High street A3 — What is the current rental value?

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Abstract

This paper deals with the assessment of rental value of high street bars in the absence of new lettings evidence. It recognises that there is now over-provision of bars in many towns and no new lettings are likely to take place for many years. How is a rent to be calculated which will reflect the demand for the best sites and affordability for the worst? How does one recognise the best sites? Is turnover per square foot of customer area a good measure of value? The market is not homogeneous. Four thousand square foot bars cannot be compared with 14,000 sq ft bars. Where is the border between bar/nightclub/restaurant? How does one account for support space on ground floors or public sales space in basements or on first floors? How does one reflect the difference in value between shell and fully fitted, or seven-year leases against 40-year leases? Can premiums paid for assignment of fully fitted units be used as a guide to shell rents?

Keywords:

high street bars, rental values, lack of letting evidence, A3

HISTORY OF THE HIGH STREET

'The circuit' until circa 1994 was a strictly northern phenomenon. In the north, boys and girls visited eight to 12 pubs, having a drink in each, on a Friday and Saturday night. Their southern counterparts were more sedentary.

A combination of government initiatives to rejuvenate town centres, a depression in the A1 market and a trend towards out-of-town shopping led to the development of large bars in every town and city centre. This phenomenon started in 1994 and had tailed off by 1999.

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Boom and bust

Often operators of bars were unaware of the number of new bars being created simultaneously by their competitors. They did their sums on the basis that there might only be three or four really big bars in competition. In truth, eight were being developed and opened within a two- to three-year time span.

The City fell in love with the profits of those who were first in this market. They gave money for the further development of similar bars by both the original developers and their 'me too' competitors. When there were 12 big new bars in town there was not enough business to go around. Price competition caused trouble on the streets and lower profit margins.

Lower profit margins led to drops in standards and staff cutbacks; several companies have 'gone broke'. Others are being closely managed by their bankers. Many user clauses do not allow use other than as a bar and, even if the lease would permit, who are the alternative users who will rent large sites in town centres?

Many of the bars now need refits that cannot be afforded from potential profits. This is the position the industry is now in. Landlords need to recognise the realities of the situation and manage their expectations if further bankruptcies are not to ruin their returns.

Willing lessee?

Most leases ask that one assumes a willing lessee, but it is the valuer's job to decide at what level of rent he becomes willing. It may be at a considerably lower level than the passing rent. It may be at a rent considerably lower than the value of the premises for A1 or another alternative use. This paper contemplates what is to be considered by valuers dealing with this difficult conundrum.

VALUING LARGE BARS

Large bars

All surveyors (and drinkers) will be well aware that in the past eight or nine years every major town in Britain has seen the development of an A3 leisure circuit where none existed prior to 1993 or thereabouts. This huge proliferation of well-above-average-sized bars (and in some cases a lesser number of associated restaurants) has led to social change and, indeed, a change in the licensing regime.

Profits valuation

Pubs have been traditionally valued on the profits basis. By the early 1990s there were already those who said they ought to be valued by reference to square foot analysis. The fact that the location and footprint required by most bar operators was broadly similar, and so many new units were taken in the mid-1990s, made it easy to analyse the deals done on a simple £/sq ft. This was generally done on a gross internal area (GIA) basis because it was shells that were being let and fitted out by the lessees to their own requirements. Most were let on 20–30-year leases.

The majority of town centres now have too many bars and the number of open market lettings is very few and likely to remain so for the foreseeable future. All rent reviews will thus be decided, to a very large extent, by comparisons with other rent reviews. The

purpose of this discussion paper is to find ways of re-establishing a balance between landlord and tenant, and perhaps a linkage between the rent and the ability of the tenant to afford to pay.

No evidence

It is generally accepted that rental values have fallen, for various reasons which will be investigated in greater detail, but it is very difficult to prove by how much and over what period. Most expert commentators will agree that rents reached a plateau in the late 1990s. The date most often quoted as indicating a drop in values is 11 September 2001. It is generally agreed that rents fell further and faster from autumn 2002 when it was announced that several high-street bar operators were in financial difficulties. Whether values have stopped declining at the time of writing this paper (November 2003) is difficult to say, but the answer is probably not.

