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Our ref: **RD/0874**

Your ref:

Date: **17 September 2012**

A.M. Tillson Esq.
Matthews and Goodman LLP
14-16 Regent Street
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Dear Mark

Premier House, 150 Southampton Row, London WC1B 2AL

I refer to our recent meeting on the above building when you raised the matter of alternative uses, and I now write as follows.

As you know Searchgrade Limited purchased this building in 2006, at which time it was fully let. As leases have subsequently expired we have marketed them extensively as recorded in my 6 page letter to you dated 8 June 2012. I confirm that as demand for office space in this location has been so limited again as confirmed by the above detailed letter, we have considered the matter of alternative uses on a regular basis and I summarise the outcomes as follows.

1.0 Reconfiguration of the office space for alternative office use

- 1.1 We have looked into the possibility of running the building as serviced offices. Within the Structadene group we have a joint venture serviced office company and currently run three buildings as serviced office within central London. These are located at Gloucester Place in the West End, Borough High Street in Southwark and Token House Yard in the City.
- 1.2 Thus we have neither competition nor market interest in our portfolio for this use in this location. Serviced office use generates higher pedestrian traffic compared to conventional office use because companies can be as small as 1-2 people. This leads to both an increase in staff headcount in the building as well as visitors, also due to the increased number of companies based in the building.
- 1.3 The physical arrangement of the building represents a series of limiting factors and these include:-
 - 1.3.1 The lack of presence and narrow width of the entrance onto Southampton Row.
 - 1.3.2 The entrance comprises a corridor 10 metres long which is only 1.3 metres wide.
 - 1.3.3 There is no ability to have a Ground floor reception, thus this would be required on the first floor to service the 7 upper floors.
 - 1.3.4 Only 1 no. 8 person passenger lift serving 7 upper floors.
 - 1.3.5 Lack of alternate means of escape.
 - 1.3.6 The accommodation is arranged on seven small floors, each of which is divided by the central core. This core forms a structural element of the building and thus cannot be removed.
- 1.4 With far more companies in the building the physical configuration, notably the narrow entrance hall with a first floor reception, and only one lift will, based on our direct experience with our other properties in this sector, result in a lack of demand.

/contd. 2.....

- 1.5 Again based on our experience, serviced office centres rely on high profile entrances to attract customers coupled to being located in recognised office locations. The entrance to new Premier House lacks presence as noted above, coupled to the fact that it is very narrow with the entrance corridor only 1.3 metres wide.
- 1.6 In addition out of the fourteen large significant buildings on Southampton Row, it is well known that eleven comprise mansion blocks and hotels, which equates to 79%. Thus Southampton Row is not a recognised office location.
- 1.7 This last point is a key reason why the amount of vacant space in the building continues to rise.

2.0 Residential use

All other alternative uses scenarios which are referred to in detail in this letter would require planning permission to be granted for a Change of Use together with other consents as necessary.

- 2.1 As the building is only part-occupied, we have had internal discussions at Pearl & Coutts regarding collocating tenants onto specific floors. This would then enable the remaining floors to be converted and developed into residential flats. However this has been discounted for the following reasons:-
 - 2.1.1 The building works require the creation of living areas and bedrooms along with the installation of kitchens and bathrooms, as well as new heating and plumbing systems, and rewiring. An additional lift would be required to serve these floors from the ground floor which is impossible to install without loss of retail space from the existing tenants on the ground floor.
 - 2.1.2 These works are far too extensive to undertake whilst the office tenants are in occupation because we would contravene the fundamental right in all leases of Quiet Enjoyment.
 - 2.1.3 In addition the 6 factors listed in 1.3.1 – 1.3.6 also apply.

NB Later in this letter, in section 9, I also comment on residential reuse of the entire building.

3.0 Retail

- 3.1 Retail use on upper floors occurs elsewhere in Central London but this is limited to those locations where such use is already acceptable. For example in London's West End this includes some but not all properties in high value retail spend locations such as Oxford Street, Regent Street, Bond Street and Piccadilly. The focus tends to be on purpose built retail buildings for example, department stores, and relies upon the retailer having control of the ground floor street presence.
- 3.2 The ground floor retail units at New Premier House were already let to other companies when we acquired the building, which meant they are not available for use by other companies.
- 3.3 Southampton Row is not a recognised retail location when compared to the streets noted above.
- 3.4 The physical arrangement of the building represents a series of factors preventing the internal space being used for retail purposes, even if tenant demand existed, and the relevant statutory consents could be obtained.

