

BUSINESS PROPERTY REVIEW

How to get a slice of the office action

It's not renting or buying as we know it. It's called strata freehold, as **David Faers** reports

When local building consultancy Fusion relocated to Birmingham's Ludgate Hill, just a stone's throw from St Paul's Square, it appeared to be a perfectly normal transaction.

This seemingly unremarkable acquisition of the fifth floor of Griffin House was, however, far from an everyday matter. In fact, it could represent the beginning of a revolution in the Midlands property market.

Unlike the majority of new office occupants, Fusion did not acquire a conventional lease for the property. Nor did it purchase the building freehold. Instead, it entered into a strata leasehold agreement with landlord New Wood Securities.

This means Fusion now effectively own a horizontal slice of Griffin House - hence the term strata.

In fact, the parties agreed a 150-year lease, although the deal operates in most respects as an outright purchase, with just a nominal or peppercorn annual rent payable.

As a result, Fusion can use the property; refurbish it or sublet, just as any owner would expect to do - although, technically, it does not own the freehold.

New Wood, on the other hand, has now effectively sold a portion of its property, receiving a negotiated purchase price for the near-2,500 sq ft fifth floor. By the same token, it has chosen to forgo the recurring income from its asset in the form of market rent.

While this might appear a perfectly sensible arrangement for all parties, this new strata leasehold agreement is almost unique in the local property scene.

Nationally, only a handful of similar deals have been concluded of late, notably in London and Manchester.

So what attracted both parties to this arrangement now?

In Fusion's case, it was simply a question of availability.

"Our space requirements are relatively modest but we preferred to buy rather than rent," says director Steven Jelfs.

"Currently, smaller freehold office accommodation is hard to find in and around the city centre. Standalone properties between 2,000 and 3,000 sq ft are rarely for sale.

"One solution therefore is to take a horizontal slice of a larger building. Yet traditionally, owners are reluctant to sell on this basis, while prospective purchasers may worry about future disposal.

"In our case, this consideration was outweighed by

'The next step will be to apply the principle on a larger scale, around the city centre and in areas such as the Jewellery Quarter'

New Wood Securities director Dominic Stokes

our confidence in the marketability of this property, plus the fact that buying the strata leasehold represents an ideal tax-efficient pension vehicle for our directors."

For the owners of Griffin House, strata leasehold provides a smart solution for particular properties in defined locations, as director Dominic Stokes explains.

"There is fierce competition locally for freehold buildings which are suited to owner-occupier businesses. Medium-size properties are in short supply in the city centre and tend to be bought up by developers," says Mr Stokes.

"So we are looking to create this type of market."

It certainly sounds logical, but in the absence of any local precedents, how could the company be sure there was a market for this product?

"Generally, for properties under 5,000 sq ft, it's hard to tell who is looking," says Mr Stokes.

"Our experience and local market insight suggests there is a demand, but the only sure way to know is to put the product out there and wait for the response.

"Where the right circumstances exist, we may instruct agents to be flexible in approach.

"Strata leasing should be viewed as a constructive alternative to more conventional deals, but, at present, it does require some innovative thinking from all sides.

"For example, there is a differing perception between buying a freehold outright and even a 150-year lease.

"This is a compromise the purchaser has to consider. On the owner's part, you are waiving the prospect of perpetual income and limiting the future usage of the building. These are all factors to bear in mind.

"In the immediate future, we certainly expect strata freehold to work and become established, but only within fairly closely defined parameters."

According to Mr Stokes, the concept will probably suit peripheral city centre areas as opposed to the prime core and is likely to suit limited partnerships and professional services rather than major employers.

"We have now tested the water here in Birmingham with one or two buyers who we know and already do business with," he says.

"The next step will be to apply the principle on a larger scale, around the city centre and in areas such as the Jewellery Quarter."



New Wood Securities director Dominic Stokes and Fusion director Steven Jelfs. Fusion now effectively own a horizontal slice of Griffin House