But valuers are operating in a vacuum because of the almost total lack of new evidence. It is nearly all a matter of opinion, and circumstances will vary from town to town and even unit to unit.

In some cases, where user clauses permit, A3 values will be underpinned by A1 values where there is more open market evidence. This paper is not concerned with this and will not refer further to it. But A3 operators' criteria for value do not necessarily follow those of A1 operators and A3 hotspots will not mirror the highest A1 values in town.

A1 or A3

All operators (A1 and A3) have an eye to profitability when locating their retail outlet. They will choose to locate in a site that will maximise profitability for their own particular business. A vendor of pork pies or a shoe mender cannot afford to locate next door to Marks & Spencer even if it would maximise turnover. They will locate towards the periphery of the A1 zone. Retail surveyors have been lazy in not considering how to reflect the tenant's ability to pay in their analysis of rents. They have largely left retailers to find their own level in the pecking order of affordability from prime to secondary positions.

Because of the lack of open market evidence of A3 lettings, it is necessary once again to consider a profits method of valuation (of some sort). Operators will pay more to be in a site that produces big profits than one which can be regarded as a millstone for the next ten or 20 years. This may be as a result of the number of likely customers in the area or the number of competitors to share the potential custom. Most likely it will be a combination of the two. The landlord's old arguments about subsidising poor performers are well known and this paper is not arguing that rents should be solely based upon actual operators' accounts. For a myriad of reasons, an operator may not be achieving the potential of the site. But evidence of a number of operators in a town or a particular part of a town may, together, indicate that a particular location is above or below average. Example A sets out a typical operator's calculation of rent. It is very different to most valuers' calculations. The example was produced by Stephen Owens FRICS, who was, for much of the mid-1990s, head of acquisitions and property for Yates's.

Affordability

Operators appraised**Table 1:** Development costs £900,000. Turnover £1,000,000

Turnover £1,000,000			Note 1
Net profit £330,000			Note 2
Size of unit 7,800 sq ft at 40% gross to net = retail area 3,120 sq ft			Note 3
Development costs £900,000			
Initial investment @ £115 psf	£897,000	Say £900,000	Note 4
Year 4			
Refurbishment cost @ £25 psf	£195,000		
Present value (PV) of £1 for 4 years @ 7%	0.7628952	£148,764	
Year 8			
Refurbishment cost @ £25 psf	£195,000		Note 5
PV of £1 for 8 years @ 7%	0.5820091	£113,492	
Total capital cost over 10 years		£1,162,256	
Less			
Residual value. Initial investment	£900,000		
PV of £1 for 10 years @ 7%	0.5083493	£457,514	
Net capital cost		<u>£704,742</u>	
Return @ 28%		£197,327	Note 6
Net profit 95% on £330,000		£313,500	Note 7
Profit left for rent		£116,173	Note 8
		Say £116,000	

EXAMPLE A: WHAT RENT WOULD AN OPERATOR PAY? — ANALYSIS OF OPERATORS' APPRAISAL METHOD

This is a short form appraisal based upon how operators assess sites for acquisition. Copies of the appraisal documentation have been obtained from a number of operators. By analysing these a short form appraisal has been developed to show what rent an operator would pay. An example is set out in Table 1, with further explanation in the following text.

Operators assess sites generally over a five- to ten-year period on a discounted cash flow model. Typically they are looking for returns in the range of 25–30 per cent. In their assumptions they build into the calculations a residual value at the end of the appraisal. This is based upon the initial capital cost of fitting out the property, which reflects the value to the operator. Refurbishments are taken into account based upon a three- to four-year cycle.

Ability to pay

Operators view rent as any other overhead. By definition therefore they are prepared to pay by way of rent up to the difference between fair maintainable net profit and their annualised required return on investment.

