



“MAKING YOUR FUTURE OUR BUSINESS”

**TENANCIES AND LEASES
CODE OF PRACTICE**



**YOUNG & CO.'S BREWERY, P.L.C.
RIVERSIDE HOUSE, 26 OSIERS ROAD,
WANDSWORTH, LONDON SW18 1NH**

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1 Why Young's is right for you

Young's and its estate

Pubs have been at the very heart of our business for more than 175 years and we are proud to say that we now have some of the best pubs in London and the South of England.

Today, our estate comprises of managed houses and tenancies / leases:

- A managed house is a pub owned and operated by us. All of its staff are employed by us and we retain all of its profits.
- A tenancy / lease is operated under a tenancy / lease agreement offered by us. The tenant / lessee runs the pub as his or her own business and is generally responsible for paying all of the bills. He or she takes on the pub by paying for trade inventory (i.e. loose fixtures and fittings) and stock and by paying a deposit. A rent is paid to us and the tenant has some obligations to repair and decorate the pub. Tenants are “tied” to buying certain drink products from us or our nominated suppliers. Agreements typically run for three or five years (although they can be as long as 20 years), with some having a guaranteed right to renew the agreement.

We are always looking for entrepreneurs with flair and ambition to join us in our pubs. If you have a real eye for quality and want to build a success in the pub industry, we would like to work with you.

If it is a managed house role that appeals to you, you can apply on-line (via www.youngs.co.uk) or call us on 0208 875 7000.

If, however, you'd prefer to run your own business as part of our successful tenant / lessee community, please read on.

Support for our tenants / lessees

We recognise that running a pub can be challenging, even for the most experienced pub operators. We therefore have dedicated Business Development Managers (BDMs) who will work with you to help you develop a profitable business and guide you through some of the issues that pub tenants / lessees often face.

We have two BDMs who, together, have over 20 years' experience in the industry. They are properly competent individuals who will help make you feel part of our business. Focusing on quality, not quantity, means we have a relatively small number of tenanted pubs (especially compared to some other pub companies), thus allowing our BDMs to concentrate on you as an individual and develop a business relationship that works for both of us.

Our BDMs play a key part in helping us maintain our premium position within the pub sector. Therefore, training is provided to ensure that they have the right skills to perform their jobs successfully and achieve their full potential.

You will need to be adept in many different skills as a pub tenant / lessee to gain the most from your business, such as handling your employees, understanding your accounts and marketing your business. We want you to be successful so we have developed an extensive training programme to assist you with this - details are contained later in this code.

Our BDMs will generally be happy to provide you with any further information you, or your independent professional advisers, may reasonably request which is freely available to us. This may include the previous tenant's trading information for the pub, and a breakdown of tied products purchased. However, there may be instances when they cannot do this; for example, if the information is confidential. In that event, they will explain why they can't supply it.

This code

We have developed this code to help you understand the way in which our tenancies and leases work for you and the way we do business. In return for our support, we expect high standards from you to help us maintain our premium brand and position in the market. We want to develop a relationship of trust with you so it is important to us that you fully understand your commitments and what we require from you from the outset. This code sets out the most important points that you need to understand about our tenancies and leases before working with us.

Putting you first

As your future is our business, we want to encourage a mutually successful working relationship. This is why Young's puts you first.

2 Choosing the right pub for you

We want you to choose the right pub to help you make the most of your potential. We will give you letting details of the different pubs that we have available, including the proposed rent, its trading area and any residential accommodation. Your BDM will meet and discuss with you which pubs we feel are suitable for you depending on your experience and circumstances.

