ST. QUINTIN

TRAINING CASE STUDY

THE NEW BRIDGE STREET DEVELOPMENT

Dr. Martin Wynn
July, 1982
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Introduction

This short document provides the bones of the material used in the training session run 'in-house' with St. Quntin's in the autumn of 1982. It was designed and run in conjunction with John Ardley, an Associate at St. Quntin's, whose help and advice is gratefully acknowledged.

From the outset, the general objective was to design a participative training session which built on a 'live case' taken from the firm's files. The author's previous experience in designing case study simulations (1) suggested that the training session could profitably be built around real case data, and others, such as Margerison (2) have stressed how the impact and immediacy of case examples are reinforced if they relate to the client-firm. At the same time, the potential of gaming-simulation as a vehicle for heuristic and interactive learning is widely recognized (3) and an attempt was made to actively involve participants as widely as possible in the training session.

The New Bridge Street Case Study was chosen because it was felt it highlighted many of the problems and developmental issues frequently involved in property development and disposal. All fact and detail contained in the documentation is authentic, with the exception of the firm's client's name, which is fictitious, and the two major properties involved in the case which, for the sake of simplicity, are labelled 'A' and 'B'. The case study is divided into five sections with yellow coloured pages providing operational guidance for the instructor, and pink pages containing relevant information and data that may be used by participants if the instructor considers it appropriate. The session is designed to run for 1-2 hours, with 10-30 participants.
PHASE 1

PRESENTATION OF PROBLEM SITUATION
PHASE 1

PRESENTATION OF PROBLEM SITUATION (15 mins. approx.)

Give out Info. Sheets 1 & 2, at the beginning of, or prior to, commencement of the training session.

Invite participants to inspect plans/photos of buildings displayed on walls.

Set problem situation: The Union of England Building Society, Freeholders of Properties 'A' and 'B' and occupants of part of the premises, wish to move out. They ask St. Quintin to manage the sale, and two possible courses of action immediately present themselves, i.e.

either (a) Go for a quick sale

or (b) Sort out the plethora of developmental problems and issues connected with the properties and then sell the property.

This training session focuses on the problems and issues referred to in (b) above.
LOCATION OF PREMISES

The subject properties, referred to here as 'A' and 'B' (see plan), form part of a prominent island block comprising the south-west quadrant of Ludgate Circus.

The general surrounding area is in mixed use, but may fairly be described as an improving location for offices, benefitting from proximity to the City and the Law Courts.

Site area of the two properties is estimated at:

A ............... 2,500 square feet.
B ............... 2,400 square feet.

Property 'B' is a Grade II Listed Building and both buildings fall within the South Fleet Street Conservation Area.
GENERAL DESCRIPTION OF BUILDINGS

Property 'A' dates from around 1890 and is of solid brick construction on basement, ground and three upper floors with a stone facade to New Bridge Street and exposed brickwork to the rear elevation. The roof is flat with a number of sky lights and is finished in asphalt which has recently been treated with a bitumen and hessian proprietary waterproofing treatment and aluminium painted. A small brick construction houses the lift machinery and the water tank is clad in weatherboarding with a bitumen covered roof. Windows are metal framed with stone sills and rainwater furniture is cast iron. At the rear of the building is a two storey brick extension, on ground and basement floors, access to which at ground level is only currently available through Property 'B', although originally access was through the ground floor of the main building. Basement access is still via the basement of Property 'A'.

The offices have timber floors and plastered and painted walls and ceilings, except for the first floor where there is an internal lining of wood panelling. Toilet accommodation is provided on basement, mezzanine, second and third floors although the facilities are fairly basic. The property is served by a six person electric lift and central heating is provided by means of a gas-fired boiler situated in the basement, with radiators in all suites except the third floor rear suite which has its own independent gas fired system. Generally the building has a somewhat 'tired' appearance both internally and externally and must be considered in need of refurbishment or redevelopment.

Property 'B' was built around 1840 as a school, presumably attached to St. Bride's Church, and comprises the original school building on basement, ground and first floors fronting Bride Lane with a small four storey extension at the rear. The main building is of solid stock brickwork construction under a pitched timber roof with a slate covering and a stone capped parapet with lead flashings. The rear extension is again brick construction under a pitched, slotted roof. Windows are metal framed and hinged in the main building and wood framed to the rear with stone sills. The main entrance onto Bride Lane has been closed off and access is now via a passage between the subject property and 15 Bride Lane. The offices have timber floors and walls and ceilings are generally plastered and painted. Central heating is provided by a gas fired boiler located in the basement. The accommodation is somewhat basic and the building would benefit from a degree of upgrading.

