



REPORT CONCERNING ECONOMIC VIABILITY
& SUSTAINING OF PUBLIC HOUSE USE

PREPARED BY

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FLEURETS

in connection with the public house premises known as

**Royal Oak Inn
Church Street
Nunnington
North Yorkshire
YO62 5US**



18th July 2018



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1.0 INTRODUCTION

1.1 Experience and Expertise

1.1.1 I am David Carl Sutcliffe, Director of the national practice of Chartered Surveyors, property consultants, and agents Fleurets, dealing exclusively in the provision of property advice, sales, lettings and valuations of hotels, restaurants, public houses and other forms of licensed and leisure property.

1.1.2 I am a Director of Fleurets and National Head of Professional Services. In addition, I am also editor of the guidance notes for the valuation of public houses on the RICS website iSurv. I am also on the RICS President's Panel of Independent Experts.

1.1.3 I am a Member of the Royal Institution of Chartered Surveyors, a Registered Valuer and have in excess of 28 years direct experience in my specialist licensed and leisure property field. I am based at Fleurets' Manchester office and deal with professional matters throughout the North and North West of England.

1.2 Instructions

1.2.1 I have received instructions from Mrs Rachel Balmer a senior planning officer of Ryedale District Council, seeking a report detailing an expert opinion of whether or not the Royal Oak, Nunnington ("the Property") is economically viable and has sustainable trade for the continued use as a public house. My opinion is to be prepared having regard to the assumption that the property has a premises licence and open for trade.

1.2.2 I confirm that I have not had any previous dealings with either the Royal Oak public house or its owners. For the sake of transparency one of my agency colleagues whilst working for another firm sold the freehold of the property in 2007, but has had no subsequent dealings with the property.

1.2.3 The opinions that I express herein have been prepared in the capacity of an expert witness on the instructions of the local planning authority.

1.2.4 The Report complies with the requirements of the Royal Institution of Chartered Surveyors as set down in 'Surveyors Acting as Expert Witnesses: Practice Statement'.



1.2.5 A Professional Declaration is provided at the end of the Report.

1.2.6 For the avoidance of doubt I confirm that this report is not intended to be a valuation of the property, either rental or capital, and it is not therefore formatted to comply with the RICS practice statements relating to property valuations.

1.3 Planning Policy

1.3.1 My report has been commissioned by the local planning authority to establish whether the Royal Oak is able to operate as a sustainable business. It is also necessary to demonstrate that a change of use and permanent extinguishment of the property's public house use, will satisfy the relevant planning policy tests.

1.3.2 My report specifically addresses my opinion of whether or not the Royal Oak is economically viable for there to be a successful reintroduction and thereafter sustaining of public house trading. As a part of my considerations, I identify the alternative public house amenities which are currently available for use by the local resident community within the surrounding rural district.

1.3.3 In considering my opinion I have had regard to the local planning authority's guidance contained within the Ryedale District Council Local Plan Strategy, dated 5th September 2013.

1.3.4 The policy specifically states that for consideration of a local amenity to take a community facility out of community use, 3 tests under SP11 Community Facilities and Services are required. These are:

- i. there is no longer a need for the facility or sustainable and accessible alternatives exists, or
- ii. that it is no longer economically viable to provide the facility, or
- iii. proposals involving replacement facilities providing the equivalent or greater benefit to the community and can be delivered with minimum disruption to provision.

1.3.5 In respect of this report points i. and ii. above are within my instructions.



2.0 THE PROPERTY

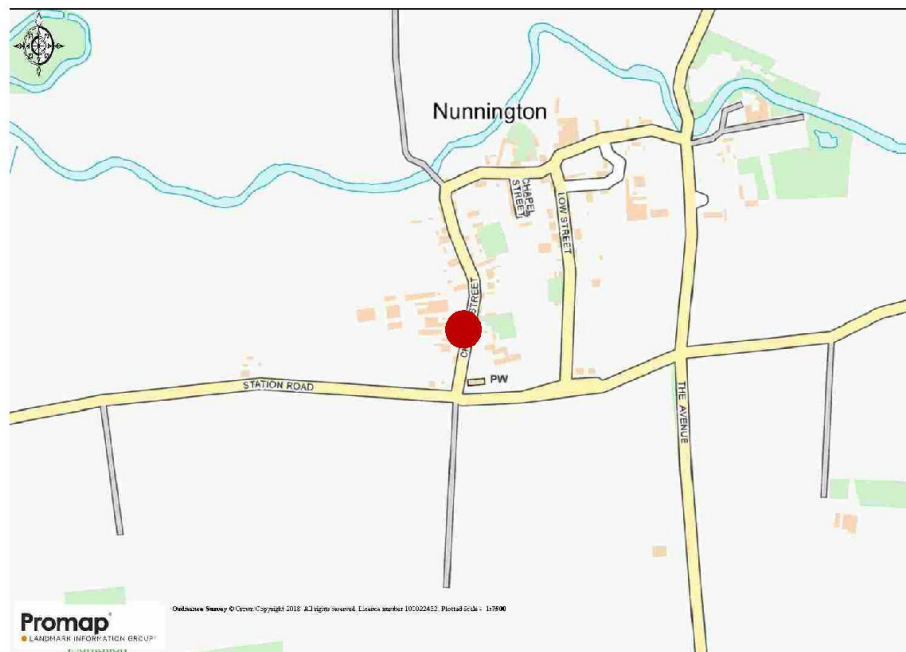
2.1 Location

- 2.1.1 The property is located in the North Yorkshire village of Nunnington, which lies to the north of the B1257 approximately 3 miles to the south-east of Helmsley. Nunnington is an attractive North Yorkshire village situated on the River Rye. The village has a relatively small resident population which according to the 2011 census was only 361. Nunnington Hall a National trust property is situated to the eastern boundary of the village. This is a popular tourist attraction bringing visitors to the area. The village itself is residential in nature with a small number of properties majority of which are constructed in local stone. I understand the main village centre benefits from conservation area status.
- 2.1.2 The surrounding area is predominantly rural. The village lies to the north-east of the Howardian Hills Area of Outstanding Natural Beauty. Within the immediate area there are a number of small villages including Stonegrave, Hovingham, Sproxton, Ampleforth and the larger town of Helmsley. In addition the market town of Malton is situated approximately 8 miles to the south-east.
- 2.1.3 I understand that the properties within Nunnington are in the main privately owned and used as either private residential properties or holiday lets. In addition there is a tearoom in the village centre. The village also has a village hall which is situated to the eastern boundary of the village.
- 2.1.4 The Royal Oak is situated on Church Lane, one of the main roads in the village. The Royal Oak is set to the south western boundary of the village settlement and close to All Saints St James' Church and at the opposite end of the village from Nunnington Hall. Church Lane whilst unrestricted for parking is relatively narrow and would preclude on street parking in the area immediately surrounding the Royal Oak. This is an important consideration having regard to the customer base of the Royal Oak.
- 2.1.5 From the latest Census in 2011 the resident population of Nunnington Parish is stated as being 361 with 177 residencies. In population terms this would be considered relatively small.

