RICS PROFESSIONAL STANDARD

Valuation of licensed leisure property (including public houses, bars, nightclubs and restaurants)

UK

2nd edition, April 2025

Effective from 1 July 2025

RICS®

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This document applies to the UK and Crown Dependencies. If any of the requirements contained in this document conflict with regional legal requirements, those regional legal requirements take precedence and must be applied.

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RICS standards framework

RICS' standards setting is governed and overseen by the Standards and Regulation Board (SRB). The SRB's aims are to operate in the public interest, and to develop the technical and ethical competence of the profession and its ability to deliver ethical practice to high standards globally.

The RICS Rules of Conduct set high-level professional requirements for the global chartered surveying profession. These are supported by more detailed standards and information relating to professional conduct and technical competency.

The SRB focuses on the conduct and competence of RICS members, to set standards that are proportionate, in the public interest and based on risk. Its approach is to foster a supportive atmosphere that encourages a strong, diverse, inclusive, effective and sustainable surveying profession.

As well as developing its own standards, RICS works collaboratively with other bodies at a national and international level to develop documents relevant to professional practice, such as cross-sector guidance, codes and standards. The application of these collaborative documents by RICS members will be defined either within the document itself or in associated RICS-published documents.

Document definitions

Document type	Definition
RICS professional standards	**Set requirements or expectations for RICS members and regulated firms about how they provide services or the outcomes of their actions.** RICS professional standards are principles-based and focused on outcomes and good practice. Any requirements included set a baseline expectation for competent delivery or ethical behaviour. They include practices and behaviours intended to protect clients and other stakeholders, as well as ensuring their reasonable expectations of ethics, integrity, technical competence and diligence are met. Members must comply with an RICS professional standard. They may include: • mandatory requirements, which use the word 'must' and must be complied with, and/or • recommended best practice, which uses the word 'should'. It is recognised that there may be acceptable alternatives to best practice that achieve the same or a better outcome. In regulatory or disciplinary proceedings, RICS will take into account relevant professional standards when deciding whether an RICS member or regulated firm acted appropriately and with reasonable competence. It is also likely that during any legal proceedings a judge, adjudicator or equivalent will take RICS professional standards into account.
RICS practice information	**Information to support the practice, knowledge and performance of RICS members and regulated firms, and the demand for professional services.** Practice information includes definitions, processes, toolkits, checklists, insights, research and technical information or advice. It also includes documents that aim to provide common benchmarks or approaches across a sector to help build efficient and consistent practice. This information is not mandatory and does not set requirements for RICS members or make explicit recommendations.

Glossary

The terms used in this professional standard may have different meanings when used by other professional disciplines. The definitions below generally replicate those included in RICS Valuation – Global Standards (Red Book Global Standards) VPGA 4, with additional commentary in some cases. They are principally relevant to valuation in accordance with the basis of market rent and market value.

Term	Definition
Adjusted net profit	This is the valuer's assessment of the actual net profit of a currently-trading operational entity. It is the net profit that is shown from the accounts once adjustments for abnormal and non-recurring expenditure, finance costs and depreciation relating to the property itself, as well as rent where appropriate, have been made. It relates to the existing operational entity and gives the valuer guidance when assessing the fair maintainable operating profit (FMOP).
Divisible balance	The amount of rent to be shared between the landlord and tenant. This is typically an apportionment of the net divisible profit between landlord and tenant.
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	This term relates to the actual operating entity and may be different from the valuer's estimated FMOP.
Fair maintainable operating profit (FMOP)	This is the level of profit, stated prior to depreciation and finance costs relating to the asset itself (and rent, if leasehold), that the reasonably efficient operator (REO) would expect to derive from the fair maintainable turnover (FMT) based on an assessment of the market's perception of the potential earnings of the property. It should reflect all costs and outgoings of the REO, as well as an appropriate annual allowance for periodic expenditure, such as decoration, refurbishment and renewal of the trade inventory.

Term	Definition
Fair maintainable turnover (FMT)	This is the level of trade that an REO would expect to achieve on the assumption that the property is properly equipped, repaired, maintained and decorated. Note that this is not necessarily the same as the actual level of trade achieved by the current occupier, which may be above or below the FMT of an REO.
Market rent	This is defined in the Red Book Global Standards as the 'estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion'. Whenever market rent is provided, the 'appropriate lease terms' that it reflects should also be stated
Market value	This is defined in the Red Book Global Standards as the 'estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion'.
Operational entity	Usually includes: • the legal interest in the land and buildings • the trade inventory, usually comprising all trade fixtures, fittings, furnishings and equipment • the market's perception of the trading potential, together with an assumed ability to obtain/renew existing licences, consents, certificates and permits. Consumables and stock in trade are commonly excluded.
Personal goodwill (of the current operator)	This is the value of profit generated over and above market expectations that would be extinguished upon sale of the trade related property, together with financial factors related specifically to the current operator of the business, such as taxation, depreciation policy, borrowing costs and the capital invested in the business.

Term	Definition
Reasonably efficient operator (REO)	This is a concept where the valuer assumes that the market participants are competent operators, acting in an efficient manner, of a business conducted on the premises. It involves analysing and estimating the trading potential rather than just adopting the actual level of trade under the existing ownership (although this may form part of the evidence). It is an important concept as market evidence might demonstrate that a different level of performance could be achieved at the property compared to the actual performance. It excludes personal goodwill. The REO is a hypothetical operator and may, in some circumstances, be assumed to operate differently from the actual operator. The actual operator may not be the best proxy for the REO as they might have practices and tastes that are personal to them and their business but not reflective of the market. For example, the actual operator may only be interested in deriving income from beverages ('wet-led' trade), whereas there may be a market for a wider food-based offering that the REO would want to be involved in.
Tenant's capital	This may include, for example, all consumables, purchase of the inventory, stock and working capital among others.
Trading potential	This is the stabilised profit estimate, in the context of a valuation of the property that an REO would expect to be able to realise from occupation of the property. This could be above or below the recent trading history of the property. It reflects a range of factors (such as the location, design and character, level of adaptation and trading history of the property within the market conditions prevailing) that are inherent to the property asset.
Trade related property	This is any type of real property designed or adapted for a specific type of business where the property value reflects the trading potential for that business. A licensed leisure property is typically also a trade related property.

Supporting information for non-valuers

This section is for information only and does not set additional requirements for RICS members or RICS-regulated firms.

Introduction and scope

The main purpose of this professional standard is to support RICS members and RICS-regulated firms. However, interest in the licensed leisure sector and the fact that parts of it are regulated (such as tied pubs – see section 5) means that this professional standard may be referenced directly or indirectly by individuals who do not undertake valuations as a profession.

Despite the market becoming more mainstream in recent years, licensed leisure (including public houses, restaurants and nightclubs) is still considered a specialist area of valuation, for which there are professionals with specific expertise in the sector. RICS recommends seeking professional advice from suitably competent, experienced and regulated practitioners for valuations being undertaken in respect of licensed leisure properties, and other activities that may be related, such as letting and sales advice.

