



6 August 1991

The RPM Company
Relocation Project Management
39 Dean Street, Soho, London W1V 5AP
Telephone 071 287 2222, Facsimile 071 494 3145

Irene Whitehead
The British Film Institute
21 Stephen Street
London W1

Dear Irene

re - LVA/LFMC/relocation

I have now had an opportunity to consider more fully the information provided to you by the London Filmmakers Cooperative's building committee in relation to 29/31 Saffron Hill, EC1.

This report will contain our comments on the data with which you have been provided and will provide additional observations and information in this regard. Furthermore we also enclose revised drawings of the viewing space proposed at the Dunn & Co. site along with our comments in relation to the Coop's stated requirements of that space.

29/31 Saffron Hill

1. introduction

Being very familiar with this building and having previously considered its benefits and detractions I am slightly concerned that the figures provided by LFMC - whilst accurately representing the vendor's agent's quoting terms - are ommissive in respect of the more specific and detailed information necessary in considering the implications of an acquisition. In presenting my comments below I have included as much of this information as possible at this time and where necessary I have attempted to provide a reasonable interpretation of the implications.

cont/d..

2. *ownership structure and circumstances of the vendor*

I understand that the freeholder of the property is likely to be The City of London and that below this a long leasehold interest of around 69 years unexpired is held by a private family trust. The vendor for the time being represented by Richard Susskind & Co and Savoy Stewart is The Triangle Marketing Group based in the West End.

Triangle previously housed subsidiary companies in the building and from the circumstances it would appear that these companies went into liquidation leaving the building vacant. The vendor holds a fully repairing and insuring lease due to expire in 2012 subject to review in December 1994 and five yearly thereafter which is a slightly unusual pattern leaving three years unexpired after the final review in 2008. There is a potential disbenefit here in that upon expiry you would either have to move or take a new lease in 2012; and in either case you are likely to then be committed to higher rental again sooner than you would be should a normal review pattern exist. Conversely, however, as the property market is cyclical it is also possible to benefit from such a review pattern and as such I do not feel that this would be an influential factor in considering the building.

The vendor is not a property investor or developer and having met with their financial director on previous occasions I can clearly state that it is the vendor's first priority to divest themselves of the overhead at Saffron Hill as quickly as possible. Hence, whilst they would certainly be interested in disposing of the building as a whole they are currently achieving a certain level of success in marketing the building on a floor by floor basis. I understand that the first floor has been let on quarterly basis with the landlord having an option to determine the tenancy on one month's notice. Further tenants are due to move in to the rear of the second floor and the third floor is under offer.

My principal concern here is that in pursuing this building we will not be able to move ahead any more rapidly than with any previous option and on that basis I would not wish to advise you to take a position where you find yourself falling between lip and cup. As Triangle seem to be succeeding in their attempts to let the building floor by floor and given that they would have to give greater concessions in the case of a disposal of the whole building then their only real gain in doing so would be on the basis of an assignment where they are one more step removed from the rental liability in the case of tenant default.

I therefore doubt whether Triangle would be prepared to turn away interest from applicants requiring only part of the space whilst they wait for the BFI to obtain the necessary planning permissions etc. I could only imagine them doing so in a situation where they would be surrendering their lease to the headleaseholder and they in turn would be selling their long lease to either the BFI or an intermediate developer. This process once again relies very heavily on the influences of third parties and from previous and current experiences under present market conditions I would be very reluctant to advise you to proceed along a route which would create further complexity and unnecessary risk beyond your control.
e.g. Dagmar Terrace

3. Options for acquisition

a. freehold

Given the structure of ownership of the building with two leaseholders being in place I cannot imagine that the freehold could be readily acquired and nor do I feel that you would be able to achieve an attractive price as the present freeholder has no apparent pressing reason to sell. This situation would almost certainly deter any intermediate investor from considering the building and as I understand the position, you have no capital or remit with which to purchase property.

