The Horns, Crazies Hill

Economic Analysis of Refurbished Community Pub

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Executive Summary

Executive Summary (1 of 3)

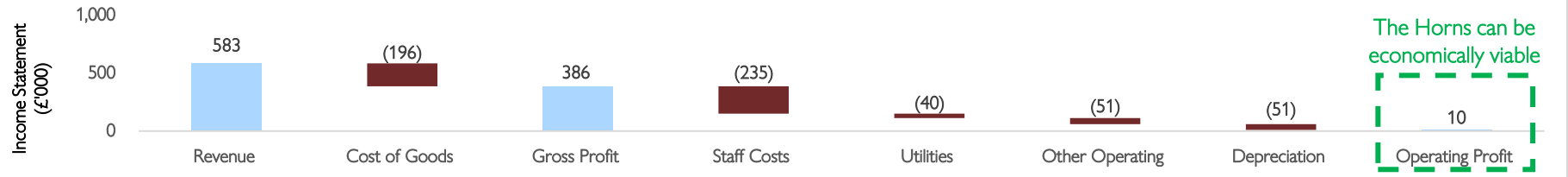
Section		Pages
Introduction	• This Economic Analysis report sets out the reasons the proposed works to The Horns pub are essential to supporting an economically viable pub	7-8
Importance of an economically viable pub	• A local pub is the beating heart of a local community and acts as a "social good" • Given the very tough trading environment for UK pubs, The Horns community pub must be given the chance to succeed – through support for its refurbishment plans from Wokingham Borough Council • The number of quality pubs in our regions highlights that well-run local pub with the right mix of offerings can be economically viable	9-12

Executive Summary (2 of 3)

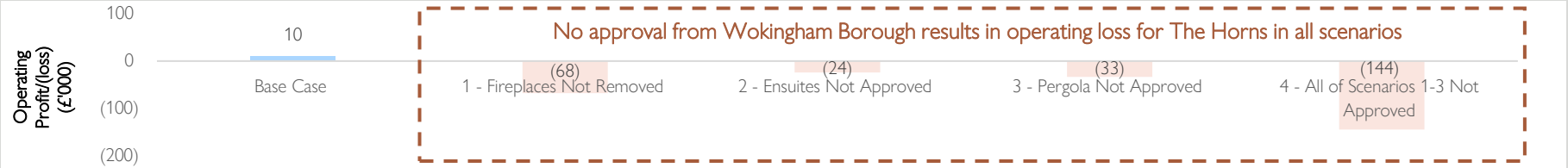
Section		Pages
Current Pub Set Up	• A combination of unprofitable drink sales due to PubCo "tie", poor food offering, lack of accommodation and poor pub layout have seen the pub churn through 8 tenants over the last 14 years of operations • The current Ground Floor layout in the Bar is inefficient, with walls and corridors acting as barriers to increasing space for patrons and therefore a barrier to increased revenue • The First Floor lacks the provision of accommodation for guests, which deprives the business of a lucrative, high margin revenue stream • Renewed and enhanced outdoor facilities are needed to attract and sustain increased patronage in warmer months	13-17
Plan to Ensure Economic Sustainability	• Community support, combined with location and proximity to major events provide significant tailwinds to support a viable reopening of The Horns • The Horns could provide better quality food and drink at improved margins, as well as high-margin accommodation • The Ground Floor would provide greater area for drinkers and an essential net gain of 22 dining covers or 50% overall increase • The First Floor would provide economically-essential accommodation with ensuites in-line with all nearby pubs, as well as a premium apartment for guest accommodation or residence for Chef/Manager • Renewed and enhanced outdoor facilities are needed to attract and sustain increased patronage, particularly for warmer months	18-24

Executive Summary (3 of 3)

Section		Pages
Financials	• The key drivers of profitability will be "wet" drink sales and "dry" food sales, complemented by a smaller but very high margin accommodation offering	25-29



- However, The Horns is unlikely to be economically viable without approval of our refurbishment plans by Wokingham Borough, which would in turn having a negative community impact
- In all of the four scenarios where some or all approvals are not given by Wokingham Borough, The Horns becomes unprofitable and very likely economically unviable:



- <u>The Horns is unlikely to be economically viable without these critical, sensitive and appropriate refurbishments. Without them, we believe the pub may have no viable future as a public house and community asset</u>

Introduction

Introduction

This Economic Analysis report sets out the reasons the proposed works to The Horns pub are essential to supporting an economically viable pub

An introduction to this Economic Analysis

- In March 2023, a group of 37 residents of the communities of Crazies Hill and Cockpole Green purchased The Horns pub from a "PubCo" property business, with the pub having been closed since September 2022
- This Economic Analysis addresses the design and operational problems that have caused long term and repeated failure of tenant managers
- It sets out the justification for the proposed works to supporting a vibrant and economically sustainable pub
- This report has been prepared by the resident Board of the applicant, Horns Hospitality Limited
- This Business Case should be read in conjunction with the other supporting documents in the Listed Building Consent and Planning Applications

Importance of an Economically Viable Pub

Social Importance of a Viable Local Pub

A local pub is the beating heart of a local community and acts as a "social good"

Pubs have an important social function in providing a space for different forms and levels of social interaction (from making new friends, to meeting up with friends and family). Pubs also organise a range of activities and events which bring people together.

-Open Arms - The Role of pubs in tackling loneliness (2021), Campaign to end loneliness.

"Pubs are vital social infrastructure pillars for communities across the UK. A visit to their local pub is an opportunity to socialise with neighbours and friends and gives a sense of belonging to various groups - helping prevent social isolation and loneliness. The permanent closure of rural pubs could threaten the social fabric of many communities."

-Unlocking the socio-economic potential of our nation's pubs (2023), Localis

"Certain types of physical infrastructure – especially local hubs that bring people together, such as pubs – are particularly important in improving the social fabric of a place."

