

1.0 **Instructions and Background**

My instructions in this matter were issued by South Cambridgeshire District Council (SCDC)

SCDC has received an application for planning permission from Mr A and Mrs M Gregorios-Pippas (Applicant) for the construction of a 70 bedroom freestanding hotel accommodation block, associated car parking and landscaping on land within the existing grounds of the Red Lion Hotel, Whittlesford.

I have been asked to provide my opinion as to whether the Red Lion Hotel, as it stands, would be considered by operators in the market to represent a viable business proposition.

I have also been asked to comment upon the impact which the development of a 70 bedroom freestanding hotel accommodation block might be expected by operators in the market to have upon the viability of the Red Lion Hotel.

I inspected the Red Lion Hotel on 12 January 2009. Present at the time of my inspection was Ms Sophie Gregorios-Pippas, a director of the Red Lion Hotel Ltd, Peter Gee, Partner at King Sturge, Liz Humphries, Senior Planner at King Sturge and Charmain Hawkins, Associate of Beacon Planning Ltd.

For the sake of clarity and openness I should point out that between 1982 and 1983 Fleurets offered the property for sale by tender on behalf of the Executors of the Estate of a previous owner, although no sale resulted. In 1989 Fleurets provided advice to a prospective purchaser but, again, no transaction resulted. In 2004 Fleurets inspected the property on behalf of a potential purchaser but no transaction resulted. Fleurets was also consulted in 1997 and more recently in September 2008 by the existing owners concerning possible marketing of the property but no instruction resulted. I do not believe that this gives rise to any conflict of interest with respect to this instruction. As far as I am aware, neither I nor Fleurets have had any other prior involvement with the property.

I have been provided with copies of the following documentation by Miss Gregorios-Pippas:

- Accounts of the Gregorios-Pippas family trading as the Red Lion Hotel for the period 1 August 2005 to 31 March 2006.
- Unaudited report and accounts of the Red Lion Hotel Ltd for the period 24 March 2006 to 31 March 2007.
- Draft financial statements of the Red Lion Hotel Ltd for the year ended 31 March 2008.

- Management accounts of the Red Lion Hotel Ltd for the period 1 April 2008 to 30 September 2008.
- VAT returns of the Red Lion Hotel Ltd for the periods 1 April 2007 to 30 September 2007 and 1 January 2008 to 30 September 2008.
- Premises Licence reference SCDC PL 019 issued by South Cambridgeshire District Council.
- Letter dated 15 August 2008 from Richard Arman, Development Director, Intercontinental Hotels Group to Ms Sophie Gregorios-Pippas.
- Business Plan dated January 2008 with accompanying letter dated 8 February 2008 from King Sturge Consultancy to Ms Sophie Gregorios-Pippas for proposed hotel addition at the Red Lion Hotel and prepared by King Sturge Consultancy.
- Condition Report upon the Red Lion Hotel dated September 2008 prepared by Savills (LLP) Ltd.
- Letter dated 25 April 2008 from Margreet Papamichael to Ms Sophie Gregorios-Pippas with attachment.

I have been provided with the following email correspondence documentation by SCDC:

- 17 December from Miss Sophie Gregorios-Pippas to Ray McMurray at SCDC.
- 29 December from Miss Sophie Gregorios-Pippas to Ray McMurray at SCDC.

In addition I have had regard to the documentation available on the website of South Cambridgeshire District Council and relating to the application for a 70 bedroom freestanding hotel accommodation block. I have considered the contents of the following:

- Heritage Statement on the Red Lion Hotel prepared by Beacon Planning and dated October 2008.
- Planning Application Ref. S1862/08/F of Mr A and Mrs M Gregorios-Pippas for a 70 bedroom freestanding hotel accommodation block and associated car parking and landscaping dated 17 October 2008.
- Design and Access Statement for the Red Lion Hotel prepared by Ica Architects dated 13 October 2008.
- Supporting statement for Planning Application for the Red Lion Hotel prepared by Scott Wilson dated October 2008.
- Historic Building Assessment for the Red Lion Hotel prepared by QUBE Planning Ltd dated June 2008.

I confirm that I am familiar with the requirements of the RICS as set down in the Practice Statement and Guidance Notes for Surveyors acting as Expert Witnesses and that I have complied with these requirements. I also confirm that the facts that I have stated in this report are true and the opinions I have expressed are correct.