These limiting factors are set out in 1.3.1 – 1.3.6 referred to above.

- 3.5 Retail customers require ease of access between floors which, in department stores, is facilitated by escalators which transport far more people between floors than a bank of lifts. However escalators take up more space than lifts and the layout of the small floors in this building means the installation of escalators would not be feasible.

4.0 Food related uses

- 4.1 Various uses have been considered such as restaurants and cafes, and drinking establishments such as pubs, clubs and bars.
- 4.2 The physical constraints of the layout and configuration of the building as noted in 1.3 above and in particular, in 1.3.1-1.3.6, render the building unsuitable for further consideration of this type of use.

5.0 Hotel

- 5.1 The largest single use type on Southampton Row is hotel use with an additional three hotels fronting Russell Square on the east side immediately to the north of Southampton Row.
- 5.2 Thus whilst there might be market demand for a further hotel, the physical constraints noted in 1.3.1 – 1.3.6 again apply.
- 5.3 In addition the fact that the ground and lower ground floors are fully let means there is no obvious location for the hotel reception and associated public space. There is also no practical location for kitchens and ancillary storage uses which would be located on the lower ground floor, again as this space is fully let.

6.0 Residential Institutions

- 6.1 Typically this use covers the provision of residential accommodation and care, to people in need of care.
- 6.2 Unfortunately each of the reasons contained in 1.3.1 – 1.3.6 above again apply.
- 6.3 In addition the narrow access and small lift render the building non-compliant in terms of Disability Discrimination Access Act compliance.

7.0 Non Residential institutions

- 7.1 This covers a variety of different uses including, but not exclusively, health services, crèche, public halls, place of worship and non-residential education use.
- 7.2 For health service use, the narrow access and small lift render the building non-compliant in terms of Disability Discrimination Access Act compliance.
- 7.3 For crèche use there is no external play area and no area large enough to provide a hall facility as referred to in 7.4.
- 7.4 For crèche as with a public hall or place of worship, there is a fundamental requirement for an area large enough on one floor to enable the audience or congregation to assemble. The floor plates in this building are far too small to meet this requirement.
- 7.5 For education purposes the space is arranged on seven floors which creates issues over vertical access at the start and finish of the school day, at break times and at change of lessons. In addition there is no provision for in-house catering with communal amenity area and no external amenity area.
- 7.6 The point about space large enough for in-house catering and external amenity area is highly relevant as the pavement in front of New Premier House is already often crowded. This is due to a combination of students from St Giles International Language School next door congregating on the pavement, as well as the current restaurant uses on the pavement.

I note this was reported by our joint letting agents, Gail Priggen & Co in their letter dated 13 June 2012 and Richard Susskind & Co in their letter dated 14 June. You have told me that these letters formed part of your submission.

- 7.7 Again, the physical configuration prevents these uses from being considered as set out in the preceding section at 1.3.1-1.3.6.

8.0 Leisure and other uses

- 8.1 We have considered a variety of uses such as night clubs, casinos and snooker halls. However the physical arrangement of the building as noted in detail earlier in this letter in 1.3.1 – 1.3.6 has prevented this being considered further.
- 8.2 We have also considered gymnasium use but tourist demand in Southampton Row is already catered for by the adjacent hotels. As Southampton Row is not a recognised office location it is too far away from those office locations to be of interest for this purpose.

You also asked me about interest in the building from residential users.

9.0 Residential use

- 9.1 As you know we instructed Allsop & Co last September to market the building for us as we were in a financially unacceptable position. The background surrounding this is clearly set out in my 8 June letter to you.
- 9.2 I can reconfirm that 42 separate parties inspected the building during Allsop's four month marketing period. Potential purchasers included residential developers, hotel users, office property companies, student housing developers and real estate pension funds. This is all as recorded in my June letter.
- 9.3 In January this year all parties were invited to submit written offers and of the 42 parties who inspected Premier House 10 submitted written offers.

No offer was ever received from a party expressing interest in residential use either a developer, pension fund or owner occupier. The clear market feedback on this use following inspections was, unfortunately in line with the building's issues set out in 1.3.1-1.3.6 above

I hope I have addressed your queries in sufficient detail but naturally if I can be of any further assistance please do not hesitate to let me know.

Yours sincerely,
Searchgrade Ltd



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