



5 September 2016

16 Bishearne Gardens  
Liss  
Hampshire  
GU33 7SB

Planning Policy and Conservation  
Dover District Council  
Council Offices  
White Cliffs Business Park  
Whitfield  
Dover  
CT16 3PJ

**FAO: Mr M Ebbs – Head of Regeneration and Development**

Dear Sirs

**DOV/15/0292 – The Red Lion, Canterbury Road, Wingham, Kent CT3 1BB (“the Property”)**

Thank you for your email dated 16 August, which confirmed my instructions in respect of the Property.

Your instructions are that I am to undertake an appraisal to.

1. Assess the marketing and any viability evidence submitted by Sidney Phillips on behalf of the applicant and information and details provided by the applicant and agent (where appropriate), against the requirements of Dover District Council Core Strategy policy DM24, paying particular regard to the provisions of pre-ambule paragraph 1.78 of the Core Strategy in respect of marketing.
2. Comment on the valuation at the time of marketing and the asking price bearing in mind the comparisons referred to and any other premises comparisons.
3. Assess the potential for bringing the Property back into viable commercial use, in respect of the potential accommodation that could be provided and the restaurant/public house capacity.
4. Interrogate as far as possible the CAPEX investment of £150,000 - £200,000 referred to in the Sidney Phillips letter dated 31 May 2016 that it is claimed is required to bring the Property back into a suitable condition for use as a public house and guest house.

I visited the Property on 1 September 2016.

In respect of any party mentioned and/or having provided any information used within this appraisal I confirm the following.

- I was previously employed by Fleurets until August 2012.
- I currently provide Punch Taverns consultancy advice relating to rent reviews.

In my opinion neither of these involvements constitute a conflict of interest.

**The Dover District Local Development Framework, Policy DM24 states the following criteria.**

*1.76 Rural shops and pubs are of great importance to the economic and social well being of rural communities and are factors in determining the settlement in the Settlement Hierarchy. The loss of these facilities can be a severe blow to the local community.*

*1.77 When applications are submitted for the change of use of a rural shop or pub account will be taken of its importance to the community that it serves and the range of other facilities and services that would remain. Permission for alternative uses will not be given if the community would be left without any local shops or facilities, or the range would be seriously diminished, unless the applicant has established that a shop or pub use is no longer commercially viable.*

*1.78 The Council will have regard to the way in which the shop or pub has been managed. The Council's study into rural shops found that viability issues were often closely related to management techniques and a failure to keep up with competitors. The Council will also wish to see that adequate and genuine attempts have been made to market the premises for pub or shop use, as appropriate, but have failed to produce a viable offer. Marketing should be through an appropriate agent and for a period of time that fully tests demand having regard to the buoyancy of prevailing market conditions.*

#### **Policy DM 24**

##### **Retention of Rural Shops and Pubs**

*Planning permission will only be granted for the change of use of a rural shop or pub if its loss would not harm the economic and social viability of the community that it serves or, if such harm would occur, it has been adequately demonstrated that the use is no longer commercially viable and genuine and adequate attempts to market the premises for retail purposes or as a pub (as appropriate) have failed.*

I have also had regard to the Campaign For Real Ale *Public House Viability Test* (PHVT).

#### **My Appraisal**

**1. Assess the marketing and any viability evidence submitted by Sidney Phillips on behalf of the applicant and information and details provided by the applicant and agent (where appropriate), against the requirements of Dover District Council Core Strategy policy DM24, paying particular regard to the provisions of pre-amble paragraph 1.78 of the Core Strategy in respect of marketing.**

The information provided within Sidney Phillips letters detailing the marketing undertaken provides a comprehensive review. In this respect I confirm Sidney Phillips are long established specialist licensed trade property agents. The Property has been exposed to the open market through a number of mediums to include both their own and third party websites, e-marketing campaigns, and advertisements placed in the trade press. In respect of the trade press in which advertisements were placed I can advise the Publican Morning Advertiser has a combined printed and digital circulation of

33,503 copies, and the Pubs & Bar Magazine a combined circulation of 19,577. I note from the information provided Sidney Phillips marketed the Property for a period of circa 10 months. During the period in which Sidney Phillips were marketing the Property four viewings were undertaken during that period; Sidney Phillips advise all those who viewed had some experience of public house operations and were looking at the Property as regards its potential for continued operation as a public house.

In addition to the marketing undertaken by Sidney Phillips, I am aware previously from 21 March 2014 the Property was marketed for the former owners Punch Taverns by Fleurets. I have spoken to Fleurets who advised their records showed limited interest in the Property; only two viewings were undertaken during their marketing period, one by the now current owners and the other by a private individual whose intention for the Property was unknown.

