DAVIS COFFER LYONS

www
dcl.co.uk
Telephone
020 7299 0700

52 Portland Place
London W1B 1NH

CR/LMSR/WhiteSwan

29 August 2023

Hussein Aziz
Associate Properties Limited
C/O Glass House Asset Management Limited
3rd Floor, 177-187 Arthur Road
London
SW19 8AE

By email: hussein@glasshousemanagement.co.uk

Dear Hussein,

White Swan, 22 The Village, Charlton, London, SE7 8UD
Viability Advice

Introduction and Instructions
I am instructed by yourself to provide viability advice in respect of the above public house property.

Davis Coffer Lyons specialises exclusively in leisure property advice, principally in London and the south-east. We have an active pub agency department which advises on the sale and purchase of pubs, as well as rent reviews and other matters, throughout southern England.

I inspected the property on 4 August 2023.

I am instructed to provide my advice in respect of whether the pub is economically viable.

Location
Charlton is a busy district of southeast London situated in the Royal Borough of Greenwich, some six miles from Central London. The area is bordered by Greenwich, Woolwich and Vanbrugh Park.

The area is well connected with several overground stations being served by Thameslink and Southeastern Railway, providing services to London Bridge, London Victoria and areas to the southeast in Kent such as Dartford. The subject property is situated approximately half a mile south of Charlton train station. The area has good road links with Woolwich Road (A206) connecting the area with central Greenwich and subsequently the A2 to the west, and Woolwich and Plumstead to the east. The area is also served by the Blackwall Tunnel Southern Approach (A102), providing access to the Blackwall Tunnel and areas to the north of the river Thames, as well as connecting to the A2 to the south which runs through southeast London/Kent before becoming the M2 near Gillingham. The A2 also leads to the South Circular Road (A205). The area is also well served by multiple bus routes.

The subject property is situated in Charlton Village on the southern side of the B210, which at this stretch is called The Village before being called Charlton Road to the west and Charlton Park Road to the east. This is a busy road with high levels of passing traffic however reasonably low levels of footfall. Surrounding properties typically comprise ground floor commercial units with residential above. There are a variety of occupiers in close proximity including a pet store, hot food takeaways, a barber, dental practice while directly opposite the property is a newsagents and food store as well as a Co-op food store. There are a couple of vacant units nearby. There is another pub, The Bugle Horn, around 70 metres to the west.

Housing in the surrounding streets comprises a mix of Victorian era terraced housing, low-rise municipal housing and high-rise municipal housing. As with most areas of London this is an ethnically diverse area.

Description

The property comprises a purpose built public house which likely dates from the latter part of the 19th century and appears to have been extended in more recent times. The pub is currently vacant. The building forms the end section of a long row of terraced properties and is two storeys of brick construction. The front elevation comprises a centrally set black painted section at ground level which has two double timer doors to either side, while to either side of these doors are bay windows. At the top of the black painted section is business signage while across the full width of the first floor front elevation are arched sash windows. All of the windows appear to be single glazed. The roof is hidden by a parapet wall.

The side elevation comprises further windows at ground and first floor level while there is also a side door, which at present is covered by a metal security door. It appears the property was extended to the rear, this extension also two-storeys and of brick construction.

I was unable to inspect the rear of the property. I was not able to gain access to interior the property however we understand the property has one L-shaped trading area with a central small trade kitchen. To the very rear of the ground floor is a small ancillary flat for live-in.

I understand the first floor comprises ancillary accommodation while the property benefits from a reasonable sized rear garden.

Condition and Repair

We are not building surveyors and are unable to confirm whether the property is free from significant defects or items of disrepair. I have assumed that the property is in sound order and free from structural faults, rot, infestation, and other defects.

Externally, the property appeared to be in reasonable order.

I did not gain access to inspect the property internally however have been provided with a video taken recently which shows the trading areas. This shows the trading areas in a poor condition from which to trade. I have not seen photos of the trade kitchen and other ancillary areas however assume these to be in poor condition also.

Planning

The property is situated under the jurisdiction of Royal Borough of Greenwich Council.

I have made enquiries of the council's planning website and have identified that the property is situated within **The Charlton Village Conservation area**. The property is not listed.