Once a pub has been identified, we will:

- provide you with its trading history, including barrelage¹ and gallonage figures, and its machine income and estimated food turnover (each for the last three years, if available). Please bear in mind that these figures are simply a guide to the pub's trading potential; we cannot guarantee that these levels of trade will be maintained in the future. It is important that you take independent professional advice on this so that you make the right decision at the outset.
- give you any relevant information that we have about other Young's outlets in the area which may compete with you and any plans that we have for those properties. We will encourage you to do research on the potential market in the area for the type of business you are planning.
- talk to you about the condition that the property will be in when you take it over and your repairing and decorating obligations, including any requirement to get the pub into a particular condition at the outset. We would recommend that you have your own independent professional survey done.
- talk to you about the potential investment opportunities available for the property and the likely cost and benefit of those. Whether or not this would involve a capital investment from us, from you or from both of us, before any works start, we will agree and confirm in writing the agreed level of investment, the extent of the works and any effect on your existing rent. Usually, the value of any investment will be rentalised at a yearly rate of between 10 and 15%; however, we would not rentalise any investment made by you.
- provide you with a copy of the premises licence and the operating schedule and will talk to you about any conditions and other restrictions which may affect your business.
- talk to you about when the property is likely to be available and the process that you would need to go through before you take occupation; for example, licensing requirements, stock taking, the legal process etc.
- provide you with details of how to obtain industry benchmarking reports that may help you decide on the right tenancy agreement for you.

¹ A composite barrel is 36 imperial gallons / 288 pints

3 Choosing the right agreement for you

We offer the following three agreements:

Three-year fixed term tenancy

This may be ideal for you if you are new to the industry and do not want to make a long-term commitment at this stage. Under this agreement, your repairing and decorating obligations are limited to the interior of the property and you are not permitted to carry out alterations. We will be responsible for maintaining the structure of the property if it is materially interfering with your ability to operate the business. You cannot assign (i.e. sell) the tenancy and you will not have a legal right to renew your tenancy at the end of the term; that is not to say that we will not discuss the possibility of you staying on at the pub at the end of the three years under another agreement.

Five-year tenancy

This is a similar arrangement to the three-year tenancy, except that you have more freedom to carry out alterations to the property (with our consent) and you have a legal right to renew the tenancy at the end of the term subject to relevant legislation. This agreement may be suitable for you if you have some experience in the pub industry and are possibly looking to test a pub but without investing in a saleable interest.

10 - 20 year lease

This option may be suitable for you if you have industry experience and are looking to acquire an investment that you can sell in the future. Under this lease, you have full repairing obligations (which would include a requirement to get the pub into a particular condition at the outset) and there is more freedom for investment in, and enhancement of, the property. This is the only one of our agreements that you can offer as security under a mortgage (and then only if we agree). You will have a legal right to renew the lease at the end of the term, subject to the particular requirements of the relevant legislation. If you wish to sell your lease, you will need our agreement; the lease will set out the conditions with which you'll have to comply. You must offer the lease back to us first and if we choose to take it we will pay you the same price that has been offered by your proposed buyer in good faith. If we decide not to take the lease back, we will want to ensure that the new tenant is suitable but we will not withhold agreement unreasonably. Please note, we can require you to guarantee the liabilities of your proposed buyer under the terms of the lease. Your BDM will support you through any sale process.

Generally applicable terms

- **Tie**
All of our agreements are tied in relation to certain drinks and to amusement and leisure machines. There is more about this in section 3.
- **Buildings insurance**
We insure the buildings and you reimburse us, quarterly in advance, for the cost of this. The rates we obtain are competitive; however, if you obtain a cheaper quote then we will only look for reimbursement of the cheaper amount. For this to apply, the quote must be on like-for-like terms from a reputable insurance company and you must provide us with a copy of it within two weeks of the start of each year of the term of your agreement with us.

If the property is damaged by an insured risk, we will pay any excess and arrange for the damage to be repaired provided you have not done, or failed to do,

anything that might affect our right to claim on our insurance in respect of that or any other risk.