The policy requires that *“Marketing should be through and appropriate agent and for a period of time that fully tests demand having regard to the buoyancy of prevailing market conditions”*. I note DM 24 does not however stipulate a period of time and therefore I have also considered the PHVT that states, *“Where and how often has the pub been advertised for sale? Has it been advertised for at least 12 months? In particular, has the sale been placed with specialist licensed trade and/or local agents?”*

The Property has been advertised through two specialist licensed trade agents, the combined marketing period has been in excess of 12 months. With particular reference to the period during which Sidney Phillips were marketing the Property a wide range of medium were used to expose the Property to the open market. Therefore, I would consider the pool of potential purchasers for continued use of the Property as a public house has been sufficiently targeted and **I am of the opinion that the marketing undertaken meets the criteria of the policy.**

**2. Comment on the valuation at the time of marketing and the asking price bearing in mind the comparisons referred to and any other premises comparisons I might be aware of.**

It is my opinion that it would have assisted greatly if the applicants supporting documentation had included information that demonstrated the actual or estimated historical trading position of the Property. The provision of such information would have allowed for an easier consideration of whether the Property had been marketed at an appropriate price. It is however appreciated that the obtaining of appropriate information to support an opinion might be problematic. I note that Sidney Phillips stated *“research undertaken prior to inspection of the property for the purpose of a market appraisal provided details on the chequered trading history of the Red Lion”*. However, what this research discovered and demonstrated has not been shared.

I have also requested and been provided with historic barrelage information that was included within a previous application relating to this Property. I am also aware that the rateable value from April 2010 was £18,750. Based on the available information I would estimate that the historic trade would have been circa £250,000 p.a. to £260,000 p.a. from all income streams.

The fair maintainable turnover is the level of sales trade that a reasonably efficient operator would expect to achieve on the assumption that the property is properly equipped, repaired, maintained and decorated, and is the starting point for the valuation of a public house. Such an opinion is always subjective and considering the operation of a public house that is now closed and with limited information adds further difficulty, although with some expertise it is possible. Due to external

influences on the level of trade at any particular public house, including what might be happening at other local public houses, it is difficult to have certainty; however if one were to assume that declining beer sales and increased retailing prices were to balance each other out then and to assume a nominal uplift in food sales then that might suggest a fair maintainable turnover of £270,000 p.a.

Evidence supports the Market Value of a public house similar to the property might equate to up to 2.0 times the fair maintainable turnover. Based on a fair maintainable turnover of £270,000 this would support a value of £540,000 less the cost of any works required. In order to allow for any negotiations with potential purchasers it would be usual for the asking price to be slightly above.

Alternatively Market Value can also be evaluated by preparing a schedule of those public houses, which have been sold within the geographical area. Direct comparable evidence in the licensed sector is unlikely, but a valuer with the necessary specialist experienced would be able to use this as the basis to form an opinion of value. Land Registry sale prices for trading public houses should be treated with some caution as the value of any goodwill, inventory and licenses is likely to have been excluded, and hence the actual price paid will be greater than that shown.

Within Sidney Phillips letters a number of 'comparable' public houses are listed with price paid. In respect of the majority of these public houses I also have copies of marketing details showing asking prices in the range of £195,000 to £485,000.

In addition to these I am aware of the following public houses within the CT3 postcode area that have sold in the past four years.

**Anchor Inn, Bekesbourne Lane, Littlebourne** – in March 2013 was marketed with “no trade is warranted”, at a freehold guide price of £325,000. Sold 3 months later in June 2013 and according to Land Registry the price paid was £275,000.

**Rose Inn, The Green, Wickhambreaux** – trading public house with net turnover in 2010 of £307,458 p.a. the freehold guide price in June 2012 was £575,000. According to Land Registry the price paid 14 months later in August 2013 was £589,607.

**Chequer Inn, Chequer Lane, Ash** – was marketed from August 2012 with “no trade warranted” at a freehold guide price of £295,000. According to Land Registry the price paid 2 years later in September 2014 was £188,000.

**Prince Of Wales Maypole, Hoath** – trading public house with net turnover in 2012 of £434,981 p.a. was marketed in October 2013 at a freehold guide price of £595,000. According to Land Registry sold 2 years 6 months later for £550,000 in April 2016.

**Royal Oak, Island Road, Upstreet** – marketed in March 2016 with “no trade is warranted” at a freehold guide price of £350,000. Agents website currently shows five months later that the guide price reduced to £325,000 and “Sold STC”.

**Dog Inn, Canterbury Road, Wingham** – this public house is referred to in the Sidney Phillips letter dated 16 June 2016 as having been sold for £717,000 plus VAT (Land Registry states the price paid as being £696,000). This public house is situated a very short distance away, is Grade 2 Listed and has according to their website has 8 letting bedrooms.

