

Viability Assessment

**Carpenters Arms
105 King's Cross Road
London
WC1X 9LR**

**Prepared by
Kenneth Hogg BSc (Hons) MRICS**

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T +44 (0)20 7198 2000
F +44 (0)20 7198 2001
www.lsh.co.uk

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RPS CgMs
140 London Wall
London
EC2Y 5DN

Lambert Smith Hampton
United Kingdom House
180 Oxford Street
London
W1D 1NN

For the attention of Christopher Hicks

By E-mail: chris.hicks@cgms.co.uk

Our Ref: LWVAL/KH/0087342

Dear Sirs

Client: Mendoza Limited, Hussein Aziz

Property: The Carpenters Arms, 105 King's Cross Road, London WC1X 9LR

1.0 Introduction & Instructions

- 1.1 It is proposed that in order to facilitate the creation of self contained flats on the first, second and roof levels of the property an existing trade kitchen on the first floor and other upper floor ancillary accommodation will be removed. The ground floor and basement will be converted into a lock up public house. I write with reference to your instructions to provide an appraisal as to the viability and long term marketability of the public house following the proposed works.
- 1.2 I carried out a full inspection on 23 May 2016.
- 1.3 I am a specialist adviser in respect of pubs and other licensed premises, with 25 years experience, throughout central and Greater London, the South East and nationwide. I enclose at Appendix 1 my CV for your information.
- 1.4 I have no conflict of interest in this matter and am pleased to report accordingly.
- 1.5 Lambert Smith Hampton is a national property consultancy firm.

2.0 Location

- 2.1 The subject property is situated within an area administered by the London Borough of Camden, approximately half a mile to the south east of King's Cross St Pancras Station and $\frac{3}{4}$ of a mile to the north of Farringdon. The surrounding area comprises a mixture of private and municipal housing, hotels, businesses and institutional uses including hospitals and educational establishments.
- 2.2 The area has been impacted by gentrification in recent years and has benefitted from significant inward investment. There is large scale redevelopment currently in progress around King's Cross to the north as well as Smithfield and Farringdon to the south. Future projects in the area include the proposed redevelopment of a large section of Royal Mail's depot at Mount Pleasant.

- 2.3 The subject property occupies a prominent corner trading position on the north western junction of King's Cross Road and Frederick Street, flanked to the west by a convenience store and to the north by secondary retail units. On the opposite side of King's Cross Road is a former court house which has been converted to a 583 bedroom backpackers hostel by Clink Hostels and the 408 bedroom Travelodge Royal Scot Hotel. A short distance to the south is the 219 bedroom Travelodge Farringdon Hotel and the 405 bedroom Holiday Inn King's Cross Bloomsbury Hotel.
- 2.4 The Mount Pleasant sorting office is situated to the south west. This is subject to a proposed redevelopment comprising some 700 homes, shops, offices, restaurants and open space. Frederick Street to the west comprises attractive Georgian style former townhouses, many of which have been refurbished for private residential use in recent years. Within the wider area attractions include arts establishments such as Saddlers Wells Theatre and Exmouth Market, which in recent years has established itself as a destination for food and drink with numerous pubs and bars drawing from a wider area and generating significant new footfall in the area.

3.0 Description

Exterior

- 3.1 The property comprises a corner terrace public house dating from the 19th century arranged over basement, ground and two upper floors. It is conventionally constructed of brick with the ground floor public house having timber framed glazing and tile frontage. Upper elevations are painted brick with ornate detailing around windows.

Customer Areas

- 3.2 The public house comprises a public bar at ground level finished in a traditional style with carpet floor, part exposed brick, part wood panel and mirrored walls beneath a plastered and painted ceiling.
- 3.3 The pub is furnished with seating at tables for approximately 30 customers and has space for vertical drinking adjacent to the bar servery. The servery is timber topped and equipped with cask and keg beer fonts, chilled drink and spirit displays. At one corner is a small raised stage area, equipment includes an AWP (amusement with prizes) machine.
- 3.4 In common with other central London pubs dating from the Victorian period the Carpenters Arms is compact and when built it is likely to have provided solely for vertical drinking with limited if any seating available for customers.