It can be assumed that neither building suffers from any major structural defect. Both buildings are currently used as offices throughout with the ground floor being occupied by the clients as a branch office of the Building Society.
PHASE 2

PRELIMINARY BRAINSTORM OF DEVELOPMENTAL ISSUES, MANAGEMENT PROBLEMS AND INFORMATION REQUIREMENTS
PHASE 2

PRELIMINARY BRAINSTORM OF DEVELOPMENTAL ISSUES, MANAGEMENT PROBLEMS AND INFORMATION REQUIREMENTS (20-50 mins.)

• Having given participants time to digest details, ask them to list any issues/problems or information requirements (either individually or in groups) which relate to the management of the sale of properties 'A' and 'B'.

List these on board or flip chart, with possibly some discussion of options or possible outcomes. The figure overleaf suggests the type of result one might expect. A useful initial prompt is to put the 'Redevelopment or Refurbishment or Neither' box on the board and ask for 'related boxes'. Further prompts can be given as necessary, and Information Sheets Nos. 3-8 may be given out at the end of this particular session, or in batches, to answer points arising and stimulate new thinking. Not all these Information Sheets will necessarily be used; the trainer's oral responses, and suggestions from participants may make some of these sheets redundant.
The New Bridge Street Case Study: Problems, Issues and Information Requirements

- TENANCY AGREEMENTS?
  - Can Vacant Possession be obtained?

- SCHEDULE OF ACCOMMODATION?
  - Existing Uses?

- PLANNING SITUATION?
  - Existing Use Consents?
  - IDP Zoning?
  - Plot Ratio?
  - Listed Building?
  - Jubilee Line Extension?

- REDEVELOPMENT or REFURBISHMENT or NEITHER?

- EXISTING FREEHOLD TITLES?
  - Anything to prevent redev. or refurb?
  - Passageway between 'B' & No.15?

- FIRE ESCAPE
  - Arrangements?

- SURROUNDING OWNERSHIP
  - Rights of Adjoining Owners?

- INCORPORATION OF OTHER BUILDINGS?
  (In Refurb./Redev. Scheme)
  - marriage value?
FIRE ESCAPES

The primary fire exit for Property 'A' is via the main staircase and out into New Bridge Street. Secondary escape is provided by means of an external staircase to the rear of the building which runs from third floor level down to the roof of the adjoining single storey building, 15 Bride Lane. Similarly escape is made via a staircase from the first floor of Property 'B' onto the roof of No.15. The staircase is only a temporary structure, has a temporary consent, and is unlikely to meet Fire Officer's requirements.

A further escape exists from the roof of Property 'A' by way of a short ladder leading up and onto the roof of the adjoining property, 5 New Bridge Street. Once on the roof it is not possible to gain access into this building and therefore this would not be acceptable as a means of escape. Consent has been granted merely to erect a ladder, but not to use it.
## Schedule of Accommodation

Total net lettable floor areas are as follows:

### Property 'A'

<table>
<thead>
<tr>
<th>Floor</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basement</td>
<td>843 sq.ft.</td>
</tr>
<tr>
<td>Ground floor main building</td>
<td>1,170</td>
</tr>
<tr>
<td>rear extension</td>
<td>400</td>
</tr>
<tr>
<td>First Floor</td>
<td>1,202</td>
</tr>
<tr>
<td>Second floor front</td>
<td>540</td>
</tr>
<tr>
<td>rear</td>
<td>719</td>
</tr>
<tr>
<td>Third floor front</td>
<td>570</td>
</tr>
<tr>
<td>rear</td>
<td>681</td>
</tr>
</tbody>
</table>

Total Gross Floor space of Property 'A' is estimated at 6,125 sq.ft.

### Property 'B'

<table>
<thead>
<tr>
<th>Floor</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basement</td>
<td>1,157</td>
</tr>
<tr>
<td>Ground floor</td>
<td>1,118</td>
</tr>
<tr>
<td>First Floor</td>
<td>1,118</td>
</tr>
<tr>
<td>Second Floor</td>
<td>284</td>
</tr>
</tbody>
</table>

Total Gross Floor space of Property 'B' is estimated at 3,677 sq.ft.
SURROUNDING OWNERSHIP

The plan below shows the Freeholders of properties in the island block in which the New Bridge Street and Bride Lane properties lie. The majority of buildings are occupied; lack of finance means that none of the owners are likely to be in the market to purchase the subject properties.

The three City Corporation properties are single storey only.

The passageway between Property 'B' and 15 Bride Lane, which leads to the former's front door, is not included in the registered titles. Nevertheless, there has been uninterrupted occupation and use of these areas by the Society since acquisition of Property 'B' in 1949.