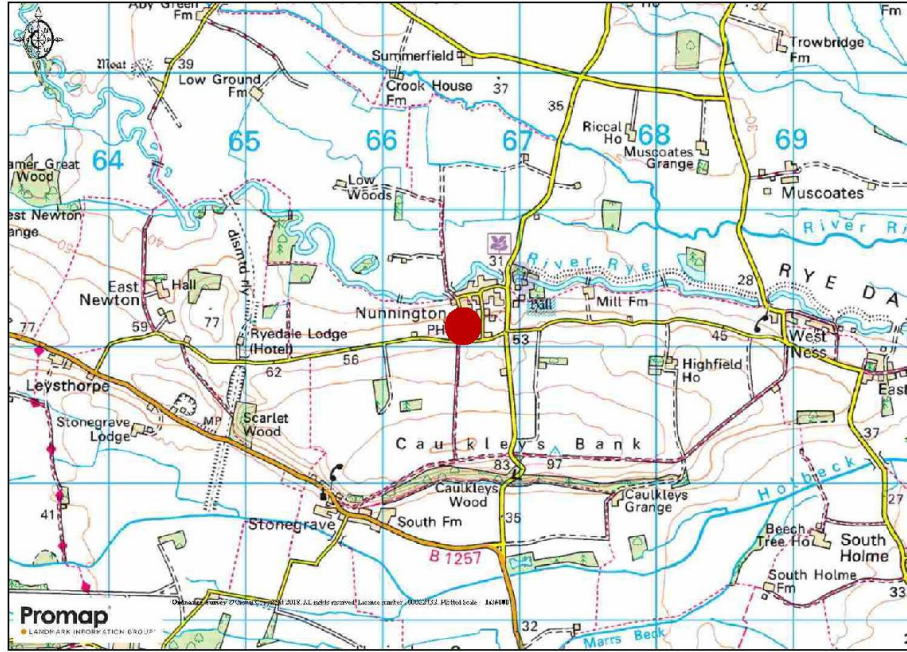


2.1.6 For the purposes of public house trading the location and situation of the Royal Oak would cause it to be significantly reliant upon attracting car born destination type custom, there being very limited potential for custom derived from the nearby resident community. As a direct result of these location characteristics the operational trading style of the public house would of necessity, need to be substantially based on a food offer attracting custom for dining.

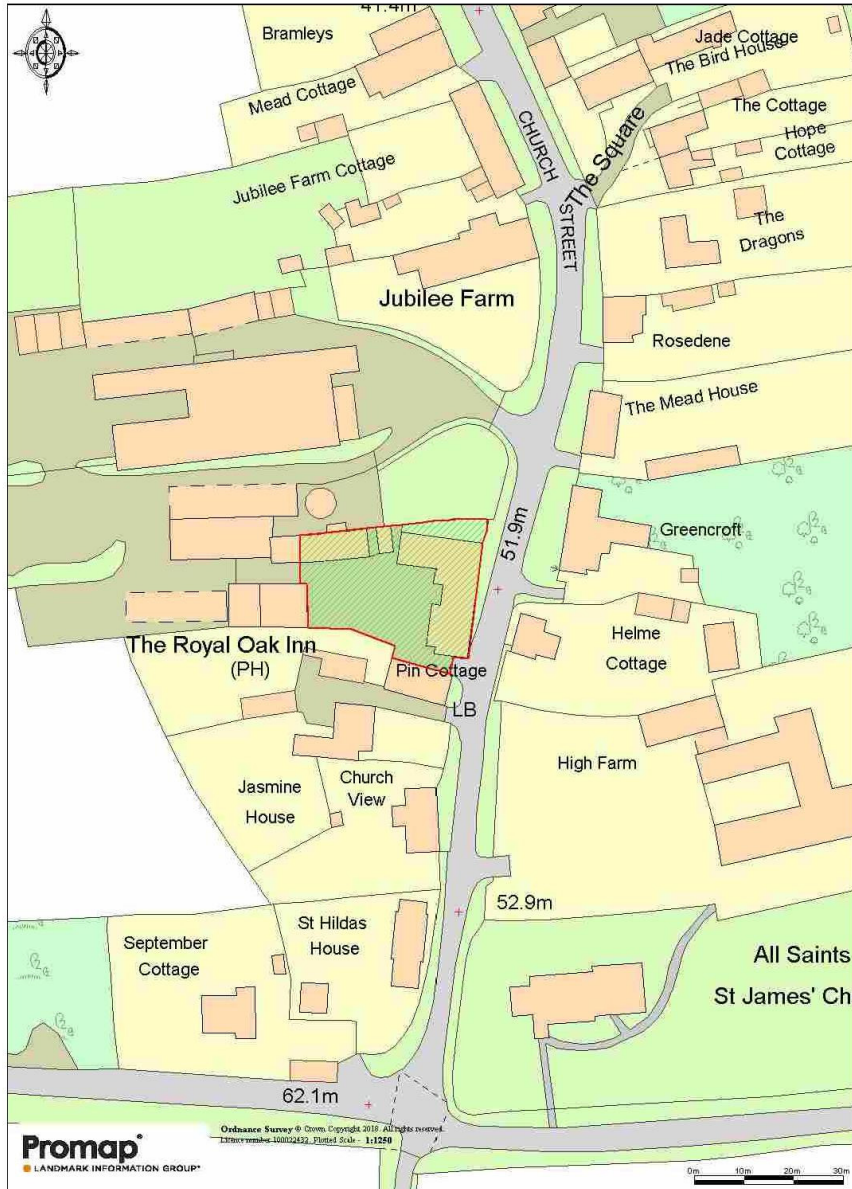
I set out below location and site plans:



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Site Plan For identification purposes only. Not to Scale.



2.2 Description

2.2.1 The Royal Oak comprises a detached building which would appear to have been originally two semi-detached cottages that have been combined to create a single entity. The property is constructed in solid load-bearing stone walls and built two storeys beneath pitched pantile roofs. The original building has been significantly extended to the rear and sides in rendered brick /block walls beneath both pitched tiled and flat felt covered roofs. Given the properties listed building status most of the original sash windows have been retained.

2.2.2 The building is sited within grounds extending to circa 832 sq m (0.2 Acres), being situated towards the forward eastern side of its site fronting the highway boundary. The grounds are arranged as a customer car park lying to the western side of the building with a rough part tarmac part crushed stone surface and without space marking. The car park provides approximately 10 spaces. Directly to the rear of the building is an enclosed trade patio. Within the grounds there are outbuildings comprising three former stables and a stone store. In addition, adjacent to the main building, is the oil storage tank for the central heating set within a narrow private garden to the north of the main building.

