



The times they are a-changing...

Maybe I'm an eternal optimist but I sense a spring in the step of some corners of the leisure industry at the moment. Certainly if our firm's deal activity is anything to go by over the past few months, private equity interest in the sector remains strong. But it's difficult to ignore the macro-economic storm clouds gathering on the horizon: the general election will bring with it uncertainty (this election perhaps more than any other in recent memory), and such uncertainty, it seems, is unlikely to be alleviated by the continuing tensions and financial difficulties experienced by certain corners of the EU.

Whilst these issues will inevitably have a destabilising effect, these are still potentially good times for opportunistic and ambitious businesses in the sector. One well-publicised area where smaller companies have really benefited in recent years - and will continue to do so - has been through the evolution of crowdfunding. With traditional bank funding becoming harder to obtain, crowdfunding now provides the opportunity to attract investment from a completely new source - and without the strictures of banking covenants. For businesses like Taylor St Baristas, the coffee business created by the Tolley family before their Harris + Hoole venture with Tesco, this creates a fantastic opportunity for growth and we have been talking to Nick Tolley about their crowdfunding initiative - the "Coffee Bean Bond".

Interesting times too for the pub industry. Continuing the saga from our last Leisure Sector update, in this edition we look at the beer tie and pubs being designated as assets of community value - in particular, how proposed new rules to restrict the permitted development rights of pubs acquired as assets of community value may reduce their viability.

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Coffee Bond P.02



Ben Chivers talks to coffee aficionado, Nick Tolley, founder of Taylor St Baristas and CEO of Harris + Hoole, about Taylor St's first foray into crowdfunding.

Changing the barrel P.03



New Year's resolution to cut back on the booze? It is an interesting time to be in the pub industry, and it is a truism that it is a curse to live in interesting times.

Once a pub, always a pub? P.04



As pubs have historically brought people together over their pints, so might the prospect of pub closures rally the troops. But will proposed changes to the planning regime support this?



Coffee Bond

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1. How has the fundraising gone?

We are really pleased with the way it's gone. We closed on 19 January having raised around £1.8 million, ahead of our £1.5 million target. We had more than 500 investors in total.

2. What made you opt for a debt-based fundraising model, rather than going down the equity route?

Taylor St is a cash-generative business and therefore well able to meet its interest and debt obligations. The debt option worked well for us in terms of the amount we wanted to raise. If we were to go down the equity route, which we may do again at some stage in the future, then we would probably be looking at a larger investment.

3. What are the terms of the bond?

Investors received bonds (we called them "coffee bean bonds") with an 8% interest coupon, paid semi-annually over four years. Alternatively, they could elect to receive interest on their bonds in the form of in-store credit at a rate of 12% per annum.

4. Is there a minimum investment?

You have the option to specify a minimum investment. We set ours at £500. However, the average investment we received was around £3,000.

5. What is the profile of your average investor?

It's hard to tell. With most of our stores in the City, some were existing customers who work at City firms, whilst others were most likely regular investors on Crowdcube.

6. Is there a vetting process for investors?

Not as such. Anyone can invest and the platform is light-touch in terms of investor control, although they obviously issue all the relevant investor warnings on their website. There is also a 14-day cooling-off period to allow investors to change their mind.

7. How do investors get repaid when the bond expires?

The bond has a four-year term. At the end of the four years, investors can elect to get their money back or the bond rolls over for 12 months at a time.

One particular attraction of the bonds is that we have the option to buy them back at any time without incurring any penalties.

8. What extras do you get as an investor?

Any investor who invested over £10,000 received a reward in the form of free coffee and cake once a week. Our top five investors received "Infinity" cards, entitling them to a free coffee a day in our stores.

9. What's the attraction for you of crowdfunding over more traditional forms of investment? Are there any improvements/changes you anticipate to this style of fundraising in the future?

Crowdfunding in general is really attractive to a business like ours because its unsecured, provides access to new sources of funding and is relatively light-touch in terms of regulation. It is not particularly onerous to do and the platform can help with the process, including preparing the documentation you need.

I guess one disadvantage is that the bonds are not currently tradable or assignable. If they were marketable securities then I'm sure that would make them more attractive to investors.

10. I know that part of the funding is earmarked for expansion. Where do you see Taylor St in four years' time when the bonds expire?

You're right – we hope to use the money to open new sites, predominantly in the City as we think there is still a dearth of quality coffee shops for City-workers. In four years' time, I'd hope that we'd have at least 20 stores around the City but also perhaps further afield.

11. And finally, how do you take your coffee?

Simple, but I like a really fine long black.



Changing the barrel

New Year's resolution to cut back on the booze?