I have also identified the following material planning history in the last five years in respect to the property:

Date	Ref	Details	Status
Aug 2022	22/2746/F	Change of Use of first floor from Public House (Sui Generis) to 2x2 bedroom residential units (Use Class C3) and associated works	Refused
Jul 2019	19/2600/F	Land at Rear of White Swan – Construction of a single storey 3-Bed family dwelling with associated private amenity, driveway, bin and bike storage.	Approved

It is assumed that the property has established planning consent as a public house which is Sui Generis.

Rates

The property currently has a rateable value of £20,400.

The residential element appears to fall under Band C for Council Tax purposes.

Premises Licence

We have not been provided with a copy of the premises licence.

We understand the premises licence has lapsed, however for the purpose of our viability we have assumed that this would be authorised again by the council.

Based on our knowledge of operating hours, for the purpose of our viability we have assumed that the property is effectively able to open and sell alcohol 10.00am to Midnight Monday to Thursday, with slightly later sales on Fridays and Saturdays and shortened hours on Sundays with external consumption permitted up to 10.00pm daily.

Business Overview

The property ceased trading in the early part of 2020 and understand has not been open since.

I understand that the business operated as a wet-led community pub and prior to closing, the primary clientele was the local population which is predominantly a lower to middle income catchment area. The pub benefitted from its proximity to Charlton Athletic FC and was busy on matchdays.

I understand The White Swan used to provide reasonably frequent events such as a pub quiz and live music evenings as well as regularly showing live sport, whilst offering a fairly standard selection of draught and bottled drinks as well as a limited selection of spirits. I also understand the business used to offer a basic selection of standard pub hot food.

I understand the business used to operate from midday to around midnight Monday to Thursday and to 01.00am on Fridays and Saturdays, with an 11.00pm closing time on Sundays.

Competition

There are a limited number of pubs within the immediate area, however a reasonable number in the wider area considering the population density.

I have researched the local pub market using www.beerintheevening.com an online database of pubs covering the UK.

Within a half mile radius there are currently only two pubs which are open and trading, one of which is The Bugle Horn as mentioned previously, which is around 70 metres to the west.

I can see that within this half mile radius, three other pubs have closed their doors this century – The Valley, Elliscombe Road (closed in 2008), The Horse and Groom, 602 Woolwich Road (closed 2008) and The Antigallican, 428 Woolwich Road (closed 2018), this possibly suggesting a lack of demand for such establishments.

The nature of the local pub market in London is that customers generally frequent their 'local' or one of the 'locals' that suits their particular taste in terms of trading style (food led/budget/fitout/sports coverage/music policy/age profile of customers etc.) It would be normal for local residents to have a choice of more than two pubs within 0.5 miles in a mid-density area such as this. The surrounding area includes low-density Victorian era and municipal housing as well as some multi-storey municipal housing.

Whilst the number of pubs in close proximity is low, there are a larger number of venues within a mile.

I set out below a summary of the current competition:

Address	Comments
The Bugle Horn 6 The Village SE7	Traditional wet-led community pub situated in close proximity, offering basic pub food menu, TV screens showing sports as well as bar games including pool. Trade garden and parking to the rear. Function room upstairs. Appears to be independent operator.
The Royal Oak Charlton Lane SE7	Family friendly pub around half a mile to the north, close to Charlton Athletic FC's ground. Wet led pub with standard menu including burgers etc. Trade patio to the front and garden to the rear. Appears to be independent operator.
Fox Under The Hill Shooters Hill Road SE18	Family-oriented pub operated by Hungry Horse with a wide offering of standard pub fare. Situated circa 0.7 miles to the south.
British Oak 109 Old Dover Road SE3	Traditional wet-led pub with basic food offering, situated just under a mile away close to the A2.
Rose of Denmark 296 Woolwich Road SE7	Standard community wet-led pub located just under a mile to the north, on the other side of Charlton train station. The venue has screens showing sport and outside trading areas. Appears to be independently operated.

Market Commentary

The hospitality industry has faced an intense set of challenges in the past year, with inflationary pressures as a result of global shortages and supply chain issues, the recovery from the pandemic and the war in Ukraine.

