

Basis for conclusions

Valuation of licensed leisure property (including public houses, bars, nightclubs and restaurants), 2nd edition

Executive summary

The UK licensed leisure sector has seen substantial changes in recent years. Diversification and a wider consumer offering have made it a more mainstream asset class, attracting substantial internal and overseas investment. There is increasing overlap between public houses, restaurants, bars, nightclubs and the wider hospitality sector.

As part of RICS' ongoing commitment to build trust in the profession, and further to the input of external stakeholders, we have updated the 2010 RICS guidance *Capital and rental valuation of public houses, bars, restaurants and nightclubs in England and Wales*, under a new title *Valuation of licensed leisure property (including public houses, bars, nightclubs and restaurants)*.

This basis for conclusion document aims to provide a summary of the project's approach and provide insights into the consultation responses received and the decision-making process that led to the final standard.

Background

1. The UK licensed leisure market is dynamic, varied and interfaces with numerous relevant pieces of regulation and legislation, which also means jurisdictional differences in some cases.
2. The need for the update came about to fulfil several key objectives identified in initial forums and through the expert group:
 - reflect market, practice and relevant regulatory changes since the previous guidance note was published in 2010
 - expand the coverage of the standard from England and Wales to the UK

- incorporate other relevant RICS professional standards, such as the *RICS Valuation – Global Standards* (Red Book Global Standards) and
- include a specific section for non-valuers, which recognises that the standard may also be used by a range of stakeholders in respect of, for example, the tied pubs market and lease advisory.

3. The purpose of this professional standard is to meet the above objectives.

Development process overview

5. The initial development process for the updated standard was undertaken through a series of forums involving tenants, operators, valuers, trade bodies and other stakeholders. Following this, a working group of expert valuers from a range of valuation service providers (including SMEs, specialist and large firms) developed the consultation draft and the final published version. The working group members provide valuation services for landlords and tenants. Further to the direction of the initial forums, the expert working group did not include employees of pub companies or people operating licensed leisure businesses.
6. Throughout the development process we have received comments, queries and evidence from a range of stakeholders, including through a full public consultation that has substantially assisted with and improved the final published standard.
7. The development of the standard was also informed by various internal stakeholders including the Valuation Professional Group Panel, the Global Valuation Standards Expert Working Group, the Knowledge and Practice Committee and the Professional Standards Steering Group, who approve standards on behalf of the Standards and Regulation Board.
8. A public consultation was held from 25 March to 19 July 2024, to gauge feedback to inform the development of the standard.

Engagement and insights

Consultation

Process

9. A public consultation took place from 25 March to 19 July 2024.

10. The consultation process was facilitated using iConsult, RICS' interactive platform, where participants were encouraged to provide feedback on the draft document and/or respond to a questionnaire.
11. The consultation site provided a free download of the proposed draft.
12. The consultation was supported by a comprehensive communications strategy, which included: direct email and other communication with key stakeholders from across the licensed leisure industry, attendance and presentation at industry and valuation events, meeting with regulators, industry bodies and others.

Statistics

13. We received 57 responses from 15 participants, in the form of 9 questionnaire responses and 48 comments on the draft standard. There were 372 downloads of the draft standard.
14. RICS members and RICS-regulated firms made up 47% of the participants.
15. Although the overall number of formal consultation participants was relatively small, we believe the consultation has met its aims as we received responses from and otherwise engaged with key stakeholder groups and bodies, which ultimately represented a much larger spectrum of stakeholders. These include but were not limited to:
 - major industry trade bodies
 - a professional association
 - consumer and tenant representative groups and advocates
 - government and regulatory stakeholders
 - individual tenants, publicans and pub companies

Key themes from the consultation and the RICS response

16. This basis for conclusions does not attempt to summarise every consultation response, nor provide the full rationale for how RICS managed each response. The document outlines a proposed path forward, as well as key matters addressed in the finalisation of the standard following the consultation.
17. Although it would not be helpful to respond to every comment in this summary, we would like to reassure respondents that every comment and response has been recorded, analysed and considered. The final published version of the standard is greatly improved by these contributions.