Development and refurbishment costs

Fit-out costs and development costs will vary from site to site and from brand to brand and region to region. Each site must be

Fit-out costs

independently assessed to take account of any unusual site constraints, the configuration of unit, the style of the hypothetical operation and with regards to the assumptions and disregards contained within the lease.

Where reference is made to a 'shell' unit in this paper this is defined as a unit with bare walls ready to receive finishes, a screeded floor, no internal subdivision works, no shop front and services provided to a central point of distribution. Where it is on more than one level it assumes accommodation staircases have been provided but there are no feature staircases which will be a requirement of the tenant as part of their fit out.

Fit-out costs were discussed with a number of operators to obtain indicative information as to the level of fit-out costs generally. These have all been provided on a GIA basis. From these discussions fit-out costs would appear to range from £100 to £125 per square foot. Costs referred to in this paper are inclusive of all associated fees but exclusive of VAT. It should be borne in mind that these figures have all been provided by corporate operators. This information has also been verified by a number of independent quantity surveyors who are active in the leisure industry.

For units which will appeal to individual or smaller operators, fit-out costs may well be less than this range. This is due to a number of factors. Many such tenants will have a less sophisticated fit out and in many cases will have a direct involvement in the procurement and supervision of the works.

Heavily themed operations may have a higher than average fit-out cost. In addition, when refurbished they may have a higher than average refurbishment cost as the brand becomes obsolete and requires a total redirection. A classic example of this is Yates's Wine Lodge where the heavy Victoriana theme is now *passé* and the newly refurbished wine lodges are now in a similar style to other high street bars. Brands such as Walkabout and Chicago Rock may also require similar redirection in the future. It may well be that these units enjoy greater than average sales due to the unique nature of the brand and brand appeal, but this could well be offset by higher than average fit-out costs and higher than average refurbishment costs.

Branding

There is limited independent information available on refurbishment costs, but from discussions with operators an indication of the general level of costs was obtained. Generally operators will carry out a refurbishment every three to four years. This may be no more than redecoration, replacing carpets and general upkeep. The costs of such refurbishments are around £25 per square foot on a GIA basis.

Refurbishment costs

A more comprehensive refurbishment takes place on a timescale of approximately eight to 12 years but this is dependent on the style of operation, usage and brand obsolescence. This will often involve redirecting the brand, replacing fixed seating and providing new inventory and equipment. Again, it is difficult to obtain definitive

information on costs, but from discussions with a number of operators a range of £45–50 per square foot is felt to be appropriate.

Turnover

Note 1: Turnover

This should be fair maintainable trade. This is obviously a matter of judgment for the individual valuer. Knowledge of trade at comparable units and operations in the vicinity will assist the valuer in arriving at a fair maintainable trade. Needless to say this may or may not be the same as the actual turnover.

Net profits

Note 2: Net profits

Specialist valuers have a wealth of evidence on net profits. Generally speaking as turnover increases so does the net profit as a percentage of turnover. This may seem an obvious statement, but the following principles and rationale support this contention.

- With a larger unit there are greater economies of scale in terms of staff/labour and fixed costs.
- Larger corporate operators tend to operate bigger units. This is because by definition they require a considerable amount of capital to fit out and only the large operators, in general, will have access to these capital resources. These larger corporate operators have greater purchasing power and can consequently achieve better gross and net margins than individual or smaller operators.

Unit size

Note 3: Unit size

In the author's experience gross to net ratios are unlikely to be more than 50 per cent and are more likely to be around 40 per cent for standard-size 'super-pubs' ranging from 6,500 to 8,000 square feet GIA.

Development costs

Note 4: Development costs

Specialist valuers will have detailed evidence of development costs. In order to give credence to the levels of fit-out costs adopted, the author contacted a number of independent quantity surveyors who are involved in high street public houses and bars. They have provided supporting documentation on development costs based on their experience.

As a valuer, the author is making a judgment based on advice from independent quantity surveyors and refining this to take account of the special requirements of the site, the location and hypothetical operation and the directions contained within the lease. Initial fit-out costs have been taken here at £115 per square foot.

