

# PEARL & COUTTS LTD

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OUR REF: RD/SRG/0871

YOUR REF:

DATE: 8th June 2012

A.M. Tillson, Esq.  
Matthews & Goodman LLP  
14-16 Regent Street  
LONDON SW1Y 4PH

11 JUN 2012

Dear Mark

## Premier House, 150 Southampton Row, London WC1B 2AL

Following my recent telephone conversation with your client, I write as follows. We, that is Pearl and Coutts, have exchanged contracts on this property to your clients ZVI Construction Company LLC. I have been asked to write to you setting out our involvement in marketing the vacant suites in this building since we purchased it in 2006, which I now do.

### 1. Pearl and Coutts – Background

As I am sure you know, Pearl and Coutts was established in 1965, 47 years ago. A key specialisation is commercial property lettings in London, where the majority of buildings we own are located in Central London, which covers the West End – Mid Town – City of London. My role at Pearl and Coutts is Director, Commercial Property Acquisitions and Sales for London.

Mid Town extends from Victoria Embankment overlooking the River Thames up to Kings Cross and St Pancras, west to Tottenham Court Road and East to the City fringe at Farringdon Street.

By reference to our website you will know as a company we currently have space to let in 37 properties in the West End, 37 buildings in Mid Town and 49 in the City. As landlords we have one of the largest property portfolios across Central London which also includes fully leased buildings and consequently we have a tremendous depth of knowledge in these occupier markets.

Pearl and Coutts is recognised as one of the main commercial property landlords in London. We specialise in competitively priced office space and we offer flexible leases, generally for a minimum of 1 year. The range of sizes we offer is 100 sq ft up to 10,000 sq ft, but we specialise in office space in suites up to 2,000 sq ft. All our offices to let are well located and near to transport amenities. It is also a recognised fact that we aim to make the process of an office letting a simple, straightforward matter and we act quickly, unlike many of our competitors.

As a company we carry out our own direct marketing campaigns, rather than relying on agents. This is because we value the importance of our relationships not only with our existing tenants but also with prospective tenants.



## 2. Premier House, 150 Southampton Row

Searchgrade Limited a company run by Pearl and Coutts, completed the purchase of the freehold interest at this building in October 2006. At the time it was our stated aim to increase the property's value by leasing void space and encouraging existing tenants to remain in the building for longer periods. Regarding public transport accessibility, Russell Square Underground station (Piccadilly Line) is approximately five minutes walk to the north and Holborn Underground station (Piccadilly and Central lines) ten minutes south. In addition numerous bus routes operate along Southampton Row including 59, 68, 91, 168 and 188. To the north lie the major rail transport terminuses of Euston, St Pancras and Kings Cross.

We immediately implemented a number of marketing initiatives including erecting a To Let board as in our experience these can be an important source of enquiries. In addition we listed the vacant space on our website ([www.pearl-coutts.co.uk](http://www.pearl-coutts.co.uk)) which research has demonstrated represents a key marketing tool for our target audiences. We also carried out traditional mailing exercises, as part of a continual year-round process. Premier House continues to be listed in the following high traffic websites to this day:-

- [www.primelocation.com](http://www.primelocation.com)
- [www.estategazette.com](http://www.estategazette.com)
- [www.findaproperty.com](http://www.findaproperty.com)
- [www.wantspacegotspace.co.uk](http://www.wantspacegotspace.co.uk)
- [www.globrix.com](http://www.globrix.com)
- [www.gumtree.com](http://www.gumtree.com)
- [www.pearl-coutts.co.uk](http://www.pearl-coutts.co.uk)
- [www.movehut.co.uk](http://www.movehut.co.uk)
- [www.commercial-property.co.uk](http://www.commercial-property.co.uk)
- [www.richardsusskind.com](http://www.richardsusskind.com)
- [www.homes.trovit.co.uk](http://www.homes.trovit.co.uk)
- [www.feiner-demsith.co.uk](http://www.feiner-demsith.co.uk)
- [www.galepriggen.com](http://www.galepriggen.com)
- [www.facebook.com](http://www.facebook.com)

The building comprises fully occupied ground floor space let to retail tenants. The office accommodation, which forms the subject of this paper, is arranged on first-seventh floors and a schedule of all the office space is shown below. The central core layout which houses the lift, staircase and most of the WCs divides each floor into two clearly defined leasing spaces as shown in the schedule:-