2.0 Qualifications and Expertise

I, Anthony John Wheeler, am a Senior Associate of Fleurets, Chartered Surveyors, of Wellesley House, 96 East Street, Sudbury, Suffolk, CO10 2TP. Established in 1820, Fleurets is the largest firm of Chartered Surveyors to specialise nationally and exclusively in the sale and valuation of hotels, restaurants, pubs and leisure properties, with its Head Office in London and seven offices across the country.

I hold a Diploma in Estate Management and have been a Member of the Royal Institution of Chartered Surveyors since 1980. I trained in private practice with B S Hall & Co in Ruislip, Middlesex, and then worked as Estates Surveyor to GEC Plc based in London between 1979 and 1981.

In 1981 I joined Allied Breweries where I worked as Estate Manager at Ind Coope Benskins Ltd before being appointed to the role of Development Manager in 1986 and subsequently Acquisitions Manager to Ind Coope Ltd, with responsibility for the evaluation and acquisition of sites and businesses for high street and out-of-town pubs, bars and restaurants throughout the Northern Home Counties, including Cambridgeshire and East Anglia.

In 1990 I joined Mecca Leisure Plc as Development Manager where I had responsibility for the evaluation and acquisition of sites and businesses for nightclubs and bingo halls before taking on the role of Property Manager to the company's nightclub and casino divisions following the acquisition of the interests of Mecca Leisure by the Rank Group Plc.

In 2004 I joined the practice of Aitchison Raffety based in Hemel Hempstead, Hertfordshire, as Head of Asset Management responsible for property management services to corporate clients with particular focus upon the leisure industry.

Fleurets invited me to join the practice in 2006, where I have worked exclusively in the East Anglia region. I specialise in capital and rental valuations, rent reviews, lease renewals and other related professional work with regard to public houses, restaurants and hotels. I have over 25 years experience of dealing with licensed and leisure property, I am familiar with the County of Cambridgeshire and the East Anglian region, and thus believe I am well qualified to express my opinion.

3.0 Location

The Red Lion Hotel is situated on the north side of the A505, 1 ½ miles east of Junction 10 of the M11 on the south eastern periphery of the village of Whittlesford and approximately 1 ½ miles from the village centre. The property is set back and at a lower level than the main road. Access is via Station Road East, a cul-de-sac turning off the A505. The city of Cambridge lies approximately 7 miles to the north east and central London approximately 50 miles to the south.

The immediate area comprises a mix of residential and predominantly commercial uses, notably a small industrial estate immediately opposite the subject property to the north and a County Highways depot a few hundred yards to the north east, also with access via Station Road East. The site of the Red Lion is bounded to the west by Whittlesford Parkway Station and the mainline railway to London, to the south by the A505 and to the east by a large station car park. A footbridge over the railway provides a pedestrian link to Station Road West.

The wider area includes the dormitory villages of Whittlesford, Duxford and Sawston as well as the Imperial War Museum at Duxford and several industrial and commercial developments.

In summary, this location has limited aesthetic appeal and, in my view, is unlikely to attract significant levels of leisure related custom. In my view it is likely to be largely reliant upon business related custom associated with nearby businesses or as a result of its proximity to good transport links.

A location plan is attached at Appendix 1.

4.0 Description

Exterior:

The property comprises a Grade II Listed building believed to date from the early 16th Century incorporating a series of 17th, 18th and 19th Century alterations and additions. The building is timber framed and forms a regular U-plan on two storeys with attic level to the west wing, several single and two storey additions to the rear and also a single storey addition to the eastern elevation. The front elevation to Station Road East is finished in knapped flint whilst remaining elevations are predominantly finished in white painted brick and rendering with exposed timber framing. Some mock framing has also been applied to the exterior.

The grounds of the hotel also include a two storey detached building providing staff accommodation and known as the Dovecot, constructed of brick beneath a pitched tile roof with painted brick and timber clad elevations. There is a further single storey outbuilding constructed of brick beneath a pitched tile roof adjacent to the western boundary of the site which provides garaging for a number of cars and some storage.

Vehicular access to the site is provided either side of the main building off Station Road East and leads to two linked car parks, each providing parking for an estimated 18 cars, the car park to the rear of the property being predominantly tarmac surfaced, whilst the car park to the west side is mainly rough surfaced.

A cobbled patio to the rear of the main building provides external seating for some 50 customers and a large lawned garden extends to the rear and east side of the property.

The hotel grounds include a Grade II Listed chapel building adjacent to the eastern entrance of the site and fronting Station Road East. This is known as Duxford Chapel and is understood to be let to South Cambridgeshire District Council on a 999 year lease at a peppercorn rental and managed by English Heritage. For the purposes of this report, I have not regarded the chapel as forming part of the operational hotel.