b. long leasehold

I am informed that the long leasehold is available for a price of around £1,000,000 on the basis of 69 years being unexpired. I am not aware of the review terms of this interest. Once again this would require you to commit capital funds which are not available. It is worthwhile noting that any such acquisition of an interest like this takes account of the capital depreciation towards expiry; i.e. some sort of sinking fund allocation is required to cover the initial capital investment which would otherwise be irredeemable at expiry. There is some difference of opinion on the investment value of long leasehold property and traditionally this type of tenure is not perceived as being as valuable as freehold property. As this building has little obvious development value it could primarily be viewed as an owner occupier proposition and as this type of purchaser tends to be cautious and less common for some time to come then selling on the building at a beneficial price at a later date as the residual value diminishes could be viewed as unattractive.

You might try to acquire the property, let it to yourselves and then sell on to an institution but my reservations stated above would apply and the deal would again be cumbersome and reliant on forces beyond your control. I cannot advise that you pursue this course of action.

Another course of action would be to introduce a developer to purchase the long leasehold interest and to let the property to you after refurbishment. However, I would not feel able to advise you to pursue this course of action in view of the tight budgetary control you require. As the developer would not have an existing interest in the property we would not be in a position to maximise incentives and we certainly not be able to negotiate the type of advantageous arrangement available at the

Dunn & Co. site in Camden where we are being treated as an anchor tenant for the building.

I would also point out that the family trust's apparent willingness to sell might be dampened once they begin to take full account of the position. At this time they have the building fully let on a long lease to a reasonable covenant. In the current market they are not going to achieve the best price for their interest and I am confident that their advisors

cont/d..

will suggest that they hold the building until after review in 1994 when the market may have shown signs of recovery and they could sell on better yields with a better rental income. The acquisition would certainly require extensive manouevring to acquire an uncertain investment and I really cannot advise that you pursue this option.

c. leasehold

Two methods of leasehold acquisition are available in that you could take assignment of the existing lease or a new underlease. As the assignment would commit you to agreeing to the terms of the existing lease thereby forfeiting the right to negotiate I could not advise that you pursue this option. Additionally it would restrict Triangle's ability to offer serious concessions except in the form of cash which they do not have available.

Underletting, in terms of the structure of the lease, is also relatively inflexible as you would be required within the lease to covenant to perform all the requirements of the superior lease and therefore you again forfeit the right to fully negotiate. You could only agree alterations with Triangle in the form of side letter arrangements (which are not recognised by the superior lessor and hence not enforceable) or by deeds of variation which the superior lessor is not bound to grant. Once again therefore, from a legal position, you would be a greatly inferior negotiating position to that available in Camden.

4. Rental

The passing rent at Saffron Hill is £95,050 per annum exclusive subject to review in December of 1994 and whilst the initial rental of the building is not unattractive it is the proximity of review in relation to the location of the building and your somewhat forced acceptance of review terms.

Given the financial brief to which we have been working I would be very concerned about you agreeing to a review which would occur around three years after your occupation of the building. Saffron Hill occupies a central location in a highly commercial area close to Holborn and Smithfield. Although the building retains a B1(c) usage (light industrial) I would still advise that the review at the end of 1994 constitutes a considerable risk with regard to your financial planning at this time.

Given the location and the possibility of economic recovery it would be sensible to allow for rental increase to between £15 and £17.50 per square foot which would make the building uncompetitive as compared with the Camden option where you are able to budget with certainty for 10 years.

Equally importantly, you should consider the future rental growth of the area in relation to the next review which would occur in 1999, some two years before you would face your first open review in Camden. Smithfield is an area generally considered ripe for strong future growth in

cont/d..

the next phase of the property cycle and I am therefore very concerned about the level of review you might face at that time. We have always understood that you have a 'fringe' budget and no significant capital and hence the Dunn & Co building location seems ideal in that you will not be subject to the type of rental growth in that area as compared to that which you might expect in Saffron Hill. It is further likely that the new station at Farringdon to connect with the Channel Tunnel will be proceed further enhancing property values in the area whilst also causing long term disturbance.