2.2.3 Photographs showing the exterior of the property and its external grounds are set out below:-





2.3 Accommodation

The property has internal accommodation arranged over ground and first floor levels, briefly summarised as follows:-

Ground Floor

- 2.3.1 There are two main customer entrances. One directly off Church Street, to the front the property, providing access into a customer bar and seating areas. In addition, there is a further access to the rear from the car park.
- 2.3.2 The trading accommodation is arranged with a single bar servery with a number of interlinked customer seating areas. There are customer toilets for ladies and gents. It was noted that there are no disabled toilet facilities. The service support accommodation comprises a wash up/utility room, a commercial kitchen and a store. Staff WC.
- 2.3.3 The interior finishes to the customer areas comprise painted plastered walls with areas of exposed stone beneath beamed ceilings. The majority of the flooring is carpeted. There is a central bar area with bar servery set to the rear of the room. To the rear of the bar is a small door giving access to the basement cellarage which acts as beer store.
- 2.3.4 To the left hand side is a raised section which was used as a dining area and provided dining for approximately 52 Covers. To the right hand side are 2 interconnected areas which were used as dining and games area.
- 2.3.5 The customer toilets are fitted with conventional fittings and predominantly tiled floors and walls. The commercial kitchen is finished with sections of metal sheeting and glazed wall tiling. At the time of my inspection the commercial kitchen equipment had been removed.

2.3.6 First Floor

The first floor comprises solely domestic living quarters, arranged as a landing area leading to a, a living room, a bathroom/WC and 4 bedrooms. There is an antic room above.



2.3.7 Photographs showing the property's accommodation are set out below:-



2.4 Services

2.4.1 The property is understood to be connected to mains electric water and drainage. This understood that the kitchen was fuelled by LPG and the central heating is oil fired. Heating to both the ground floor public house and first floor domestic quarters was by way of central heating to radiators. The ground floor trading areas have a mix of open fires and log burners in addition to the central heating.

2.5 Condition

2.5.1 I have not undertaken a building condition survey however the property appeared to be in good structural condition. The internal areas are in good decorative order and I would expect that a potential operator would not consider it necessary to undertake any refurbishment programme prior to reopening the business.

2.5.2 Externally there was evidence of peeling paint on the windows though this is a relatively minor issue. There are outbuildings which are currently used for storage. I understand that planning consent has been sought for the conversion of these buildings to holiday lets. It will however require significant capital investment to bring these buildings into a commercial use.



2.5.3 The trade inventory has been removed and it would be necessary for an operator to re-furnish the premises. Given the location and style of operation it would be necessary to provide good quality furniture.

2.6 Premises Licence

2.6.1 Enquiries made with the Licensing Authority indicate that the property has not had the benefit of a Premises Licence since 9th June 2018. I understand that the current owners of the property surrendered the licence approximately 6 months after they ceased to operate the premises as a public house. For the purposes of my report I have assumed that the business is operational as the surrender was effected after the premises ceased trading but prior to the application for a change of use and without any alternate use consents being granted. This would not have been the actions of a prudent owner.

2.7 Rating

2.7.1 The rateable values of public houses are assessed based on judgements made over their trading potential. A simple reliance on actual rateable values in order to arrive at an opinion of future trade potential is however not to be recommended nor is considered to be a reliable basis for such judgement.

2.7.2 Consultation of the website of the Valuation Office Agency shows that the Royal Oak has the following history of Rateable Values (RV):

Rating List 2010 – RV £17,400 effective 1st April 2010.

Rating List 2017 – RV £10,300 effective 1st April 2017.

2.7.3 The 2010 Rating List entry will have been based on the property's physical size and format applicable on 1st April 2010 however the economic and trading circumstances applicable on 1st April 2007, known as the antecedent valuation date. It is likely that the assessment will have been influenced by reports of actual trade achieved in the period 2005 to 2007.



2.7.4 The 2017 Rating List entry will have been based on the property's physical size and format applicable as at 1st April 2017 however the economic and trading circumstances applicable as at 1st April 2015, the then antecedent valuation date. The property was in the process of being sold during this period and I am not certain if the rating authority would have been in possession of the historic trading information. However the reduction in the rating assessments between 2010 and 2017 would suggest that there has been a declining trading performance during this period. I will deal with this later when I consider the fair maintainable turnover.

2.7.5 The property's domestic accommodation is included in the Council Tax Valuation List within value Band C.

3.0 THE MARKETPLACE FOR PUBLIC HOUSES

In this section I consider the economic, operational and social influences which impact on the demand for, trading potential and viability of public houses.

3.1 In the year 2007 the onset of the 'credit crunch' triggered a prolonged period of considerable economic uncertainty with the UK economy suffering a sustained downturn with double dip recessions in 2008/09 and 2011/12.

3.2 The economic downturn had a dual impact upon the licensed trade. Firstly, there was the effect of lower sales resulting from customers having reduced disposable income or simply exercising caution. Secondly there was the impact on the ability for prospective purchasers to raise finance. Throughout the downturn, banks were averse to risk and reluctant to entertain loans unless a borrower had relevant trade experience and accounting information was available to support the levels of trade projected. Scarcity of loan finance, together with vastly reduced bank loan to value ratios have limited purchasers' ability to raise finance and continues to do so. Some banks effectively exited from the licensed and leisure property sectors.



- 3.3 In Fleurets` experience, throughout the economic downturn lenders were reluctant to advance finance for purchases of public houses, particularly those which could not demonstrate robust levels of turnover and profitability or were closed to trade. Even in a much improved economic climate, in the absence of a sustained level of proven trade and profits, lenders are generally not prepared to provide funding unless an operator is prepared to offer alternative security. Banks tend to be averse to lending against leasehold interests. The larger multiple or corporate operators will not generally need to raise finance for individual property acquisitions however, such operators will usually only acquire sites where there is potential to generate sales in excess of £20,000 per week, net of VAT. I do not consider the Royal Oak to have any of the characteristics which would enable it to be able to generate such levels of turnover.
- 3.4 More recently the economy has returned to positive growth, albeit it has fluctuated. In 2014 GDP stood at 2.4%, rising to 2.6% in 2015 but then falling to 1.6% in 2016. 2017 fared similarly with growth of 1.8%.
- 3.5 In June 2016 the UK voted to leave the European Union in the BREXIT vote. Negotiations between Britain and the EU are ongoing following Article 50 formally being triggered and the political and economic uncertainty has returned. Import costs have increased, particularly in the food sectors, albeit this has subsided somewhat more recently, and inflation has risen strongly and as at April 2018 stood at 2.5%, having been at over 3% at the end of 2017, well above the Bank of England's target level of 2%. This has triggered a marginal rise in interest rates from 0.25% to 0.5%.
- 3.6 As a consequence of rising costs and weak wage growth consumer spending has once again come under close scrutiny. Whilst the pub sector has proved relatively resilient to these pressures so far, the press has widely reported on the struggles of the restaurant and retail sectors. Numerous restaurants across the branded, corporate and independent sectors have closed and/or been placed on the market for sale and profit warnings have been issued by a number of the major retailers.
- 3.7 This all comes on top of the challenges that the licensed retailing trade sector has already been faced with over the last 20 years or so. Rising costs and increasing administrative burdens, together with legislative changes have seen significant threats to stability at all levels. Legislation publicans must have regard to include the following:-



