

**A REPORT INTO THE FUTURE VIABILITY OF THE LICENSED
RETAIL BUSINESS AT**

**THE MONTREAL ARMS
62 ALBION HILL
BRIGHTON
EAST SUSSEX BN2 9NX**

Prepared by Patrick Walker FAVLP

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REPORT

relating to the property known as

**THE MONTREAL ARMS
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Instructions received from Mr C Southall, The Montreal Arms (as above)

1. We acknowledge receipt of your verbal instructions to inspect and report on the property as shown above and confirm we are able to act in the matter as independent Valuers and have no existing or potential conflict of interest in complying with your instructions.
2. We have the necessary expertise and experience to advise you in relation to the property.
3. We maintain Professional Indemnity insurance on a per claim basis which is adequate in respect of this appraisal.
4. We have carried out our inspection and prepared our Report in accordance with your instructions.
5. We are providing you with advice on the property for the purposes of assessing ongoing viability.
6. The property and locale were inspected at various times between August 3rd and August 28th 2022 by Mr P J Walker, a specialist Valuer working solely in the Licensed Trade Property sector. Mr Walker has been based in Brighton and has been actively employed in the sale and valuation of Licenced Premises since 1980. He has acted for all the previous tenants and Landlords of the Montreal since that time.
7. For the purposes of this Report, we have assumed a pertinent date of **28th August 2022.**

LOCATION

The Montreal Arms occupies a corner plot in the densely populated Hanover district of Brighton. The house is surrounded by largely residential property and the City's main amenities, seafront, shopping and leisure areas, all lie within easy reach.

A copy of the H M Land Registry title plan and title register details are attached as **Appendix 1**.

Brighton itself lies some 50 miles due south of London and has excellent road and rail links to the capital and district in general, making it a highly popular place to live and visit.

The premises are located in the Hanover and Elm Grove ward of the city

It is an eclectic and multi-cultural City and the Hanover district has almost become a "village within a city" with a widely diverse population.

The city of Brighton and Hove has population has a population of some 253,000 (according to the 2021 census). Hanover and Elm Grove ward has a population of just under 18,000. A breakdown of the population figures is attached as **Appendix 2**.

DESCRIPTION

A semi-detached two storey corner property with part painted pebble-dashed, part ceramic tiled faced brick and "bungaroosh" elevations under a variable pitched concrete tiled roof.

SERVICES

We are advised that the property is connected to all mains services.

RATES

The Premises are located within the area administered by Brighton & Hove City Council and are assessed to a rateable value of £10,650. The rateable value falls beneath the level at which business rates are actually payable as an individual operator, an indication perhaps as to the rating authority's perception of achievable trade levels. A print off from HMRC website detailing the rateable values are attached as **Appendix 3**.

TENURE

We have assumed for the purposes of this report that the property is owned Freehold, free of all trade ties.

LICENCES

We are advised that the premises are no longer licenced, having been de-licensed by the previous owners.

ACCOMMODATION - Briefly comprises: -

Ground Floor

Single “horseshoe” shaped **BAR AREA**; **REAR ACCESS PASSAGE** to **BOILER CUPBOARD** and **LADIES** and **GENTS W.C.s**; Central **SERVERY** to all bar areas with polished wood counter, back fittings and over-bar; rear **LOBBY**, back of bars.

Cellarage

Access via stairs off rear lobby to **DELIVERY CELLAR**, **WINE & SPIRIT STORE** and electrically chilled **DRAUGHT BEER CELLAR**.

First Floor

3 BEDROOMS; **BATHROOM/W.C.**; **LOUNGE**; **DOMESTIC KITCHEN**; **LANDING & STAIRS** down.

Outside

Small rear enclosed **TRADE PATIO** with brick-built **LEAN-TO STORE** off.

CONDITION

Although we have not carried out a structural survey, the premises appear to be in very poor condition structurally and in need of extensive works merely to make the property safe. At the date of our inspection it was shrouded in scaffolding and there are currently “acrow” props semi-permanently secured under the more suspect looking lintels to prevent collapse into the street.

As the walls are largely of “bungaroosh” construction (a composite building material made of lime, gravel, flint and brick chippings and very prevalent in the Hanover district of Brighton), the insertion of a damp-proof course or membrane is notoriously difficult.