From discussions with a number of operators, minor refurbishments are undertaken every three to four years with a major refit every eight to 12 years. For those heavily themed

operations this may entail redirecting the business and consequently a higher than average cost. On a three- to four-yearly refurbishment cycle costs are generally in the range of £20–25 per square foot on a GIA basis. For a major refit this would be in the range of £40–50 per square foot on a GIA basis.

Cost of capital for refurbishment

Note 5: Cost of capital for refurbishment

In calculating the equivalent initial capital cost of future refurbishments a 7 per cent discount rate to calculate present value has been adopted. The reason for this is that large corporate and multiple operators will be able to borrow capital at 3–4 per cent above the current base rate. This is then used to calculate the initial equivalent capital cost upon which the operator will be seeking a return on investment. For smaller companies the cost of borrowing will be greater and could be 9–10 per cent or more. It is suggested that a property with a fair maintainable turnover of less than £700,000 would fall within the definition of that being potentially operated by smaller companies and operators.

Rate of return

Note 6: Rate of return

From discussions with a number of operators a common method of analysis has emerged. Most operators use discounted cash flow as a method of appraisal. A five- to ten-year appraisal period is normally adopted. A rate of return has been adopted at 28 per cent which is within the mid range of return required by a number of operators. They will look to obtain a return on the initial capital investment plus refurbishments over the life of the appraisal.

Net profits

Note 7: Net profits

For larger units with greater turnovers there are fewer players in the market, and with the significant capital resources required in order to fit out and operate such developments the risk is much more significant.

If the development fails the exit routes are limited, if they exist at all. This needs to be reflected. For turnovers in excess of £900,000 it is recommended that a proportion of the net profit should be

Table 2: Profit weighting

Turnover	Net profit	% available for rent	Adopted net profit
£600,000	20% = £120,000	100.0	£120,000
£700,000	24% = £168,000	100.0	£168,000
£800,000	27% = £216,000	100.0	£216,000
£900,000	31% = £279,000	100.0	£279,000
£1,000,000	33% = £330,000	95.0	£313,500
£1,100,000	35% = £385,000	92.5	£356,125
£1,200,000	36% = £432,000	90.0	£388,800
£1,300,000	37% = £481,000	87.5	£420,875
£1,400,000	38% = £532,000	85.0	£452,200
£1,500,000	40% = £600,000	82.5	£495,000
£2,000,000	45% = £900,000	75.0	£675,000

Profit weighting

treated as 'super-profit'. This will be the additional reward required to reflect the risk. The percentage of net profit in Table 2 has been taken to reflect this. The adopted net profit has been taken in calculating the rent an operator would pay. This is a guide, as clearly this is a matter of judgment for the valuer as risk will vary from site to site.

Profit left for rent

Note 8: Profit left for rent

It is logical to assume that an operator would pay as rent the difference between his required return on capital and the fair maintainable net profit. It is this figure therefore which an operator would pay by way of rent after carrying out his appraisal. This is the *maximum* that he would pay. If a landlord sought less, then an operator will naturally be pleased to accept the offer.

TURNOVER PER SQUARE FOOT OF CUSTOMER SPACE

Fleurets has taken this as a simple measure of success. Turnover has been taken because it is a lowest common denominator and is something that is readily understood and difficult to 'adjust' to suit a negotiator's particular stance. Customer space has been taken because this is what all operators will seek to maximise.

Some units are ideal in size and configuration and may be able to provide 55 per cent of customer space, all on the ground floor. Other units may only be able to provide 35 per cent of total space for customers. Many units have surplus space, particularly in basements or upper floors, that is virtually useless. In the absence of being able to sublet this space, it should be excluded from the rental calculations.

Turnover per square foot of customer space will reflect the worth of the site in terms of how much business can be done. It naturally reflects the degree of prominence, the amount of potential custom and the volume of competition fighting for this trade. It might, for instance, determine if one takes the average of three bars outside Liverpool Street Station and three bars outside Cannon Street Station which is the most valuable location and by how much. Due to building new offices and opening new bars, this relationship will vary over a typical five-year review pattern.

