

# Business Buyer & Market Appraisal Valuation Report

**Six Bells,  
Broad Street Common,  
Peterstone,  
Wentlooge,  
Cardiff CF3 2TN**

Date of Instruction - 23rd February 2024

Report prepared for Peterstone Wentlooge Community Benefit Society

Reference - 220057/240022

Prepared by Michael Hughes MRICS FAVLP FNAEAcem FBII DipCPA

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# Contents

<b>Executive Summary .....</b>	<b>3</b>	<b>Valuation Analysis .....</b>	<b>24</b>
<b>Instructions and General Information .....</b>	<b>5</b>	23. Recent Transactions .....	25
<b>Property Description .....</b>	<b>9</b>	24. Comment / Recommendations.....	25
6. The Property.....	10	25. Valuation Methodology & Status .....	33
7. Location & Communications .....	10	26. Other Matters .....	33
8. Description.....	10	27. Market Appraisal Valuation .....	34
9. Services & Security .....	11	<b>Appendix 1 .....</b>	<b>35</b>
10. Overall Condition .....	12	<b>Appendix 2 .....</b>	<b>39</b>
11. Fixtures & Fittings.....	12	<b>Appendix 3 .....</b>	<b>42</b>
12. Local Authority & Rateable Value.....	13	<b>General Appendix A, B &amp; C .....</b>	<b>51</b>
13. Compliance Matters.....	13		
14. Plans.....	14		
15. Premises Licence .....	15		
16. Planning.....	15		
17. Tenure & Possession .....	17		
<b>Business Analysis .....</b>	<b>18</b>		
18. The Business.....	19		
19. Potential & Personal Goodwill .....	19		
20. Fair Maintainable Trade .....	20		
21. Accounting & Trade Information.....	22		
22. Special Assumptions .....	23		

# Executive Summary

# Executive Summary

This executive summary is to be read in conjunction with the full report and appendices.

Description	Summary
Property Address	Six Bells, Broad Street Common, Peterstone, Wentlooge, Cardiff CF3 2TN
Purpose of Valuation	Update on the report dated 9th December 2022
Inspection Date	21st November 2022. Client confirmed that no material changes to the property on 23 February 2024
Location	<ul style="list-style-type: none"><li>On the main road through Peterstone village.</li><li>10 mins from M4. 10 min drive to centre of Cardiff or Newport. No public transport. Other villages are within 1-2 miles.</li></ul>
Brief Property Description	<ul style="list-style-type: none"><li>A detached property in its own plot.</li><li>Outdoor trading area to the front on Main Street, together with a car park and garden to the rear. Large outbuilding to the rear for a septic tank.</li><li>Constructed of stone under a mixture of multi-pitched roof with tile covering, and flat roof.</li></ul>
Tenure	<ul style="list-style-type: none"><li>The Property is Freehold.</li><li>We are to instructed to value the freehold interest as a fully equipped operational entity having regard to trading potential.</li></ul>
Business	<ul style="list-style-type: none"><li>The property is closed and not trading</li></ul>
Marketability & Demand	<ul style="list-style-type: none"><li>If brought to market, we would expect only a modest demand mainly from private individuals and perhaps some regional brewers and pub operators.</li><li>A reasonable marketing period is considered to be in the region of 12 months.</li></ul>
Volatility	<ul style="list-style-type: none"><li>The Property is currently closed for trade and no trading information or forecasts are available. The trading potential is therefore unproven.</li></ul>
Required Capital Expenditure	<ul style="list-style-type: none"><li>The property cannot operate as it currently stands and will require investment to improve and update the property. The level of such investment should only be equitable with the commercial return that the business can achieve.</li></ul>



Front Elevation



Rear Elevation

# Instructions & General Information

## **1. INSTRUCTIONS**

### **1.1 Instructions - Details**

- My instructions I've received from Peterstone Wentlooge Community Benefit Society by email and confirmed by my terms of engagement. The instruction is confirmed by despatch of this Valuation.
- A copy of MJD HUGHES Ltd Standard Conditions of Engagement is attached as Appendix C. These Conditions apply unless amended by the instruction's correspondence - except for 2.2 - Measurement procedure, which applies in all circumstances.
- My instructions are to prepare a valuation of the public house based upon an appraisal of the Property, and potential sustainable business, for a community group who would operate the property as a public house and community hub. This report is not a structural survey.

### **1.2 Purpose of Valuation**

The property is valued as directed in my terms of engagement.

### **1.3 Identification of the asset**

Six Bells, Broad Street Common, Peterstone, Wentlooge, Cardiff, CF3 2TN.

### **1.4 Bases of Valuation**

The basis of valuation - as specified in my terms of engagement are interpreted to accord with my Valuation definitions as stated in **Appendix B:-**

**Market Value as a Fully Equipped Operational Entity** having regard to Trading Potential ("Market Value - Trading")

**Market Value as a Fully Equipped Operational Entity** having regard to Trading Potential - but subject to Special Assumptions ("Market Value - Trading - in Default")

**Market Value of the Empty Property** having regard to Trading Potential and subject to Special Assumptions ("Market Value - Closed - in Default")

**Reinstatement Value** – This is only an estimate for insurance purposes and I would draw your attention to Appendix B.(j)

### **1.5 Valuation Date**

The property is valued as at the date of this report.

## **2. BRIEF DESCRIPTION**

The Six Bells is a Public House located in Peterstone Wentlooge. Peterstone Wentlooge is a small village in between the cities of Cardiff and Newport on the coastal road. The village has a population of about 750. Peterstone Wentlooge is made up of a mixture of styles of residential property. In addition, Peterstone Wentlooge has a small prefabricated village hall. There are no other amenities in the village and the Church is now privately owned.

The Six Bells public house is owned by Hub Enterprises Newport Ltd. The pub closed for business over 5 years ago. The owner is in negotiations with the client to sell the property to the community group. The owner had previously attempted to secure planning permission on the property for change of use of the public house into three cottages.

The Six Bells comprises of a detached property in its own plot. There is an outdoor trading area to the front on Main Street, together with a car park and garden to the rear. Large outbuilding to the rear for a septic tank. The building is constructed of stone and brick under a mixture of multi-pitched roof with tile covering, and flat roof. I am advised the property is not listed but is in a designated Site of Special Scientific Interest (SSSI), a Cadw/ ICOMOS UK Registered Landscape of Outstanding Historic Interest, an Archaeologically Sensitive Area and adjacent to the internationally important RAMSAR site of the Severn Estuary.

### **3. GENERAL INFORMATION**

#### **3.1 Client**

Peterstone Wentlooge Community Benefit Society

#### **3.2 Sources of information**

In arriving at my valuation appraisal I have relied upon information provided by the following (where relevant):-

- Email correspondence, and telephone conversations with members of Peterstone Wentlooge Community Benefit Society
- Information on the Newport City Council planning portal.
- The Valuation Office website for rating information.
- Government information websites with regards to highways, mining, flooding and radon gas.
- Weather conditions were overcast with persistent rain

The property was inspected on Monday 21st November 2022, and the client that there was no material change to the property or the information provided at the time of the original inspection on Friday 23rd February 2024

### **4. VALUATION**

**IMPORTANT NOTE:** Please find below a report with comments and recommendations for the above property. The information provided is for the sole use of the party to whom it is addressed. MJD HUGHES Ltd or the author of this report take no responsibility for any assumptions and decisions made from the use of this report or the information contained within it. RICS Valuation Standards - The Valuation and Report has been prepared in accordance with the RICS Valuation - Global Standards effective from 31st January 2022. The report and valuations are summarised here for convenience, but they should be read together with the full report to establish the observations and assumptions upon which they are based.

	<b>VALUATION</b>
<b>Market Value as a Fully Equipped Operational Entity</b> having regard to Trading Potential ("Market Value Trading,")	£720,000
<b>Market Value as a Fully Equipped Operational Entity</b> having regard to Trading Potential - but subject to Special Assumptions ("Market Value - Trading - in Default")	£540,000
<b>Market Value of the Empty Property</b> having regard to Trading Potential and subject to Special Assumptions ("Market Value - Closed - in Default")	£450,000
Reinstatement Insurance Value ( <i>estimate see Appendix B.(j)</i> )	£1,500,000

**5. VALUER, QUALIFICATIONS & STATUS** (Also see Appendix A:8)

MICHAEL HUGHES MRICS FNAEA FNAEACOM AVLPL (Country Member) DipCPA



Member of the Royal Institution of Chartered Surveyors  
RICS Registered valuer  
Fellow National Association of Estate Agents  
Fellow National Association of Estate Agents Commercial  
Association of Valuers of Licensed Property (Country Member)  
Diploma in Commercial Property Agency

I am a Chartered Surveyor and Principle of MJD HUGHES Ltd a company specialising in Business and Commercial Property. I have over 38 years' experience in the licensed trade and with commercial property. My experience ranges from the physical operation of a variety of licensed property outlets to the estate management of property from acquisition, drawing up heads of terms for lease agreements and recruitment of managers, property valuation, and the sale of property. I also have a depth of knowledge in professional services that includes, but is not limited to, business rate appraisal, rent appraisal and review negotiation, fixtures and fittings inventory valuation and property/business report preparation for sale.

MJD  
HUGHES

# Property Description

## **6. THE PROPERTY**

Six Bells, Broad Street Common, Peterstone, Wentlooge, Cardiff CF3 2TN

## **7. LOCATION & COMMUNICATIONS**

The Six Bells is located to the centre of the village. Peterstone Wentlooge on the B4239. The B4239 links onto the A4232 and the A48 close by from there into the national motorway network. Road communication can therefore be described as good. Public transport provides no services with no train station nearby.

## **8. DESCRIPTION OF THE PROPERTY** (Also see Appendix A:1)

### **8.1 General**

The Six Bells is a Public House located in Peterstone Wentlooge. Peterstone Wentlooge is a small village in between the cities of Cardiff and Newport on the coastal road. The village has a population of about 750. Peterstone Wentlooge is made up of a mixture of styles of residential property. In addition, Peterstone Wentlooge has a small prefabricated village hall. There are no other amenities in the village and the Church is now privately owned.

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### **8.2 Construction**

The Six Bells comprises of a detached property in its own plot. There is an outdoor trading area to the front on Main Street, together with a car park and garden to the rear. Large outbuilding to the rear for a septic tank. The building is constructed of stone and brick under a mixture of multi-pitched roof with tile covering, and flat roof. I am advised the property is not listed but is in a designated Site of Special Scientific Interest (SSSI), a Cadw/ ICOMOS UK Registered Landscape of Outstanding Historic Interest, an Archaeologically Sensitive Area and adjacent to the internationally important RAMSAR site of the Severn Estuary.

### **8.3 Dimensions**

In my description, measurements and dimensions are approximate. No accurate measurements of the building, internally or externally or of the site were taken during the inspection. Approximate or estimated measurements are provided for guidance or identification purposes only.

### **8.4 Accommodation**

#### *Ground floor*

From the entrance to the front elevation, through into an internal lobby which provides access to the MAIN BAR area. Central BAR SERVERY serving all trade areas. A TRADE AREA (3.02m x 3.12m) is to the right of the servery. The RESTAURANT is to the rear of the MAIN BAR area and divided into two room (3.92m x 3.88m & 3.83m x 4.55m)

Ladies and Gentlemen's toilet facilities are located off the trade area

The COMMERCIAL KITCHEN comprises of the main kitchen area (6.19m x 5.67m) and a second room (3.28m x 3.06m) and two walk in chillers/ freezers.

Through a corridor to the rear exit with the BEER CELLAR (3.88m x 4.76m) and a STORE ROOM (3.34m x 5.55m) off the corridor.

#### *First floor*

Stairs lead from the ground floor to the first-floor private accommodation which briefly comprises of ROOM 1 (6.41m x 5.54m), KITCHEN (2.19m x 3.19m), OFFICE (2.48m x 3.39m), BATHROOM, ROOM 2 (3.17m x 4.23m), ROOM 3 (2.59m x 3.31m), ROOM 4 (5.78m x 2.61m) and a further room with w.c. and boiler

An indication of the internal area of the property is included in the Energy Performance Certificate (EPC). This EPC expired on 12th October 2019 and registers an internal area of 490m<sup>2</sup>.

### **8.5 Outside**

The outside area of the property comprises a seating area to the front of the main building. This seating area is adjacent to the main entrance to the property. A CAR PARK, with a detached STORE is located to the far end that houses a septic tank.

A garden with additional outdoor seating is located to the rear of the property

The total existing workable plot size is about 2,868m<sup>2</sup> (about 0.71 acre). A copy of the plot I measured to highlight the issues with the boundary can be found in Appendix 1 of this report.

