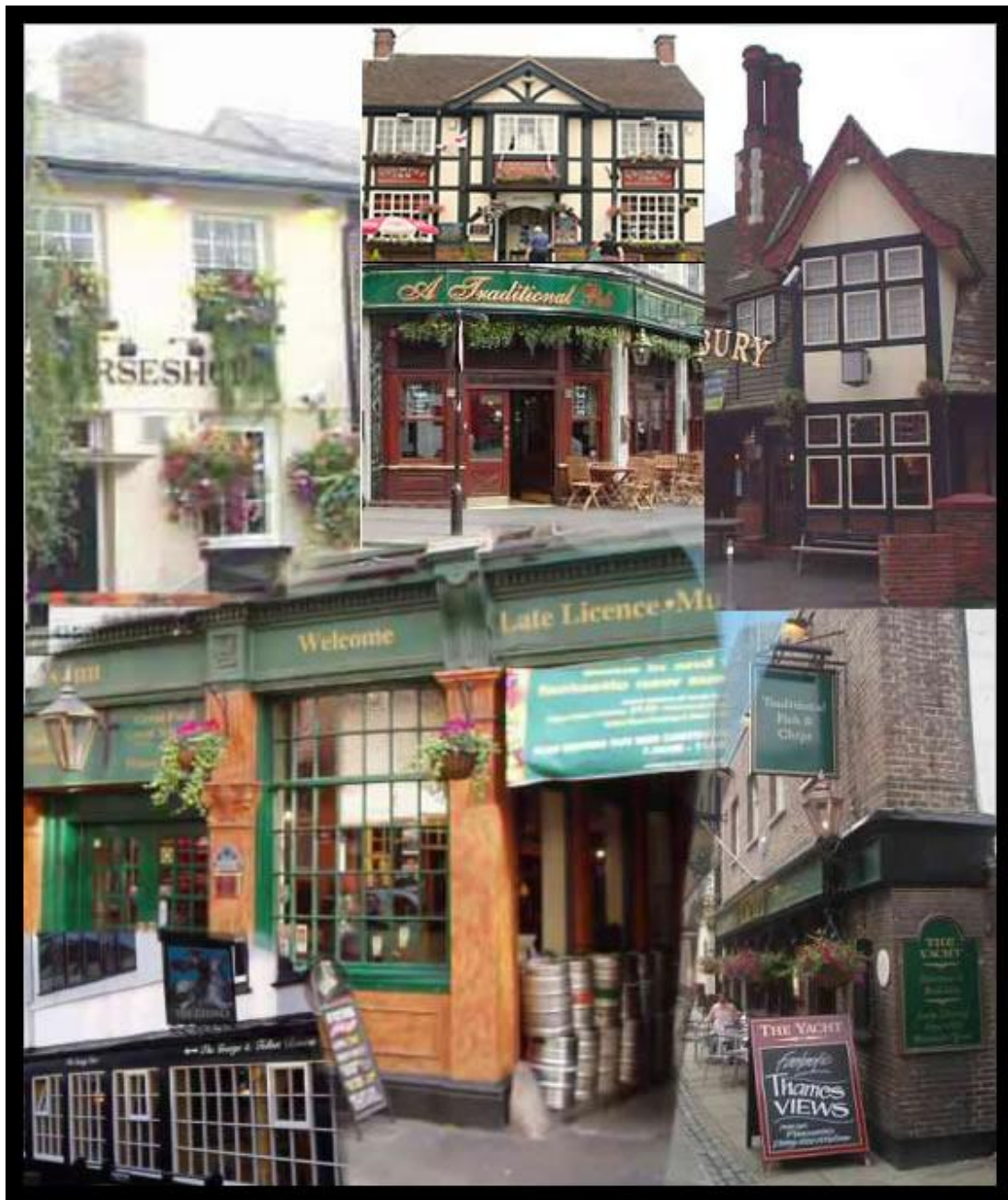




Rating Lists 2010

Valuation of Public Houses

Approved Guide



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Rating List 2010
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1. Introduction

This Guide to assessing public houses for rating purposes is agreed between the British Beer and Pub Association and the Valuation Office Agency and applies to the Rating Lists in England and Wales compiled on 1st April 2010.

Whilst it is intended that this Guide should enable the assessments of all public houses to be determined correctly, the opportunity for individuals to seek to have their houses valued outside its terms, where exceptional circumstances would otherwise make their application inappropriate, is not precluded.

The valuation basis applies throughout England and Wales, although the Guide differentiates between houses in and around London and the provinces.

2. Basis of valuation

The basis of valuation for non-domestic rating is set out in Schedule 6 to the Local Government Finance Act 1988 (as amended).

Para 2(1) of Schedule 6 provides that the rateable value of a non-domestic hereditament "shall be taken to be an amount equal to the rent at which it is estimated the hereditament might reasonably be expected to let from year to year" on three stated assumptions. For composite property, para 2(1A) defines this as the amount that "would reasonably be attributable to the non-domestic use of the property".

Rental evidence has been analysed by reference to a unit of comparison. In most cases the appropriate measure is turnover, although in exceptional circumstances, e.g. city centre bars, this may be floor area. (See 7.1 below.)

Valuations will generally be made by considering liquor trade and non-liquor trade separately. The latter will comprise primarily catering and, where applicable, accommodation and/or other areas of trade.

To ascertain the correct rateable value the first and most important consideration is to determine the "fair maintainable trade" (FMT) of the property excluding VAT. This will be split between gross receipts for liquor, food, accommodation and other sales; and net receipts from gaming machines.

The figure of receipts adopted should represent the annual trade considered to be maintainable at the antecedent valuation date (AVD), 1st April 2008, having regard to the physical nature of the property and its location as at 1st April 2010 when the new rating lists come into force (or subsequently following a material change of circumstances) on the assumption that the business will be proficiently carried out by a competent publican responding to the normal trading practices and competition of the locality.

Rental percentages are then to be determined, in accordance with the principles set out in this Guide, and applied to the income streams for liquor (including gaming machines), food, accommodation and certain other receipts. The sum of the rateable values attributable to these separate income streams, together with the value attributable to any other part of the property that is not reflected in the fair maintainable trade will, in most cases, provide the total rateable value.

Valuations should not be arithmetical calculations. Each must be considered, by a competent valuer, within the terms of this Guide having regard to the individual nature of each property,

its trading location and style of trade. The Guide provides the scope to reflect the wide-ranging factors influencing value that will be encountered and hence full consideration of all aspects is essential to its proper application. The 2010 Rating Lists require a fresh look at values in the light of changing circumstances and therefore relativities exhibited between properties and locations in previous Lists will not necessarily be of assistance.

2.1 **Ascertaining fair maintainable trade**

Vacant and to let, the hypothetical tenant would be aware of the actual trade (unless a new property) which is the starting point of the valuation in accordance with principles endorsed by Mr Justice Thompson in *Watney Mann Limited v Langley (VO)* [QB 1963].