-The State of our Social Fabric (2021), Onward

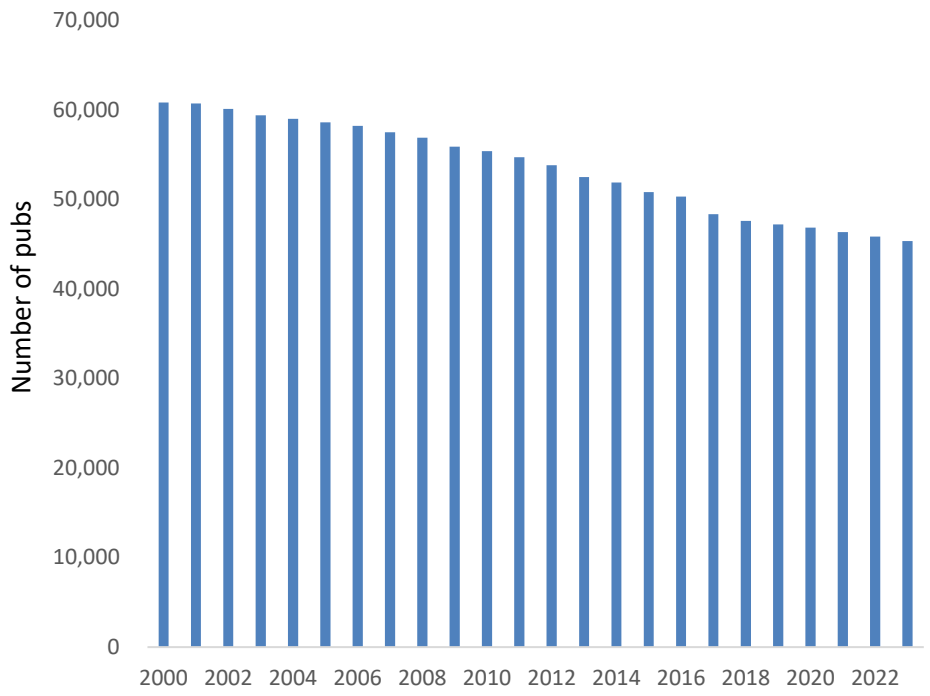
"Pubs have a large social impact for a relatively low-cost investment. Pubs offer a collective resource to help tackle challenges such as an ageing population, the reduction of rural services and isolation and loneliness issues. 64% think that a pub is a main place local people can socialise. 86% think the whole community suffers when a local pub closes. £1 spent on a project through the Pub is The Hub Community Services Fund, created £8.98 - £9.24 of social value."

-The Social Value of Pubs and Publicans Providing Services in their Communities (2020), Pub is the hub valuation

Independent Pub Landscape is Challenging

Given the very tough trading environment for UK pubs, The Horns community pub must be given the chance to succeed – through support for its refurbishment plans from Wokingham Borough Council

Number of pubs in UK



Independent Pubs hit particularly hard by tax increases

"25% of independent pubs facing closure after "devastating" budget."

"One in four (25%) independent pubs are set to fail as a result of the hikes in unemployment costs and business rates, a survey has shown.

"According to the poll from the British Institute of Innkeeping, the cost increases will render eight in 10 (80%) of pubs unprofitable"

"Ahead of the budget, it was clear many pubs were unprofitable through exceptional operating costs… the Government's response has been to ask these small, fragile pub businesses to pay additional taxes."

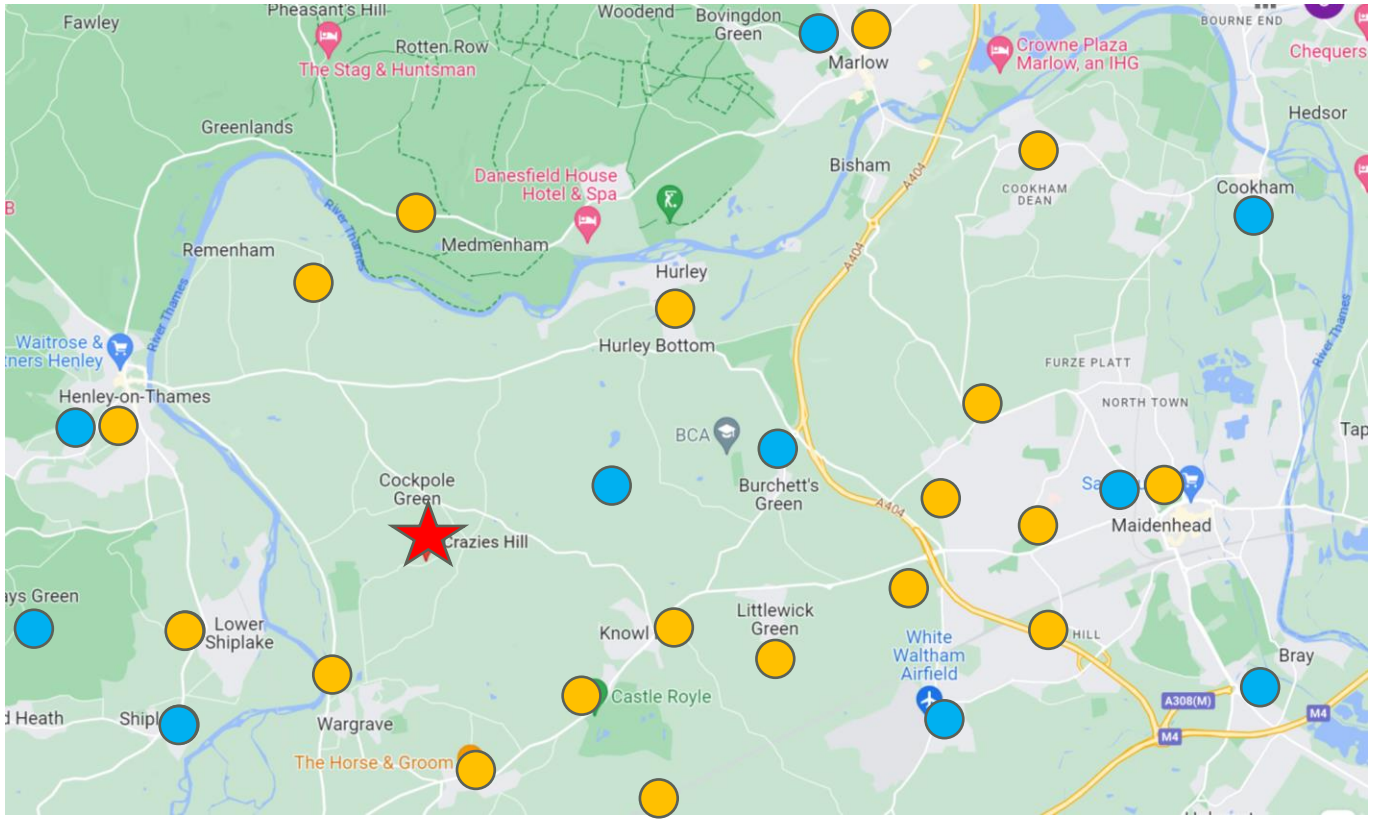
-The Morning Advertiser [flagship pub trade newspaper], 13 November 2024