Enclosed at Appendix 2 are photographs showing the external elevations of each of the main buildings and the garden.

Interior

The principal accommodation provided is as follows:

Main Hotel Building:

Ground Floor

- Lounge bar
- Dining room
- Small function room
- Small side entrance hall
- Function suite
- Catering kitchen
- Ladies and gents WCs

First Floor

- 3 family rooms
- 5 double rooms
- 7 single rooms
- 1 private bedroom

Second Floor (Attic)

- 1 double room
- 1 single room

Dovecot:

Ground Floor Flat

- 1 bedsitting room with kitchenette
- 1 twin bedroom
- Shower & WC

First Floor Flat

Access was not available at the time of my inspection but the accommodation is understood to be as per ground floor flat.

The hotel is approached by 3 customer entrances, these being respectively from the rear car park and from the front of the property on Station Road East into the lounge bar, and from the car park from the west side of the property to the small side entrance hall serving the function rooms and bedroom accommodation.

The lounge bar is arranged to an open plan style but divided with brick and timber studwork and a central brick fireplace to provide a main bar area towards the rear and seating areas to the front and side. The seating area to the side is on split level and includes a small hotel reception counter as well as providing access to the customer toilets. Décor and furnishing is traditional in style, seating being provided by a mix of occasional chairs, upholstered bench seating, dark stained wheelback dining chairs and wooden dining tables. The front seating area is characterised by a wealth of exposed carved ceiling timbers. The main bar area includes one AWP machine.

A corridor leading off the bar provides access to a separate dining room and catering kitchen. The dining room is again characterised by a wealth of exposed ceiling timbers and dark stained dado panelling. Flooring is carpeted and furnishings comprise dark stained wheelback chairs and wooden tables laid with white and red linen cloths for circa 26 covers.

The lounge bar also links to the side entrance hall and separately to the main function suite. The main function suite is positioned to the rear of the property in the west wing of the building. Folding wood panel doors enable the area to be divided into two rooms. The area also includes a small wooden dance floor and further disco style dance floor at a slightly lower level to the far end incorporating a DJ booth with light and sound equipment.

The bedroom accommodation provides a variety of room sizes, mostly at first floor level but with two rooms in the second floor attic. In total there are 17 letting bedrooms plus one private bedroom presently occupied by a family member employed in the business. All bedrooms include en-suite shower or bath and WC facilities, together with colour television and hospitality tray. All furnishings and facilities are functional and three bedrooms include four-poster beds. The styling and standard of the accommodation is modest and the en-suite shower, bath and WC facilities are generally compact in design. The attic rooms are restricted by sloping ceilings, two of the single bedrooms are subject to emergency fire escape routes and one of the first floor bedrooms is subject to a restricted door height.

Enclosed at Appendix 3 are photographs of the interior trading areas.

5.0 Services

Mains water, gas, electricity and drainage are connected. Separate gas central heating systems serve the main hotel and Dovecot building respectively.

6.0 Licensing

I have been provided with a copy of the Premises Licence permitting the following licensing activities:

Sale by retail of alcohol for consumption on and off the premises

- Monday to Saturday 11am to 11pm (no restriction to residents)
- Sunday 11am to 10:30pm (no restriction to residents)

Performance of live music, playing of recorded music and provision of facilities for dance and entertainment, all indoors

- Monday to Wednesday 8am to midnight
- Thursday 8am to 12:30am
- Friday 8am to 2am
- Saturday 8am to 1am

7.0 Tenure

It is understood that the freehold of the property is owned by the Red Lion Hotel Limited and that the freehold interest includes the site of the Duxford Chapel. I am informed by Miss Gregorios-Pippas that the Duxford Chapel is let on a 999 lease at a peppercorn rent to South Cambridgeshire District Council and therefore does not form part of the operational hotel. I have not been provided with a copy of the lease.

8.0 Condition

I did not undertake a building survey at the time of my inspection and am not a qualified building surveyor but would make the following observations. Parts of the building are understood to be at least 600 years old and the property is Grade II Listed. I would therefore expect a property of this nature to require above average levels of ongoing maintenance. Generally I would comment that the main hotel building appears to be in good repair internally and externally. The Dovecot building was observed to be in need of external redecoration and repair is required to window frames.

The general standard of inventory and furnishings throughout the customer areas and the letting accommodation is adequate and maintained to a reasonable standard although some wear and tear is evident. The furnishings and in particular, the en-suite facilities to the letting bedrooms, whilst functional, are very dated in their appearance and offer only a modest standard of accommodation. The en-suite facilities are believed to have been fitted some 20 years or so ago and, in my opinion, could benefit from modernisation. I also consider that the catering kitchen, whilst reasonably well equipped could benefit from some upgrading including, in particular, the installation of a full extraction system.