GIA

Again, for reasons of simple comparability, Fleurets measures all high street A3 units to GIA. Adjustments in valuation often have to be made to reflect staircases, fire escape corridors and voids cut in floors and ceilings in order to maximise the trade potential of basements and first floors.

All A3 bars will need cellars, kitchens, toilets and storage cupboards. It is not generally relevant to the trade potential whether these be provided on ground floor, basement or first floor. The author does not therefore subscribe to the view that kitchens should be valued at less than trading areas, or that basement

Measurement

Accommodation

storage is worth less than ground-floor storage. The important question is whether there is sufficient (or too much) space to accommodate a retailer's reasonable requirements for support space and what percentage of total GIA is left as trading space.

If there is trading space at other than the ground floor, it is necessary to consider how this relates to the prime comparables that are being used. As stated, Fleurets prefers to analyse all deals on an overall GIA, irrespective of whether space is on the ground floor, basement or first floor. It is acknowledged, however, that ancillary trading space on the first floor or in the basement will be less valuable than ground-floor space (and stand-alone basements or first-floor units will have different values again).

Size matters

Size matters

The most important aspect of comparability is overall size. Most bars are 4,000 to 8,000 sq ft GIA. Bars smaller or larger than this footplate should only be valued by reference to units of a similar size. Generally, larger units will give a higher proportion of customer area, and will have a lower turnover per square foot of customer area but a higher conversion to net profit percentage as not all expenses increase directly in relation to size. Bars with serveries at two levels will be more expensive to run than those with customer areas on one floor only.

In the period 1993–1996 the ideal footprint was thought to be circa 5,000 sq ft. The few companies still in the market to take new units in 2003 generally seek 10,000 sq ft (or more), and many of the existing units coming up for rent review would be unlikely to let if offered in today's market.

Equally, given the very high development costs and high risks, companies will now only develop sites that absolutely suit their every requirement. Only the very best of sites will be let. It is not a case of shading back to reflect disadvantages.

Not all A3 units on the same high street are equal. There is a question of A3 zoning. Off-pitch may be only 100 yards (or less) from prime.

Shell or fully fitted

Shell or fully fitted

Most high street bars are, by the wording of the lease, to be valued as shell (or improved shell). Even where the lease directs one to assume no work needs to be done before the premises can be opened for trade, the definition of the demise will not instruct valuers to include the tenant's fixtures and fittings. In fact, this principle has sometimes been applied even to Victorian pubs with mahogany counters and leaded glass screens which were installed by long-gone breweries.

It is generally accepted that a lessee will spend £100 to £150 per square foot on fitting out a shell, £600,000 to £900,000 for an average-sized unit and often more than £1m for a typical 'super-pub'. Example B gives some typical figures for rents on premises

Table 3: Typical rents

Turnover (£)	Initial fit-out costs (£)	Net profit (£)	Shell rent (£)	Fully fitted (£)	Shell to fully fitted (%)
600,000	523,000	120,000	6,000	60,000	10
700,000	610,000	168,000	34,000	84,000	40
800,000	697,000	216,000	63,000	108,000	58
900,000	784,000	279,000	107,000	139,000	77
1,000,000	871,000	330,000	122,000	157,000	77
1,100,000	958,000	385,000	146,000	178,000	82
1,200,000	1,045,000	432,000	159,000	194,000	82
1,300,000	1,132,000	481,000	172,000	210,000	82
1,400,000	1,219,000	532,000	184,000	226,000	82
1,500,000	1,306,000	600,000	208,000	247,000	84

Rents compared to turnover, net profits and fitting-out costs

according to size, profitability and fit-out costs. Development costs in example C are not consistent with example A but are still valid.

EXAMPLE B

Typical shell and fully fitted rents reflect increased profitability and increased fit-out costs as larger premises are taken that are capable of higher levels of turnover (Table 3).