### **8.6 Parking**

The property has car parking facilities to the rear of the property. Limited additional parking is available on-street.

## **9. SERVICES & SECURITY**

<b>Water</b>	Mains
<b>Electricity</b>	Mains
<b>Drainage</b>	Septic Tank
<b>Gas</b>	LPG
<b>Central Heating</b>	LPG
<b>Burglar Alarm</b>	Not Confirmed
<b>Fire Alarm</b>	Not Confirmed

I have assumed the above services from my investigations. All service installations are also assumed to be in satisfactory working condition. No tests have been conducted or commissioned.

Information relating to septic tanks and waste treatment plants can be found on the following government website:

[Septic tanks and sewage treatment plants: what you need to do: Overview - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/septic-tanks-and-sewage-treatment-plants-what-you-need-to-do)

## **10. OVERALL CONDITION** (Also see Appendices A:2, A:3)

### **10.1 Internal**

From the result of my inspection to the interior of the property I would advise that the property is in a poor state of repair with immediate remedial maintenance an essential action to halt further deterioration of the building and its services. Existing decorative finishes throughout the property require cleaning and repair where possible but a full refurbishment of the trade areas, ancillary rooms, store-rooms, kitchen and private accommodation is essential before the property can be inhabited and trading begins. It is evident the building has not been maintained to even a limited level in recent years. Due to the age and condition of the property it can be reasonably expected that continued maintenance will be required to ensure the property remains at an acceptable level for sustainable commercial use throughout the rest of its useful life.

### **10.2 External**

The exterior of the property requires immediate attention to ensure various features do not deteriorate further. It would appear little maintenance has been undertaken on the building for a number of years. The flat roof could not be fully inspected but given the age of this section of roof and the general lack of maintenance to the building I must assume that any ponding will result in leaks into the property if not repaired. The tiles to all sections of pitched roof appear in reasonable condition given the age of the property although a number have moved. An example of this can be seen in the roof detail photographs in Appendix 3 of this report. My inspection of the roof space showed that there is no sarking felt beneath the roof tiles providing secondary protection from the elements. There are a number of areas where daylight can be seen shining through where tiles have moved. Plant growth and vegetation to the perimeter and roof is evident and this will damage the property if permitted to continue. The grounds are heavily overgrown. All outbuildings are in a poor condition and will need refurbishing to ensure they are watertight before use.

### **10.3 Overall**

Overall, the condition of the property is poor. The interior of the property is in poor condition with a number of areas requiring immediate maintenance. The exterior has not been maintained in recent years so it will need full preparation and painting to bring the property up to a standard that will be attractive to customers wishing to use the Six Bells as a public house. I would advise a full structural survey is undertaken on the property prior to any future exchange of contracts to assess the full cost for repairs and maintenance required to the property. Maintenance to the property could then be scheduled on an ongoing basis.

The property has unfortunately been subject to spates of minor vandalism. Most recently, and just before this report was written, the following damage occurred:

- Front door lock glued
- One broken window - boarded up by the village
- Children access the property and leave cans, bottles and other litter
- Minor graffiti
- Intruders leave taps running in kitchen
- Windows left open

This report is not a building survey. However, we would advise the client to read the joint position report compiled by the RICS in September 2022 that comments on moisture in traditional buildings. A link to this report can be found here: [investigation-of-moisture\\_jps\\_2022.pdf \(rics.org\)](#)

I consider the building should have a useful economic life providing a routine maintenance schedule is introduced for the property. This schedule must maintain the property to a reasonable standard for commercial use on an ongoing basis.

## **11. FIXTURES & FITTINGS** (Also see Appendix A:5)

### **11.1 Included Equipment**

The property has limited fixtures and fittings but the inventory is not sufficient to allow the property to be able to begin trading again. Any carpets, curtains, loose furnishings, light fittings and other electrical equipment may need to be removed from the property. The cost of such a clearance should not be underestimated. Due to the amount of items in the pub and outbuildings this may cost several thousand pounds to clear if accepted with the purchase of the property. Therefore the clearing of the property should be fully assessed prior to exchange of contracts on a purchase.

When opening the pub, a full inventory of fixtures and fittings should be purchased. The cost of this inventory will vary significantly depending on the amount and quality of the equipment purchased. Kitchen equipment alone may cost a minimum of £25,000 with a similar figure for chairs, tables, light fittings, glass washers, bottle coolers etc and the remaining inventory.

### **11.2 Excluded Equipment**

The condition of the brewery beer raising equipment to the cellar is unknown and excluded from this valuation. Acquiring this equipment or new, together with cellar cooling facilities should form part of any negotiations with the supplier of the draught products for re-sale. The condition of the cellar cooling equipment should also be checked prior to exchange of contracts.

### **11.3 Trading Stock**

No trade stock was in the pub at the time of my inspection. I estimate the cost of restocking the business ready for opening will be in the order of about £12,000 to £15,000 (wet and dry stock).

## **12. LOCAL AUTHORITY & RATEABLE VALUE**

Business Rateable Value: (2023 valuation) £15,750

The previous valuation for the property from April 2017 £10,600

Note that the above valuation figure for each period is not the amount payable.

Council Tax banding for the residential element of the property: B

The methodology used by the Valuation Office Agency (VOA) in preparation of rateable value for a public house is based upon historic trade levels to assess a fair maintainable trade for the property. Although the current rateable value has increased, historic values indicate a history of low trading income. This does not always reflect the potential of a business as long-term operators may reduce the level of income a business produces as they develop a 'lifestyle' business to reflect their own needs. Business Rates should also reflect the level of rent attainable on the site.

Fair maintainable trade (FMT) should always reflect what a reasonably efficient operator can achieve in a business. From my experience, observations and investigations relating to the rateable value for public houses, the Valuation Office Agency (VOA) have a robust methodology based upon the high number of similar properties they have in their records. That said they tend to look at the 'maximum' FMT a business can achieve rather than a true analysis of the turnover and costs of a business. The FMT discussed later in this report analyses this operational system and process.

Rateable value is useful when comparing different licensed property. As the RV reflects the fair maintainable trade then this groups public houses together that are achieving similar levels of turnover and profitability.

## **13. COMPLIANCE MATTERS**

I would advise that the following assessments and reports are completed to a level that satisfies current statutory requirements prior to exchange of contracts on the property. Should the community group buy the property they will be responsible for the following compliance reports. Commissioning such reports together with any remedial work required to be undertaken can cost many thousands of pounds.

**13.1 Fire Safety** (Also see Appendices A:3.5, A:9)

**13.2 Disability Discrimination** (Also see Appendices A:3.2, A:9)

**13.3 Environmental Health, Safety & Hygiene** (Also see Appendices A:2, A:3.6, A:9)

#### 13.4 Asbestos Risk Assessment

I would recommend downloading the RICS guidance note *Asbestos: Legal requirements and best practice for property professionals and clients* [asbestos 4th-edition.pdf \(rics.org\)](https://www.rics.org/uk/insight/asbestos-4th-edition.pdf) (see Appendices A:3.3, A:9)

**13.5 Contamination** (see Appendices A:3.1 and A9)

The property is in a village environment. During my visit to the property I did not notice, nor was it brought to my attention, any likely areas of contamination that would adversely affect the property. It would be the responsibility of any future purchaser to satisfy any doubts as to whether a further report is necessary.

##### 13.5.1 Invasive Species

Information available online suggests that there have been some reported instances of invasive plant species identified immediately adjacent to the property. However, such information is quite limited in its availability and scope and should not be relied upon as proof that invasive plant species are present in, or around, the property. Invasive species include but are not limited to:

- Japanese Knotweed (*Fallopia japonica*): 39 occurrences within 4km of the property
- Himalayan Balsam (*Impatiens glandulifera*): No occurrence within 4km of the property
- Giant Hogweed (*Heracleum mantegazzianum*). No occurrences within 4km of the property

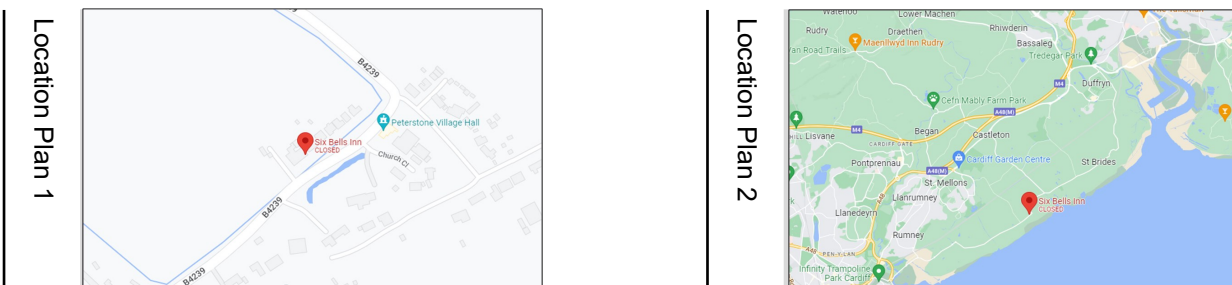
Although no evidence of the presence of invasive plant species, such as Japanese Knotweed, was seen during the course of the survey, it can often be difficult to identify, especially where the gardens have been recently cut back or are overgrown.

#### 13.6 Energy Performance Certificate

There is an EPC on the national register, which expired on 12<sup>th</sup> October 2019, certificate number 0705-0307-7930-3890-4103. This assesses the property as having a total workable area of 490m<sup>2</sup> and Band D. This can be checked by visiting the following website: <https://find-energy-certificate.digital.communities.gov.uk/>

## 14. PLANS

### 14.1 Maps and Site Plans



(i) Location Map – This is supplied for guidance purposes only and is not to scale.

## 14.2 Boundaries

I cannot confirm that the boundaries to the property are adequately defined. I have not checked upon ownership and responsibilities for maintenance of boundaries, and such matters should be checked by a suitably qualified solicitor.

Clients may wish to read the following document [boundaries---procedures-for-boundary-identification -demarcation-and-dispute-resolution -e w-gn -4th-ed-jan-22.pdf.pdf \(rics.org\)](#) This provides information on the important of correctly identifying the boundary of a property.

## 15. PREMISES LICENCE (Also see Appendix A:3.4)

The properties premises licence has been surrendered. Full details can be found at online on the Newport City Council website [here](#).

Obtaining a premises licence should be a condition of sale. The licence should continue to include permission for the performance of live music, the playing of recorded music and dancing and the provision of entertainment facilities including making music.

## 16. PLANNING (Also see Appendix A:4)

As a result of my own investigations and from my discussions with members of **GROUP NAME**, I have been advised of the following:

### 16.1 Village Zoning/Designation

- Six Bells lies within the Wentlooge Special Landscape Area (SLA) and is close to the Peterstone Wentlooge Marshes. It is a Site of Special Scientific Interest (SSSI)
- Six Bells is not listed (source <https://britishlistedbuildings.co.uk/>)

### 16.2 Permitted Use

- The present use of the property does not contravene planning regulations.
- No enforcement action or proceedings currently affect the property.

### 16.3 Highways

Our investigations found the Highways Authority required no alterations to the property or planned changes to the roads adjacent to the property. Further information can be found at <https://highwaysengland.co.uk/>

### 16.4 Environmental matters (see Appendix 1 for further information)

#### A) Mining

This property is located off the coalfield. Further information can be found at <https://www.gov.uk/check-if-property-is-affected-by-coal-mining>

#### B) Flooding

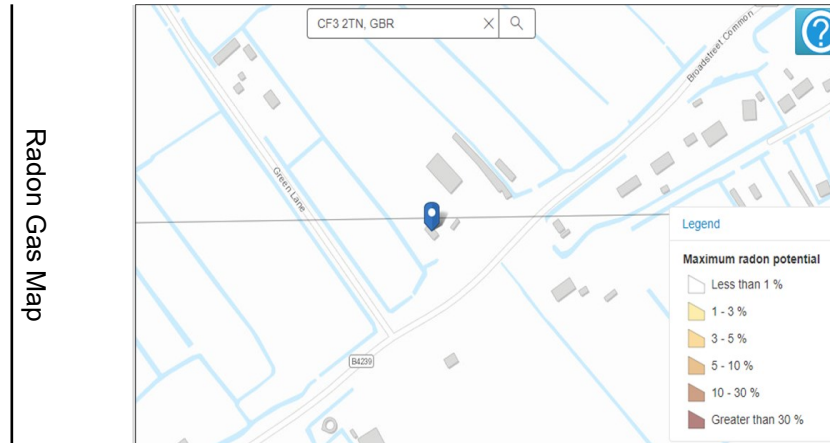
The property is considered to be located in or near an area of low risk of flooding from surface water and very low risk from rivers and low risk from the sea. There is no risk of reservoir flooding, there is no risk of groundwater flooding.