The scope of this professional standard is limited to valuation. Please note that a rental or sale offer or proposal is not necessarily a valuation. Building surveys, dilapidations, property management and dispute resolution are also outside the scope of this standard.

RICS professional standards and practice information are free to download from the RICS website.

The role and duties of the valuer and other professional advisers

RICS members and RICS-regulated firms take on several roles in respect of licensed leisure, including negotiating on behalf of clients or their employer.

In the absence of any provision in legislation in a specific circumstance, clients who own property (and/or their representatives) are entitled to ask for a rent or sale price they consider appropriate. They will be required to follow all relevant regulation and legislation but may not have to offer justification for the offer or sale price. Offers do not have to be accepted. The person or company looking to rent or purchase the property (and/or their representatives) may also negotiate and ask appropriate questions about the property and any offer or proposal.

All RICS members and RICS-regulated firms are required to follow the current edition of RICS' Rules of Conduct. If undertaking a valuation, and depending on its purpose, they are also required to follow mandatory statements contained in the RICS Valuation – Global Standards (Red Book Global Standards) and other relevant RICS professional standards.

In some circumstances, an RICS member may be acting in different roles, such as:

- an expert witness
- a representative party for a client (such as in a rent review) or
- a dispute resolver (such as an arbitrator)
- an agent/broker.

These roles may mean that valuation or other advice is covered by separate rules and guidance.

An RICS member instructed by a non-professional or in professional discussions with them will be able to detail the role under which they provide their professional advice, the implications of this and any supporting mandatory requirements or advisory guidance from RICS.

There may also be statutory considerations that apply to any professional advice provided.

RICS recommends continued and constructive dialogue between all parties to a valuation or other form of professional advice, opinion, offer or proposal. Where there are related queries, these can also be put to the parties involved.

In some circumstances, such as the negotiation of a rent review, parties may exchange several 'proposals' and 'counter proposals' with various suggestions around, for example, the terms.

Such exchanges of professional and other opinion are not unusual and should be conducted in a civil manner.

RICS members and RICS-regulated firms are trusted globally to give clear and accurate advice. If there is a need to raise a concern about an RICS member or RICS-regulated firm, complaints can be raised via the RICS website.

Participants in this market may be approached by or may employ parties offering valuation services and other related advice (such as rent review negotiation) that are not RICS members. They may be, for example:

- previous operators
- owners with experience in the market
- licensed leisure business consultants
- another professional such as an accountant or solicitor
- other non-RICS members/regulated firms offering advice on valuation.

Unless they are RICS members and/or are employed by RICS-regulated firms, RICS cannot regulate these parties or require them to follow the professional standards that apply to RICS members. Non-RICS members offering valuation advice may be regulated by another organisation and it is advised to seek out details of this if instructing such parties. RICS is not a statutory authority and cannot regulate parties or activities outside its membership and regulated firms.

How are valuations undertaken?

The valuation of a licensed leisure property is based on evidence. This can refer to trading information related to the subject property and others, transactions (sales and lettings of similar properties) or a combination of these. The type of evidence used will depend on the circumstances and is for the valuer to judge.

A simple formulaic structure for valuation and rent assessment has been suggested by some market participants external to RICS as a way of achieving consistency across markets. Due to the diversity of the licensed leisure market and the need to consider the many facets of real estate owned and operated in the sector, RICS does not endorse a formulaic approach. RICS instead offers guidance that considers the individual property or interest (such as a lease) being valued, the purpose of the professional advice and the basis on which it has been made.

Most valuations have a basis of value. This is the main premise on which the valuation is calculated. Non-valuers are typically involved in the letting of a property, for which the market rent basis of value is often relevant:

> ‘Market rent is the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion’.

International Valuation Standards, IVS 102, section A20

The market rent of an asset can be used to find the market value of a property overall (its capital value). It is important to note that market value and market rent are ‘hypothetical’ bases – they model a scenario that may be different to the one that currently exists.

An alternative valuation basis that models the goals of the actual or prospective owner is investment value (or worth), defined as:

> ‘The value of an asset to the owner or a prospective owner for individual investment or operational objectives’.

International Valuation Standards, IVS 102, section A40

In the context of a restaurant, for example, different operators and owners may be able to trade at different levels of turnover and profit from the same property, which reflects the worth of the property to them. The market rent and market value do not just consider the occupier or owner's requirements and concerns but those of the wider market. This difference is a crucial factor to consider in many valuations of licensed leisure property.

The market value or market rent of a property may differ substantially from the worth to a particular individual or operator.

Other bases of value may also be required, for example, by statute or the terms of a lease. These can resemble the IVS defined terms such as market value or market rent, for example, 'open market value', but include different defined assumptions (and are therefore also commonly 'hypothetical').

A written valuation undertaken by an RICS member will usually include the basis of value, so all parties to the valuation are aware of the premise it reflects.

The natural attachment many occupiers and owners have to their businesses means that it can be difficult to be objective about the market consideration of a property. RICS valuers appointed/employed by occupiers and owners can help to provide an objective value where the valuation basis and circumstances require this.

Trading and sales information – confidentiality

The valuation of licensed leisure and other professional advice may refer to estimated and actual trading data and transaction data relating to the property being valued and relevant similar ('comparable') properties. This data can be sensitive and, in some cases, confidential and should therefore be handled with due care, sometimes in a limited and/or redacted form.

Queries and concerns relating to valuation data can be discussed with your professional adviser (where applicable). A common understanding on the use of data with any other parties to the valuation or professional advice is also good to agree. Other parties to a valuation are not obliged to share the data they have used with third parties, unless required to in law and/or regulation.

1 Introduction

1.1 Purpose

The purpose of this document is to provide standards and practical guidance on the valuation of licensed leisure property (including public houses, restaurants and nightclubs), for a range of different property interests and valuation purposes.

All written valuations provided by an RICS member are subject to at least part of RICS Valuation – Global Standards (Red Book Global Standards), there are no exemptions; PS 1 and PS 2 are always mandatory. This professional standard aligns the practical considerations of the licensed leisure market with the valuation process set out in Red Book Global Standards, which requires:

- Terms of engagement in accordance with VPS 1.
- Inspection, investigation and records in accordance with VPS 4.
- Reporting and documentation in accordance with VPS 6.

Red Book Global Standards, PS 1, section 5, sets out circumstances where the requirements of Red Book Global Standards VPS 1–VPS 6 are not mandatory. Terms of engagement are always required.

The valuation of licensed leisure can:

- be technically complex
- require substantial knowledge of relevant statute and regulation
- involve direct interface with operational businesses
- require communication with non-real estate specialists.

Valuers **must** be suitably competent and experienced to undertake the valuation of licensed leisure property.

Valuation may also interact with negotiation, dispute resolution and in some cases litigation. Valuers **must** act in accordance with the current edition of RICS':

- Rules of Conduct and
- Conflicts of interest.

Depending on the work being undertaken, valuers may also need to refer to other relevant standards such as, but not limited to, RICS' Surveyors acting as expert witnesses.