- Licensing Act 2003
- Food Act 1984 (as amended)
- Food Safety Act 1990 (as amended)
- Equality Act 2010
- Regulatory Reform (Fire Safety) Order 2005
- Gas & Electrical Regulations in relation to the trade inventory

3.8 The mass beer market has seen and continues to experience a shift to the off trade, which combined with the success of anti-drink drive legislation have been significant factors leading to a general decline in volume of traditional on-licensed wet sales. Recent statistics, produced by the British Beer and Pub Association (BBPA) in their UK Quarterly Beer Barometer show a decline in annual beer sales in the on-trade between Quarter 4 2000 and 2017 from 23,358,000 to 12,628,000 barrels, a decline of c.46% (expressed in terms of 36 gallon brewers' barrels). The highest levels of decline were reported in 2008 and 2009 which would be consistent with the follow on from the introduction of the ban on smoking in public places as well as the onset of the recession. Whilst the decline in beer volumes has continued the speed of decline reduced in mid-2014 to its lowest level since 2003.

3.9 During the same period annual beer sales in the off-trade showed an increase from 11,215,000 to 14,285,000 barrels, an increase of c.27%. This marks a significant switch between beer volumes consumed in trading premises such as public houses and those consumed at home purchased from retail outlets such as off licenses, general stores and supermarkets. The shift has been so significant that in 2015 the volume of beer sold in the off-trade for the first time exceeded the volume of beer sold in the on-trade, a trend which has continued and remains as at Q4 2017. A copy of the source data is attached at Appendix DCS1.

3.10 The introduction of the ban on smoking in public places in July 2007 had a significant impact upon the trade of wet led public houses. In September 2008 a report issued jointly by the Federation of Licensed Victuallers Associations (FVLA) and the British Institute of Innkeeping (BII) concluded:

"The smoking ban has had a serious and continuing effect on trade with the very important custom of smokers much diminished and with little positive news in terms of increased non-smoker or family business. The impact has been borne most by community, drink based pubs which have also had the fewest resources to withstand the downturn."



- 3.11 The development of large public houses, on local 'high streets', which have the ability to offer discounted prices through their better purchasing power has resulted in a decline in sales in smaller traditional outlets within a radius of up to one mile, where there is public access/transport. As a consequence many such public houses which were previously only marginally viable have now ceased trading.
- 3.12 Regular eating out has become an established part of the British psyche and, as wet sales have declined, many pubs have sought to maintain and develop their business by focusing upon food led custom. However net profit margins on food led businesses are typically 5 to 10% lower than for wet led businesses. Consequently, such pubs are dependent upon achieving a higher level of food sales in order to replace lost wet sales if the overall net profit is to be maintained.
- 3.13 Local custom tends to be mostly 'walk-to' trade drawn from the immediate community, probably from less than ½ mile radius. Assuming the business is run in a good, competent and welcoming manner, trade will essentially be attracted by the convenience of the location and the opportunity to socialise with the local community. Local custom will tend to be concentrated towards weekday evenings and weekends.
- 3.14 In contrast to local trade, destination custom is often car borne and hence is attracted from a wider catchment area. Customers are drawn to an establishment by virtue of the nature of the facilities on offer, commonly including the availability of meals. Destination food led operations tend to be targeted to a particular market, which may be families, value orientated, fine dining, ethnic or traditional and offer particular desirable characteristics.
- 3.15 The essential characteristics of most destination led business are high visibility, ease of access and good parking. The family orientated businesses are usually run as high-volume branded outlets by multiple operators, typical examples of which are Chef & Brewer, Flaming Grill, and Hungry Horse. They may often be combined with outdoor and/or indoor children's play facilities. Such businesses demand prominent road locations, a site of ¾ to one acre, a built area in the region of 7,000 to 8,000 sq ft and customer area of 2,500 to 3,500 sq ft. There has been a significant expansion in the number of this type of operation in both urban and suburban areas over the last twenty five years.



- 3.16 In more recent years an increasingly important requirement has been for such units to be developed near to business parks or at transport intersections. The most active companies in this market in more recent years have been Marston's and Greene King. Following the recession it has been the case that operators have been increasingly unwilling to compromise their site criteria.
- 3.17 Customers will also be attracted to destination venues by their setting, for example waterside properties or those where there is some historic interest or relevance.
- 3.18 The locational characteristics of the Royal Oak are such that it will not be able to rely solely on a locally resident custom and by necessity will therefore need to attract and appeal to a targeted destination type of custom, the majority of whom will be reliant upon car journeys in order to access the property.
- 3.19 The consequences of the above described economic and social trends are seen to adversely impact on public house trading, reducing alcoholic drink consumption, putting pressure on retail pricing and leading to an increasingly challenging market in which to operate. Such impacts are understood to be central to the declining numbers of public houses, both in urban and in rural districts. The background of these economic and social trends increases the risks faced by those making investments in the sector, particularly where there is a history of business failure and subsequent physical decline of premises. Such circumstances which increase the risks of making an investment into a public house all apply to the subject property.

4.0 THE ECONOMIC VIABILITY OF PUBLIC HOUSES

4.1 Viability Factors

- 4.1.1 When assessing the viability of a public house there are a number of factors which are appropriately considered and a number of potential sources of information to assist with the required appraisals.
- 4.1.2 It is firstly appropriate to consider the locational and physical characteristics of the property together with its existing local competition. Based on these considerations, a judgement can then be made over the most credible style of public house trading to be adopted at a particular site, in order to best exploit the trading potential.



4.1.3 It is desirable to be able to review financial information recording past trade performance of a site should this information be available, in order to help make the required judgement over future potential. However, such historic records are not always available and in incidences where there is no trade performance history, prospective operators must rely wholly on their own judgements and experience.

4.1.4 The British Beer and Pub Association (BBPA) have produced documentation to assist pub tenants in assessing public house operational costs and this data is of particular assistance in instances where there is an absence of past trading records.

4.1.5 In addition the Campaign For Real Ale, CAMRA, has published a Paper – “Public House Viability Test” which identifies a number of factors they recommend it is appropriate be considered when appraising a pub’s trade potential in a variety of scenarios. It is necessary to note the CAMRA Paper is not adopted planning policy, it can however be treated as a guide to appropriate considerations.