Could you also bear in mind that you would be taking a fully repairing and insuring lease at Saffron Hill thereby committing yourself to the normal review conditions as being assumed to have complied with your repairing covenants; the condition of the building thereby being assumed to be in good and substantial repair.

5. *Capital Expenditure*

I was somewhat concerned to note that the data presented by the LFMC building committee in relation to Saffron Hill suggested that a budget of £7.50/sq.ft. might apply. It is not clear whether this assessment is based on close inspection but whilst the building has been painted white, I would suggest that a more sensible allowance for the overall upgrading of the building and incorporation of specific requirements might be in the order of £15 - £20/sq.ft. giving a capital budget requirement of around £200,000 to £250,000. As originally discussed, the type of rental budgets you are able to consider are only possible where the capital lump sums are provided by the vendor and as this is not possible at Saffron Hill then you would need to be able to allocate the sort of budgets previously mentioned and write it down over 3 to 5 years adding a considerable cost to the annual rental budget which would in any case be increased with review. A rent free period might be made available to you by Triangle but this would not solve the problem of capital provision and in any case it remains my firm view that rent free periods do not to any significant extent compare with a cash contribution. The rent free period would in any case commence once you entered the premises to start works. One of the attractive points about the Camden deal is that you will not be committed to rental during the construction period when the landlord is in any case paying for the works. Therefore you do not have to consider any capital budget and nor do you have to consider interest or opportunity cost implications.

Given your financial criteria and availability of capital I cannot see advise that the Saffron Hill option in any way compares with the deal that is being negotiated in Camden.

In consideration of the above information and that given below in relation to rates it could be sensibly concluded that the likely cost of the first five years at Saffron Hill might be as follows:

years	1	2	3	4	5
rent	£23,762	£95,050	£95,050	£195,000	£195,000
rates	£58,725	£58,725	£58,725	£ 78,300	£ 78,300
s/c	£19,575	£19,575	£19,575	£ 19,575	£ 19,575
capital and interest	£87,320	£87,320	£87,320	nil	nil
total	£189,382	£260,670	£260,670	£292,875	£292,875
five year total	£1,296,472				

Building committee estimate £ 930,560

- N.B.**
- i. rent - assumed at £15/sq.ft. from review
 - ii. rates - £6/sq.ft. from year four
 - iii. s/c - £1.50/sq.ft. assumed in maintaining the property
 - iv. c + i - amortisation assumed over three years at 14.5%

6. Rates

The information provided by the building committee shows the rates at Camden to be in the order of £6/square foot. I understand that the rates are yet to be assessed and whilst I am not able to give a firm figure I would suggest that the actual cost might be closer to £4/sq.ft. The rates at Saffron Hill are currently around £6/sq.ft. although a subsidy to around £4.50/sq.ft. could be achieved over the first couple of years. I would add that no account is taken in the building committee's report of annual rates increases which are likely to be based on the RPI.

7. Service Charge

Should you acquire the building at Saffron Hill then you would not be liable for a service charge as you would occupy a self-contained building. In place of the service charge you would be liable for all the normal costs of maintaining the building in accordance with the covenants in your lease.

We have not yet confirmed the service charge in Camden although I imagine that a figure of around £1.25 - £1.50/sq.ft. might be applicable to include the normal services, i.e. insurances, cleaning of common parts, maintenance etc which may in any case reduce the degree of overall building management required internally.

cont/d..

8. *Spacial configuration*

The data provided by the building committee seems to suggest that the degree of circulation space at Saffron Hill would be less than that at Camden although no support is provided for this assertion. As stairwells are in both cases exterior to the demise and as the Camden option occupies only two floors I would have thought that if there was to be any difference in circulation space then the reverse would be true; i.e. a greater degree of circulation space at Saffron Hill.