1.2 Scope

This professional standard covers the valuation of licensed leisure property (including public houses, bars, restaurants and nightclubs), which are often bought, sold and let having regard to their trading potential and, therefore, typically fall under the category of 'trade related property'.

Guidance on the valuation of trade related properties in the Red Book Global Standards is included at VPGA 4. It relates to a wide range of trade related properties, including those that are not licensed leisure. The profits method described in VPGA 4, section 3, is used globally and is not specific to the UK licensed leisure market.

This professional standard specifically reflects relevant law, regulations and practice in the UK. It refers to valuation methods in section 2 that mainly mirror Red Book Global Standards, VPGA 4. It also provides a practical approach to the assembly and interpretation of information relevant to the valuation of licensed leisure properties.

This professional standard mainly covers valuations where an assumption is made that the property will continue as a trading licensed leisure property, however, there may be particular valuation purposes and market circumstances where this does not accord with the valuation basis adopted and different assumptions may be required. Red Book Global Standards, VPGA 4, suggests that:

> 'Where it is reasonable to do so based on market and other relevant factors, the valuer may assume that the current trade related use of the property will continue. However, where it is reasonable to take account of a possible alternative use, this should be appropriately reflected in the report. Appropriate use of special assumptions may also be considered.'

Where valuing an alternative use, a different method of valuation, such as a residual method, may be required.

In the case of properties that are capable of occupation as licensed properties but are vacant, the same principles should be applied, with appropriate adjustments and weighting attached to the various factors impacting value (see section 3 *Factors impacting valuation*).

Trade related properties are usually valued by treating the physical property, the trading equipment (often referred to as trade inventory) and the market's perception of the trading potential for a business used as a single entity. It is the potential income from the operational entity that is usually the primary focus of a purchaser and, hence, also the valuer.

This professional standard may be applicable to licensed properties that form part only of a larger property. It should be appreciated, however, that the influence by the market for the overall property may inform the valuation opinion provided.

This standard also addresses the widely differing trading characteristics that licensed leisure properties have. The sector is divided into several submarkets. Valuers should have sufficient knowledge of the submarket(s) relevant to their valuation(s). Further details are included in Appendix A.

Given the specialist scope of this document, the valuer should be actively involved in the market for the subject class of property as a practical knowledge of the market is fundamental to the analysis of the property's existing operation and trading potential.

While the geographic scope of this standard is the UK, some of the principles are globally applicable and may support RICS members outside these jurisdictions.

1.3 Valuation uncertainty

Valuation uncertainty can be a particular issue for assets valued with reference to their trading potential. A degree of uncertainty is common for all valuation and across all markets. It is for the valuer to consider and adjust for this where necessary. In some limited and exceptional circumstances, the valuer may judge there to be 'material valuation uncertainty', in which case the valuer should follow the advice of Red Book Global Standards, VPGA 10, and where appropriate, the requirement of VPS 3 to 'expressly signal' material uncertainty in reporting.

1.4 Confidentiality

Certain information in respect of trade related property may be confidential – such as (dependent on circumstances) detailed accounts information, details of the operator or owner, business plans and strategy and some pricing policy. The valuer should preserve such confidentiality, whether in respect of the property to be valued or comparable properties. See the current edition of RICS' Rules of Conduct and Red Book Global Standards for mandatory requirements around confidentiality.

1.5 Effective date

This professional standard is effective from 1 July 2025.

2 Valuation approaches and methods

RICS Valuation – Global Standards (Red Book Global Standards), VPS 3 states that valuers are responsible for adopting, and as necessary justifying, the valuation approach(es) and the valuation method(s) used to fulfil individual valuation assignments.

This professional standard does not dictate any one method and recognises that there may be circumstances where different methods (such as but not limited to profits, comparable, discounted cash flow (DCF), or residual) may be required. However, Red Book Global Standards, VPS 3 also recognises that the asset, valuation purpose and best practice in the valuation discipline may also determine the choice of approach(es), method(s) and model(s). This professional standard recognises that the profits method (within the income approach) is commonly, but by no means exclusively, used to value trade related properties. Comparable evidence is generally important whatever method(s) is/are used.

The basic steps of the profits method are set out in Figure 1. These should be cross referenced with Red Book Global Standards, VPGA 4, and the detailed glossary included in this professional standard.

Step 1: Assess the FMT that could be generated at the property by an REO	Step 2: Assess the potential gross profit resulting from the FMT	Step 3: Assess the FMOP based on costs and allowances reflecting the REO	Step 4: Calculate the MV by capitalising the FMOP at an appropriate rate of return

Figure 1: Steps included in the profits method

Additional steps are required to calculate rental value, see section 4.

For some licensed leisure properties such as town centre bars, branded restaurants and most nightclubs (particularly those let as a developer's shell), the rental and capital value can be assessed using a market approach and comparable method, principally by reference to size and capacity, where there is sufficient comparable transaction evidence and other evidence for the valuer to reach a conclusion. It is important, even when this approach and method are adopted, that the valuer has a sound understanding of the trade related use that is currently in operation or that may be appropriate for the property. This is necessary to be able to analyse comparable evidence correctly and apply such analysis when valuing the subject property. See the current edition of RICS' Comparable evidence in real estate valuation.

The use of multiple methods, including as a cross check is not prevented. For relevant circumstances, in the valuer's judgement, it is encouraged. Though multiple methods may be used, one valuation conclusion **must** be reached.

3 Factors impacting valuation

Licensed leisure typically falls in the category of trade related property, which is covered extensively in RICS Valuation – Global Standards (Red Book Global Standards), VPGA 4. Some of that content is replicated in this professional standard, with additional context specific to licensed leisure property valuation.

Freehold and leasehold interests in licensed properties are freely bought, sold and let in the open market, either as fully equipped operational entities offered with vacant possession, or as investments. In many cases, the value of the property will be determined by reference to trading potential.

When a valuer is reporting a capital valuation, particularly that of the freehold interest, it may be necessary to consider whether a higher value might prevail if the property was put to alternative use (see also coverage of alternative use at section 1.2).

A valuer of licensed leisure property should understand the trading aspects of the type of property to enable:

- proper understanding and comparison of physical characteristics, e.g. location, size, configuration and residential or other accommodation, etc.
- analysis of actual trading results of the incumbent operator, where available
- analysis of actual trading results of similar businesses, where available and
- assessment of the effect of the terms of trade (particularly if there is a wholesale supply tie) assessment of trading potential, profitability and market demand.

The valuer should use professional judgement to review matters such as, but not limited to, the following:

- a proper assessment of the existing business against the general market
- scope for development, by either change of style or physical alterations
- scope for movement between one submarket and another
- compliance with statutory requirements
- quality of fit out and
- potential impact of external influences.

When analysing comparable evidence, whether it is transactional evidence or trading results of comparable or competitor businesses, the valuer should consider relevant adjustments to reflect issues such as location and style of operation. The wide variety of licensed leisure property and the different methods of operation make analysis complex and subjective.