#### C) Electromagnetic Fields

We are not aware of any high voltage electrical supply equipment close to the property. Further advice on electromagnetic fields can be found at <https://www.gov.uk/government/collections/electromagnetic-fields>

### C) Radon gas

The radon gas potential is less than 1% More information can be obtained from Public Health England to determine the overall level of risk. (Full risk map can be studied at [www.ukradon.org/information/ukmaps](http://www.ukradon.org/information/ukmaps))



### D) Landfill

There is no evidence that the property is located on or immediately adjacent to a former landfill site but this should be confirmed by your legal representative prior to exchange of contracts. The nearest recycling is at Cynon Valley Waste Disposal Company in Pontypridd CF37 5TT which is 15 miles away.

### F) Climate Change

The British Geological Society (BGS) has reported on how changes in climate will affect the ability of the ground to provide a stable base for buildings. Your survey is reported on the condition of the property at the present time. BGS estimate that in the next 10 years over 1.5 million properties in England will be affected by the shrink-swell actions created by climate change that are not affected at the moment. It is therefore vital that insurance cover is in place on this property if such movement were to occur. Insurance premiums are expected to rise in the future to meet the growth of claims that will be made. More information on this can be found at GeoClimate: UKCP09 and UKCP18 - British Geological Survey ([bgs.ac.uk](http://bgs.ac.uk))

### G) Sustainability

As defined by the Bruntland report (1992) '*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*'. The three-core triple bottom line principles of sustainability for this report are considered to be economic, social and environmental. In our opinion, this property has the potential to meet all three principles.

### 16.5 Potential for Development and/or Alternative Use

The Six Bells was closed at the time of my visit to the property and has been closed for over 5 years. It would appear that the current owners of the property have not been able to attract a tenant or manager who could make a success of a business at the Six Bells. The operational requirements for a private company can vary significantly from that of a community group. A private company or any investment company need to deliver a level of income from a property to maintain its value to the estate and the business. With a community group deriving an income to pay shareholders and lenders via a sustainable rent or business model (i.e. using a manager) this reduces the pressure to hit proscriptive targets. The potential to build a profitable level of trade over a period of time is possible but will need a clear vision as to the style of operation required. This may mean a full refurbishment is not always possible following purchase, and investment must be timed so as to ensure a return is provided as soon as possible and to a level that balances with the investment.

The work required to bring the property up to a standard that will compliment a sustainable operation will need to be discussed with suitably qualified professionals before work starts. Any development proposals should consider the need for the costs of the work not to exceed a level that will fail to provide a commercial return to the business for the community group. For this reason the refurbishment of this property should be phased over a number of individual projects. The property already provides extensive trading area both inside the public house and to the area outside the main building. This substantial area of exterior space should be used to maximise income potential and to accommodate events and facilities for the community.

The alternative to continued use as a public house is conversion to residential or other commercial use and/or the plot as a whole developed. The village community wish this property to remain as a public house. Achieving change of use is therefore thought to be unlikely but not impossible.

It is my opinion that the best commercial use of this property is as a public house but to use the property to its maximum potential with other commercial enterprises such as a farm shop, letting accommodation and visitor centre as outlined in the community groups plans. The property should also be used to maximise the benefit to the community.

Any development proposals and assumptions of suitability for continued public house use or alternate use would be subject to planning approval. The Planning Officer of the relevant local council should be contacted to approve or otherwise all these points prior to their implementation.

## **17. TENURE & POSSESSION** (Also see Appendix A:6)

### **17.1 Tenure**

It is understood that the property is Freehold.

### **17.2 Third Party Rights & Restrictions**

During my meeting with members of Peterstone Wentlooge Community Benefit Society I was advised that the building on the property (the pub) is not subject to any restrictions or right of way.

I would advise that third party rights and restrictions, together with the legal boundary of the plot are confirmed by a legal representative before exchange of contracts on any purchase of the property.

### **17.3 Occupancy & Possession**

The property was not occupied at the time of my inspection. I value on the assumption that vacant possession would be given without delay in the event of a sale.

# Business Analysis

## **18. THE BUSINESS**

### **18.1 Period of Occupation**

The property is closed and not trading. From my investigations I understand there had been an extended period of closure dating back to 2018

### **18.2 Style of Trade**

From my discussion with members of Peterstone Wentlooge Community Benefit Society I understand the future style of trade will be as a traditional Public House with a food offer that will grow over a period of time depending on the skill set of the operator recruited. The building will also provide a variety of other uses to compliment and assist the local community.

### **18.3 Trading Hours**

The community group should consider future opening times that allow commercial viability to the operation and also fulfil the needs of the community.

### **18.4 Competition**

The group should explore the strengths, weaknesses, opportunities and threats of competition in and around the area. The operational style of Six Bells in the future may involve multiple use so all types of competition should be considered.

### **18.5 Management & Staffing**

I am advised that the group propose to initially operate Six Bells with a manager but they are also considering using a tenant if this option were to provide them with more flexibility.

## **19. POTENTIAL & PERSONAL GOODWILL**

### **19.1 Potential**

From information available in the public domain, my investigations and meeting with the Peterstone Wentlooge Community Benefit Society and my experience of over 35 years in the licensed trade it is possible to see there is a sustainable business for the pub.

For the business to be sustainable and to encourage an experienced operator to take over the running of the operation before sustainable trade levels have been re-established, The Six Bells must attract as many of the inhabitants of Peterstone Wentlooge to use the pub as often as possible and also attract visitors from beyond the boundary of the village. The layout of the trade area coupled with the potential of the outside areas can provide confidence that the turnover can reach a sustainable level as soon as possible. How the community group and their potential operator will deal with the initial shortfall in income and profitability and the period of time the turnover falls below a sustainable level will need to be written into the central financial forecast and business plan. As discussed at **21 ACCOUNTS & TRADING INFORMATION** these forecasts should concentrate on what is achievable in the short term. As trading information is confirmed through actual sales and cost figures, these projections can be expanded with some level of certainty.

The business at Six Bells will need to grow from nil (currently closed) to initial minimum net sales of about £3,000 a week from all income streams (wet and food sales initially complimented by ancillary sales from other activities as the business grows). This will probably mean only part of the property is used at first. The turnover from such income streams needs to achieve a gross profit no lower than 65%. This will allow phased work to begin until the whole pub is being used and letting rooms can be introduced together with any other facility such as a farm shop and visitor centre. Regular visits and use from locals is paramount but as mentioned above The Six Bells must be attractive to potential customers from outside the area having to use their car. Alcoholic sales may not be able to make up all the sales. Food, teas, coffees and sweet snacks (cakes and biscuits) will therefore be important to the business. This may well mean that the operation does not adhere to conventional pub opening times. Morning coffee, a popular lunch menu and afternoon tea will not only be important to turnover but also as a form of advertisement for the pub. Customers using the pub as a café or meeting place need to be encouraged to come back in the evenings and weekends.

Peterstone Wentlooge Community Benefit Society are looking to entrust the initial operation of The Six Bells to a manager to ensure that the offering for all the income streams is correct and costs are tightly controlled without reducing the targets for good service. The Six Bells has the potential to achieve a sustainable level of trade, but the very best operator will have to be found who understands the needs and requirements of the community as a whole.

The value of properties and businesses of this type is closely related to trading results and potential. In view of the importance which the market for such properties attaches to trading figures actually achieved, in the event of a future change in the trading potential or actual level of business from that indicated by the information and assumptions made herein the value reported could vary. At present however the pub is not trading and the value of the pub as a trading entity can only vary in relation to the demand it generates through its potential to trade.

### 19.2 Personal Goodwill

Goodwill is defined in the RICS Valuation – Global Standards (Red Book Global) as 'Any future economic benefit arising from a business, an interest in a business or from the use of a group of assets that is not separable.'

For the purposes of this report, when assessing the goodwill this definition is used. The business is closed so there can be no personal goodwill associated with the business.

## 20. FAIR MAINTAINABLE TRADE

This Report relates to the property as an entity having regard to trading potential. My primary valuation is as a closed business so I am required to assess the fair maintainable level of trade and operating profit that can be achieved by a reasonably efficient operator, upon which a potential purchaser would, in the opinion of the valuer, be likely to base an offer. I include this information therefore to provide an example of what turnover can be expected, the gross profit that will need to be achieved, the costs associated with such an operation and the profitability that can be expected. Fair maintainable operating profit is stated prior to deductions for depreciation, amortisation, and loan interest.

I have split my assessment into two phases. The first assessment illustrates the fair maintainable trade (FMT) when only part of the property is used, and a net weekly turnover of £3,000 is achieved. The second assessment is with the whole pub working and achieving a net weekly turnover of £8,000 per week.

These assessments are based on a manager working full time in the business. This would require community group liaison with the operator to ensure that total costs of operation are tightly controlled and to develop a sustainable business.

Estimated Maintainable Net Sales	£156,000
Gross profit percentage	65%
Estimated Achievable Gross Profit	£101,400
Less	
Manager's wage	23,800
Additional staff wages & National Insurance	23,000
Business Rates & Insurance	5,000
Services	13,255
Allowance for Sundry Costs	9,210
POTENTIAL OPERATING PROFIT	27,135

**NOTE:** Business rates and insurance are quoted at £5,000. The business rates valuation previously fell below the value where there is a charge but has now increased. The figure above estimates any transitional relief that may be received. However, the local council should be contacted to confirm the exact charge

Estimated Maintainable Net Sales	£416,000
Gross profit percentage	65%
Estimated Achievable Gross Profit	£270,400
Less	
Manager's Wage	41,600
Additional staff wages & National Insurance	62,400
Business Rates & Insurance	16,650
Services	35,300
Allowance for Sundry Costs	24,600
POTENTIAL OPERATING PROFIT	89,850

**NOTE:** Business rates and insurance are quoted at £16,650. The business rates currently fall below the value where there is a charge. Increasing the turnover to a sustainable level will attract a revaluation. This may still mean that there is small business relief but I am including a charge here for illustration purposes and what sort of revaluation can be expected for the pub with a turnover of around £416,000. Manager's wage is at 10% of turnover with 15% of turnover on remaining staff wages.

The foregoing is intended as a broad indication of achievable returns. These could vary considerably dependent upon the economic climate, the input by the manager and other factors beyond the direct control of the community. Two examples of this would be property repairs and additional staffing costs as occur from time to time. To ensure that the operating profit was achieved the operator will have to be able to control costs very tightly and ensure that the maximum level of gross profit is achieved from sales.

It is important to qualify the above. The business will be starting from a nil base. That is to say, work will be required just to begin to achieve the above figures. The need to recruit a suitable operator cannot be over emphasised. The period where the business achieves break-even needs to be considered fully before recruitment.

I am including the following analysis of the above assessment should there be any protracted times of trading difficulty and also to illustrate the dangers of not reacting to the rise in supplier pricing by maintaining a gross profit of 65%. Throughout 2023 the average supplier increase for drinks products was about 14% (reducing an operators gross profit down to 57%). Suppliers increase for food prices was even higher at 17% (reducing an operators gross profit to 55%). Therefore, if the level of trade does not rise to the required income, then the Group could find they have a business failure. Below I have reduced the net turnover by £500 a week to £234,000 a year and the gross profit to 50%. This is a realistic interpretation of how income and gross profit can alter if controls are not maintained.

Estimated Maintainable Net Sales	£364,000
Gross profit percentage	50%
Estimated Achievable Gross Profit	£182,000
Less	
Tenant's rent	41,600
Wages & National Insurance	62,400
Business Rates & Insurance	16,650
Services	35,300
Allowance for Sundry Costs	24,600
POTENTIAL OPERATING PROFIT	1,450

From this illustration the business would no longer be a sustainable business. As mentioned at **ACCOUNTS & TRADING INFORMATION** many of the costs are fixed and it is only when the turnover hits a certain level that the costs as a percentage of turnover provide a sustainable business. Control of gross profit and costs are even more important at present as costs are forecast to rise higher than at anytime previously experienced.

In my FMT illustration I have presented a good starting gross profit and tight control of costs. These two factors are important and show the need to maintain a strong control of costs and gross profit. These two areas are where many licensed businesses fail.

