

Viability Study

Former George & Dragon, Bath Road, Reading,
RG30 2HA



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1.0 Instructions

I have been instructed by Greene King Commercial Investments Limited to inspect the former George & Dragon and to assess its financial viability as a public house.

2.0 Executive Summary

The former George & Dragon ceased trading in March 2020. The decision to keep the pub closed following the cessation of Covid restrictions was made to mitigate financial losses. Savills had been offering the pub for sale and to let both prior to and subsequent to its closure. There were no offers that combined the substantive retention of the property in its current form and an acceptable financial proposal.

For the reasons set out in this report, I am of the opinion that the former George & Dragon is not financially viable as a public house, either in its existing form or once refurbished. I will set out my evidence, calculations and opinion in this report.

3.0 My Professional Background

The report has been independently compiled by myself, Kevin Marsh BSc MRICS of Savills (UK) Ltd. I am a Director of Savills, a Chartered Surveyor, Registered Valuer and Head of Savills Licensed Leisure department. I have specialised in advising the owners and operators of pubs and other hospitality based businesses for 26 years. I have frequently advised on the future viability of pub businesses and, where investment is planned by the owner or operator, the feasibility of such schemes. I regularly act as an Expert Witness in disputes and where independent opinion is required by Courts and Tribunals.

4.0 Information Relied Upon

To the extent that you have provided us with information and/or instructed us to obtain it from a third party, you agree, unless it is otherwise confirmed by us in writing, that we can safely rely upon the accuracy, completeness and consistency of this information without further verification. In this case, we have a detailed knowledge of the marketing of the property for sale and to let over the last 3 years. Therefore the information that we have relied upon is primarily related to historic trading accounts.

5.0 Inspection

The property was most recently inspected by myself on 26 January 2023. The weather on the date of the inspection was dry.

My involvement in the property dates back to 2019 when Savills was first instructed by the freehold owner to sell or let the property. Either myself or my colleagues have been actively engaged with the property since this time.

6.0 Location

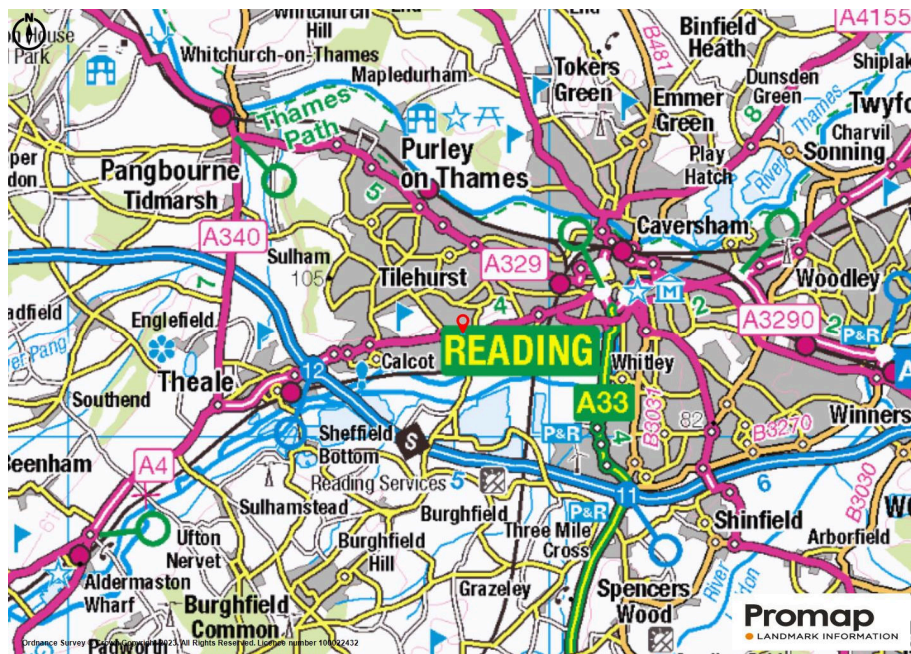
Reading is a large town and unitary authority in Berkshire. It is situated approximately 36 miles (58 kilometres) west of Central London and 24 miles (39 kilometres) south of Oxford. It is located in the Thames Valley at the confluence of the River Thames and River Kennet.

Reading has two train stations. Reading West Railway Station is approximately 2.1 miles (3.4 kilometres) away and Reading Railway Station is approximately 2.9 miles (4.7 kilometres) distant, both to the north east. Both stations have regular trains running to London Paddington with a journey time of around 30 minutes.

The former George & Dragon comprises a detached public house fronting Bath Road (the A4). In this section, Bath Road is a busy single carriageway highway leading east to Castle Hill roundabout which provides access to the A329, the main road which dissects Reading town centre.

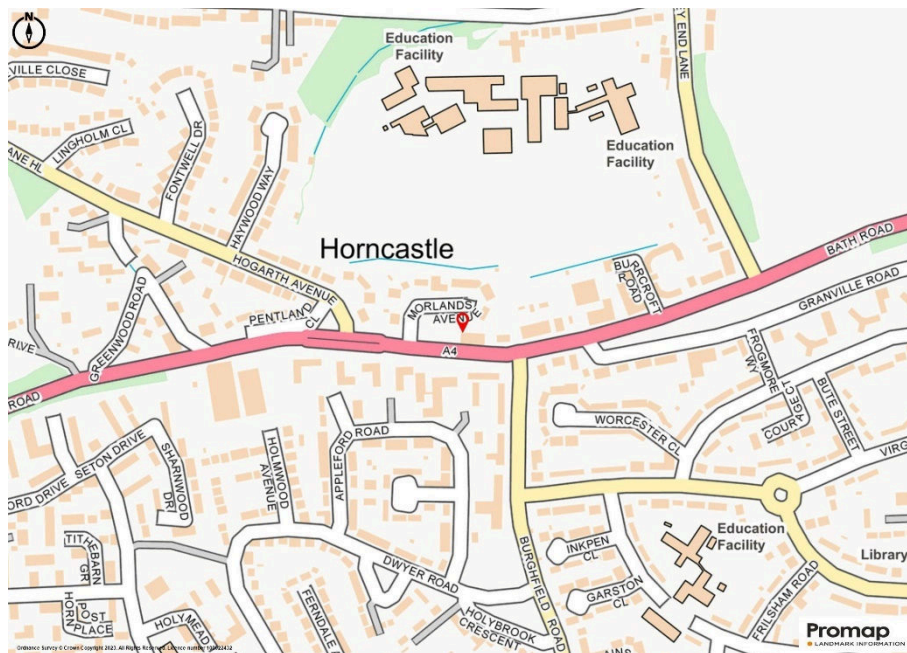
The property is bound to the north and east by residential properties, to the south by Bath Road and to the west by Moorlands Avenue. The wider area of Bath Road comprises a mix of residential and commercial uses including Lidl, Aldi, Tesco Express, a petrol station, a hotel and a Beefeater public house.