18. In addition to the matters below, numerous corrections, amendments and style considerations were made directly because of consultation feedback. We greatly appreciate all responses.
19. Responses received ranged from highly technical to more general comments relating to implementation and clarity. The broad themes are highlighted below, together with RICS' responses.

The role of the valuer and the regulation and governance of RICS members

20. Some respondents thought the standard should include wider and more extensive coverage of the ethics and conduct requirements of RICS members across all areas of practice (not just valuation). There was particular emphasis from some respondents where the RICS member was under the direct employment of a licensed leisure property owner and/or operating in a regulated market such as tied pubs. It was suggested that RICS members should be directed to better reflect the impact of their professional advice and/or opinion on individual businesses.
21. Some stakeholders wanted the standard to reference and interpret regulation (such as the Pubs Code for England and Wales) and to set standards and monitor engagement with this regulation and related dispute resolution services.

RICS' response

22. We have updated the introductory advice to non-valuers in the standard. This advice directly references the wider conduct and ethical requirements of the profession and the role of the valuer and includes appropriate contact channels with RICS on this subject. We have also updated the tied pubs section given this was the market most comments referred to.
23. Although we require and expect RICS members and RICS-regulated firms to act in accordance with conduct standards, we also understand that they may legitimately advocate a certain position for their employer or as a representative – where not prevented in law, regulation or relevant standards from doing so. In the final standard we have sought to be clear about the role of a valuer, other roles that might interface with valuation and what the limitations of these are also.
24. RICS has not sought to interpret or regulate market and practice matters beyond its jurisdiction. We have not offered interpretation of or directed particular behaviours around regulation or legislation but have referenced it. We have not sought to extensively cover dispute resolution but have, where appropriate and relevant, included cross references to other standards.

Principles versus prescription in valuation methodology and evidence

25. Some respondents wanted the standard to dictate a more formulaic, predictable and uniform process and methodology for valuation, in some cases reflective of the performance of the licensed leisure business in situ (without consideration of a hypothetical operator, alternative use, style of operation, etc.)
26. To aid consistency with application of the standard, some respondents wanted more specific definitions and direction in respect of terminology and concepts, examples include but were not limited to tenants' improvements, fitting out and shell units.

RICS response

27. RICS understand the need to be clear around terminology, methodology and market concepts and have amended and adjusted the text where possible post-consultation to assist with this. However, there is also a need to be mindful of the range of circumstances that might exist across the different licensed leisure markets and valuation purposes, and the different legislative and regulatory frameworks that might be relevant. The balance of the professional standard is more towards principles than prescription and there is a reliance on the professional judgement, expertise and competence of the valuer to implement the standard.
28. Where relative uniformity in terminology exists across the market this has been adopted. Where the meaning and application of a term reflects the perspective of a particular market participant, interest group and/or valuation circumstance, references are more general.

Implementation and application of the standard – mandatory or guidance?

29. The previous edition was produced in the form of a 'guidance note', which is an RICS document classification that no longer exists and mainly comprised best practice requirements. These were to be followed by RICS members and RICS-regulated firms unless there was good reason not to. The 2nd edition is classified as a 'professional standard' under a specific framework and 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.'
30. Some respondents thought the standard should be more focused on best practice and industry relevant guidance and others thought there should be more mandatory

standards (including conduct standards). Respondents sought clarity around what was mandatory, what was best practice and what had only been included for information.

RICS' response

31. Mandatory standards have been clearly cross referenced with the supporting authority (for example, *RICS Valuation – Global Standards* (Red Book Global Standards)). Direct references to Red Book Global Standards have been clearly identified.

Alignment with RICS Valuation – Global Standards (Red Book Global Standards)

32. Respondents and other stakeholders commented on the extent to which the draft standard cross referenced current and previous versions of the Red Book Global Standards, particularly VPGA 4.
33. Several commentators noted the extensive similarities between some of the core methodology content in the subject standard and VPGA 4. Some suggested entirely removing this content and replacing it with consolidated cross references.