"He (the hypothetical tenant) will, as the prospective tenant would, endeavour to estimate what trade could reasonably be expected to be done by the ordinary tenant if he were the licensee in the premises as they now are, in the area in which they are located. While I do not doubt that such a prospective tenant would consider in his mind whether he could make as great or a greater success of the house than his predecessor, the base from which he would ponder on his prospects would, I have no doubt whatever, be the actual trade his predecessor had in fact done."

This principle remains the cornerstone of the valuer's estimate of fair maintainable trade (FMT).

Whilst the hypothetical tenant's bid is assumed to be made having regard to the physical circumstances as at the material day, 1 April 2010 for the compiled list, the AVD is 1 April 2008. When estimating the FMT, the hypothetical tenant will have regard to the receipts envisaged as at 1 April 2008 for the forthcoming year and will be informed both by trends of receipts over previous years as well as the amount of receipts in the year closest to the AVD. In practice this will usually be the actual 12 months accounting period if the financial year ends between 1 August 2007 - 31 March 2008. Where the financial year ends between 1 April and 31 July, the 2008 year end may well prove most reliable as a minimum of eight months figures would be available, and the remainder could reasonably be predicted at the AVD by the hypothetical tenant having regard to both the 2007 figures for these months and recent trends in respect of both the general area and the specific property.

In some cases it may be obvious from the outset that the actual trade figures are either higher or lower than those achievable by the hypothetical tenant for the type of house in that location, for example due to the personality, skill or approach of the actual licensee either in attracting or deterring trade. In such cases the FMT adopted should be that considered appropriate and achievable and in the mind of the hypothetical tenant.

Where the property is part of a group, chain or brand, any over- or under-trading outside the range of trading variation that can reasonably be expected may not be immediately apparent. In such cases no systematic adjustment, either upwards or downwards, is appropriate but where it is considered that this may be a factor the initial valuation should be reviewed at the stand back and look stage.

It must, however, be recognised that all occupiers operate in the real world, that the market is imperfect and by the very nature of public houses turnover will vary. It is therefore inappropriate to devalue turnover in terms of a physical measure, such as licensed floor area, in an attempt to calculate a unit value for the purposes of comparison with another property.

3. Liquor sales

These will be valued on the basis of the annual fair maintainable trade in drinks, plus the annual fair maintainable net income from gaming machines, expressed in pounds, net of VAT.

The assessable drinks sales will reflect receipts from all intoxicating liquor, soft drinks and incidental bar sales such as crisps, nuts etc, (*i.e. the details requested in question 7 (a) (i) of Notices VO 6010 and VO 6011*).

The assessable income from gaming machines will be in respect of machines classed as "amusement with prizes" (AWP) and will be takings net of prizes, hirers' charges or rental, licence fees and VAT, (*i.e. the details requested in question 7 (b) of Notices VO 6010 and VO 6011*).

A percentage of this total will be taken to reflect the rateable value attributable to the liquor and gaming machine trade. The appropriate percentage for each public house should be derived as follows.

3.1 Choice of geographical area

This Guide provides sets of "valuation bands" for central London, outer London and provincial England and Wales. A set of "valuation bands" should be selected to reflect the geographical area and trading position of the house.

The areas comprising "central London" and "outer London" are not to be taken as having rigid boundaries on the ground. Valuers should take a reasoned view as to the appropriate band applicable to a particular house taking into account the location, the nature of the house and its surroundings and the type of trade. In marginal situations the position, the locality and the type of trade will not only influence the decision as to whether "central" or "outer" London or "provincial" bands are appropriate, but will also have a bearing on whether Band 1, 2 or 3 should be applied (see paragraph 3.2).

Central London

The liquor sales valuation bands for central London (see Appendix A) apply generally to the following London billing authorities:

- City of London
- City of Westminster
- Kensington and Chelsea Royal London Borough
- Camden London Borough - part (the Holborn area)
- Islington London Borough - part (the Finsbury area)
- Tower Hamlets London Borough - part (the Docklands area)

Nevertheless it must be expected that in certain trading locations it will be appropriate to value a property situated in central London (as defined above) by applying the "outer London" bands, or to value a property situated in a London borough adjoining the above areas by applying the "central London" bands.

Outer London

The liquor sales valuation bands for outer London (see Appendix B) apply generally to the London billing authorities not included above as "central London". Nevertheless it must be expected that in certain trading locations it will be appropriate to value a property situated in the outer London area by applying either the "central London" or "provincial" bands.

Provincial England and Wales

These bands (see Appendix C) generally apply to all billing authorities in England, outside London, and Wales.

For houses located in the outer London boroughs and the adjoining "non-London" billing authorities a rigid boundary on the ground is inappropriate and valuers should take a reasoned view as to the appropriate set of valuation bands applicable to a particular house.

It is permissible for relevant houses situated in the non-London billing authorities bordering on London boroughs (listed below) to be valued within the "outer London" bands, whilst houses situated within London boroughs in similar marginal locations can be correctly valued within the "provincial" bands. In deciding whether a house should be valued as "outer London" or "provincial" all relevant factors must be taken into account including its geographical position and the nature of the locality, property and trade.

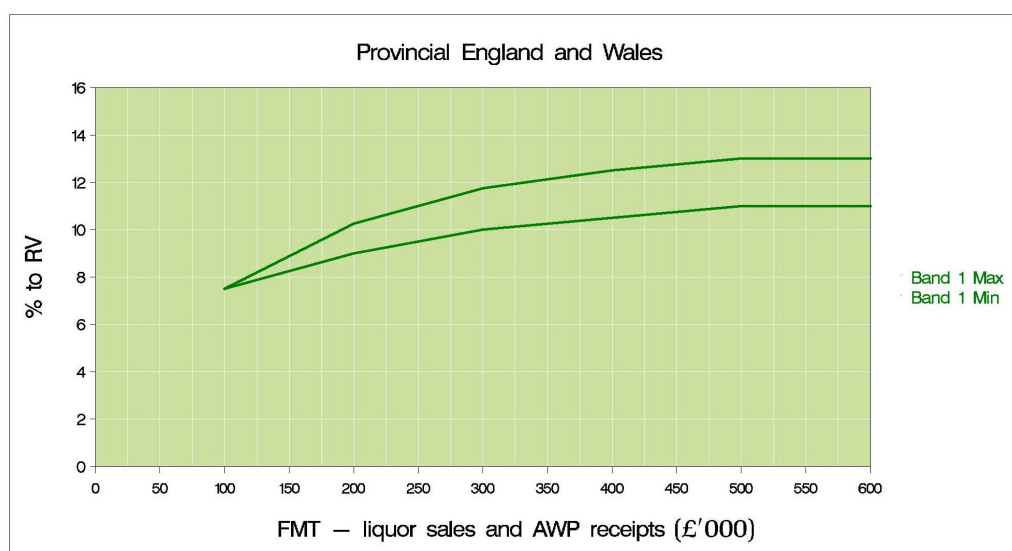
"Outer London" bands may be applied to properties in the following non-London billing authorities in the appropriate circumstances. Some of these extend many miles from London and the valuation overlap at the boundary does not apply throughout the whole of these billing authority areas.