- ***Your insurance***
You will need to insure your trade inventory, fixed glass, trading stock, glassware and should also insure your home contents in any residential accommodation at the pub. You will also need cover for loss of licence, loss of profit, cash in amusement and leisure machines and third party, property owner's and employer's liability.
- ***Fire risk assessments***
As an operator of a pub, you will need to undertake a fire risk assessment for the pub, including any residential accommodation. This is a statutory obligation. Our in-house surveyors' dept. can assist you with this and provide you will a checklist guiding you through what needs to be done.
- ***Guarantee***
We will require a personal guarantee from you if you choose to take the agreement in the name of a limited company.
- ***Deposit***
You must pay us a deposit which we will hold as security for you performing your obligations to us. We will be able to take these monies and apply them if you fail to meet any payment obligations in your agreement. We will let you know how much the deposit will be when you apply. These monies will be deposited in an account in our name (they will not be kept separate from any of our other monies) and will earn interest for you at the Bank of England's base rate.
- ***Use***
You may only use the property as a pub and for associated uses, where relevant, such as a restaurant, bed and breakfast and for functions. The residential part of the property can only be used for accommodation by you, your immediate family or your staff.
- ***Trade inventory***
You will need to equip the property with trade inventory and keep it in good repair.

When our agreement with you comes to an end, it would be usual for any trade inventory owned by you to be purchased by any incoming tenant / lessee. Alternatively, we may agree to purchase it, in which case we will arrange for it to be valued by an independent third party. A copy of their report will be provided to you. You may arrange your own valuation at the same time. Once we have agreed a figure with you, we will arrange for payment to be made one month after our agreement with you comes to an end; this is subject to you providing a VAT invoice. If there is a dispute as to value, either of us can refer the matter to an independent expert (and each of us will pay 50% of his or her costs).

- ***Service charge***
You must pay a service charge. In return we will maintain the cellar cooling equipment and hoists and will service and maintain any gas boilers and electrical installations; we will provide you with inspection certificates on a yearly basis. This allows us to take advantage of special rates that we have negotiated with contractors and to pass these benefits on to you. We will give you an estimate of the yearly service charge before you enter into your agreement.

- **Rating service**
We will provide rating valuation advice and will appeal, on your behalf at our cost, any assessments that we regard as unjustified and high.
- **Restrictive covenant policy**
We would not usually seek to sell a property with a restriction on its ongoing use as a pub. However, there may be circumstances when it would be justifiable to do so; for example, to ensure the viability of one or more other local pubs.
- **Cooling-off period (relevant only to three-year and five-year agreements, not 10 - 20 year leases)**
If, within three months of you entering into your agreement, you have a change of mind, you can notify us and bring the agreement to an end six months' later. Until the agreement actually comes to an end, you must continue to comply with its terms; there is no one-off penalty or charge for simply changing your mind.
- **Dilapidations**
Prior to our agreement with you coming to an end (or, if relevant, it being transferred to someone else), we will arrange for a full dilapidations survey to be carried out. This will identify any repair and maintenance works that need to be carried out by you before the agreement may be ended or transferred. These works must be done to our satisfaction. For a three-year and five-year agreement, the works are designed to ensure that the property is left in "no worse" condition than it was when you took it over. However, for a 10 - 20 year lease, the property must be left in good and substantial repair and condition, even if you didn't take it over in that state. If there is a dispute, either of us can refer the matter to an independent expert (and each of us will pay 50% of his or her costs).
- **Legal process and advice**
We will summarise the terms we have agreed in an offer letter. This is not a legally-binding document but is simply a statement of our intentions. Once you have agreed the terms of this letter, we will issue an agreement to you for signing. We strongly recommend that you take independent professional legal advice before entering into any of our agreements; we want to ensure that you fully understand our respective rights and commitments. You should specifically ask your adviser to explain to you the Transfer of Undertakings (Protection of Employment) laws (TUPE); this is a body of law that protects the rights of certain individuals when a business changes hands.

Agreement samples

You can find samples of the agreements on our website (www.youngs.co.uk). We have given more information about the rent and the trading obligations later in this code.

The tie on drinks

All of our agreements are tied; this means that you have to purchase all beer, lager, cider, wines and spirits from us or our nominated suppliers and you cannot buy those drinks from elsewhere. You are free to purchase minerals from suppliers of your own choice.

We offer a very comprehensive range of products suitable for all pub businesses at competitive prices. Your BDM can advise you which products would work best in your pub. We will provide you with our price lists and terms of trading before you enter into your agreement with us. As is explained in those terms, we reserve the right to charge for extra deliveries.

The exact details of your tie will be set out in your offer letter and in your agreement.