Ancillary Areas

- 3.5 Located to the rear of the bar there are separate male and female customer WCs. These are functionally presented. Ancillary accommodation at ground level includes a glass wash and prep room positioned to the rear of the bar servery.
- 3.6 An enclosed private lobby at the side of the bar servery provides access to the basement ancillary and upper floor accommodation via internal stairs. Within the basement there is an open storage area, area utilised as a workshop and a thermostatically controlled beer cellar. There is access for deliveries to the cellar from King's Cross Road via a cellar drop.
- 3.7 On the first floor of the premises, accessed via a narrow internal staircase, is a kitchen which we understand has been previously been used for trading purposes. On the day of our inspection it was being used as a domestic kitchen only, for the pub manager.

Residential Accommodation

- 3.8 On the first floor of the premises accessed by the same staircase as the kitchen is a room which is presently used as a living room by the pub tenant. However, I understand that this was historically used as a function room.
- 3.9 Situated off the first floor landing is a single WC with pedestal basin.
- 3.10 On the second floor of the premises, access via the single central staircase there are four bedrooms and a bathroom with full suite.

External

- 3.11 To the front of the property is a narrow forecourt furnished with timber picnic benches.

4.0 Floor Areas

Floor	Accommodation
Ground	Bar and ancillary.
First	Domestic.
	Trade kitchen.
Second	Domestic.

5.0 Repair & Condition

- 5.1 Externally and internally the property is in fair condition having regard to its age.

6.0 Local Enquiries

Planning

- 6.1 The property is administered by the London Borough of Camden Council.

Licensing

- 6.2 A premises licence is held which permits the sale of alcohol during the following hours:
- Monday to Thursday 0900 to 0030
 - Friday and Saturday 0900 to 0100
 - Sunday 1000 to 2330

Other activities permitted by the license include facilities for dance, live and recorded music.

Rating

- 6.3 I have made informal enquiries only and am informed by the entry appearing in the 2010 Rating List of the Valuation Office Agency on the date of valuation is assessed for business rates purposes as a public house with a rateable value of £15,250.

Council Tax

- 6.4 The residential accommodation The Carpenters Arms falls under Council Tax Band C.

7.0 Tenure

- 7.1 I understand that the property is owned freehold and is subject to an occupational lease. I have not been supplied with a copy of the lease prior to the preparation of this report.

8.0 Nature of the Business

- 8.1 The Carpenters Arms is a traditional wet led public house deriving its trade from a mixture of local residents, workers and tourists. It provides a good choice of cask conditioned 'real' ales as well as a variety of lagers. Customers are attracted by darts, televised sport and the venue also hosts entertainment in the form of live music, karaoke and quiz nights. No food is presently available on the premises other than crisps, nuts and snacks.
- 8.2 The pub has relatively long hours from 12 noon until as late as 1am as permitted by the licence.

9.0 Market Commentary

- 9.1 The London pub market has proved to be considerably more robust since the economic downturn than the UK as a whole. Trading conditions within the capital's business, tourist and affluent residential districts have been consistently strong. This is because of London's diverse economy and the benefit of a weaker exchange rate which has assisted in encouraging higher visitor numbers, particularly from continental Europe.
- 9.2 Buyers of public house investments in London area are influenced by the both the stability of the rental income and long term development potential. Low returns in other markets and limited alternative investment opportunities means the demand for all types of property investment including public houses are expected to remain stable for the foreseeable future.
- 9.3 Low interest rates have had a disproportionate effect on the economy in London and have helped to support people's disposable incomes. A higher proportion of the population goes out to socialise on a regular basis with visits to the pub still a popular pastime.
- 9.4 In commercial districts such as King's Cross and Farringdon there is a high demand for all types of public houses that cater for lunchtime business and the evening social market. Proximity to other public houses, which enables circuit drinking, as well as other leisure attraction and hotels help to feed trade.
- 9.5 The market for public houses in London is shaped by corporates that are actively seeking to enhance their estates, private investors, EIS back vehicles, high net worth individuals and individual owner operators. The market is presently characterised by a shortage of supply of good quality businesses and strong demand. Rental values for public houses have generally been sustained and premium values (including key money, goodwill, fixture and fittings) have hardened because of a lack of stock.
- 9.6 Many purchasers of freehold public houses for owner occupation or investment are seeking opportunities where there is underutilised ancillary accommodation. There are many examples of public houses which have been converted to lock up premises in recent years with the upper part having been converted for alternative use, such as hostels, residential letting accommodation or flats. This has helped to maintain the demand for public houses in London and in many circumstances has ensured that the trading business has remained viable.

