Burlington House Apartments: Lease History and Status

1874 – 2005

In 1874 The Geological Society together with a number of other Learned Societies moved into 'Apartments' built especially for them at HM Government expense on the site of the former Courtyard buildings of old Burlington House (BH). As there was no lease from then to the effective date of the first lease period (2005) the Society paid no rent or external maintenance costs.

2005-2014

At various times from 1994 onwards, HMG attempted to regularise the basis on which the Learned Societies (LS[1]) occupied their Apartments. In 2004, HMG attempted to register its title to the buildings and to place a note on the register that the LSs were 'tenants at will'. The LSs disputed this, causing the Land Registry to recommend that the matter be referred to the High Court for determination. At trial, the LSs argued that they had an 'equitable interest'. Judgement was reserved pending mediation.

The LSs accepted they had no rights in perpetuity and agreed terms of occupation under new leases. These provided for the tenants to have a 6-12 month notice period, responsibility for internal and external repairs, 10-year lease periods to a maximum of 80 years and no rights to sub-let. The parties agreed to valuation assumptions that served to depress rent as long as possible, but these were not contained within the lease and it was recognised at the time that the valuation basis and rent could become contentious in the longer term. With effect from January 2005, after a 2-year rent-free period, annual rent was initially *de minimus*.

2014-2017

Following a 2012 lease valuation resulting in an appreciable rent increase, a collective arbitration was initiated reflecting concerns around the valuation process and comparators being employed. In late 2016 the arbitrator found comprehensively in favour of the Landlord, concluding that the mechanism for the determination of rental value was being followed properly and the valuations used were not wholly unrealistic or negligent. As stated in Schedule 1 of the Lease, the tenants were not entitled to dispute matters of valuation judgment exercised by the Landlord.

2018 – present

Following the arbitration outcome political engagement continued. The process led to the suggestion that MHCLG might be able to offer a grant to cover a 125-year lease at peppercorn rent if the LSs could show societal value to justify such a grant.

[1] LSs: The Geological Society, Society of Antiquaries, Royal Society of Chemistry, Royal Astronomical Society and Linnean Society

A valuation exercise by PriceWaterhouseCoopers (PwC) of the LSs' economic value to society was undertaken to reflect MHCLG's needs and was iterated to reflect a further Ministerial request for greater investment in public outreach. PwC estimated that the LSs collectively generated £106m p.a. in public value with an estimated 11-30% loss in value were they to leave BH.

Surveyors acting for the parties agreed a building value of £80m for the peppercorn lease and lease heads of terms were negotiated. These softened some of the current restrictions on generating income from commercial activities, re-set the dilapidations 'clock', but retained the bar on sub-letting. In parallel, a lease to cover the second 10-year renewal was executed with effect from January 2015, on the basis that it would be rescinded and replaced by the peppercorn lease if and when the latter was confirmed.

During this period, the Landlord's agent issued annual property re-valuations and rent re-determinations covering 2015-2018. The market value with vacant possession, used for rent determination, had escalated from £78.0m (2014) to £120.5m (2018). The mechanism for determining rental levels from these building valuations is unclear, and the landlord controls the rate at which the rent escalates towards market rents. Despite the rapid increase in rent which has been experienced, current rental levels are still only 1/3 of the targeted market levels and will continue to escalate substantially over the coming years.

2020 – HMG progressively close down affordable options

In January 2020 a new Minister met with the LSs to convey MHCLG's decision not to award a grant to cover a peppercorn lease, citing taxpayer cost in excess of the LSs' societal value. MHCLG instead offered a new lease to make rental growth smoother and more predictable, involving 8% growth p.a. for 5 years followed by 5 yearly reviews with constant growth to a market level for cultural institutions. The LSs sought to explore the option of a long lease or freehold purchase.

On 21st July 2020 MHCLG advised that any purchase of a 125-year peppercorn lease would need to be based on the agreed £80m valuation and terms, and stated they saw no scope for entering discussions on a long lease purchase. The Geological Society's share would amount to c. £18m for a lease with no right to sub-let. MHCLG also ruled out payment 'in kind' (e.g. via transfer of title of collections).

Rent escalation

Total Burlington House-related costs in 2021 will be £590K including rent, discounted rates, external works provision, facilities manager, etc. Our floor area (~13,000 sq. ft.) and non-rent costs make BH costly in overall terms. When arbitration commenced in 2014, with rent at c. £40k p.a., the Society forecasted rent to rise to c. £100k p.a. by 2020 with unaffordability being reached at £150k - £200k p.a. between 2027 and 2035. However, the previously un-issued building valuations greatly exceeded all prior surveyor estimates for the LSs and led to an unexpectedly substantial back-rent demand. The Society's rent in January

2021 is £235k or around £17 sq. ft. This will continue to escalate towards a market rate of c. £45 sq. ft., regardless of any further revaluation of the building value.

Burlington House affordability

Independent of the lease issues, a look at the medium-term future of the Society shows a weakening income profile. By far the largest factor is the anticipated Open Access-driven reduction in publishing income. In addition, Fellowship numbers have been declining at around 3% p.a. since 2017 and are expected to continue given the reduction in the national oil industry and reduced number of students reading Earth Sciences. COVID-related challenges to conference and building use have exacerbated this situation. On the positive side this tension has caused the Society to develop a new and societally relevant science programme and is developing a more flexible membership offering. It has also transformed its ability to run conferences and lectures virtually.

Richard Hughes
Executive Secretary
January 2021