- Brentwood
- Broxbourne
- Dartford
- Elmbridge
- Epping Forest
- Epsom & Ewell
- Hertsmere
- Reigate and Banstead
- Runnymede
- Sevenoaks
- Slough
- South Bucks
- Spelthorne
- Tandridge
- Three Rivers
- Thurrock
- Watford
- Welwyn Hatfield

3.2 Choice of band

The property should be placed within one of the three “valuation bands” for the appropriate geographic area so as to reflect the nature of the trading locality, the physical characteristics of the house and the style of trade which is maintainable. The banding approach is intended to provide valuers with the opportunity to reflect all factors which affect value and will only succeed in producing fair relativities if all three bands are considered in the adoption of that appropriate for a particular property.

Band 1 (upper) This is shown graphically below for provincial England and Wales.



This band includes public houses:

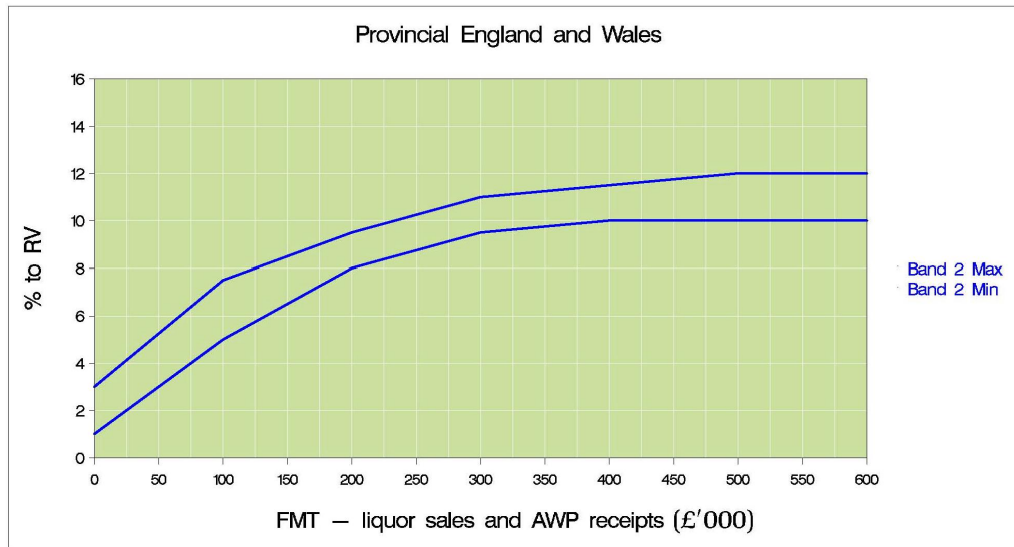
situated in primary licensed trade areas of town and city centres, resort or amenity areas (e.g. tourist or entertainment areas), or prominent locations with little local competition (e.g. houses that are the obvious choice for passing traffic or the focus of the local community) where there is strong customer demand all year round, and

that are modern, well designed, and purpose built; or older properties refurbished and refitted to a similar standard; older houses of high quality construction retaining their character and renovated or maintained to a high standard; and well designed conversions fitted out to a high standard. The houses will usually be well planned, easy to maintain and staff, probably with a single open plan bar area, but may have a separate purpose designed restaurant; or

where trade can be carried on profitably with few concessions to competition and will not require to be sustained by deep discounting, continuous expenditure on entertainment, incentives, advertising or involve substantial costs for door staff and security.

The percentages at the change points of the above graph are shown in the tables at paragraph 3.3, which also shows the corresponding bands for outer London and central London.

Band 2 (middle) This is shown graphically below for provincial England and Wales.



This band includes public houses:

situated in secondary licensed trade areas of towns and cities; adjacent to major roads, in residential communities or employment areas or are of types described for Band 1 but situated in rural areas, hamlets or villages where there is strong customer demand and no competition, and

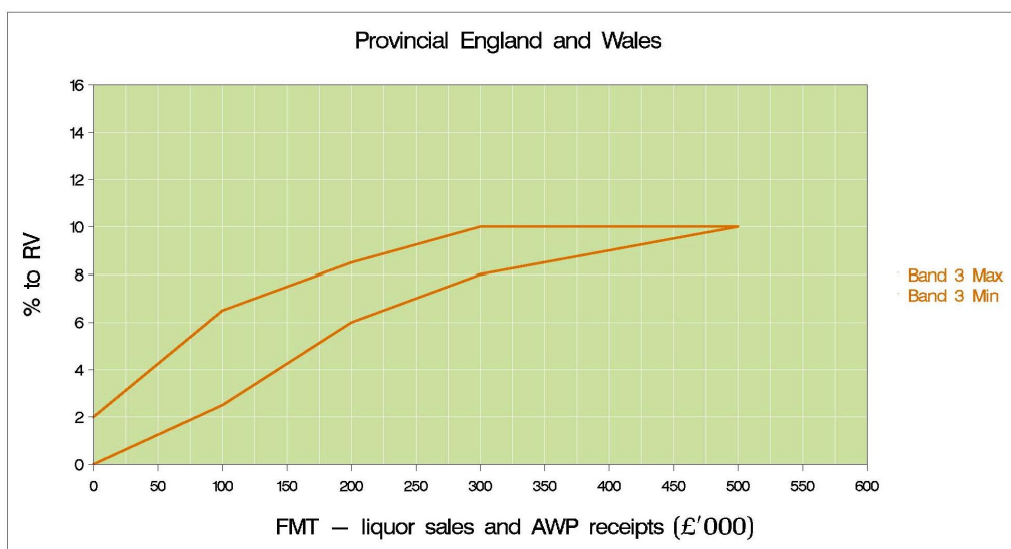
that do not qualify for Band 1 as described above but are of average design and quality. Generally the houses will be well maintained irrespective of age and refurbishment. Plus houses situated as described for Band 1 but where the property may be older, of poorer quality or design and less well maintained; and any refurbishment will now be tired or dated;

customer demand is unlikely to be strong at both lunch-time and evening sessions, seven days a week. The trade may have to be supported by discounting and expenditure on entertainment, incentives, advertising or involve substantial door staff and security costs; or

inns, not in the nature of an hotel, that provide additional facilities and services for guests using the letting bedrooms.

The percentages at the change points of the above graph are shown in the tables at paragraph 3.3, which also shows the corresponding bands for outer London and central London.

Band 3 (lower) This is shown graphically below for provincial England and Wales.



This band includes public houses:

situated in poor trading positions, such as areas with large populations but with strong local competition from other houses or clubs; out of the way localities, with little passing traffic and no special attractions; or in a rural environment serving local communities, with little or no itinerant trade from nearby towns and cities, or tourists, and

of older construction with little or no up to date alterations; in urban areas are likely to be multi-storey and /or large in size. The accommodation may include a function room and bars are likely to be laid out in multiple rooms. Running costs (building maintenance and staffing) will probably be above the average, and

that tend to be used by locals only. There may be a requirement to advertise, to offer incentives (which may, for example, include low priced, low volume, food, event and team sponsorship, etc) or to provide entertainment. Day time trade may be unsustainable. The provision of facilities for smokers may be impossible or uneconomic.