15 Bride Lane (the middle of the three City Corporation properties) can only be entered by way of property 'A'. The rights of light enjoyed by property 'A' preclude the upward development of 15 Bride Lane.

The Union of England Building Society holds the lease of 8 New Bridge Street, the small corner property owned by the City Corporation.
SCHEDULE OF TENANCIES / LEASES

Freehold of both Properties 'A' and 'B' is by the Union of England Building Society. The leases granted in both buildings are:

PROPERTY 'A'

<table>
<thead>
<tr>
<th>Area</th>
<th>Lessee</th>
<th>Term</th>
<th>Current Gross Rent</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third floor front</td>
<td>Lazarus &amp; Lannon &amp; Co Ltd.</td>
<td>7⅔ yrs from 24.6.75</td>
<td>£3,750</td>
<td>The gross rent includes a contribution of £150 to the service charge.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expiring 25.12.82</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3⅓ yrs from 24.6.79</td>
<td>£3,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expiring 24.12.82</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second floor front</td>
<td>Smee &amp; Ford (London) Ltd.</td>
<td>5⅓ yrs from 3.6.77</td>
<td>£3,100</td>
<td>Pay due proportion of amount by which total cost of service charge to Landlord exceeds £350 p.a.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expiring 14.12.82</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>14 yrs from 25.12.68</td>
<td>£4,095</td>
<td>The rent includes a contribution of £285 to the service charge.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expiring 25.12.82</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First floor</td>
<td>Mack Dinshaw</td>
<td>2 yrs 8 months from 1.5.80</td>
<td>£8,675</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expiring 25.12.82</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basement</td>
<td>Occupied by Union Building Society</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PROPERTY 'B'

| Entire building       | Frank L Crane Ltd          | 14 yrs from 13.11.68      | £14,000            | Tenant pays internal repairs & external decoration only; the ground floor room was originally held on a 6 month tenancy commencing in Feb. 1971; this was transferred to the main lease by a Deed of Variation dated 9.3.76. |
|                       |                            | Expiring 13.11.82         |                    |                                                                          |
| including rear office |                            |                           |                    |                                                                          |
| on ground             |                            |                           |                    |                                                                          |
| floor of 6-7 New Bridge Street |                     |                           |                    |                                                                          |

The Union B.S. are also the lessee of the Display Cabinet in 8 New Bridge Street, which is now sub-let:

| Display cabinet       | Leased from City Corp.     | 650                       |                     |
|                       |                            |                           | Subject to 6 month redevelopment clause |
| Display Society       |                            |                           |                     |
| Display cabinet       | Sub let to M. Dinshaw.     | 650                       |                     |
|                       |                            |                           | Subject to 6 month redevelopment clause |

N.B. No record can be found of the freehold of the passageway between property 'B' and 15 Bride Lane.
The entire island block bounded by New Bridge Street, Ludgate Circus, Fleet Street and Bride Lane, has been 'blighted' for many years by the proposed extension of the Jubilee Line from Charing Cross Station to Fenchurch Street Station, known as Stage II. Whilst the proposed tunnel did not run directly under the subject properties they were within the 'Line of Deviation', within which the City Corporation was obliged to inform interested parties of London Transport's proposals. In fact two schemes were proposed, one of which indicated a new station on this island block and this would have involved the compulsory acquisition of all the properties in the block.

The GLC has formally resolved not to seek an extension to the compulsory purchase powers in respect of Stage II (once they expire at end December this year), due to lack of finance. Whilst the proposed line of the tunnel still remains, London Transport will have no powers to purchase properties necessary to implement the scheme.

It would be possible to resurrect the proposals sometime in the future by promoting a new Act of Parliament but this is considered unlikely by London Transport unless the economic climate improved dramatically. Perhaps the most significant aspect is the fact that the City Corporation will no longer be obliged to reveal proposals for the Jubilee Line on any searches.
The general Ludgate Circus area is regarded by the planners as a 'sensitive area' in planning terms and the officers are keen to maintain the existing character of the area. Whilst the general area is zoned in the Interim Development Plan for office use at a plot ratio of 5:1, the planners are seeking to maintain a mixture of uses and are insisting that where shop and restaurant facilities exist at ground floor level, these must be retained, in accordance with their city-wide policy.

As far as the existing use of the two properties is concerned there are no planning consents on the records permitting the present uses.