If the community group were to decide on a tenancy, then they would look to charge a market rent. Market rent is derived from what the market will pay for a licensed premises based upon the fair maintainable trade of a site. When related to turnover this is currently between 8% and 10%. Operating at a level of fair maintainable trade the rent would therefore be somewhere between £33,280 and £41,600. Put simply, if you were recruiting for a tenant and you received only a small number of applicants you could expect a rent that would be at the lower end of these figures. With more applicants the desirability increases and a rent at the higher end can be achieved. Rent higher than this should be avoided as the sustainability of the business is compromised. For clarification, the quoted rent also includes the private accommodation element of the property.

Having discussed the matter of attracting an operator that will both fit in with the profile of the pub operation and also be prepared to work at developing The PROPERTY NAME with the community, it is important to stress the need for both professional and legal advice with the appointment of a tenant or manager who shares the group's vision and values. The group should seek the appropriate professional advice when undertaking this process.

During the initial period and later in the operation of the PROPERTY NAME the following breakeven formula will be crucial when calculating the required income for a specific cost. It is important to maintain the gross profit of the business when analysing an additional cost to the business. Failure to do this will mean a reduction in gross profit and as outlined above, it is important to keep the gross profit at 65%. For example, if an event costs £1,000, the operator will need to increase gross bar takings by £3,428 to maintain profitability.

Cost of building work (£1000)  
----- X 100 (£2,857) x VAT (20%) = £3,428  
(100 – Gross Profit 65%) 35

This formula is very useful when deciding to book entertainment or any other additional cost for the pub

Cost of band (£350)  
----- X 100 (1,000) X VAT (20%) = £1,200  
35

Using the above calculation, it shows that if you normally take £500 on an evening and want to have a band on you will need to take £1,700 (£500 + £1,200) on that night to make it worth your while rather than £850 (£500 + £350) as may be thought. If you are employing more bar staff, kitchen staff, hire a P.A. etc these costs should also be added to the total cost before doing the calculation.

## **21. ACCOUNTS & TRADING INFORMATION**

I have not been provided with accounts from any previous business that operated from the site.

It would be advisable for Peterstone Wentlooge Community Benefit Society to produce some business projections based upon my comments in **FAIR MAINTAINABLE TRADE**. The sales mix should reflect the style of operation the Group wish to put in place but the levels of turnover, control of costs, and profitability should be carefully adhered to. Such a projection will allow the group to focus on getting the pub up and running to a sustainable level before developing the business further.

In my calculations at 20 **FAIR MAINTAINABLE TRADE** I have grouped overall turnover and costs together. I provide a breakdown of costs here to help further calculations. It is only when the level of turnover equates to the fair maintainable trade (FMT) that these costs can equate to the percentage to turnover. Prior to that many of these costs are fixed and so are greater. It is therefore important to reach the FMT as soon as possible.

A manager's salary, or any other full time member of staff, based upon a 40 hour week at the National Living Wage of £11.44 per hour (from April 2024) would be £23,795. A manager's wage without any performance based bonus should be no more than 10% of turnover, so the example above in **20. FAIR MAINTAINABLE TRADE** would represent this figure if controlled effectively on a weekly net turnover of £4,575 or below. The overall wage costs should be based upon a total cost of 25% (10% Manager + 20% all other staff) ideally, but certainly no higher than 30%

<u>Public House costs</u>	<u>Percentage to turnover range given potential increases</u>	
	<u>Current</u>	<u>Forecast</u>
Wages & Salaries	25.0%	30.0%
Rates*	3.0%	3.0%
Utilities	5.5%	10.0%
Repairs & Renewals	1.9%	3.0%
Insurance	1.0%	1.5%
Marketing/Promotion/Telephone/Wifi	1.5%	1.5%
Consumables	0.4%	0.4%
Waste Disposal/Cleaning/Hygiene	1.0%	1.0%
Professional fees	1.5%	2.0%
Bank charges	1.0%	1.5%
Entertainment	1.0%	1.0%
Other costs	0.6%	0.6%
<b>TOTAL COSTS</b>	<b>43.4%</b>	<b>55.5%</b>

*\* Business rates costs are currently low as the valuation falls at a figure that can apply for small business relief. Raising the turnover of the business may well mean a re-calculation of the business rates valuation. It is possible that the cost of business rates could rise to about 3% of turnover following a re-valuation.*

Whilst projections of business income are useful the ability to gauge potential should be limited to the knowledge that is available. The first year of trading will provide a base on which future projections can be produced. When the pub is operating the business plan should be referred to at least every month to see how performance is reflected against the projection. Only after the first full year has been completed will future projections have any true meaning.

When planning for investment in a business the sustainable level of trade should be targeted as soon as possible. If projections look for growth too quickly or to a level that is not sustainable there may be too much investment in repairs, refurbishment, and development. This would mean an over-spend on the asset.

## 22. SPECIAL ASSUMPTIONS

Except for those referred to in my standard valuation definitions (see Appendix B), I have made no special assumptions in reaching the conclusions of this report.

# Valuation Analysis

### **23. RECENT TRANSACTIONS (within the last 5 years) (Also see Appendix A:7)**

Crown Inn, Pyle Road, Bridgend	CF33 6PL	£175,000 Feb;22
Three Horseshoes, Merthyr Rd, Whitchurch	CF14 1DL	£376,000 Sep'20
Tavistock, Bedford St, Plasnewydd, Cardiff	CF24 3DB	£249,000 Sep'20
Rompney Castle, Wentloog Rd, Rumney	CF3 3EB	£399,950 May'20
Old Oak, Ruskin Avenue, Newport	NP10 0AA	£360,000 Mar'20
Three Horseshoes Hotel, Merthyr Road, Cardiff	CF14 1DL	£376,000 Feb'20
Thackeray, 635 Newport Rd, Rumney	CF3 4FB	£450,000 Jan'20
The Clifton, 1 Clifton St, Cardiff	CF24 1PW	£525,000 Oct'19
The Albany, 105 Donald St, Roath, Cardiff	CF24 4TL	£840,000 Oct'19
Royal Oak, 200 Broadway, Cardiff	CF24 1QJ	£450,000 Oct'19
Old Cross Inn, 783 Newport Rd, Rumney	CF3 4AJ	£350,000 Oct'19
Fox & Hounds, Chapel Row, Old St Mellons	CF3 5UB	£1,400,000 Oct'19

The Six Bells was purchased by the current owners on 29<sup>th</sup> October 2018 for £350,000

### **24. COMMENT / RECOMMENDATION**

#### **24.1 Market Conditions**

My opinion of current market conditions and current and expected trends in respect of this type of property is as follows:-

To provide comment on the current property market for public houses, and the hospitality industry in general, it is important to reflect on how the market has moved since the credit crisis in 2008. Although this is a considerable time ago the market is still feeling the effects.

#### ***The market for licensed property since 2008***

For the seven years to September 2008 the market in hotels, licensed and leisure premises was exceptionally buoyant, with the peak of the cycle being reached in Spring 2007. Up to this point the major pub owning companies in the UK had seen a sharp increase in their share value based upon the progressive increase in rents that could be achieved, the high number of potential recruits for public houses, and the protection of high beer volumes the fully tied substantive agreements gave to these companies. The acquisition of more public houses to the estate of each Pub Company was therefore a method of sustaining this inflated share price. The cost of borrowing money was below the return that their income could provide and so the Pub Companies were able to out-bid each other and individual purchasers so increasing the market value of many public houses. Following the banking collapse in 2008 and the nationalisation of the Royal Bank of Scotland and Lloyds, the commercial property market fell into virtual freefall, and this trend continued for at least six years to 2014 when values appeared to level out. The market in recent years would seem to have reached the bottom of the cycle, but there are presently no signs of any significant uplift, with few if any pressures which in the foreseeable future are likely to cause an increase in value.

In the six years from 2008 to 2014 it is estimated that values of hotels and licensed premises fell by between 40% and 50%. At one time there were, on some sites, reasonable prospects of alternative use, including in certain circumstances redevelopment or change of use. From 2014 onwards prices steadied but fully operational licensed properties were only achieving the values they had achieved back in 2008 by the end of 2019. Properties with little potential to operate or achieve planning permission for change of use were still slow to move and achieved only their residual value when sold.

Pub owning companies (PubCo's) and most corporate purchasers have withdrawn from the market of individual acquisitions, and those funds which were supporting the investment sector are no longer attracted to the hospitality industry.

### **The market from 2020 to the present day**

2020 appeared to start promisingly for the commercial property market. However, the World Health Authority announcement of a global pandemic on 11<sup>th</sup> March soon led to social distancing measures and forced business closures. This severely restricted any market activity and the consequences of the subsequent lockdown will continue to weigh heavily on the sale and letting of all sectors of the commercial property market for the foreseeable future.

The RICS UK Commercial Property Survey results throughout 2021 pointed to the continued struggle of properties associated with the hospitality industry against the challenges posed by the ongoing covid-19 pandemic. However, by the end of the year contributors remarked that the market was in an upwards phase.

2022 RICS UK Commercial Property Survey results pointed to the market gaining momentum over the previous quarter. However, despite the general improvement in the survey results, contributors remained cautious on the outlook for the economy given pressures caused by rising living costs and higher interest rates.

In relation to demand, contributors to the survey noted that the leisure sector improved slightly in 2022. This sector also saw an increase in the availability of leasable space, albeit the pace of this growth was slow and certainly not significant. As a result, headline rental expectations remained stagnant, with little chance of increased rents able to be sustainable for operators. Overall, the outlook for 2022 was positive for the leisure sector, albeit it somewhat modest. Contributors envisaged a more consistent recovery progressing over the following twelve months for pubs and hotels, after the sector having been hit hard by the pandemic since early 2020.

Capital values continued to plateau with the hospitality industry being no different to the rest of the commercial market. A decline in tenant and investor interest on the property acquisition side and a slow return of retail customers back into the hospitality industry following the pandemic continue to make the market sluggish.

The Propertymark Report Commercial Outlook for the first three quarters of 2023 had NAEA Propertymark Commercial agents reporting a more positive outlook for many sectors of the commercial property market compared to 2022. The industrial, and land sectors are seen as best placed to weather the pressures of inflation and interest rate rises with capital values, rental levels and investment yields all expected to rise over the next year by most agents due to a continued lack of stock.

The Q3 2023 RICS UK Commercial Property Monitor results remain relatively downbeat, with tighter financial conditions and a sluggish economic backdrop weighing on activity across both the investor and occupier markets. The outlook for rents and capital values is still slightly negative for small individual public house which is where the Six Bells sits in the market.

My own experiences are that prices of hospitality property have been maintained from pre-covid times. However, there is still a lack of quality operating businesses that are offered for sale, and stock numbers in general are low. There is limited evidence from investor interest that alternate use values for public houses and hotels may be increasing. However, this may be driven by developers hoping to convert these properties to residential use .

Agents comments that were continually reiterated in the most recent RICS surveys included the following:

- Costs inflation is a significant challenge
- The rise in building costs and interest rates are expected to significantly cool all areas of the property market over the winter.
- The lack of supply is supporting property values despite negative macro-economic factors.
- The investment market has undoubtedly dropped
- The effects of energy pricing will be far reaching due to the effect of MEES (*after 1 April 2023, landlords must not continue to let any buildings which have an EPC rating of less than E*) and this has led for increasing interest in more modern commercial property especially due to running costs.
- With such a fragile market there is a need to manage the rent expectations of landlords and the valuation of property.
- The leisure sector is under threat with severe challenges driven by energy costs and wage inflation.
- Rents are plateauing and incentives requested are rising.
- There is a high expectation of a recession in the UK
- The hospitality sector is slow and disposing of older stock is more difficult
- Working and leisure patterns have changed that leads to different markets in different areas - local restaurants and pubs more popular than City/Town locations, and partial openings - weekend rather than whole week are becoming more popular in the hospitality industry.
- There is a possibility of an increase in CVA/ business failures across the hospitality sector.
- Hospitality property is in a state of flux as falling demand is addressed by change of purpose and recalibration.
- Unrealistic borrower expectations of Market Value is leading to disappointment in many valuation cases.
- Better buildings and greener investment required in existing Holdings.
- Hospitality has operational cost problems and likely falling discretionary spend is hitting profits.
- Inflation and interest rate rises are now impacting on investors decisions and capital values. Markets are unsettled by increased borrowing costs and increasing energy prices. Energy bills are a big headache for hospitality operators.

### ***How agents see the current market based upon sales in 2022***

2022 was a challenging year for the pub property market. The year started with Christmas trading restrictions. The Bank of England base rate increased in February, April, May, June and August and September. By December interest rates were at a 14 year high. However, the demand for property remained strong for most of the year. The shortage of supply meant that the pub sector remained strong. However by Q4 of the year the effect of increasing costs for individuals and businesses meant that demand began to ease.

