



Pub **viability** test

Essential guidance for local councils
and planning authorities.

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The Forum of British Pubs is a membership organisation that provides help and support to Britain's pubs and gives them a voice at local and national government level, **where it matters most.**

Our membership is made up of tenanted, free trade and managed pub operators as well as hotels, bars and restaurants.

Introduction

Traditionally, pubs have been owned by breweries who have considered them shop windows through which to sell their products. But recent years have seen a trend towards the ownership of pubs by retail groups and property companies operating as commercial landlords. Rather than treating the pubs as businesses through which to generate sales, their focus has often been on maximising property value.

As a result, many of our pubs are seen simply as property assets whose occupiers happen to sell beer, wine and spirits. If the owner can see potential for a more valuable use for that asset, they will often try to exploit it.



With the pub trade changing over recent years and, in many cases, pub values dropping, there has been increasing pressure on property owners to consider more valuable alternative uses such as housing or retail, even where the pub remains a viable business. But while there are, undoubtedly, some pubs that really are no longer sustainable, many others remain perfectly viable businesses. Their owners have simply seen a more profitable use for the site.

This means that many of the pubs that have called last orders for the final time over recent years could, in the right hands, have continued to serve their local communities and provide a decent living for those running them. And this is why it is so important for local authorities and communities to properly assess the viability of pubs when considering planning applications for their changes of use.

Why is viability an issue?

Pubs are a real asset to the UK economy and one of our great institutions. There isn't a soap opera on TV that doesn't have a pub at the centre of it, from the Rovers Return to the Queen Vic or the Woolpack. But pubs are struggling at the moment and many are under threat, with large numbers closing every year. And it isn't an issue of geography; it is happening across the country in both rural and urban locations.

While there are, of course, valid reasons for some of these closures, many others are being driven by property owners seeking more valuable uses for their sites. So while claims of a pub's lack of viability may be true in some cases, they are very often made to pave the way for a change of use. A change of use to a shop or restaurant will not require permission from the local planning authority, but planning permission will be required for a change of use to residential or retirement apartments.

To justify their application for a change of use, property owners will often claim that the pub is no longer commercially viable and that no licensee could reasonably be expected to make a living from it. They may blame this on a lack of

potential customers, the size of the pub itself, competition in the area or perhaps the pub's location if it is reliant on car-based customers.

But there may be other reasons for the pub being unviable in its current form. If it is owned by one of the regulated pub companies and operated on a tenancy, then it's quite possible that the tenant will be paying excessively for products and services, as well as for rent, with a significant margin being taken by the landlord and very little left for them.

Pubs are often vital community assets, as well as being significant local employers and an essential source of business for local suppliers and services. This is why an independent test of a pub's viability is so important as part of the planning process.

We have produced these guidelines to help local planners decide whether or not claims being made about a pub's viability are well-founded. The guidance aims to help local planning authorities make these decisions fairly and objectively.

The pub viability test

We want to introduce a fair and balanced decision-making process to be used when an applicant proposes a pub's change of use on the basis of its non-viability. The test we are proposing will show whether the claim is valid or whether, under different circumstances, the pub could thrive. It is intended to help all of those concerned in the decision-making process and can be applied to any pub in any location.

The planning process provides a public forum through which to debate the future of an individual pub. It offers the chance to really consider the future of what could be a vital community hub. Once a pub has gone, it's gone, and it won't be coming back. That's why the planning decision is so important.

We believe the pub viability test will ensure that decisions are made fairly and in a balanced manner and we hope that those involved in the planning process will find it useful.

The test criteria

We are proposing the following test criteria as a means of judging a pub's true trading potential and, therefore, its viability.

1. Ownership
2. Environment
3. Customers
4. Competition
5. Maximising potential
6. Parking
7. Public transport
8. Shared use of the building
9. Partial loss
10. Business operations
11. Sale

The types of issues that should be explored under each of these criteria are discussed below.

1. Ownership

Who owns the pub now? The owner is not necessarily the person who is operating it on a day-to-day basis. Is it one of the big regulated pub-owning businesses, a property company acting as a commercial landlord, a regional brewery, or a free house?

There is strong evidence that the business models of the big six regulated pub companies are deeply flawed, so the very fact that a pub is operated by one of these companies may be what is making it unviable. If the pub is owned by a

property company, there may be a greater temptation to allow it to go into decline in order to exploit the potential for a change of use and a big profit.

Regional brewers, on the other hand, still see their pubs as shop windows for their products and so tend to try and keep them operating. Free houses are usually able to operate well as they can buy at market prices without added margins. If a free house is struggling, then it is often serious.