The accounts of the current occupier may or may not be available. When actual accounts are used to assist in forming an opinion on future trading potential, they will show only how a property is trading under the particular management at the time. Current and past performance is no guarantee as to the future FMT and FMOP.

The valuer should be satisfied with the accuracy and reliability of trading information and/or projections supplied for the purpose of the valuation. The source and basis of the trading figures (actual and/or projected), and other trading information and assumptions made, should be stated in the report.

Different owners/operators account for their businesses in different ways. There is not a standard market format for a profit and loss statement (P&L). The format may reflect certain standards and regulation (such as accountancy standards). Valuers should be able to assess relevant cost information for owners/operators.

Relevant benchmarking data may assist in the assessment of FMOP. Sometimes corporate entities reflect certain costs (e.g. accounting, marketing, etc.) at head office level rather than in the individual P&L. Similarly, one owner/occupier may reflect additional costs (e.g. drawings, director's salaries, motor expenses, health insurance, etc.) in the P&L that may not necessarily be appropriate to another operator.

The valuer should be regularly involved in the relevant market for the class of property, as practical knowledge of the factors affecting the particular market is required. Such knowledge will aid in the analysis and review of historic and current trading performance, as well as with forecasts that may show increases or decreases on actual trade. This can assist in forming an opinion of the FMT and FMOP considered achievable by a likely purchaser or REO.

When preparing a licensed leisure property valuation, the valuer should review the cumulative result of the different steps of the valuation process. The valuation should be considered having regard to the valuer's general experience and knowledge of the market.

3.1 Valuation special assumptions

Licensed leisure property valuers are commonly asked for a valuation subject to special assumptions. These **must** be expressly agreed and confirmed in writing to the client before the report is issued and may only be made if they can reasonably be regarded as realistic, relevant and valid for the circumstances of the valuation (RICS Valuation – Global Standards (Global Red Book Standards), VPS 2, section 10).

Examples of special assumptions relevant to this sector are referred to in Global Red Book Standards, VPGA 4:

Red Book Global Standards, VPGA 4, section 4, paragraph 4.2:

'**a.** on the basis that trade has ceased (sometimes with the additional special assumption that no trading records are available to prospective purchasers or tenants)

b. on the same basis as (a) but also assuming the trade inventory has been removed

c. as a fully equipped operational entity that has yet to trade, known by a number of terms, such as but not limited to 'day one' and 'turn key'

d. subject to adopted trade projections. This may be appropriate when considering development of the property. In using adopted projections, all special assumptions must be realistic, relevant and valid for the particular circumstances of the valuation.'

3.2 Valuation of a fully equipped operational entity

Since licensed leisure property falls under the category of trade related property, the approach, method(s) and process are covered in extensive detail in VPGA 4:

Red Book Global Standards, VPGA 4:

'5 Valuation of a fully equipped operational entity

5.1 The valuation of a trade related property as a fully equipped operational entity necessarily assumes that the transaction will be either the letting or the sale of the property, together with the trade inventory, licences, etc. required to continue trading.

5.2 However, this assumption does not necessarily mean that the entire trade inventory is to be included in the valuation of the property. For example, some equipment may be owned by third parties and therefore would not form part of the interest being valued. Any assumption made about the trade inventory included in the valuation should be clearly set out in the report.

5.3 There may be tangible assets that are essential to the running of the operational entity but are either owned separately from the land and buildings or are subject to separate finance leases or charges. In such cases, an assumption may need to be made that the owners or beneficiaries of any charge would consent to the transfer of the assets as part of a sale of the operational entity. If it is not certain that such an assumption can be made, the valuer should consider carefully the potential impact on the valuation that the lack of availability of those assets would have to anyone purchasing or leasing the operational entity, and comment accordingly in the report.

5.4 When trade related properties are sold or let as fully equipped operational entities, the purchaser or operator normally needs to renew licences or other statutory consents and take over the benefit of existing certificates and permits. If the valuer is making any different assumption, it should be clearly stated as a special assumption.

5.5 Where it is not possible to inspect the licences, consents, certificates and permits relating to the property, or other information cannot be verified, the assumptions made should be identified in the report, together with a recommendation that their existence should be verified by the client's legal advisers.

6 Assessing the trading potential

6.1 There is a distinction between the market value of a trade related property and the investment value (or its worth) to the particular operator. The operator will derive worth from the current and potential net profits from the operational entity operating in the chosen format. While the present operator may be one potential bidder in the market, the valuer should understand the requirements and achievable profits of other potential bidders, along with the dynamics of the open market, to come to an opinion of value for that particular property.

6.2 A trade related property is considered to be an individual trading entity and is typically valued on the assumption that there will be a continuation of trading.

6.3 When assessing future trading potential, the valuer should exclude any turnover and costs that are attributable solely to the personal circumstances or skill, expertise, reputation and/or brand name of the existing operator. However, the valuer should reflect additional trading potential that might be realised by an REO taking over the property at the valuation date.

6.4 The actual trading performance should be compared with similar types of trade related property [in the case of this professional standard, licensed leisure property of the relevant submarket] and styles of operation. To do so the valuer needs a proper understanding of the profit potential of those property types and how they compare with one another. The trade related property valuer should test by reference to market transactions and similar trade related properties, whether the present trade represents the FMT in current market conditions. When available, the actual trading accounts of the subject property and similar properties may require adjusting to reflect the circumstances of the REO.

6.5 For many trading entities, the vehicle for a transfer of the business will be the sale of a freehold or leasehold interest in the property. Such transactional evidence can be used as comparable evidence in the valuation of trade related properties, so long as the valuer is able to exclude the value of the component parts of the transaction that are not relevant. Examples include: stock, consumables, cash, liabilities and intangible assets (such as brand names or contracts, to the extent they would not be available to the REO).

6.6 Changes in competition can have a dramatic effect on profitability and value. The valuer should be aware of the impact of current and expected future levels of competition [in licensed leisure property valuation this can be particularly sensitive to the valuation and property circumstances, reflective of sentiment at the time of the valuation]. If a significant change from existing levels is anticipated, the valuer should clearly identify this in the report and comment on the general impact it might have on profitability and value.

6.7 Outside influences, such as the construction of a new road or changes in relevant legislation, can also affect the trading potential and hence the value of the trade related property.

6.8 Where the property is trading and the trade is expected to continue, the valuation can be reported as follows [this is subject to the purpose and basis of value]:

> 'Market value [or market rent] as a fully equipped operational entity having regard to trading potential subject to any agreed or special assumptions … [which **must** be clearly set out].'

7 Valuation for a non-trading property

7.1 The valuation process for a non-trading property is the same as [outlined in the previous sections] but where the property is empty either through cessation of trade or because it is a new property with no established trading history, different assumptions are to be made. For example, an empty property may have been stripped of all or much of its trade inventory, or a new property may not have the trade inventory installed, but either could still be valued having regard to its trading potential [with appropriate reference to relevant comparable evidence in the case of licensed leisure property].

