

The Red Lion, Rusthall - Viability Statement

Background

The Red Lion, Rusthall has been operated as a tenanted public house by Shepherd Neame since 1992. There has been a clear decline in viability since 2008 as can be evidenced by the general fall in beer volumes (Brewers barrels/36 gallons) set out below:

Beer volume levels are highly indicative of viability as the volume of beer being purchased by the tenant directly relates to sales and hence turnover levels for public houses. Volumes below certain levels can be indicative of a lack of viability, especially if the low levels continue over a sustained period of time. Broadly speaking a tenanted public house with a volume of 100 barrels a year that is split 70/30 between wet and dry can be viable. Those public houses that can compensate with higher food turnover can be viable at lower volume levels. If the split between wet and dry is 50/50 (The Red Lion has not achieved this higher proportion of food) beer volumes of 50 barrels a year can indicate unviability. The Red Lion has failed to hit either of these levels since 2012 and as such the volumes clearly indicate a lack of viability.

This lack of viability can be further evidenced by the higher than average turnover of tenants since 2010. There have been five tenants since 2010 with average tenure being just over one and a half years which is well below the average tenanted tenure for Shepherd Neame (Five and a half years in 2017).

The high tenant turnover and periods of poor trading which have harmed the reputation of the Red Lion has made it difficult to attract new tenants of sufficient quality and financial commitment to change the direction of the viability trend. As such it was decided by Shepherd Neame in 2017 that the Red Lion, Rusthall was no longer viable as a tenanted public house within the context of the evolving Shepherd Neame public house estate. The simplest route would have been to sell the Red Lion along with the entire landholding.

Shepherd Neame, however, was aware of the role of the Red Lion as an important community asset for Rusthall village being a historic building of local importance. There would have been local concern in the village regarding the sale of the Red Lion by Shepherd Neame and potential loss of a historic public house in Rusthall for alternative use such as residential housing. Shepherd Neame does attach important weight to community views and did wish, if possible, to help preserve the continued use of the Red Lion as a public house for the community. In our experience open market sale of a pub with a significant landholding such as the Red Lion is likely to result in discontinuation of the use as a public house.

Following experience of similar scenarios, i.e. a public house no longer considered viable as a tenanted public house but one Shepherd Neame wish to preserve as a public house, we have looked to let on a free of tie lease basis but 'make good' the resultant loss of value by selling surplus land with residential planning permission.

Proposal

Shepherd Neame believed that a significant proportion of the former beer and private garden could, subject to planning permission, be sold as a residential development opportunity. This proposed generation of additional value would enable Shepherd Neame to let the property on a free of tie basis. The loss of wet sales will result in a diminution of value to Shepherd Neame. [REDACTED]

Clearly there will be a reduction in the size of land currently available for customers outside, i.e. the beer garden. However, it should be born in mind that historically the majority of the land proposed for residential development was in fact used as private garden. The beer garden to the rear of the coach house will be retained and will be an easier area to service. Originally we had considered allocating part of the old private garden as a beer garden but it has been decided through discussion with the new lessee to use the residual beer garden land for a smaller more efficient beer garden. There will be improved access for staff which should allow more efficient service and we believe that this will be an attractive place for customers to sit out for drinking and consuming food.

With regard to the lease Shepherd Neame believes it has helped the long-term public house viability through the following terms:

- **Free of tie** – The lessee is free to purchase wet products at a free trade price level from whomever they wish. In general free of tie purchases will allow a 70% gross profit margin on wet trade as opposed to tied prices which tend to be between 48% and 52% gross profit margin. This helps the licensees' viability albeit at the expense of reducing Shepherd Neame's commercial return.
- **Legal status of lease**– while the tenanted model has the benefit of relatively low cost and risks it does not grant the same legal interest as a lease. A lease can be assigned and have goodwill value. This greater security allows the lessee to make substantial investments which they would be less likely to do in a tenancy. This is evidenced by the investment already undertaken in the Red Lion by the new lessee.
- **Landlord and Tenant Act 1954 II** – the lease is within the Landlord and Tenant Part II which means the lessee has the right to renew the lease after the original ten year term expires. Therefore, with there is no reason why the Red Lion should not continue to operate as a public house in the foreseeable future.

In summary Shepherd Neame plans to support a long term viable pub that benefits the community of Rusthall but is looking to make good the loss in value arising from the public house now being operated as a free of tie basis.

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