But it's not just the threat of a change of use that is putting pubs at risk. Advance (confidential) sales to developers are also putting pubs in danger. Pub owners use the services of companies like Christies, Fleurets, AG&G and DCL to do this very quietly, ensuring that everything is done and dusted before the lessees even know that the freehold has changed hands. The developers, having quietly bought the freehold, will then:

- Immediately make the tied lease Free of Tie by a simple issuance of letters confirming a Deed of Variation
- Double the rent (at a minimum)
- Hit the sitting tenant with a massive dilapidations claim
- Offer to 'generously' buy them out of their lease/obligations
- Make the pub vacant and declare it non-viable
- Advertise the pub for sale at a massive and unsustainable price for six months (often using one of the aforesaid four agents)
- Apply to the local planning authority for change of use
- If the change of use is approved, pursue the redevelopment to make a profit
- If the change of use is declined, leave the pub vacant to allow and encourage its deterioration, until the change of use is finally granted because the property is now unusable as a pub and therefore truly unviable.

So, when considering an application, look carefully at its ownership history.

2. Environment

Where is the pub located? Is it urban, suburban or rural? Is it in a town or city centre or attached to an out-of-town retail development? Is it in a local high street, a village or an isolated rural community?

What is the catchment area for the pub? Where do the customers come from and how do they get there? Can they walk or do they have to drive?

How many adults live within a one-mile radius of the pub or, in rural areas, a five-mile radius? How many houses are there and how many people who do, could or should use the pub live in them? Is there a daytime working population of potential customers as well as evening customers?

What type of offer do the locals want and has the current style of operation been providing this? If it has been operated on a tenancy by one of the big pub companies, but the locals want micro-breweries, artisan distilleries and local food producers, then a change of style may be all that is needed.

How much local competition is there and how is it performing? Does it appear to be healthy or are any competitors closing?

Look at the footprint of the pub. If it has a bowling green, a good-sized car park and a beer garden, then the land may be worth a lot more as a development plot than as a pub, a strong incentive for the pub owner to claim a lack of viability and request a change of use.

3. Customers

When considering the pub's viability, question where the customers will come from.

Is the pub in a popular visitor location? Is tourism a factor in the area? Are there visitor or tourist attractions nearby?

Is it in a picturesque town or village? Is it on a canal or riverside, a long-distance footpath, a cycle route, or a route used by dog walkers? Does it have a really good pub garden with lots of space for children?

Does the pub act as a focus for community activities such as sports teams, social groups, local societies, community meetings, music events or vehicle rallies? Are there any developments planned for the area? Perhaps a new residential development or mobile home park, or a new commercial development? Are there any proposals for strategic development projects in the area?

If there is significant customer potential, one would argue that the pub is still viable. You just need to get the customers through the door!

4. Competition

Is local competition having an impact on the pub? If there are a lot of pubs in the area presenting meaningful competition, or even if there is just one particularly successful pub nearby, this could be affecting its viability.

But if this isn't the case, then it can't be claimed that competition is making it unviable. If there are other pubs or outlets in the area that are doing well, is there an opportunity to look at best practice? What are they doing right and can this pub learn from them and put some of these lessons into practice?

5. Maximising potential

It is worthwhile considering whether the pub is being used to its full potential. Does it have unused rooms or outbuildings that could be either brought back into use or put to better use? These could be function rooms, old stable blocks, storerooms, restaurant space or bedrooms.

Is the site large enough to be developed further? Could the pub be extended to support its viability? Have planning applications ever been submitted to extend or develop the pub building? If so, when was that and what was the outcome of the application? If planning consent was not granted previously, have circumstances changed or is there any potential for development on adjoining land?

Has the pub been well maintained? If not, why? Has a large operator deliberately let the pub become neglected as a means of questioning its viability?

6. Parking

Is parking provision sufficient or could it be having an impact on the pub's viability? Depending on its location, good parking could be key to its success.

A destination pub will need good access and an appropriate number of car parking spaces. If it doesn't, could this be resolved? Is there land near the pub that could be turned into a car park? Is there a car park nearby that customers could use, perhaps with an arrangement allowing them to reclaim the parking cost from the pub?

7. Public transport

Pubs can be a real social hub within the community, whether in the middle of a city centre or in a tiny rural hamlet.

But could public transport in the area be having an impact on accessibility and therefore viability? Find out whether there are good bus and train links to the pub. Cancelled bus routes can often be a reason for lack of custom.

Maybe there is public transport that potential customers are simply unaware of. Could existing and potential customers be made aware of any public transport services available? If there are taxi firms in the locality, could a discount be negotiated for the pub's customers?

8. Shared use of the building

There is no denying that many rural communities are struggling, and that we are seeing far too many pubs and retail units empty. But a shortage of community facilities could be a potential revenue source for a struggling pub.

Consider what community facilities there are in the local area. Is there a shop, post office, music venue, village hall or community centre? If the pub is the sole remaining resource in the area, could it combine its function with some of these facilities? This could turn a struggling pub into the true heart of the community.

