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Dear Sir

**The North Arms, Mills Lane, Wroxton, OX15 6PY**  
**Confirmation of Instructions and Conditions of Engagement**

Following receipt of your instructions, we confirm that you have instructed us to provide an appraisal as to the viability of the above property as a public house. We understand that this letter report will be used in conjunction with other documentation in connection with a planning application for residential redevelopment of the property.

The study of the viability of the North Arms has been prepared by Alex Johnson MRICS, RICS Registered Valuer. We confirm that Alex Johnson visited the site on 17th December 2021 and carried out an internal and external inspection of the building and the overall property. He was unaccompanied during the inspection.

We have reviewed the documents associated with the planning application that have been sent to us including:

- A Design and Access Statement
- Existing and proposed floor plans
- Previous marketing materials for the sale of the property

We have no information in respect of the historical trade from the premises and understand that it was last open for business around 2013 and has been closed since then.

We are aware of the contents of the Royal Institution of Chartered Surveyors Guidance Note – Financial Viability and Planning and the Campaign for Real Ale Public House Viability Test.

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## **QUALIFICATIONS AND EXPERIENCE**

Alex Johnson is an Associate with Bruton Knowles who provide a wide range of commercial professional consultancy services including those relating to the licence and leisure property sector. Prior to joining Bruton Knowles in 2011, Alex worked for a specialist company within the licenced and leisure property sector where he dealt with agency and professional consultancy, primarily related to public houses.

He has been a member of the Royal Institution of Chartered Surveyors for over 26 years and is an RICS Registered Valuer. He specialises in the valuation of public houses, restaurants, hotels and bars. He advises on market values, market rental values and provides other consultancy advice to the leisure sector including business rate appeals.

Alex acts for a wide range of clients, these including national pub companies, regional brewers and smaller owner operators/lessees of licensed premises.

## **LOCATION**

The North Arms is located on Mills Lane in Wroxton which is near Banbury. According to the 2011 census Wroxton is a relatively small settlement with a population of 516.

There is one other pub, the white horse which is on the main road circa 100m away. It too is closed and has been since 2018/19.

There is also the Wroxton House Hotel which is open to residents and villagers for food and drinks. It is on the main road about 200m away from the North Arms

Wroxton has a village hall which is available for private hire and a primary school.

The subject property is surrounded to all sides by residential properties, with the Fairleigh Dickinson University the other side of the road.

## **DESCRIPTION**

The North Arms is an attractive detached building over three stories built some time in the 17th Century. It is constructed of stone with a majority thatched roof and two chimneys. There is a later ground floor extension to the side of the property which has a slate roof.

At the date of inspection it appears the building has been vacant for a very long period of time.

The building fronts the public highway known as Mills Lane. There is an area that could be used for parking and would accommodate around 8-10 cars. Also there is a two story barn, with single story extension. This could be converted to provide additional accommodation but it is circa 10m from the main building so could not be joined to it.

There is a pleasant south facing lawned area that could provide seating for around 30 covers.

The overall site extends to approximately 0.01 hectares (0.2 acres).

The internal arrangement at ground floor is a linear series of rooms. As viewed from the garden side right to left these comprise: a kitchen with external access and down a small series of steps to, a lounge room with large fireplace, leading to the bar room, again with fireplace, there is access to the cellar via a hatch behind the bar, a door giving access to the garden, with a further door leading to the toilets at the far end of the building.

The stairs to the first floor are located in the kitchen, though we understand that planning permission has previously been granted to move these if required. On the first floor is a room that has been used as a store and prep room for the kitchen below, and then a corridor leading to a bedroom, bathroom, a further corridor/ open room' with stairs leading to the top floor with a further bedroom, and a door leading to the final bedroom on the first floor.

From the plans provided we understand that the approximate gross internal area is circa 210 sqm.

## **TENURE**

We understand that the property is owned freehold with vacant possession throughout.

## **CONDITION AND REPAIR**

The property is in a general poor state of repair. The thatched roof is beyond repair and is in urgent need of replacement. The windows and external doors would ideally be replaced but this is dependent on the listing of the building. Parts of the stone walls of the building need re-pointing or some stones replacing. The property is likely to require rewiring and a fire alarm system to be added. There is no kitchen to speak of and the cold storage that is present would need to be replaced.

In terms of cost estimate we would consider that a figure in the region of £200,000 needs to be allowed for these works.

## **TRADE INVENTORY**

There are no trade fixtures and fittings within the building. We are of the opinion that in order to suitably appoint the premises to a reasonable commercial standard would cost somewhere between £20,000 and £30,000.

Restocking the trade inventory would cost circa £2500

## **LOCAL ENQUIRIES**

### ***Planning***

We understand that the property is listed and is situated within a Conservation Area.