- 9.7 Traditionally public houses provided a place to live for the 'pub landlord' as well as members of staff. However, this is no longer considered the norm, especially in Central London. Due to exceptionally high residential property prices it is no longer considered economically viable for operators to provide accommodation for staff on site.

10.0 Factors Influencing Trading Potential

Location & Situation

- 10.1 The property occupies a prominent corner trading position on King's Cross Road, between King's Cross St Pancras and Farringdon. Whilst the pub is relatively compact it is well placed to attract customers throughout the day due to its proximity to a variety of uses including businesses, large tourist hotels, hostels and residential property. It is close to both Exmouth Market and King's Cross which in recent years have become well established as destinations for public houses, bars, restaurants and evening entertainment. We consider the pub well placed within a drinking circuit which extends from King's Cross in the north to Farringdon in the south.

The Property

- 10.2 Whilst the public house enjoys a prominent corner site, the customer trading accommodation is relatively compact. This is typical of many traditional public houses in central London which were traditionally male orientated vertical drinking destinations rather than dining establishments. There is limited space for tables and chairs and as a consequence the premises are not particularly well suited for use as a venue for sit down meals.
- 10.3 External trading accommodation is also limited.

Surrounding Population and Demographics

- 10.4 The surrounding area is densely populated and has undergone gentrification in recent years. A high proportion of the residential population consists of young professionals that go out to socialise on a regular basis. One of the major attractions of living in Central London is proximity to public houses, bars and other forms of entertainment. The premises are also close to some very large tourist hotels as well as a backpackers hostel, all of which are likely to generate demand for the premises as a place to socialise.

Changing Consumer Behaviour

- 10.5 Over the course of the last 20 years the importance of food in pubs is well documented and acknowledged. There are, however, significant fixed costs associated with providing food which may affect viability. In addition unless a separate area can be provided the setting aside of tables and chairs for diners can have a negative impact upon the established wet trade.

11.0 Competition

- 11.1 There are numerous other public houses within the vicinity of the subject premises. This includes gastro pubs as well as more wet led establishments. The variety of different styles of pub and choices available to customers is likely to be of benefit to the subject premises as a wet led venue which we understand is known for real ales within a wider drinking circuit.

- 11.2 I have specifically been asked to comment on the former Pakenham Arms on Pakenham Street which ceased trading in 2014. The premises are in an inferior position to the subject being around 200 metres to the west of King's Cross Road where footfall is limited. Moreover notwithstanding that the property is currently vacant there is limited evidence of it being actively marketed by any of the main agents known to specialise in the sale or letting of public houses.

12.0 Approach to Viability Assessment

- 12.1 In order 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, a number of 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.
- 12.2 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 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).
- 12.3 None of the above definitions is appropriate to assess viability. The correct 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.
- 12.4 Any business which is unable to meet these costs is not a viable business.
- 12.5 I set out below in further detail why this is so:

Depreciation

- 12.6 All fixtures, fittings and equipment employed by any business, whether a public house or 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 a businesses.
- 12.7 In the case of a pub where substantial food is provided, the kitchen equipment, cooking appliances, extraction equipment, food storage equipment, fridges and freezers require renewal over a period.
- 12.8 Any pub which does not make the charge for depreciation in their accounts may be difficult to sustain in the long term.
- 12.9 It is therefore a fundamental requirement for all businesses to make a charge to depreciation in order to be viable in the long term.

Property Costs

- 12.10 All businesses must function from a place and as such 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.