I have further taken into account the contents of the Condition Report prepared by Savills (LLP) Ltd dated December 2008 from which I note the following comments contained within the summary of that report.

- 1) "The Red Lion Hotel is in a reasonable state of repair overall and is not in an untypical state for a property of this type".
- 2) "We are concerned that the lower framing members and timber ground floor areas have been subject to decay due to elevated ground levels and concrete hardstandings abutting the building. We, therefore, advise that ground levels be reduced where feasible to do so without undermining the foundations. The building is expected to have shallow footings only. The low level framing to be investigated to determine the extent of the deterioration which may have occurred. We have not costed potential repairs to the framing as the extent of work required is currently unknown."
- 3) Budget costs, exclusive of any professional fees, Local Authority fees and VAT, within the next five years are stated as follows:

Year 1:	£ 100
Years 1 – 2	£ 8,600
Years 2 – 5	<u>£ 9,230</u>
	£17,930

Overall, I believe an operator would consider some capital investment by way of refurbishment and modernisation as essential if trading levels are to be sustained and potentially improved. However, I do not hold the view that scope exists for significant growth of the business in general terms.

9.0 UK Hotel Market

Some 15-20 years or so ago the majority of the hotel stock in the UK was regarded as being dated and in need of major refurbishment. Whilst there were undoubtedly landmark hotels the majority of the stock was located within period buildings many of which offered ageing facilities that were falling well behind modern international standards.

The late 1980's, during a period of high inflation, saw significant speculative hotel acquisitions with high prices being paid for property. This activity came to an abrupt halt at the beginning of the 1990's when the first Iraq war took place. The war caused a downturn in international travel, which precipitated a severe decline in the business activities within hotels. This business decline coincided with many hoteliers highly gearing their financing against double-digit interest repayments and led to receiverships and distressed situations. This was experienced most markedly in London, but also had a knock on effect regionally.

The recovery from that downturn was relatively slow with a number of banks controlling significant elements of the hotel stock. Subsequent to this, the UK economy changed in nature. Until recently the general level of inflation since 1993 has been around an average of 3% compared with the previous 10 years where it was running at around 12-13% and interest rates have generally sat beneath 7%. This led to a stable economic environment and a general recovery in most commercial markets. The tourist sector picked up and trading conditions for hotels improved significantly.

During this period the international hotel groups sought to expand their representation in the UK and elsewhere by major investment in branded products and, as a result, there has been significant development of new hotels around the UK. This development has taken the shape of the conversion of office buildings and new builds in all sectors of the hotel market in town/city centres and at transport nodes and motorway junctions.

In parallel with this development has been the introduction of the budget branded sector to the UK. Some 10-15 years or so ago there were few budget brands present in the domestic market. Since then however a rapid development of this part of the market has seen recognised brands develop across the country. These include Premier Inn, Travelodge, Express by Holiday Inn, Etap, Ibis, Formule 1, Easyhotel, Nite Nite, etc. Further growth in this sector is anticipated which currently represents a much lower percentage of the overall hotel stock than in, for instance, France and the U.S.

From the beginning of 2004 there were considerable improvements to hotel performance and operating statistics demonstrated strong levels of occupancy and achieved room rates. However, we are in a period of significant economic uncertainty following the onset of the credit crunch in the latter part of 2007 with the economy now in a period of recession.

Recent operating statistics for the UK chain hotel market demonstrate declines in occupancy levels and average room rates achieved in the latter months of 2008. Rising costs have also placed margins under pressure resulting in declining profit levels.

Whilst it is expected that the branded budget sector will benefit from corporate business downtrading, profit margins can be expected to remain under pressure. The placing into Administration in January 2009 of the Real Hotel Group, operator of budget brands such as Purple Hotels and Quality Hotels exemplifies the difficulties being experienced by operators.

10.0 The Business

The Red Lion Hotel is owned and operated by the Red Lion Hotel Ltd, understood to be a family run business under the stewardship of Mr A and Mrs M Gregorios-Pippas since the early 1980's. With assistance from family members they have operated the business during this time, initially in the style of a quality traditional coaching inn with waiter service restaurant but, in recent years, catering to a more budget sensitive customer with the formal restaurant giving way to more informal bar food service.