However, assuming that the circulation space of 20% would be the same in either case then the Dunn and Co site actually affords 12,000 square feet net plus a substantial ground floor reception whilst the Saffron Hill option would offer around 10,600 sq.ft. Given your requirement for the location of the MDA being intrinsic to the financing of the project this would seem to cause room for concern.

Additionally, I would ask you to note that the Saffron Hill option has slightly over 20% of the total space in the basement whilst all of the space at Camden has access to natural light which has recently been expressed as a preference.

As you are now aware, our continuing negotiation with the vendor of the Dunn & Co. option has enabled us to substantially enhance the central viewing space and drawings are enclosed. We are confident of further concessions as we are able to proceed on the basis of you as an anchor tenant.

9. *Planning*

Once again the use of the building at Saffron Hill will be subject to planning permission from Camden. I do not anticipate that this should cause a serious problem although the inevitable Camden delay will occur.

I would add at this time that further to our meeting yesterday with the vendor, his architect, planning consultant and our structural engineer the planning in respect of the Camden option is very well advanced and the borough have visited the premises. It appears that the change of use will be recommended by the officers to the committee. The planning consultant has also indicated that Camden would be pleased to see the BFI occupation of part of the scheme and it has been suggested that you may wish to be directly in touch with the chairman of the planning committee for your further comfort at this time.

10. *Occupation and timescales*

Contrary to the observation presented in the building committee's report immediate occupation is not possible at Saffron Hill; planning permissions will need to be obtained along with all other necessary statutory approvals

cont/d..

and a tenant is in occupation of the first floor and the landlord can only gain vacant possession upon one month's prior written notice at the end of each quarter's occupation. Obviously the landlord would only be prepared to do so once you are irrevocably committed to the building. I would therefore be around 4 months before we could gain full access to the building. I further understand that other tenants may be taking occupation this week although I will have to confirm this if you wish.

11. General

a. Dunn & Co. conversion costs

We have no reason to doubt in any way the conversion costs which have to date been proposed for this building and to be borne by the vendor. I am very concerned to note that estimates as high as £612,000 have been suggested by the building committee. As far as I am aware these estimates are not based on any specific information and nor are they based on inspection of the building. It has been suggested to me that the architect John Somerville-Large has indicated their figures to them. I have spoken with Mr Somerville-Large and he is very unhappy indeed that has been used in this way and refutes entirely any suggestion that he has acted for the building committee in preparing estimates. He is further concerned to have been mis-represented.

b. Dunn & Co. timescales

Again the suggestion that it may take one year to gain occupation of this building is unsubstantiated. My comments made earlier in relation to the occupation of the Saffron Hill alternative apply. In either case it will still be necessary to find short term accommodation for LVA and therefore a cost will apply.

c. Fees

The building committee make an assumption that no fees would be incurred in the acquisition and refurbishment of the Saffron Hill option. I assume that the BFI would take advice in the normal manner should you proceed and particularly in view of the complexity of the acquisition and the extent of your capital involvement.

In conclusion I would only comment that this report is not exhaustive but I trust that it will assist you at this stage with your assessment of the options open to you. Should you require any further information or additional detail in supplement to these comments then please do not hesitate to contact me.

cont/d..



Kind regards

Yours sincerely

Karl Harrison

Karl Harrison
Director

I have the pleasure of replying to your letter of 14th July regarding the information provided to me by the Local Authorities' Committee on the subject of the proposed development at the site of the former...

This report was compiled for your information on the basis of the information provided and will provide additional observations and information in this regard. Furthermore, the drawings attached to the planning application submitted to the Council will show the proposed development in relation to the site and its surroundings.

Yours faithfully

Karl Harrison

Being very familiar with this building and having previously considered its history and structure, I am slightly concerned that the figures provided by the Local Authorities' Committee representing the building's height and area are incorrect. In respect of the more specific and detailed information necessary in considering the implications of an application, in providing the comments below I have included as much of this information as possible in this letter and where necessary I have attempted to provide a reasonable interpretation of the implications.