7.2 The cessation of an operational entity and the removal of some, or all, of the trade inventory are likely to impact the value of the property. It would therefore be appropriate to express the value both on the basis of one or more special assumptions, and a basis reflecting the status quo. This is often a requirement when advising a lender on the value of trade related property for secured lending purposes [see section 7 also]. For example, the differences could reflect the cost and time involved in purchasing and installing the trade inventory, obtaining new licences, appointing staff and achieving FMT.

7.3 Where the property is empty, the valuation can be reported as follows [this is subject to the purpose and basis of value]:

> 'Market value [or market rent] of the empty property having regard to trading potential subject to the following special assumptions … [which **must** clearly be set out].'

8 Apportionment

8.1 Apportionment is also referred to as allocation of value in IVS 102 Bases of Value paragraph 80. The valuer may need, or may be requested, to provide an indicative apportionment of a valuation or a transaction price for a range of purposes, including:

- analysis as a comparable
- inclusion in financial reporting to comply with the applicable accounting standards
- secured lending [see section 7]
- tax purposes.

8.2 Any such apportionment of market value would usually relate to:

- the land and buildings reflecting the trading potential and
- the trade inventory.

8.3 When considering the apportionment of a transaction price, particularly where the sale is through share transfer in a limited company, the valuer should proceed with caution as the transaction may, in addition to [the above] reflect the following:

- the trading stock, consumables and cash
- intangible assets
- liabilities, such as salaries, taxes, debts, etc.

8.4 Apportionments for tax purposes have to be in accordance with specific legislation and are outside the scope of this [professional standard].'

3.3 Alternative forms of valuation

Certain extended or more detailed forms of valuation may be appropriate, particularly for some larger or more complex licensed leisure properties. Consideration of different income streams and/or use of a discounted cash flow model may be appropriate (see the current edition of RICS' Discounted cash flow (DCF) valuation, however, it does not have specific coverage of licensed leisure or trade related property).

Where appropriate, it is assumed that the current licensed leisure use will continue. However, where it is clear that the property may have an alternative use with a higher value, reference should be made to commentary on alternative use included at Red Book Global Standards, VPGA 4, or quoted at section 1.2 of this professional standard.

Unless otherwise agreed in the terms of engagement, accompanying an alternative use value should be a statement that the valuation takes no account of the cost of business closure, disruption or any other costs associated with realising the value. There may be practical and/or legal reasons (including planning) that may prevent an alternative use. The extent to which this is considered should also be suitably limited in the terms of engagement and report unless agreed otherwise.

3.4 Market analysis

A valuation may also be influenced by certain market/sector factors, which are detailed further in Appendix A and statutory/regulatory matters covered in Appendix B.

4 Rental valuations

The *Supporting information for non-valuers* section of this standard makes it clear that not all rental offers and proposals are valuations. RICS members can negotiate on behalf of clients or the organisations they work for. In the absence of any provision in legislation in a specific circumstance, property owners (and their representatives) are entitled to ask for a rent or sale price they consider appropriate. Owners (and their representatives) will be required to follow all relevant regulation and legislation but may not have to offer justification for the offer or sale price. Offers do not have to be accepted. The person or company looking to rent or purchase the property (and their representatives) may also negotiate and ask appropriate questions about the property and any offer or proposal and are advised to instruct an RICS member or RICS-regulated firm.

An RICS member making a rental offer, rental proposal or rent assessment that is not a valuation (and therefore not in accordance with RICS Valuation – Global Standards (Red Book Global Standards)), should not use terms such as 'value', 'valuation' or similar in their communication or presentation of the offer or proposal to a third party, or any defined terms in the Red Book Global Standards such as 'market rent' – unless they are doing so in accordance with a different definition (such as a statutory definition), in which case they should state this.

All written rental valuations provided by an RICS member are subject to at least some part of the Red Book Global Standards (PS 1 and PS 2 are always mandatory). Red Book Global Standards, PS 1, section 5, sets out circumstances where the requirements of Red Book Global Standards VPS 1–VPS 6 are not mandatory. Terms of engagement are always required.

This section is written on the basis of market rent reflecting a property being leased.

Lease considerations

When assessing the market rent of a licensed leisure property (including public houses, restaurants and nightclubs), the valuer should liaise with the client's legal advisers regarding the proposed terms of the lease and set out clearly such terms and any assumptions made in reaching an opinion of value.

The valuer may be undertaking the rental valuation for several different purposes. These may include but are not limited to:

- the rental valuation of a property let on an existing lease
- for rent review or lease renewal purposes or
- in connection with the preparation of an investment valuation.

The actual lease terms should be appropriately considered.

The following items may need consideration (this list is not exhaustive).

- Extent of the demise: is it a ground rent, shell rent, fully fitted rent, etc.?
- Lease or hypothetical lease term: there has been a move in recent years towards shorter leases in the general commercial property sector. However, licensed leisure property operators, particularly those leasing properties finished to builder's shell condition, may still require longer terms, in order to amortise the initial fit out costs. Valuers should be familiar with the requirements of the particular submarket in which the subject property sits. Lease criteria for fully fitted public houses are different to those for a large nightclub or branded restaurant.
- User provisions: does the lease specifically prohibit change of use?
- Tenant obligations: such as repairing and decorating requirements and terms of occupation.
- Alienation provisions: is the lease assignable? Can the tenant sublet?
- Rent review provisions: such provisions are the basis of rental assessment, hypothetical term and disregards, e.g. occupation, goodwill and improvements.
- Trading matters: includes hours of operation and licence conditions.
- Wholesale supply tie provisions.

Valuation methods and evidence

Irrespective of the valuation basis and method, all rental valuations should be evidence based. The use of multiple methods is encouraged where considered appropriate in the valuer's professional judgement. A rental valuation derived from a profits method may also refer to comparable evidence (such as but not limited to transaction evidence and trading evidence related to other properties), and a comparable method valuation refer to trade evidence.

Where the basis of value is market rent, the valuer should look to the market for evidence of transactions and other relevant market data. This might be new lettings, rent reviews, sales of leasehold interests, independent expert determinations and arbitrator's awards, giving appropriate weight to the evidence accordingly.

Reference will often be made to the analysis of transactions of similar properties with similar lease terms where available. Comparable evidence should be weighted appropriately. The current edition of RICS' Comparable evidence in real estate valuation states:

> 'Whatever method of analysis employed, the valuer will ultimately have to stand back and weigh up a considerable range of evidence with differing degrees of quality and applicability, much of which cannot be precisely quantified. This will require not only technical ability but also, and more importantly, experience of the relevant market and judgement developed from that experience.
> The process should lead to a ranking of the comparable evidence and an assessment of where the asset being valued, fits into that ranking. The aim is to

ensure confidence in the reported figure, which can then be fully justified to all relevant parties.'

If direct comparables are not available, the valuer should appropriately research a wider geographical area to obtain adequate comparable evidence.