The Local Pub Scene

The number of quality pubs in our regions highlights that well-run local pub with the right mix of offerings can be economically viable

Strong Local Pub Scene

- Locals support their local pubs
- Numerous conventional pubs – focused on locals, average food
- Thriving "foodie" scene – able to support multiple gastropubs, with wider audience
- 17 local gastropubs and restaurants listed in the Michelin guide
- No pub in our 3 immediate villages



The Horns

Area with conventional pub(s)

Area with gastropub(s)

Current Pub Set Up

Why The Pub Hasn't Been Viable

A combination of unprofitable drink sales due to PubCo "tie", poor food offering, lack of accommodation and poor pub layout have seen the pub churn through 8 tenants over the last 14 years of operations

Tied pub

- Extremely challenging economics when leased from a PubCo brewery
- Margins on drink extremely small, undue reliance on food
- Rent has not considered viability of business
- Limited operational support for tenants from PubCo brewery

Poor food offering

- Questionable quality and consistency
- Historically missed out on affluent and discerning residents – willing to pay
- Missing opportunity to join local field of gastropubs
- Failed to attract locals and travelling customers

Lack of top-up revenue

- No revenue to supplement 'food and drink'
- Compare with nearby pubs:
  - The Bull at Wargrave (tied), with 5 ensuite rooms
  - The Flower Pot at Aston (tied), with 8 ensuite rooms
  - Stag & Huntsman at Hambleden with 11 rooms
  - The Olde Bell at Hurley with 35 ensuite rooms

Pub Layout and condition

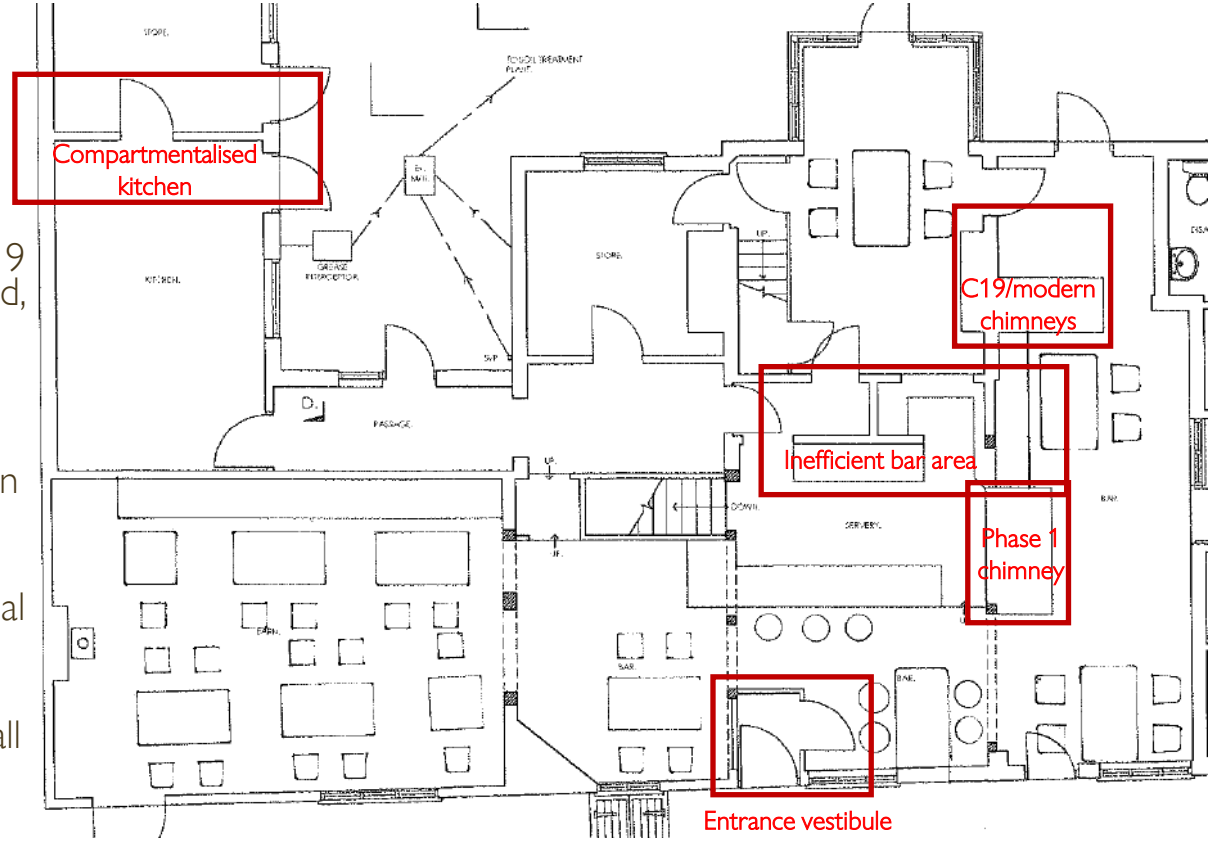
- Shortage of usable space - "rabbit warren" layout of smaller rooms and passages in bar area
- No incentive for previous tenants to invest in maintenance or upgrades
- Unrepaired items caused damp and damage
- Question whether certain historic repairs were made legally

Existing Ground Floor

The current Ground Floor layout in the Bar is inefficient, with walls and corridors acting as barriers to increasing space for patrons and therefore a barrier to increased revenue