4.1.6 Arising from the planning policy under SP11 referred to above in section 1.3 there are in my opinion three issues that need to be addressed, namely:

- The existence of alternative facilities which provide for people’s day-to-day needs;
- The continuing viability of the business; and
- The marketing of the business as a going concern.

I shall address each of these issues in turn.

4.2 Local Public House Competition/Alternative Amenities

4.2.1 There are a number of public houses located around the rural district surrounding Nunnington and the Royal Oak. It is helpful to consider these alternative public houses, which not only offer alternative facilities to the local communities but importantly would form direct competition to a party wishing to relaunch pub trading at the Royal Oak.



4.2.2 From my review of the locality, I have identified the following public houses and businesses as relevant competition: -

Fryton Catering Coffee House, Nunnington – (200 yards away)



The Fryton is situated in close proximity to the Royal Oak and benefits from a more central position within the village. Sandwiches and snacks are provided throughout the day. I also understand the premises are licenced and is considered better placed to cater for trade from Nunnington Hall. The Coffee House opened in April 2016.

Nunnington Village Hall – (0.5 mile away)



A traditional village hall on the outskirts of the village. This hall can be used for meetings and other community activities.

Nunnington Hall – (0.5 mile away)



Country House situated on the outskirts of the village of Nunnington. National Trust property with its own café.



Worsley Arms, Hovingham – (2.5 miles away)



Situated on the main route through Hovingham. A traditional public house providing food and beverage, together with letting accommodation. Attractive gardens with car park.

Malt Shovel, Hovingham - (2.5 miles away)



Traditional public house providing both food and beverage. Catering for a mix of local and drive to trade.

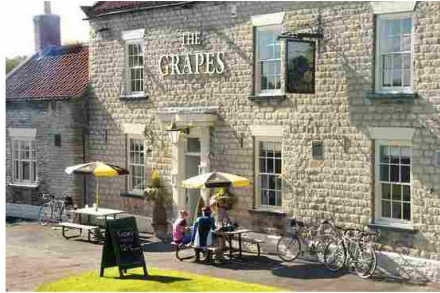
Fairfax, Gilling (4.5 miles away)



Traditional North Yorkshire Hostelry providing food and drink, together with letting accommodation. Attractive outside trading areas and car parking.



Grapes, Slingsby (4.5 miles away)



Traditional North Yorkshire public house providing food and drink in an attractive trade environment. In addition functions are also held at the property.

Star, Harome – (3.5 miles away)



Situated in the village of Harome, just outside Helmsley. A traditional North Yorkshire public house. Again, providing food and beverage and accommodation.

Pheasant Hotel, Harome – (3.5 miles away)



Country house hotel in the village of Harome, which benefits from 16 letting rooms in addition to providing food and drink in the bar. Fully modernised.



Royal Oak, Gillamoor – (8 miles away)



Traditional village pub on the main street in Gillamoor. The pub provides both food and drink, together with accommodation. In addition there is a residents' car park and on street parking in the village.

4.2.3 From the above review of the alternative public house provision located in the rural district surrounding Nunnington, it is apparent that the local village communities and those accessing the district by car are served by a range of long established alternative public houses which provide both community drinks led type offers and some with the daytime and evening food offers, in some instances also providing overnight bed & breakfast accommodation. A prospective future operator of the Royal Oak would be conscious of the extent of the established competition and would be concerned over the need to effectively attract custom away from these other public houses/pub-restaurants. In my opinion in the marketplace of 2018, the local district surrounding the Royal Oak is more than adequately supplied with public house amenities, albeit that residents of Nunnington are reliant upon car borne access.

4.2.4 Within the village of Nunnington there is Fryton's Catering Coffee House, which provides food and beverage, and is also licensed. This facility open in April 2016 and is likely to have impacted on the day time trade at the Royal Oak. In addition food is available at Nunnington Hall, though limited to day times only. In addition the Village Hall also provides a community meeting place.

Having regard to the above I conclude that within Nunnington and the immediate area there are sufficient and better located premises that can cater for the community needs.



4.3 The Assessment of the Royal Oak's Current Trade Potential

- 4.3.1 When assessing the viability of a public house there will be differing qualities and extent of information available to assist with judgements, dependent on the particular background circumstances applicable to each individual case.
- 4.3.2 When considering the viability of businesses one should have regard to the potential of the business and not just purely the recent trading history. In order to do this a useful format is provided by the Campaign for Real Ale (CAMRA) Paper Public House Viability Test. In my opinion the first step is to consider the target market for the business in question, this will draw in a number of the headings raised in the CAMRA paper. Having regard to the physical characteristics of the Royal Oak PH and its location I am of the opinion that the most appropriate style of trade would be as a destination food house incorporating core wet led community trade. The level of potential trade will be restricted by the location, configuration of the trading area and the availability of alternative facilities as referred to at 4.2.2 above.
- 4.3.3 To assist an assessment of the viability of the Royal Oak it is necessary to form an opinion of the property's Fair Maintainable Turnover (FMT), this being the level of trade that a Reasonably Efficient Operator (REO) would expect to achieve from all forms of income, when running the business in a proper manner, on the assumption that the property is properly repaired, maintained and decorated.
- 4.3.4 From the FMT the Fair Maintainable Operating Profit (FMOP) that a REO would expect to achieve is assessed taking into account the age, location, style, configuration and size/quality of the accommodation provided by the property, as well as the style of the trade proposed to be undertaken. The operating profit is stated before the deduction of costs of finance, depreciation, owner's remuneration/drawings and any one off exceptional costs.
- 4.3.5 In arriving at my assessment of trading potential of an existing public house, I would normally have regard to any historic trade performance data that is available in respect of other similar properties. In addition it is necessary to have regard to any established market trends in public house performance over recent years.



- 4.3.6 The economic downturn discussed in Section 3.0 above, combined with the effects of other changing social trends, including greater respect for drink driving law and increased consciousness over health, have adversely impacted on alcohol consumption and hence on the turnover and profit potential of public houses such as the Royal Oak.
- 4.3.7 In 2007 the property was on the market with Colliers Robert Barry at a guide price of £675,000. It should be appreciated that 2007 represented the peak of the property market, prior to the crash in 2007 and more particularly in 2008, after Lehman Brothers. At the time, turnover was declared as being in the region of £275,000 net. This is a transaction referred to above, which was conducted by my colleague when he was working at Colliers Robert Barry.
- 4.3.8 I have been able to interrogate Fleurets' database and I have been able to identify some information regarding historic trading performance at the Royal Oak. The property was available for sale in 2011 at a guide price of £550,000. At the time the declared turnover was £231,119 (net of VAT), a copy of the sales information is included as Appendix DCS2.
- 4.3.9 The property was being advertised on the market with Christie & Co in December 2015, with a guide price of £650,000. A copy of the sales particulars is attached in Appendix DCS2. This relates to the current owners attempt to dispose of the freehold interest. No turnover was declared although comments are that it had been recently renovated.
- 4.3.10 We also understand that Davy & Co have advertised the property for sale. What is interesting is that trading information comments state that "Information supplied by our clients show net sales comfortably in the order of £200,000, trading on limited hours over only 5 days a week and 11 months of the year, due entirely to our clients' personal preference. The business possesses outstanding trading potential given the demographic of the location and also the extent of the facilities provided."
- 4.3.11 It was also noted that the premises were closed Monday and Tuesday, also during the afternoons throughout the week. The guide price was £600,000. Copies of the sales particulars are again attached as Appendix DCS2