There have been issues with damp penetration and lintel failure, which, due to the glazed frontage, have not been easily detected, though which have come to light over recent years and were a main contributory factor to the failure of the long-established former tenant's business (she was on a fully repairing lease).

Having acted for both the previous tenant and her Landlord (Stonegate Group), I am aware that the "dilapidations" cost was circa £100,000 in mid-2021 and that made no allowance for the lintel replacement works which have come to light since.

The structural costs of repair and refurbishment would in my view be prohibitive and would certainly need to be factored in as part of this viability report.

A detailed report on the ceramic tiled fascia is attached as **Appendix 4**.

PLANNING

Having made enquiries via the local planning register there appear to be a number of pertinent applications:

As the smoking ban came into force in 2007 an application was made (retrospectively) in January 2008 for the installation of a "smoking shelter" across the rear patio. This was granted though with a restriction on closing times which meant that no one could smoke outside after 10pm.

In June 2010 an application was made to allow a maximum of 5 smokers to use an area just outside the back door to smoke until the hours the pub was licenced for (12.30 and 1.30 a.m. apparently). This was refused.

In November 2010 an application was made to "fence in" the smoking area on the rear patio to prevent people from coming in "off the street" and smoking when the patio should have been closed. This application was granted, though the patio still had to close at 10 pm.

Details of these "smoking area" applications, are attached as **Appendix 5**.

The smoking ban most certainly impacted on the trade at this time.

In August 2021 (at about the time the last tenant abandoned) an application was made by Stonegate Group to carry out a major refurbishment to the premises to attract a younger (student) element to the site and create a catering kitchen.

I do not feel the applicants were fully aware of the demographic in the Hanover Area, and much of the former student accommodation who's trade they were trying to entice, was now not used by students, who had largely moved to the vast array of purpose-built student accommodation which seems to be appearing all over the city.

The application also involved an extension to opening times, which was never likely to be approved, and it was subsequently withdrawn.

Interestingly however, there were as many complaints about the introduction of a catering operation at the Montreal as there were about the proposed development in general.

The complaints revolved around noise of fans, smells, rubbish which would be strewn around by seagulls and urban foxes and the general noise and disruption which would be created by a **busy** pub.

I have attached as **Appendix 6** details of the withdrawn application together with a copy of various objections received. I have marked with an asterisk those that refer specifically to the food operation.

This distinct lack of any apparent local requirement for a business which could do food, and indeed the worry of the locals that a busy pub may not be what is needed in the locale, must certainly impact on any future viability which the premises may have.

HISTORY

The Montreal Arms has been a Public House, since circa 1881. It has always traded as the “Montreal” and has until the failure of the previous lessee in mid-2021, traded for many years as a traditional “Beer House” as a “tied” tenancy and subsequently a “tied” lease.

The freehold was owned by various Breweries, the last one being Whitbread, who acquired the site as part of their take-over of the old United Breweries in Portsmouth.

Following the “beer orders” in the late 1980’s the major Brewers (including Whitbread) were forced to dispose of many of their premises in order to comply with the monopolies and mergers commission’s rulings which effectively meant that, up to a certain number, Brewers could not run pubs and supply beer to those pubs (they either had to brew or run pubs – not both!).

Whitbread, along with many of the other large Brewers then started granted long term, fully repairing and insuring leases (rather than traditional tenancy agreements), which they could then dispose of as investments.

Rather than sell off the sites piecemeal, large swathes of pubs were sold to newly formed “Pubcos” and Whitbread sold most of their tenanted estate to Enterprise Inns, who then took over the sites and granted long-term leases as well. Enterprise were then themselves sold to Stonegate Group, the previous freehold owners to the current owners.

The house has been traded as a traditional local's "boozer", virtually since it's opening and whilst trends have changed, the Montreal just carried on catering for its own type of trade and never really moved with the times.

There was no kitchen facility at the pub, and no real space to fit one, so no real opportunity to create any form of food trade.