Observations

- The patron spaces outside of Barn are unconnected
- Rear snug area is rarely used, rendering space wasted
- Chimneys (other than original Phase 1 chimney) that are C19 or more modern are neither original nor were regularly used, block free-flowing access and occupy valuable service space
- Current bar area is single galley, with limited ability to serve broader bar area
- Current entrance area is cramped, with limited area between entrance vestibule, bar and Phase 1 chimney. Creates unwelcoming and limited area for patrons
- Phase 1 chimney covered up with cement render and original beams in rear of bar blocked by modern shelving, limiting character and patron amenity
- Galley kitchen is compartmentalised by unnecessary stud wall

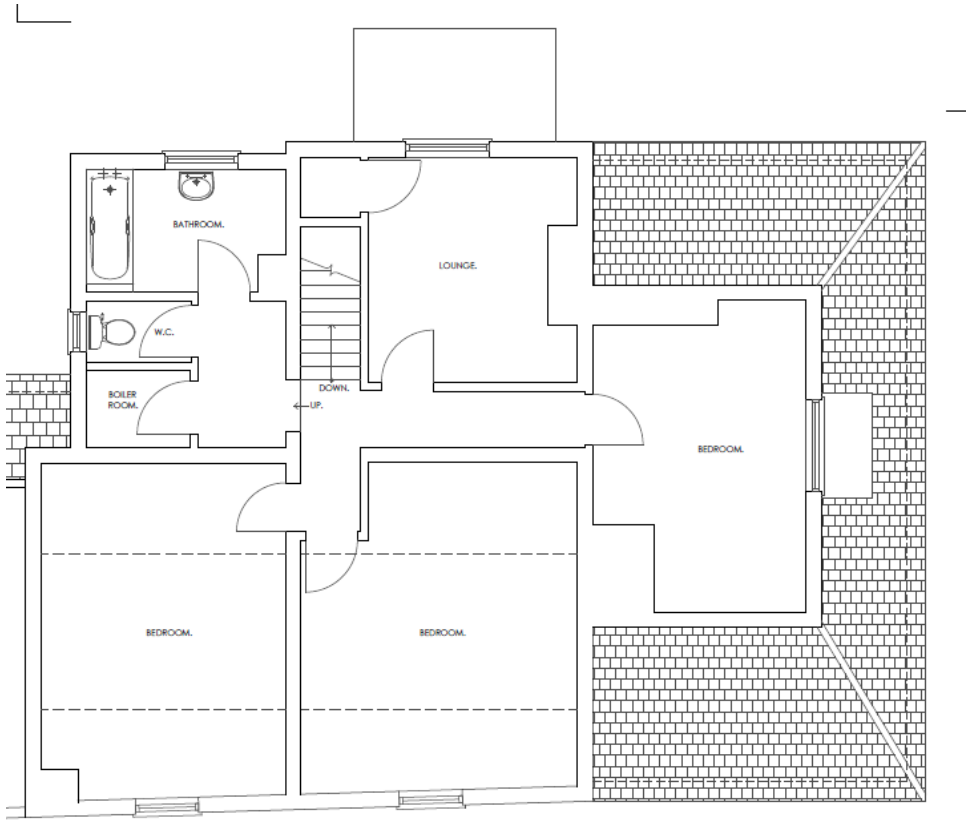


Existing First Floor

The First Floor lacks the provision of accommodation for guests, which deprives the business of a lucrative, high margin revenue stream

Observations

- Current accommodation for tenant manager covers entire first floor
- It is excessively large, with three bedrooms
- For as long as the Directors of HHL recall, the tenant managers have only ever been couples without children, creating inefficiencies and underutilised space
- Many successful pubs in the area take advantage of provision of accommodation – The Horns does not provide any accommodation and has missed out on a high margin revenue stream



Existing Back Garden

Renewed and enhanced outdoor facilities are needed to attract and sustain increased patronage in warmer months

Observations

- There is a large area of garden space to the rear of the pub building
- Existing infrastructure and amenities include a wood framed gazebo, an uncovered wooden deck, outdoor kitchen, children's play area and grassed area with picnic tables
- This infrastructure has become run down relative to other pubs in the area (e.g. outdoor deck at George & Dragon, Wargrave; enclosed outdoor bar at Baskerville Arms, Shiplake and outdoor kitchen at Flower Pot Hotel, Aston)
- Enhanced facilities are needed to attract and sustain increased patronage, particularly for warmer months

Plans to Ensure Economic Sustainability

Opportunities To Make The Pub Viable

Community support, combined with location and proximity to major events provide significant tailwinds to support a viable reopening of The Horns

Strong local community

- Thriving and tight-knit local community, active Residents' Association
- Socialising centred on The Horns
- Rejuvenated Horns will once again be the heart of the community

Well located

- Affluent surrounding area
- Considerable number of walkable paths/tracks
- Passing traffic including school and linking with Wargrave
- In the heart of 'foodie' Berkshire, short trip from London
- Well known in the local area, but needs better marketing

Capitalise on Events

- Only minutes drive from nearby landmark events
- Henley Regatta and Henley Festival attract large crowds over a number of weeks
- Numerous local and nearby sporting clubs holding events

The pub itself

- Could return to full splendour with refurbishment
- Internal reconfiguration lends itself to mix of formal dining (Barn) and informal dining (Bar & Snug)
- Sizeable garden could assume greater importance
- Upstairs accommodation could convert into double bedrooms

Key Offerings Of The Reopened Horns

The Horns could provide better quality food and drink at improved margins, as well as accommodation

Drink/Wet Sales

- No more "tie" to a brewery
- Freedom to source drinks from local breweries and any vineyard
- Reasonably priced alcoholic drinks at a healthy margin
- Serve coffees, still higher margin, but cater to more diverse audience
- Attract interest groups (local cricket club, walking groups, Womens Institute, school parents, etc.)