Property 'B' is a Grade II listed building, and both properties are within the Fleet Street South Conservation Area.
PHASE 3

PARTICIPANT FEEDBACK FROM HANDOUT MATERIALS

(FURTHER DISCUSSION OF DEVELOPMENTAL PROBLEMS AND ISSUES)
PHASE 3

PARTICIPANT FEEDBACK FROM HANDOUT MATERIALS
(FURTHER DISCUSSION OF DEVELOPMENTAL PROBLEMS AND ISSUES) (20-30 mins.)

The hand-out of Information Sheets 3-8 will likely trigger off further questioning and discussion amongst participants, and new perspectives may be graphically portrayed on a flip chart, as in Phase 2. Issues that might be raised and pursued, possibly with prompting from the instructor include the following:

Rights of Adjoining Owners

- Rights of Light: consideration must be given to the extent to which a redevelopment may infringe upon adjoining owners’ rights of light.
- Fire escape arrangements must be formally agreed. Must guard against Society being placed in a position where adjoining owner (Haslemere Estates at 5 New Bridge Street) has hold over Society’s ability to successfully dispose of its interests.

Schedule of Accommodation

the ratio of lettable floorspace for Property ‘A’ is at present only 55% i.e. 6 125 (approx. for plot ratio purposes). This means that the potential gain in net lettable floorspace in a redevelopment project for this property might be greater than at first appears. If a 5:1 plot ratio were adhered to, then a gross floorspace of 2,500 x 5 = 12,500 sq.ft. could be built. One could expect, in a modern building, that 75%-80% of this would be lettable i.e. 9,375 sq.ft., a 50% increase on existing net lettable floorspace.

Surrounding Ownership

- Two buildings owned by the City Corporation (No.Eight, New Bridge Street and No. Fifteen, Bride Lane) are not viable for redevelopment on their own. The former is too small in isolation and the latter cannot be developed above ground floor level, without the agreement of the owner of property A, due to the rights of light enjoyed by this property.

Registered Titles. A Statutory Declaration to ‘occupation’ by vendors must be provided before any sale.
Schedule of Tenancies

- Vacant Possession: leases expire at end of 1982, but under 1954 Landlord and Tenant Act, tenants have the right to receive a new lease unless the landlord can substantiate a right to possession on one of several grounds outlined in the Act. In this case it would be that the landlord intends to demolish or reconstruct the whole or substantial part of holding or carry out substantial works of construction and cannot do so without obtaining possession.

Planning Situation

- There is no formal planning consent for existing buildings and thus the planning position with regard to both buildings should be formally clarified, prior to any sale. (In order to advise on the best method of achieving this, information is required as to the period the buildings have been occupied continuously as offices. If this has been the position since 1st July 1948 then it would be possible to seek confirmation from the City Corporation that the building has an Authorised Use. If this is not the case but the building has been in continuous office use since 31st December 1963, then it would be possible to obtain an Established Use Certificate. Both courses of action would result in the use of the buildings being accepted as offices.

If either building has not been in continuous use for offices since the end of 1963, it is recommended that a planning application be made to continue the use of the building for offices).

As Property 'B' is a Grade II Listed Building, redevelopment of this building is unlikely to be possible.

The fact that Property 'A' is in a Conservation Area does not necessarily rule out the possibility of obtaining planning consent for redevelopment.
**Tax Position**

Extensions: DLT is not incurred provided gross floor area of existing building is not increased by more than a third.

Redevelopment: DLT is not incurred if a building is redeveloped to no more than 110% of original cubic content.

Over and above these limits, DLT is payable on increased property values. The first £50,000 of development gain in any one year is exempt, the rest being subject to a 60% tax.

N.B. Of the above headings, the first four, and above all, the vacant possession issue, were of particular importance in the live case.
PHASE 4

TEAM TASKS: WORKING TOWARDS A FEASIBLE SOLUTION
PHASE 4

TEAM TASKS: WORKING TOWARDS A FEASIBLE SOLUTION

Participants are divided into groups of 3–5, and must agree on a set of recommendations which may be considered a feasible solution to the problems and issues discussed in Phases 2 & 3.

One or more of the groups may then be asked to present their recommendations to all participants. The list overleaf summarises the sort of recommendations that should be made.
• The position with regard to existing use of both buildings should be formally resolved.

• Agreements with adjoining owners concerning fire escapes should be formalised.

• Statutory Declaration of use of passageway between property 18 and 15 Bride Lane should be made, thus securing freehold by the Society.

• Negotiation with City Corporation to include their adjoining properties in a combined refurbishment/redevelopment scheme.

• Obtain best possible planning consent for refurbishment of property 18 and redevelopment of property 'A' (with or without inclusion of City Corporation properties), thus enabling vacant possession to be obtained.