A general location plan is shown below.



General Location Plan

A local street map is shown below.



Local Street Map

An Ordnance Survey plan is shown below outlining my understanding of the boundaries of the site edged red. The site area is 0.25 hectares (0.61 acres).



Ordnance Survey Plan

7.0 Description

At the time of my most recent inspection, the pub was closed and had been for some considerable period of time. The property was 'boarded up', gas, water and electricity had been disconnected and all of the trade inventory had been removed. The car park and areas to the rear of the property have had hoardings erected around them to prevent unlawful access.

The property is detached and centrally positioned on the site. There is a car park with around 36 spaces to one side and former trade gardens both sides. The building is arranged over basement, ground and first floors with elevations of brickwork, part of which has been rendered and painted, incorporating timber-framed windows. The property has a pitched roof.

The entrance to the pub faces Bath Road with a further entrance from the car park. The entrances lead into a bar and restaurant area with raised seating areas to the right hand side of the central bar service. To the left of the bar is a further trading area arranged as an entertainment and sports area. There is a side entrance accessible from the trade garden that also leads into the bar area. Ladies' and gentlemen's WCs, an office, storage rooms and trade kitchen are all at ground floor level.

At first floor level there is a two bedroom flat with a living room and bathroom which leads to further accommodation comprising of a bedroom, living room, bathroom and kitchen.

The property is in very poor condition throughout, requiring a comprehensive program of repair and refurbishment to re-open in either its existing use or indeed any alternative use that did not involve the redevelopment of the site.

The gross internal floor area is approximately 6,663 sq ft (619 sq m) measured over basement, ground and first floors.

I have attached photographs taken at the time of my inspection at **Appendix 1**.

8.0 UK Pub Market Update December 2022

Before I consider the performance of the business within the former George & Dragon, I have set out a summary of the market conditions currently affecting the pub market. The summary of these market conditions is that some pub 'types' are trading reasonably well and some are not. Irrespective of whether headline trade is good or not, all pubs are suffering from increasing operational costs, notably staff and utility costs. The George & Dragon falls into the category of pub that lacks many of the physical characteristics necessary for success, ultimately resulting in its closure.

2022 set out on a positive note with the relaxation of all Covid-19 restrictions and operators optimistic for a full year of uninterrupted trade. Despite a turbulent two years of prolonged periods of closure, strict trading conditions and widespread labour shortages pubs have proven their resilience and consumer spending growth in pubs in Q1 saw a strong bounce back with growth well above pre Covid levels. This positive trajectory is a reflection of the innovation of operators who have continually adapted to changing trading patterns and consumer habits to maximize profits.

Emerging from a period of disruption the sector has witnessed a number of trends which appear to be here for the foreseeable. These trends include: the increased popularity of al fresco drinking and dining, the uprising of technology and greater consumer awareness of environmentally and socially sustainable leisure experiences. In turn, operators have adapted accordingly; providing well invested outdoor trading areas, in some cases doubling overall capacity with those operators lacking outdoor space taking advantage of the streamlined pavement licensing process and the temporary amendments to the Licensing Act 2003 to allow sale of alcohol off premises; developing App ordering to ease pressures on staffing; and focusing on localisation, sourcing food and beverage locally to minimize the carbon footprint through the supply chain.

Fast forward to Q4 and operators are now facing spiralling costs as a result of high inflation. The Consumer Price Index (CPI) rose by 10.7% in the 12 months to November 2022, down from 11.1% in October when CPI inflation reached its highest rate in the National Statistics series since recording began in January 1997. On a monthly basis CPI rose by 0.4% in October, compared with a rise of 0.7% in November 2021, suggesting a marginal slowdown in the rate of growth.

The highest contribution to inflation rates between October and November 2022 came from rising prices in restaurants, cafes and pubs. Food and non-alcoholic beverage prices rose by 16.4% in the 12 months to November 2022, marginally up from 16.2% in October. This category has risen for 16 consecutive months and continues to put significant pressure on operator margins.

Increases in labour, energy, transport and fuel costs and the stretched supply of commodities, as a result of the Ukraine Russia conflict and pre-existing labour shortages, are having a significant effect on food prices in the UK. Nonetheless Sterling has stabilised against the US Dollar and Euro, since the sudden instability in September following the Government's mini budget. With CPI inflation coming in below analyst estimates it is hoped that this will be supportive of the British Pound, in turn reducing the cost of overseas imports and food cost inflation.

Despite the introduction of the Government's Energy Price Guarantee, capping the wholesale costs energy suppliers can incorporate into businesses bills for all contracts signed with suppliers for 6 months from 1 October, gas and electricity prices continue to remain at high levels. The most recent data in February 2023 shows energy prices +188% compared to 2019. For a pub like the former George & Dragon, this would be an increase from around £32,000 per annum to over £60,000 per annum.