The percentages at the change points of the above graph are shown in the tables at paragraph 3.3, which also shows the corresponding bands for outer London and central London.

Where houses do not fall readily into one of these bands the factors set out above can be interpolated to give a balance of advantage and disadvantage. This should enable the valuer to make a judgment as to which to adopt, and the balancing factors considered when making the choice of percentage within the band.

3.3 Percentage ranges

These tables set out the percentage ranges within the liquor bands at the change points as shown in the graphs at Appendices A – C.

Central London

Turnover £	Band 1 max %	Band 1 min %	Band 2 max %	Band 2 min %	Band 3 max %	Band 3 min %
0			3.5	1.0	2.5	0
100,000	8.0	8.0	8.0	5.5	7.0	3.0
200,000	11.75	10.5	11.0	9.0	9.5	7.0
300,000	13.25	11.5	12.5	11.0	11.5	9.5
400,000	14.0	12.0	13	11.5	11.5	10.5
500,000	14.5	12.5	13.5	11.5	11.5	11.5
500,000 +	14.5	12.5	13.5	11.5		

Outer London

Turnover £	Band 1 max %	Band 1 min %	Band 2 max %	Band 2 min %	Band 3 max %	Band 3 min %
0			3.0	1.0	2.0	0
100,000	7.5	7.5	7.5	5.0	6.5	2.5
200,000	10.75	9.5	10.0	8.5	9.0	6.0
300,000	12.25	10.5	11.5	10.0	10.5	8.5
400,000	13.0	11.0	12.0	10.5	10.5	9.5
500,000	13.5	11.5	12.5	10.5	10.5	10.5
500,000 +	13.5	11.5	12.5	10.5		

Provincial England and Wales

Turnover £	Band 1 max %	Band 1 min %	Band 2 max %	Band 2 min %	Band 3 max %	Band 3 min %
0			3.0	1.0	2.0	0
100,000	7.5	7.5	7.5	5.0	6.5	2.5
200,000	10.25	9.0	9.5	8.0	8.5	6.0
300,000	11.75	10.0	11.0	9.5	10.0	8.0
400,000	12.5	10.5	11.5	10.0	10.0	9.0
500,000	13.0	11.0	12.0	10.0	10.0	10.0
500,000 +	13.0	11.0	12.0	10.0		

3.4 Choice of percentage

When the appropriate band has been determined, the valuation will fall within the range of percentages in accordance with the above tables and as shown graphically at Appendices A-C.

The graphs show a range of percentage values within each band at any level of fair maintainable trade. The choice of the percentage to be applied to the total of the fair maintainable liquor trade and the fair maintainable net income from gaming machines for each individual house is a matter of judgment. This allows for the "fine tuning" of the valuation to reflect the operation of the house and the significance of the expenses required to maintain the particular type of trade being carried on. Factors to be considered include whether the house is, or is not, trading at its optimum potential, the level of prices charged, staffing costs (taking into account the level and scope of services offered), maintenance, incentives, insurance, marketing, provision of entertainments, etc, in relation to the fair maintainable trade adopted. For example, the provision of Sky TV can be a significant outgoing for the publican, but can have a marked effect on turnover. If it is established that the turnover would have been less but for the provision of Sky TV, then regard should be had to the additional costs involved in deciding the appropriate percentage to apply.

4. Food sales

These will be valued on the basis of the annual fair maintainable trade in food sales expressed in pounds, net of VAT. The assessable trade will reflect receipts from the sale of all food (excluding incidental bar sales such as crisps, nuts etc, wines and liqueurs), (*i.e. the details requested in question 7 (a) (ii) of Notices VO 6010 and VO 6011*).

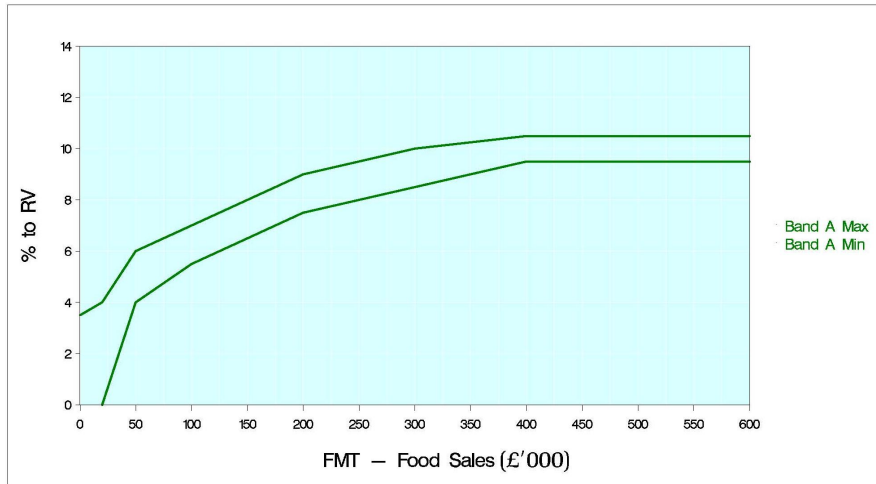
A percentage of this total will be taken to reflect the rateable value attributable to the food trade. The appropriate percentage for each public house (throughout England and Wales including London) should be derived as follows.

The property should be placed within one of the two food "valuation bands" (similar to the approach for the liquor trade) to reflect the nature of the trading locality, the physical characteristics of the house and the style of trade which is maintainable. The ability of the house to conduct food trade and the style and profitability of the food operation will finally determine the correct band. Whilst there may be a correlation between liquor and food bands, it will not be unusual to find houses valued in liquor band 1 also valued in food band B. The converse will also apply just as frequently.

4.1 Choice of band

Band A (upper)

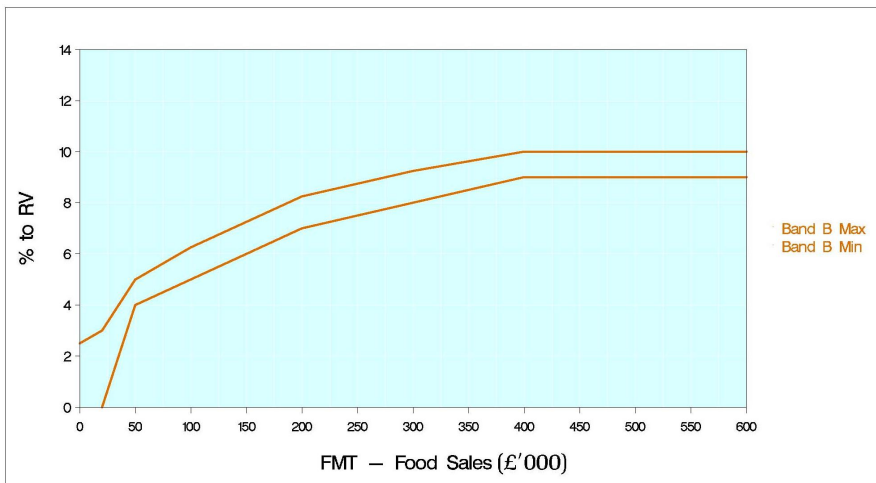
This band includes high profit concept operations, large volume, low cost and high profit operations not requiring employment of specialist personnel and multiple outlet standard menu operations with large volume and consistent trade all week.