The global increase in utilities costs is having a profound effect on UK hospitality businesses, where the cost of heating, and operating cooking appliances, refrigerators and extraction systems is a significant overhead. UK Hospitality research shows that utilities costs in the sector are around 80% higher year-on-year, while almost half of the businesses surveyed who signed a contract at the peak of the energy crises are fearing their business is at risk of failure.

Although there was some government support over 2022 and the early part of 2023, this has expired, and businesses now need adapt to a new equilibrium level of gas and electricity supply costs. Many operators negotiate long term utilities contracts and as these expire, the impact on some businesses can be much greater than others where contracts are of a shorter-term nature.

Industry bodies have raised the behaviour of every suppliers with the government, including rates well above wholesale prices, hiking standing charges, eye-watering deposits and in some cases refusing to work with hospitality companies. The market is seeing some stability to return however, it seems likely that long term, utilities costs in future will be a greater proportion of revenue than was the case prior to the Ukraine War.

The sector is experiencing a profound and long-lasting shortage of labour, including both skilled and unskilled staff. Contributing factors include Brexit and Covid, resulting in a smaller workforce. Whilst total migration numbers to the UK are at a record high, the number of migrants from EU countries, who have been the bedrock of the hospitality industry over the last 20 years, is reduced.

Labour shortages of this kind are however an international phenomenon, with the economic growth of many developed countries being held back by a lack of workforce. The sector is adapting to these changing economic conditions. The consequence of labour shortages is an increase in wages cost inflation in common with many other parts of the UK economy.

The cost-of-living crisis is exerting pressure on consumers and adversely affecting disposable income. This is reducing the ability for some consumers to spend in pubs and restaurants. This is most acute in less affluent areas and is most noticeable away from the home counties and London. As the impact of higher interest rates and utilities bills becomes more marked this will become more noticeable.

The increased rate of background inflation is eroding profit conversion, particularly for businesses where the cost-of-living crisis restricts the operator’s ability to lift menu/bar prices.

Increases in the BoE base rate means that the cost of servicing debt for operators is increasing and raising the hurdle rate for new investment in refurbishments and capital expenditure programmes.

The hospitality sector recorded a ninth consecutive month of year-on-year sales growth, with like-for-like sales up 6.7% in June 2023 (Coffer CGA Business Tracker). The hot weather brought consumers out to drink in pubs, especially those with beer gardens and terraces, and sales in this segment were up by 10.8% on June 2022.

However, some of this growth came at the expense of restaurants, where sales finished 3.2% ahead year-on-year. The bars segment completed a difficult first half of 2023 with an 8.4% drop in sales. Combined sales growth remains just below the level of inflation, though the gap between the two has closed over the first half of this year.

CGA and Alix Partners reported that 5,736 hospitality venues closed in to year to June 2023, with 1,895 net closures in the first half of 2023 and 3,841 net closures in the second half of 2022. The casual dining segment is now 5.6% smaller than 12 months ago, however food-led pubs (down 2.9%), high street pubs (down 3.1%) and community pubs (down 4.1%) have all recorded notably fewer closures than the sector as a whole.

The impact of ingredient cost and wage cost inflation is affecting food led businesses to a greater extent than wet led businesses. Foodservice inflation in the UK increased again in May 2023, to 21.6%, only just below the record high of 22.9% in December 2022 (CGA Prestige Foodservice Index). At the same point last year, inflation in the Index stood at 10.2%, which when combined with the latest figure means prices have risen by around 34% since May 2021. This index measures the cost of raw ingredient costs to hospitality businesses.

Home delivery sales grew significantly during the pandemic and helped to sustain overall revenues for many operators. This trend has now reversed with many companies showing falling deliveries revenues. For those operators who have pivoted towards delivery, the reduction in delivery sales must be replaced by in-store sales, if total revenues are not to be adversely affected.

The property market for licensed premises has been unstable over recent years as a result of the considerable economic and political uncertainty that has beset the UK in recent times.

The introduction of the E Planning Class in 2020 is giving rise to opportunities to convert existing A1 retail, A2, offices, and A3 restaurants into other uses including, medical and educational. There is increased flexibility between uses in prime high street locations.

After a period in which the volume of property transactions in the sector has been low, there is now a significant increase in stock and greater market activity. Some private operators are unwilling to continue to trade because of the cumulative effect of inflation, labour shortages, economic uncertainty and higher interest rates. There are, at the same time, many well-funded purchasers who are eager to grow their businesses and are acquiring assets.