I have been provided with copies of accounts for the business for the years ending 31 March 2006 to 2008, together with management accounts for the period 1 April 2008 to 30 September 2008 as detailed at the commencement of this report. During my inspection, I also made enquiries of Miss Gregorios-Pippas as to the trading pattern of the business.

The principal sources of business for the Red Lion Hotel are understood to derive from accommodation, food and beverage sales.

Accommodation sales are primarily drawn from business contract workers during weekdays with occasional weekend bookings being from visitors attending local functions either at the premises or nearby.

Advertised accommodation rates are as follows:

Single Room	£58.95
Double Room	£74.95
Family Room	From £79.95

All rates are inclusive of full English breakfast and VAT.

The bar food menu offers a range of traditional snacks and meals. Sandwiches and baguettes are priced between £4.25 and £4.95 and light snacks such as a choice of jacket potatoes, ploughman's lunch and a choice of omelettes with chips are priced between £4.85 and £8.95. Main courses such as scampi and chips, chilli con carne, mixed grill and a range of daily blackboard specials are priced between £7.95 and £12.95. A choice of desserts is priced at £4.95 each.

Typical drinks prices at the bar are £2.70 per pint for Adnams bitter, £3 per pint for Carlsberg lager and bottled beers such as Budweiser and Becks are priced at £3.15. Spirits are priced from £2.05 for a 25 ml measure.

Copies of the menu and bar tariff are attached at Appendix 4.

Room hire and function business is understood to be limited to occasional private parties and business meetings. The Red Lion Hotel also hosts a weekly folk club on Friday nights as well as an annual folk festival in July each year.

Copies of the accounting information supplied are enclosed at Appendix 7 together with my comments thereon and my assessment of the trading potential of the hotel as it stands. This accounting information has been supplied on a strictly confidential basis and on the understanding that it will not enter the public domain.

I understand, therefore, that the contents of Appendix 7 are to be excluded from the remainder of this report, which will be a matter of public record. Accordingly I produce Appendix 7 as a separately bound document marked "Strictly Confidential".

It is essentially a public house and restaurant with 17 letting bedrooms.

11.0 Competition

I have identified at least sixteen 3 star and budget hotels (including one under construction) within a 10 mile radius of the Red Lion Hotel with which I consider the hotel to be in competition. A radius map of the area is attached at Appendix 5, upon which I have indicated the locations of the hotels.

I have considered the room tariffs of each of the hotels indicated and for comparative purposes, I have prepared a schedule of the current standard tariffs for a double room, which is attached at Appendix 6. By way of example, to illustrate discounts available against the standard tariffs, I undertook web searches on 20 and 28 January 2009 for double room accommodation in Cambridge and the discounted prices found to be available are also detailed on the schedule.

I conclude that the most notable and immediate competition to the Red Lion Hotel is that provided by the branded budget operators, these particularly being the Travelodge Hotels at Fourwentways, (3 miles) and Cambridge Leisure Park (6.5 miles) and the Holiday Inn Express at Coldhams Park (7 miles). In addition there is a 154-bedroom Premier Inn under construction adjacent to Junction 33 of the A14 at Albury Park to the north of Cambridge.

12.0 Business Viability Considerations

When considering the viability of a property as a hotel, it is helpful to identify and consider the market sector within which it is expected to operate and the nature of the custom to be targeted.

The market for smaller and mid sized hotels is dominated by private owner operators and smaller multiple business operating companies. They tend not to be branded, although some of the larger establishments may operate under marketing consortia or franchises, such as Best Western. The level of trade achieved by each business in this sector is driven by its size, location and quality of facilities it is able to offer relative to its competition. Smaller hotels, particularly those with less than 20 rooms, tend not to require significant staffing and are often run hands-on by owner operators with the assistance of family members or by management couples that share the labour with limited assistance.

This sector of the hotel market is increasingly subject to competitive pressures of corporately run budget lodge style accommodation, which offers stated fixed rates and widely understood specification of room facilities. These usually occupy central town or city positions or are readily accessible from major transport nodes, often have adjoining bar and restaurant facilities and benefit from central reservation services and excellent websites. In consequence, the pricing structure and standards offered by smaller hotels must be carefully considered against others in the locality in order to compete successfully. Unless a unique selling point or superior facilities can be offered, it is often necessary for such businesses to undercut room rates of their competitors in order to attract sufficient custom.