RICS response

34. There was consideration of removing the replicated VPGA 4 content, but it has been retained to assist with the application of the subject standard. It is accepted that the subject standard will be used by stakeholders (other than valuers) who may not be familiar with the wider suite of RICS standards and the Red Book Global Standards. The content in question has now been explicitly referenced as quoting VPGA 4, including updates reflecting the Red Book Global Standards effective from 31 January 2025.

Beyond the profits method

35. Some respondents thought the draft standard was too definitive on steering valuers towards the profits method, reducing the opportunity for the valuer to make appropriate professional judgement about the valuation method most suitable for the circumstances. Use of the comparable transaction, discounted cash flow (DCF) and residual methods were specifically cited by respondents. Respondents also highlighted that multiple methods can be used as a cross-check and to test evidence and assumptions.

RICS' response

36. The published standard includes wider and more frequent reference to a range of valuation methods, including each method cited by respondents. The standard continues to note that some methods may be more applicable to specific valuation

circumstances and asset types but does not mandate the use of any particular method. The appropriate use of multiple methods is now more clearly stated.

Comparables, transactions and other evidence

37. Respondents suggested that evidence was necessary to support valuations. Some respondents noted that comparable evidence, including comparable transaction evidence could be relevant where the profits method was adopted (and conversely evidence of trading can be relevant where the comparable transactions method is applied).

RICS' response

38. We have updated the coverage of valuation evidence. We have referenced the comparable method as well as the use of comparables (and comparable information) in support of other methods (such as the profits method). We have cross-referenced and linked to the RICS professional standard [Comparable evidence in real estate valuation](#).
39. In line with the determined scope of the standard, we have not set any direction around evidence, comparables or data sharing outside of a valuation and/or to third parties to a valuation.

Accommodation

40. Some forum stakeholders and consultation respondents sought further coverage of on-site accommodation across two areas:
- Guest accommodation provided to patrons and other customers – but not to the extent that this was the main or only part of the business (e.g. a pub with rooms rather than a hotel).
 - Accommodation for the publican, management, staff and others running the licensed leisure property.

RICS' response

41. The appendix includes broad references to guest accommodation but does not extend the scope of the standard.
42. Other accommodation has been more clearly referenced in the document but a prescribed methodology for its consideration has not been added. It was felt that this would be implicit to, and form part of the valuation principles set out across the standard.

Regulation and legislation – reference/interpret?

43. Several respondents requested that the standard include more detail of legislation and regulation relevant to the various licensed leisure markets, such as but not limited to planning, licensing, landlord and tenant law and Pubs Codes. Some stakeholders and respondents wanted concise references and links and others more detailed references (particularly around licensing, planning and tied pub regulation).
44. Beyond referencing regulation and legislation, several issues can be contentious in licensed leisure and might be subject to negotiation, dispute resolution and litigation. Examples include but are not limited to: tenant's improvements, dilapidations and Market Rent Only (MRO) rights. Some stakeholders sought specific interpretation from the licensed leisure property valuation standard on this.

RICS' response

45. References and links to relevant regulation and legislation have been extended and updated where possible and appropriate.
46. The Scottish Pubs Code remains in development and pre-implementation at the time of publication, and this is now referenced.
47. RICS has not sought to provide definitive interpretation of regulation and legislation as this is not felt to be within the scope and purpose of a professional standard for licensed leisure property valuation.
48. Where relevant and appropriate, such as for example, tenant's improvements, the standard sets out the relevance to valuation, potential issues, considerations and limitations but does not dictate a single approach.

Alternative use

49. Several respondents suggested inconsistencies in the document around the consideration and treatment of alternative uses when undertaking a valuation.

RICS' response

50. The alternative use language has now been aligned with current version of *RICS Valuation – Global Standards* (Red Book Global Standards), VPGA 4, at an early stage in the document, which is then applied consistently in the context of the UK licensed leisure market throughout.

Divisible balance

51. The importance of the divisible balance in rental valuations was referenced by some respondents and the lack of an early introduction/glossary definition was noted.

RICS' response

52. Divisible balance has now been added to the glossary and further referenced in the text post-consultation.