Food/Dry Sales

- Formal dining in barn – with diners likely to choose multiple courses
- Informal dining and drinks near/around bar area
- Extended outdoor dining in gazebo – take advantage of warmer weather
- Attract wider patronage

Accommodation

- Two/Three double bedrooms with ensuite bathrooms
- Option for larger third bedroom to be used as accommodation for Pub Manager or Head Chef
- Opportunity to benefit from seasonal demand (e.g. Henley Regatta, Henley Festival)

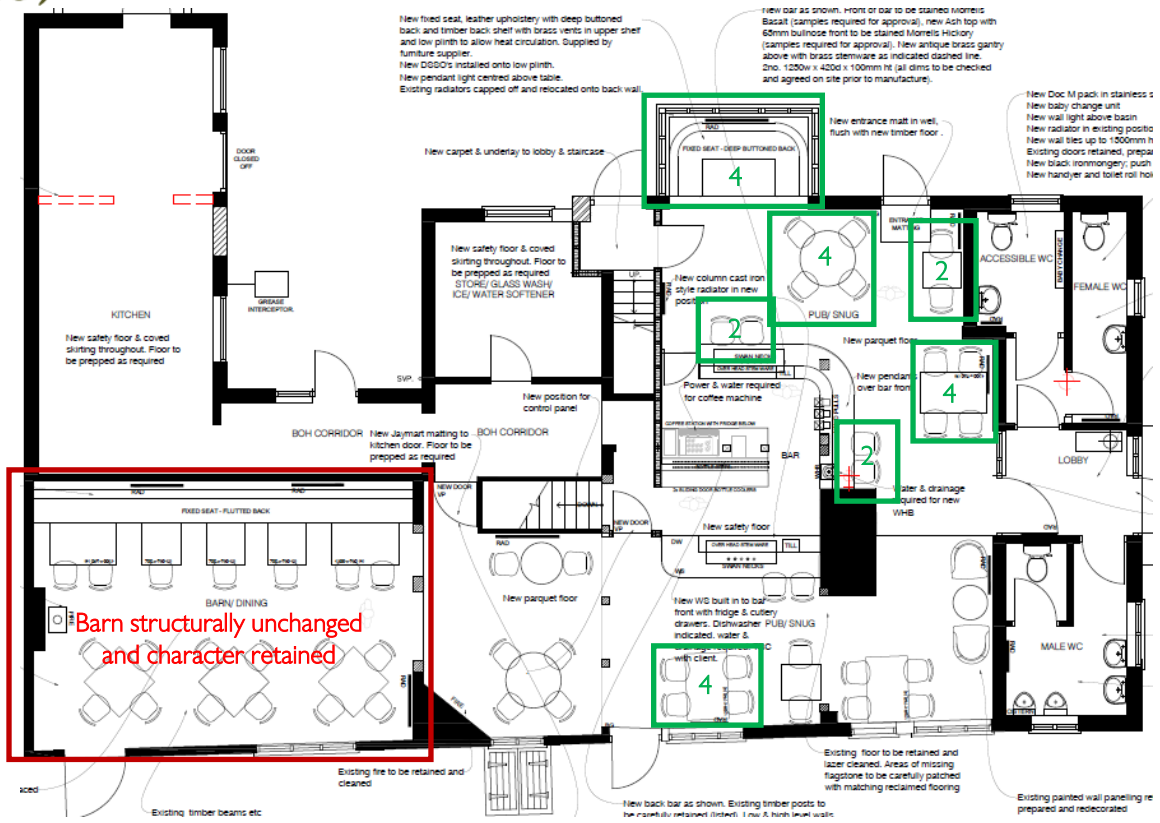
Proposed Ground Floor (1 of 2)

The Ground Floor would provide greater area for drinkers and an essential net gain of 22 dining covers or 50% overall increase

Observations

- Barn is structurally unchanged and retained for dining/events, providing 26 covers
- New bar area created by removal of two more modern C19 chimneys
- Bar area to be opened up and entrance moved to create increased area for drinkers and dining covers
- New horseshoe bar shape also provides greater area for service and six additional covers
- Main Phase 1 chimney to remain despite loss of potential 2-3 new covers.
- However, removal later C19/modern fireplaces essential to create sufficient patron space

22 new and permanent covers created by opening bar area and moving entrance



Proposed Ground Floor (2 of 2)

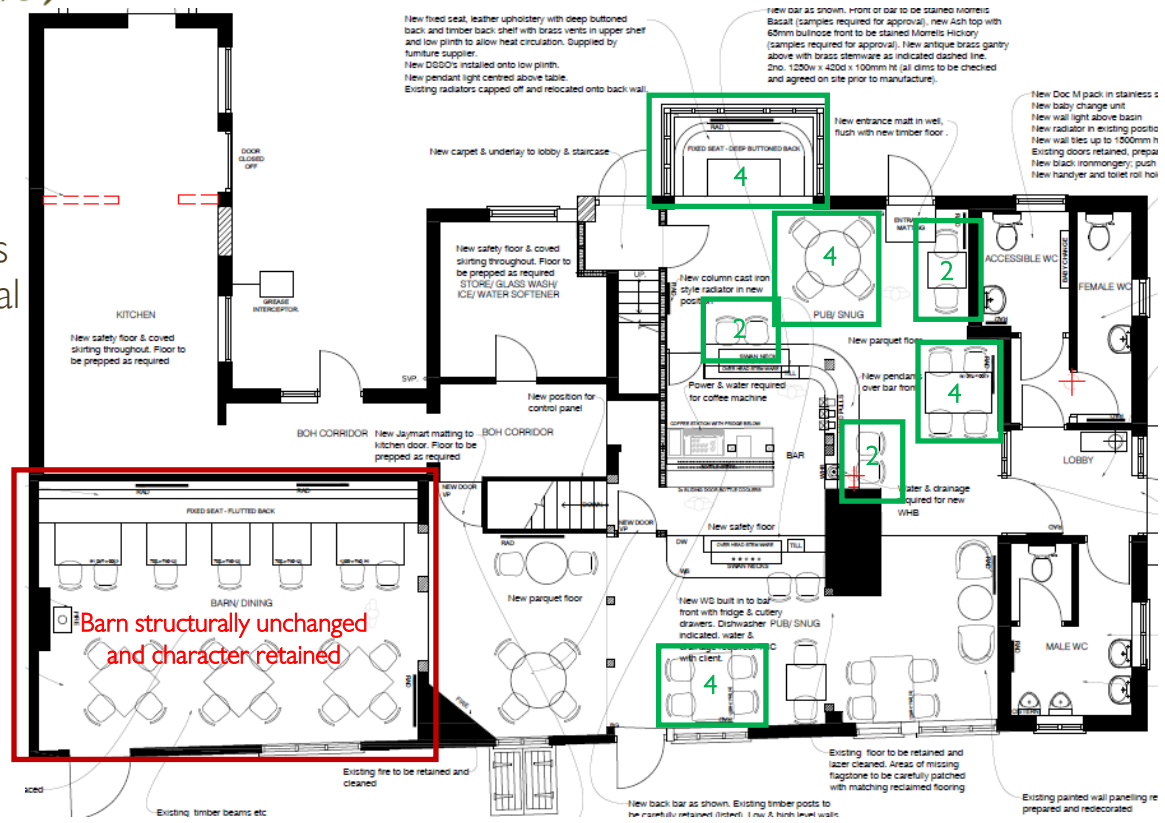
The Ground Floor would provide greater area for drinkers and an essential net gain of 22 indoor dining covers or c.50% overall increase

