

NAFAS

THE WAY FORWARD



January 2021
Briefing Note 2

The Future of Osborne House

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THE FUTURE OF OSBORNE HOUSE

BRIEFING NOTE 2

In 2015 a feasibility study on the future of Osborne House concluded with the following statement:
“as many other charities and companies have found, there is no requisite to have an expensive office in London, when by moving there are annual savings to be made and which provide a healthy bank balance to be invested”

The full consequences of Covid-19 on NAFAS, it's affiliated clubs, Areas and members will not be known until the latter half of 2021, however the pandemic has already had a profound impact on the Association. The task now facing members is how to reopen our clubs, while the Trustees of the Association work to revive and rebuild the infrastructure and support a rapid, strong, and sustained recovery.

Why now?

The pandemic has accelerated the debate over Osborne House, but now this is the right time to carry out a review, this is not just about the future of the Associations head office, it's about the future of NAFAS.

The financial performance over the past three years, which includes the deficit of the Diamond events and the impact of the pandemic, has left the Association in a vulnerable position. The Association has recorded three deficit years:

- 2018 (£73,715)
- 2019 (£10,474)
- 2020 (£208,039) a loss of £137,000 at the 60th Anniversary events is included in this figure

A total loss of £292,228 over the 3-year period

This is not sustainable. Reserves have been depleted and to ensure the immediate future, the Association has secured a loan of £150,000 from the Government backed Business Interruption Loan Scheme (CBILS). Repayments will begin in September 2021.

Affiliation Fees are a key income source, but the impact of Covid has reduced the amount received from £272,175 (2019) to £161,103 (at end of December 2020). It is unclear at this stage as to whether there are any residue fees to come. The decline in membership numbers and club closures are also a contributing factor.

A Cash Flow forecast is in place, and is based on current Covid restrictions, expenditure has been scaled down with minimal allowance for committee meetings and events during 2021. The Association has sufficient funds through to November 2021 when a cash balance of £64,012 is predicted. Affiliation fees due in December 2021 will secure the financial future into 2022, but its likely that the Association will be unable to trade in its current structure beyond the summer of 2022 without additional funding or reductions in expenditure. The Budget Team are responsible for overseeing all the sub budgets of the Standing Committees and the Management Accounts and Cash Flow Forecast for the Association.

The Strategy Team are working on a two-year strategy 2021-2023.

The review and update of the Associations governing documents, the Articles of Association, Standing Orders and Rules or Bylaws will be complete in the New Year and will coincide with the Governance Review, being carried out by an independent consultant. We are at a crossroads, whichever road we take, will determine, not just the immediate financial recovery but also the long term strategic plans to invest (or not) in the Associations infrastructure.

Osborne House - Tax

Valued at £4M - £4.5M Osborne House will not have been elected for VAT purposes. This means the property will be exempt from VAT and therefore a positive for prospective purchasers. Also, charities are exempt from stamp duty on purchasing property. This will provide the Association with a considerable cost saving and a competitive edge in a buying situation.

Osborne House - Location

Location

Osborne House is situated on the north side of Devonshire Square and is just over 100 metres to the east of Liverpool Street station and the Broadgate Estate. Devonshire Square is accessible directly from Bishopsgate, the City of London's principle north south thoroughfare. The property is surrounded to the north/ east by the Devonshire Square Estate which comprises a large mixed-use environment providing a combination of grade II listed and modern office buildings incorporating commercial, retail, and leisure facilities.

The Broadgate Estate which is adjacent to Liverpool Street station is Central London's largest pedestrianised commercial scheme. The mixed-use site extends 32 acres and provides 4.85 million sq ft of offices, retail and leisure accommodation let to major occupiers such as UBS. The estate is currently undergoing a £1.5 billion modernisation with over 1 million sq ft of offices under construction. A large proportion of the space is pre-let/ under offer to a diverse mix of tenants such as SMBC Capital, Milbank, TP ICAP and McCann as well as TMT businesses including Starling Bank, Innovative Finance and Mimecast.