Over the years, since the Pendrys had the Montreal, several pubs in the Hanover district have closed and been granted alternative use:

1. The Racehorse, Elm Grove
2. London Unity, Islingword Road
3. Horse & Groom, Islingword Road (though ground floor still trades as a café/bar)
4. Albion, Albion Hill
5. Spread Eagle, Brighton
6. Red Lion, Upper Park Place
7. Devonshire Arms, Carlton Hill

Despite the closure of these sites, and the hoped for strengthening in trade that the remaining pubs in Hanover would enjoy as a result, turnover at the Montreal continued to decline.

We have been provided with Stonegate/Enterprise Inns beer barrelage figures for the Montreal for the years 2015 until covid in early 2020.

Beer barrelage was as follows:

2015	67 brewers' barrels
2016	67 brewers' barrels
2017	59 brewers' barrels
2018	57 brewers' barrels
2019	53 brewers' barrels
2020	46 brewers' barrels

A brewer's barrel is a measurement which tied landlords/pubcos have always measured their beer sales in and equates to 36 gallons, or 288 pints.

In 2020 the Montreal only achieved 46 barrels, a grand total of 13,248 pints.

At say £4/pint (including VAT) that would equate to a beer turnover of £52,992.

With VAT deducted that reduces to £44,160 ***per annum!***

Even with a notional wine, spirit and soft drinks trade and with a bit of income from gaming machines and pool table, the turnover here would barely sustain the rent and beer purchases, let alone any other costs (staff, utilities etc.)

The rent on the lease was £22,000 and with gross profit margins at 50%, on £44,000 per annum, there was nothing left to run the business.

The final straw for the former tenant was covid and the devastating effect that had on the pub industry. The house closed in early 2020 and was never to re-open.

Stonegate/Enterprise did reduce rents greatly during the pandemic, but even when the Montreal could have re-opened, what little trade the tenant had left was of the “grey pound” variety (old boys who liked to sit and drink a pint in an old-style pub) and they are still a clientele who are very wary of venturing out to the pub, even now.

The tenant sadly abandoned the site in August 2021 and delivered the keys to my office with a very sad letter both explaining her decision and apologising for it. A debt (including dilapidations) of well in excess of £100,000 was left owing. I then acted on behalf of Stonegate in the matter of securing the site and it was subsequently sold freehold by Messrs Fleurets.

LOCAL COMPETITION

The Hanover district is well served already in respect of Pubs/licensed premises with the main ones listed below:

1. The Hanover
2. The Islingword
3. The Independent
4. The Haus on the Hill
5. The Setting Sun
6. The Cobden Arms
7. The Constant Service
8. The Sir Charles Napier
9. The Dover Castle
10. The Geese
11. The Greys
12. The Howard
13. The Admiral
14. The Wellington

There are also several other café’s, restaurants and take-aways in the locale, so food is also well catered for.

In addition to the Montreal then there are 14 other pubs in the district, well over the national average per capita.

MARKET CONDITIONS

The Licensed Trade has, over recent years, suffered more than most sectors as a result of a combination of factors.

The reforms to the Licensing Laws which were introduced in 2005 had a severe effect upon the pub trade, particularly with regard to late night bar operators, though businesses such as the Montreal also suffered with increased annual Licensing charges and more onerous conditions applied to the operational aspects of their businesses.

The smoking ban, which was introduced in 2007 also blighted the sector, in particular with regard to the “wet”, traditional drinkers, trade.

Other factors which have affected the Licensed Trade in general include the “credit crunch”, “austerity”, “Brexit” and the general economic downturn, the extent of which no one could have predicted.

The Covid crisis, which, in the wider scheme of things was hopefully only a relatively short-term problem for the country in general, will surely leave a lasting legacy as far as the pub trade is concerned, especially where there is limited chance to be “socially distanced”.

The internal and external layout of the Montreal is entirely unsuitable to promote a safely socially distanced trade.

There is little or no external trading area so the site would be naturally susceptible to (god forbid!) any further lock-down or social distancing measures.

The real “killer” as far as the trade in general now is concerned, is undoubtedly rising energy costs, beer and food prices, business rate rises, interest rate rises, national minimum wage rises, employers pension provisions and the lack of disposable income, largely (though not all) as a direct result of the war in Ukraine.

Recession definitely looms, and a deep one at that.

As Valuers dealing only with the licensed trade (99% of which are pubs) we are currently inundated with valuations to form the basis of surrenders or abandonments, largely due to rising (or soon to rise) energy costs.