The pub property investment market has been adversely affected by higher interest rates, and uncertainty regarding the sector generally, when compared with other parts of the UK economy. Well-located pub assets, particularly in London and popular market towns, continue to attract competitive bidding.

The casual dining market continues to be severely challenged. Food and labour inflation and increased utilities costs make it very difficult for businesses in this sector to continue to deliver profit and value for money to consumers. Prezzo have announced a major closure programme, and it is likely that others will follow. It is to be expected that many of these restaurants will convert to alternative use.

The market for central London licensed properties has remained remarkably resilient in terms of rental and capital values over the last two years. Leasehold premium values are however subdued against historical levels with buyers taking a risk averse approach.

Approach to Viability Assessment

For a business to be considered viable it must be capable of generating a profit on a sustainable basis in the long term. There are, by necessity, several different definitions of profit, all of which are valid, and all of which have applications by accountants and other users of accounting information for different purposes.

For example, gross profit is calculated by taking costs of sales (direct sales) from turnover or sales; operating profit is a measure of profit after wages costs and variable costs of the business have been deducted from sales. Sometimes for valuation purposes the appropriate profit level is EBITDA (earnings before interest, tax, depreciation, and amortisation).

None of the above definitions is appropriate to assess viability. The appropriate definition of profit to be applied in viability assessments is net profit before tax. This is the profit earned firstly after property costs (whether rent or a notional return on freehold asset value in terms of interest repayment and amortisation) and secondly after a charge is made for depreciation.

All businesses incur property costs, either by way of payment of rent, or through the cost of owning a freehold property. Similarly, all businesses incur depreciation of assets. Any business which is unable to meet these costs is not a viable business. I set out below further commentary as why this is so:

Depreciation

All fixtures, fittings and equipment employed by any business, whether a public house or in any other field of enterprise, wear out over time and need to be renewed and replaced. Depreciation is the non-cash allowance made in the preparation of all company accounts of all businesses to reflect this fact. If businesses fail to account for the replacement of fixtures, fittings and equipment, ultimately, they will be unable to continue to operate as businesses.

Any pub which does not make the charge for depreciation in their accounts will cease to exist once fixtures, fittings and equipment wear out. It is therefore a key requirement for all businesses to make a charge to depreciation to be viable in the long term.

Property Costs

All businesses incur property costs. In the case of businesses occupying properties on a leasehold basis at a market rent, there is effectively no capital employed in the land and buildings and no return on that capital employed is required. The property costs are transparent in the accounts with the payment of rent included in the overheads of the business.

Where a business occupies a freehold building, it has capital tied up in the asset. This capital could be employed elsewhere, either in the business itself, or in other alternative investments. Indeed, the capital could be earning a return by leasing the property out to a third party. There is an opportunity cost associated with the capital employed in owning the property. This is independent of the operation of the business the business itself.

For a business to be viable, an appropriate rate of return needs to be earned against freehold assets to reflect the opportunity cost associated with the capital employed in the ownership of property asset which is entirely unrelated to the operation of the business itself.

A business must be able to show these costs in their accounts to be proven to be viable in the long term.

Due to the reasonably poor condition of the property, an ingoing operator would be mindful of the need for immediate capital investment. In assessing viability, I have sought to establish its potential level of turnover and profitability post-refurbishment.

I have firstly considered the level of trade that I believe could be achieved by the average competent operator on a 'Fair Maintainable Trade' (FMT) basis, which is a concept that is widely adopted by valuers of licensed properties.

Financial Assessment

I set out at Appendix 2 my assessment of the business post-refurbishment.

I understand the property has potential both as just a ground floor and basement premises and has also been marketed in its entirety to include the first floor which I understand to be ancillary space.

I would make the following observations on my calculations.

Turnover

In summary, I consider the pub to be capable of generating about £416,000 per annum in net sales equating to £8,000 per week. This figure assumes the refurbishment works include a modernised trade kitchen, allowing the business to provide a basic food offering, alongside more attractive trading areas.

Gross Profit Margin

I have adopted a wet gross margin of 65.0% and a food margin of 62.0%. This reflects the competitive pricing that would be required to attract regular trade and that the operator would be an independent without multi-site purchasing power. This gives an overall margin of 64.25%.