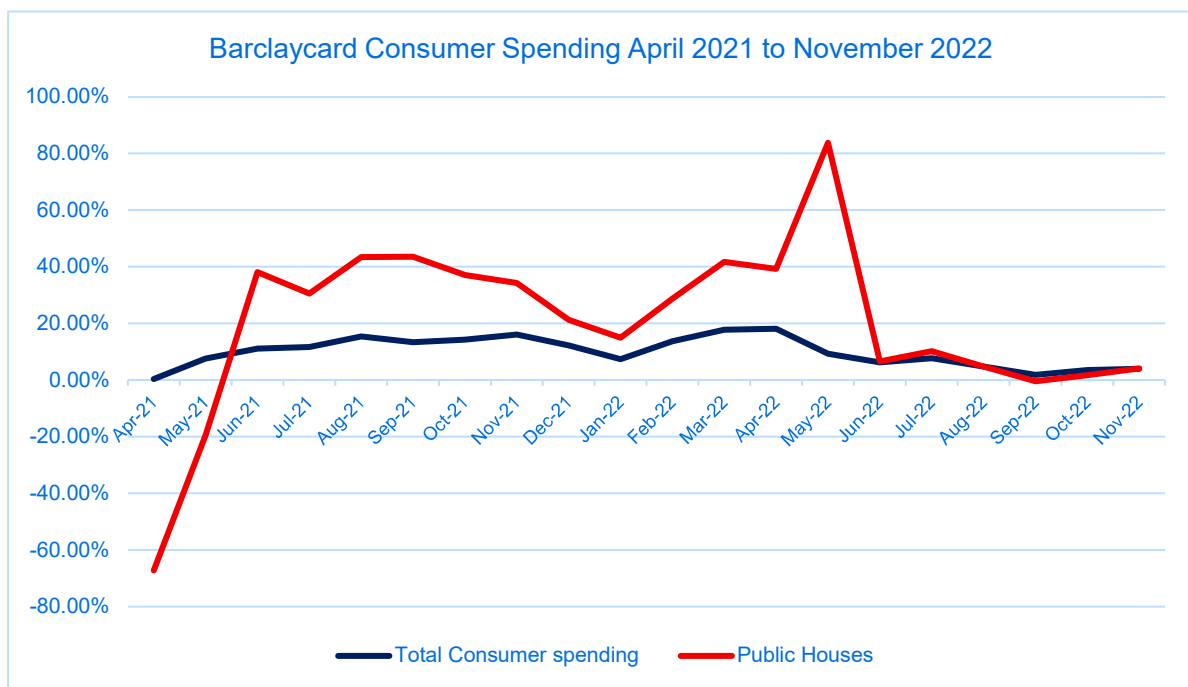
With rapidly increasing food and energy costs operators are seeing a squeeze on profit margins and as a result are beginning to pass these costs onto the consumer, as indicated by the rising prices in restaurants, cafes and pubs. In November 2022, the Office for National Statistics (ONS) reported the average price of a pint of draught lager reached £4.20, a 6.6% increase on November 2021.

The sector welcomed the Autumn Statement, announced on 15 November 2022, with a Transitional Relief Scheme for business rates over the next five years capping the rate of increase, based on the scale of increase, from the revaluation in April 2023. In addition there will be no downwards transition therefore if any business is seeing a rateable value reduction the benefit should apply from day one. Positively the Government further announced that the Retail, Hospitality and Leisure Relief will be extended for a further year until 31 March 2024 with an increase in the discount to 75% for those eligible businesses, capped at £110,000 per business.

The Autumn Statement, whilst addressing business rates, was silent on VAT increases and operators continue to campaign for further Government support. At present, VAT on food is set to return to the full rate of 20%. Announced on 19 December, the alcohol duty freeze will be extended for a further 6 months to 1 August 2023

Reported by Barclaycard in December 2022, consumer spending in pubs saw growth of 4.1% in November, the second month of consecutive growth likely boosted by festive gatherings and major sporting events such as the World Cup, the Formula 1 World Championship and Rugby Autumn Internationals. Whilst consumer spending in pubs remains below CPI inflation, it is higher than the overall rate of consumer spending suggesting consumers are focusing their discretionary spending on experiences.

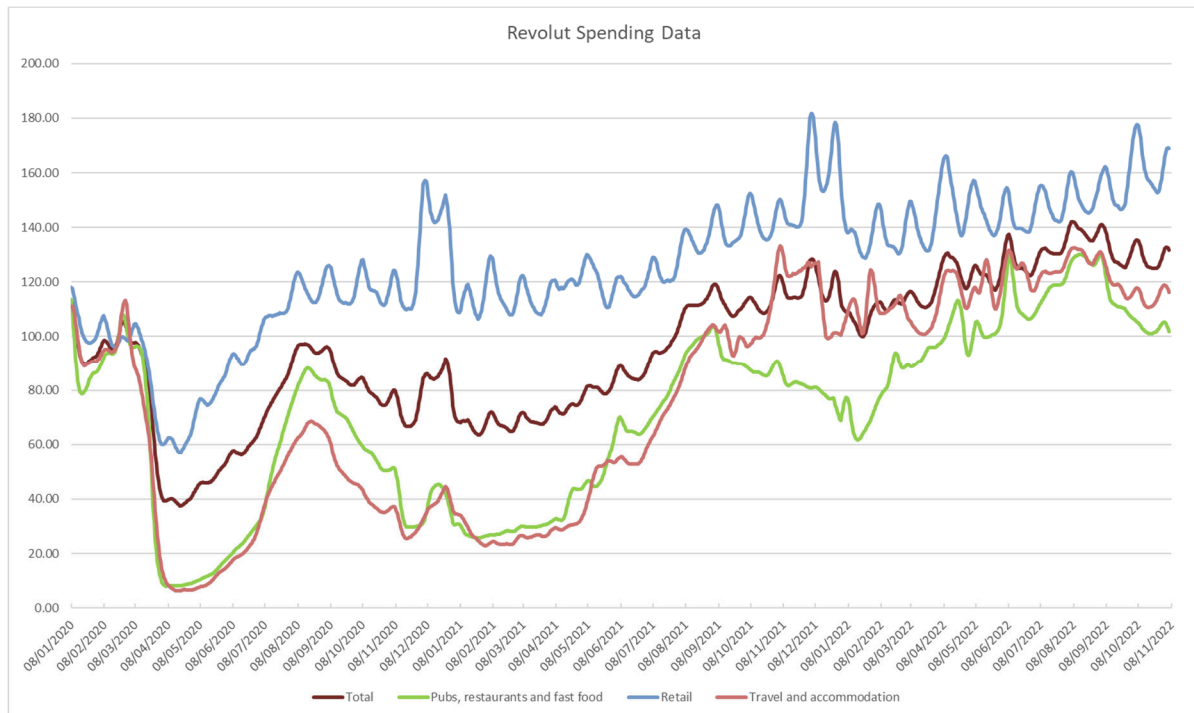
The graph below highlights monthly consumer spending in pubs against total consumer spending from the initial reopening of hospitality in April 2021 to date.