Tenant Name	Unit Location	Floor	Floor Area Sq Ft	End Date	Rent PSF £
Vacant	Suite A	7 <sup>th</sup>	1,518	29/09/2012	£26.50
Vacant	Suite B	7 <sup>th</sup>	1,247	29/09/2012	£26.50
Vacant	Suite B	6 <sup>th</sup>	1,462	29/09/2012	£26.50
Thames Education Ltd	Suite A	6 <sup>th</sup>	750	14/09/2016	£20.00
Drew Marine Intermediate II BV	Suite A	6 <sup>th</sup>	990	27/04/2012	£26.77
The Educational Recording Agency	Suite B	5 <sup>th</sup>	1,613	08/05/2017	£30.38
SAM Learning	Suite A	5 <sup>th</sup>	1,760	11/05/2014	£8



Premier IT Group Ltd	Suite B	4 <sup>th</sup>	1,774	23/06/2013	£27.36
Premier IT Group Ltd	Suite A	4 <sup>th</sup>	1,758	23/06/2013	£25.43
Cleveland Travel Ltd	Suite B	3 <sup>rd</sup>	1,945	18/11/2013	£26.00
EMC-Energy Market Consultants	Suite A	3 <sup>rd</sup>	1,808	28/11/2012	£33.19
Premier IT Group Ltd	Suite C	2 <sup>nd</sup>	1,164	23/06/2013	£27.59
Vacant	Suite B	2 <sup>nd</sup>	1,010	29/09/2012	£26.50
Premier IT Group Ltd	Suite A	2 <sup>nd</sup>	1,774	23/06/2013	£27.21
Vacant	Suite B	1 <sup>st</sup>	2,198	29/09/2012	£26.50
Vacant	Suite A	1 <sup>st</sup>	1,717	29/09/2012	£26.50
Premier IT Group Ltd	Basement	Basement	93	23/06/2013	£12.00
<b>Total Office</b>			<b>24,581</b>		<b>£26.57</b>

It is interesting to record that when we acquired the building the office occupancy statistics were as follows:-

- Total number of suites that were let 17
- Total number of suites that were vacant 0
- 3 years the average length of unexpired lease term
- £25 sq ft average rent under these leases

The current position is as follows:-

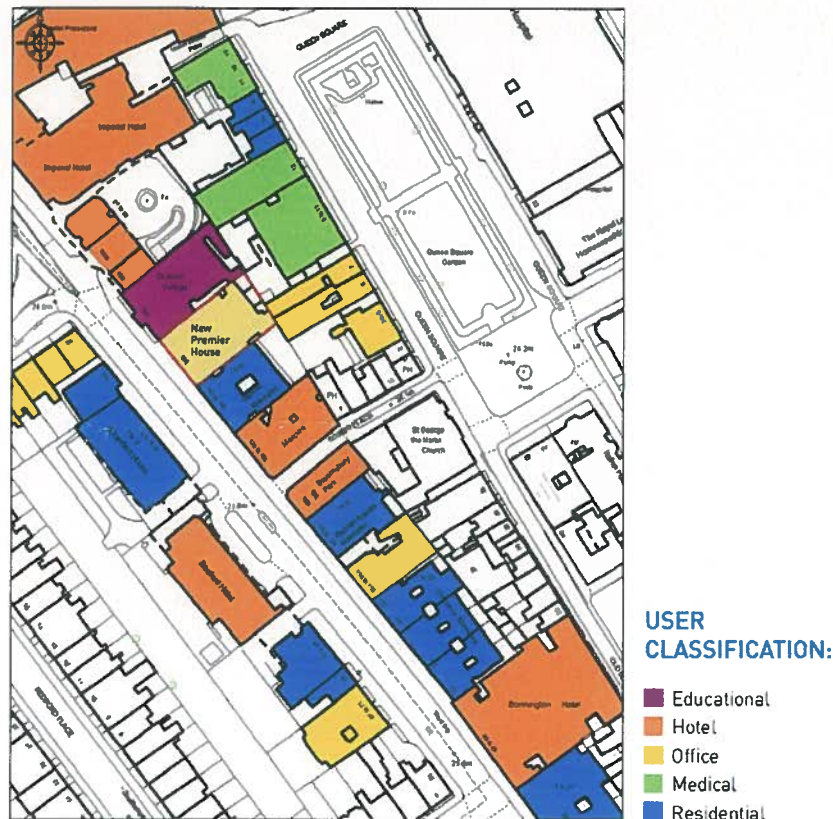
- Total number of suites that are let 12
- Total number of suites that are vacant 5
- Less than 1 years the average length of unexpired lease term
- £20 sq ft average rent under these leases

After considerable and lengthy efforts by our own in-house leasing team which failed to generate sufficient interest in attracting long term, market rate tenants, in 2010 we appointed an external lettings agency, Richard Susskind & Co. This commercial real estate practice specialises in office lettings throughout the Mid Town area. This instruction was intended to boost enquiries and attract tenants to the building but after six months their appointment had failed to generate any new lettings. We then approached and duly appointed local firm Gale Priggen & Co which specialises in Central London office lettings, with a view to attracting tenants from the more expensive locations of the West End and City, but this also failed to produce any new lettings. There are a number of reasons why this building is unattractive to the office leasing market which is to why these agents have not been successful, for example:-