We will make a minimum of three guest ales available to you during the year; these will be chosen by us. From time to time, it may also be possible for us to arrange for the supply of a local micro-brewery guest ale; if this is of interest, you should let your BDM know. Details of the ales available from time to time, and their stocking, can be discussed and agreed with your BDM. All guest ales will be provided at tied prices and we will tell you what these are so you can decide whether or not to stock them. We can alter or withdraw the provision of guest ales at any time.

We offer a range of discounts to our tenants / lessees. You can discuss what discounts, if any, are available with your BDM.

We allow you to determine your own pricing policy on food and drinks; our BDM is available though to offer advice and support on that when you need it.

Payment for tied products is weekly, although we can insist on cash before delivery if you miss payments.

We may install dispense monitoring equipment in the pub. This has a number of benefits, including helping you to serve perfect drink measures and to maintain an effective line-cleaning regime. Being open with you, it will also enable us to check that you are complying with your purchasing obligations, albeit it is not the only data we would rely on if we needed to speak to you about possible breaches of the tie. In the case of any dispute, we would share any dispense monitoring results with you and would also check the accuracy of the monitoring equipment.

In the same way as we honour our commitments to you, we do treat the tie seriously and expect you to comply with it. If we have found that you have not complied, we may charge you £150 per composite barrel. This would not stop us from taking other steps for any breach of the tie, including asking a Court to order you to comply with your obligations or to end our agreement with you.

We will also let you have a copy of our ullage policy. This relates to deliveries of beer considered unfit for sale or deliveries of less than the expected volume (for example, because of leakage). All ullage claims must be logged with the help desk of our nominated supplier; we will provide you with their details. The relevant containers will be collected when your next delivery is made and validated claims will be credited to your trade account.

Amusement and leisure machines

Amusement and leisure machines are also included in the tie; this means that if you want these machines in the pub, you need to hire them from one of our nominated suppliers.

On gaming and quiz machines, you will receive 50% of the net profit after we have paid the machine rental and any license fee and duty.

A weekly royalty fee, currently £10.01 excl. VAT, is payable by you to us for some other types of machines such as pool tables and video games. We do not take any income share from football tables, juke boxes or vending machines.

The number and positioning of any machines has to be agreed with the licensing authorities and with your BDM. Our current policy is a maximum of two AWP's and one SWP, plus any additional non-gaming equipment such as pool tables.

Cash collections are made fortnightly by our nominated suppliers.

We also offer our tenants and lessees full in-house specialist support and advice in all aspects of amusement and leisure machine operations.

Machine income is not taken into account when setting the rent payable by you for the pub.

Running the business

Your agreement will set out your obligations relating to running the business. We expect you to operate the business responsibly in accordance with the highest professional standards and to make the most of the business opportunities available to you.

Our BDM will conduct regular business reviews with you, providing commercial advice on marketing, promotions and merchandising support; the frequency of these will be agreed with you and will largely be dictated by your reasonable needs. He or she will arrange mystery customer reviews to provide you with direct feedback to help you build your business to exceed customer expectations.

Social responsibility

We want you to promote responsible drinking and comply with the British Beer and Pub Association's code of practice in running responsible promotions, including the Challenge 21 campaign to discourage underage drinking. We want you to train your staff accordingly and we can help you with this.

Training

Before entering into an agreement with us, you will have to complete the so-called Pre Entry Awareness Training (PEAT). This is unless you are an existing tenant or lessee or an experienced operator and are able to provide us with suitable evidence of your knowledge and skill.

PEAT is provided by the British Institute of Innkeepers and is completed by way of an e-learning computer module.

Our experience shows that the better your training and experience, the more successful you are likely to be in your pub business. We therefore have a well-established training programme to support you on this. The programme is continually updated and you can find details on our website (www.youngs.co.uk). Your BDM can advise you on the courses which are most suitable for you. These courses are free or provided at cost.

Accounting information and advice

We ask you to share your accounting information with us during the first year of your term as this helps our BDM to advise you on how to address any problems your business may be having. You do not, however, have to do this unless you have asked us to provide you with some form of financial support.