Alternatively, are there new functions that could be carried out in the pub that would attract additional customers? These could include a training centre or meeting rooms, a small cinema, yoga or fitness classes, or even a tourist information office if the pub is based in a tourist area.

It is worthwhile considering the potential for multiple use of the building before deeming the stand-alone pub unviable.

9. Partial loss

The question of partial loss comes into play if a planning application is seeking changes that would reduce the size of the pub or convert non-public areas, such as licensee accommodation, into another use.

Consider how these proposals would impact on the long-term financial health of the business. Would a smaller pub still be able to attract enough trade? Would it still be attractive to customers? Would the removal of licensee accommodation have an impact on attracting the best management team for the pub?

10. Business operations

Has the pub been run well in the past? If so, how long ago was this? Has the business shown a long-term decline or has it fluctuated? Compare these trends with the pub's past and present operating models. Is there any correlation? Do you have accurate figures to show this, such as accounts and turnover figures for previous years? Can you consult past licensees?

Has the pub been operated in a viable fashion in recent years? Has it opened regularly and at convenient hours or have opening hours changed recently? Has the environment changed, perhaps from being wet to food-led? Has there been a change of theme or branding? Has there been a high turnover of licensees or staff in recent times?

Is the pub working in the most efficient manner with a good food offering? When is food being offered? Is there an opportunity to serve breakfasts or offer a café-style service during the day? Could the pub offer food outside in the garden or cater for outside events?

Has the rent or repair policy of the pub-owning company affected the viability of the pub? Is the lessee facing a higher rent or more onerous repairing responsibilities than they did before?

Are there any unusual circumstances relating to this pub that would not be common to most pubs, perhaps something to do with the local authority, health and safety

issues, local taxes, bids or business rates? Are there any special operating regulations or restrictions placed on this pub's licence, such as noise issues in the outside areas?

Are there any grants available or unclaimed reliefs? For example, where local rate abatement is not granted automatically but must be claimed by the publican.

Does the pub market itself well? Does it feature in the local paper or parish magazines and does the operator mailshot the local area? Does the pub have a good website and is social media being used to connect with existing and potential customers? The pub needs to advertise itself, its products and services, and its events and activities if it is to attract customers. Lack of marketing activity could be affecting the success of the pub.

11. Sale

Prior to this request for a change of use, the pub may have been put up for sale. A lack of interest could be the reason why the landlords are now requesting a change of use instead. But was the pub fairly marketed for sale?

Where and how often has the pub been advertised? Has it been advertised for at least 12 months and has the sale been placed with a specialist licensed trade agent and/or local agents? Has there been an attempt to interest the local community in ownership?

Has the pub been offered for sale as a going concern? What is its value as a pub business compared to its potential value for the proposed use? Does its value as a pub reflect its recent trading figures?

Has the pub been put on the market at a realistic price? Has a valuation been completed and a surveyor's report prepared? How does the value, and the asking price, compare to other pubs/premises sold locally?

Have any offers been made for the pub? What were they and, if they were unsuccessful, why was that? Has the pub been closed for any length of time and, if so, how long was this for and what maintenance if any was carried out?

Summary

Many people think that you can still convert pubs from Class A4 to Class C3, but you can't. That stopped in 2017 when the regulations were changed to better protect pubs.

The recent growth in ownership of pubs by the big regulated pub companies and commercial landlords whose occupiers just happen to sell beer are threatening the future of the British pub. These pub owners need to be held to fair account when they attempt a change of use, as their claims of lack of viability may be false.

Our pubs, and the hospitality industry generally, are a precious asset. Once we lose them, we won't get them back. This is why it is so important that local planners undertake pub viability tests as part of their process.

Appendix

The Forum of British Pubs is happy to help all local authorities with planning issues around pubs and can connect you with independent valuers and expert witnesses if required.

Please call us on **01565 626056** or email us at **info@forumofbritishpubs.com** Or you can visit the Forum of British Pubs website at **www.forumofbritishpubs.com**.

More information can be found on the government's website at **www.gov.uk** and on local authority planning websites. CAMRA, **www.camra.org.uk**, also provides useful resources, as does the Plunkett Foundation, **www.plunkett.co.uk** Chartered surveyors Morgan and Clarke, **www.morganandclarke.co.uk**, has a service page concerning viability, change of use and planning appeals, and their specialist knowledge can be very valuable.

NOTE: The recent prime ministerial press release, Build, Build, Build announced reforms to our planning rules. Under the new rules expected this autumn, existing commercial properties, including newly vacant shops, can be converted into residential housing more easily in a move to kick-start the construction industry and speed up rebuilding. However, the press release makes it clear that:

"Pubs, libraries, village shops and other types of uses essential to the lifeblood of communities will not be covered by these flexibilities."

So, while changes to planning may be coming, we don't expect them to include viable pubs that still have the potential to serve their community!

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