- 4.3.12 The owners of the Royal Oak have provided accounting information, which I attach as Appendix DCS3. As can be seen from the accounts the turnover has been around £160,000 for the past 2 years and after adding back Director's Remuneration, more or less breaks even. This appears to be at odds with the sales particulars referred to above. I would make the following observations:
- 4.3.13 Gross Profit Margins reflecting costs of sales, but excluding staff costs and direct costs is showing a figure of circa 54%. The Royal Oak operates as a traditional freehouse serving both food and drink in a not particularly price sensitive area. I am of the view that the reasonably efficient operator would expect to achieve Gross Profit Margins closer to 60-63%, as they would be able to source their products in a competitive market and obtain discounts from local suppliers.
- 4.3.14 It should also be noted that the Rateable Value for Royal Oak, as assessed in 2017 at £10,300 will bring this within the category of a small business and will receive significant relief against rating costs. This benefit will post date the accounting information, but will add to the profitability of the premises going forward.
- 4.3.15 In making my assessment it is appropriate to adopt an assumption that the property is open and trading with the inventory in situ. It should also be assumed to be operated by a Reasonably Efficient Operator. I am of the view this would mean the property was open for trading longer hours, particularly during the afternoons, though having regard to the increased competition from the Fryton Coffee House since it opened in 2016.
- 4.3.16 Having regard to the property's location, style and the availability of alternative food offers, I consider that it would be realistic to envisage a sales potential from all sources in the region of £4,000 per week. Thus, for the purposes of undertaking a viability analysis, I adopt a fair maintainable turnover (FMT) of £200,000. I have assumed that such sales would be 40% drink, i.e. £80,000 and 60% food, i.e. £120,000.
- 4.3.17 On the basis that the pub's trading will need to be substantially driven by a destination custom for food, I consider that it is unrealistic to expect any meaningful contribution to income to be derived from amusement machines/games, i.e. gaming machines, quiz machines and pool tables.



4.3.18 For the purposes of my assessment of viability, I assume that the property is available to its operator as an unencumbered freehold interest, thus I assume the occupier/operator would be free of any beer tie. This assumption has a direct impact on the gross profit margin that can be achieved from drinks sales. The gross profit margin reflects sales against the cost of purchasing the products for resale. With drink sales at the adopted level, I have assessed based on experience, an overall wet gross profit performance at 65% i.e. £52,000

4.3.19 The food gross profit margin needs to reflect what I consider will be a good quality traditional pub food offer, hence one which is not premium priced. As a consequence, I adopt a gross profit margin at 60% i.e. £72,000.

4.3.20 I therefore assess the gross profit achievable as follows:-

	£
GP from Wet Sales	52,000
GP from Food Sales	72,000
Overall GP	124,000
Overall GP % of overall sales	62%

4.3.21 It is necessary to consider the costs involved in running the business and maintaining the property. Such costs will vary as a result of numerous factors which include the level of sales, size/configuration of the property and sales mix. In the absence of any available evidence of actual operating expenses for the Royal Oak to assist in such judgement, I have regard to operating expense levels derived from industry research detailed in the BBPA publication - Running a Pub, a Guide to Costs for Tied Tenants and Lessees - 2017.

4.3.22 The BBPA document provides advice to tied tenants, however the drinks tie impacts only on the gross profit line and therefore the data on operating costs is considered to be a reliable and appropriate guide for the purposes of this viability exercise. The BBPA publication seeks to distinguish between different levels and styles of pub trade. In the case of the Royal Oak I consider that the BBPA model for a "rural character" category of pub with a trade level of circa £5,000 per week is the most relevant.



- 4.3.23 The model identifies operating costs of 40.3% of sales which includes a labour expense equal to 22.5% of sales, however adjusting to exclude the costs related to interest on tenant's working capital reduces the total operating expense to 39.8% of sales. It should be noted that such costs do not provide for either a manager's salary or an owner's remuneration or for entertainment costs. I enclose as Appendix DCS4 a copy of the 'model'. It should also be borne in mind that these statistics also assume a full rates bill which is not the case for the Royal Oak. Adopting a considered view of operating expenses, I adopt total operating expenses for the Royal Oak of £77,000, equivalent to 38.4% of adopted total sales.
- 4.3.24 My assessment of net profit i.e. the Fair Maintainable Operating Profit, before the expenses of finance and owner/operator's remuneration is therefore £47,000 which equates to circa 24% of the adopted total sales. In my experience such profit percentage of total sales is a reasonable profit expectation for a rural located pub of this style with mixed food and drink trade at the adopted level. It would also assume an owner operating couple who would share the kitchen and bar work.
- 4.3.25 I reiterate, the above assessment of FMOP is stated before accounting for an owner's remuneration or any costs of finance the owner/operator is obliged to incur.
- 4.3.26 An owner/operator of a public house such as the Royal Oak must be able to expect a reasonable return on their effort, labour and business risk taken if investing in acquiring, re-establishing and operating the business. To an extent, such expectations of an operator are subjective, but as a helpful independent guide, I refer to the legal case of *Brooker - v - Unique Pub Properties Limited* (2001) (Chancery Division Bristol District Registry Case No. BS002253) which gave consideration to the appropriate level of remuneration that a public house operator would reasonably expect to receive. In that case it was stated that at that time, the minimum remuneration an operator would expect was £20,000 per annum. If this figure is adjusted to reflect the subsequent increase in average earnings, it would now equate to a figure in the region of £30,000.
- 4.3.27 Regard also needs to be had to the cost of finance, i.e. the cost of funding not only for the property purchase, but also to cover the costs of any works that need to be undertaken together with required new/replacement trade furnishings, equipment and effects, as are considered necessary to enable the business once relaunched, to realise its trading potential.



4.3.28 For the purposes of the appraisal, it is also necessary to assume a notional purchase price for acquiring the freehold premises. I have difficulty in accepting the guide prices adopted for selling the premises as being realistic. These are not formal “Red Book” valuations but merely an offer to sell at a figure required by the vendor. I am of the opinion the guide prices appear to reflect the hypothetical residential value not the true value of a trading public house. For the purposes of this report I cannot assume planning consent has been or will granted and therefore must ignore any additional value attributed to the additional residential “value”. I have also had regard to other public houses that have sold in the wider area. I set out below evidence of these sales:

Black Lion, 8 Market Place, Thirsk, YO7 1LB



Sale Date: On Market
Tenure: Freehold
Guide Price: £325,000
Turnover: Currently closed

Location:

The property is situated in the centre of Thirsk, close to the main market square.