* In June 2022, the Consumer Spending Index reverted to a year-on-year comparison (comparing May 2022 against May 2021).

** In March 2022 the Consumer Spending Index changed to a three year comparison (comparing March 2022 with March 2019) instead of a two year comparison which started in March 2021, adjusted to account for consumer spending being heavily impacted by the lockdowns in March 2020 and March 2021. Measuring spending growth against the same period in 2019 provides a more accurate view of the UK's long-term recovery from the impact of coronavirus, and of whether spending has returned to pre-pandemic levels.

Mirroring this data, the ONS have released daily card spending data from financial technology company Revolut which highlights a slight downward movement in leisure related spend across all sectors since August.



With inflation set to continue at high levels during the course of 2022 we anticipate further contractions in discretionary spending, and in turn spending growth, particularly as rising utility costs hit hardest with the influx of colder weather. Nonetheless, this contraction may be somewhat offset by the introduction of the Energy Price Guarantee reducing the unit cost of energy supplies to domestic households from 1 October, albeit bills will rise again from 1 April 2023.



The latest report by the Coffe CGA Business Tracker, produced by CGA in partnership with The Coffe Group and RSM which tracks the performance of managed outlets, reported that like for like sales in November 2022 were up 5% on November 2019 and 3.7% on November 2021. This is the tenth successive month where like for like sales have been ahead of pre pandemic levels. However, taking into account of inflation, sales remain well below 2019 and 2021 levels.

Pubs were the strongest performing of the sectors in November with year on year sales growth like of 8.1% on November 2021 boosted by the various major sporting events.

In positive news, London businesses continued their rebound from more than two years of disruption with November's sales growth up 6.2% year on year, a sharp contrast to the regions beyond the M25 where like for likes were only up by 3% on the previous year.

9.0 UK Pub Market Activity

Through its resilience, the pub sector has seen a resurgence in corporate activity attracting the interest of both private equity, looking for potential distress opportunities, and operators/ investors looking to deploy some of the capital that has been raised over the past two years. Whilst the number of transactions still remains below that of pre Covid levels, this is more a reflection of a lack of supply than a decline in demand. With an increase in acquisition requirements from both established players and new entrants to the market the resultant imbalance has maintained pricing nationally.

Below are some recent corporate transactions that indicate buyer confidence and the upheld demand for pubs as an asset class.

Date	Vendor	Purchaser	Deal
Mar-21	Seafood Pub Co	Oakman	Sale of 6 public houses from the joint administrators of Seafood Pub Company Holdings Ltd. The pubs are in Lancashire and Yorkshire.
Apr-21	Everards	New River REIT	New River REIT acquired 14 community pubs from Everards which are understood to be located in suburban and neighbourhood locations in the East Midlands.
May-21	Adventure Group	Nightcap	Nightcap acquired 9 leasehold bars, 7 in central London and an additional two sites in Birmingham for £2.5 million.
Jul-21	Youngs	Punch Pubs and Co	Punch to sell majority of tenanted estate to Punch for £53m having generated EBITDA of £4.7m for the year ending 31 March 2019 reflects a multiple of 11.3YP.
Jul-21	Stonegate	Redcat Pubs	RedCat purchased 42 pubs from Stonegate comprising 30 freehold and 12 leasehold sites from Stonegate for an undisclosed sum.
Aug-21	Knead Pub Group	RedCat	RedCat acquired four pubs from the seven strong pub group. The properties include; Smith's of Bourne, Lincolnshire; The Jubilee Garage, Bourne, Lincolnshire; The Lord Nelson, Oakham, Rutland; and The Prince Rupert, Newark, Nottinghamshire.
Aug-21	Little Britain Pub Company	RedCat	Little Britain Pub Company sold 4 managed properties across the East Midlands to RedCat for £8.125m. The properties include; the Windmill in Wymeswold, the Curzon Arms in Woodhouse Eaves, the Blue Bell in Rothley, the Crown Inn in Old Dalby, and the Langton Arms in Church Langton. Deal reflects a multiple of 9.38YP.
Aug-21	Coaching Inn Group	RedCat	Redcat acquired 18 sites comprising the Coaching Inn Group's estate across the Cotswolds, Peak District, Yorkshire, Leicestershire, Staffordshire and Cambridgeshire. Deal reflects a multiple of c. 10 YP (before Head Office costs).
Sep-21	Dominion	RedCat	RedCat acquired seven sites from Dominion Hospitality which owns and operates hotels and pubs in the south of England under its Relax and Historic Innz brands.
Sep-21	Hall & Woodhouse	Red Oak	Red Oak Taverns acquired nine tenanted pubs from Hall & Woodhouse. The pubs are understood to be largely local community and rural destination sites. Deal reflects a multiple of c.11.0YP.
Nov-21	Barrio Bar Group	Nightcap	Nightcap acquired Barrio Familia Limited, the company behind the five-strong Barrio Bar Group. The business comprised four Latin American-inspired, Tequila-led, cocktail bars in London which trade under the 'Barrio' brand (Shoreditch, Angel, Soho, Brixton); and a high end '60s themed members' cocktail bar which trades under the 'Disrepute' brand in Soho. The consideration paid for the five-strong businesses comprised a net cash amount of £4.935M.
Dec-21	Euphorium Pubs Ltd	Red Oak	Red Oak Taverns acquired Euphorium pubs, comprising eight free of tie investments in the Bristol area. The deal was the fifth portfolio acquisition by Red Oak in 2021 growing its estate to 208 pubs operating on a range of agreements.
Feb-22	Alchemy Partners	Inn Collection	The Inn Collection Group, the North East based pubs-with-rooms operator, which operates 31 sites and over 1,000 rooms across the North East, North West and Yorkshire has been sold by Alchemy Partners for a reported price in excess of £300M.
Feb-22	Lucky Onion Group	Youngs	Youngs purchased the majority of the Lucky Onion Group comprising six freehold pubs, one leasehold pub and a house. The properties are located in affluent locations in the Cotswolds. The Group retained their flagship No 131 bar, restaurant and hotel in Cheltenham.
Mar-22	City Pub Group	Portobello Starboard	Portobello Starboard acquired 5 sites from City Pub Group in March 2022 prior to being acquired by Zetland Capital. The properties were located in the South East of England with a reported price of £16.2m.