The North Arms has an established use as a public house (Use Class A4).

### ***Licencing***

We understand that the Premises licence has been maintained.

### ***Rating***

Our inquiries confirm that, as at the current date, the subject property is entered in the 2017 list as a Public House and Premises with a Rateable Value of £11,750.

## **SERVICES**

We understand that the property is connected to mains water, drainage and electricity. There appears to be a connection to mains gas but the owner is unsure.

## **COMPETITION**

There are two key competitor pubs to The North Arms, they are the White Horse and the Wroxton House Hotel. The former appears closed but could re-open.

There are several other pubs in the near vicinity: The Butchers Arms, The Roebuck, The Barley Mow and The Blinking Owl all within 2 miles of The North Arms.

However, perhaps a more important factor in assessing the viability is the change in customer habits whose preference is to now stay at home and drink alcohol purchased at a cheaper price than that available at a public house, or to refrain from alcohol altogether. This trend has been growing now for several years and appears irreversible.

## Covid-19

Covid 19 caused the closure of all public houses earlier this year. Whilst venues can now open without restriction the emergence of new variants could continue to weigh on customers minds and if anything will further develop the trend towards home consumption of alcohol. However, since the long term effects remain uncertain and this viability study is to be based on the long term **for the purposes of this appraisal it is conducted on the assumption of a 'non covid' environment, that is the trade income and costs are pre-covid.**

## PUBLIC HOUSE MARKET COMMENTARY

Pre-covid 19 public houses have experienced very difficult trading conditions over the course of the last few years. Factors include:

The introduction of the smoking ban in public houses on 1 July 2007;

Aggressive discounting by supermarkets as a loss leader as they strive for market share;

Increasing beer duty;

Rising business rates, wage costs and other overheads;

The advent of social media and online communications has refocused the principal meeting point of the community which historically was the pub; and

The impact of current economic conditions and the reduction in customer's discretionary spending.

Statistics published by the British Beer and Pub Association, in relation to total beer sales in the UK, show a constant quarterly decline since 1999. The decline is evident in both on trade sales (beer consumed in pubs, restaurants and clubs) and off trade beer sales as well.

More than 12% of all British pubs have been lost to alternative uses since 2009. Those which have been considered to be un-viable, have been converted to alternative uses including convenience stores/ supermarkets, other retail uses or for residential occupation or development. However, the market sector evidence indicates that the percentage of pubs sold and remaining in licenced use is now increasing with over 60% remaining in 2017 compared with less than 50% in 2011.

Tenanted pubcos have continued to selectively sell under-performing sites, however, the volume of sales is much lower than in previous years. Overall, there is a reduced supply of bottom end freehold pubs and this lower supply, along with continued strong demand, has led to an increase in the sale price of these lower end properties.

Overall, there is more activity in the sale of freehold freehouses than in previous years, and values are slowly rising.

## THE BUSINESS AND BACKGROUND

There is currently no business operating from the property and it is believed it last traded around 2013. At that time it was owned by one of the large pubcos (believed to be Greene King) who likely decided to sell since it was not making a profitable return. It was purchased by an individual seeking alternative use which was strongly opposed by local residents, and then purchased in 2016 by the local university. The university intended to re-open the premises but after holding the building empty for over 4 years in early 2021 they decided to sell.

We consider that back in 2013, the last time the pub was operated, it was sold as the owners perceived that they could not make a financial return. This is likely because the tenant trading the property did not have high enough sales figures to maintain a profitable business. Also it should be noted that the buyer at the time did not intend to re-open as a pub, whether there were other parties who may have re-opened it as a pub is uncertain.

The resident population within the immediate vicinity of Wroxton and visiting students to the university will be the main source of custom for the pub. It is highly unlikely to attract any passing trade due to its hidden location within the village and the much more prominent presence of the White Horse, if open, the Wroxton House Hotel or The Roebuck which are on the main road.

Assuming that the proposed refurbishment costs are spent and the pub is able to create a well functioning kitchen we consider that trading income would be split fairly evenly between drink sales and a food offering. We do not feel this is the sort of venue that would benefit from a gaming machine income without causing detriment to the food sales.

## APPROACH TO VIABILITY ASSESSMENT

In order for a public house business to be considered viable, it must be capable of generating a profit on a sustainable basis in the long term. To assess this, it is important to consider the fair maintainable trade (FMT) that could be generated by a reasonably efficient operator (REO) and from which is derived a fair maintainable operating profit (FMOP). FMOP is the amount of profit left after paying for the cost of goods sold, operating expenses incurred and from which an owner operator would pay mortgage/interest payments and take their own remuneration.