Can the figures at £600,000 turnover make sense? No. In truth, no operator will take a shell to spend £523,000 and do £600,000 turnover, but very small premiums are paid for fully fitted units where rent can be afforded, ie without the amortised annual cost of the initial development.

What relevance fitting-out costs?

Short lease versus lease of standard length

This was dealt with in example A, but consider it in a simpler form.

These fitting-out costs must be written off by a lessee over the period of expected occupancy (the notional term in respect of a lease outside the protection of the Landlord & Tenant Act 1954, or perhaps 14 or 28 years longer if it can be assumed that a lease is likely to be renewed).

Perhaps a 'norm' is to say the fitting-out costs would be written off over a 20-year notional term, plus 20 years of renewal — ie 40 years. If a lease stipulates a ten year term without prospect of renewal, then a much higher amortisation figure must be applied and a consequentially lower figure will be available for rent.

This can be simply explained as follows:

$£900,000 \div \text{YP } 40 \text{ years } 25\%/3\% \text{ (tax 40p)} [3.657] = £246,103$
 $£900,000 \div \text{YP } 10 \text{ years } 25\%/3\% \text{ (tax 40p)} [2.529] = £355,872$
 (25%/3% is a typical years purchase (YP) that an operator would apply to the purchase of a fully fitted business).

Amortisation of fitting-out costs

This shows a lessee could afford to pay a rent of approximately £110,000 *less* for a lease with a fixed term of ten years.

Value or cost?	Sales price versus cost of fitting out
Devaluation of loss of capital	Often, the only evidence of deals on the high street today comes from assignments of premises which have been fitted out by the tenants. If a premium of £300,000 is the best that can be got for a unit that cost £750,000 to fit out, it shows a shortfall of £450,000. If this figure is amortised over the likely term of the lease, it gives <i>prima-facie</i> evidence of by how much the premises are currently over-rented. In the past it has always been said that devaluation of premiums is perhaps the weakest of evidence in rent review cases. Yet given the dearth of open market evidence, an arbitrator or an independent expert will need to be given a steer as to how far a market has dropped since the rent was agreed in the open market.
Subletting	Perhaps stronger evidence of this trend is supplied in cases where a landlord will not accept the covenant offered by a proposed assignee and premises have to be sublet. Generally the subletting is at the same level of rent as the head rent. Evidence of subletting a fully fitted unit, inclusive of fixtures and fittings, can be used as a comparable when dealing with rent reviews of nearby shell units, or perhaps even of dealing with a rent review of the head lease shortly afterwards. This is explained in greater detail in example C.

EXAMPLE C: SALES OF LEASEHOLD HIGH STREET PUBS AND BARS

Sales of fitted units	<p>Fleurets has been involved in the sale of numerous high street leasehold bars and public houses over the last 12 months. In the vast majority of cases these are free of tie leases granted with an initial term ranging from 25 to 35 years. Some of the lease terms tend to be relatively standard. Most have five-yearly rent reviews, on full repairing and insuring terms, and some have uplifts based upon compound interest on rent review. There are a variety of alienation, user and review clauses.</p> <p>By definition these sales have tended to be of underperforming units, either in secondary or peripheral locations or with failed or obsolete concepts where the initial development costs were quite significant. Invariably the premises sold have achieved prices at a fraction of the initial development cost.</p> <p>To try to reach any global conclusion by analysing these disposals is bound to be misleading and fraught with difficulties. Indeed, each site should be analysed individually to take account of local market conditions, trading history and lease terms among other factors. But the experience in dealing with these disposals certainly assists in demonstrating that for these units there has been no rental growth since these properties were developed.</p> <p>A new breed of operator is often acquiring these sites. They are often new-start companies with a weaker covenant strength than the original lessee. They are acquiring sites at a fraction of the</p>
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Table 4: Example of disposal