The evidence suggests a wide range of asking prices and sale prices to be appropriate. In assessing the suitability of the asking price at which the Property has been marketed, those of most similarity

to the Property are those where no trade was warranted and/or closed. I note from both the Sidney Phillips comparables, and those I have identified, the asking prices fall within the bracket of £195,000 to £485,000.

Having regard to both approaches above, it can be observed that the asking price does fall within the range of the evidence; albeit being towards the top end it might be considered a little ambitious. It is my experience that unless the asking price is completely unrealistic, it would not deter interest from operators, or bids being received at what an interested party considers an appropriate level. In this case this has been demonstrated/evidenced in so much that four parties looking to operate the property as a public house did view. Generally it would follow that if the property had been considered an attractive public house business with potential, then I would have expected at the very least for one offer to have been received from one who viewed. **Given the above, it is my opinion that the marketing has been undertaken at an asking price, which although slightly ambitious is within the range that could be considered to be acceptable.**

### **3. Assess the potential for bringing the premises back into viable commercial use, in respect of the potential accommodation that could be provided and the restaurant/public house capacity.**

In order to establish the long-term potential and economic viability of a public house it is necessary to consider the location, property and facilities and potential to develop the business further.

**The Location** – the village of Wingham is situated on the Canterbury to Sandwich road (A257) at its junction with the B2046 (to Aylesham). Traffic Count data shows the A257 at Littlebourne to have a daily average all motor vehicles count of 8,839. The Parish of Wingham has a relatively modest population of 1,775 (2011 Census). In terms of competing businesses there are also two other public houses in Wingham, a number of accommodation providers, an Indian restaurant, post office, newsagent, village store, bakery and coffee shop.

Given the characteristics of the location and existing facilities, I would consider the Red Lion could appeal to both 'local customers' these being from residential properties within the village boundary i.e. a short walking distance supplemented by some passing trade, although in respect of the latter I note that the relatively limited car parking is to the rear of the building and not visible to the majority of passing traffic, and that on street parking adjacent to the Property is problematic.

There are two other public houses in Wingham the Dog Inn and Anchor Inn. When I attempted to visit the Dog Inn it was closed to customers. According to the website <http://thedoginn.co.uk> the Dog Inn provides a more expensive menu together with bed & breakfast accommodation and operates its own a nano-brewery. Such an offer would appeal both to locals and seek to attract destination trade, although car parking may be an issue. To the rear of the building is a relatively small customer patio and car park with space for circa 11 vehicles. Due to the business being closed when I attended I have not observed the internal customer areas at the Dog Inn.

From my customer visit to the Anchor Inn and from their website <http://theanchoratwingham.com> The offer is targeted more towards local trade including 3 ales and a traditional pub menu, there are also pub games, quiz nights and live music. Internally there are two customer areas served by a linked bar servery and to the rear a large lawned customer garden, limited car parking to the front of the building. The Anchor Inn has also received national trade awards (Great British Pub Awards organised by the Publican Morning Advertiser) *2013 Best Newcomer* and *2014 Best Entertainment Pub*.

As regards diversification given the village already contains a post office newsagent and village store, it is difficult to envisage such to be an option without there being a detrimental impact on sales at those existing businesses.

**The Property** – This is a Grade 2 Listed Building of two stories plus basement, of varying construction principally under pitched tiled roofs. The building abuts the road at the front and side, to the rear/behind the building is a car park with space for approximately 11 vehicles, customer patio and service yard.

The ground floor as currently configured could provide two customer areas, a bar with circa 20 to 30 covers and a restaurant with space for 30 covers, there is also catering kitchen and customer toilets. At first floor level there are three/four letting bedrooms and a manager's flat two bedroom flat with lounge. The basement provides a beer store. Externally there is a patio to the rear of the building and a car park with space for circa 10 vehicles.

I have not undertaken a structural or building survey. Given the nature of construction and my observation of the tiled roof I may expect a potential purchaser to commission further specialist advice. In general terms the Property would benefit from modernisation, upgrading and redecoration throughout, see also section 4 below. In particular the letting accommodation is of a standard that requires significant upgrading to meet current customer expectation.

It is my opinion that the Property as arranged with two separate and relatively small customer areas, will give rise to supervision issues and potentially this will increase staff costs. Furthermore parking is relatively limited and the customer patio is considerably less attractive than the extensive garden at the Anchor Inn. Give the site configuration there is no opportunity to develop the Property to provide larger customer areas.

**The Market and Potential** – it is accepted within the licensed industry that On Market beer sales continue to decline, albeit more recently the rate has slowed and a number of factors including type of operation and location may also influence this. From 2006 to 2015 industry statistics show that on market beer volumes have fallen by some 35%. Further contributing factors have been the smoking ban, supermarket pricing and cultural changes.