Date	Vendor	Purchaser	Deal
May-22	C&C Group	Proprium Capital Partners	C&C Group announced on 17 May 2022 the sale of their 47% stake in Admiral Taverns to Proprium Capital Partners. The total consideration is due to be paid in three tranches during FY23. Reflects a 10.9 YP.
Jul-22	East Anglia Pub Company	Shepherd Neame	Shepherd Neame, the Kent based brewer, acquired three freehold pubs from East Anglia Pub Company. The properties included the Bellhouse in Leigh on Sea, the Exchange in Southend on Sea and the Hamlet Court in Westcliff on Sea. East Anglia Pub Company retain two sites.
Oct-22	Peach Pub Co	Revolution	Revolution Bars group is set to acquire Peach Pubs, the 21 gastropub operator for £16.5m. The group are reportedly achieving an EBITDA of circa £5.5 million reflecting a 3.0YP.

Notwithstanding the level of interest in the sector from different buyer groups, the commonality of decision making has been that buyers have been seeking to invest in successful pubs and those with the ability to continue to generate acceptable returns. Investors have actively sought to avoid pubs that are trading poorly or are closed and where investment cannot deliver a long term demonstrably viable business.

10.0 Business Overview and Historic Trade

I am aware that most recently the former George & Dragon was operated by Greene King as a 'Hungry Horse' branded managed house. Greene King is one of the largest pub companies in the UK with almost 4,000 pubs, around 2,700 of which are managed houses and 1,200 are leased or tenanted. A 'managed house' is a term used in the pub industry to describe a pub business that is operated directly by the owner. The staff are therefore all directly employed by the owner whom is also responsible for all of the day to day functions of the business. This contrasts with a 'leased' or 'tenanted' pub which may be owned by a pub company like Greene King but the business within it is operated by a third party.

'Hungry Horse' is one of Greene King's 'value for money' brands which typically offers lower priced food and drink to attract customers that are price sensitive in their choice of pub selection. The Hungry Horse brand is designed to appeal to both those looking for a dining option as well as those only seeking to drink. The brand is also intended to appeal to all adult age groups as well as families. Prior to the pub trading with the Hungry Horse brand, Greene King tried a number of other trading formats in an effort to create a successful managed house business. The company's portfolio of brands are designed to enable the operating team to choose one that can appeal to the local demographics and adapt to local demands, characteristics and competition.

I have been provided with management accounts for the George and Dragon which are summarised below:-

	16/16 . Actual	17/17 . Actual	18/18 . Actual	19/19 . Actual
Liquor Sales	456,260	455,884	425,616	399,897
Food Sales	254,549	219,598	197,341	182,219
Other Sales	125	152	434	417
Total Sales	710,933	675,634	623,391	582,533
Cash Profit (EBITDAR)	152,405	108,954	26,961	56,380
Cash Profit %	21.44%	16.13%	4.32%	9.68%

It can be seen that revenue and profit were both steadily declining prior to Covid, total sales declining 18.06% and trading profit by 74.76%. If the property had not closed, I would have expected the most recent trade, post Covid, to have shown a continuing decline as the majority of pubs in this sector suffered poorer turnover in comparison to pre-Covid levels with increasing costs post Covid further eroding profit.

Notwithstanding the detrimental effects of Covid on the pub industry between 2020 and 2022, the former George & Dragon was in any event heading towards closure as a result of its poor financial performance. The upshot of this would be that Greene King would need to make a decision as to whether to invest in the property by way of a comprehensive refurbishment and repositioning of the business or look at alternative options including letting to a third party tenant, the redevelopment of the property, etc. I understand that the option of refurbishment and repositioning was considered by the Greene King team responsible for the business. The conclusion was reached that the refurbishment was not a financially feasible option. I understand that the team concluded that the price sensitivity of the neighbourhood and the demographics made the Hungry Horse brand the most suitable for the area but the performance of the previous years' trade indicated a level of available custom that could not support the cost of the refurbishment.

Greene King then offered the pub to their database of prospective pub tenants using their internal marketing network and their website <https://www.greenekingpubs.co.uk/pub-search>. This also failed to secure a potential tenant and so the final option of offering the property to the open market took place when Savills were instructed to advertise the property for sale or 'to let' as a pub or a range of alternative potential uses.

In summary, Greene King made the decision that it was cheaper to bear the costs of closure than the losses of continuing to keep the business trading.

11.0 Commentary on Location and Physical Characteristics

The former George & Dragon has some characteristics that would appeal to a pub operator but on balance not enough to make it financially viable. These primarily relate to scale and competition.