1. Access to the office space is restricted for two reasons. It does not provide the substantial street presences that many office tenants seek when compared to competing properties and secondly the entrance hall is very narrow for a building of this size, comprising only 1.3 m wide.
2. The reception area is physically very constrained and far too small for a building of this size.
3. The office accommodation is arranged on first – seven floors inclusive but it is only served by one no. 8 person passenger lift. With a building of this size it is highly unusual for a building to have less than two lifts and only one lift results in extensive lift waiting periods at peak times.



4. The office building is not in a core office location, as shown by the map below of neighbouring uses.



5. Competition from superior office space closer to Holborn Underground Station has rendered this property, in terms of location, distinctly secondary.
6. The recent emergence of the redevelopment of Kings Cross and St Pancras Stations with the associated commercial and retail development immediately to the north and St Pancras becoming the London Eurostar destination has focused prospective tenants to this new location.

Turning to the UK economy, since the second half of 2007 commercial property market conditions have been difficult and dominated by reduced letting activity for the entirety of the period. In the second half of 2007 Northern Rock Building Society collapsed and twelve months later this was followed by the collapse of Lehman Brothers, a major investment Bank with worldwide financial implications.

In 2009 the UK economy went into recession, only to recover and slip back into a second recession earlier this year. The UK Government has, through the Bank of England created £3.25 billion of Quantitative Easing with the prospect of more to come.

In Europe, which represents the UK's largest export market, there are severe economic difficulties across the Eurozone which represents a severe issue for the world's developed economies. Overall the impact will be felt for many years to come.

In the meantime the early 1990's recession had led to the wide spread demise of the 25 year commercial lease in London in favour of shorter leases. These have been typically ten years with five year breaks. This has enabled tenants in the last 3-4 years to renegotiate their leases.



landlords are very keen to retain tenants, rather than incur voids. For tenants, the ability to remain in the same building represents a much cheaper solution than the cost of relocation.

The effect of all this on New Premier House and its tenant profile is summarised as follows:-

1. Kelly Services vacated their space on the first floor on 14<sup>th</sup> February 2011 and we have been unable to relet this space over the last 15 months.
2. The Secretary of State occupied a small suite on the second floor and vacated it last year. Similarly we have been unable to let this space.
3. An existing tenant on the fifth floor served notice to exercise their lease termination break citing a need for "more modern office space closer to the tube station".
4. Drew Marine a tenant on the sixth floor, currently is holding over; we have approached them to seek to agree terms for an extension but they would only be persuaded to renew their lease at a rent below market level and only on a month to month basis.
5. The largest tenant in the building, Premier IT, which occupiers 7,727 sq ft which equates to 31% of the total office floor area, is due to move out of the building at or before their lease expiry date in 12 months time. The substandard location was the principle reason given their decision to relocate.

Unfortunately this has placed the current ownership of NPH in a financially unacceptable position, due to:

- 5.1 No new lettings have been completed since 2007.
- 5.2 To avoid bank foreclosure, two short term deals were completed in 2011 at rents at less than half current building average.
- 5.3 It is not financially viable to complete any further lettings.
- 5.4 Taking into account other lease expiries, by the time the Premier IT lease expires in June 2013 we will be left with three office lettings in the building totalling 4,123 sq ft. This means that 83% of the building will then become vacant.

As a result of this, last September we appointed Allsop & Co to market the building to sell our interest.

#### 4. **Sale Process**

You will be able to download the brochure from Allsop's website. In total 42 separate parties inspected the building during Allsop's marketing period. Potential purchasers included residential developers, hotel user, office property companies, student housing developers and real estate pension funds. Some of the more interested parties conducted further inspections including architects, engineers and related specialists.

In January 2012 in accordance with my instructions Allsop & Co invited all parties to submit written offers. Of the 42 parties who inspected New Premier House, ten





offers were received. Only one offer came from a party who intended to continue operating New Premier House as an office building. That offer was verbal and never received in writing and the figure was so low in comparison to other offers received, this party never followed up with its offer in writing.

Other than this one offer it was apparent from all the other offers that the market dictates that this property is ideally suited for an alternative use. From my perspective, as evidenced by recent activity in the surrounding area, there is increasing demand for residential type uses including student housing and hotel operators, which are more complimentary to the character of the area.

I trust this is sufficient for your purposes but if you require any further information from me do not hesitate to let me know.

Yours sincerely

  
**RICHARD DOFFMAN**  
Pearl & Coutts