If you are an inexperienced operator, we may insist on you employing an accountancy firm nominated by us throughout your first year. Up to the first six months of this will be at our cost.

Premises licence

A copy of the existing premises licence and plan will be provided to you before you enter into any agreement with us; this will state any restrictions that may apply. We will also provide you with details of any enforcement action taken relating to the premises licence within the previous two years, along with copies of any correspondence with the authorities during that period which didn't result in any such action.

We will transfer the premises licence to you at your cost. You must abide by the conditions in the licence to protect it; for example, opening hours and noise restrictions. If you do not do this, the licence can be withdrawn by the licensing authority and we would have to end your agreement.

We will be responsible for managing the renewal application but you must assist us as necessary. The annual renewal fee will be your responsibility, as will all of our reasonable costs, including advice from our external legal advisers, if required.

Any alterations or amendments to the premises licence must be agreed with us. Again, you will be responsible for all of our reasonable costs, including advice from our in-house surveyors' dept. and our external legal advisers.

Change of circumstances

You should advise us as soon as possible of any significant change in circumstances which could affect your ability to run the pub so that we can best advise you on how to deal with this.

Exceptional circumstances

If you find yourself in financial difficulties through no fault of your own (maybe because of a particular change in the local economy), if appropriate your BDM can try to agree a plan with you to assist you temporarily. This would be entirely within our discretion although it may be more appropriate in some circumstances for us to end your agreement.

5 Rent and rent reviews

Initial rental assessment

Before you enter into your agreement, we will openly discuss with you the rent and how we assessed it. We will provide a written rental calculation, in accordance with the guidance issued from time to time by the Royal Institution of Chartered Surveyors (RICS).

Our aim is to ensure that your pub has a fair market rent. We will set the initial rent according to the value of the property and its business potential, in accordance with current industry practice. We will take into account the tie and will consider the likely trade that a reasonably efficient operator should achieve.

Payment of rent

Your rent must be paid in advance. We will agree with you the timing of these payments.

Rent review: process

Around the time of the anniversary of your agreement, we will review the rent by reference to the Retail Prices Index. This could see your rent going up or down and could even see it fall below the initial rent which we agree with you. We believe that this method will give you gentle adjustments in the rent for which you can budget, rather than the potential volatility of an open market rent review linked to property values. We will write to you telling you the new rent payable and the date from which this takes effect.

We can, however, choose to review the rent to an open market rent if your purchasing obligations under your agreement with us (i.e. the tie) are released or become unenforceable. In these circumstances, it is likely that the rent will increase due to the absence of a tie. In assessing the new rent, we will look at market conditions, comparable rents for other similar properties, the potential trading level of the pub when run by a reasonably efficient operator and the other terms and conditions of the agreement. We will ignore any effect there may be on rent of any capital improvements made by you with our agreement or any goodwill generated by you in running the pub. As previously explained, no amusement or leisure machine income will be taken into account when reviewing your rent. The rateable value used in your rent assessment will be the actual rates payable; if these are not available, they will be estimated (based on the likely trade that a reasonably efficient operator should achieve).

Rent review: non agreement

If you do not agree with the outcome of your rent review, you can refer the matter to our Director of Property and Tenancies. If this still does not lead to a satisfactory outcome, you can refer it to our Chief Executive who will consider the matter in full and reach a decision which will be communicated to you.

If we still cannot agree a rent between us, either of us may defer to the Pubs Independent Rent Review Scheme (PIRRS) or to an independent expert.

PIRRS offers an accessible, independent, low cost rent review resolution service. Capped fees for the parties enable disputes to be resolved in a fair and timely manner. If both of us agree to resolve a rent review dispute via PIRRS, you and we will be required to sign a deed of variation, giving up any right to arbitration or referral to original final offers. Once that has been done, either of us can ask the PIRRS administration team to send out the PIRRS information pack and application form. You will be asked to begin proceedings by completing your PIRRS application form and selecting your preferred independent valuer from those nominated by the PIRRS Board. For further information see www.pirrscheme.com.

6 Your set-up costs

It is important that you consider carefully how much financial investment you will need to make before you take an agreement with us.