	£
Rent	100,000 pa
Sales	800,000 pa
Net profit @ 27% of turnover	216,000 pa
Sale price, say 2.5 YP on £116,000 pa (profit after rent)	290,000
Rounded up to	300,000
Initial development costs	750,000
Less sale price	300,000 *
Discount to the initial fit-out costs therefore	450,000
YP 20 years @ 27%/3% (tax 35p)	3.0557
Amortised fit-out costs	137,506 pa
Less actual rent paid	100,000
Equivalent shell rent	Minus 37,506

*As a failure it is almost certain that a refit is required in addition to the premium price. This paper has assumed £300,000 is the total cost of the premium and the refit costs.

historic development costs effectively as fully fitted-out units with rent being reviewed in future on a shell basis. Table 4 shows how a particular disposal may be analysed to support an argument on a comparable property that rental values have remained static at best.

Negative rent

This would suggest a negative rental value of minus £37,506 on a shell basis, or to put it another way there would be no market for this unit as operators would not be able to obtain a satisfactory return on their investment for a property in this location. This reflects current market evidence of only a few players in the market for shell units in prime sites.

Would not be developed

By way of example think of the typical 'first-generation Wetherspools' built in two former shop units with a large flat roof extension built in the garden. Most of these early developments have now been sold to smaller operators. The calculations in Table 4 prove that it would not be financially viable to carry out such developments today. This is borne out by the fact that no one has in fact carried out such conversions for at least ten years. Rents of such units have therefore generally stagnated, unless it can be proven that A1 values once again prevail.

Obviously every site has to be dealt with on an individual basis. In each town and city there would be evidence of sales of public houses and bars sold at a discount to the initial fit-out costs. This evidence is invaluable, particularly where the location and size of the properties are comparable to those of the subject premises.

Profits method of valuation

PROFITS METHOD VERSUS SQUARE FOOT

Even in the City and the West End of London, many traditional public houses are still valued on the profits method. In many cases

these units are valued on a fully fitted basis, including an assumption that toilets have been installed and counters etc have been fitted. Most also include living accommodation, whereas modern high-street bars generally do not. The value of the living accommodation must be reflected, and here it is important to differentiate if (under the terms of the lease and in accordance with the physical constraints of access) it could be separately sublet or if it can only be used by staff.

In whatever way it is valued, logic dictates that a bar will be worth more including fitting-out works than a shell of a building that is otherwise comparable in all respects. Yet experience shows that the profits method of valuation has often produced a lower figure. Valuers need to adopt a more uniform approach when dealing with similarly sized bars. There should not be inconsistency, and perhaps evidence on a square foot basis needs to be put in respect of traditional pubs, but equally the evidence of the traditional pubs cannot be ignored when dealing with more modern bars.

The future

THE DEBATE CONTINUES

This paper has tried to highlight the points that might be addressed in order to ascertain current market value in the absence of open market evidence. It has long been recommended that profits-method valuations should be used where there is a lack of comparable evidence. Yet landlords and their agents probably will require more to convince them as to the current rental value of A3 units than a sad tale of woe and some profit projections showing losses increasing year by year. There are cases of good units in prosperous areas where rental values have increased and will continue to increase. It is important for landlords to be able to recognise where there is a prospect for rental growth.

The valuer needs to be more sophisticated in his approach to the market. There are other important matters that need to be considered, and future papers will focus upon the following.

- The relative value of large, medium and small units.
- The availability of late-night trading and public entertainment licences.
- Supply and demand. Who is buying and what are their main criteria? Is there really a willing tenant in the market?
- Selecting the right third party and the presentation of evidence.
- The true profits method of valuation.
- The impact of the general economy on the A3 market.
- Where is the prime spot for A3 operators? Forget Zone A and return frontages. For what benefits will A3 operators pay more?
- Fleurets indices of rents paid, prices achieved and the stories behind the figures.
- Is evidence of deals not done, evidence of market value?
- Is the affordability test good news for landlords?

- The effect of the Disability Discrimination Act in the design and use of bars.
- Are actual accounts admissible and, if so, are they to be given any weight?

As editor of the Pubs and Bars section of this publication, the first author welcomes further ideas or contributions from readers.