Description:

Mid-terrace, 2 storey brick building. Operating as a restaurant with private living accommodation at first floor.

Business:

Currently closed, although previously operated as a restaurant.

New Inn, Main Street, Huby, York, YO61 1HQ



Sale Date: Sold 2018
Tenure: Freehold
Sale Price: £250,000 (Sold for)
Turnover: Currently closed

Location:

The property is located in the centre of the attractive and affluent village of Huby approximately 10 miles to the north of York.

Description

2 storey brick construction with painted external elevation and pitched pantie roof covering. Patio seating is to the front, along with parking for approximately 6 vehicles. To the rear, there is a second patio seating area a range of outbuildings and further parking for an additional 8 vehicles.

Business:

Closed.



Hare & Hounds, Main Road, Staxton, Scarborough, YO12 4TA



Sale Date: March 2018
Tenure: Freehold
Sale Price: **£200,000**
Turnover: Currently closed

Location:

Situated fronting onto the A64 main road on the edge of the village of Staxton

Description:

Rundown traditional construction in painted brick and stone under double pitched concrete tile roof covering. Single storey garage and range of outbuildings to the rear. Rear yard and parking for about 30 cars running alongside the main road.

Business:

Closed. Had an ACV application but unviable to bring back into reasonable pub use.

Cayley Arms Hotel, Allerston, Pickering, YO18 7PJ



Sale Date: July 2017
Tenure: Freehold
Sale Price: **£297,000**

Location:

The property is located by the side of the busy A170 Helmsley to Scarborough Road.

Description

2 storey detached property with colour washed elevations under pitched roofs with single storey extensions to the rear. Large trading areas but all very tired.

Business:

No accounts.



Royal Oak, Cropgrove Road, Burton Leonard, North Yorkshire, HG3 3SJ



Sale Date:	January 2018
Tenure:	Freehold
Sale Price:	£280,000
Turnover:	£147,692

Location:

The property is located on Copgrave Road close to the village green in the heart of the attractive rural village of Burton Leonard.

Description

An attractive 2 storey, part stone and part brick built building beneath a pitched slate roof covering, with a painted and rendered mock Tudor finish. There is a grassed beer garden to the rear and a forecourt car parking area to the front.

Business:

Established traditional village freehouse. Sales of £147,692 net VAT with strong profits for the year end 31st December 2016.

- 4.3.29 Therefore for these purposes and having regard to evidence of other sales I adopt what I consider to be a credible acquisition cost having regard to the location, size, style, age and condition of the property of £325,000 i.e. 1.6 x my FMT. This also assumes trading accounts would be available and the property is open and trading with the benefit of a premises license. I have assumed an inventory value of £30,000 and to be included in the £325,000.
- 4.3.30 In addition to the purchase price a purchaser must also account for Stamp Duty Land Tax together with professional fees for the property acquisition and required application for a new Premises Licence. The assumed purchase price would trigger a liability for SDLT on £295,000 less £10% for the residential element i.e. c. £3,000. In addition I have allowed £10,000 to cover the additional acquisition expenses. The purchaser would also have to acquire stock and provide working capital thus say a further £20,000
- 4.3.31 Accordingly, I am of the view that a purchaser of the freehold for the purposes of a continuation of public house trading would need to have access to £358,000, in order to acquire the property trade at the FMT and FMOP levels.



4.3.32 In respect of the assumed freehold tenure, in my experience it is highly unlikely in the current market that a lender would fund any more than 60% of this sum and then most likely only if the purchaser was an experienced operator, accounts are available to support the projected trade and/or the borrower is able to provide alternative security. On this basis a purchaser would need to fund the balance of the cost from their own resources and hence would incur the opportunity cost of being unable to invest the money elsewhere. The cost of finance is therefore appropriately calculated as a minimum based on the total capital required both borrowed and self supplied. In the current market a typical loan term for a commercial property such as this is for 15 to 20 years with interest rates of say 4% to 5%. On the basis of a borrowed funds requirement of £358,000 over 20 years at 5% interest, this would equate to an aggregate of the monthly loan and interest payments of £2,394 per month thus annual finance costs of £28,728.

4.4 Royal Oak Viability Assessment

4.4.1 I set out below my assessments of the viability of the freehold purchase, renovation, launching and subsequent continuation of public house use of the Royal Oak.

4.4.2 Freehold Interest

Sales (net of VAT)		200,000
Gross profit @ 62%		<u>124,000</u>
Less		
Operating costs @ 38.4% of total sales		
	77,000	
Owners remuneration (see 4.3.26 above) say	<u>30,000</u>	(107,000)
Profit before finance costs		14,000
Less		
Cost of finance		
Notional acquisition price, say	335,000	
Stock & working capital	30,000	
SDLT	3,000	
Acquisition costs	<u>10,000</u>	
	358,000	
Repayment on a £358,000 mortgage (see 4.3.32 above)		<u>(28,728)</u>
Loss (after owner's remuneration and cost of finance)		<u>(14,728)</u>



4.4.3 Based upon the above reasoned viability appraisal, I am of the opinion that the acquisition and continuation of public house trading at the Royal Oak following the purchase of the freehold interest, would not offer a party considering such a venture a economically viable or prudent proposition. Therefore:

I am of the opinion that the Royal Oak is not an economically viable proposition for the following reasons:

- **After allowance for finance costs the business is loss making.**
- **The return on the investment required does not reflect the risk.**
- **The property would not be of interest to corporate pub companies, either leased or managed operators.**
- **Nationally beer volumes are in decline.**
- **The limited car parking facilities required to operate as a destination food house.**
- **Better located competition will limit the opportunity to growth the turnover and profit.**

4.5 The Marketing of the Property as a Going Concern

4.5.1 The licensed property market was near its peak in 2006, in terms of both transactional activity and values, this being fuelled by activity from the pub companies and also lifestyle purchasers. At this time finance was readily available from the banks, it not being unusual for 80-90% of a purchase price to be available through bank lending.

4.5.2 The lifestyle purchaser was a key player in the licensed property market prior to 2008. Lifestyle purchasers of public houses were common, however this was to a degree dependent upon them having a substantial capital sum to invest in their dream with the remaining capital being secured by way of a bank or other loan secured against the property. The lifestyle purchaser fell into two distinct categories:

- Existing/experienced licensees who wished to remain in the trade but required a quieter life.
- New entrants to the trade who were possibly attempting to improve their quality of life (perceived) and had funds available to invest through the sale of a residential property or possibly as a consequence of redundancy.