Osborne House is exceptionally well connected with Liverpool Street station, one of London's busiest stations in respect of daily throughput of passengers, providing access to both mainline, TfL Rail and Overground rail services and the Central, Circle, Metropolitan and Hammersmith & City Line Underground services. Other underground stations close by include Moorgate and Bank providing access to additional lines including the Northern, Waterloo and City Underground lines as well as Docklands Light Railway and Thameslink / Great Northern mainline services. The property is also within 150 metres of the Liverpool Street entrance to the new Elizabeth Line which will provide a 10% increase in rail capacity for London as well as an estimated £42 billion benefit to the London economy. The Elizabeth line is set to increase connectivity of the building with Heathrow Airport and other key areas inside and outside London

Description

Osborne House is a period grade II listed office building providing accommodation over lower ground, ground and 3 upper floors. The Valuation Office states the net floor areas to be 5,068 Sq ft. The building dates to about the mid-18th Century and mirrors the adjoining property at No.13 Devonshire Square known as Coopers Hall.

Planning

The property is located in the City of London Corporation Planning Authority and is situated within the Bishopsgate Conservation Area. The planning portal shows it to be Grade II listed and benefits from a B1 (office) use class.

Gryphon Property Partners

Gryphon have been appointed as advisors to the Association and will provide an updated market report in January 2021.

Osborne House – Planning Use

Gryphon Property Partners expect the property to be worth in the region of £4m-£4.5m in today's market i.e. between £800-£900 per sq ft.

The market remains buoyant despite the effects of Covid-19. As the property provides a rare opportunity to buy a freehold building in a well-located part of the City of London then there is a chance the level of demand would push the pricing beyond the £4.5m level.

Going forward the property could be used for various alternative purposes, subject to planning and necessary consents, including serviced offices, service apartment, hotel, educational/medical, private members club and as an embassy. The varied potential uses will ensure robust demand and generate interest from funds, property companies, private investors as well as owner occupiers and other operators (such as serviced office and serviced apartment operations).

Osborne House is currently used as offices as well as member's accommodation for overnight stays, this may be classed as quasi-members club but potentially contravenes the existing registered B1 planning use. The planning use class for a private members club is not defined and is therefore classified as a Sui Generis use. In market terms the higher value is as offices (unless there is a special purchaser also looking to use the property for a private members club / Sui Generis purpose). Therefore, in order to extract value on the sale Gryphon recommend that the beds be removed. Alternatively, we could leave the beds and hope to 'get away with it' however this is likely to cause an issue with the buyer and their legal advisors.

As the building has effectively been used as quasi-private members club for over 4 years then we could apply to the City Corporation to obtain a Certificate of Lawful Use, however this is likely to prove difficult and have a negative effect on value.

In a preliminary discussion with planning consultants Icen Projects, they have identified a possible solution to the accommodation issue. Over recent years occupiers have been using offices in much more flexible ways using lounges, breakout areas and recreation areas. Icen are of the view that there is precedent to allow office occupiers to sleep in offices once or twice a month. Gryphon therefore suggest that bedrooms are retained but equipped to look like work areas by day with sofa beds /discrete beds on the basis that going forward they are only used occasionally by members for overnight stays.

So, if the decision is to sell Osborne House, the Association has three options to consider, to address the issue of the bedrooms:

- | | |
|---|--------------------------|
| 1. Leave the bedrooms as they are | <input type="checkbox"/> |
| 2. Retain the bedrooms and equip them to look like work areas. This would involve the purchase of desks and office chairs. | <input type="checkbox"/> |
| 3. Move the beds and wardrobes to one room for storage | <input type="checkbox"/> |

Osborne House – how it's used

Pre Covid, the Associations head office was used for a range of NAFAS activities and purposes including:

- I. Staff – the small staff team of 4 operate from head office and although the team have adapted to working from home, there is an office requirement for the Association that includes a central point of communication, delivery of parcels and post, storage of documents, mail order operation.
- II. Bedrooms: used by committee members on NAFAS business, including arrangers at Westminster Abbey. In 2019, a total of 467 overnight stays (excluding Diamond event) were recorded.
- III. Meetings of the Executive, Standing Committees, Area Chairmen, London & Overseas Area.
- IV. Training days.
- V. Photoshoots and Videos.
- VI. Storage – includes stock of handbooks and trading goods, Flower Arranger back issues, flower arranging tools and equipment (owned by various committees), promotional banners and display units, trophies.
- VII. The Library - There are potentially some rare and valuable books including some that have been left to the Association as a legacy.
- VIII. Wafa - Wafa had given money to NAFAS to develop a room on the ground floor into a workshop, in appreciation of NAFAS providing storage for their archive and accommodation on annual visits/meetings. A number of Wafa books are stored in the basement.