The managed house requirements include the following key criteria:-

- Site size of 0.5 to 1.5 acres;
- Prominent 'A' road locations;
- Sufficient car parking of between 60 and 100 car parking spaces;
- 100 to 200 external covers;
- 100 to 200 internal covers with optimal operation layout;
- Consideration of competition.

The pub meets the criteria on site size and roadside prominence but not car parking standards, external covers or internal configuration. The car parking provision is at least 24 spaces short of the minimum standard. The pub has 87 covers and therefore less than the minimum number required. In addition, the internal configuration is very fragmented and not capable of accommodating the minimum number of covers as well as having space for those customers wishing to simply have a drink. The outside space comprises two small areas either side of the pub neither of which could provide the minimum number of external seats.

The location of the former George & Dragon is on a busy 'A' road but this is more of a suburban route around Reading rather than an area which would benefit from general passing trade. This being the case, the pub will need to draw on custom from the immediate residential areas, typically within a 2 miles radius, within which there is considerable competition. I set out the alternatives in the following section. Furthermore, the location does not have any natural attributes other than roadside prominence and therefore loses out to pubs like the Cuning Man which has a large and attractive garden adjacent to the Kennet and Avon Canal. This pub is therefore of much greater appeal to a customer who is choosing to travel to a pub for its 'destination' appeal. This contrasts with the former George & Dragon which is not likely to attract destination trade.

The only alternative for the future of the property as a pub would be to lease it to an operator who's business model would be more flexible than a managed pub but as previously described, the option was tested by Greene King and in the Savills marketing campaign without success.

12.0 Alternative Provision

I have given consideration to the competition surrounding the former George & Dragon. There is currently a total of around 13 pubs within 2.1 miles of the Property all of which could serve the community local to the former George & Dragon with some also offering wider appeal to a 'destination' motivated customer. The table below sets out the alternative pub options that are available to the local community. I have personally inspected 9 of these pubs. Those not inspected have an asterisk (*) next to the pub name.

Property	Comments
	Fox & Hounds, City Road, Reading, RG31 5SB Located 2.1 miles from the subject property. This pub serves the local community.
	*Water Tower, Park Lane, Reading, RG31 4DU Located 1.9 miles from the subject property. This is in a very similar location to the subject property being on a busy thoroughfare in a suburban area but largely serving the local community. This pub is also owned by Greene King in their managed estate.

Property	Comments
	Southcote Beefeater, Southcote Lane, Reading, RG30 3AB Located 1.2 miles from the subject property. This is a large managed house business situated at the roundabout junction of Southcote Lane and Bath Road. This pub is the closest competition to the former George & Dragon but has superior grounds and scale.
	*Foresters Arms, Brunswick Street, Reading, RG1 6NY Located 1.7 miles from the subject property. This is a small community pub.
	*Castle, Castle Street, Reading, RG1 7RJ Located 1.9 miles from the subject property. This is also a small community pub.
	Cunning Man, Burghfield Bridge, Reading, RG30 3RB Located 1.1 miles from the subject property. Although this is the closest pub to the former George & Dragon, it is a destination, food led business in a highly attractive location. It therefore serves more than just the local community.

Property	Comments
	Mansion House, Liebenrood Road, Reading, RG30 2ND Located 1.5 miles from the subject property. This pub is situated in Prospect Park. It is a substantial managed house in a very prominent position. Although in the 'heart' of the same community as the former George & Dragon, its appeal is a combination of local trade and destination food. The pub is in very poor condition which is no doubt detrimentally affecting its trade at present.
	*Rose & Thistle, Argyle Road, Reading, RG1 7YL Located 1.8 miles from the subject property. This is a community pub also owned by Greene King in their tenanted estate.
	*Tylers Rest, Norcot Road, Reading, RG30 6BS Located 1.7 miles from the subject property. This is another substantial managed house pub offering customers value for money food and drink. The scale of the pub and its facilities are superior to the subject property although the location is less prominent.
	*Pond House, Oxford Road, Reading, RG30 1EH Located 1.7 miles from the subject property. This is a pub serving the local community.
	*Victoria, Norcot Road, Reading, RG30 6BP Located 1.8 miles from the subject property. This pub also serves the local community.

Property	Comments
	Prince, School Road, Reading, RG31 5BQ Located 1.5 miles from the subject property. This is a community pub of similar scale to the former George & Dragon.
	Plough, School Road, Reading, RG31 5AW Located 1.6 miles from the subject property. This is a small community pub.

**Photo from Google Street View*

13.0 Savills Marketing of the Former George & Dragon

Savills were instructed to offer the former George & Dragon for sale or 'to let' in August 2019. The pub was exposed to our database of approximately 12,000 applicants seeking pub and other investment opportunities connected to the hospitality industry. There were 97 enquiries about the property, 7 viewings, 15 offers of which 10 were for the freehold interest and 5 were for a lease.

Nine of the freehold offers were from developers seeking to redevelop the site. All of these proposals would have involved the demolition of the pub and therefore both the loss of the building and the loss of the pub use.

The one freehold offer that did not come from a developer was from a potential pub operator. That offer was not acceptable as it was materially less than Market Value. Given the quantum of the offer, Savills did not take forward any further discussions. As a consequence there was no test of viability undertaken, proof of funding provided, timescales offered or conversation around the extent of works (if any) required to the property.

Of the leasehold offers, two were for the property as it presently exists, one from a children's pre-school and one from an ethnic minority supermarket. Again, these proposals were at levels significantly less than Market Rent and so there were no further discussions with either. In my experience however, in order that the property can accommodate the supermarket use, significant internal and external alterations would be required to create an open plan layout, ease of customer access and retail-style display windows. It is less clear what alterations would be required for a day nursery but in any event, the offer was unacceptable.

The other three leasehold offers all involved the demolition of the existing building. All three offers came from tenants whom would use the newly built premises for the sale of food and drink including a drive through lane.