In my experience, the nature of custom for a small hotel such as the Red Lion Hotel will typically fall into the following categories:

- Business guests
- Leisure breaks
- Tourists
- Bar and dining
- Private functions

Business guests will tend to be limited to Sunday to Thursday and will generally demand convenience to a commercial centre with good transport links and facilities equivalent to a 3 or 4 star rating. Situated within easy reach of Cambridge and close to the A11 with various business parks (eg: Babraham Park and Grant Park) and the Imperial War Museum nearby, I consider that the Red Lion is conveniently positioned to service business of this nature. However, as commented in Section 8 the standard of bedroom accommodation and related facilities offered by

the Red Lion is dated and the room sizes and facilities are not uniform. Also I observe that the hotel does not carry a recognised star rating. Whilst conveniently positioned for the business guest, I would expect the nature of business custom attracted to the property to be drawn more from price sensitive customers such as contract workers who may be expected to operate within a restricted budget and seek value for money when compared against nearby branded budget operations.

Guests seeking leisure breaks will tend to be limited to weekend bookings and again, generally, will require minimum three star facilities. They will seek desirable locations, often demanding character or country house style properties with the benefit of leisure and sporting facilities nearby or an historic city location. Whilst the Red Lion is an historic characterful property and benefits from proximity to the city of Cambridge, it does not carry a recognised star rating and its location bounded by the mainline railway, the A505, a station car park and an industrial estate does not carry desirable appeal for such custom. I would expect any leisure break custom to be limited to occasional guests attending nearby functions requiring overnight accommodation rather than appealing to weekend destination customers.

Tourists tend to prefer to be located in attractive locations close to key centres of tourism with good transport links. Whilst the Red Lion is situated close to the M11 with good road and rail access to the Cambridge city centre, the limited quantity and quality of accommodation available is unlikely to appeal to tourists whom I would expect to be drawn to recognised branded and star rated operations.

I would expect bar and dining custom will be derived primarily from guests staying at the hotel, the neighbouring community and nearby villages although the characterful nature of the property and its prominence adjacent to the A505 may be expected to draw occasional and passing trade from further afield. Unfortunately the somewhat isolated position of the Red Lion, 1 ½ miles from Whittlesford village centre and with Station Road being dissected by the railway line will tend to limit its appeal to locals. I also consider the rather industrial nature of the location detracts from its appeal for destination dining led custom.

The market for private functions and small business conferencing is likely to range from the provision of individual rooms for business meetings and private dining to small weddings, private parties and business seminars. Situated within easy reach of Cambridge and close to the M11 with various business parks nearby, the Red Lion is conveniently situated and offers modest facilities to service business of this nature. The characterful and historic nature of the building also add to its appeal although I consider the proximity of the site to the main road and railway will not appeal to significant levels of wedding business. Appeal is likely to be limited to small indoor functions and business meetings.

13.0 The Factors That Would Make a Business Unviable

There are a number of factors that, in my experience, tend to cause a business to become unviable. I have summarised what I consider to be the principal issues below:-

- A building that falls into disrepair to the point to which the cost of the repairs are disproportionate to the profit of the business, can often make it unviable.

The subject property is generally well maintained and in reasonably good repair. The Condition Survey carried out by Savills LLP on behalf of the Applicant does not indicate any major items of expenditure being required upon building repairs beyond matters of routine maintenance. I am mindful however, that the report does raise the question of possible repairs being required to the low level timber framing. The report does not provide any estimate of cost for repairs but suggests the framing should be investigated to determine the extent of deterioration which may have occurred. Should major expenditure be required to effect essential repairs, the viability of the business could be impaired but without any assessment of costs, it is not possible to determine the extent to which business viability might be affected.

- Poor management of a business can lead to deterioration of the business to a point where the business becomes unviable.

The business of the Red Lion Hotel appears to be competently and professionally managed by the present owners, providing the level of service expected of a small private hotel and restaurant. Whilst dated, facilities are reasonably well maintained and pricing levels are competitive.

- Businesses that suffer from strong competition are more prone to being considered unviable.

Competition from the branded budget sector has increased within Cambridge and the neighbouring area with the development of several new budget branded hotels over the last 5 years, notably with the opening of Express by Holiday Inn (100 bedrooms) at Coldhams Park in 2003, Travelodge on Cambridge Leisure Park (120 bedrooms) in 2004 and Premier Inn (154 bedrooms) due to open in April 2009. Planning consent was granted in October 2004 for a new 120 bedroom hotel on the site of the Imperial War Museum (2 miles from the subject premises), and in May 2006 for a 60 bedroom hotel at Little Abington (3 miles). In addition, I note that the business plan prepared by King Sturge for the Applicant refers to 2 further potential budget hotel developments respectively at junctions 10 & 11 of the M11.