- 4.5.3 The lifestyle purchaser would be seeking a location and property type that particularly appealed to them. The property would become their principal place of residence and one where they intended to remain for a number of years. Trade was likely to have been relatively quiet with limited trading hours operated. The decision to acquire was made predominantly on subjective factors with less importance being placed on the potential of the business to be operated.
- 4.5.4 Up until the latter part of 2007 the lifestyle purchaser had been a common feature throughout rural counties of England, this was to a very great extent fuelled by high residential prices, the easy availability of bank finance and an increasing desire for elements of the population to improve their lifestyle.
- 4.5.5 Particularly in the years 2003 to 2006 I personally undertook a number of bank valuations for loan security purposes where the proposed acquisition fell into this category of a lifestyle purchaser. It was evident that prices were being inflated by purely subjective issues but there was a wealth of comparable evidence to support the prices being paid. To a degree this was a move away from the traditional approach to licensed property valuation that relied on the principles of fair maintainable sales and fair maintainable net profit i.e. the business being capable of trading at a level whereby loans could be repaid and the occupiers left with a reasonable level of profit. In these cases I would advise the bank that they should consider the loan to value ratio carefully and to ensure that the fair maintainable levels of profit were sufficient to meet the loan and interest payments. The lifestyle purchaser did not necessarily mean that the business was financially viable.
- 4.5.6 We are advised that the current owners acquired the premises in April 2014 for circa £400,000 including fixtures and fittings. Despite acquiring the property in 2014 our records show that the property was placed on the market by Christie & Co from 20th October 2015 to 20th April 2016. Therefore, Christie & Co commenced marketing the property only 18 months after the premises were acquired. This seems a short period to establish a business. Christie's guide price was £650,000, against an acquisition price of £400,000, although some refurbishment works are reported to have been undertaken in the interim. No sale was achieved. It would also appear that in the 6 months they were instructed no price reduction was undertaken.



- 4.5.7 Davy & Co were then instructed from May 2016 to December 2017, a period of 19 months, although there was also a period of joint agency with Christie & Co up to the end of December 2017. Christies then again had sole agency to March 2018. My understanding was that the guide price was originally £600,000 though was reduced to £575,000 in September 2016 and further reduced to £525,000 in February 2018 prior to being withdrawn from the market in March 2018.
- 4.5.8 In considering the above information it is also interesting to note that turnover declined from when the premises were acquired when it was achieving in excess of £200,000 to the subsequent turnover of £160,000. Licensed premises and particularly public houses are trading assets and their value is intrinsically linked to their trading performance. In my experience a property failing to sell after 3 years marketing will be overpriced. Fleurets statistics show that on average licensed premises take 9 to 12 months to sell. Some may take longer, although it is usually where a vendor is reluctant to adjust the guide price to reflect market conditions. I am of the view that a public house, albeit an attractive village such as Nunnington, was overpriced at £600-650,000. Given the quoted declining turnover, a more realistic expectation would have been to sell the property at a figure closer to my figure of £325,000. This also suggests the property when acquired was purchased at a figure above the market value of a public house without the potential for a change of use to residential; particularly as the benefits of any "improvements" did not improve trading performance. From my experience undertaking bank valuations, I am also of the view that this type of property with low levels of profit relative to a "hypothetical asking price" would be difficult to fund, unless the owners/purchasers were prepared to pay a premium out of personal funds for the lifestyle element of the business. At a hypothetical sale price of £600,000 including SDLT and stock purchases, would require funding that would cost nearly £50,000 per annum. I cannot envisage a situation where a purchaser would incur these costs to acquire a business with only a potential £200,000 per year turnover. It is therefore likely that a bank would be unlikely to fund a purchaser anything above £325,000 possibly less.
- 4.5.9 Christie & Co and Davy & Co are recognised licensed property agents, who have extensive experience in the public house market, however, despite this, they were unable to achieve a sale over a period of nearly 3 years. I also understand no serious offers were forthcoming. This confirms my view that the property was overpriced. The applicant has subsequently closed the business and surrendered the license. In my view this action is premature and will clearly hinder any future attempt to sell the Royal Oak as a public house.



4.5.10 **I conclude that the property has not been marketed at a realistic guide price, reflecting the circumstances whereby no planning consent has been obtained for the change of use to a private residence. Based on the declared turnover and profit the purchase at the guide prices of both Christies and Davey & Co would make the purchase uneconomic and at severe risk of business failure as the business would be unlikely to generate sufficient profit to cover finance charges let alone give the owners a sufficient return of the endeavours operating the business.**

5.0 CONCLUSIONS

5.1 On consideration of the of historic information which demonstrates recent trading performance of the Royal Oak and my assessment of the realistic credible maximum likely trade potential, it is my opinion that the property is not economically viable for continued use as a public house. My above trade appraisal and viability assessment, demonstrate that it is not capable of generating a satisfactory profit performance to make it viable/sustainable for the reintroduction of public house use. The non-viability of this course of action particularly arises as a result of the capital investment required to acquire the premises.

5.2 I am of the opinion that the property's characteristics and location would cause it to be heavily reliant upon a destination type custom attracted for food. Given the range of existing competing public houses/pub-restaurants and other community facilities situated in the local district, the sustainability of trading at the Royal Oak will present significant challenges and uncertainties and cannot be demonstrated to provide an operator with a satisfactory return on, (i) the required capital investment; (ii) the risks of investing in the proposition; and (iii) the required entrepreneurial endeavour necessary for a party to acquire, and operate a rural located public house with a low nearby resident community.

5.3 I therefore conclude, that the Royal Oak is not an opportunity or undertaking that is economically viable for any party who is subject to the norms of profit motivation and market led commercial costs of finance in the current economic and financial circumstances, nor indeed those reasonably expected to apply in the short to medium term time frame. Should a party nevertheless undertake such a risk and investment, they would in my opinion be subject to a high risk of business failure.



6.0 PROFESSIONAL DECLARATION

- 6.1 I have prepared this report in the capacity of a surveyor expert witness and include below the required declaration expected of Chartered Surveyors acting in this capacity.
- 6.2 I confirm that my report includes all facts which I regard as being relevant to the opinions which I have expressed and that attention has been drawn to any matter which would affect the validity of those opinions.
- 6.3 I confirm that my duty as an expert witness overrides any duty to those instructing or paying me, that I have understood this duty and complied with it in giving my evidence impartially and objectively, and that I will continue to comply with that duty as required.
- 6.4 I confirm that I am not instructed under any conditional fee arrangement.
- 6.5 I confirm that I have no conflicts of interest of any kind other than those already disclosed in my report.
- 6.6 I confirm that my report complies with the requirements of the Royal Institution of Chartered Surveyors (RICS), as set down in *Surveyors Acting as Expert Witnesses: RICS Practice Statement*.

Signed:

DC Sutcliffe BSc MRICS
Director and
National Head of Professional Service
Fleurets
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Dated 18th July 2018