For the purposes of a viability assessment, consideration must also be given to the property costs (ie a notional return on the freehold asset value over and above any property loan interest payments. For a business to be viable, an appropriate rate of return needs to be earned against the freehold asset value/opportunity cost associated with the capital employed in the ownership of the property which is entirely unrelated to the operation of the business itself. It is not sufficient to take solely into account interest payments associated with funding the purchase of the property. Additionally, account should be taken of costs incurred in funding repairs and improvements to the property.

A viability assessment also needs to make an allowance for depreciation. All fixtures, fittings and equipment employed by the public house business will wear out over time and will need to be renewed or replaced. If the business fails to make allowance for the replacement of such assets, it will ultimately be unable to continue to operate as the various items wear out. Therefore, it is fundamental to the requirements of a business to make allowance for these property depreciation costs in order to be viable in the long term.

## VIABILITY ASSESSMENT

### *Turnover*

There is currently no business operating from the property. The last operators of The North Arms leased the building and any financial information would be confidential to the former tenants and is not in the public domain. Furthermore, since the last time it traded was over 8 years ago any available figures are likely to have limited current relevance.

Therefore we have developed estimated trade figures based on the available trade space within the property and from knowledge of the trade levels of similar properties in affluent villages. In the current configuration and given the assumption is that the kitchen has remained in the current location and that the bar room remains available mostly for wet led trade. This would provide the following: the bar room, (16 covers inc high stools, 4 dining covers) and the central room (spaces for dining 12 covers.)

Thus given this type of unit in an affluent area it is our opinion that the potential turnover of The North Arms is some £2,500 - £3,000 a week or say £150,000 per annum net of vat, taking the higher figure of the range. Our calculations assume circa 50% of this turnover will be derived from food sales.

### *Gross Profit Margin*

The gross profit margin of the business is the turnover less the costs of the goods the business has to purchase to sell on. In the case of a public house, this is the cost of purchasing drink and food. The British Beer and Pub Association (BBPA publication 'Running a Pub – A Guide to Costs for Tied Tenants and Lessees 2018' forecasts that a small community local pub business turning over some £3,000 per week gross would achieve a gross profit of 51.3%. We consider that an operator of the Windmill, not subject to a tie, would be capable of achieving a higher gross margin than a tied tenant or lessee. When considering gross profit margins, the actual property/business has to be looked at in isolation although comparison can be drawn with broadly similar businesses. We are of the opinion that a 60% gross profit is a maximum that could reasonably be achieved by a REO.

### *Staff Costs*

On the basis of our opinion of FMT and the trading style, we are of the opinion that The North Arms is likely to be run by a husband and wife partnership, or something similar, with one working in the kitchen and the other covering the front of house, supported by additional full and part time kitchen, bar and cleaning staff as required. Again, there are various benchmarking indices available which show average levels of staff cost as a percentage of turnover. The BBPA suggest a figure of 13.6% in their 2018 publication. Although these do set a tone of which we have had regard, they do not reflect the specifics of any business in isolation or any regional differences. Overall, weight has to be given to the percentage of income from food and the higher degree of labour required for this operation. Therefore given minimum wage guidelines for a three person operations we have to use a minimum figure of £60,000.

### *Other Overheads and Costs*

There are various other costs associated with running a business. These come under a number of headings and include business rates and council tax, water rates, heating and electricity, insurance, advertising, print, post and stationery, telephone, professional fees, stocktaking and a number of miscellaneous items. Costs will always fluctuate and there are only so many costs that are controllable by the operator directly. Additionally, certain costs are relatively fixed and do not fluctuate with increased levels of sales.

Our assessment of these costs equates to 20-25% of net turnover although without any historic trading accounts, there has to be an element of subjectivity to this. This also makes an allowance for repairs and renewals to reflect a sinking fund for the cost of maintaining the fabric of the building in the long term. This is over and above the immediate cost of repair considered below. It is advisable to continually invest in the property as trade tends to fall off if it is not kept up to standard.



### *Property Costs*

In assessing viability it is not correct to merely look at FMOP or EBITDA (Earnings before interest, tax, depreciation and amortisation). The profit that is applicable in the case of a viability assessment has to also reflect the notional cost of the property asset, be it interest payments, amortisation or rent; secondly, after a charge is made for depreciation; and thirdly, after reflecting the cost of necessary repairs.

We are aware that the property last sold in August 2021 for £300,000. In 2017 it was purchased for £305,000. We are of the opinion that the capital value of the property is £300,000, in line with the recent sale. This figure discounts any alternative use value and reflects the underlying value of the licensed premises, relying entirely on the current potential viability and the longer term prospects of the operation when judged against the realistic potential of FMT and FMOP.