Wages Costs

I have set out wages' costs inclusive of all on costs such as employers National Insurance, and pensions, and temporary staff.

My assessments are based on our knowledge of similar businesses.

Wages costs in the sector have risen over recent years and the current acute labour shortage is continuing to lead to wage inflation.

I have assumed the business would largely be operated by a live-in manager in the staff accommodation to the rear.

If the pub did not include the live-in accommodation this would lead to increased costs because of the need for the operator to live elsewhere.

Gross Profit After Wages
In my view, a reasonably efficient operator would expect to generate a gross profit after wages of £154,080 (37.0%).

Overheads
I have set out my estimate of likely expenses for this business, assuming a competent operation. My figures are based on our experience of valuing numerous pubs of this nature on a regular basis.

I have factored in fuel costs as well as other background inflationary pressures affecting the sector in the UK.

I estimate total overheads for the business are estimated to be £121,200 (29.1%).

Earnings Before Interest Tax Depreciation Amortisation and Property Costs
In my view the business can generate an EBITDA profit before any property costs, in the order of £32,880 (7.9%).

This figure is before any property costs are taken into account. A business which is profitable at the EBITDAR is not necessarily viable.

Property Costs and Depreciation
In assessing property costs, I have adopted a notional rental value of the property of £40,000 per annum. This figure is for the property in its entirety and equates to about 9.6% of revenue which is a figure which is to be expected for a pub of this nature.

If the property was owned on a freehold basis, this figure of £40,000 per annum would reflect the cost of amortising a loan for the purchase, including loan repayment and interest.

In assessing the necessary charge for depreciation, I have adopted a value of £45,000 for the fixtures and fittings post-refurbishment. This includes all front of house equipment, chairs, tables, garden furnishings, as well as back of house equipment such as commercial catering equipment, extraction equipment, chillers, freezers, cookers, grills, microwaves, as well as beer lines etc.

I have adopted a 15-year depreciation period and a straight-line approach, which is typical for the sector. The charge for depreciation is therefore £3,000 per annum.

Net Profit/Loss Before Tax
Based on my estimated revenue and costs above, I consider the pub is likely to make a loss of £10,120.

This is on the basis that the property has been re-fitted to a reasonably good standard from which to operate. The cost to achieve this good standard is difficult to estimate accurately however given the need for a complete overhaul of the entire property, including kitchen, bar area and seating areas, we conservatively estimate this to be at least £125,000.

Given we consider at the very minimum £125,000 to be likely required to restore the pub, without considering any acquisition costs, I do not consider any operator would spend at least £125,000 to restore the pub in the expectation of making an annual loss of £10,120.

Summary and Conclusions

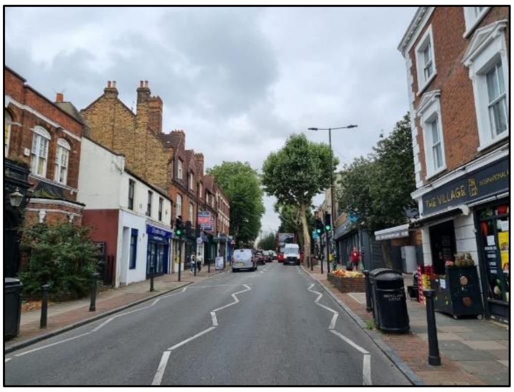
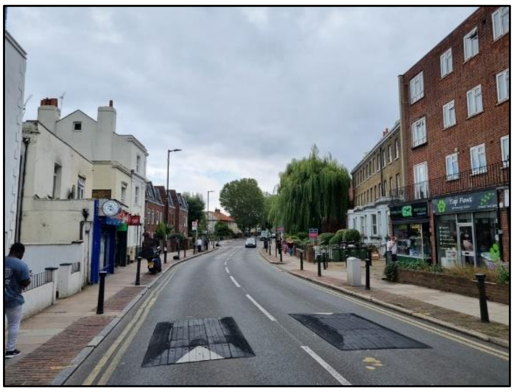
I am therefore of the opinion, The White Swan, 22 The Village, Charlton, London, SE7 8UD is not a viable business as a public house.