Observations

- New entrance creates 4 new covers
- Snug was almost always unused, creating a dead space. Plans provide a net gain of 22 new dining covers (18 from removal of C19/Modern fireplaces and 4 to move entrance)
- Removal of chimneys and creation of new entrance creates c.50% increase in indoor dining covers

Dining Configuration - Covers			
Area	Covers	Months of year used for dining	Time-weighted Covers
Barn	26	12	26
Current bar	16	12	16
New covers in bar	22	12	22
Indoor Covers	**64**		**64**
Gazebo (existing)	24	4	8
Gazebo (new)	30	4	10
Total Covers	**118**		**82**

22 new and permanent covers created by opening bar area and moving entrance

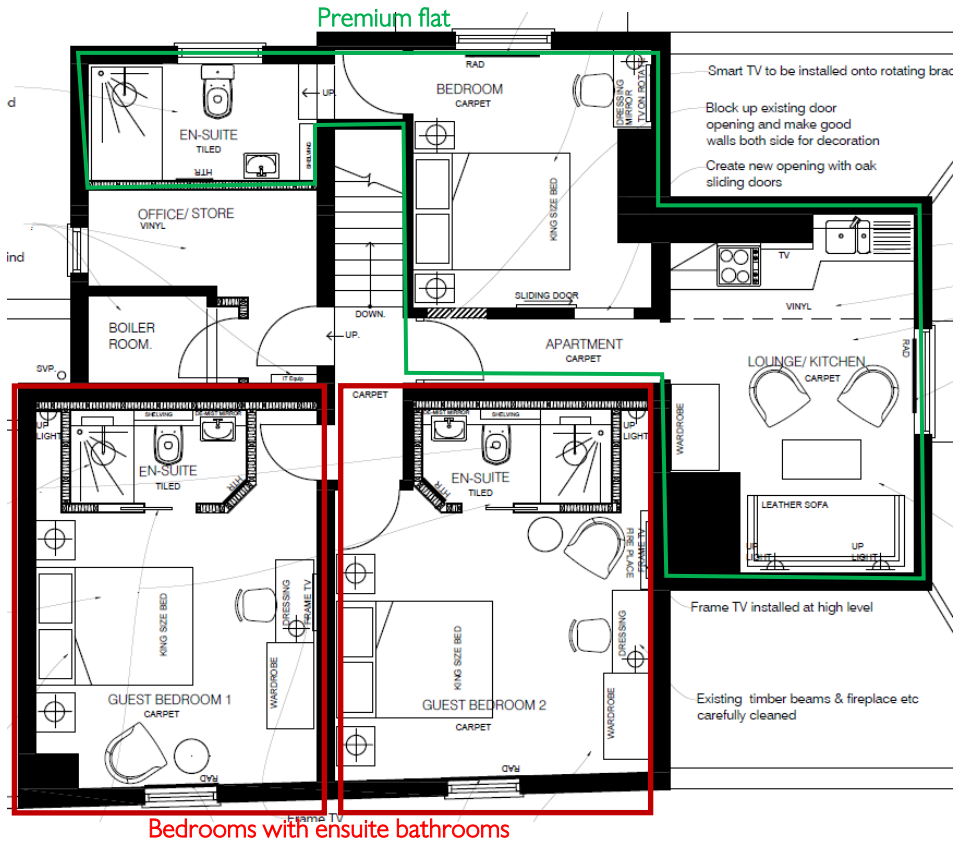


Proposed First Floor

The First Floor would provide economically-essential accommodation with ensuites in-line with all nearby pubs, as well as a premium apartment for guest accommodation or residence for Chef/Manager

Observations

- Provision of two permanent bedrooms with ensuites
- Ensuites essential to attract patrons – all other pubs nearby have ensuite bathrooms
- Possible to retain C19 chimneys on first floor as no economic impact on guest accommodation revenues
- Further provision of premium flat containing a lounge with kitchenette, double bedroom and ensuite
- This flexible apartment to be used as premium guest accommodation or accommodation for a Chef/Manager
- Flexibility is essential to ensure revenue is maximised for guest accommodation or cost minimised with Chef/Manager salary reflecting accommodation