Band B (lower)

This band includes low profit high volume concepts together with low volume high cost restaurant operations. It will therefore include snacks and sandwiches provided to encourage wet trade and sold at low profit, limited menu volume catering sold at low prices, food offered in accordance with a licensing condition and restaurant catering with à la carte menu, specialist staff and high running costs.

As with the choice of the liquor trade band, there can be no precise definition of the factors which will determine the appropriate band in every case. If the characteristics of a particular house make the choice of band unclear, the factors set out above can be interpolated to give a balance of advantage and disadvantage. This should enable the valuer to make a judgment as to which band to adopt, and the balancing factors considered when making the choice of percentage within the band.



4.2 Percentage ranges

This table sets out the percentage ranges within the food bands at the change points as shown in the graph at Appendix D.

Turnover £	Band A max %	Band A min %	Band B max %	Band B min %
0	3.5		2.5	
20,000	4.0	0	3.0	0
50,000	6.0	4.0	5.0	4.0
100,000	7.0	5.5	6.25	5.0
200,000	9.0	7.5	8.25	7.0
300,000	10.0	8.5	9.25	8.0
400,000	10.5	9.5	10.0	9.0
400,000 plus	10.5	9.5	10.0	9.0

4.3 Choice of percentage

When the appropriate band has been determined, the valuation will fall within the range of percentages in accordance with the above table and as shown graphically at Appendix D.

The graphs show a range of percentage values at any level of fair maintainable trade within each band. The choice of the percentage to be applied to the total of the fair maintainable food trade for an individual house is a matter of judgment. Similar considerations apply here as are outlined in respect of the liquor trade. This allows for the “fine tuning” of the valuation to reflect the operation of the house and the significance of the expenses required to maintain the particular type of trade being carried on as well as other matters, including the proportion of dry receipts attributable to letting accommodation (where applicable and not valued separately, see paragraph 5) and the type of catering operation.

Whilst there is no proviso for a *de minimis* level of food sales, where these are less than £20,000 per annum particular consideration should be given to the type of operation. Where this mainly comprises cold snacks, sandwiches and re-heated ready meals, with a sufficient volume to keep wastage low, a positive percentage should be adopted within the band range. Where this mainly comprises food prepared and cooked in a kitchen, and/or is sold at low profit to sustain the wet trade, the receipts should be disregarded.

5. Accommodation sales

These will be valued on the basis of the annual fair maintainable trade in letting accommodation sales expressed in pounds, net of VAT. The assessable trade will reflect receipts from the sale of all letting accommodation (excluding meals), (*i.e. the details requested in question 7 (a) (iii) of Notices VO 6010 and VO 6011*).

5.1 Letting bedrooms

For public houses where six or less bed spaces are utilised for letting purposes, the receipts generated by the lettings should be added to the food FMT and valued as part of the food element. In cases where letting accommodation exceeds six bed spaces an appropriate judgment as to the correct rate percent to be applied to the fair maintainable trade in accommodation sales will have to be made.

The appropriate percentage will be derived from the rate determined for the fair maintainable trade in food sales (see above) plus an addition of from zero to 3%, depending on circumstances. In cases where the annual fair maintainable trade in food does not exceed £150,000, accommodation (if qualifying for separate valuation) will be valued within the range of 6% to 9% according to the circumstances.

In considering the appropriate additional percentage, account will have to be taken of whether the accommodation is an integral part of or ancillary to the main business, the type and class of the letting bedrooms, the number of bedrooms available, the level of receipts, the proportion of these receipts as compared with the total receipts of the business, the degree of occupancy and the probable profitability of the letting business (bearing in mind additional staffing, advertising, etc attributable solely to the business of the letting accommodation).

5.2 Lodges

For lodge accommodation adjoining a public house; public house restaurant/licensed restaurant or roadside restaurant the rental percentage will be determined according to the amount of fair maintainable trade per bedroom, irrespective of whether it is let for single, double or family occupancy. A standard lodge bedroom will be treated as one Double Bed Unit (DBU).

The rateable value of the lodge accommodation should be determined in accordance with the table below, which applies throughout England and Wales including London. These percentages may be increased by up to a factor of 1.1 (eg scale at 10.0% increased to up to 11.0%, scale at 15.0% increased to up to 16.50% and so on) where a lodge, of a similar physical type and situated in a similar location to those operated by the major chains, is run by a solus operator.

Purpose-built lodges will be valued at the top of the range whilst a lower point will apply (typically the mid-point) when the property is converted from a building designed for another use, eg an office. The range provides scope to reflect additional physical factors/original design constraints if significantly higher maintenance and running costs are shown to be involved.

Accommodation receipts per DBU - £	% to RV Range Applicable
20,000 and over	17.5 to 18.5
19,000 – 19,999	17.0 to 18.0
18,000 – 18,999	16.5 to 17.5
17,000 – 17,999	16.0 to 17.0
16,000 – 16,999	15.5 to 16.5
15,000 – 15,999	15.0 to 16.0
14,000 – 14,999	14.0 to 15.0
13,000 – 13,999	13.0 to 14.0
11,000 – 12,999	12.0 to 13.0
9,000 – 10,999	11.5 to 12.5
7,000 – 8,999	11.0 to 12.0
5,000 – 6,999	10.5 to 11.5
Under 5,000	10.0 to 11.0

5.3 Interface between hotels and public houses

As hotels are not valued in an identical manner to public houses/inns it is important to determine whether a property supplying liquor, food and accommodation is properly valued on the basis set out in this Guide or as an hotel. In most cases there will be no problem in identifying public houses/inns and hotels. Where, however, the distinction is blurred it is important to identify the exact nature of the property and the likely occupier.

If the property provides public rooms, service and other facilities in addition to bedrooms, though it may have a significant licensed and restaurant trade, it is likely to be an hotel. It is likely, on the other hand, to be a public house/inn if, whilst having letting rooms it does not provide the services normally associated with an hotel.

The following factors, whilst not exhaustive, may give some guidance:

- a) the Class of the Use Classes Order under which the property has planning permission,
- b) amount and relativity between income streams,
- c) physical factors such as separate entrance, reception, sitting room, etc provided for residential guests,
- d) arrangement of bedrooms, type and standard of accommodation,
- e) whether bedrooms have en-suite facilities or bathrooms/WCs are shared,
- f) level and type of services provided for residential guests,
- g) type of staff employed e.g. receptionist, housekeeper, chambermaid, night porter, etc.

6. Other receipts

The valuation basis for the receipts from liquor sales and gaming machine takings generally reflects receipts from other sources not mentioned in paragraphs 3-5 above. These will include tobacco sales, admission charges, room hire and takings from amusement, video and vending machines (with the exception of AWP machines), telephones, ATMs (automatic teller machines/cash dispensers), juke boxes, pool tables etc (*i.e. the details requested in question 7 (a) (iv) of Notices VO 6010 and VO 6011*). Subject to the provisos set out below, no separate addition to reflect these receipts in the valuation will be necessary.