Pubs had begun to recover from the enforced closed period of covid but economic uncertainty created by cost inflation coupled with increasing interest rates, put a squeeze on discretionary spending in 2023. The licensed trade expects an increased number of pubs closing and an increase in insolvency activity. If the increase in supply of pubs to the market is sufficient, there is potential for the nature of insolvency sales to impact the values negatively. However, if demand remains strong an influx of buyers may stabilise values. Given the poor economic conditions and talk of business failures, the number of insolvencies and liquidations may not be as high as expected. Banks are still feeling the effects of the bad press following the financial crisis of 2008/9 and may not be too eager to withdraw support. Also, introducing too many properties to the market will only result in lower values for distressed properties. Structured exit arrangements and agreed recovery plans are more likely. For businesses in tourist locations this may be a major strength for them.

### *Christie & Co*

Christie & Co are the biggest licensed property agent in the UK. The average price of a pub bought through Christie & Co increased by 3.3% in 2021. In the Business Outlook Report for 2022 the company said that “the imbalance in the demand and supply equilibrium has offset any potential negative impact of trading and cost issues and created an upwards movement”.

### *Fleurets*

What was unforeseen by the industry as we moved from 2022 into 2023 was the strong level of demand across the country for operational businesses and development sites. Unexpectedly there was a supply shortage of available opportunities to purchase.

Details released by Fleurets at the beginning of February 2023 provided the following information:

- 63% of pubs sold by Fleurets were for continued use. This is higher than both 2020 and 2021
- Bottom end pubs, those not trading, saw 52% of these pubs sold for potential development or conversion
- 83% of pubs trading were sold for continued use
- Trading pubs sold for continued use were sold at a sale price 52% higher than a pub sold for change of use

### ***Public Houses sold by a PubCo or other investment based company***

In the same way that PubCos and other investment institutions bought Public Houses prior to 2008 to bolster their share price, when they dispose of these assets they aim to achieve a sale price for the pub that will maximise the potential for the company. This usually means that the sale price is above market value as the PubCo will factor in the yield they can achieve from the pub when assessing rent and tied product sale income. For a tenant this is not as bad a purchase as it may seem. The incumbent tenant is usually paying a rent that exceeds mortgage repayments if they bought the property. This factor coupled with the savings for the tenant on the price of tied products and retaining an existing business will see benefits in buying the pub at an inflated price.

The concern for a purchaser who is not an existing tenant is that they may pay over market value. There are not the same benefits for an independent buyer as there were for the tenant. An independent buyer does not benefit as a tenant in operating the business and any future sale of the property is likely to only achieve a sale at market value.

### ***Are PubCos and Brewers buying pubs?***

It would be wrong to assume that PubCos and Breweries are not buying pubs but what can be focused upon is that any pub purchases or new build pubs have to meet a very stringent criteria to be considered. For example, Punch Pubs are currently looking to acquire public houses to increase their managed house division. To do this they instructed an agent to send out a blanket letter to pubs that were known to be operating (note no closed pubs were included in this venture), and any pub wishing to sell had to provide full disclosure of accounts before any sale price was discussed. From my own enquiries made to these targeted pubs, not one even got to the point of discussing an offer price.

Pub company Marston's has revealed it has moved away from securing city centre pubs. A report in The Caterer (December 2023) gave the reason being demand remains volatile in these pubs. Marston's have focused on their core estate in the year to the end of September 2023 resulting in like-for-like sales increasing by 10.1% compared to 2022 and the underlying profit before tax rose to £35.5m from £27.7m. In the report Marston's said its "well-positioned, predominantly freehold pub estate, with limited exposure to city centres" led to positive momentum in food and drink spend per head, which rose by 8.1% and 8.6% respectively.

### ***The consultant's view***

The Altus Group are one of the biggest property market consultants in the UK. They reported at the beginning of October 2022 that 50 pubs a month were being lost to the industry. This was through demolition or conversion to other use.

Wales and the north west of England where the areas with the biggest fall in pub numbers. In June 2022, for the first time since records started, the number of pubs in England and Wales fell below 40,000 (39,973). This was against 40,173 at the end of 2021.

Lumuna Intelligence provide market information for the hospitality industry. In their report released at the beginning of October 2022 the Pub & Bar market was recorded at a turnover of £22.5 billion, 98% of the 2019 figure. They project a continued decline of 6 outlets a week and this will continue until the end of 2024 when recovery will begin, taking the value of the market up to £23.9 billion in 2025.

Recent reporting in October 2023 using CGA data has shown that about 44,000 licensed premises have closed in the 20 years since 2003. Drink-led pubs, bars and nightclubs have taken the brunt of these closures at 43.6% of all closures

### ***The importance of planning legislation and the financial lending market***

The events and behaviour of the population during the lockdown period have opened up questions as to the future use of licensed property and that of better alternative commercial planning use. The lack of housing, and in the main affordable housing has prompted a response by the industry to ease up on planning class and use.

The ability to fund the purchase of a property is a key element when assessing the value of a property to the market. In the years leading up to 2008 lenders were often happy to provide funding for their clients as the perceived risk in many sectors of the commercial market was low. The leisure industry had a history of providing owner operated businesses that grew year on year and a long line of prospective tenants were available for investment property. Following the credit crisis both of these scenarios were not as readily available. A report on commercial lending from Cass Business School (April 2021) provides evidence of a dramatic reduction in the market.

Dr Nicole Lux, senior research fellow at the Business School and author of the report, observed, "I predict that real estate lending will become more expensive and require further capital for borrowers across the next two to five years, due to increasing maintenance and improvement requirements to meet ESG standards, necessary conversions or repurposing and increased capital costs of banks."

### ***Asset of community value***

Prior to March 2020, having a public house registered as an asset of community value would stop the change of use through planning permission, particularly if accompanied with a reasoned viability report. Public houses closed for business for an extended period of time allows owners and operators to argue that they are unviable. Social distancing reduces the effective turnover that can be achieved whilst costs cannot be reduced proportionately.

For a vendor having their property listed as an ACV is costly. The delay in selling the property usually results in additional cost by way of business rates, insurance, security charges, and legal fees involved in dealing with the ACV listing.

It is unclear as to how effective the ACV listing of a public house is. I have seen many cases where having an ACV on a property has been effective in stopping a successful planning application for change of use. However, documentary evidence is not available on all ACV sites and so each property has to be judged on a case by case basis. My own experience of property carrying an ACV is that this registration, together with a well organised local community group, makes an application for change of use difficult to achieve, but not impossible.

### ***The effect the residential market may have on offers on commercial property***

Since the pandemic struck in March 2020 prices have increased very sharply in the residential market. The commercial market has been more difficult to analyse as there have been fewer and more sporadic sales.

Having seen residential house prices rise during the pandemic and then restraints introduced in an attempt to reduce indebtedness, potential purchasers may look to commercial property, and public houses with the potential for alternate use in particular. If this is the case then offers for such property may reach a higher price than the value of the operating entity based on speculation as an investment when compared to the residential market.

With the resulting change in behaviour brought about by the covid -19 pandemic this will bring about changes as to how the viability of a property to operate as a public house is assessed. Proof as to how a property is an asset to the community if only fewer of the community can use it may well be part of a submission against an ACV. If the ACV becomes less of a benefit to retaining the use of the property then the alternate use value may increase and become an unintended consequence forcing prices higher.

### ***The importance of the incumbent operator on market value***

Historically (pre-2008), location was the most important factor on the market value of a public house. This was because the number of potential operators for public houses was greater than the number of public houses available on the market. From my own experience, corroborated by many of my agency and surveyor colleagues in the industry, this has been turned on its head with the number of pubs available now outnumbering potential operators. A further important factor is that many experienced operators have left the industry, mainly due to retirement and the increase in the operating costs versus the decline in turnover.

Prior to 2008, many public houses could guarantee a continuation of trade levels following a change of operators providing the operator was reasonably efficient. Many banks and other financial institutions have experienced a high level of business failure within the ranks of their mortgage customers, with repossessed properties failing to reach previous market values when sold. Such institutions are therefore reluctant to fund a public house purchase unless the proposed buyer has a proven track record in the industry.

Therefore, the incumbent operator has become an increasingly important factor in assessing the value of a public house. If the operator has failed to capitalise on the full potential of a property, funders are reluctant to consider that any other operator will be more successful. If a property is achieving full potential or even over-achieving, funders are cautious of the high level of trade failing to be continued when the current operator leaves the public house.

### ***The significance of rising operating costs***

The UKHospitality Christie & Co Benchmarking Report for 2022 has found that operating costs of the average licensed property have risen to 55.2% of annual turnover before rent. The survey included responses from 5,000 hospitality companies and covered the six months to December 2021.

Payroll remained the single most significant cost for operators at 28.3% with overall increases driven by utility, premises and operational costs (total 27%). Utility costs saw the sharpest hike of the operating costs but noted that this increase does not reflect the full extent of the current energy crisis. Many businesses have reported energy price rising by more than 100%. The research found more than two thirds (67%) of operators increased prices to mitigate increasing energy costs. Like for like sales have contracted by 2.3% compared to the same period in 2019 across the entire survey but certain segments of the market saw top line growth. The best operating sector being accommodation-led, which had 9.8% like-for-like revenue growth.

In assessing the underlying value of licensed and leisure premises one must rely on their current viability and longer-term prospects when judged against the realistic potential of fair maintainable trade. In arriving at my valuations, I have endeavoured to reflect the present market condition, but clients should be aware that commercial property market activity is being impacted in many sectors.

### ***The tenanted model against the managed model***

The method of operation for a public house will govern the level of income for an owner. The traditional method of owner operator means that the pub is owned and operated by the same person and all of the benefits are those of the owner, but also the risks. A halfway house in this style of operation is to use a manager to operate the pub. However, this means the manager has to be controlled, or managed, and so this can become as time consuming as an owner operating the business themselves. Over the last 10 years or so many owners have had other employment and so require a manager to operate the pub. In the case of community groups owning pubs, the community do not have the time or individual skills to operate a pub and so either a managed or tenanted method of operation has been adopted. The benefit of having a tenant is that the income (the rent) is guaranteed, although it is usually lower than what could be achieved with a manager if all costs are controlled and required gross profit achieved. The trend within the licensed trade supporting managers or tenants is constantly changing as the market changes. Prior to 2008 the tenant model was preferred by many corporate groups as it guaranteed income. As the number of potential tenants available has declined in recent years the move has been towards a managed style of operation.

Punch Pubs & Co's move to convert leased and tenanted pubs to its managed division has been cited as the "predominant driving force" for a 10.2% lift in revenue in its trading update for the 52 weeks ended 13 August 2023.

### **24.2 Summary/Comments/General Remarks**

The Six Bells is presented to the market as a closed pub. If the Community buy the pub there will be an initial period of uncertainty as to the trade performance. The property is of such a deteriorated condition that the work required to bring the property up to full commercial use is substantial and will need to be phased. This work can only be undertaken when the community group have funds and a return on this investment can be reasonably assumed to be achievable. Undertaking work on the full building in a single project is unrealistic for a community group. As an alternative, only part of the property should be refurbished initially and operated at a reduced rate. The operator recruited by the Community should be provided with assistance to constantly analyse trends in trade levels and deal with operational shortcomings, whilst at the same time the community group need to fully understand how the pub operates and if it is achieving at least the fair maintainable trade levels outlined in this report. When these targets are met then the next phase of the development can be started.

From my projection as to the fair maintainable trade my valuation reflects the property and trade level/potentials with a basic level of investment. Future investment into the property and business will need to be carefully analysed to ensure the community group receive a return on the investment. If this does not happen then the community must be prepared to receive no return for their investment. This is a straightforward statement but it is important for the community group to understand that all investment must provide a return to their community business.

The above statement also relates to the viability of the property as a public house. The FMT must reflect the potential of the property as a public house following only the most urgent of repairs to make the property capable of opening the doors and operating as a public house. The FMT and subsequent operating profit will dictate the value to an operator and this value will need to be protected to avoid a confusion with the viability of the pub. If this level of turnover is not achievable then the property is not viable as a public house and a change of use will provide a better commercial option.

The property is currently a public house and the viability of the property is not governed by the sale price that the current owner wants to achieve, but rather the sale price is dictated by what FMT can be achieved by a reasonably efficient operator. Similarly, the value to a potential purchaser is only what return that can be achieved by operating the property and the multiple that the market provides evidence of. This element is discussed further in 25

### **VALUATION METHODOLOGY & STATUS.**

The property in this report is valued as it currently stands, this is as a closed public house and a property with the potential to operate as a sustainable business. However, it is my opinion that an achievable purchase price may well be nearer the value of the property 'Trading in default'. It is important to understand that any repairs and improvements to the property may not necessarily translate to an increase in value. The market values a property such as Six Bells by the level of trade and profitability, together with any additional investment potential rather than the bricks, mortar, fixtures, fittings and effects.