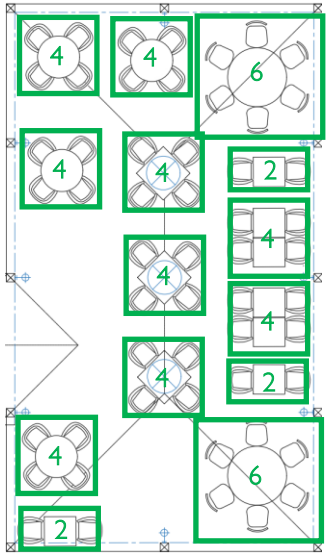
Proposed Back Garden

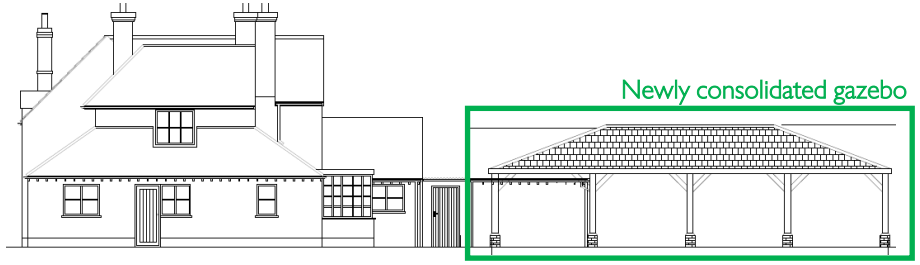
Renewed and enhanced outdoor facilities are needed to attract and sustain increased patronage in warmer months

Observations

- Existing gazebo and wooden deck consolidated and replaced with new single oak structure, creating cover for increased patronage in both rainy and hot weather
- Existing covered gazebo had significantly reduced capacity, with approximately 24 covers
- Expect gazebo to seat approximately 54 covers and better equipped to consistently serve meals, so a net gain of 30 covers
- Old pizza oven/kitchen replaced with new outdoor kitchen to cater for increased covers and warmer weather

Newly consolidated gazebo space





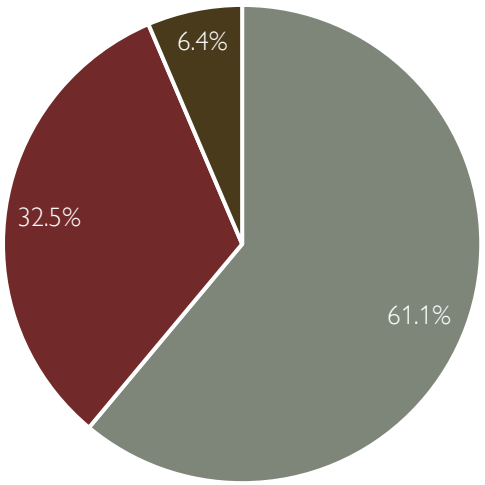
Financials

The Future Business Model

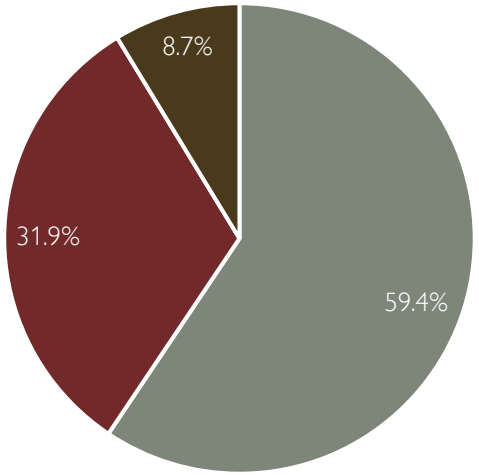
The key drivers of profitability will be "wet" drink sales and "dry" food sales, complemented by a smaller but very high margin accommodation offering

- Majority sales and gross profit from "wet" drink/alcohol sales – this will be at improved margins relative to previous tenants that bought at high cost "on tie"
- "Dry" food sales is complementary to wet sales, focused on providing high quality food, at a market standard margin, similar to dry sales
- Accommodation generates a very high margin – costs are mainly cleaning and breakfast
- Staffing is by far the largest indirect cost, followed by utilities (gas and electricity)

Expected Revenue Contribution



Expected Gross Profit Contribution

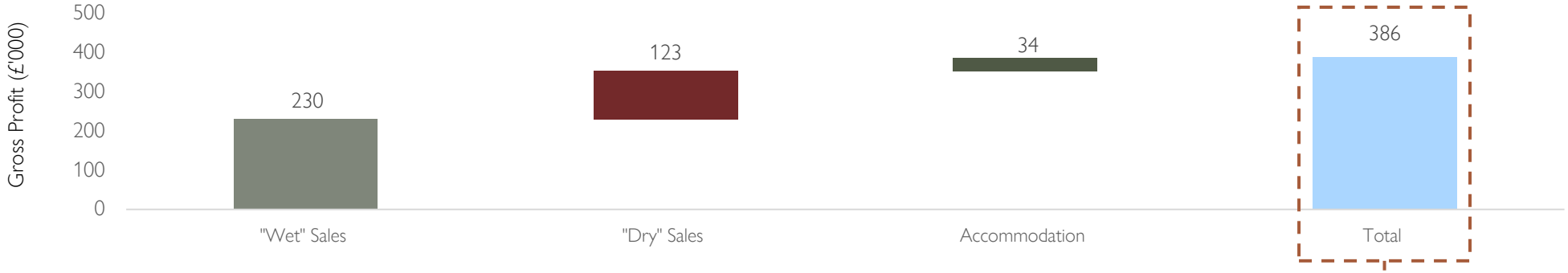


"Wet" Sales "Dry" Sales Accomodation

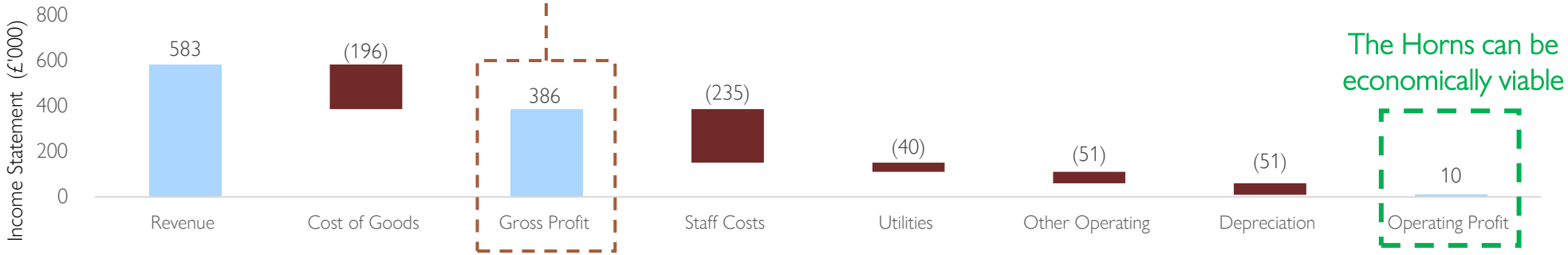
Base Case Profitability

With the proposed plans approved by Wokingham Borough and implemented, The Horns can be economically viable