To illustrate the potential of the Red Lion to a potential purchaser it is necessary to consider the same issues as they would. A potential purchaser would assess the viability of the public house basing this on the market perception of profitability. With a net annual turnover of £270,000 p.a. and utilising industry accepted ratios I would have expected the business to achieve net profit in the order of £72,000 p.a. However, this is prior to deductions for owners/operators drawings, depreciation and loan repayments in respect of monies to purchase the freehold of the property and undertake any refurbishment. Such need to be factored into the calculations to ensure a potential purchaser will receive sufficient remuneration and be able to fund the purchase and any works required.

A public house will typically provide the potential purchaser with both a business and a place to reside. Therefore it may be considered that it would be incorrect to make allowance for the opportunity cost of the capital used to purchase the property as well as any monies borrowed. A potential purchaser of a property such as the Red Lion, if it was to remain as a public house, is unlikely to have been able to borrow more than 50% of the purchase price. Therefore I have assumed at a purchase price of £400,000, there would be a loan of £200,000 and over twenty-years at a 5% interest rate this would equate to an annual finance cost of £16,500. It is also necessary to

factor in the cost of undertaking works to modernise, upgrade and redecorate the Property; assuming these could be undertaken at a cost of £150,000 but repayment is required over a shorter 10-year period and at a 5% interest rate this would equate to a further annual cost of circa £19,000.

To reflect that a potential purchaser would require to be remunerated from the business, assuming a couple each work 40 hours a week, are paid minimum wage and to include an allowance for holiday cover, it is necessary to make further annual deduction of £32,000.

<b>Profit before cost of ownership</b>	<b>= £72,000</b>
Less finance/opportunity cost of purchase	= - £16,000
Less finance/opportunity cost of works	= - £19,000
Less remuneration for operators	= - £32,000
Less depreciation (say)	= -£5,000
<b>Less total cost of ownership</b>	<b>= - £72,000</b>
<b>Profit after cost of ownership</b>	<b>= £0,000 (i.e. breaks even)</b>

The above calculations do of course have regard to fair maintainable turnover. The turnover at a recently reopened public house will be somewhat less, it may take between 6 and 18 months before the business is operating at that level of sales and hence profitability. Therefore during the period of establishing the new business it will not as illustrated above break even, but be running at a loss.

**Conclusion** – many public houses have historically operated with low levels of sales and profitability; as in this case this may provide an operator with an income at minimum wage rates however given the significant capital required to be invested the return is a nominal profit and an prudent investor would obtain better returns elsewhere without the risk that attaches to a public house business.

During the period immediately after reopening a public house will require a period of time while to establish and during this period profitability would be seriously impacted. The potential of this business certainly appears to be limited and it is probably for this reason that those public house operators who have viewed the Red Lion showed no further interest in this Property.

When the Red Lion closed to trade some sales will have migrated to similar businesses nearby, however, it is generally accepted that any particular geographical location has a limit to the sales a particular sector of business can support. The consequence of the introduction of a new business is likely to be a detrimental impact on sales at existing businesses of a similar type. Whilst I do not have any information relating to the level of actual trade at either the Dog Inn or the Anchor Inn, the reopening of the Red Lion is likely to result in a reduction in sales and profits at both these public houses, with the potential consequence that these businesses could become unviable.

**4. Interrogate as far as possible the CAPEX investment of £150,000 - £200,000 referred to in the Sidney Phillips letter dated 31 May 2016 that it is claimed is required to bring the property back into a suitable condition for use as a public house and guest house.**

The Sidney Phillips letter of the 31 May 2016 states, “a required CAPEX investment in the region of £150,000 to £200,000 in order to bring the property into a safe and workable condition for reopening as a public house”. No breakdown of this expenditure is provided and it would have assisted if supporting evidence by way of quotations for items of work had been provided.

During my inspection I listed a number of issues of potential repair and decoration, which in my opinion require attention, or at the very least further investigation, these include the following.

**External**

Roof to main building requires further investigation with missing tiles and is covered in moss.

External redecoration is required.

Customer patio requires updating and landscaping.

New external signage required.

Replace fencing around service yard.

Car park requires resurfacing.

**Internal**

Internal redecoration required.

Letting bedrooms require upgrading and modernisation – particularly to en suites.

Kitchen requires deep clean and potential upgrade of extraction system.

Owner's accommodation requires redecoration.

**It is my experience and quite conceivable that the works above could easily amount to a total cost in excess of £150,000.**

I trust the above is sufficient for your purposes at this time. Should you require further consideration, or clarification, of any of the above, please do not hesitate to contact me.

Yours faithfully



Barry E J Voysey BSc (Hons) DipArb FRICS FCI Arb