To further clarify my bases of valuation, I provide here the definitions with an explanation in plain English (italicised) as to why these valuations are of use to the community group:

**Market Value** as a Fully Equipped Operational Entity having regard to Trading Potential ("Market Value - Trading") The highest value that can be expected if the property operates at full turnover and profitability.

**Market Value** as a Fully Equipped Operational Entity having regard to Trading Potential - but subject to Special Assumptions ("Market Value - Trading - in Default") The value of the property if the business operates but does not reach the fair maintainable trade levels and does not provide an operating profit.

**Market Value** of the Empty Property having regard to Trading Potential and subject to Special Assumptions ("Market Value - Closed - in Default") This valuation is where the pub is at the moment, it does not trade or have any accounts to confirm the level of trade that the business can operate at.

**Reinstatement Value** - Estimate for Insurance Purposes An important valuation as it provides an indication as to what the property should be insured for. Underinsuring will mean reduced pay out on any claim made.

The cost of repairs and decoration to the existing property is difficult to estimate as there is a substantial amount of work to be undertaken just to open the pub. It would not be unrealistic to expect initial repair and refurbishment work to run to at least £200,000 including fixtures, fittings and essential equipment, and to make the property watertight and bring part of the trade area up to a level that can be operated on a commercial basis. This work will need to be carefully assessed and the standard of fittings will need to be costed so as to provide a return for the investment made. A further programme of investment will be needed after the initial refurbishment is completed. This should be assessed as part of an ongoing schedule and may take many years to complete.

I would recommend that prior to deciding on the style of operator, a profile of the type of operation is written up and agreed with the community. From this an operator can be recruited who will follow the same vision as the community. The terms of any agreement must be sustainable. The operator must be able to fulfil all of the conditions and still make the operation work for them.

An important factor in the operation of the Six Bells is the size of the interior of the pub and that of the total plot. The main pub trade area covers about 490m<sup>2</sup> with the private accommodation. The total plot however covers about 0.71 of an acre. Much of this plot includes the outside seating area, car park and garden that could prove a consistent and lucrative income for the future business. The vagaries of the British weather mean that these outside area does not always mean potential trading area. As the trading area moves further from the main pub building there is less chance of it providing a lucrative return. Activities that do not raise the income of the business can then be planned for the outer most areas of the plot.

My valuations below look at the pub as an operating entity. The property can only be valued as a public house and community hub for the purposes of this report. The above summary outlines why the property is valued as it is in this Report, how to deal with any added investment into the property, the initial process of recruiting an operator, and the future style of operation. When purchasing a public house, clients should consider that the commercial property market is unlike the housing market. Commercial property values can fluctuate based upon the commercial return an owner can receive from a property. Residential property values can rise annually based upon desirability and availability amongst other factors.

## **25. VALUATION METHODOLOGY & STATUS**

The Six Bells is a freehold public house. Although the property and business are closed and not trading any appraisal of the value must be closely related to trading results and potential. The method of analysis used to calculate the value of a public house is the profits method. I have based the fair maintainable turnover (FMT) calculation on a reasonably efficient operator using the current capacity of the public house. The market attaches great importance on the trading figures achieved for a property and business such as the Six Bells. The change in the trading potential and actual decline in level of business since the property was closed over the recent period must be reflected in the value.

I have also provided evidence of comparable market transactions in support of general market analysis. The valuation methodology outlined above together with the examples of general market sales provide an example of the market. This valuation has been made after having regard to evidence of 12 market transactions in support of general market analysis. (See Appendix A:7 - 12)

Over recent years I have experienced a consistent clustering of multiples paid between 5 and 8 on profit for operational public houses and this has remained consistent throughout the country other than central London. Current market pricing would provide an indication that these parameters remain although this range may be beginning to widen. Any increase in the multiple of operational profit is dictated by the purchaser depending on the desirability of the property for their purpose and its potential for alternate use. I have applied a multiple of 5 as a closed public house to my calculation of fair maintainable trade. Although the property was bought for £350,000 by the current owner and our investigations show that the building has deteriorated since 2018, inflation only during the period since 2018 would mean that the property has increased to about £435,000. Also the property must be assessed as a viable business possibility. Therefore, my valuation assesses the property at a value of £450,000. However, during negotiations the client should note the minimum cost of bringing the property up to a standard where the pub can reasonably operate. This cost should be fully assessed with the help of a building survey and quotes from local builders. Any lower value will compromise the viability of the business and open the door for the owner to apply for change of use, and develop the property.

## **26. OTHER MATTERS**

### **26.1 Legal Issues, Grants and Taxation, Liability, Disclosure, Complaints**

It would be advisable for the community group to ensure that all legal matters are understood and future statutory responsibilities are fully covered before completing the purchase of the property. My comments on this together with my disclosure and complaints procedure can be found in appendices A:10 to A:15

### **26.2 Funding**

#### **26.2.1 Methods of funding**

The subject property in this report may be purchased by the client. The funding for such a purchase may be found from the clients own funds, personal loan, grant money, loan from a bank or similar lending house, or mixture of all the above. When securing funding it is advisable to prepare the following for the lender:

- A copy of this Business Buyers & Market Appraisal Report.
- A copy of the Constitution of the community group.
- An executive summary outlining the deal – background to the pub, amount required etc.
- Any historic year end accounts that are available.

An integrated 2 year forecast pack – P&L, Balance Sheet, Cash Flow Forecast (accountant produced) along with supporting commentary around the key assumptions.

#### **26.2.2 Risk and mitigation**

It is advisable when a community group is purchasing a property such as the PROPERTY NAME that they look at the risks of taking on this property and what their mitigating actions will be should they come up against any difficulties during the purchase process and subsequent operation of the business. The group should consider all of the following options and list them in an action plan that can be passed on to any future funders to assist with their application.

Points to consider:

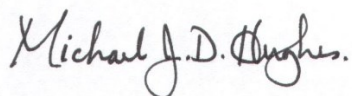
- The three key strengths to the Community running the “Pub”, what are the risks to these key strengths and how will the group mitigate against these.
- The three main risks to the community group’s business operating model and how the group you mitigate against these.
- The three main risks to the key people taking the “Pub” forward and how the group will mitigate against these people risks.
- With reference to the group’s aims and objectives contained within your Social Impact Matrix, what are the risks attached to preventing the Community from delivering on these, and how the group will mitigate against these identified risks.
- The group’s main risks to meeting loan repayments during the whole term of loan finance and how the group would overcome these potential risks.

## **27. MARKET APPRAISAL VALUATION**

Based upon the information provided to us, and in accordance with the assumptions and conditions as detailed in this report, I am of the opinion that the market appraisal valuations as at today’s date and as detailed at the commencement of this report are as follows:-

	VALUATION
<b>Market Value as a Fully Equipped Operational Entity</b> having regard to Trading Potential ("Market Value Trading,")	£720,000
<b>Market Value as a Fully Equipped Operational Entity</b> having regard to Trading Potential - but subject to Special Assumptions ("Market Value - Trading - in Default")	£540,000
<b>Market Value of the Empty Property</b> having regard to Trading Potential and subject to Special Assumptions ("Market Value - Closed - in Default")	£450,000
Reinstatement Insurance Value	£1,500,000

I trust the foregoing opinions and market appraisal valuations will satisfy your requirements, but should you require a more detailed report on any particular aspect, please let us know.



Michael Hughes MRICS FNAEAcOm AVLP (Country Member) DipCPA

**MJD HUGHES Ltd**

Business & Commercial Property Specialists  
2 Forest Farm Business Park  
Fulford  
York YO19 4RH

Report Dated - 26th February 2024  
Checked by Rebecca Warriner MNAEA Comms

**MJD  
HUGHES**

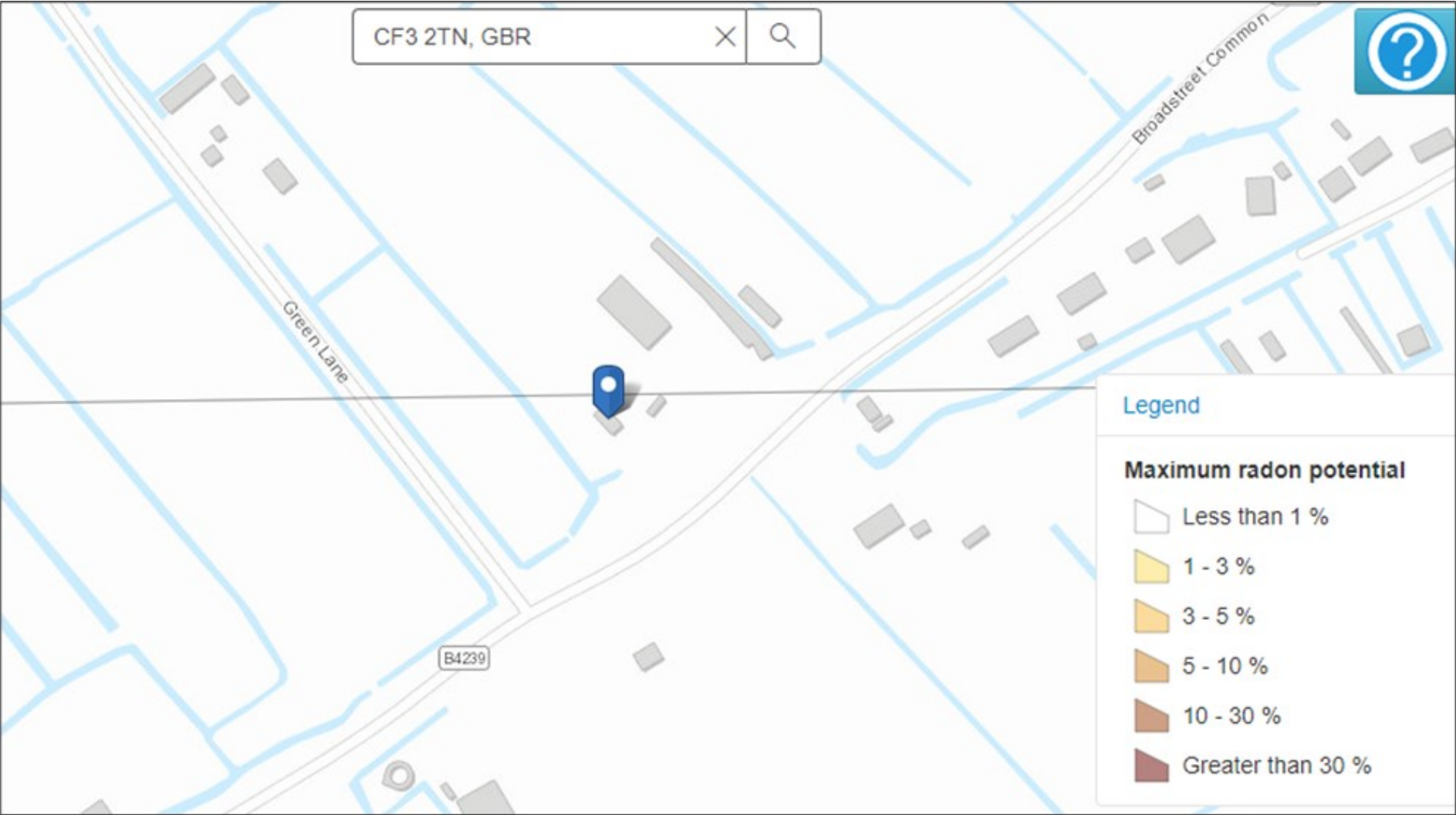
# APPENDIX 1

## Property Information



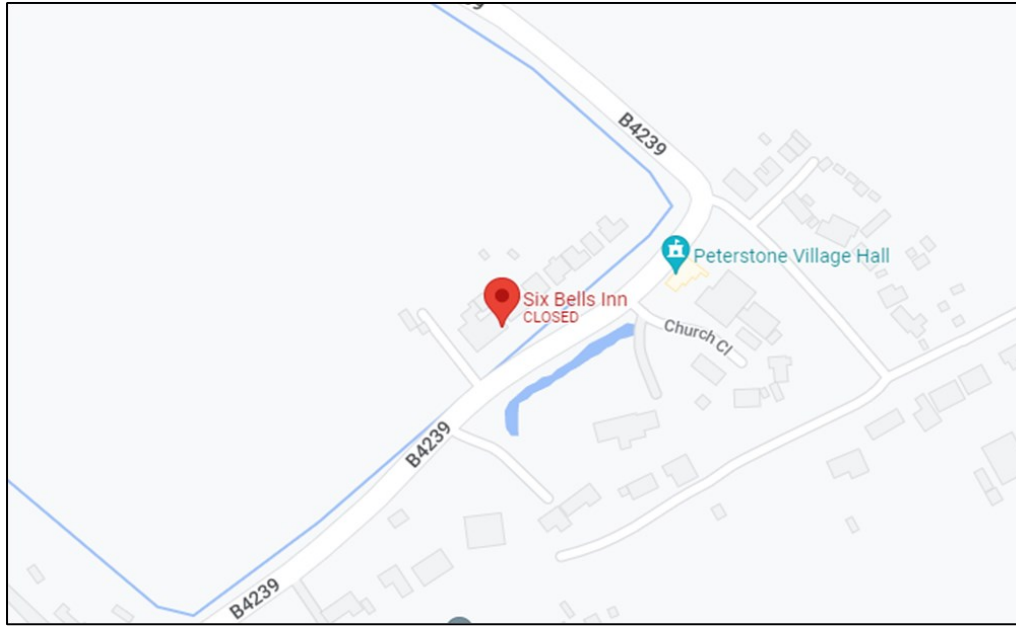
### Plot Map

Area 2868 meters<sup>2</sup>, 30868 feet<sup>2</sup> 0.71 acres  
Perimeter 171 meters , 562 feet