14.0 Condition

Following my inspection of the pub it is clear that the entire property requires refurbishment. I have estimated a figure of £1,173,600 calculated by applying the median quartile (£1,896) Building Cost Information Service (BCIS) rehabilitation/fitting out cost per sq m for public houses in the immediate area (see **Appendix 2**) to the Gross Internal Area of the Property (£1,896 per sq m x 619 sq m). This cost is exclusive of any costs to remedy any structural issues. An incoming operator will also have to install kitchen equipment, a new extraction system and fixtures and fittings within the pub.

I have therefore outlined below some of the likely start-up costs an operator would consider:-

Beer Line/Font installation	£2,000
Kitchen Equipment	£200,000
EPOS Till System	£800
Furniture (Tables, chairs etc.)	£35,000
Refrigeration for Bar	£2,000
Glasswasher for Bar	£750
Glassware, cutlery, crockery	£1,000
Bric-a-Brac	£5,000
TOTAL	£246,550

I therefore estimate a total capital cost required for the former George & Dragon, exclusive of repairs or major structural works, to be in the region of **£1,420,100**.

15.0 My Opinion of Trade

I have considered the viability of the former George & Dragon post-refurbishment and its long term viability, by considering the likely sustainable trade which could now be generated and, thereafter, carrying out a hypothetical profit and loss exercise assuming average costs of running the business. The exercise involves assessing the level of trade that a Reasonably Efficient Operator (REO) would expect to achieve on the assumption that the Property is properly equipped, repaired, maintained and decorated. This trade is known as the Fair Maintainable Turnover (FMT). The purchase costs of the sales are deducted from the FMT to arrive at the gross profit and thereafter all the costs expected in running the business including wages, repairs, utility bills and rates are deducted to arrive at a Fair Maintainable Operating Profit (FMOP). This profit is stated prior to depreciation and finance costs (relating to the asset itself) and is the profit that the REO would expect to derive from the FMT based on an assessment of the market's perception of the potential earnings at the Property.

I have used my extensive knowledge of the pub industry, to estimate the trade which would be achievable by a REO. The business in this location would sell food and drink to local customers but would not generally attract those from outside the immediate area for the reasons already discussed above. The significantly improved trading areas, gardens, car parking and back of house areas are all likely to combine to generating an improved level of total sales than those achieved historically. I have estimated the improvement to be in the order of 25%. Costs will, however, have increased since the period prior to Covid and I have therefore also taken this cost inflation into account using a combination of my experience, data from the British Institute of Innkeepers and the experience of Greene King themselves. My FMT and FMOP forecast is thus set out below:-

Description	FMOP	FMT
Liquor Sales		£500,000
Food Sales		£230,000
Total Sales		£730,000
Liquor GP (%)		68%
Liquor Margin		£340,000
Food GP (%)		64%
Food Margin		£147,200
Total Margin (%)		67%
Total Margin		£487,200
Machine Profit		£40,000
Total Gross Profit		£527,200
Wage Costs (including NI)	30.00%	£277,400
Security	0.25%	£1,825
Business Rates	5.00%	£36,500
Utilities	8.00%	£58,400
Repairs and Maintenance	2.50%	£18,250
Insurance	0.50%	£3,650
Stock Taker/Accountant	0.54%	£3,930.77
Professional Fees	0.38%	£2,807.69
Gardening	0.50%	£3,650
Cleaning	1.00%	£7,300
Licensing	0.20%	£1,450
Sky/BT	1.00%	£7,300
Entertainment	1.15%	£8,423.08
Marketing and Advertising	0.77%	£5,615.38
Telephone and WiFi	0.23%	£1,684.62
Travel Car	0.15%	£1,123.08
Bank Charges	1.15%	£8,423.08
Plant and Machinery	0.15%	£1,123.08
Sundries and Miscellaneous	1.00%	£7,300
Refuse	1.00%	£7,300
Depreciation	3.00%	£21,900
Total	66.49%	£485,365.77
Profit		£41,834.23

Assuming a base value for the property of £1m, the total investment required to bring the property back into use as a pub would be £2.42m. The financial return that this investment would give is £41,834.23. This is less than 2%. A substantially higher return could be achieved by putting this investment on deposit with a 'high street' bank with markedly less risk.

16.0 Campaign for Real Ale (CAMRA) Viability Test

16.0.1 Local Trade

- Location – Prominent roadside position in a suburban area of Reading. Relatively price sensitive demographics. Primarily local trade. Lots of other local competition. Superior destination pubs in locality.
- Catchment Area – Small as primarily local trade despite roadside location.
- Developments in area – significant development in the area including a Lidl supermarket. Former Horncastle pub on Bath Road failed and has been converted to a pet shop. Former Murdoch's Diner/pub failed and redeveloped with new build residential.

16.0.2 Conclusion

Good roadside location but with relatively poor demographics and considerable surrounding competition within the immediate community.

16.0.3 Visitor Potential

- The pub is in a busy suburban thoroughfare. It is not an area of interest to visitors and day-trippers.
- Tourism is focused in other areas surrounding Reading.
- The pub is not included in a visitor or tourist guide.
- The pub does not act as a focus for community activities.

16.0.4 Conclusion

Limited visitor potential. Trade is primarily from the local area.

16.0.4 Competition

- Numerous pubs in the immediate area many of which are superior to the subject property.
- There are 13 alternative public houses within 2.1 miles of the former George & Dragon all of which could provide a similar facility to the local community as the former George & Dragon. Two other pubs on Bath Road have closed. One has been redeveloped, the other converted to a pet shop.

16.0.5 Conclusion

The competition in the area is significant. Whilst not all would provide customers with as convenient pub option to some of the other pubs serving the community, it will have a significant impact on the thought process of any pub company or pub operator given the risk associated with re-establishing trade and it being at a higher level than that previously achieved.

16.0.6 Flexibility

- The Property is too small for larger managed house requirements, however is an appropriate size for a community public house. There is however significant competition from other pubs in this market place closeby.
- It is not economic to undertake a smaller scale refurbishment of the pub as the entire building requires significant investment.