The relatively limited number of rooms available and their rather quirky sizing and arrangement make it difficult for a business such as the Red Lion to compete with the branded operations which are largely contained in modern, single, purpose built properties.

I understand from my conversations with Miss Gregorios-Pippas that the increased competition presented by the branded budget sector has placed pressure upon the business of the Red Lion in recent years. Without being able to offer a unique selling point or superior facilities, the Red Lion has had to undercut room rates of its competitors in order to attract sufficient custom.

I consider it reasonable for an operator to anticipate that competition will continue to place the hotel driven aspects of the business under sustained pressure and to seek an adapted or alternative business model in order to maintain a viable business entity. Examples of small hotels in the area that have adapted their business models can be found in the Cambridge Motel on the A10 near Shepreth to the south west of Cambridge and the Bridge Hotel to the north of the city at Clayhythe near Waterbeach.

The Cambridge Motel formerly operated as a 22 bedroom motel, conference and function facility, but in recent years has reduced its bedrooms to 6 to concentrate upon conferencing and functions. The Bridge Hotel at Clayhythe, adjacent to the River Cam, previously operated with 28 chalet style bedrooms but again, in recent years, has ceased to offer bedroom accommodation and now operates as a Chef and Brewer branded pub restaurant.

I have therefore considered the possibility that an operator of the Red Lion would seek to sustain or enhance the trade through capital investment and modification of the business model to improve the trading prospects. I have considered the following options.

i) Investment to modernise the bedroom furnishings and en-suite facilities closer to the standard of its branded budget competitors and as detailed in Appendix 7. For the reasons stated in Appendix 7, I consider it unlikely that an operator would expect to achieve the increase in sales and hence the level of return that such an investment would require.

ii) Major capital investment to adapt the business to the style of a boutique hotel and so provide a unique selling point for the business. The characterful, historic nature of the building would lend itself to such an operation but the industrial nature of the surroundings would not appeal to the target customer for such a hotel and therefore I would not expect an operator to embark upon the substantial capital investment that such a project would demand.

iii) Major capital investment to create a separate bedroom block of a standard to compete with that offered by neighbouring budget offerings. This is an option that is evidently in contemplation by the current owners and one for which they have appraised the economic viability in detail. For the purposes of this report I have not been provided with trade forecasts for the proposed development and am not required to comment upon the viability of the specific proposal. I would consider that the landmark nature of the site and its proximity to major transport links such as the M11 and the mainline railway station adjacent render the site well suited to such a proposition.

iv) Major investment by either a multiple or private operator to develop the business as a standalone destination pub restaurant.

The essential characteristics demanded by multiple operators for a destination led business are high visibility, ease of access and good car parking. Typical multiple operations are family orientated businesses such as Ember Inns, Harvester, Beefeater and Chef & Brewer. They may often be combined with outdoor and or indoor children's play facilities.

Such businesses demand prominent main road locations or picturesque locations, a site of $\frac{3}{4}$ to 1 acre, a built area in the region of 7,000 to 8,000 sq ft, and customer area of 2,500 to 3,500 sq ft. Such businesses have seen significant expansion in their number over the last 20 years. Whilst the Red Lion meets the broad requirements of such an operation in terms of prominence and size, I consider that its location several miles beyond the principal Cambridge conurbation in surroundings that cannot be described as picturesque would not appeal to operators as a standalone proposition.

- A business is also likely to be considered as unviable when it is unable to generate levels of profit sufficient for the operators to make a living.

As set out in Appendix 7 I consider that the current level of turnover generated by the business would be considered by operators in the market as sufficient to make a living. However this is a business that appears to have become increasingly subject to competitive pressures and turnover in recent years has declined in real terms. This would give cause for an operator to be concerned about future viability. It is the availability of room and associated food and beverage income that supports this business. If proposed further hotel developments in the area proceed, I would expect accommodation sales to come under increasing threat with the risk that the business could become borderline viable.

- A further factor that I would expect to cause a business to become unviable would be where there are material changes to the local area such as the loss of a factory or the demolition of a local housing estate.

Whittlesford and the neighbouring area benefits from excellent communication links and being conveniently situated to Cambridge, benefits from generally buoyant local economy with significant business and science parks nearby. The area has seen continued expansion and development in recent years, and on this basis, I consider would not provide a hotel operator with cause for concern.

14.0 Impact of the Development of a 70 Bedroom Hotel Block

The business plan prepared by King Sturge on behalf of the Applicant anticipates that a new budget hotel, within the grounds of the Red Lion Hotel and to be operated by the owners of the Red Lion Hotel under franchise from Express by Holiday Inn. It is understood that the proposed budget hotel block would contain 70 bedrooms, breakfast room, basic bar and small meeting room.