Where profits generated from some other receipts included above are exceptional, regular and secure, for example admission charges to a nightclub or bar providing live entertainment, dancing etc a rental percentage may be applied to the fair maintainable trade of such activities.

Exceptionally, where significant additional sources of income are generated from the land and/or the buildings, which are additional to the use of the property as a public house, and return a secure level of profit on a regular basis, a rental percentage may be applied to the fair maintainable trade of such activities. Examples of such sources of income might be car boot sales or other 'markets', caravan lettings or fairs.

Receipts from lettings that are separately occupied and separately assessed for rating purposes are to be excluded. Examples where this may apply will include advertising hoardings, caravan sites, ATMs etc.

7 Other considerations

7.1 Bars

Where a licensed property forms part of a distinct market for a particular location, for which there is relevant market evidence, consideration needs to be given as to whether the property will be more correctly valued on a floor area comparative basis, rather than by reference to the fair maintainable trade in accordance with the foregoing guidance.

Such properties will usually be found together in major towns or cities, often occupying sites close to, or on the edge of, the prime retail location.

They will often comprise refitted or prestigious premises converted in the 1990s or later, with large open plan areas (greater than 400 m²), although size is not necessarily definitive. Interchangeable use between bar and restaurant must be possible without offending the rating principle of "rebus sic stantibus". Public houses retaining their traditional nature will not satisfy these criteria.

Where leased on terms entered into prior to the changes in the Use Classes Order (effective from 21 April 2005 in England only) the rents will reflect A3 use not specifically limited to that of a public house. Later leases in England will need to permit both A3 and A4 use.

Where a distinct licensed/A3 market can be identified, and the rents, when analysed, are consistent within the market such that a tone of value can be established on a floor area comparative basis, then this rental evidence should be used to derive the RV.

7.2 Public houses in primary licensed trade areas

Where the circumstances outlined for bars (in 7.1 above) do not apply, FMT should be ascertained in accordance with the foregoing principles. No allowance is to be made for pricing policy of the actual occupier when determining the FMT (although this may be a relevant consideration when the band or specific point within the band is determined where it is considered that the level of FMT can only be achieved by discounting sale prices compared to competitors).

Having calculated the initial valuation it may be necessary to stand back and look in order to consider whether or not the resultant figure appears reasonable in comparison with the assessments of similar styles of property and if it fits into the broad range and pattern of assessments in similar localities.

Every factor should be considered including imperfections in the market. Where it can be clearly demonstrated that the initial valuation is patently out-of-line with other houses, (having regard to all relevant characteristics of the house as opposed to making inappropriate comparisons based upon individual factors, such as turnover per m² or total RV, irrespective of whether this is higher/the highest or lower/the lowest RV in a locality), and this appears inconsistent with the assessments of similar styles of property in similar locations operated by different occupiers, valued on the receipts basis following disclosure of full trade information, the valuation should be reviewed.

If such differences cannot be explained by the vagaries of the market, the individual physical characteristics and size of the house, the type and style of trade which is maintainable, its customer base and the nature of the trading locality, it will be necessary to revisit the initial estimate of FMT in order to reconsider whether this is consistent or substantially out-of-line with the turnover achieved at other houses. This will be a matter of valuation opinion and experience, not arithmetic. If it is concluded that the estimated FMT should be revised, as the hypothetical tenant would not envisage trading at such a level, the valuation will require to be reworked in order to determine the assessment.

Where particularly high-trading examples are encountered with wet turnovers in excess of £500,000, consideration needs to be given as to whether the security of the top slice of the

total turnover is subject to question. In some cases there may be a need to discount the actual turnover in respect of this top slice in order to arrive at FMT. This will be where it is considered that this element of trade is likely not to be sustainable if the occupation were to change.

To help inform the valuer regard should be had to the occurrence of similar turnovers at other similar public houses in the same location as the subject. Where the general level of turnover is readily replicated by others then no discounting will be necessary. The valuer needs to carefully consider all facts that may point to an exceptional difference which is not solely attributable to the superiority of location and physical attributes of the subject property.

7.3 Public houses - superior to competition

If the circumstances outlined for bars (in 7.1 above) do not apply, where a new licensed premises opens in an area that is different in style, character and size to existing public houses and no direct competitors in the same market are established in the locality, the property should be valued in accordance with the foregoing general principles.

At the stand back and look stage it is necessary to consider whether the valuation accurately represents the rental value of the property. Whilst this may be informed by the assessment of other houses of similar style, character and size in comparable locations, including those in adjoining towns, where these have been valued following disclosure of full trade information, the vagaries of the market, the individual physical characteristics, size and modernity of each house, the type and style of trade which is maintainable, its customer base and the nature of the trading location and competition must not be overlooked.

In itself, just because a house is trading well, has a higher turnover per m² than similar houses elsewhere, or it has a higher or the highest RV in a locality, does not inevitably lead to the conclusion that the property is over-trading.

Where the evidence clearly demonstrates that the actual trading profiles should be adjusted, all factors must be considered in determining the level of FMT for the property. It is important to avoid the creation of an artificial level of turnover and assessments for such properties. Each decision must be based upon all the facts pertinent to that particular house. A comparison made solely on the basis of the appropriate FMT determined for one house, at a level which differs from the actual trade, cannot be used to support the derivation of FMT at another house without also taking all relevant facts, as they relate to the house in question, into account.

7.4 Public houses opened post AVD

Again the objective is to determine the FMT at 1 April 2008 levels, on the assumption that the property was open and trading at that time, where the circumstances outlined for bars (in 7.1 above) do not apply. As there will be no trade history, it will be necessary to look at the turnovers of houses of similar size and physical characteristics, in similar trading localities and with similar styles of trade and customer base. In primary licensed trade areas where the house is competing with similar houses this will include others within the vicinity; in areas where competing houses are of different physical characteristics, often much smaller traditional houses, it will be necessary to go further afield to look at houses in similar towns and comparable locations. Comparison of trade should only be made with houses that have been valued on the receipts basis where full trade information has been disclosed.

If the FMT is based upon evidence of agreed assessments of comparable houses, determined in accordance with this Guide, there should be no need to consider any further adjustment at the stand back and look stage.

It is important to appreciate that it is inappropriate to estimate the FMT for a large modern house, either newly constructed, converted or a refurbishment, by reference to the trade achieved by older, smaller traditional houses in the locality and making an arbitrary uplift.

7.5 Estate public houses

In considering the circumstances at the compiled list date in cases where a new occupier has invested in a public house that has had a chequered history due to its location, and previous operators have over a period experienced difficulties or even closed the house, for example on local authority estates, the general principle of valuation should still be applied. Where there has been no substantial material change of circumstances (MCC) altering the character of the locality, the FMT should still be determined having regard to past trading history (disregarding perhaps the last period when failure occurred) and any increased turnover that can be envisaged as a result of the improvements made by the new occupier.

