

2011 Nursery Property Market Mid Year Report



By Andrew K. Steen, Managing Director, Redwoods Dowling Kerr

Overview

I have read with interest a variety of mixed messages from a number of nursery brokers during the course of 2011. In an article published during the first quarter, our sector was asked for its thoughts on the market.

At RDK we published our view that the market was still active for nursery settings which were performing well and priced right. Surprisingly, some used the article to talk down both the market and the sector. Whilst I appreciate that opinions will have been shaped by experiences in 2010, I was amazed at how quick they were to adopt such a short-term market view.

Redwoods Dowling Kerr's view of the nursery market is that demand has remained strong during 2010 and 2011, and our opinion is that there is still significant appetite for nursery settings. This appetite is particularly strong when the settings are of good quality, have high occupancy and are delivering good fee income levels. These three requirements form the basis for achieving a sales price at the top end of the EBITDA or Adjusted Net Profit multiples.

Enquiries

At Redwood's Dowling Kerr enquiries during 2011 have remained high and have improved by 6% on a year-on-year basis. Nursery acquisitions remain attractive to a number of different types of buyer, and our view is that enquiries will continue to strengthen for the remainder of the year.

Funding

Funding has remained challenging during 2011. Our view is that lenders are still not doing enough to reach out to the business community and let them know that lending is available. Many lenders present conflicting messages and it would be helpful if there was greater clarity on the types of lending available, the criteria applicable to support that lending and the assumptions on which that lending is based.

Early in 2011 the Government announced the Project Merlin agreement. In return for an agreement on pay rises / bonuses for bankers, banks would agree to lending targets which would help stimulate UK growth. Like the majority of Government proposals, this looked good on paper, but in reality it has not worked and some critics have described Project Merlin as failing to meet its targets. Lenders using 'lack of demand' as an excuse is not helping matters either. Demand for lending has fallen in part due to confusion about whether or not banks are lending. Corporate lending has shown signs of growth but lending to the SME market has remained at historically low levels.

Our view is that funding is available, but buyers now require a larger deposit than would have been needed in the past. Buyers have to tread carefully when dealing with lenders, and we would always recommend using a Finance Broker to ensure that you receive both the best deal and appropriate advice on the lending options available. Further to this, buyers should still shop around as interest rates and fees vary significantly depending on which lender you use. Patience is the key to obtaining funding; the days of '24 hour decisions' are long gone.

Buyers

Buyer habits have evolved significantly over the past few years. Buyers who have pre-approved funding and/or significant cash contributions realise that they are in a strong position when it comes to buying a nursery. Vendors need to be aware that buyers are currently requesting high levels of information prior to making an offer on a business, as they want to reassure themselves they are making the right acquisition at the right time. Vendors should not be put off by repeated requests for information from buyers as it is often a sign they are extremely serious about making a purchase. It is also often the case that requests for information are driven by the buyer's professional advisors and not the buyer themselves. At this important stage, it is crucial that the vendor keeps their sales negotiator updated on how long it will take to provide information. This way, the nursery broker can ensure that expectations are managed appropriately.

Vendors

It is RDK's view that during the recessionary period the difference or gap between vendor expectations



and the price a buyer was willing to pay was significant. This led to a number of properties stagnating and staying on the market longer than would have normally been expected. During the first half of 2011 we have seen this gap narrow as buyer competition increases and vendor expectations move nearer to the market value. These changes have ensured that deals continue to take place and activity continues to strengthen. The best brokers tend to work with vendors on an individual basis to ensure their business is marketed at an appropriate level. For example it is often the case that vendors require a sale at the top end of the price brackets due to the high level of gearing within their business.

Summary

In summary, our view is unchanged: Activity is healthy in the market place and, whilst not at the highs of previous years, is being driven upwards by the entry of new buyers. However, all parties must now appreciate that due diligence periods are lengthening and completion timescales are much

longer than previously experienced. Any transaction which includes bankers, solicitors, Ofsted, Prospects or Tribal, valuers and accountants will always contain twists and turns. Thus, in the current market place, it has never been more important to use nursery brokers who have the experience and reputation to deliver on deals. ■

Want to Know More?

As the leading nursery broker in the sector, RDK recommend that whether you are looking to buy or sell, you should have a discussion with your nursery broker to understand the current state of market; current market values and drivers; and the outlook for the next few years and how that will fit in with your future plans. We are happy to assist in the development and implementation of sale or acquisition strategies. Contact Lucie Wright on 01484 483188 or lucie.wright@redwoodsdk.com