

FEATURE These days, it is could be more profitable to have an offsale liquor store than a lot of seats

Buying a pub

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WESTERN INVESTOR

If you are considering buying a pub in British Columbia this year, you will likely find a healthy selection to choose from, capitalization rates that are among the best in commercial real estate—and a preference for purchasing a location that has a liquor offsale outlet with room to expand.

“A few years ago, it was all about getting the maximum seating. Now it’s how big the offsale outlet is,” said **Barry Bock** of **Homelife Realty Commercial Division**, based in Surrey.

The reason is that the overhead costs for running a liquor outlet are about three or four times less than operating a pub and, in the right location, the income can be equal. Also, the pub business is extremely competitive, with patrons lured away by upscale casual restaurants, such as Cactus Club and Earl’s, and even coffee shops, agents note.

In some cases, pub owners are holding onto the offsale outlet and leasing out or selling the pub side to another operator.

Bock, who has been selling pubs for 20 years, said the market is as good now as it has ever been. He estimates that pub revenues, on average, have fallen 15 per cent over the past year of recession but “things are coming back.”

Financing

Like all commercial ventures these days, it is harder to arrange financing for a pub, he said, which is why a lot of vendors are offering take-back mortgage agreements. This, Bock said, is a positive for buyers. “If the vendor is willing to take back a small second mortgage or a large first mortgage, it shows they have faith in the business,” he said.

Lenders looking at financing for a pub with land in a freehold sale will expect to see cap rates in the 15 per cent to 16 per cent range.

For leasehold, a pub should be churning a cap of around 18 per cent to 20 per cent, experts say.

And forget about getting a bargain price on an urban pub. “You can’t buy a decent pub in the Lower Mainland for less than \$2.5 million, and that is without land,” said **John Johnson** of Burnaby-based **Prudential Sterling Realty Ltd.**, who owns two pubs – one in Burnaby and one in Langley – and has sold pubs for 13 years.

Johnson added that, unlike other commercial real estate, owning and operating a pub is a full-time, labour-intensive job. “I have 70 employees with my two pubs,” he said. “You have to be able to manage people.”

The ideal location is a mix of high-density residential, plus retail and office buildings, according to Johnson, because this can assure both a lunchtime and evening crowd.

“The daytime pays the bills, the evening makes the profit,” said Bock.

Bock believes he has one of the best pub listings, demographically and geographically, right now. It is a New Westminster location, with a stand-alone liquor outlet, on a retail street and with a number of new condominiums recently completed or under construction nearby. The price on the leased property is \$3.1 million.

Johnson cautioned prospective buyers that they have to do their research and move quickly when the right pub comes to market. “The best ones are snapped up overnight,” he said, adding that many pub owners won’t want to advertise the business is for sale because they don’t want the staff to know.

For an indication of what it takes to start a pub, consider the costs associated with a Firken Group pub, one of the largest pub franchise operations in Canada.

Aside from the Firken franchise fee of \$30,000, the startup costs for an 80- to 150-seat pub in about 4,000 square feet is estimated at between \$400,000 and \$1.2 million. ♦



Elephant & Castle neighbourhood pub in the historic Marine Building in Vancouver.

Tips to buying a pub

Be prepared to work hard: Running a pub requires a dedicated and committed approach, a willingness to work with staff and often long hours.

Find the right location: A pub should be within walking distance of high-density residential and a business area. A bonus is if there are no “upscale casual” restaurants nearby.

Research: When you have decided what you can afford, the location and the style of operation you are seeking, you will need to undertake as much research as you can on each pub. Consider the options and the pros and cons of each one and visit the outlets. When you have selected the best opportunities, visit them on several occasions at different times of the day and different times of the week. Understand the trading patterns, the type of customers and the things that the current operators do well or could be improved upon. You should be looking to understand how the business ticks and what you would seek to do differently.

Condition: As with buying any property,

purchasers are well advised to obtain a survey of the property before proceeding with a purchase. This applies whether a property is freehold, leasehold or a new letting. If you are taking responsibility for the repairs of the building, you need to fully understand the condition of the premises and responsibility you will be taking on before you sign any undertaking.

A liquor outlet: A proven money maker, an offsale store can generate relatively high income, with operating costs of about 11 per cent of gross.

Capitalization rates: If you are looking a pub and land with an income of \$300,000, the cap rate should be in the 15 per cent to 16 per cent range.

Prepare to pay: The average price of a quality pub in Metro Vancouver or Victoria is in the \$2.5 million range; with land it can reach \$3.5 million to \$4 million. You will need a large down payment, likely in the 40 per cent range, for financing. In many cases, the vendor will offer to take back a small second mortgage to make a deal work.