Your BDM will discuss this with you when you first meet him. Although the actual amounts will depend on which pub and which form of agreement you choose to take, the type of expenses you need to consider are:

- Purchasing the trade inventory
- Purchasing stock, glassware and cleaning materials
- Rental deposit
- First instalment of rent, insurance and service charge
- Own insurance
- Training for you and your staff
- Legal, accountancy, valuer and surveyor's fees
- Stamp Duty Land Tax (depending on the level of rent and term of the agreement)
- Working capital.

7 Making your application

Application form

If you have decided to apply to run a pub business with us, you will need to complete an application form which you can find online at www.youngs.co.uk.

Interview

Once we have received your initial application, we will ask you to meet with the relevant BDM for the pub in which you have expressed an interest. The BDM will talk to you about your experience and your intentions for the pub so that we can decide if that is the right one for you. He will also talk to you about other opportunities that we may have available and help you match those to your experience and potential.

Business plan

We will then ask you to prepare a detailed business plan. We can provide you with a draft plan and our BDM will assist you in preparing this. Your plan should include:

- a projected profit and loss account and cash flow forecast - we will provide you with a shadow profit and loss account. This will be for illustrative purposes only and should not be taken as an indication of the level of income you could achieve.
- your aims for building the business
- your assessment of the competition
- the type of customers you are seeking to attract
- the type of food offering you will have
- your proposed management and staffing structure
- any alterations you want to make to the property
- the training that you think you and your staff will need.

We will encourage you to take independent professional advice on your business plan.

Personal licences

We will need to see a copy of your personal licence and that of any manager you intend to appoint.

References and funding

We will want to understand your experience in the industry and will therefore need to see credit and trade references.

8 What to do if you have a complaint

We aim to comply with this code and meet our responsibilities to you.

If you feel that we have not followed this code, you should talk to your BDM in the first instance; he will do his best to resolve the issue. If you are not happy with your BDM's handling of your complaint, you can refer the matter to our Director of Property and Tenancies.

If this still does not lead to a satisfactory outcome, you can refer the matter to our Chief Executive who will consider the matter in full and reach a decision which will be communicated to you.

If you are still unhappy with the outcome, the Chief Executive or our Company Secretary will refer the matter to BII Benchmarking and Accreditation Services Ltd (BIIBAS). You may also contact BIIBAS. BIIBAS will use its good offices to ensure, as far as possible, that there are no misunderstandings or personality issues standing in the way of a more fruitful dialogue between us and you or your representative.

Depending on what BIIBAS does, you may need to pay its costs.

9 Accreditation and changes

This code follows the pub industry Framework Code of Practice developed by the British Beer and Pub Association, the British Institute of Innkeepers and the Federation of Licensed Victuallers Associations.

This code was accredited by the BIIBAS on 30 June 2010. It is not capable of being unilaterally altered.

Any future revisions to this code will be carried out in consultation with BIIBAS.

10 **Contacts**

The following are our key contacts details. They can all be contacted at Young & Co.'s Brewery, P.L.C. at Riverside House, 26 Osiers Road, Wandsworth, London SW18 1NH or via telephone number 020 8875 7000.

- *Our Chief Executive*
Stephen Goodyear (stephen.goodyear@youngs.co.uk)
- *Our Company Secretary*
Anthony Schroeder (anthony.schroeder@youngs.co.uk)
- *Our Director of Property and Tenancies*
David Turner (david.turner@youngs.co.uk)
- *Our BDMs*
Jeff Bygraves (jeff.bygraves@youngs.co.uk)

Jason Miller (jason.miller@youngs.co.uk)

BIIBAS can be contacted at Wessex House, 80 Park Street, Camberley, Surrey GU15 3PT. Their telephone no. is 01276 684449 and their facsimile no. is 01276 23045.

Signatures

This code is to be signed by both parties, thereby signifying that they have both understood and agreed the terms and obligations set out in this code.

Business Development Manager (Block Capitals)

Business Development Manager Signature

Date

Director of Property and Tenancies (Block Capitals)

Director of Property and Tenancies Signature

Date

Tenant Name (Block Capitals)

Tenant Signature

Date