It is an interesting time to be in the pub industry, and it is a truism that it is a curse to live in interesting times. In mid-November the industry woke up to the news that the "beer tie" is to be, if not scrapped, severely compromised. This 400 year old arrangement required tenants of large breweries to buy a proportion of their beer from the brewery landlord, by way of what is sometimes known in the trade as "wet rent".

In his foreword to the 2013 BIS consultation on pub companies and tenants, Vince Cable had written: "The pub industry faces a wide range of challenges and the number of pubs has declined from 70,000 in 1980 to approximately 50,000 today. At present, 18 pubs (net) are closing every week." The focus of the consultation was on tied pubs and the share of reward gained by pub owning companies, for example through rental increases. From the staggering 1,120 written responses and over 7,000 online responses from pub companies, micro-breweries, tenants, employees, trade bodies, political representatives and consumers it was clear that the British pint retains its place at the heart of our society.

The government's 160 page response, published in June 2014 was to propose the introduction of a two-tier statutory code in England & Wales, supported and enforced by an independent adjudicator. At the heart of the code is the presumption that in calculating rental levels, tied tenants should be no worse off than those free of a tie.

The Core Statutory Code will provide all tied tenants with increased transparency, fair treatment and the right to request an open market rent review if they have not had one for five years. The Enhanced Code will additionally require tenants of pub owning companies with 500 or more tied pubs have the right to be offered a "market rent" only option, seeing a potential end to the "wet rent" obligation.

If the proposals, coming into force via the Small Business Enterprise and Employment Bill gain royal assent, publicans will be able to change their contracts and buy beer and cider via the open markets. As pub operators combine the business of innkeeping with real estate management, a less welcome outcome of this proposed legislation may be that operators are forced to rationalise their portfolios, possibly forcing pub closures.

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Once a pub, always a pub?

As pubs have historically brought people together over their pints, so might the prospect of pub closures rally the troops.

The Localism Act 2011, which came into force in September 2012 has introduced the right for parish councils, individuals and communities to nominate land or buildings which further the community's social well-being or social interest for listing by the council as "assets of community value" ("ACVs").

This means that if the owner of a potential ACV chooses to sell its property, there is a six month moratorium during which a community organisation is given the opportunity to raise finance and bid to buy the asset on the open market.

We have seen this work in action when in October 2012 a group of Nunhead residents, supported by pro bono advice from Travers Smith staff, successfully mounted a campaign to save the Ivy House, a pub with an original 1930s music hall stage at the top of Peckham Rye Park.

However, two and a half years on, the government's latest designs on the General Permitted Development Order 1995, unveiled on 26 January 2015, propose the removal of permitted development rights ("PDRs") from pubs that have been acquired as ACVs. It is touted as a measure towards ensuring that ACV pubs remain as pubs. If the owner or occupier intends to revamp them into something else, or demolish them, they will need planning consent.

To consider the effect that these rules could have in practice, let us use a hypothetical example: the community of Beerswill clubs together and acquires their local pub, the Hog's Trough. They are now a community in control of their asset. Currently, a pub is classed as Use Class A4, grandly called "Drinking Establishments". They are permitted to operate various ancillary activities (entertainment evenings for example) and can change into any other use within Class A4 (admittedly a limited scope) but also into any use within Classes A1, A2 or A3 without planning consent. This casts the net wide over a whole gamut of retail opportunities, provision of financial or professional services as well as restaurants and cafes. It is this potential to convert into a use within these classes A1, A2 or A3 which will be curtailed by the proposed new rules.

To return to The Hog's Trough...the community of Beerswill acquired it because it was a failing enterprise; sadly often the motivation.

They have some funds, but not enough to prop up a business that cannot stand on its own two feet. The residents of Beerswill therefore decide to diversify; they need a community focus and the Hog's Trough could fulfil more than one function and be a truly community-embedded venture. It could operate as a venue for toddler groups or yoga classes as well as for weddings and entertainment events. Part of the pub might be given over to a café and another part to a community shop for local produce, or to give space to a lost post office. Such a pub-with-benefits would clearly fulfil its community credentials with a few barrels to spare.

At present, Beerswill Ltd would not need planning consent for this. They could allow certain activities to start up and undergo a trial period and, if successful enough to wash their own faces economically, such ventures could become more permanently established. If not, then no harm done, lessons learned and no planning time wasted.

Under the government's new proposals, such a prudent and enterprising evolution of a community hub would require planning consent.

That means time, paperwork, money and courage to branch out without the opportunity to test the local waters first. Is this not an erosion of the very powers that the government has sought to confer upon its neighbourhoods? Perhaps the legislative tweak required to preserve pubs is to remove the PDRs from those pubs which are not ACVs.

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