The FMT should reflect the calculation of a hypothetical tenant. An individual company's track record of making a success of such houses, where others have failed, based on its style of operation should be ignored.

It may well be that the actual trading figures in the future exceed or fall short of the estimated FMT, perhaps significantly, but this will not be grounds to increase (or decrease) an assessment based upon best valuer judgment at the beginning of the hypothetical tenancy.

If an MCC occurs any change in assessment should be limited to the valuation effect of the specific MCC and the actual occupier's success, or otherwise, compared to that originally envisaged by the hypothetical tenant should be disregarded.

7.6 Rural public house diversification

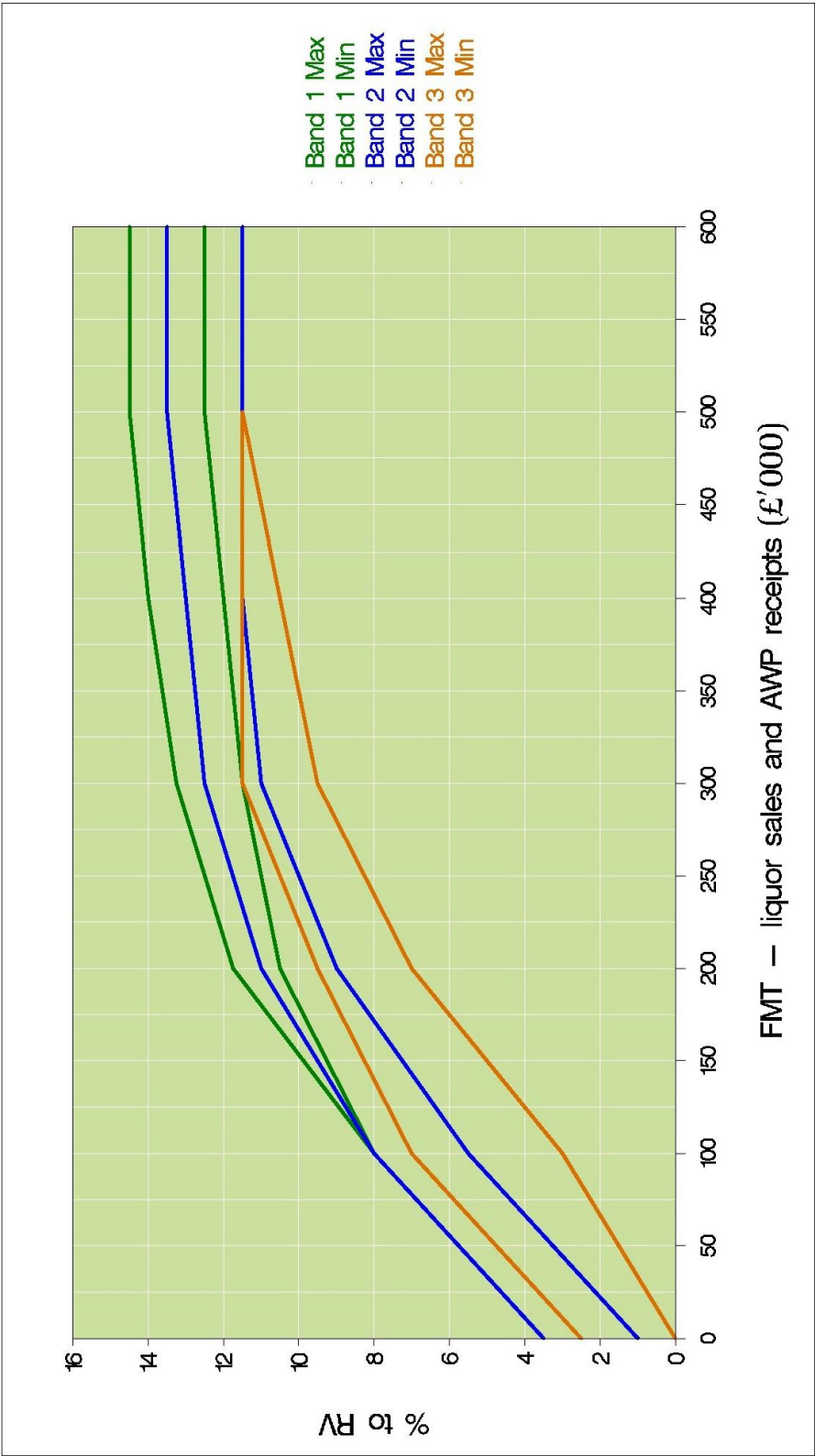
In recent years rural public houses have come under pressure, often as a result of a combination of factors, which include declining and ageing population, decline in traditional rural occupations, low income in rural areas, changing social habits and lifestyles, increasing customer expectations, increasing regulatory demands and drink/drive legislation. The increase in residential property prices has also encouraged a change of use from rural public house to housing. To stay in business licensees have had to find ways to increase their income from other sources.

In December 2001 The Countryside Agency published a good practice guide, *The Pub is the Hub*, which stated "our aim is to encourage breweries, managers, landlords and local communities to use their entrepreneurial skills, together with resources available to them, to help to retain and enhance vital rural services, bolster the rural economy and at the same time benefit the local community."