King Sturge suggest that the proposed development would compliment the existing food and beverage business of the Red Lion ensuring its long-term viability as a public house. During my discussions with Miss Gregorios-Pippas and Peter Gee of King Sturge at the time of my inspection and, in email correspondence supplied to me by South Cambridgeshire District Council, it has also been indicated that increased demand is foreseen for the Red Lion's conferencing facilities.

It is envisaged that the Red Lion Hotel would operate in a similar manner to pub restaurants adjacent to budget hotels, notably brands operated by Whitbread along side their Premier Inn hotels. Examples would include Whitbread operations such as Beefeater and Table Table but other operators such as Chef & Brewer and Orchid Pub Company offer similar facilities alongside or close to Premier Inn and other budget branded hotels.

King Sturge state that they commissioned a HotStats report from hotels consultancy TRI the results of which indicate average occupancy levels achieved for budget hotels in Cambridge in 2006 and 0007 to have been respectively 77.7% and 77.9%. King Sturge consider these levels to be high enough to justify additional hotel supply in the area and assume that a potential budget hotel at the site of the Red Lion could achieve a similar performance in its third and stabilised year. They anticipate that mainly corporate individuals working in the area with some leisure tourists will use the hotel.

I have considered the contents of the business plan prepared by King Sturge and concur with their general view that a budget hotel adjacent to the Red Lion Hotel can be expected to enhance the prospects of the business for food and beverage trade. I would also anticipate that the level of corporate business attracted to the hotel and its accessibility both by road and rail would result in increased demand for conferencing facilities. Of course the presence of the new hotel would result in the loss of any accommodation sales from the business of the Red Lion Hotel, but I consider it reasonable to expect that this would be counterbalanced by improved levels of food and beverage and business conferencing.

I have not been provided with a detailed business plan, investment proposals or trade projections for the future operation and development of the Red Lion Hotel following the development of the proposed hotel block. However, assuming the new hotel is able to generate the occupancy levels anticipated by King Sturge, this would generate significant customer traffic from which the Red Lion Hotel can be expected to benefit, subject to appropriate investment in the facilities to cater for such custom. I would expect the prominence and general profile of the site to be enhanced by the presence of the hotel block and this too may be expected to enhance the prospects for promotion of the business of the Red Lion Hotel, providing opportunity for the business to attract to a broader destination market and possibly some passing trade by virtue of the improved profile.

15.0 Conclusion

In Section 10 and related commentary contained in Appendix 7, I have shown that the business is operating profitably to a level sufficient to enable an operator to make a living. The business is currently viable.

In Section 13, I have set out the various factors that I would expect to be amongst the causes of a business becoming unviable. It is evident that competition from the budget hotel market in Cambridge has increased in recent years. By virtue of current and possible future development, competition may be expected to continue to increase. I believe this would be considered by operators as placing the hotel driven turnover and, as a consequence, the viability of the business at risk.

In the short term, competitive pressures are likely to be exacerbated by the current economic recession. Increasing downward pressure upon business and consumer spending may be expected to result in declining levels of turnover and to place profit margins under increasing strain.

The Red Lion is a Grade II Listed building understood, in parts, to be over 600 hundred years old. The Condition Report prepared for the Applicant by Savills LLP raises concern about possible decay of the timber frame. In the event that major repairs were to be found necessary, this would impair the viability of the business.

I consider that the development of a 70-bedroom hotel accommodation block as described in the Planning Application ref S/1862/08/F and supporting documentation would provide opportunity to develop the Red Lion as a sustainable food and beverage, conference and functions business catering primarily to guests of the new hotel. I believe it would also provide the opportunity for the business to appeal to a broader destination market and possibly some passing trade by virtue of the improved profile of the site that is likely to result.

16.0 Statement of Truth

I hereby declare:

I confirm that insofar as the facts of my report are within my own knowledge I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

I confirm that my report includes all the facts which I regard as being relevant to the opinions which I have expressed and that attention has been drawn to any matter which would affect the validity of those opinions.

I confirm that I am not instructed under any conditional fee arrangement.

I confirm that I have no conflicts of interest of any kind other than those already disclosed in my report.

I confirm that my report complies with the requirements of the Royal Institute of Chartered Surveyors (RICS), as set down in "Surveyors acting as an expert witnesses" RICS practice statement.

Dated this 5th day of February 2009

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A J Wheeler MRICS
Fleurets, Chartered Surveyors
Hotels, Restaurants,, Pubs & Leisure