16.0.7 Conclusion

The Property is an appropriate size for a community public house but there is too much competition in this sector. Its scale is insufficient to create a managed house that could offer a superior proposition that the Beefeater, Cuning Man or Mansion House.

16.0.8 Parking

Acceptable for a tenanted pub. Insufficient parking for a managed house.

16.0.9 Conclusion

Not enough car parking to justify refurbishment costs necessary.

16.0.10 Public Transport

- There is a west bound bus stop opposite the former George & Dragon and east bound within 120 metres. There is a further bus stop in Burghfield Road within 105 metres.

16.0.11 Conclusion

Good public transport by bus in the immediate vicinity. Train stations are not within convenient walking distance.

16.0.12 Multiple Use

- There are some additional community facilities in the area including supermarkets and convenience shopping.

16.0.13 Conclusion

There are already other community facilities in the area.

16.0.14 Partial Loss

- The Property does not lend itself to be split.

16.0.15 The Business – Past and Present

The Property is not currently trading. It did not re-open after Covid given the deterioration in trade witnessed prior to Covid. The business was, prior to closure, professional run by a large pub company. It traded within the usual opening hours for a pub and offered a wide ranging, value for money menu.

16.0.16 The Sale

The property has been offered for sale or to let since the 4th quarter of 2019. There was only 1 offer based on its existing use. This was significantly below Market Value and did not therefore progress. As a consequence there was no test of that party's ability to proceed. All of the other offers received were from developers or occupiers seeking to put the property to an alternative use that would require the demolition and redevelopment of the pub or likely to involve substantial internal and external alterations.

17.0 Conclusion

I am of the opinion that in the short, medium and longer term the former George & Dragon is financially unviable as a public house.

The Property relied heavily on trade from the local community however given the strong local competition, trade steadily declined. Ultimately, Greene King made the decision to close the pub as this option lost less money than keeping the pub open. The property would require a comprehensive refurbishment in order to re-open. However, the costs are so significantly in excess of what a new pub business could afford, a pub operator or investor alongside a pub tenant would not regard such an investment as sensible or viable.

I am also of the opinion that there would not be a 'lifestyle' buyer for the former George & Dragon as it does not offer the location, domestic accommodation or 'way of life' that other businesses may offer in the places like the Cotswolds, Devon and Cornwall.

When offered to the market for sale or to let, all but one party was seeking to redevelop the property either by way of demolition or by making significant alterations to the property. This further reinforces my view that the location is not well suited to a community pub, an opinion further supported by the closure and redevelopment of two other pubs in recent years in Bath Road.

Most of the 'ingredients' required by pub operators to create a successful pub development are missing from the property. There are many alternative pub options available to the local community and those travelling from further afield whose physical and location attributes satisfy many more of the core requirements of pub operators than this pub.

Any alternative options for the re-use of the former George & Dragon are highly likely to either require the demolition of the pub or very substantial internal and external alterations that will fundamentally change its appearance.



Kevin Marsh MRICS
Director

Date: 9 March 2023

Disclaimer

The projections outlined within this report are assuming a good average operator running the business efficiently. Savills would have no involvement in the running of the business and therefore cannot be held liable for the projections not being obtained.

Appendices

Appendix 1

Photographs



Front Elevation



Rear Elevation



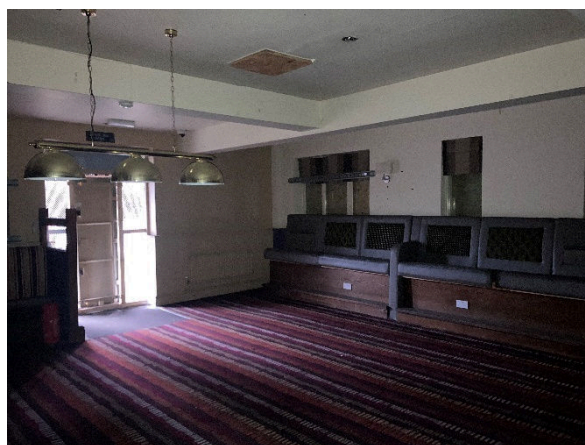
Trade Garden



Grounds to the Rear



Trading Area



Trading Area



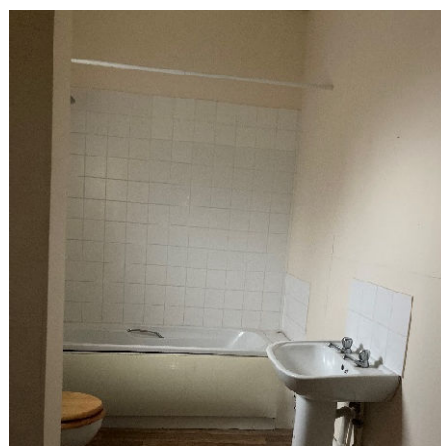
Bar Servery



Trade Kitchen



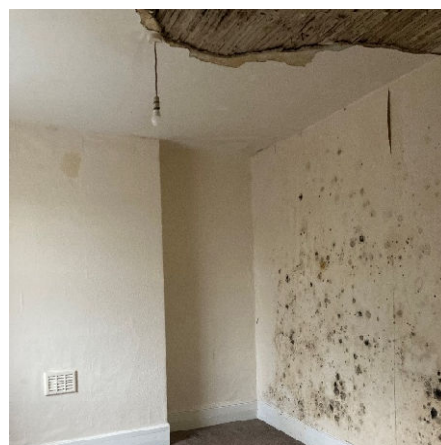
Trade Kitchen



Manager's Accommodation (Bathroom)



Manager's Accommodation (Bedroom)



Manager's Accommodation (Bedroom)



Car Park

Appendix 2

BCIS Conversion/Rehabilitation Costs

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 11-Feb-2023 05:59

➤ Rebased to Reading (110; sample 33)

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
Rehabilitation/Conversion							
517. Public houses, licensed premises (15)	2,185	1,243	-	1,896	-	3,703	4