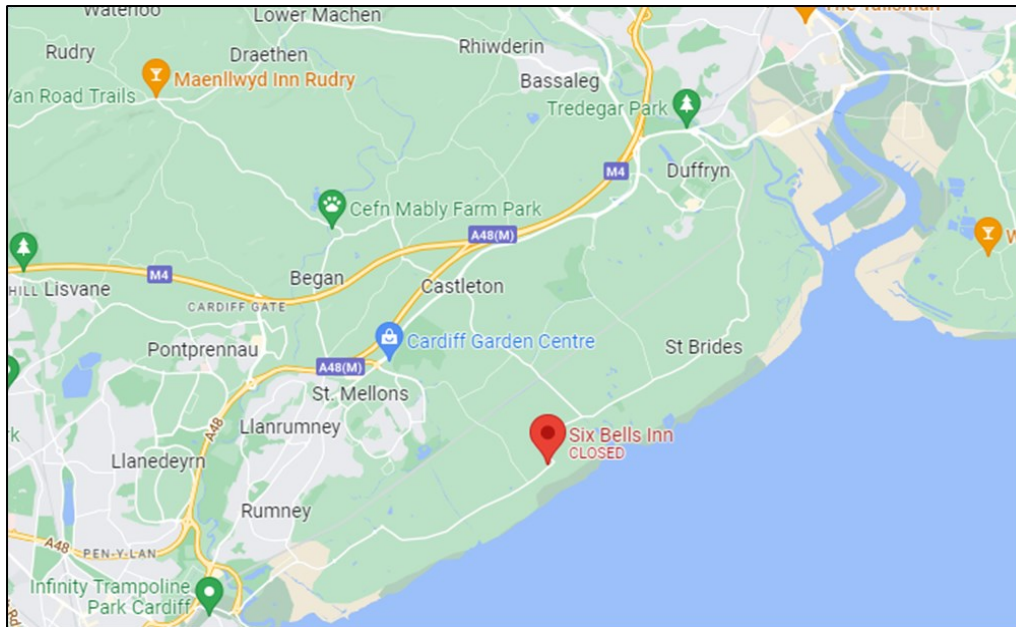


**Randon Gas**

The maximum radon potential for the Six Bells CF3 2TN is less than 1%



## Location Maps



# APPENDIX 2

## Public house sales – Market transactions



Crown Inn, Pyle Road Bridgend CF33 6PL £175,000 – February 2022



Rompney Castle, Wentloog Road, Rumney, CF3 3EB £399,950 - May 2020



Three Horseshoes, Merthyr Rd, Whitchurch, CF14 1DL £376,000 - September 2020



Old Oak, Ruskin Ave, Newport NP10 0AA £360,000 – March 2020



Tavistock, Bedford Street, Plasnewydd, Cardiff, CF24 3DB

£249,000 - September 2020



Three Horseshoes, Merthyr Road, Cardiff CF14 1DL

£376,000 – February 2020



Thackeray, 635 Newport Road, Rumney, CF3 4FB £450,000 - January 2020



Royal Oak, 200 Broadway, Cardiff, CF24 1QJ £450,000 – October 2019



The Clifton, 1 Clifton Street, Cardiff, CF24 1PW £525,000 – October 2019



Old Cross Inn, 783 Newport Road, Rumney, CF3 4AJ £350,000 – October 2019



The Albany, 105 Donald Street, Roath, Cardiff, CF24 4TL £840,000 – October 2019



Fox & Hounds, Chapel Rom, Old St Mellons, CF3 5UB £1,400,000 – October 2019

# APPENDIX 3

## Photographs



Photo set 1 – Elevations



Photo set 2 - Roof external



Photo set 3 - Roof structure internal



Photo set 4 - Flat and pitched roof to rear



Photo set 5 - Car park Septic tank Garden



Photo set 6 - Trade areas



Photo set 7 - Ancillary rooms



Photo set 8 - Private accommodation

# **GENERAL APPENDIX A, B & C**

# **GENERAL APPENDIX A**

## **Standard Assumptions, Recommendations, Limitations and Statements**

### **1: THE BUILDING/S - RECENT ADDITIONS - RECOMMENDATION**

It is recommended that legal advisers check on compliance with Planning and Building Control Regulations in respect of any recent additions/changes. I have made no such checks.

### **2: CONDITION OF PROPERTY - LIMITATIONS**

These observations are subject to the limitations detailed in my Conditions of Engagement.

I have not carried out a Building Survey, nor have I inspected those parts of the property which are covered, unexposed or inaccessible, and such parts have been assumed to be in good repair and condition. I cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts.

### **3: COMPLIANCE MATTERS**

#### **3.1: CONTAMINATED LAND - LIMITATIONS**

I am not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the property and which may draw attention to any contamination or the possibility of any such contamination. In undertaking my work, I have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the property. I have not carried out any investigation into past or present uses, either of the property or of any neighbouring land, to establish whether there is any potential for contamination to the subject property from these uses or sites, and have therefore assumed that none exists.

However, should it be established subsequently that contamination exists at the property or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported.

#### **3.2: DISABILITY DISCRIMINATION ACT**

I have not carried out or commissioned any investigations to determine whether or not the property complies with the requirements of the Disability Discrimination Act 1995 and have made no allowance for any potential cost or compliance works. I make informal comment but I am not qualified or registered Access Consultants. Operators are obliged to make reasonable adjustments to minimise impediments to provision of their services to disabled people.

#### **3.3: ASBESTOS & ANY OTHER HAZARDOUS OR DELETERIOUS MATERIALS**

Owners, occupiers or tenants of non-domestic premises have responsibilities to manage any risk concerning asbestos containing materials (ACMs) on the premises (Control of Asbestos at work Regulations 2002).

I have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material or technique, (eg high alumina cement, asbestos) has been used in the construction of the property or have since been incorporated, and I am therefore unable to report that the property is free from risk in this respect. For the purpose of this valuation I have assumed that such investigation would not disclose the presence of any such material to any significant extent.

#### **3.4: PREMISES LICENCE**

I have made enquiries concerning any Premises Licence as indicated in the report. It is the responsibility of the owner or operator to be and/or appoint Personal Licence holder/s for the business to be operated. I have made no enquiries concerning personal licence holders.

#### **3.5: FIRE RISK ASSESSMENT**

[Regulatory Reform (Fire Safety) Order 2005]

Owners, Occupiers or Tenants - "Responsible Persons" of business premises are required to make suitable and sufficient assessment of the risks and to identify and action the fire precautions required to comply with the order.

I have not carried out or commissioned any fire risk assessment.

#### **3.6: ENVIRONMENTAL HEALTH, SAFETY & HYGIENE**

Businesses must have assessed their operations and made adequate provision for compliance. I have not carried out or commissioned any Environmental Health, Food Safety or Hygiene assessments.

### **4: TOWN PLANNING - ASSUMPTIONS**

My report is issued strictly on the understanding that all work to the property and the use are fully authorised by valid planning consents in accordance with the Town & Country Planning Legislation. In the event that subsequently it appears that planning consent has not been obtained for any part or parts then this valuation should be referred back to us for reconsideration.

**MJD  
HUGHES**

#### 5: FIXTURES & FITTINGS - ASSUMPTIONS

I have assumed that the trade furniture, fixtures, fittings and effects (with the exception of the obvious personal and private items) would be included in any sale and that all these *are or will be* owned outright by the *Mortgagor or Applicant* and not subject to any Lease, Hire Purchase or Third Party Charge.

**Any Brewers Beer raising and dispense equipment is specifically excluded from the Valuation.**

#### 6: TENURE & TITLE - GENERAL ASSUMPTIONS

This Appraisal is based on the assumption that good title can be shown and that the property is not subject to any unusual or especially onerous restrictions, encumbrances or outgoing, that the property and its value are unaffected by any matters which would be revealed by a local search and replies to the usual enquiries, or by any statutory notice, and that neither the property nor its condition or its use or its intended use is or will be unlawful.

#### 7: VALUATION METHODOLOGY

The property has been valued by the profits method relying on the trade information provided and using my knowledge of other comparable trading accounts of similar styles of business.

The resulting market appraisal valuations have been checked by reference to open market sales of comparable categories of property. Due to the confidential nature of my business, I may be unable to quote full transaction details.

#### 8: STATUS OF AUTHOR of the REPORT

It is confirmed that neither the author of the report nor MJD HUGHES LTD have any direct or indirect interest - financially or otherwise - in the property or any loan transaction secured upon it. The Business Buyer and Market Appraisal Valuation Report has been prepared by us as an independent Agent and is not conditional upon the production of any specific value or range of values.

#### 9: RE-APPRAISAL

In the event that an assumption I have made proves to be wrong whereby the difference could have an effect on value, the valuation should be referred back to us for reappraisal.

#### 10: LEGAL ISSUES - LIMITATIONS

(i) No responsibility or liability is accepted for the true interpretation of the legal position of the client or other parties. Any interpretation of legal documents and legal assumptions must be checked by the client with a suitably qualified lawyer if they are to be relied upon.

(ii) This report is carried out in accordance specifically with my instructions.

(iii) Any discrepancies revealed by the searches and verification should be referred back to us so that the valuation can be reviewed in the light thereof.

#### 11: GRANTS & TAXATION - ASSUMPTIONS

(i) I have not taken account of any grants or other subsidies which may have been received or may be available in respect of the property nor any liability to repay such sums which may arise on disposal.

(ii) No allowance has been made in the valuation for Capital Gains Tax and VAT or any other taxation liability which may arise on the letting or disposal of the property - actual or notional, nor for any costs of acquisition or disposal.

(iii) Unless stated in the report, if VAT is being chargeable, the value reported could vary and should be referred back to us for comment.

#### 12: LIABILITY - LIMITATION

This Report and Market Appraisal Valuation has been prepared for the stated purpose and for the sole use of the named client. The author accepts responsibility to the client alone that the Report has been prepared with the skill, care and diligence reasonably to be expected of a competent property professional and accepts no responsibility whatsoever to any parties other than the client. Any such parties rely on the Report at their own risk.

#### 13: DISCLOSURE - LIMITATION

Neither the whole nor any part of the Report nor any reference to it may be included in any published document, circular or statement or published in any way, without the author's written approval of the form and context in which it may appear

#### 15: COMPLAINTS

MJD HUGHES Ltd has in place a Complaints Handling Procedure in compliance with the regulations of The National Federation of Property Professionals. If you have a complaint, please refer it to my Contact Office. If your complaint cannot be resolved immediately, I will ask you to follow the approved Complaints Procedure, and a copy of the Procedure will be dispatched to you.

## **GENERAL APPENDIX B**

### **MARKET APPRAISAL VALUATION DEFINITIONS**

#### **a) Market Value**

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. ("**Market Value**")

The valuation prepared on an open market basis which is defined as follows:-

#### **b) Market Value as a Fully Equipped Operational Entity having regard to Trading Potential ("Market Value - Trading")**

##### **Market Value, plus:**

- (i) Vacant possession is provided on completion of all parts of the property occupied by the business.
- (ii) The business is open for trade.
- (iii) The business includes an Inventory of trade furnishings and equipment.
- (iv) Accounts or records of trade are available and will be assessed and/or relied upon by a prospective purchaser.
- (v) (If specified in addition) with special assumptions made as to trading performance.