Illustrative Gross Profit (Revenue less Direct Cost of Goods) by Business Line



Illustrative Income Statement



The Horns can be economically viable

Impact of No Planning Approvals

The Horns is unlikely to be economically viable without approval of our refurbishment plans by Wokingham Borough, which would in turn having a negative community impact

Four scenarios of not receiving essential approvals from Wokingham Borough Council

❶ Removal of modern fireplaces not approved

- Space for incremental dining and patronage lost
- Would lose 18 of its 82 effective covers (i.e. 22%)
- Leads to a 22% reduction in "dry" gross profit
- In parallel, less patron space leads to lower "wet" sales and corresponding 22% reduction in profit

Equates to a new operating loss of £68k per annum

❷ Ensuite bathrooms not approved

- Results in both double bedrooms upstairs being unviable – no real customer demand given nearby pubs provide ensuite accommodation
- All accommodation revenue and its high-margin gross profit would be lost

Equates to a new operating loss of £24k per annum

❸ Gazebo not approved

- Effective loss of 23 covers given seasonality (May to August) (i.e. 12%)
- Leads to a 12% reduction in "dry" gross profit
- Lower patronage result in corresponding 12% loss of gross profit

Equates to a new operating loss of £33k per annum

❹ First three scenarios not approved

- Loss of gross profit from retention of C19/modern fireplaces
- Loss of gross profit from inability to provide accommodation
- Loss of gross profit from inability to provide suitable dining and other facilities

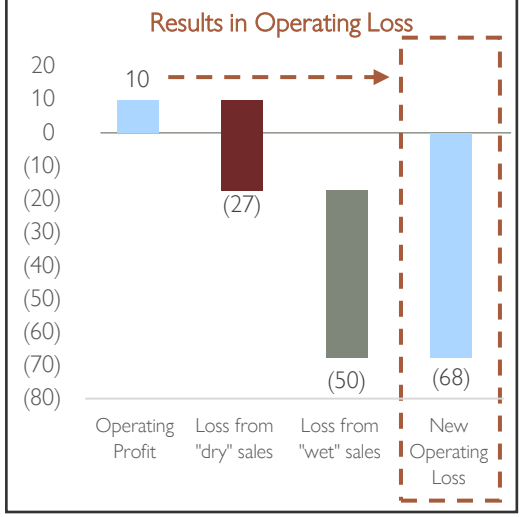
Equates to a new combined annual operating loss of £144k

Impact on Profitability

In each of the four scenarios where some or all approvals are not given by Wokingham Borough, The Horns becomes unprofitable and very likely economically unviable

Financial implications of each scenario

❶ Removal of modern fireplaces not approved



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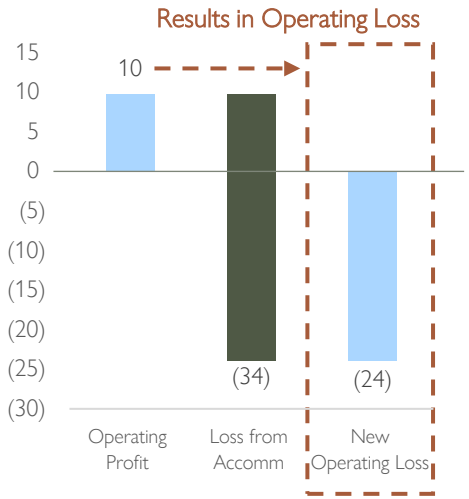
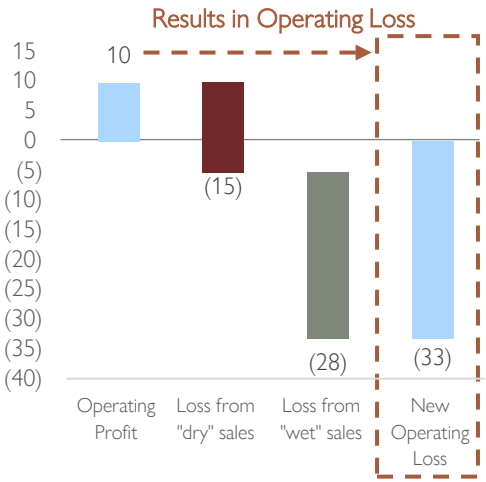
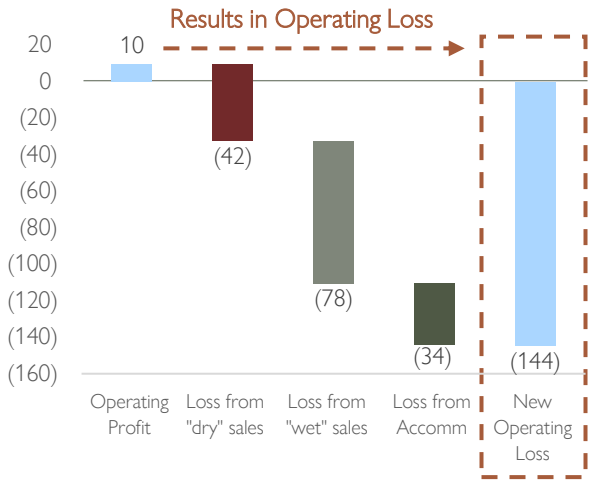


❸ Gazebo not approved



❹ All three cases not approved



Summary

In Summary

- A combination of unprofitable drink sales due to PubCo "tie", poor food offering, lack of accommodation and poor pub layout have seen the pub churn through 8 tenants over the last 14 years of operations
- With our refurbishment plans approved, The Horns could provide better quality "dry" food and "wet" drink sales at improved margins, as well as high-margin accommodation

The Horns is unlikely to be economically viable without these critical, sensitive and appropriate refurbishments. Without them, we believe the pub may have no viable future as a public house and community asset

Horns Hospitality Limited