- 12.11 Where a business occupies a building on a freehold basis, it has capital tied up in the asset. The 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 itself (in this case the operation of a pub). As a consequence, in high value areas such as Central London, extensive ancillary or staff accommodation which is not fully utilised for the benefit of the business or which may be redundant is likely to have an impact on the long term viability of the business.

Operational Costs

- 12.12 Notwithstanding the capital costs involved in providing a kitchen facility space within the property, operational costs must be taken into account by the operator. Some of these costs will effectively be fixed. For example, the provision of food service throughout the week, even if it is only during the lunch time period, will require an experienced chef or caterer to deal with purchasing, preparation and production of food. It is also likely that some assistance will be required, even on a part time basis in the kitchen, to take orders and to serve food.
- 12.13 There is very strong demand for catering staff in London at this time and it is therefore unlikely that such a service could be provided at a wage cost of less than £30,000 per annum. If we then factor in the cost of ingredients (usually equating to around 35% of sales) and VAT, then a revenue of £55,000 per annum would be required just to cover staffing costs. This is before other additional costs associated with catering, such as energy, equipment, maintenance, repair and other sundry items are taken into account.
- 12.14 Operators of public houses will generally seek to maintain wages at or below 30% of sales turnover in order to cover other costs and to achieve an acceptable level of profit. On this basis once ingredients and VAT have been taken into account the level of sales required to cover wages of £30,000 per annum would be in the order of £120,000 per annum or £2,300 per week. This is a full sum given the size of the premises and its seating capacity.
- 12.15 Repositioning the trade kitchen at the same level as the customer trading area may help to reduce staff and other operational costs. There is currently a trend for pub operators to provide open theatre style kitchens within the trading area and a good example of this trend can be seen at the Union Tavern located approximately 300 metres to the south of the subject premises at the junction of King's Cross Road and Lloyd Baker Street.
- 12.16 I note that the present operator has not provided food at the subject property for some time. As there is a trading kitchen already in place, I assume that the operator has considered providing a food service but for the reasons outlined above may not have considered it viable to do so.

13.0 Assessment of Viability

- 13.1 I have been asked to consider the impact on the premises of removing the existing kitchen associated with the public house at first floor level as well as other ancillary accommodation on the upper floors in order to enable the conversion and extension of the upper parts for residential use.
- 13.2 The immediate consequence of not having a kitchen is likely to be negligible as the business does not serve food and so far as I am aware has not served food for some time.
- 13.3 I am advised that the room at first floor level presently used by the operator of the pub as a private living room formerly provided a function room for the pub. However, it appears that it has not been used as such for many years; furthermore access to this space is by way of a narrow internal staircase from a private lobby at the back of the pub. It is therefore unlikely that it would be practical to reinstate this space without significant expenditure.