#### **C) Market Value as a Fully Equipped Operational Entity having regard to Trading Potential - but subject to Special Assumptions ("Market Value - Trading - in Default")**

As Market Value Trading, but of a property which is equipped and continuing to trade with mortgagee in possession. Assumptions (iv) and (v) change:

- (iv) Accounts or records of trade are not available and prospective purchasers are aware that the business has trading difficulties.
- (v) The mortgagee realises it would be beneficial to achieve a sale within months.

#### **d) Market Value of the Empty Property having regard to Trading Potential and subject to Special Assumptions ("Market Value - Closed - in Default")**

The market value of a property which is usually valued as a fully equipped operational entity, having regard to trade potential but subject to the following special assumptions.

- (i) Vacant possession is provided on completion of all parts of the property occupied by the business.
- (ii) The business has been closed.
- (iii) The trade Inventory has been depleted or removed.
- (iv) Accounts or trading records would not be available to a prospective purchaser.
- (v) Licences have been lost or breached
- (vi) The mortgagee desires a sale within three months.
- (vii) The property has not been vandalised.

#### **e) The Market Value of a property which is or will be a fully equipped or operational entity having regard to trading potential - subject to special assumptions regarding development as proposed or in progress. ("Market Value - Trading Development Projection")**

##### **Market Value plus:**

- (i) Vacant possession is provided on completion of all parts of the property occupied by the business.
- (ii) The proposed development of the business is assumed to have been completed.
- (iii) The business is assumed to have been equipped /re-equipped to a specified standard.
- (iv) The valuation is made on the assumption that trade projections as supplied and/or specified by the valuer are being achieved.

#### **f) The Market Value of a fully equipped operational entity having regard to trading potential, let as a trading investment ("Market Value - trading investment")**

##### **Market Value plus:**

- (i) The property is let subject to a tied supply agreement on known/specified terms and reflects the maintainable margin gained on goods and services.
- (ii) The business is open for trade.
- (iii) Tied supply (barrelage etc) records are available and will be relied upon by a prospective purchaser.
- (iv) The trade inventory is owned by the lessee and not included in the valuation.

**g) The Market Value of a fully equipped trading entity, let as a trading investment as part of a portfolio of properties ("Market Value - trading investment - Portfolio")**

**As "Market Value - trading investment" plus:**

(v) Enhanced assumptions of investment return because the freeholder / lessor obtains preferential discount terms from brewers/trade suppliers and overheads benefit from the economies of scale.

**h) Market Rent**

The estimated amount for which a property, or space within a property, should lease (let) on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming:

- (i) A stated length of term and principal conditions which are neither onerous nor beneficial apply.
- (ii) No premium passed.
- (iii) Any rent free period was in respect only of the time needed by the tenant to make the property fit for occupation.

**j) Reinstatement**

An indication for insurance purposes (which is given solely as a guide, as a formal estimate for insurance purposes can be given only by a quantity surveyor or other person with sufficient current experience of replacement costs) of the current reinstatement cost of:

The buildings in their present form (unless otherwise stated);

or

Buildings being constructed as proposed to be completed; each including the costs of clearance and professional fees, and assuming satisfactory ground conditions. Excluding:-

- (a) VAT (except on fees)
- (b) loss of rent; and/or
- (c) cost of alternative accommodation for the reinstatement period.

**Note:** In particular, where a building is listed as being of architectural or historic interest, or is located in a conservation area, or is of substantial stone half -timbered or other construction which is at variance with conventional modern techniques or methods the Client is advised to obtain specialist advice because reinstatement costs of such buildings can exceed substantially the reinstatement costs usually recommended for buildings of conventional construction. Where buildings are likely to be rebuilt or to have to be rebuilt in a different way from their original, the insurers approval of the proposed method of reinstatement must be obtained.

## **GENERAL APPENDIX C**

### **MJDHUGHES LTD STANDARD CONDITIONS OF ENGAGEMENT FOR THE MARKET APPRAISAL VALUATION OF COMMERCIAL LAND AND BUILDINGS**

(Which apply unless agreed to the contrary in the Letter of Instruction)

#### **1. The Service**

**1.1** The Author will provide directly to the Client a Report based on an inspection as described below. In respect of the subject property(ies), the Author will be an independent Agent, who either:

(a) in respect of the particular type of property, has sufficient current local, and national (as appropriate) knowledge of the particular market and the skills and understanding necessary to undertake the market appraisal valuation competently;

or:

(b) where he satisfies (a) above, except that he has insufficient current knowledge, he will be or has been assisted by a person(s) who has/have such knowledge and the skills and understanding necessary to provide the assistance required;

and

where the nature of the instruction dictates, the above requirements in (a) and (b) may be met in aggregate by more than one Author for the report.

(c) meets any legal or regulatory requirements which apply in the circumstances in which the particular market appraisal valuation is required.

(d) has, no other current or presently foreseeable potential fee earning relationship concerning the subject property(ies), apart from the report fee, who has disclosed in writing to the Client any present relationship, or relationship within the past two years of receipt of the report instruction, with any of the interested parties and any previous involvement with the subject property(ies).

(e) has professional indemnity insurance.

**1.2** The Report will provide the following points:

**1.2.1** A full description of the property, its location, apparent state of repair and other relevant information such as the approximate site area.

**1.2.2** The Author's market appraisal valuation(s) of the property(ies) on the following bases:

(a) Market Value as a Fully Equipped Operational Entity having regard to Trading Potential.

When providing valuation (a) the Valuer may also report on the effect of closure of the business, making special assumptions, which are interpreted as:

(b) Market Value as a Fully Equipped Operational Entity having regard to Trading Potential - but subject to Special Assumptions.

(c) Market Value of the Empty Property having regard to Trading Potential and subject to Special Assumptions.

The valuations will exclude any additional value attributable to personal goodwill but will include the value of any fixtures and fittings which are of value in situ to the present or proposed occupier.

and: if the Author believes there is a special prospective purchaser, on the above basis(es) but reflecting the bid of that special prospective purchaser:

and: where the market appraisal valuation(s) reported pursuant to (a) above, has/have been affected by the existence of an unimplemented planning consent for change of use or other development or by the prospect of such consent(s) being available, the Author will so report and advise as to the amount(s) of the increase reported in consequence.

**1.2.3** In the case of property to be held as an investment:

(a) a projection, at rental levels current at the reporting date, of the rental income to which the owner will be entitled from the property on the bases of current and full occupancy, with comment on the time-scale to achieve the latter and any other related factors;

**MJD  
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(b) an opinion upon the effects on value of the quality and terms of the lease(s) and relevant implications upon the valuation in respect of privity of contract (if any); and

(c) the Author's view of the market's opinion of tenant covenants for the class of the subject property in the subject locality

**1.2.4** In the case of a property which is, or which is intended to be, the subject of development or refurbishment, comment upon:

(a) the cost and viability of the project where cost information is provided.

(b) the implications on market value of any cost overruns or completion delays.

**1.2.5** Advice, if the Author considers it relevant, that there is a significant prospect of or potential for change of use or other development of the subject property, or those in the vicinity, which would materially affect the value of the subject property.

**1.2.6** Advice on any other factors which the Author considers are likely materially to affect the status of the property as security, e.g: privity of contract

**1.2.7** Comment upon the proposed purchase price if this has been notified to the Author.

**1.2.8** A statement as to any special assumptions which the Author has made.

**1.2.9** An opinion (without liability on the part of the Author) of current market conditions and current and expected trends in respect of the type of property in the area.

**1.2.10** A statement as to the valuation method adopted, and an indication as to the extent to which the Author has been able to have regard to comparable market transactions and: in the case of property valued for the existing use as an operational entity having regard to trading potential, the opinion which the Author has formed as to the future trading potential, including the gross income and profitability likely to be achieved with comment where possible on trading results, current trends, budget and management accounts and existing and expected competition.

**1.2.11** Any other aspects, other than the usual legal investigations, which the Author considers require further consideration or investigations by or on behalf of the Client.

**1.2.12** The date of valuation will be the date of the Report, and the date of inspection will be stated.

**1.3** Following provision of the Report, the Author will be prepared to discuss its contents with the Client.

**1.4** The Author will:

**1.4.1** unless otherwise expressly agreed, rely upon information provided by the Client's legal or other professional advisers relating to tenure, leases and all other relevant matters. However, the Author will advise in the Report if he becomes aware of information which appears to be at variance with that provided.

**1.4.2** Subject to Paragraph 2.1 below, carry out such inspections and investigations as are, in the Author's professional judgement, appropriate and possible in the particular circumstances. These will include oral Bath planning enquiries.

**1.4.3** Where appropriate, make informal comment with regard to the likely conformity of the property with local Environmental Health Officer requirements. The Author will not make any enquiries of the Environmental Health Officer and the opinion will be given without liability on the part of the Author

**1.4.4** If the Author's knowledge or inspection suggests that there may be contamination or hidden defects the Author will so advise and may exceptionally defer submitting a final Report until the results of further investigations and costings are available. The Author will not provide a formal environmental assessment.

**1.4.5** In preparing the Report, unless otherwise stated by the Author, make the following assumptions which the Author shall be under no duty to verify:

(a) that no deleterious or hazardous materials or techniques are used in the construction of the property or have since been incorporated;

(b) that good title can be shown and that the property is not subject to any unusual or especially onerous restrictions, encumbrances or outgoing;

(c) that the property and its value are unaffected by any matters which would be revealed by a local search and replies to the usual enquiries, or by any statutory notice, and that neither the property, nor its condition, or its use, or its intended use, is or will be unlawful;

(d) that inspection of those parts that have not been inspected would neither reveal material defects nor cause the Valuer to alter the valuation(s) materially; and

(e) unless otherwise stated, that no contaminative or potentially contaminative uses have ever been carried out on the property and that there is no potential for contamination of the subject property from past or present uses of the property or from any neighbouring property.

(f) in the case of proposed or potential building or construction works, that ground conditions are satisfactory and no extraordinary expenses or delays will be incurred during the construction period.

**1.5** The Report will be provided for the stated purpose and for the sole use of the named Client. The Author accepts responsibility to the Client alone that the Report will be prepared with the skill, care and diligence reasonably to be expected of a competent property professional, and accepts no responsibility whatsoever to any parties other than the Client. Any such parties rely upon the Report at their own risk. Neither the whole nor any part of the Report nor any reference to it may be included in any published document, circular or statement or published in any way, without the Author's written approval of the form and context in which it may appear.

## **2. The inspection**

**2.1** The Author will undertake a visual inspection of so much of the exterior and interior of the property as is accessible with safety and without undue difficulty, as can be seen whilst standing at ground level within the boundaries of the site and adjacent public/communal areas and whilst standing at the various floor levels, which the Author considers reasonably necessary to provide the Service, having regard to its purpose.

The Author is under no duty to carry out a building survey or to inspect those parts of the property which are covered, unexposed or inaccessible, or to raise boards, move anything, use a moisture detecting meter, or to arrange for the testing of electrical, heating or other services.

**2.2** Measurements and Dimensions: The Author will not take accurate measurements of the building, internally or externally or of the site, but will take approximate or estimated measurements for guidance or identification purposes only.

## **3. The Report**

**3.1** If it is not reasonably possible to carry out a substantial part of the inspection (see paragraph 2 above) this will be stated

**3.2** Where the Author relies on information provided, this and its source will be indicated in the Report.

**3.3** The Report will state the existence of tenants improvements and any apparently recent significant alterations and extensions.

**3.4** The Author is not required to:-

**3.4.1.** take account of any grants or other subsidies which may have been received or may be available in respect of the property nor any liability to repay such sums which may arise on disposal.

**3.4.2.** make allowance in the valuation for Capital Gains Tax and VAT or any other taxation liability which may arise on the letting or disposal of the property - actual or nominal, nor for any cost of acquisition or disposal.

**3.5** The Author can assume that VAT will not be chargeable in addition on the interest valued. Following the provision of the report in the event of VAT being chargeable, the Author will provide a revised opinion of value/s.

**3.6** Where the Author is required to interpret the legal position of the Client or other parties, the Client confirms that no responsibility or liability will be accepted by the Author for any interpretation of legal documents, and in any interpretation of legal documents and legal assumptions must be checked by the Clients with a suitably qualified Lawyer if they are to be relied upon.

## **4. Instructions and Charges**

**4.1** All instructions of the Client Lender will be made directly by the Client and confirmed in writing.

**4.2** The Client will pay to the Author the fee initially agreed between them, or any amendment thereto to be agreed if the Author's instructions are subsequently modified. In addition, the Client will pay the amount of any Value Added Tax on the fee.