PARTICIPANT RECOMMENDATIONS (Example)
PHASE 5

ST. QUINTIN VALUATION AND RECOMMENDATIONS
PHASE 5

ST. QUINTIN VALUATION AND RECOMMENDATIONS

In a final debriefing session, the valuations and recommendations made by St. Quintin in 1982 can be discussed and details may be circulated to participants as Information Sheet 9 and 10. Discussion may cover the following points:

The need to 'sort out the problems' prior to any sale. In practice, the clients insisted upon a quick sale but the number of possible barriers to redevelopment of the site prevented completion.

The critical nature of tenancy agreements in securing vacant possession, and the legal wrangles that may ensue.

The importance of gaining planning consent for redevelopment or refurbishment prior to sale.
In the real life case study, set in early 1982, the following options and valuations were identified:

1. The 'fallback option': leases are renewed at the end of 1982 and there is no refurbishment/redevelopment for a number of years.

   On this basis an open market valuation of £450,000 in respect of Property 'A' and £190,000 in respect of Property 'B' was given.

2. Minimum refurbishment/extension option, which assumes a purchaser could refurbish the buildings at the end of 1982 and obtain a 10% extension in respect of Property 'A' and no extension of Property 'B'. On this basis, the value of Property 'B' was taken as unchanged (i.e. £190,000) and any uplift in Property 'A' remains relatively marginal. The reasoning behind this was that the uplift in rental and capital values resulting from refurbishment are offset by the cost of carrying out works. (NOTE: it is the purchaser, not the vendor, who will be carrying this out).

3. Wholesale Redevelopment of property 'A' and refurbishment of Property 'B', with possible inclusion of the City Corporation properties in the scheme.

   If this were satisfactorily arranged, prior to sale, a significant increase in valuation could be achieved, up to £500,000. This would mainly be due to:

   (a) The improved net/gross floorspace ratio of Property 'A' in a new development, (c.f. the existing building)

   (b) The possibility of transferring the 'plot ratio' floorspace attributable to Property 'B' onto Property 'A' in the redev./refurb. scheme (bearing in mind Property 'B' is to be refurbished with ground, first and second (in part) floors only.

   (c) The marriage value of bringing City Corporation properties into the scheme.
ST. QUINTIN CLIENT RECOMMENDATIONS

On the basis of the options outlined in Information Sheet No. 9, St. Quintin made the following recommendations to its client.

1. As a matter of priority, the position with regard to existing use of both buildings should be formally resolved before the building is placed on the market.

2. Similarly, agreements with adjoining owners concerning means of escape from the buildings should be formalised prior to any sale.

3. We consider the Society then has two major options:

   (a) Immediately to offer for sale the Freehold interests.

   (b) Negotiate with the City Corporation to include their adjoining properties in a combined refurbishment/redevelopment scheme and obtain the best possible planning consent for the refurbishment/redevelopment of Properties 'A' and 'B' with or without these additional properties. This will enable vacant possession to be obtained. Then offer the Freehold interests for sale.

If a sale is required at the earliest opportunity then the first option is more likely to achieve this. However, if this is not an overriding requirement we would recommend the second option to be adopted as this should ensure realisation of the maximum value.

With the first option, a purchaser is likely to assume an extension of 10% could be obtained for Property 'A' but the value of any additional space is likely to be discounted.

Whilst it will be longer before the buildings can be marketed with the second option, probably a minimum of a further 3-4 months, we would be able to judge the likely outcome of both the planning situation and the City Estates Department's attitudes, well in advance of this. In fact, if these negotiations were commenced immediately it would be possible to make such a judgement, with some degree of accuracy, by the time the position relating to existing use and fire escapes had been resolved. If this second option is accepted we suggest that such negotiations be commenced immediately with a view to assessing progress once these two matters have been satisfactorily resolved. The option would be available then to market the properties, and lose no time in affecting a sale, if it was considered the outcome of these negotiations would be unlikely to increase the value of the Society's interests to any significant degree.

This course of action would have the added benefit that if a tenant served notice requesting a new tenancy during this 2-3 months period, at least work would have commenced on drawing up a scheme. Bearing in mind it has been possible, since 13th November, for such a notice to be served at any time, this is an important consideration. If the second option was adopted we could envisage this causing problems. A potential purchaser would be left to ensure he could obtain vacant possession, if required. However, if towards exchange of contracts, this purchaser was to back out, the situation could arise where it would be too late to draw up the necessary scheme to satisfy the Courts and the Society would only be able to realise the "fallback" value.
Notes and References


(3) See Martin Wynn 'Games People Play', Building, July 23rd, 1982.