These are valuations commissioned by Landlords and Tenants alike, in small back street sites, and large food led “mega pubs”. We operate nationally though there are a number of sites in Brighton itself which are “wobbling” and which we are on standby to value for re-possession or surrender.

At the date of this report no firm aid packages for the licensed sector have been announced and there are sure to be a flood of pub closures/failures imminently.

There is only a limited amount any government can do to “prop up” the pub trade, and I am sure any grants/support will be greatly appreciated. The problem is that, unlike the aftermath of covid where people had a fair bit of disposable income they had saved from not being able to go abroad or go out in general, now there is very little money to spare, and the last place people want to go when their mortgages and costs of living are soaring, is the pub.

As Valuers for most of the major Pubcos and Brewers we have first hand, non-anecdotal evidence of the effect it is having on all aspects of the trade.

Just before the Ukraine crisis, a unit of electricity, even on “out of contract” rates was 15-20p. As at last week it was 60-70p per unit and even the most “rose tinted” predictions say it will reach one pound very soon,

A major multiple pub operator that we act for and has 21 sites, is just nearing the end of a 3-year energy contract.

His last years annual gas and electric bill was £180,000.

Assuming the same usage and with the same number of pubs still, his predicted bill (if he enters a 3-year contract now) will be £1.1 million. A “hit” directly to his bottom line profit of over £900,000 per annum.

This 500% rise in utility costs will have even more impact on sites such as the Montreal, where turnover is already low and costs are already struggling to be met.

The major Pub operating Companies have suffered terribly as a result of the Covid crisis, with massive losses in asset values and with the likelihood of more pain to follow, their share prices have collapsed. I attach as **Appendix 7** a schedule of the main (still listed) Pub Company and Brewery share prices, detailing the fall in value for the full year ending December 2020 (i.e. pre-covid)

The average fall in value is 45%, with Kent’s oldest Brewer, Shepherd Neame seeing some 48% of its share value wiped out and with a massive Covid debt built up.

From a personal aspect, as a firm of valuers dealing solely and exclusively with the Licensed Trade, over 95% of our current workload is as a result of impending or indeed actual pub failure. We have been involved in valuations where previously strong Pub operating Companies have entered into Administration and subsequent liquidation, have attended Pubs which have been abandoned by the publicans, and indeed I am on “stand-by” to attend premises to list and value the assets of publicans who are about to fail and have no possibility to trade on.

MONTREAL IN PARTICULAR

Though it has weathered the storm over the years, trade has dwindled at the house since well before the Covid crisis. As new and improved Pubs/Bars and restaurants have sprung up all over Brighton, the trade which the house previously enjoyed has reduced greatly.

The demographic in the area has changed considerably over the years, as have drinking trends in general and, with a very few exceptions, the “wet led” corner “boozer” with no possibility of any catering offer and no real external trading area, is rapidly becoming a thing of the past.

SUMMARY/RECOMMENDATIONS

The Montreal Arms has, despite the best efforts of the former operators, financially, emotionally and physically, failed to maintain the trading levels needed to maintain its viability on a commercial basis.

The layout of the site, diminished trade and trade potential, abundance of local competition and, perhaps more importantly, the vast increase in operating costs would, in our opinion, suggest that an alternative use for the site would be more viable in the future.

The City is crying out for housing and, as the house has had virtually no trade for at least 10 years, the suggestion that there is a loss of amenity or indeed an asset, is frankly laughable. If everyone who objects to the closure of the site had a pint in it every week, the situation may have been different, but, sadly the reality is that sites of the type, style and location of the Montreal are always likely to struggle going forward.

As the licence has lapsed, there will also be an entirely new set of criteria which would need to be adopted to get it back (disabled access being a particular issue which would need to be addressed). It is very likely that a new disabled toilet would need to be installed and there is already only limited trade space.

Indeed, were an application for a new Licensed premises to be made for the site, it would almost certainly be refused on grounds of lack of parking (on and off street), size of site and access, and density of local residential dwellings.

Should any aspect of this Report require further clarification, please do not hesitate to contact the writer.

Signed this 30th day of August 2022.

P J Walker, FAVLP
A W Gore & Co, Brighton