Adjustments to support the analysis of comparable evidence are subjective. They may include factors, such as but not limited to surplus space, a secondary location or unusual style of property. It may not be possible to obtain full details of transactions due to confidentiality agreements or failure of the parties to agree analysis.

In appropriate circumstances, the rental value can be calculated principally by reference to size or capacity. This is typically in the case of properties let prior to tenant fitting out works, commonly referred to as shell units. They include but are not limited to high street bars, branded restaurants and nightclubs. In these cases, it is the unit size and configuration that will be under consideration.

Where assessing the rental value by reference to size or capacity, the valuer may also, as a second stage or a check against the first valuation, consider the profits method of valuation. Where comparing comparables with reference to size or capacity is not realistic or is highly subjective, the profits method would usually be chosen (noting that there are also alternative forms of valuation referred to at section 3.4 of this professional standard).

The profits method of valuation, as set out in section 2 of this professional standard, applies equally to rental valuations as for capital valuations (with the addition of determining the divisible balance).

Divisible balance

The aim of the divisible balance is to determine the appropriate level of reward to each party to reflect the risk each take in owning or operating the property, subject to the purpose and basis of the valuation. The landlord provides the property, and the tenant provides time, skill and effort in operating the business. The divisible balance has usually already taken account of the tenant's capital investment.

Where the valuation is on the basis of market rent, the appropriate reward will be an estimated apportionment that would be determined by the market, based on the evidence, including the judgement of the valuer.

In some circumstances, for example, a rent review, the divisible balance may also be a matter for discussion and negotiation.

Given the wide range of licensed leisure properties being valued, different markets, valuation purposes and bases of value, there is no formulaic approach or default divisible balance figure. It is market and other relevant evidence that will give guidance. There can be significant influences on the share of the divisible balance, which are addressed in this section.

It may be that at the lower threshold of a particular submarket, the available proceeds are insufficient to reward both landlord and tenant to an extent acceptable in the market.

This may result in a need for an alternative form of operation, for example, direct management to lease or franchise, or sale for owner occupation or alternative use.

The level of market rent will be based on economic supply and demand principles. The greater the demand for a particular property, the higher the percentage of the divisible balance a tenant may be prepared to offer to secure the lease, which may also be reflective of situations where financial viability is stronger and more easily achieved. Where demand is lower, the percentage of the divisible balance might be lower and may reflect a tenant's caution over the ease with which the business can be sustained. This balance of supply and demand is likely to be a factor in the viability of a business proposition to the hypothetical landlord and tenant. Market participants will have a level of divisible balance that is viable for them.

Matters that are likely to be considered include, but are not limited to:

- attractiveness and style of property
- availability of finance
- economic and regulatory matters
- length of lease and lease terms
- location
- provision of domestic accommodation
- quantum of profit
- supply of similar properties
- surplus or obsolescent accommodation/amenities
- terms of, and restrictions on, trading
- trading potential and risk and
- type of operation.

Summary of rental valuation

Depending on the property being valued and the valuation circumstances, a property may be valued using the profits method, comparable method principally referencing size and capacity, an appropriate alternative method or a combination of methods. Whatever method is used comparable evidence, which can be derived from different sources, and its analysis are key components to assessing rental value. The valuer's role is to collate relevant comparable information, ascertain its reliability and analyse it to make appropriate adjustments to assist with the subject valuation.

Where using the profits method of valuation, the valuer is likely to be looking for evidence at three levels:

- the FMT
- the FMOP, i.e. the conversion of turnover to profit for a particular style of operational entity and
- the split of the divisible balance between landlord and tenant.

4.1 Tenant’s improvements

Depending on the asset being valued, purpose and basis, the valuer may need to reflect the tenant’s investment on improvements. The valuer should refer to relevant statutes covering tenant’s improvements for the valuation circumstances and jurisdiction of the property being valued.

Some leases have stipulations on tenant’s improvements, for example, in the rent review provisions. The valuer should consider the lease wording, together with the original intention of the parties where relevant.

Some leases refer to tenant’s improvements that have been approved through formal consent. Such consent is commonly not to be unreasonably withheld or delayed and is usually given by way of a licence to alter, deed of variation or similar legal arrangement but may also be in writing. It will detail the extent of the works, possibly including plans showing before and after, and will state that such works are deemed to be improvements and thus to be disregarded at future reviews. Where the works of improvement are completed, the possibility of obtaining a retrospective licence should be considered, but not automatically assumed.

Tenant’s improvements might involve the tenant in capital expenditure on the property that is over and above its obligations under the terms of the lease. Therefore, where valuing the leasehold interest to determine a market rent, any change in the trading potential of the business that can be reasonably attributed to improvements carried out at the cost of the tenant, with the consent of the landlord and otherwise than pursuant to an obligation to the landlord, is usually disregarded.

As examples, fitting out works of shell units are usually documented as tenant’s improvements, as are building extensions to existing property or converting previously disused accommodation to trade use.

The valuer should review the terms of the subject lease and value accordingly. Careful consideration of subsequent and associated licences to alter, or any deeds of variation, is essential. If necessary, the valuer should seek legal advice.

When assessing the rental value of the property ignoring the tenant’s improvements that can reasonably be attributed to a change in trading potential, the valuer can consider the matter several ways.

The final assessment of rental value will be determined by the specific circumstances of each case, the weight of evidence available and any overriding legal principles or precedents.

The valuer may analyse comparable evidence of properties that are similar to the subject as it was in an unimproved state, but assuming that the repair covenants stated in the lease of the subject property have been complied with and make appropriate judgements based on this.

An alternative approach, which should only be adopted where appropriate for the valuation circumstances, involves the assessment of the FMT and FMOP of the property in its current state and carrying out a rental valuation of the improved property prior to making an allowance to reflect the cost of the tenant carrying out this improvement at the valuation date. The valuer should consider the best approach to amortisation of the cost, dependent on the quantum of investment, the hypothetical term and the expectation that an REO would undertake similar improvements at the valuation date, considering the state of the market and availability of finance. The intention of this analysis is the same – to only reflect relevant matters in the calculation of rent, and therefore consider tenant's improvements accordingly.

5 Tied pubs

Some public houses are operated under particular contractual arrangements related to the supply of drinks and other services and are commonly known as 'tied pubs'. Occupation of a tied pub may take the form of a lease, tenancy or licence.

In some cases, there are statutory and regulatory requirements that an RICS member should consider when providing professional advice, opinion or other communication relating to tied pubs. This may be in the form of specific legislation/regulation and/or the way the valuation should consider other legislation (such as relevant landlord and tenant law).

There are currently two statutory Pubs Codes for the regulation of tied pubs in the UK:

- England and Wales: The Pubs Code etc. Regulations 2016 (Pubs Code) applies to pub companies operating 500 or more premises and is regulated by the Pubs Code Adjudicator.
- Scotland: The Scottish Pubs Code Regulations 2024 (as amended by The Tied Pubs (Miscellaneous Amendment) (Scotland) Regulations 2024) and is regulated by the Scottish Pubs Code Adjudicator.