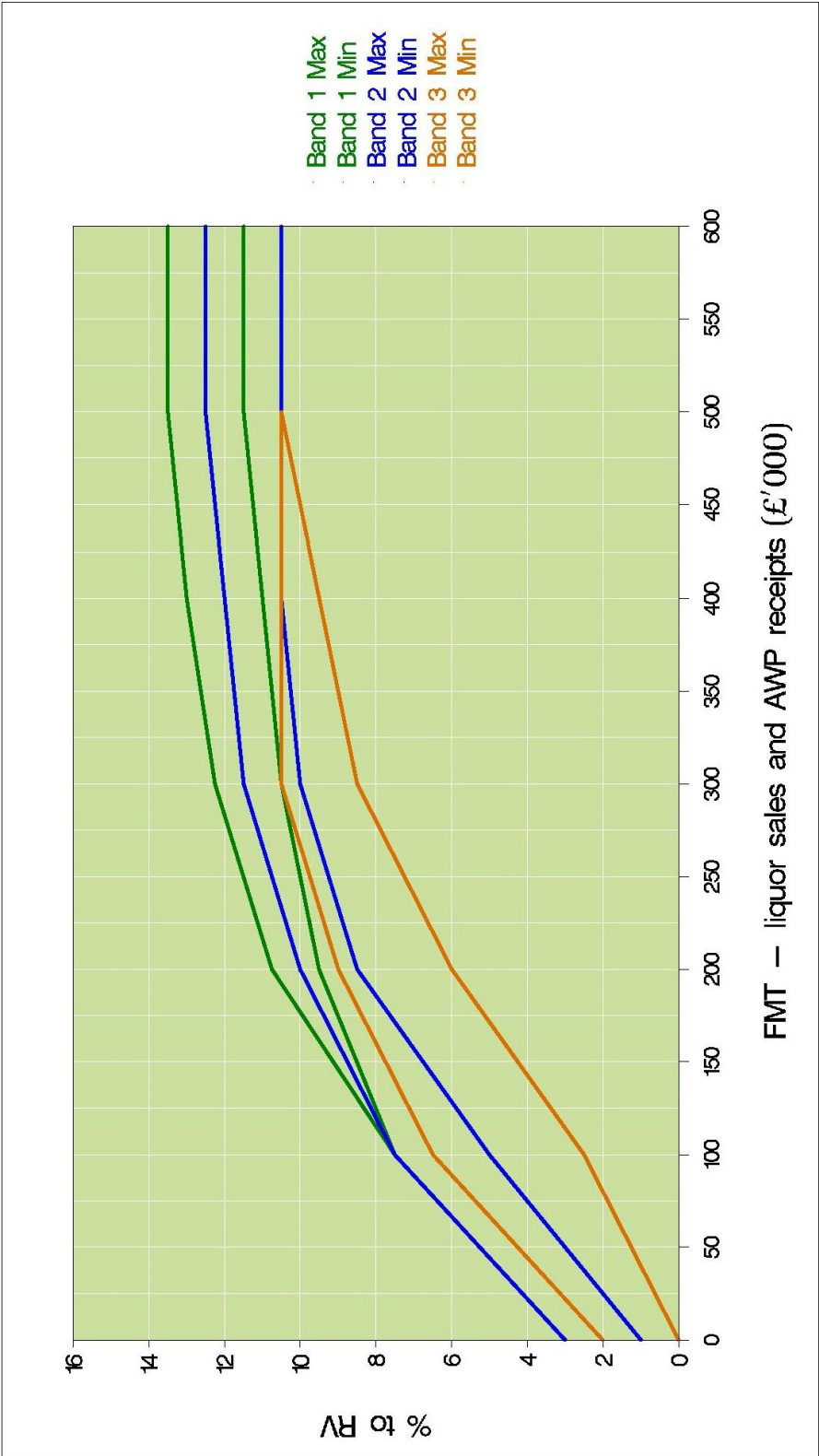
These efforts to sustain rural public houses, by diversification of the business, typically include the provision of Post Office/banking facilities or limited retail sales. This type of activity is generally undertaken in circumstances where, without it, the house would close. Although, in themselves, such schemes may not always generate a significant profit contribution to the business, they provide an important social facility to their community and expand the customer base using the public house.

The traditional income streams associated with a public house, that is liquor, food and accommodation should be assessed in accordance with this Guide. Income from other activities should be considered in the terms of section 6 above. Whether such income falls to be reflected in the liquor percentage adopted, or valued separately, it should be borne in mind that any profit generated is often likely to be low. Whilst it will probably be difficult to establish precisely what contribution this additional activity makes to the profitability of the business as a whole it is important to remember that the position should be viewed from the perspective of the hypothetical tenancy, therefore costs (such as loan finance used to purchase the property) which may feature in the accounts of an owner-occupier will need to be removed from the equation.

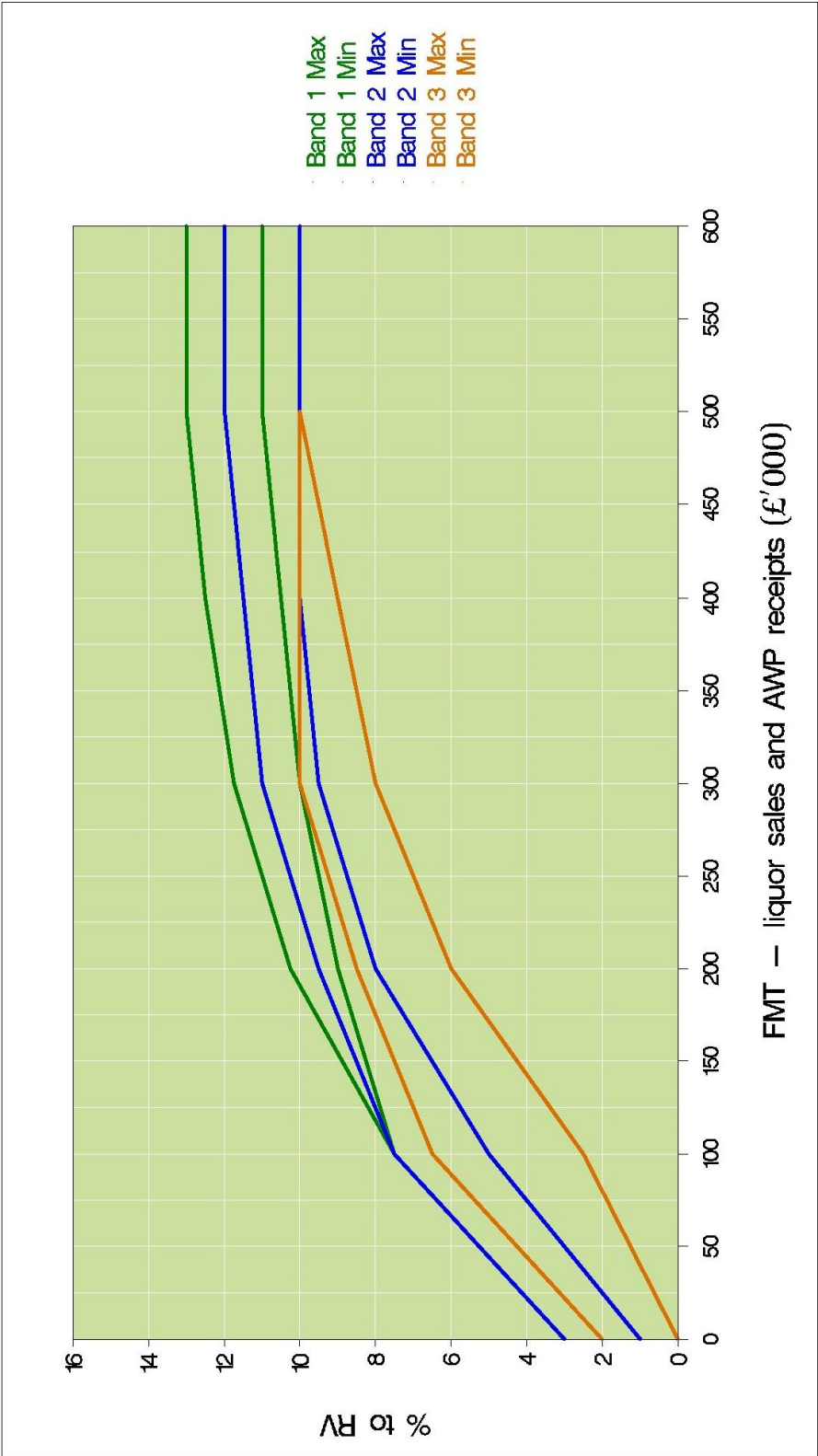
Appendix A – Liquor Bands – Central London



Appendix B – Liquor Bands – Outer London



Appendix C – Liquor Bands – Provincial England and Wales



Appendix D – Food Bands

