some questions - is the market overpaying, are there bargains to be acquired, or are garden centre values on the rise?

Traditionally garden centre values are aligned with turnover, with some acknowledgement of potential. But compared with 'normal' multipliers of turnover or EBITDA, and indeed other methods of valuation, the quoted Wyevale prices seem high. Yet demand appears to be very strong, arguably at levels rarely seen within the garden centre sector. High prices do not normally equate with high demand – so are values increasing?

The answer is no – values are not increasing. It is true that Wyevale is achieving higher multipliers than we would normally expect, but the reason is that the turnover and profitability of individual centres are significantly below industry norms.

Some, if not all, Wyevale centres are under-performing, with little recent investment. The market is, and indeed always has been, prepared to pay for potential. Put simply, the greater the potential, the higher the multiplier. For many Wyevale centres that potential is significant. It may take a few years to realise that potential, but it will be well worth the wait. What may appear to be overpayment now may well turn out to be bargains in the future.

When assessing the value of their own businesses, owners would be unwise to pay too much attention to the prices achieved by Wyevale. We have been valuing garden centres for over 25 years and during that time have seen the garden centre sector change and adapt to market conditions, but valuation fundamentals have generally remained steady. Only time will tell if Terra Firma has achieved the sale of the century or whether the purchasers of their centres are the real winners.



As part of Blue Diamond's financing plan to acquire eight Wyevale Garden Centres, we advised BlackRock Investment Management on the sale and leaseback of three centres. Back in 2015 we guided BlackRock Real Estate on its £112 million purchase of a portfolio of eight garden centres and this continuing appetite for garden centre investment demonstrates the industry continues to be an attractive market.

Blue Diamond's portfolio now totals 30 centres following the acquisition of Nailsworth Garden Centre and Orchard Park. Other transactions include Perrywood making the move from being a single-centre operator and acquiring Wyevale's Sudbury site. Capital Gardens' acquisition of Hillview's Studley Green brought its number of centres to four across the south-east.

This year has provided more evidence of the on-going evolution of garden centres as the industry responds to a tough retail environment, creating all-year round destinations that attract higher footfall and are more resilient to weather impacts. East Bridgford Garden Centre opened to much acclaim following Blue Diamond's agreement to a 35-year lease from our client Edward Tarbatt and a £4.5 million fit-out.

Restaurants, a play barn and a farm shop all contribute to Blue Diamond's optimism that the centre will produce over £10 million in its first trading year. Edward Tarbatt has retained ownership of the site and has developed five retail units to complement Blue Diamond's offer that are attracting significant retailer interest.

East Bridgford Garden & Home

Barton Grange opened its own mixed leisure destination, the Flower Bowl. Its facilities include a curling rink, 10-pin bowling, a cinema, a crazy golf course, a restaurant, a 160-cover fish-and-chip restaurant, an ice cream and coffee shop and two golf simulators – not forgetting the pre-existing garden centre. The destination's offer is now split with 60% food, 20% gardening and 20% other categories.

2019 should see the Wyevale sale process conclude with private equity companies, existing operators and local buyers all potentially remaining in the mix. With Brexit dominating the news, the industry is considering many options to mitigate its impact. Consumer confidence, technology, the living wage and the environment will challenge the industry, but we are confident that agility, ingenuity and resilience will remain the critical qualities for well-run centres to weather any kind of turbulence that this year might bring.

Valuation Update

How are garden centre values faring? Has Wyevale coming to the market swamped supply, and what about the risks of a 'no deal' Brexit? Is it really 'business as normal'?

Wyevale's marketing approach, so far, to dispose of its estate on a piecemeal basis has not resulted in the market being swamped. Demand for its centres has generally been strong and prices achieved certainly have not reflected any discounting. Its portfolio is a mix of freeholds and leaseholds, of varying sizes and types and across a broad range of locations, and attractive therefore to the broader market. Only time will tell how the remaining business and centres will be sold. So far there has been no impact on values.

So far, the potential impact of a Brexit 'no deal', appears to have had no real impact on values. Other commercial areas have experienced a demonstration of caution, and in cases, a deferral of key decisions relating to capital expenditure in a 'wait and see' approach. Thus far, the potential chaos and uncertainty related to a 'no-deal' Brexit, has not materialised or been reflected in garden centre values. It would, however, be a brave forecaster who might suggest that there would be no impact on garden centre values in the short term in the event of a 'hard Brexit'.

Valuations carried out for loan security purposes are, by definition, more cautious. Valuers are likely to make allowances to reflect the uncertainty that a potential no-deal Brexit implies.

Gilbert Evans provides garden centre operators with a comprehensive range of specialist services including advising on business sales and acquisitions , business rates, compulsory purchase, dispute resolution, lettings, rent reviews and lease renewals, sale and leasebacks and valuations.

Advice notes

We publish a series of technical advice notes on our website **www.gilbertevans.com**. Our most recent cover Inheritance Tax, Succession Planning and Exit Strategies.

For confidential and expert garden centre property advice, please contact:

Mike Gilbert on **07540 281960**
mgilbert@gilbertevans.com

Allen Evans on **07540 268866**
aevans@gilbertevans.com