



An **APLEONA** company

Our Ref:

6 March 2018

Save the Cabinet Action Group
c/o Mr Edwin Kilby

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For the attention of: Mr Edwin Kilby

Dear Mr Kilby

Property: The Cabinet, Reed, near Royston, Hertfordshire SG8 8AH

Further to your email of 5 February 2018, you have asked us to provide you with a desktop opinion of the current Market Value of the above property to assist with possible negotiations to purchase the freehold interest. We are to provide our advice on the basis that the property is a closed public house that has retained the trade fixtures, fittings and equipment and could be re-opened as a public house with minimal investment. We have been provided with some historic trading information and you have confirmed we are to provide our advice based on the information provided by Mr Mike Howes. We have not inspected the property in connection with your instruction nor been able to verify the accuracy of the trading information provided but assume it to be correct.

The Valuation Report is a "desktop review", and does not constitute a formal valuation governed by the by the RICS Valuation –Global Standards 2017. As such, and although it is given in good faith , it is given without liability on the part of either GVA Grimley Ltd or any of the representatives named herein.

Although the level of due diligence undertaken to provide the appraisals would not be considered sufficient to conduct a formal valuation in line with the RICS Standards (due to the limitation on information available and lack of other detail and investigations), we consider that the methodology

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employed in arriving at our opinions of value conforms to that which would have been used had we been undertaking a formal valuation in line with the RICS Standards.

Our advice is only for the use of the party to whom it is addressed and for the purpose stated. It may be disclosed only to other professional advisors assisting in respect of that purpose. No responsibility is accepted to any third party for the whole or any part of the contents of this letter.

Location

You are clearly familiar with the location of the property so I do not intend to go into great detail on this point. The property is located in Reed, a small village circa 3 miles south of Royston in North Hertfordshire. Cambridge is approximately 20 miles to the north. The property is set on an attractive residential side street in a semi-rural position. The area has good main road communications, with the A10 being less than 1 mile to the west.

Description

From photographs and reference to other correspondence, we understand that the property is a detached two storey Grade II Listed building with timber clad elevations set beneath a pitched tiled roof. The trade accommodation is located on the ground floor and comprises public bar with snug, restaurant and ancillary trade accommodation including customer WC's, commercial kitchen and beer cellar. To the first floor is the private accommodation.

Externally, we understand that there is a customer seating to the front with extensive beer garden to the rear and car parking with around 25 spaces.

We understand that the property has now been fully converted to a residential use and would need capital investment to return it to a public house.

Tenure

We are advised that we are to value the freehold interest on a vacant possession basis.

Operating Structure

The property has been converted to a residential use without the necessary planning permission. We would anticipate that the property could be operated by an owner occupier.

Statutory Enquiries

You are clearly aware of the current position with regards planning matters at the property and we do not intend to rehearse this in our report. We have not made any enquiries relating to flood risk, contamination, environmental matters or invasive plant species. Our valuation has not made any allowance in this respect. Our valuation assumes the property has planning permission and the necessary licences to trade as a public house.

Business Summary

We understand that the property traded successfully until 2011, when the tenant left and the business closed. The property was placed on the market with different agents and offers in excess of £495,000

were invited for the freehold interest. We understand that offers were made but were not accepted. The property was eventually sold at auction in November 2015 for £375,000.

Business Considerations

We have been provided with unsubstantiated outline historic trading information. We understand that the business reported a turnover of £485,229 in 2007. Other anecdotal evidence suggests turnover may have been around £600,000 in 2005. In the 3 months prior to the closure of the business in mid-2011, you have advised that turnover was between £3K and £6K per week.

From the historic information above, it would appear that the business has traded successfully in the past. In support of this, it is possible to consider the Valuation Office Agency's assessment of the rateable value for the property, which is based on its trading potential. The occupier would have been asked to provide detailed trading information for the previous 3 years trading performance in order for the District Valuer to arrive at his opinion of the rateable value.

The 2010 valuation was initially assessed at £35,000, as at the antecedent valuation date of 1 April 2008. There was a successful appeal where the rateable value was reduced to £22,750 on 1 December 2011. This would suggest that there had been a decline in trade, but it is not clear what the reason for this was.

Fair Maintainable Turnover

The business has been closed for over 6 years and will therefore need time to be re-established. This can take 2-3 years for the business to reach a sustainable level of trade. There has also been a change to the performance of the wider pub market in this period. We would consider that a pub trading at the levels reported in 2005 and 2007 would be considered high in the current market, for a pub with these facilities and in this location. It is very likely that if these levels of trade were achieved, there would be a significant level of personal goodwill attached to the operator, rather than the property.

Taking this into account, we would expect the business to trade at maturity at around £250,000 to £300,000 net of VAT. We would expect an operator would need to invest in some new fixtures, fittings and equipment and possibly undertake some redecoration, in order to trade effectively.

Gross Profit

Trading on the basis that it is free of any supply tie, we would expect an overall gross profit margin to be in the region of 65%. This is in line with other free houses we are familiar with and generally accepted levels within the industry.

Operating Expenditure

General pub operating expenses have broadly stabilised over the last year, following a sustained period of increases. We would usually expect a business trading as a village community pub with basic pub food menu to incur operating costs before finance, tax etc. of between 37.5% and 42.5% of net sales.

Fair Maintainable Operating Profit (FMOP)

Based on the above assessment, we would expect the business at year one to produce FMOP of around £50,000, rising to perhaps £70,000pa at maturity.

The Valuation of Trade Related Properties

Valuation Practice Guidance Application 4 in the RICS Valuation Standards (The Red Book) relates to the 'Valuation of individual trade related properties' and considers the criteria to be adopted by valuers when assessing Market Value or Market Rent. It relates to a wide range of trade related property such as hotels, public houses, bars, restaurants, theatres or cinemas, fuel stations, care homes and other types of leisure property. They are normally bought and sold having regard to their trading potential.