Changing How We Work

In 2020, NAFAS members and staff have had to adapt to a new way of working. Zoom meetings have become commonplace and have shown an alternative to meeting face to face. What this means for NAFAS, is there is no longer a requirement for regular meetings in London with overnight stays at Osborne House. However, while Zoom will enable more regular and shorter meetings, there is a demand for committee members to meet physically at least once a year. This new way of working reduces the expenditure commitment of our committees, including Board meetings and the AGM. This is a key factor in future plans, travel expenses have been a major cost in past years.

Osborne House - Options:

1. Selling Osborne House – Sale & Leaseback

There is discussion about the requirements of the Association going forward and whether there is a need to have a property with accommodation. A short-term leaseback could be attractive to the Association as it would provide additional time to discuss and agree the new structure while providing capital to invest in to the infrastructure and secure new accommodation and or office space.

The short-term leaseback of 12 to 18 months would also be beneficial to purchasers as it would give them time to work up their plans whilst providing them with an income to at least cover any cost of capital they may have. Therefore, this should have the effect of widening the spectrum of buyers and hopefully drive the achievable price. We would need to give further consideration to the exact level of the leaseback but in usual circumstances we would not expect the Association to provide a full market rent. By way of an illustration a rent of 150k and 200k would provide a net yield to a buyer of just over 3% and 4% respectively.

Alternatively, the Association could release equity by entering into a longer-term sale and leaseback. The value will be determined by factors such as the length of lease and the financial strength of the occupier. The advantage to this option is the Association could stay at Osborne House as well as release equity. The downside however would be that over a longer period the equity would get diluted.

2. Selling Osborne House – Sale with Vacant Possession

The market remains buoyant and with vacant possession Gryphon expect good interest and whilst the property is worth in the order of £4m - £4.5m Gryphon would hope to achieve a level in excess of £4.5m for this type of sale.

A sale with vacant possession would effectively leave the Association homeless. It would require a large amount of work by staff and volunteers to sort through the house contents, identifying the items to go into storage, while a temporary office solution will have to be sought in order for the staff to continue operating and managing the trading operation. However, this is a viable option and should be given consideration.

3. Osborne House – Retain and sublet part of the Property

It is by no means a forgone conclusion that Osborne House must be sold. There are members that would like to retain the property and its heritage.

The property could be used to generate income either as offices or via way of change of use, such as serviced apartments. If the building is retained as offices, then the Charity could lease the property as a whole (which would mean alternative accommodation would need to be found) or stay in part of the building and any surplus space could be let out. However, should the decision be to retain the property for income generating purposes then it is likely that it would require considerable capital expenditure potentially well in excess of £500k.

Consideration must be given as to how the Association will finance the project to update the property in order to sublet, and must factor into a budget periods when offices may be empty, resulting in a drop in income.

Rental income could be in the region of £55.00 sq.ft. so for example, subletting 2,500 sq.ft could generate income of £137,500pa. The Association would also need to consider some form of renovation/rolling refurbishment program to maintain the property and meet compliance.

4. Osborne House – Retain and continue as we are

Its difficult to see how this would work. There are insufficient funds available to continue as we are, expenditure would have to be reduced significantly and that would involve staff redundancies and a strict limit on expenses paid to committee members. There would be no investment in the property or events. Increasing income through corporate sponsorship or fundraising is unlikely to be successful. This option would be stripping the Association to the bare basics, the lack of investment in the Associations infrastructure over many years does not make this a viable option.

Osborne House – Decision

Options

1. Sale of Osborne House with leaseback
2. Sale of Osborne House with vacant possession
3. Retain Osborne House and sublet part of the property
4. Retain Osborne House, continue as we are

Acknowledgements

This report contains information gathered by NAFAS member, Sharon Nolan, who has spoken to key stakeholders about their historical use of Osborne House and their requirements going forward.

Mike Pope of Gryphon Property Partners has provided information on the options available to the Association on the sale or leasing of the property.

Next Steps

Once a decision has been reached on Osborne House, work will begin on the next steps and this is likely to involve discussions about investment into new property or properties and timelines. The future requirements of the Association, information collected by Sharon Nolan, will be made available within Briefing Note 3.

Timeline

January 2021

Briefing Note 2 released
Vote on the sale of Osborne House
Completion of Independent Governance Review
Completion of the review of Articles of Association

February 2021

Briefing Note 3 released
Vote on future property requirements
Completion of the review of Standing Orders & rules or Bylaws

March 2021

New Property Committee to start research
Completion of 2021/22 Budget
Completion of 2-year Strategy



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