When providing any advice, professional opinion or other communication in respect of tied rents, RICS members must be aware of and act in accordance with relevant statutes and other regulations. The prevailing legislation at the time of valuation takes precedence over this professional standard.

There are also various other codes of practice and requirements for tied leases and tenancies outside Pubs Code legislation.

RICS members should have appropriate competence, experience and knowledge of the regulation and practice of the tied pubs market relevant to the property being valued before undertaking valuations of tied pubs.

Unless otherwise dictated by the relevant statute or regulation, the valuer should follow the valuation principles set out across this professional standard, including the appropriate use of evidence to support valuation conclusions.

Non-RICS members, such as some pub operators and tenants, are significant stakeholders in this market. A section on *Supporting information for non-valuers* has been included in this standard. Due care and consideration should be taken when engaging with non-RICS members. RICS members should be clear about the role they are undertaking and the nature of their advice, opinion or other communication.

Not all communications, offers or proposals in relation to tied pubs amount to a valuation (for more detail, see the beginning of section 4). This professional standard principally relates to valuation and does not cover matters such as dilapidations, unless these are a material consideration in the valuation.

When undertaking valuation work related to tied pubs, the RICS member may have to analyse market evidence that results from a wide variety of differing lease and tenancy arrangements and supply terms.

Leases and tenancies may vary, not only in length, but also in terms of repairing and decorating obligation, user provisions, rent review provisions and trading obligations.

Supply terms also vary widely from a simple beer tie (with or without freedom for guest ales) through to a full drinks tie, and from zero contractual discounts through to substantial contractual discounts. Note these terms may not form part of a lease but instead may refer to separate supply terms.

Some operators are also restricted in other ways, such as terms of supply of amusement and gaming machines and may be required to share machine income with their landlord.

Depending on the valuation being undertaken and their role in the valuation process, RICS members may need to consider the legal implication of matters arising from statute and regulation, regarding both present and future operational and rental matters. For example, RICS members should, where applicable, establish whether matters related to rent have been embodied in a deed of variation to the lease.

Some landlords also offer support services to their tenants, known by some in the industry as special commercial or financial advantage (SCORFA). These may be free or at a discounted cost. The value of such benefits to an operator can be difficult to quantify, as they may be substantially less to a long-established multiple outlet operator than to an individual operator trading for the first time.

While it is preferable when seeking comparable evidence from market transactions to compare like with like, professional judgement should be made to reflect differing terms of occupation and supply.

When assessing the FMOP of a tied pub, RICS members will make judgements reflecting the terms of supply and contractual benefits available to the tenant, along with other relevant matters referred to in earlier sections.

The divisible balance will typically reflect the terms of the lease (e.g. internal or full repairing obligations) and in some cases the terms of supply of drinks and other services.

The supply tied lessee, aside from paying property rent and, in some cases, a share of machine income, may also pay the wholesale prices of the supplying landlord, which can be higher than those the lessee would pay in the open market. The tenant may compare its own property with the circumstances of being free of a supply tie and consider the profit achievable under those circumstances.

The REO is likely to consider many factors covered in this standard, some against the background of the supply and demand for such properties. In respect of the effects of supply agreements, the REO may have regard to the fact that free houses are available in the market. Therefore, it could expect to make an increased profit because of being able to buy products in the open market and not at the prices charged by the supply tying landlord or its nominated supplier.

Valuations and other professional advice related to tied leasehold interests will typically reflect the terms of the lease and the contractual supply terms that are integral to the lease. When considering a ‘value’ to be attributed in the rent calculation to support services (SCORFA) offered by a landlord, the REO would have regard to matters relevant to its business and the longevity of the support, and whether the support is enforceable or is capable of being assigned.

Comparability between public houses held on different lease terms and with different supply terms can be problematic, particularly between the tied and non-tied sectors. It is preferable for analysis to be made of transactions relating to similar properties with similar lease terms.

Where it is considered that direct comparison is not possible or conclusive, then a broader approach can be made. This will include comparison with both the direct evidence that may reflect different lease/supply terms, and any available benchmarking data. RICS members should use appropriate skill and experience to take account of relevant information in reaching their decision.

6 Valuations of investment property

The IAS 40 definition of investment property refers to '(land and/or buildings) held to earn rentals or for capital appreciation (or both)'. Valuations of investment property are undertaken for a variety of purposes, including financial reporting in accordance with RICS Valuation – Global Standards (Red Book Global Standards), VPGA 1 and RICS Valuation – Global Standards: UK national supplement, UK VPGA 1).

Red Book Global Standards, VPGA 4, states the following in respect of investment property:

Red Book Global Standards, VPGA 4, section 9:

'**9 Valuation for investment purposes**

9.1 The basic approach to an investment valuation of trade related property is the same as for any other category of property. Where the investment is a portfolio or group of properties, VPGA 9 [of Red Book Global Standards] is relevant.

9.2 When valuing a trade related property investment, the valuer will [typically] need to carry out the assessment of the FMT and FMOP in the same way as set out [in section 2 of this professional standard]. It is also necessary to assess the market rent of the property to determine the security of the income stream and growth potential [see section 4 of this professional standard]. The rent payable, and the rent review, will be determined by the terms of the subsisting or proposed lease.'

In assessing value of a licensed leisure property subject to a tied lease, the valuer should also review and analyse the net income streams derived from the terms of the lease and the supply tie provisions.

The method and model adopted for investment valuations of licensed leisure property may differ from that for vacant possession valuations. In respect of market value, the assumptions and valuation inputs are likely to be influenced by market transactions of similar licensed leisure property. Due to the differing characteristics of licensed leisure property and the wide variety of lease terms, careful analysis of comparable transactions and other market evidence is essential.

The valuation may include the landlord's fixtures and fittings with the land and buildings, but might not include the trade inventory, which may be owned by the occupational tenant. The valuer should highlight the importance of the trade inventory to the trading potential and value of the property.

7 Valuations for the purpose of secured lending

Guidance on valuations for secured lending is contained in the RICS Valuation – Global Standards (Red Book Global Standards), VPGA 2 and RICS Valuation – Global Standards: UK national supplement, UK VPGA 10.

Valuations based on the trading potential of licensed leisure properties are valid for secured lending purposes, since purchasers in the market tend to bid on this basis, but a clear statement should be made that the value is based on the trading potential excluding any personal goodwill.

In stating a value for secured lending purposes, the sensitivity of the value to future trading potential and outside factors should be emphasised by the valuer. The report should indicate which factors may have an impact on the value and how they are reflected in the valuer's assessment of the perceived risk associated with the future trading potential of the property.

It is important that the valuer clearly states in the report relating to a fully equipped operational entity that the trade inventory is included in the valuation, as removal of such items would restrict the trading potential and hence have a negative impact on value.