The operational entity will usually include the following:-

- The legal interest in the land and buildings;
- Trade inventory, usually comprising the trade, fixtures, fittings, furnishings and equipment;
- The markets perception of the trading potential, together with an assumed ability to obtain/renew existing licenses, consents, certificates and permits.

Consumables and stock in trade are normally excluded.

Trading Potential - In the context of a valuation of the property, the trading potential is the future profit that a reasonably efficient operator would expect to be able to realise from occupation of the property. This could be above or below the recent trading history of the property. It reflects a range of factors such as the location, design, and character, level of adoption, and trading history of the property within the market conditions prevailing, that are inherent of the property asset.

Reasonably Efficient Operator – It is assumed that the market participants are competent operators, acting in an efficient manner. The concept involves estimating the trading potential rather than adopting the actual level of trade under the existing ownership and that it excludes personal goodwill.

Personal Goodwill – this is the value of profit generated over and above market expectations that would be extinguished upon sale of the trade related property, together with those financial factors related specifically to the current operator of the business, such as taxation, depreciation, borrowing costs and the capital invested in the business.

Fair Maintainable Turnover (FMT) – The level of trade that a reasonably efficient operator would expect to achieve on the assumption that the property is properly equipped, repaired, maintained and decorated.

Fair Maintainable Operating Profit – The level of profit, stated prior to depreciation, finance costs relating to the asset itself (and rent, if leasehold) that the reasonably efficient operator would expect to derive from the FMT based on an assessment of the markets perception of the potential earnings of the property. It should reflect all costs and outgoings as well as an appropriate annual allowance for periodic expenditure such as decoration, refurbishment, and renewal of the trade inventory. EBITDA is a term that relates to the actual operating entity and it may be different from the valuers estimated fair maintainable operating profit.

Profits Method (Stabilised Earnings) Valuation Methodology

The profits method of valuation will involve the following steps:-

- An assessment is made of the FMT that can be generated at the property by a reasonably efficient operator;
- An assessment is made of the potential gross profit resulting from the FMT, allowing for the likely costs and allowances of those expected by the reasonably efficient operator;
- The fair maintainable profit is then capitalised at an appropriate rate of return reflecting the risk and rewards of the property and its trading potential. Evidence of relevant comparable market transactions should be analysed and applied. In general terms, the current market evidence for trading freehold pubs is in the region of 6-8 times adjusted profit. This will be discounted to take account of closure, lack of fixtures and fittings etc;
- The valuer may decide that an incoming new operator would expect to improve the trading potential by undertaking alterations or improvements. This will be implicit within the valuers estimate of FMT. In such instances an appropriate allowance will be made to reflect the costs of completing the work and the delay in achieving FMT.

We have applied a multiple of 5 times to our assessment of the FMOP. We have deducted £10,000 from the capitalised income for minor repairs and limited new trade fixtures and fittings.

We would emphasise that, in view of the importance which the market for these types of properties attaches to trading figures actually achieved, in the event of a future change in the trading potential or actual level of trade from that shown in this report, the value might vary. Therefore, if

sales and profitability have improved, we would expect to see an increase in Market Value, likewise, if there has been a reduction in sales and/or profitability, it is likely the Market Value will have fallen.

Market Commentary

GVA undertake annual portfolio valuations for national pub companies and regional brewers. Our records indicate that over the last 2 years, pubs producing a similar level of income as set out in our opinion of the FMT are generally being sold for between £250,000 and £350,000. In particular, we have referred to a southern based regional brewer which has disposed of 9 sites in 2016. The values realised ranged generally from £230,000 to £400,000, with one at over £600,000.

You have also advised us of the following transactions that have occurred in the area over the last 3-4 years.

- **The Tally Ho** at Barkway - Approximately 1.4 miles from The Cabinet - marketed for £260,000, sold for £220,000 in April 2014.
- **The Black Horse** at Brent Pelham – Approximately 5.25 miles from The Cabinet - sold for £375,000 in October 2016. - This is a substantial building with a large car park.
- **The Fox & Hounds** at Barley - Circa 2.5 miles from The Cabinet - marketed for £265,000, sold for £360,000 in December 2017. We understand that planning permission for some development had been obtained, hence the £100,000 uplift on the asking price.

On review, the general spread of values for closed village pubs is in the range of £200,000 to £300,000. Clearly, factors such as condition, facilities, location and any higher alternative use value will affect the price agreed.

Market Value

Our valuation advice ignores any effect on Market Value that the current planning position may have on the business.

Having regard to the above factors, we are of the opinion that based on our desk top appraisal, the Market Value of the freehold interest in The Cabinet, Reed, near Royston, Hertfordshire SG8 8AH as at 6 March 2018, on the basis it is closed but the trade fixtures, fittings and equipment remains in place and minimal investment in the property is required, is:-

£250,000

(Two hundred and fifty thousand pounds)

We believe a marketing period of circa 9-12 months would be required to achieve a sale at our opinion of Market Value.

This desktop Valuation has been prepared by Charles Kaminaris MRICS, an RICS Registered Valuer and Director within GVA Retail Hotels and Leisure.

The valuation has been discussed with and approved by Peter Constantine FRICS, an RICS Registered Valuer and Senior Director in the same department.

Yours sincerely



Charles Kaminaris MRICS
Director
RICS Registered Valuer
Retail Hotels & Leisure
For and on behalf of GVA Grimley Ltd



Peter Constantine FRICS
Senior Director
RICS Registered Valuer
Retail Hotels & Leisure