Supplementary notes relating to drawing nos 097/016A, 017A and 018.

Following the concerns expressed by some members of the Co-op regarding the flexibility of the viewing/installation space within the Dunn and Co building further appraisal has been carried out into improvement of this facility. We have now had confirmation from our structural engineer that it is possible to remove the structural piers which were previously restricting the space.

Further, at a meeting on 6.8.91 with the vendor and his representatives including masterplan architect, planning consultant and property adviser, we have secured agreement from the vendor that he is willing to undertake these works within the overall scope of works for the building. As such the Co-op need not concern itself with financial viability.

The major benefits of this development are outlined as follows:

- 1 The floor area of the newly proposed space is approximately 1700 sq ft compared with the Co-op's existing viewing space of 1220 sq ft, this represents a 39% increase on their existing set-up and would seat well in excess of 120no people.
- 2 If one includes bar and rear of screen space the proposal would provide c 2,400 sq ft compared to the Co-op's existing facility of around 2,000 sq ft. This excludes any additional 'installation' space elsewhere in the demise which can be provided subject to the priorities which both organisations place upon exhibition space as compared with their administrative and operational functions.
- 3 The proposed projection space is twice as big as that currently used by the Co-op. The layout provides for multiscreen viewing via an 8m x 3m screen with a picture throw of just under 50' (14.5m). It is possible to install removeable seating such that a fluid 'installation box' is available for experimental work. Further, it would be possible, via a second pull down screen in front of the projection box to turn the orientation of the viewing space through 180 degrees for screening requiring floor mounted horizontal projection work.
- 4 An area of raked seating to the rear of the space, which might also be mobile, would enhance the vision from the back of the audience during busy screenings. A bottom picture height of around 1500mm would also help, and the enlarged section illustrates suitable head height clearance for late arrivals/ early departures.
- 5 As illustrated in the section, the landlord is now likely to be proceeding with a scheme incorporating a lightwell from 3rd - 5th floors which provides for the possibility of a top-lit viewing space with black-out blinds should the organisations find this a desirable addition.

cont'd...

Clearly, there are a number of specific points relating to this space, some of which have been brought forward by the Co-op, which will require detailed liaison and appraisal during the next stage of the project, and this was always going to be the case. It will include expert advice on acoustics and cinematography. Naturally, the relevant statutory authorities must be consulted throughout the refurbishment process.

JDH 6.8.91

The major benefits of this development are outlined as follows:

The floor area of the newly proposed space is approximately 1700 sq ft, compared with the Co-op's existing viewing space of 1220 sq ft. This represents a 39% increase on their existing area and would serve a total of 1000 people.

If you compare the cost per sq ft of space shown in the proposal against the Co-op's existing space, the proposal would be 2.41p per sq ft compared to the Co-op's existing facilities at 2.00p per sq ft. This includes any additional "one-off" costs associated with the design and construction of the space, such as the provision of a new ventilation system, which would be provided subject to the approval of the relevant statutory authorities and other relevant bodies.

The proposed projection area is being designed to be used by the Co-op for multi-screen viewing. The area is 6m x 2.5m, with a picture throw of just under 50' (14.5m). It is possible to have removable seating with a fixed installation, or a second pull-down screen in front of the projection box to give the appearance of the viewing space through 160 degrees for screening rotating floor mounted horizontal projection.

An area of raised seating to the rear of the space, which might also be suitable, would enhance the view from the back of the audience. A bottom picture height of around 1.50m would be suitable and the enlarged section illustrates a possible layout scheme for this area.

As illustrated in the section, the standard is now likely to be proceeding with a scheme incorporating a lightwell from 2nd - 3rd floor, which provides for the possibility of a top-up viewing space with black out blinds should the organisations find this a desirable option.