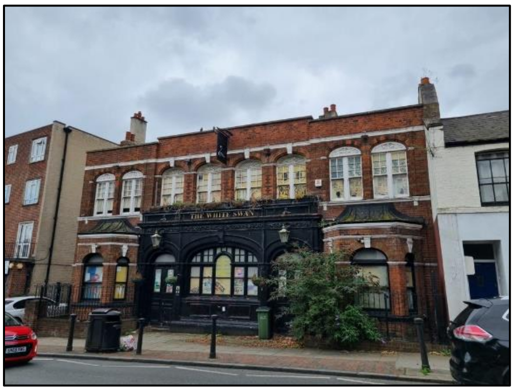
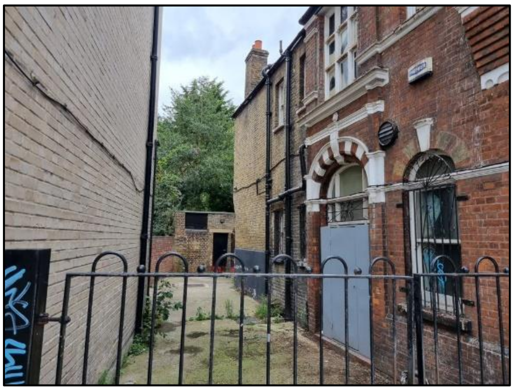
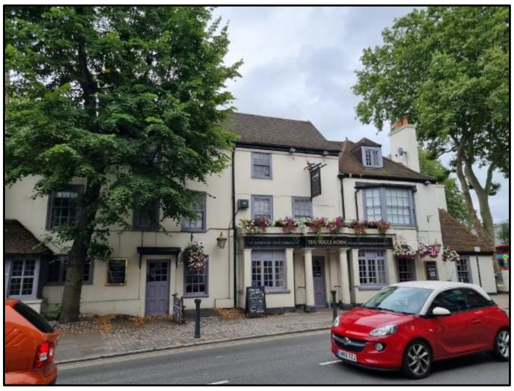
Callum Roxburgh MSc MRICS
Surveyor, Valuations
D 020 7299 0679
M 07805 384 232
E croxburgh@dcl.co.uk

White Swan
22 The Village
Charlton
London
SE7 8UD

APPENDICES

APPENDIX 1
Photographs

**NB Bottom Right photo shows the main competitor, The Bugle Horn.*

APPENDIX 2
Assessment of Viability

White Swan		CR FMT
Revenue		
Liquor	75.00%	312,000
Food	25.00%	104,000
Total	8,000	416,000
Cost of Sales		
Liquor	35.00%	109,200
Food	38.00%	39,520
Total		
Gross Profit		
Liquor	65.00%	202,800
Food	62.00%	64,480
Total gross Profit	64.25%	267,280
Direct wages incl NI sick pay and pensions etc	20.00%	83,200
Live-in manager salary	7.21%	30,000
Gross Profit after wages	**37.04%**	**154,080**
Overheads		
Utilities	8.41%	35,000
Telephone	0.48%	2,000
Water	0.72%	3,000
Beer Gas	0.24%	1,000
Refuse Disposal	0.96%	4,000
Advertising	1.20%	5,000
Printing, Postage & Stationery	0.48%	2,000
Bank charges	0.72%	3,000
Book keeping/auditing	1.20%	5,000
Licenses & Subscriptions	0.48%	2,000
Stocktaking	0.48%	2,000
Legal and professional fees	1.20%	5,000
Credit card commission	0.96%	4,000
Website	0.48%	2,000
Cleaning contract (materials and labour)	3.61%	15,000
Equipment hire	0.24%	1,000
Repairs & Renewals	2.40%	10,000
Rates	2.45%	10,200
Insurance	1.20%	5,000
General expenses	1.20%	5,000
Total Overheads	29.13%	121,200
EBITDAR	**7.90%**	**32,880**
Property occupation costs/rent	9.62%	40,000
EBITDA	**-1.71%**	**-7,120**
Depreciation		
Value of all FF&E	10.82%	45,000
Depreciation period - years		15
Depreciation charge	0.72%	3,000
Net Profit/Loss Before Tax	**-2.43%**	**-10,120**

DAVIS
COFFER
LYONS

White Swan
22 The Village
Charlton
London
SE7 8UD