Red Book Global Standards, VPGA 2, includes specific guidance on valuing property that is fully equipped as a trading entity and valued regarding trading potential:

Red Book Global Standards, VPGA 2, paragraph 6.3:

'i The closure of the business could have a significant impact on the market value. The valuer should therefore report on this impact, either individually or as a combination of one or more of the following special assumptions:

- the business has been closed and the property is vacant
- the trade inventory has been depleted or removed
- the licences, consents, certificates and/or permits have been lost or are in jeopardy and/or
- accounts and records of trade are not available to a prospective purchaser.

ii Typical special assumptions that may arise in valuing this category of real property include:

- assumptions made on the trading performance and
- projections of trading performance that materially differ from current market expectations.

iii Clients may require a breakdown of the value attributed to FF&E (furniture, fixtures and equipment) in the valuation.'

Appendix A: Market analysis

Public houses

Public houses are commonly categorised to understand a market. These categories evolve over time and the following list is not exhaustive:

- town centre: circuit bar
- town centre: traditional pub (either food or wet-led)
- community: urban
- community: suburban
- community: rural
- food led: destination.

Some public houses also offer short-stay accommodation for business and leisure uses as an ancillary part of the operation. This will be considered in accordance with the valuation principles set out in this professional standard. Hotels and other similar establishments that draw most of their income from accommodation are outside the scope of this professional standard (see RICS Valuation – Global Standards (Red Book Global Standards), VPGA 4).

Pubs may be operated in several ways, including but not limited to:

- under direct management from a company
- by a lessee, operating free of tie, generally on a full repairing and insuring lease
- by a tenant, operating under a tied lease, generally with lesser repair obligations (such as internal repairing only) or
- by individuals as owner/occupiers.

The public house market is further segmented by a specific submarket relating to tied leases and tied tenancies, whereby brewers or public house operating companies (pubcos) own the freehold or leasehold interest but grant a lease or tenancy to an operator with detailed requirements relating to terms of business. This usually includes some form of supply ties, and some leases may include other obligations, such as restricting certain gaming machines to specific suppliers on terms whereby the landlord shares in the profits. See section 5 of this professional standard for more detail on tied leases.

Restaurants

The licensed restaurant market is made up of several subsectors, including, for example, the traditional a la carte restaurant developed in character property (such as a small country house, barn, watermill, etc.) and the high street restaurant. Branded restaurants and ‘casual dining' make up a substantial part of the market, often taken as developer's shell units. Furthermore, restaurant facilities and food offerings form a significant part of many other licensed leisure operations, such as public houses and bars.

The franchised licensed restaurant market is also split into subsectors including those that include a property interest and those that do not. Where there is a property interest, this can be in the name of the franchisor, with a sublease to the franchisee, or the franchisee can itself be the head lessee. Either way, any franchised restaurant is subject to a 'franchise agreement', which is a personal agreement between the two parties.

A franchise agreement is generally transferable to purchasers that meet certain qualification criteria. A well drafted franchise agreement will set out those qualification criteria in some detail, and in practice most transfers go ahead without difficulty, though sometimes a transfer fee is payable. Qualification criteria tend to relate to financial good standing and prior hospitality experience. Where a well-funded candidate has no hospitality experience, the franchisor will provide training to overcome this.

There are other cases where the transfer of the franchise agreement is at the discretion of the franchisor, with no formal 'mechanism' in the agreement to appeal or challenge any decision. In those cases, only a nominal value may be attributed to the franchise agreement.

Nightclubs and music venues

The nightclub sector also has submarkets, including club and music venues, with wide variations in size and capacity.

In general, restaurants and nightclubs are operated either under direct management of a corporate entity, or alternatively by owner/occupiers. Most of these businesses are occupied by way of a lease.

Other licensed leisure

There is now an established market in the UK for licensed leisure venues where an activity, often a competitive one, provides a substantial part of the offering. This is in a casual form that is accessible to the wider market (as distinct from a specialist sports or social clubs). Examples include:

- darts
- pool
- miniature golf
- ping pong
- gaming and
- bowling.

Venues incorporating multiple operators are also now an established market, which can include food halls, markets and street food pitches licensed to several operators.

Utilities, security, infrastructure, entertainment, marketing and other services may be undertaken through a management company and brand – with various contracting arrangements depending on the site. This is a specialist market, and valuers should have experience of multiple occupation venues before providing professional advice.

Digital and delivery market

A licensed leisure venue can facilitate part of its trade through owned or third-party digital applications. This trade may be attached to a specific venue or venues or in some circumstances may be facilitated through sites that are not open to the public.

Valuers should consider the extent to which digital transactions are related to the trading asset or business.

Appendix B: Statutory and regulatory considerations

When licensed properties are sold as fully equipped operational entities, the new owner may expect to obtain or renew the licences and consents that are necessary for the operational entity to continue. They may also expect to take over the benefit of existing approvals, certificates and permits together with any future bookings, which are an important part of the ongoing business.

In the UK, statutory licences, consents, certificates and permits, including a premises licence, are fundamental to operating a licensed leisure property. The appropriate statute and other regulations should be read and understood by the valuer.

Several other statutes and regulations relating to, for example, fire risk, food safety, disability and equalities and all other relevant matters relevant to the valuation of licensed leisure property also should be understood to a reasonable degree by the valuer.

There may be other matters where enquiries should be made, dependent on circumstances. The following list is not exhaustive but is included for illustrative purposes:

- the property is subject to any outstanding notices under environmental health and food safety and hygiene regulations
- the property has the relevant planning permission, and whether there are any future highway, infrastructure or development proposals that have either a positive or negative impact on the business and its trading potential. The Town and Country Planning (Use Classes) (Amendment) (England) Regulations 2020 came into force on 1 September 2020. Class E(b) refers to 'premises' where the use is the 'sale of food and drink for consumption (mostly) on the premises', however, the following are regarded as *sui generis*:
  - nightclubs
  - public houses
  - wine bars
  - drinking establishments (including those with expanded food provision, hot food takeaways (for the sale of hot food where consumption of that food is mostly undertaken off the premises)
  - venues for live music performances
  - planning and flexibility in relation to planning may impact value and valuers should have due regard to this, subject to any limitations in the terms of engagement and report.
- the property has all required fire safety measures

- the property is within a conservation area or is an historic listed building
- liabilities for local taxation such as business rates
- relevant sustainability and ESG considerations as detailed in RICS Valuation – Global Standards (Red Book Global Standards), VPGA 8, and matters relevant to sustainability reporting such as energy performance referred to in the current edition of RICS' Sustainability and ESG in commercial property valuation and strategic advice
- licences and other appropriate provisions for outside seating areas on and adjacent to the property
- premises licence and the operating conditions attached to them.

Where it is not possible to inspect the licences, consents, certificates and permits relating to a property, or other information cannot be verified, the assumptions should be identified in the report, together with a recommendation that all information should be verified by a professional adviser, such as a legal representative, along with appropriate due diligence by the valuer, including in relation to professional scepticism.

The valuer should also make clear that the value may need to be reviewed if the assumptions are not properly validated, or if the licences are lost or in jeopardy. If the granting authorities or police have indicated that they intend to impose conditions or refuse or oppose a renewal, this should be referred to and due weight given to it in the valuation.

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