- 13.4 The benefit of reinstating the function room is likely to be negligible given that the amount of additional space provided would be small and the primary purpose of the pub is provide a traditional wet led drinking establishment. It is unlikely that there would be a sufficient return generated through additional sales to cover the capital cost involved in reinstating this space as evidenced by the fact that the space has been redundant for some time.
- 13.5 The loss of living accommodation may make the premises less attractive to potential owner operators or future tenants and may arguably have an impact on the marketability of the premises. However I would refer to my previous comments on this point, it is no longer the norm in London, and especially in Central London, for staff accommodation to be provided on site due to the very high costs associated with providing accommodation. Operators of public houses in the capital no longer expect living accommodation to be provided.
- 13.6 It is unlikely that the lack of living accommodation would have a material impact on the marketability of the ground floor and basement for public house use. Prospective operators are more likely to be drawn by the location of the premises, footfall and proximity of demand generators such as hotels and numerous businesses.
- 13.7 The lack of accommodation for the pub operator may have an impact upon the rent or market value which could be achieved by the owner for the public house as an investment or for sale. However, this will be more than outweighed by the income which can be generated through the more efficient use of the upper parts.
- 13.8 Whilst the loss of the trade kitchen is unlikely to have a significant impact upon the existing business as it does not provide food, I have been asked to consider the marketability of the public house in the longer term. My opinion is that prospective operators of this public house in the future are likely to consider the most fitting use as a public house and my opinion is that demand is likely to continue to be for a wet led outlet.
- 13.9 Central London is a densely populated area with numerous businesses and workers travelling in and out of the city each day for employment as well as tourists and visitors travelling into the centre of London for entertainment and leisure. As a consequence, there is demand for a variety of different styles of public house catering for a spectrum of needs.
- 13.10 There are many traditional wet led public houses which continue to thrive in London which provide little or no food. Operators including The Craft Beer Company and Barworks which also specialises in handcrafted beer are both actively seeking to expand their portfolios in Central London including King's Cross.
- 13.11 A limited kitchen facility may be of benefit in order to extend trade during lunchtimes. For example the Hat and Tun at Hatton Wall, approximately one kilometre to the south of the subject premises, is a very successful small pub overseen by the gastro pub operator ETM. The pub has limited seating capacity but provides food between 12 noon and 3pm during the week. The menu is appropriate to the size of the pub and is focused on speciality pies, for which it has received a number of accolades. Kitchen facilities comprise a small service counter adjacent to the ground floor bar servery and a preparation and storage area in the basement. When the premises were acquired by ETM it included a much larger trade kitchen at first floor level. The company did not consider it viable to retain such a large space as a kitchen and this has subsequently been adapted for higher value office use.
- 13.12 I understand that under the present proposal a new staircase will be provided which will mean that the existing darts throw and raised stage will need to be repositioned. The purpose of the staircase is to enable self contained access to the upper parts and more direct access from the public area to the basement cellar. The existing staircase and private lobby will be removed and incorporated into the trading area thus mitigating the impact of the scheme on the amount of space available for customers.

13.13 Repositioning of the staircase may also allow more intensive use of the basement for trading purposes. There is space within basement which could provide a trade kitchen or customer WCs. Repositioning WCs into the basement may present an opportunity to create a cooking area at the rear of the ground floor and I would refer to my previous comments on the current trend for open kitchens in pubs.

14.0 Conclusions

14.1 In my opinion the loss of the existing catering kitchen and other proposed changes are unlikely to have a significant impact upon the trading potential of The Carpenters Arms.

14.2 In respect of the marketability in the future, I also do not consider the loss of the kitchen or upper floor ancillary accommodation is likely to have a material impact on the marketability of the public house. If anything, it will help to ensure the longer term viability of the public house within the ground floor and basement.

Yours sincerely



Kenneth Hogg BSc MRICS
RICS Registered Valuer
Director
For and on behalf of
LAMBERT SMITH HAMPTON

Date: 22 June 2016

Appendix 1

CV of Kenneth Hogg BSC (Hons) MRICS

Kenneth Hogg is a Chartered Surveyor and RICS Registered Business Valuer specialising in providing advice on a wide variety of matters including trade related valuations. He is regularly instructed as consultant for estate management or strategic reviews and to provide preliminary advice reviewing business plans.

Based in London, Kenneth has over 24 years experience dealing with traditional public houses. He began his career working for brewers Allied Breweries where he qualified as a Chartered Surveyor. He subsequently worked for Bass Taverns now Mitchells and Butlers and Scottish and Newcastle before moving into consultancy roles as an adviser on pubs and other trading related property in the early 2000s. He is currently employed as a Director by Lambert Smith Hampton where he specialises in trade related property valuation.

Whilst working across the UK, his regional area of expertise is concentrated in London, the South East and East Anglia.

Since 2006 Kenneth has been involved in professional work in the traditional pub sector as well as High Street pub & restaurant market and hotel sector across the UK. Kenneth also provides valuation advice to all the leading banks, private equity firms and investors. More recently he has been involved in Expert Witness cases and viability studies of public houses for both operators and local authorities.

Kenneth was recently elected as a member of the Association of Valuers of Licensed Property (AVLP) which is a leading body of specialists in the industry. He has also been an Associate member of the British Institute of Innkeeping (BII) which is a professional body in the licensed sector and the Leisure Property Forum.