In the current market, commercial mortgage funding repayment terms are up to 20 years and the average interest rate currently being achieved is around 4% above Bank of England Base. The level and precise terms of any borrowing are very much dependent on the individual applying for the loan. Those with little experience in the trade are unlikely to be able to secure funding unless they have large deposits relative to the purchase price.

Any investor in the property will consider the return (rental income less holding and acquisition costs that can be achieved versus any alternative investment. The public house market is regarded as a relatively high risk investment and as a consequence higher yields are normally required compared to other property or other investments.

We are required to consider the viability of the public house in the longer term and not just based on current market conditions in the investment and lending markets. It is likely that commercial mortgage interest rates will rise in the medium to longer timeframe. We have adopted a figure of 5.5% as a return on capital.

In addition to the notional capital cost of the property, allowance also needs to be made for purchaser's costs, the necessary expenditure on the fabric of the building and the trade inventory in order that it could re-open for trade.

We have previously outlined the condition of the property. There are items of repair and decoration, refurbishment and inventory that need to be taken into account and are of the opinion that an allowance of £200,000 needs to be made for these works.

FMOP does not make an allowance for the depreciation of the costs of fitting out the public house. We estimate that the value of the non consumable trade inventory, including allowances for additions outlined above, would be some £25,000. Allowing a 10 year write off period would result in an annual depreciation charge of £2,500.

#### VIABILITY CALCULATION

<b>Fair Maintainable Trade</b>		<b>£ 150,000</b>
<b>Gross Profit</b>		<b>£ 90,000</b>
Less:		
Wage Costs		(£ 60,000)
Other Overheads and Costs		(£ 33,750)
<b>Fair Maintainable Operating Profit</b>		<b>(£ 3,750)</b>
Notional Property Cost	£300,000	
Purchaser's costs and stamp duty on property cost and vat	£ 5,000	
Repairs	£200,000	
Replacement Inventory	£ 22,500	
Total	£527,500	
Less:		
Finance cost based on hypothetical 5.5% return on £527,500		(£ 29,013)
Annual Depreciation Charge		(£ 2,500)
<b>Annual Loss</b>		<b>(£ 35,263)</b>

This is a significant annual loss and clearly the business is not viable perhaps the most noticeable is that it is a loss even before any property costs are added. Additionally, even with an allowance for the fact that living accommodation is provided the wage costs are at the very bottom end of what could be acceptable and there are significant risks associated with running the business.

One alternative is to increase the tradeable area by using the plans which the university gained approval for. This would increase the number of available covers by around 18/20. It would cost more to implement but would result in a better kitchen area, however due to it being over two floors it would make operations more difficult and increase staff costs.

**VIABILITY CALCULATION**

<b>Fair Maintainable Trade</b>		<b>£ 225,000</b>
<b>Gross Profit</b>		<b>£ 135,000</b>
Less:		
Wage Costs		(£ 80,000)
Other Overheads and Costs		(£ 50,625)
<b>Fair Maintainable Operating Profit</b>		<b>£ 4,375</b>
Notional Property Cost	£300,000	
Purchaser's costs and stamp duty on property cost and vat	£ 5,000	
Repairs	£250,000	
Replacement Inventory	£ 22,500	
Total	£577,500	
Less:		
Finance cost based on hypothetical 5.5% return on £577,500		(£ 31,763)
Annual Depreciation Charge		(£ 2,500)
<b>Annual Loss</b>		<b>(£ 29,888)</b>

Whilst expanding the trade area for the pub over two floors is likely to result in the ability to increase the turnover it is not likely to result in the business being able to operate profitably.

## CONCLUSIONS

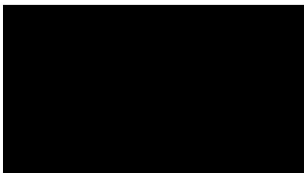
The North Arms is an attractive building in roughly the centre of Wroxton, a very attractive village. The village is small and but has a fairly busy road running on the side of it. The property has some parking and benefits from a reasonably sized south facing garden.

However, the trading catchment area for The North Arms seems very much limited to the village and the university. There are better placed pubs which would take the trade passing on the main road. The biggest issues though are the lack of trading area and the grade !! listing which prohibit the pub building able to achieve a scales and layout to enable it to trade profitably.

We have considered the potential profitability (in normal times) of a public house business that could be operated at the North Arms both in it's current layout and by expanding over two floors. In both instances we do not consider that even in the best case scenario and even discounting building costs, could the business operate on a profitable basis.

Having considered all the various factors and submissions, we are of the opinion that The North Arms is not financially viable and is not capable of being re-opened in the future.

Yours faithfully



**Alex Johnson MRICS – RICS Registered Valuer**  
Associate